A market leader in Australia & the UK

providing workforce solutions to the health and social care industries

HCL
Workforce Solutions

Annual Report and Financial Statements 2011

Company number 04736913

CONTENTS

CHAIRMAN'S STATEMENT

Implementing new growth strategies will generate long-term improvements in financial performance

Without doubt, 2011 has been the most challenging year in the history of Healthcare Locums plc

In January, the Company announced the suspension of its shares following the discovery of serious accounting irregularities and that the financial performance of the UK business was well below the then market expectations The UK business was not generating free cash and the business model had not been adapted sufficiently to accommodate changing market conditions The investigation of the irregularities took several months to complete and led to the restatement of the 2009 accounts when the 2010 accounts were published in August During the course of the investigations it became clear that the capital structure of the Group and the costs of servicing its debt were unsustainable In July, the Board announced the disposal of the Homecare Division of Healthcare Australia ("Homecare") which raised approximately £20 3m in cash that was used to reduce Group debt This was insufficient to restore financial viability and the Board sought a capital injection and renegotiated bank facilities The Refinancing was approved at a General Meeting of the Company in September following which the Company's shares were readmitted to trading

All of these issues had to be managed against a background of difficult market conditions especially relating to supplies to the UK's major customer, the National Health Service ("NHS"), which was implementing its own stringent cost saving measures

The sale of Homecare and the Refinancing completed in September restructured the balance sheet and removed a major source of risk to the ongoing financial viability of the Group At 31 December 2011, the Group had bank and finance lease debt net of cash of £23 4m In addition, the Group has a £10 2m Zero Coupon Loan Note (fair valued at £2 6m at 31 December 2011) that is not repayable in normal circumstances until 30 September 2021

BOARD AND GOVERNANCE

During the year, the entire Board was replaced Alan Walker the Chairman the Deputy Chairman Alasdair Liddell, the Executive Vice Chairman Kate Bleasdale the Chief Financial Officer Diane Jarvis and the Chief Operating Officer Mo Dedat had all been removed from or left the Board by the end of March David Henderson and I were appointed to the Board in February and we were joined by Stephen Burke and Andy McRae as Group CEO and Managing Director of HCA in Australia respectively in May Colin Whipp served as Interim Finance Director from May until September and Bill Jessup served in that capacity from October until April 2012 Mark Andrews formerly a partner with law firm SNR Denton joined the Board as a Non-executive Director in October and Sue Bygrave was appointed as the permanent Chief Financial Officer on 6 February 2012 We now have a settled and experienced Board comprising three executive Directors and three Non-executive Directors Martin Hughes was appointed as Company Secretary in March 2011

Under the former Board corporate governance had been extremely poor and an immediate action of the new Board has been to improve the policies and procedures relating to the governance of the Company We aspire to have the sort of governance regime that would be found in a well-run FTSE 250 company We have not completed this programme yet but significant steps have been made

The Board has appointed new auditors (Deloitte), lawyers (SNR Denton), nominated adviser and Brokers (Investec) and remuneration advisers (PwC) and now has a team of advisers that are able to guide the Board and the Company in the future

STRATEGY

Following the successful Refinancing the new team set about ensuring the stabilisation of the business after what had been a period of unprecedented disruption In the UK, the transformation of the Company to one that puts the satisfaction of its customers' requirements at the heart of its business is well underway Provision of locums to the NHS through existing framework agreements is now the normal way of doing business We believe that a quality-led offering with pricing transparency is the best way of building a long-term relationship with the NHS and we have invested in people, processes and systems to promote that transparency and to improve standards of clinical compliance We are also investing in software-led solutions – HCL Clarity – that will deliver significant savings to our customers by providing visibility and control to reduce the cost of agency spend and optimise the substantive workforce, without compromising the quality of care In Australia, opportunities for organic growth exist, in particular, by the further development of our nursing agency business in the eastern states and the rollout of the existing doctor locum business nationally With the opportunities available in these two sectors we no longer see the allied health professionals market as a priority for expansion in Australia We can now concentrate on executing the strategy to grow the business both in the UK and Australia and thereby generate acceptable financial returns for our shareholders

The growth strategy will be underpinned by strong operational and cost control During the latter part of 2011 we made some important appointments of senior leaders in UK business development, IT, talent and people management and the operating divisions in the UK and Australia Although this has increased costs it was essential to build a widely skilled management team that is capable of delivering the Company's strategic vision During 2012 we will be rolling out a new UK front-office IT system capable of delivering real-time accurate management information and embedding operational and compliance controls Once implemented, this system known as Itris, is expected to make a meaningful impact on net margins

RESULTS FOR YEAR ENDED 31 DECEMBER 2011

The revenue for the year was £227 1m (2010 £154 9m) and the adjusted loss from continuing operations before tax was (£12 9)m (2010 £(63 6)m) The adjusted EBITDA, before interest tax, depreciation amortisation, highlighted items and share-based charges or credits increased from a loss of £(0 1)m in 2010 to a profit of £5 9m in 2011

The results for 2011 are analysed in full in the Financial Review These include the first full-year contribution from our Australian businesses acquired in 2010 The results of the Homecare division of Healthcare Australia ("HCA") have been shown as discontinued operations Both 2011 and 2010 results include items that have been highlighted in the Consolidated Statement of Comprehensive Income to show the underlying performance of the business There is a restatement of the 2010 balance sheet in relation to HCA acquisition accounting and an impairment of the UK Social Care business These are accounting restatements with no ongoing cash impact

DIVIDENDS

Currently we are not able to pay dividends as we have negative distributable reserves and our banking arrangements prohibit us from declaring dividends until the outstanding amount under the Syndicated Facility Agreement ("SFA") has been reduced to less than £35m Despite this, the Board recognises that dividends should form part of shareholders' investment returns and the Board will be working towards the reintroduction of dividend payments as soon as possible

After taking legal and accounting advice, the Board has concluded that the dividend paid on 10 January 2011 was unlawful as the then Board should have known at the date that the dividend was approved and paid that the Company had insufficient reserves available to make the payment The Board has been unable as yet to come to a definite conclusion about the legality of the dividends paid on 1 April and 25 June 2010 No action will be taken to recover unlawful dividends from shareholders in general However, the Board is considering whether remedies are available against former directors to recover unlawful dividends paid to them and damages for breach of duty in authorising the relevant dividends

LITIGATION AND GOING CONCERN

The Board has previously announced two major claims against the Company one from the former Executive Vice Chairman and the other from a number of shareholders These are described in Note 28 No provision has been made in these accounts for future legal costs or for any settlement or adverse determination arising from the litigation While the Board continues to adopt the going concern basis these claims and the other matters described in the going concern section of the Financial Review, give rise to a material uncertainty regarding the Group's ability to continue as a going concern

PEOPLE

2011 has been a tremendously turbulent year for our staff There has been a complete change in the Board and extensive change in the senior leadership of the Group Matters emerged during the course of investigations that were highly damaging to the Company During parts of the year the future of the Company was in doubt and there were long periods when it was not possible to keep staff well-informed because of the uncertainty of negotiations with third parties At the same time in the UK there was also a significant change in strategy towards on-framework business Despite this, our staff have overwhelmingly stayed loyal to the Company and it is primarily through their personal commitment and their engagement with our customers that the Company has retained its market position For this, and their unstinting efforts especially during the period leading up to the Refinancing the Board and shareholders owe them a substantial debt of gratitude

OUTLOOK

Although there will be many risks and challenges ahead, we believe that 2011 saw the nadir in the Company's fortunes The Group has been refinanced, a new leadership has brought stability and is implementing new growth strategies to generate long-term improvements in financial performance Despite all the issues of 2011, the Group remains a leading business in healthcare recruitment in both the UK and Australia In the short-term we have the uncertainty regarding two major legal cases to deal with Once legacy issues are addressed, the Board and I are confident that the Group can prosper

PETER SULLIVAN
Chairman

13 April 2012

OPERATIONAL REVIEW

The Board's strategy is to grow the business organically with a key focus on cash generation to pay down debt and, in time, return cash to shareholders.

Following the successful Refinancing of the Company on 12 Sept 2011, we have begun implementing the restructuring and re-engineering plans which we had previously outlined to shareholders and which we believe are key to generating sustainable growth In the following paragraphs we describe how that strategy is being implemented and comment on trading in 2011 Although the balance of operations in the UK and Australia is different there are common themes in the execution of the overall strategy

UK

CUSTOMER RELATIONSHIP MANAGEMENT

A significant part of the UK business' supply to the NHS had historically been outside of the purchasing framework agreements Increased cost pressures on the NHS through 2010 and 2011 resulted in a key, and in the Board's view, irreversible shift to locum procurement through the framework structures

Having adopted a transparent framework supply strategy across all divisions, we believe we have made considerable progress in repositioning HCL as a valued and trusted supplier, aligned to our customers needs Our market leading managed solution HCL Clarity which is described in more detail on page 5 demonstrates our understanding of and commitment to the Department of Health s Quality, Innovation Productivity Prevention ("QIPP") strategy and which we believe will enable HCL to become a long-term partner to the NHS, private healthcare groups and local authorities in providing flexible workforce solutions

We have restructured our UK business development function together with our recruitment and compliance supply chain, to mirror our clients demands and to facilitate relationships at national regional and local levels The implementation of our new CRM recruitment system is explained in more detail below

ORGANIC GROWTH AND OPERATIONAL IMPROVEMENT

Former management had focused on an acquisitive strategy but had not operationally integrated the acquired businesses so it is not surprising that the UK business has been operating through a large number of brands and legal entities acquired over several years This left the Company without a clear scalable business model, too many brands to support fully overly complicated internal processes and a range of front office systems without the capability to share customer relationship data From the customer's viewpoint and in particular for the NHS, the existence of multiple brands has at times caused confusion over our framework and direct sales offerings

The current Board's strategy is to integrate those acquisitions and grow the business organically with a key focus on cash generation to pay down debt and in time, return cash to shareholders

We have made excellent progress to date

- Our detailed plan to rationalise the legal entities and brands has the support of the Government Procurement Service and other customers which will allow us to novate commercial contracts and reduce documentation issues surrounding compliance during the changeover period

  HCL will become our key framework brand, with category sub-brands for example HCL Nursing, HCL Doctors etc A distinct direct sales brand will be supported in each of the health and social care markets with similar category sub-brands We expect this plan will be implemented by end Q2 2012
- The creation of a simplified legal entity structure behind the brand rationalisation will enable us to standardise our back office processes and realise the resulting operational efficiencies We expect to complete this reorganisation by the end of 2012 and would anticipate benefiting from the operational efficiencies in 2013
- We have completed a thorough review of market-leading IT applications and have selected Itris an integrated front office and compliance package with a proven track record within the healthcare staffing sector The first divisional implementation is scheduled to take place in Q2 2012 and the UK roll-out is expected to take 15 months Concurrently, the existing IT infrastructure will be upgraded to meet the demands of the UK business and to ensure robust business continuity across technology and telecoms

  Operationally we expect Itris to improve the efficiency of the compliance and recruitment processes and to drive productivity gains through the sharing of both client and candidate data across all UK businesses Post implementation we will integrate the application with our back office functions and managed solution technology during 2013

A number of changes have been made to the structure of the business that we believe will result in operational efficiencies and increase productivity through improved communication both internally and with our candidate and client populations

- The business development function has been reorganised to create accountability both at a national pan-HCL level and at a regional divisional level The team is also now responsible for the implementation of contracts and targeted on fulfilment rates Further investment has been made in the bid management team
- The theatre and general nursing businesses covering England previously in separate locations in the South East and under different management have been brought together in our London office under one management team
- Certain national compliance roles previously supporting specific divisions are now managed centrally to provide cross-discipline support regionally
- The allied health disciplines have been relocated from Loughton in Essex to our London office and restructured to reflect a similar ratio of resourcer to recruitment consultant roles as operated elsewhere in the UK business
- The UK finance function has also been relocated from Loughton to the London office

These changes were implemented during Q4 2011 and the early part of 2012 and we have been pleased with how the integrations have proceeded

MANAGED SERVICES – HCL CLARITY

The Board believes that pressure to reduce costs within the NHS will result in opportunities for companies that are able to provide solutions which manage effectively the flexible workforce and result in significant and measureable savings to NHS Trusts and commissioning groups

We have recently entered into a partnership and commercial agreement with Skillstream a leading supplier of contingent workforce management software, enabling us to combine HCL's recruitment process and people expertise with software already proven to generate substantial and quantifiable cost-savings within the NHS

Skillstream's software, which is well-established and operational with a high quality blue chip customer base throughout the private sector (www skillstream co uk) has been customised to meet the specific requirements of the NHS including framework pricing matrices clinical governance and compliance demands and its VAT regime The software is fully functional in several NHS Trusts where it has generated significant savings very quickly following implementation

HCL Clarity is a managed service powered by Skillstream enabling significant cost savings by providing visibility and control to reduce the cost of agency spend and optimise the substantive workforce without compromising the quality of care

The early reaction from clients to this ground breaking proposition within the healthcare sector has been encouraging and we look forward to updating shareholders on our progress in selling this solution later in the year

2011

The first half and second half performance in the UK is as follows

	Revenue			Gross profit		
	H1	H2	Year	H1	H2	Year
	£m	£m	£m	£m	£m	£m
Locum Allied Health Professionals (restated) [1]	15 8	14 8	30 6	4 5	3 7	8 2
Locum doctors	13 7	11 8	25 5	2 1	1 6	3 7
Locum nursing (restated)[1]	15 1	10 1	25 2	4 2	2 7	6 9
Locum qualified social workers	14 2	12 3	26 5	2 5	2 1	4 6
Permanent placements	1 4	1 2	2 6	1 4	1 2	2 6
Inter-segment	(0 2)	0 1	(0 1)			
Total	60 0	50 3	110 3	14 7	11 3	26 0
Administration expenses (excluding depreciation and share-based payments credits)				(14 5)	(14 3)	(28 8)
Adjusted EBITDA				0 2	(3 0)	(2 8)

(1) H1 restated for the move of theatre nurses from Allied Health Professionals to the nurses division

As noted above the new Board has decided to pursue a different strategy to that followed by previous management in the Healthcare market and to re-engineer the business to focus its supply to the NHS through framework contracts

Framework suppliers earn lower gross margins but benefit from significantly increased volume opportunities We will continue to maintain a discreet and transparent brand for non-framework business which will continue to provide flexible supply on demand to the NHS as required and to a range of private sector organisations

Although 2011 was an uncertain period for the Company, the macro issues facing our clients did not materially change A combination of pressures within the NHS not only cost-related but also ongoing concerns about the quality of care, are driving NHS strategies such as QIPP creating opportunities for suppliers capable of providing value-for-money solutions in the area of flexible workforce management We believe that we have a market-leading offering in this space

At a gross margin level, the short-term impact of this strategy has required the business to accept generally lower margins whilst continuing to build the critical mass of contractually compliant supply required for the business to benefit from the volume opportunities available

Allied Health Professionals – representing 31 5% of UK's continuing gross profit in 2011

Comparing H2 2011 to H1 2011 the move of the NHS business onto framework supply resulted in a reduction in gross margin to 25 0% from 28 5% with revenues slipping by 6% over the same period

Locum doctors – representing 14 2% of UK s continuing gross profit in 2011

As this business completed its transition to framework supply, margins slipped from 15 3% in H1 to 13 6% in H2 Further we experienced unusually slow demand post the September rotation and consequently revenues reduced by 14% in the second half compared to the first

Nursing – representing 26 5% of UK's continuing gross profit in 2011

During H2 2011 we relocated the theatre nursing business physically and operationally under the responsibility of the managing director of the London-based nursing division Historically it had been managed within the Allied Health Professionals division and therefore for segmental reporting has appeared there previously

The reduction in gross profit in H2 compared to H1 is due to the move of the theatre nursing business onto the framework during the course of H2 2011

Qualified social workers – representing 17 7% of UK s continuing gross profit in 2011

As we reported in the 2011 Interim Report, we reduced our consultant headcount in the market for Qualified Social Workers ("QSW") around the half year which inevitably resulted in a reduction in gross profit in H2 versus H1 but did achieve the intended increase in revenue per head in H2 compared to H1 and has provided a solid platform for this business on which to build

The market remains tight with local authorities under budget pressure The gross margin slipped to 17 0% in the second half from 17 6% in H1 due to margin pressure within the managed vendor contracts and fewer off-contract bookings available

Permanent recruitment – representing 10 0% of the UK's continuing gross profit in 2011

As previously reported, the headcount in this area was reduced from 90 at 31 December 2010 to 30 at 30 June 2011 and the structure of the division has been altered to create greater focus by discipline and provide a solid foundation from which to grow As expected this did result in a decrease in revenue (from £1 4m in H1 to £1 2m in H2) but revenue per head increased

AUSTRALIA

CUSTOMER RELATIONSHIP MANAGEMENT

In Australia HCA has been and remains a well established and trusted panel (Tier one) supplier to the State Health Authorities and to a number of private healthcare organisations in Australia

As the largest national nursing agency and with a strong medical locum business in New South Wales, ("NSW") we believe that we are well-placed to grow the business organically leveraging existing relationships and infrastructure As planned the national expansion of the medical locum business will begin in 2012 The development of our managed solution HCA Clarity closely aligns our service proposition with our clients' objectives and provides a platform for us to strengthen further our supply relationships

ORGANIC GROWTH AND OPERATIONAL IMPROVEMENT

As in the UK, HCA has grown through a number of acquisitions and when the business was brought into the Group in December 2010 there were a number of individual brands operating across Australia which were not linked to the HCA brand During 2011 we began the process of consolidating the multiple brands and this is now complete with all operating brands having been modernised and linked explicitly to HCA

This has helped us make good progress in improving the effectiveness of our candidate generation marketing and we have seen a positive upward trend in nurses and doctors registering with HCA as a result of our clearer branding and a move towards more online marketing This has also led to a reduction in the acquisition cost per candidate

HCA's nursing agency business has a nationally recognised Registered Training Organisation ("RTO") that has historically provided accredited training and development courses for nurses based in the state of South Australia ("SA") We believe that the ability to provide nurses with access to Continued Professional Development ("CPD") training courses is a key factor behind the success of our nursing agency business in SA where it is the market leader with a significant market share

Given that the biggest constraint on growth within the nursing agency market in Australia is the supply of nurses a key part of our strategy is to extend the reach of the RTO nationally as we believe that this will both attract more nurses to HCA as well as improve our retention levels

We have rebranded the RTO as "NursEd" and are presently reconfiguring all of our offices across Australia to include a well-equipped training room with a view to every state and territory being able to offer nurses access to relevant CPD training courses and other professional and development training

As well as demonstrating a real commitment to investing in our nurses education, we are also able to assure our clients that all nurses working with HCA are fully compliant with all professionally required and mandated core competencies

A key initiative within the nursing agency business our locum doctor business and the newly established permanent nurse recruitment business has been to increase the supply of suitably qualified nurses and doctors into Australia from overseas

We have made good progress in this respect and have established a team based in the Group's London office responsible for sourcing candidates wishing to relocate to Australia on a permanent basis, along with nurses looking to work in Australia under the working holiday visa programme

We have also established a small office in Auckland, New Zealand that is focused solely on sourcing candidates wishing to work in Australia on a permanent agency or locum basis

Another key part of our strategy for Australia is to drive operating efficiencies in the business through implementing standardised, national processes where relevant, as well as using technology where we believe costs can be reduced or eliminated or where we believe that we may improve our competitiveness in the market place

We are presently undertaking a review of business processes nationally within the nursing agency and the results of this analysis will assist in determining areas of priority Similarly, we are planning to invest in upgrading the technology platforms in use within the business and by partnering with a global technology company will look to pass some of the risks of hardware and technology obsolescence to a third party

MANAGED SERVICES – HCA CLARITY

As in the UK, we believe that the pressure to reduce agency staffing costs amongst our clients in both the public and private health sectors in Australia will result in growth opportunities for those companies that are able to provide proven solutions which result in significant and measureable savings whilst at the same improving management information

As Skillstream have an established physical presence and several major clients in Australia, we are confident in their ability to support HCA's development as a workforce solutions provider We were therefore delighted to extend our partnership agreement with them into Australia This was formally agreed in February 2012

We believe that HCA Clarity will be a market-leading solution in Australia and during 2012 we will be refining our go-to-market proposition and prioritising those clients with whom we believe we will generate the best return Early reactions from clients to this development have been very positive

2011

The first half and second half performance in Australia is as follows

	H1 £m	H2 £m	Year £m
Revenue	56 8	60 0	116 8
Gross profit	11 6	12 1	23 7
Administration expenses (excluding depreciation)	(8 1)	(6 9)	(15 0)
Adjusted EBITDA	3 5	5 2	8 7

Demand for nursing staff exceeds our ability to supply We have rebranded HCA, launched a new website and increased online marketing, leading to record numbers of candidate registrations

The continuing business of HCA comprised the nursing agency Last Minute Locums ("LML") the locum doctor business and the permanent recruitment division

We have invested in a number of senior management appointments in the sales, key account management, marketing and HR functions in order to provide the necessary support platform to drive future growth within HCA

During 2011, we successfully rebranded HCA, including the launch of a new interactive HCA website and significantly increased online marketing activities The results of which have been very encouraging with record numbers of candidate registrations across all divisions We will be further upgrading the website during 2012 During the year we also increased our online social media presence on Facebook and Twitter and our weekly followers have increased steadily

Our efforts to focus on the proactive management of national and key accounts were rewarded with the renewal of a panel contract with one of the state-based public health systems for a five year period to end June 2016 In addition we have also been successful in securing preferred supplier status contracts within the aged care sector in Australia

In November, we achieved successful recertification under ISO9001 for a further three year period

Nursing agency – representing 87% of HCA's continuing gross profit in 2011

Notwithstanding a challenging start to the year in Queensland due to widespread floods that caused a short-term down turn in demand, market conditions nationally remained positive during the year within both the public and private health sectors

Demand for nursing staff in Australia presently exceeds our ability to supply and we have therefore been investing in our marketing activities to attract more nurses to register and work with HCA and developing innovative ways to increase the level of nurse productivity once registered with HCA

Whilst the nurse supply shortage is a national issue we have been focusing our efforts on the eastern seaboard states of Queensland ("QLD") NSW and Victoria ("VIC") where the HCA nursing agency is underweight relative to the overall market opportunity in this part of Australia

As the largest nursing agency in Australia and the only company with a truly national network, we believe that we are able to offer our nurses the best choice of work opportunities whether in the public or private sectors in the large metropolitan centres regional cities or in remote and rural Australia Furthermore, we are the only nursing agency to have its own RTO Branded as NursEd, we are able to ensure that all of our nurses meet mandatory competency requirements as well as supporting our nurses with CPD training required as part of their professional registration requirements

NursEd has been very successful in attracting nurses historically in SA and consequently we took the decision in H2 2011 to expand nationally and the early signs are encouraging

During 2011, we continued to make progress in increasing our penetration of the aged care nursing sector, which remains a key part of our growth strategy

Locum doctors – representing 11% of HCA s continuing gross profit in 2011

The market for the provision of locum doctors remains positive and a key growth opportunity for LML is to secure its standing as an approved panel supplier in all states and territories In this regard, towards the end of the year we commenced plans to broaden the geographic reach of the business throughout Australia through the appointment of recruitment consultants in Western Australia, ("WA"), SA, VIC and QLD

Having been acquired in August 2010, the operational and financial integration of LML into HCA was completed during 2011 and during the second half we made progress in leveraging the extensive client list within the nursing agency to develop new clients for LML

The physical colocation of LML within the Sydney office of HCA took place at the end of the first quarter of 2012

Permanent recruitment – representing 2% of HCA's continuing gross profit in 2011

During 2011 we launched a permanent recruitment division in Australia, focusing initially on the recruitment of doctors and nurses The permanent nurse recruitment business was branded Nurse Jobs Australia ("NJA") whilst the doctor recruitment business was branded LML Medical Recruitment

NJA traded in line with our plans in 2011 and has had a positive start to 2012

However after a difficult few months trading for LML Medical Recruitment and recognising the significant growth opportunities within the permanent recruitment of nurses, we took the decision during Q4 to withdraw from the doctors business and concentrate our efforts on building NJA

The Australian business works closely with the UK business, to ensure that we are able to properly utilise the candidate pipeline of nurses in the UK and Europe wishing to work in Australia, either on a permanent basis or also under the working holiday visa scheme

During 2011 we also opened a New Zealand resourcing office aimed at taking advantage on the trans-Tasman agreement and sourcing doctors and nurses wishing to work in Australia on a locum or permanent basis

PEOPLE DEVELOPMENT ACROSS THE GROUP

There are many highly talented and committed individuals throughout the Group However little investment has been made historically in people development and we believe that the sustainable growth strategy for both the UK and Australian businesses needs to be underpinned by a Group people plan The key elements of this plan are to

- Develop a set of HCL corporate values – which will underpin what we need to do to build a strong brand and differentiate ourselves in the market These values will shape our culture defining the characteristics and behaviours that guide the way we work with our customers our colleagues our suppliers and other stakeholders These behaviours will show us what we need to do to build a sustainable culture that will help us achieve our business goals and make HCL a great place to work
- Build a high performance workplace – where employees are clear on what they are expected to deliver and have development plans to develop key skills and competencies to deliver high performance
- Create a development culture – where employees have the opportunity to develop themselves and their careers as they grow the HCL business
- Build employee engagement – which in turn will deliver an outstanding and consistent customer experience
- Enhance our change management agility – to reflect our customers' needs for solutions that deliver quality, cost efficiency and transparency the changing healthcare environment and the requirement for scarce skills

These five cornerstones of our people plan will be underpinned by operational excellence in our core people processes to support the business as it restructures, transforms and develops propositions to meet our customer needs

CURRENT TRADING

The key strategic change of direction in our supply provision to the NHS has inevitably impacted margins and gross profit levels in the short-term but was an essential precursor to the Company being able to access the significant volumes available as a trusted framework partner

Despite the significant level of change that the business and our people have been asked to digest, our trading in the UK has remained stable from November through to the end of Q1 2012

In Australia the year is starting well

Notwithstanding the uncertainty that our clients are experiencing we believe we will begin to see the benefits of our strategic and operational changes as 2012 develops

FINANCIAL REVIEW

Adjusted EBITDA, the figure that the Board believes best illustrates the underlying performance of the business, increased to a profit of £5 9m (2010 loss £0 1m).

INTRODUCTION

The Financial Statements for the year ended 31 December 2010 were prepared on a going concern basis, which depended on a successful refinancing following the discovery of significant accounting errors and revisions to prior period's results as accounting policies were changed

The Refinancing proposed by the Board received shareholder approval at the meeting on 12 September 2011 Detailed disclosures relating to the Refinancing are given in Note 25

The 2011 Financial Statements have also been prepared on a going concern basis, but the Board is drawing attention to some material uncertainties, details of which are set out below and in Note 28

2010 figures in this Financial Review are based on the restated 2010 results, as discussed in more detail in Note 1 to the Financial Statements

GOING CONCERN

The Group s business activities, together with factors likely to affect its future development, performance and position are set out in the Operational Review The financial position and borrowing facilities are described in this Financial Review In addition Note 28 to the financial statements describes the Group's contingent liabilities

The Group s budget for the year ending 31 December 2012 and its forecast for the following period indicate that the Group plans to operate within its current bank facilities and covenants albeit with a narrow margin for contingencies The plans reflect a number of judgements made by the Directors in respect of the risks and uncertainties on described in the disclosure of Principal Risks and Uncertainties and in respect of the following material uncertainties

- These plans reflect the Board's growth focused strategy which is described in the Chairman s Statement and Operational Review and assume significant increases in revenues principally from gains in market share
- During the going concern review period a number of important framework agreements and contracts in both the UK and Australia are to be renewed While the Board has no information that the Group's position in relation to these frameworks and contracts will not continue there is a risk that if a combination of contracts were not renewed then the budgeted revenue would not be achieved
- The Board has considered several reasonably possible scenarios with lower levels of revenue or margin than included in the budgets and forecasts, some of which would require management action to contain costs in order for the Group to keep within existing banking covenants

Whilst the Directors consider their planned mitigating actions to be achievable and balanced responses to the matters outlined above, these circumstances create material uncertainties over future trading and cash flows

In addition the Group is party to legal action described in Note 28 The forecasts assume no liability and no cash outflows in respect of Kate Bleasdale (other than a reasonable estimate of the costs of defending this action) and the US litigation during the review period

Members of the Board meet regularly with the Group s banks and loan providers who receive regular information on the progress of the Group, its plans and forecasts and their risks The Group's bankers and loan providers have expressed their support for the new Board and the Group's plans

The Directors have concluded that the combination of these circumstances represents material uncertainty that casts significant doubt upon the Company's ability to continue as a going concern and that, therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business The financial statements do not include the adjustments that would result if the Company and the Group were unable to continue as a going concern Nevertheless, after making enquiries and considering the uncertainties described above, as well as the mitigating actions available to them and the expression of support from the Group s bankers, the Directors have a reasonable expectation that the Company will have access to adequate resources to continue in operational existence for the foreseeable future For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements

PRIOR YEAR ADJUSTMENTS

During the preparation of the Consolidated Financial Statements for the year ended 31 December 2011, it became apparent that the recognition of a deferred tax liability of £9 6m (A$15 1m converted at rates ruling on the acquisition dates) on trademarks and other intangible assets of £31 8m (A$50 1m) recognised on the acquisition of LML and HCA had been omitted As a result a restatement is required in the acquisition balance sheets to recognise this liability on the dates of acquisition of 1 August 2010 and 20 December 2010 respectively, with goodwill increasing by £9 6m at the date of acquisition

Also an escrow amount of £0 8m (A$1 2m) from a prior acquisition by HCA had been omitted and has also been included in the restated receivables on the acquisition balance sheet, with goodwill reducing by £0 8m at the date of acquisition

In addition when completing the accounts for the consolidated Australian tax group for the tax year to June 2011 it was determined that the deferred tax asset estimate in the acquisition balance sheet was understated by £1 1m (A$ 1 7m) and the estimate in the acquisition balance sheet has been corrected, with goodwill increasing by £1 1m at the date of acquisition

A summary of the restatement entries is as follows

	A$m	Acquisition date £m	Forex £m	31 December 2010 £m
Goodwill	15 6	9 9	0 3	10 2
Receivables	1 2	0 8	-	0 8
Deferred tax asset	(1 7)	(1 1)	-	(1 1)
Deferred tax liability	(15 1)	(9 6)	(0 3)	(9 9)

Also during the preparation of the Consolidated Financial Statements for the year ended 31 December 2011 a clerical error in the 2010 calculation of the value in use of the UK Social Care division was discovered which had the error not occurred would have meant the impairment of the goodwill and assets associated with that division would have increased by £7 1m A prior year adjustment has been booked to correct this misstatement, reducing goodwill by £5 4m, other intangible assets by £1 4m tangible fixed assets by £0 3m, deferred tax liability by £0 4m and retained earnings at 31 December 2010 by £6 7m

The combined impact of the Social Care prior year adjustments on the loss from operations and loss for the year ended 31 December 2010 was as follows

	Loss from operations £m	Loss for the year £m
As reported for the year ended 31 December 2010	(52 1)	(54 4)
Goodwill and asset impairment of Social Care division	(7 1)	(7 1)
Deferred tax	-	0 4
As restated for the year ended 31 December 2010	(59 2)	(61 1)

The combined impact of the above prior year adjustments on the relevant figures in the Consolidated Statement of Financial Position at 31 December 2010 was as follows

	As previously reported £m	Impact of restatements £m	Restated £m
Goodwill	41 4	4 8	46 2
Other intangible assets	77 0	(1 4)	75 6
Property, plant and equipment	2 8	(0 3)	2 5
Trade and other receivables	36 3	0 8	37 1
Deferred tax	(3 7)	(10 6)	(14 3)
Impact of restatements		(6 7)	
Profit and loss for the year	(54 4)	(6 7)	(61 1)
Profit and loss reserve	(54 5)	(6 7)	(61 2)

The Group presents adjusted earnings per share in Note 12 The calculation for the year ended 31 December 2010 was misstated as detailed in that note

The acquisition note for 2010 acquisitions has been restated in Note 17

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and judgements regarding future events Estimates and judgements are regularly evaluated based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances In the future actual experience may differ from those estimates and judgements

The critical accounting estimates and judgements are set out in more detail in Note 3(w)

RESULTS SUMMARY

The summarised results for the year ended 31 December 2011 are set out in the table below The results of continuing operations in 2011 benefit significantly from the inclusion for a full year of the Australian businesses acquired in 2010 The Board believes the figure that best illustrates the underlying performance of the business is earnings before depreciation, amortisation, interest and tax and before highlighted operating costs and share-based charges or credits This figure defined below as adjusted EBITDA, increased to £5 9m for the year ended 31 December 2011 compared with a loss of £0 1m in 2010

In addition to the prior year adjustments described above the 2010 results in the table below have been restated to reflect the reclassification of the results of HCA's Homecare division, disposed of in July 2011, into the line "Profit from discontinued operations net of tax"

Continuing operations

	2011 £m	Restated[1] 2010 £m
Revenue	**227 1**	154 9
Cost of sales	**(177.4)**	(114 2)
Gross profit	**49 7**	40 7
Gross profit %	21 9%	26 3%
Administrative expenses	**(43 8)**	(40 8)
Adjusted EBITDA	**5 9**	(0 1)
Depreciation of property, plant and equipment	**(1 1)**	(0 6)
Amortisation of intangible assets	**(6 4)**	(1 7)
Share scheme credits / (charges)	**0 5**	(0 6)
Adjusted loss from operations	**(1 1)**	(3 0)
Highlighted items		
Goodwill impairment	**-**	(51 4)
Net exceptional operating expenses	**(9 6)**	(4 8)
Loss from operations	**(10.7)**	(59 2)
Finance expense (net)	**(2 2)**	(4 4)
Loss before tax	**(12 9)**	(63 6)
Taxation	**2 6**	2 5
Loss after tax from continuing operations	**(10 3)**	(61 1)
Profit from discontinued operations net of tax	**1 4**	-
Loss for the year	**(8 9)**	(61 1)
Basic loss per share from continuing operations	**(3.1)p**	(56 2)p
Adjusted basic loss per share from continuing operations	**(3 7)p**	(5 1)p

(1) 2010 figures have been restated for the revised impairment of goodwill and other assets in the UK Social Care division (Note 1) In addition the amounts credited or charged in the various headings for the operations of the Homecare division have been moved to profit for the year from discontinued operations – a net £nil result – as the Homecare division was sold in 2011 (Note 11) Earnings per share calculations have been corrected for the year ended 31 December 2010 as disclosed in more detail in Note 12

Depreciation amortisation and share scheme credits (2010 charges) were £7 0m (2010 £2 9m) The majority of the increase represents amortisation of the intangible assets of HCA for a full year in 2011, offset by a share-based payment scheme credit due to the forfeiture of a large number of options held by former Directors

Highlighted items in 2011 primarily relate to the restructuring of the business the investigation into and restatement of accounting irregularities, and a net charge for adjustments to deferred consideration on acquisitions In 2010 the highlighted items were mainly the impairment of goodwill property plant and equipment and intangible assets, acquisition related costs and restructuring costs offset by a gain on fair value changes in contingent consideration on an acquisition The 2011 charge for the adjustments to deferred consideration on acquisitions and the 2010 credit on fair value changes in contingent consideration on an acquisition contained broadly matching, but opposite amounts which had to be booked in separate years as an agreement was signed in early January 2011 which gave rise to the charge in 2011

NET EXCEPTIONAL OPERATING EXPENSES

Net exceptional operating expenses comprise

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Exceptional operating income/(expense)		
Reorganisation and refinancing costs		
Restructuring costs	**(1 8)**	(0 3)
Refinancing additional costs	**(0.7)**	-
Australia – integration costs	**(0 6)**	(0 4)
Onerous leases	**(0 7)**	(0 7)
	(3 8)	(1 4)
(Loss) / gain on fair value changes in contingent and deferred consideration (Note 17)	**(2 9)**	4 2
Investigation and resolution of accounting irregularities	**(2 9)**	-
Acquisition related transaction costs (Note 17)	**-**	(2 8)
Costs related to advice concerning possible disposal of business	**-**	(1 4)
Impairment of property, plant and equipment (Note 16)	**-**	(0 7)
Impairment of other intangible assets (Note 15)	**-**	(2 7)
Net exceptional operating expenses	**(9 6)**	(4 8)

FINANCE EXPENSE (NET)

In 2011 the net finance expense was £2 2m (2010 £4 4m) As a result of the Refinancing during the year a number of large credits and debits passed through finance Income and finance expense as the tables below illustrate

Finance income

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Exceptional finance income		
Refinancing – difference between fair value of shares issued to Ares Lux and the mezzanine finance retired (Note 25(d))	**9 9**	-
Fair value adjustment on Zero Coupon Loan Note (Note 25(e))	**7 7**	-
Bank debt waived (Note 25(f))	**5 9**	-
Accrued interest payable written off in Refinancing (Note 25(f))	**0 6**	-
	24 1	-
Interest received on bank deposits	**0 1**	-
Foreign exchange gains	**0 2**	1 5
Gain on fair value changes in derivative financial instruments	**0 1**	0 5
	24 5	2 0

Finance expense

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Exceptional finance expense		
Bank fees relating to debt repaid written off (Note 25(g))	**4.4**	-
Professional fees of banks' advisers (Note 25(h))	**3.0**	-
Advisers fees on the Refinancing (Note 25(h))	**2.5**	-
Warrant option written off (Note 21)	**2.6**	-
Forex on Refinancing	**0 3**	-
Arrangement fee on ACE Limited facility (Note 25(b)(iv))	**0 2**	-
	13 0	-
Bank loans and overdrafts	**12 4**	3 4
Amortisation of fees	**1.0**	0 3
Loss on fair value changes in derivative financial instruments	**-**	2 5
Finance lease interest	**0 2**	0 2
Imputed interest on Zero Coupon Loan Notes (Note 24)	**0 1**	-
	26.7	6 4

The Group has recognised exceptional finance income of £9 9m on the debt for equity swap with Ares Lux as disclosed in Note 25(c), £7 7m on the conversion of debt into Zero Coupon Loan Notes as reported in Note 25(e), £5 9m on bank debt waived as reported in Note 25(f) and £0 6m of accrued interest waived by the banks Within finance expense the Group has recognised £5 5m of fees relating to the Refinancing and £4 4m of unamortised debt fees written off when debt was repaid early as part of the Refinancing Ignoring these exceptional amounts and the movements on derivatives the underlying expense was £13 7m (2010 £3 9m) reflecting the cost of ownership of HCA for a full year

SEGMENTAL ANALYSIS

	2011 Revenue £m	**2011 Gross profit £m**	2010 Revenue £m	2010 Gross profit £m
UK				
Locum doctors	**25 5**	**3.7**	33 7	6 3
Locum qualified social workers	**26 5**	**4 6**	35 6	6 8
Locum Allied Health Professionals (restated)	**30 6**	**8 2**	47 0	14 7
Locum nursing (restated)	**25 2**	**6 9**	26 3	7 0
Permanent placements	**2 6**	**2 6**	3 9	3 9
Inter-segment	**(0.1)**	**-**	(0 6)	(0 4)
Total UK	**110 3**	**26 0**	145 9	38 3
Australia	**116 8**	**23 7**	9 0	2 4
Continuing operations	**227 1**	**49 7**	154 9	40 7
Operating expenses before highlighted items				
UK and corporate		**(29 8)**		(41 0)
Australia		**(21 0)**		(2 7)
Goodwill impairment		**-**		(51 4)
Net exceptional operating expenses		**(9 6)**		(4 8)
Loss from operations		**(10 7)**		(59 2)

During 2011, placement of theatre nurses which was previously included within allied health professionals was moved to the nursing segment Prior year segmental information has been restated to reflect the current reporting structure

UK revenues and gross profits fell significantly in 2011 reflecting, inter alia, the reorganisation of the UK business and the change in strategy towards providing more locums through framework agreements with lower margins but potentially much greater volumes UK overheads were cut accordingly

The table below separates the H1 and H2 performance

Continuing operations

	Restated[1] H1 2011 £m	H2 2011[2] £m
Revenue	**116.8**	110 3
Cost of sales	**(90 5)**	(86 9)
Gross profit	**26 3**	23 4
Gross profit %	*22 5%*	*21 2%*
Administrative expenses	**(22 6)**	(21 2)
Adjusted EBITDA	**3 7**	2 2
Depreciation of property, plant and equipment	**(0 5)**	(0 6)
Amortisation of intangible assets	**(3.1)**	(3 3)
Share scheme credits	**0 5**	-
Adjusted profit / (loss) from operations	**0.6**	(1 7)
Highlighted items		
Net exceptional operating expenses	**(7 4)**	(2 2)
Loss from operations	**(6 8)**	(3 9)
Finance (expense) / income (net)	**(12 1)**	9 9
(Loss) / profit before tax	**(18.9)**	6 0
Taxation	**1 2**	1 4
(Loss) / profit after tax from continuing operations	**(17.7)**	7 4
Profit from discontinued operation, net of tax	**1 0**	0 4
Loss for the year	**(16 7)**	7 8

(1) Unaudited figures for H1 are taken from the Interim Results for the 6 months to June 2011 adjusted for

(a) depreciation and amortisation adjusted for the impact of impairing the assets of the Social Care business in the United Kingdom as a prior year adjustment as disclosed in more detail in Note 1

(b) analysis of exceptional costs and income reclassified to be consistent with the classification in these Financial Statements

(c) the results of the discontinued operation have been adjusted to cease depreciating assets at the time 31 March 2011 the business was classified as held for disposal

(2) Full year results less unaudited and restated H1

The first half and second half performance is discussed in the Operational Review

TAXATION

The tax benefit on continuing operations for the year ended 31 December 2011 is a credit of £2 6m (2010 £2 5m) comprising prior year UK corporation tax credit of £0 8m, a current year overseas tax credit of £0 4m and a deferred tax credit of £1 4m

ACQUISITIONS

There were no acquisitions during the year ended 31 December 2011 Details of the movements on contingent and deferred consideration amounts are given in Note 17 and Note 22

DISPOSAL

On 18 July 2011 the Company announced that the wholly owned Australian subsidiary, Healthcare Australia Holdings Pty Ltd had completed the sale of its Homecare division The gross consideration was A$34m (£22 7m) The net proceeds after costs, adjustments relating to the net assets sold, and accounting for the cash within the Homecare division at the time of disposal was A$30 5m (£20 3m) which was used to repay debt

In the year ended 31 December 2010 based on unaudited management accounts the Homecare division generated a turnover of A$44 7m (£28 1m of which £2 3m was whilst a member of the Group) and a gross profit of A$12 2m (£7 6m of which £0 6m was whilst a member of the Group)

The disposal generated a gain of £0 7m after expenses (Note 11) In calculating this gain account was taken of the fact that the Homecare division was held for resale from 31 March 2011 and so for Group reporting purposes depreciation of fixed assets ceased on that date The results of the Homecare division to the date of disposal together with the profit on disposal, have been reported in the Consolidated Statement of Comprehensive Income in the line "Profit for the year from discontinued operations, net of tax" The prior year figures have been restated to show the Homecare division as discontinued, but the net profit after tax in the short period of ownership in the year ended 31 December 2010 was £nil

GOODWILL

Goodwill may be analysed as follows

	31 December 2010	Prior Year Adjustments	**Restated 31 December 2010**	**Transfers**	**Disposals**	**Foreign Exchange**	**31 December 2011**
	£m	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Social Care	5 4	(5 4)	**-**	**-**	**-**	**-**	**-**
Allied Health Professionals	10 7	-	**10 7**	**(2.7)**	**-**	**-**	**8 0**
Nursing	8 8	-	**8 8**	**2 7**	**-**	**-**	**11 5**
Australia	16 5	10 2	**26.7**	**-**	**(6 5)**	**0 1**	**20 3**
	41 4	4 8	**46 2**	**-**	**(6 5)**	**0 1**	**39 8**

As a result of the transfer of the theatre nurses operations from the Allied Health Professionals segment to the nursing segment £2 7m of associated goodwill was transferred between these segments during 2011

The Group tests goodwill for possible impairment annually or on other occasions if there are indications of a possible impairment The recoverable amounts have been determined from value in use calculations based on cash flow projections from formally approved budgets and forecasts for 2012 2013 and 2014 and estimates for subsequent years More details of the assumptions are given in Note 14

OTHER INTANGIBLE ASSETS

As noted in the critical accounting estimates and judgements in Note 3(w) the measurement and subsequent valuation of intangible assets requires management to make significant estimates in determining fair values Management make these estimates for material acquisitions with the assistance of independent expert valuers

The other intangible assets are analysed as follows

	2011	Restated 2010
	£m	£m
Brands and trademarks	**26.3**	33 0
Customer relationships	**18 0**	27 9
Candidate database	**8.8**	13 2
Non-compete agreements	**0.4**	0 5
Computer software	**0 4**	1 0
	53 9	75 6

The main reasons for the decrease were the £15 9m of intangible assets of the Homecare division which were sold with that business in July 2011, and £6 4m of amortisation charged during the year

DIVIDENDS

Dividends are discussed in the Chairman's Statement and in Note 13

CASH FLOW

The following table reconciles the loss for the year to the cash flow from operating activities

	2011 £m	2010 £m
Loss for the year	**(8 9)**	(61 1)
Adjustments		
Discontinued operations	**(1 4)**	-
Loss/(gain) on fair value changes in contingent consideration	**2.9**	(4 2)
Depreciation amortisation and impairment	**7 5**	57 1
Foreign exchange gain on operating activity	**(0 4)**	-
Finance expenses (net)	**2 2**	4 4
Share-based payments (credits) / charges	**(0 5)**	0 6
Corporation tax expense	**(2.6)**	(2 5)
Cash flows from operating activities before changes in working capital and provisions	**(1 2)**	(5 7)
Change in working capital and provisions	**1.0**	9 3
Cash generated from operations before tax	**(0 2)**	3 6
Corporation tax paid	**(2 5)**	(4 0)
Cash flow from operating activities	**(2 7)**	(0 4)

Cash flows from operating activities include cash spend on exceptional operating costs of £6 0m (2010 £4 9m) Adding back those exceptional cash spends would make the cash flow from operating activities before exceptional cash outflows £3 3m positive (2010 £4 5m positive)

Cash flows from operating investing and financing are analysed as

	2011 £m	2010 £m
Cash flow from operating activities	**(2 7)**	(0 4)
Investing activities		
Interest received	**0 1**	1 5
Acquisitions of subsidiaries (net of cash acquired)	**-**	(89 8)
Disposal of property, plant and equipment	**0.4**	-
Disposal of Homecare division	**20 3**	-
Deferred and contingent consideration paid	**(2.6)**	-
Acquisition of tangible and intangible assets and finance lease payments	**(1 6)**	(1 8)
Net cash used in investing activities	**16.6**	(90 1)
Financing activities		
Issue of Ordinary Shares	**56 2**	11 7
New loans acquired	**11 5**	140 5
Loans repaid	**(59 0)**	(24 9)
Interest and similar expenses paid	**(11 2)**	(12 4)
Refinancing professional fees	**(5 5)**	-
Dividends	**(2 1)**	(3 6)
Net cash (used)/generated from financing activities	**(10 1)**	111 3
Effect of exchange rate movements	**(0 1)**	(2 8)
Movement in cash and cash equivalents	**3 7**	18 0

Net debt has reduced to £26 0m from £104 4m in 2010.

BORROWINGS

Net borrowings at 31 December 2011 were £26 0m (2010 £104 4m)

Borrowings at 31 December are analysed in Notes 20 and 21 Net debt is analysed as follows

	2011	2010
	£m	£m
Loans – principal amounts		
Sterling denominated	-	81 5
Australian Dollar denominated	**39 5**	43 0
Zero Coupon Loan Notes due 2021 (principal amount £10 2m)	**2 6**	-
Unamortised loan fees	**(2 3)**	(7 6)
Bank overdraft	-	0 1
Fair value of warrants	-	(2 9)
Obligations under finance leases	**0 4**	0 9
	40 2	115 0
Cash and cash equivalents	**(14 2)**	(10 6)
Net debt	**26 0**	104 4

In the Financial Statements at 31 December 2010 all debt was treated as current debt as the Board believed it was probable that at that date the Group was in default under the Senior Facilities Agreement ("SFA") and the Mezzanine Facility Agreement ("MFA") with its lenders The lenders never took any action based on that probable default Following the Refinancing long-term debt is now classified within non-current liabilities

The principal reasons for the reduction in borrowings during the year were the disposal of the Homecare division and the Refinancing which is explained in detail in Note 25 A summary of the net debt reduction from the Refinancing is as follows

	2011
	£m
Net proceeds of the Placing after fees	
Proceeds used to repay bank debt	**35 0**
Proceeds banked (net of fees settled by Fairfax as Nomad)	**17 2**
Net proceeds of the Open Offer banked	**0 9**
Debt retired in debt for equity swap with Ares Luxembourg S a r l	**22.4**
Debt retired in exchange for Zero Coupon Loan Note	**10 2**
Zero Coupon Loan Note issued at fair value	**(2.5)**
Waiver of bank debt	**5 9**
Fair value of warrants cancelled	**(2 6)**
Capitalised bank fees on old facilities written off	**(4 4)**
Costs and commissions paid	**(8 5)**
	73 6

KEY PERFORMANCE INDICATORS

The key performance indicators monitored by management in weekly sales meetings during 2011 were

- revenue and
- gross margin

In future, management will also monitor conversion ratio, being the percentage of gross margin retained in the business after attributable operating costs are charged and days sales outstanding which is a measure of the efficiency of the business in converting revenue into cash

PRINCIPAL RISKS AND UNCERTAINTIES

The Board's assessment of the principal risks and uncertainties facing the business is set out in Principal Risks and Uncertainties

The attention of shareholders is also drawn to the contingent liabilities Note 28

PRINCIPAL RISKS AND UNCERTAINTIES

The Board is developing improved processes to identify and manage risk A listing of principal risks and uncertainties was published in the 2010 Annual Report in August 2011

Risks are reviewed formally by the whole Board during the annual budgeting cycle Day-to-day management of risk is the responsibility of the executive Directors The effectiveness of risk management will be monitored by the Board

The principal risks and uncertainties which are currently judged to have the largest potential impact on the Group s financial performance and reputational standing are described below

RISK	MITIGATION
Relationships with key customers The Group has a number of key customers particularly the NHS in the UK and the various state and territory health systems in Australia Customer relations and compliance with the terms of contracts are important as the absence of these activities could result in loss of contracts thereby having an adverse effect on profits and cash flow In 2011, 69% of UK revenue was from the NHS In the 2010 Accounts the Group has disclosed some non-compliance issues against the compliance requirements of relevant framework agreements covering the supply of locums to the NHS As a result, the NHS could reduce or even terminate the Group's ability to supply locums under one or all of the framework agreements In prior periods a substantial proportion of supplies to the NHS have been outside established framework agreements This is not preferred by the NHS and the Board changed its policy during 2011 so that now as many locums as possible are supplied under the framework agreements In Australia, the Group is an approved Panel supplier of agency nurses to the public health system in all states and territories These contracts may be terminated immediately in the event of a breach or by notice Several agreements with private health providers contain Key Performance Indicator ("KPI") targets with termination rights if targets are not met	The Board monitors relationships with key customers regularly The CEO is responsible for maintenance of good relationships with the NHS supported by the divisional managing directors and the UK business development team A UK Head of Clinical Governance and Compliance has been appointed who is responsible for testing the Group s compliance programme The Group continues to supply to the NHS without restriction and has positively engaged with the NHS to improve the service which it provides The Group is responding to the needs of the NHS by offering new solutions such as HCL Clarity The national and key account management team together with state and territory based client service managers monitor performance against these contracts and regularly discuss any performance issues with clients Contracts which impose targets on HCA will normally include obligations on the client such as a limitation on the number of shifts that can be cancelled
Potential impacts from past events, including litigation The 2010 Annual Report included disclosure of several serious matters including accounting irregularities, potential illegal dividends, poor corporate governance and potential issues and a number of claims relating to the supply of locums to the NHS As a result of these matters, a number of disciplinary hearings were held with the outcome that certain previous directors and other staff were either dismissed or chose to resign Two significant legal cases have been brought against the Company which are described in Note 28 The first is a claim by Ms Bleasdale, the former CEO, for £12m, where a hearing commenced on 10 April the second, a claim by certain US investors has been filed in the State of New York and there is currently no scheduled hearing The outcome of pending litigation is uncertain and an adverse ruling could result in a material loss and a shortage of liquidity for the Group In December 2011 the Accountancy and Actuarial Disciplinary Board ("AADB") announced an investigation into the conduct of certain former Directors These historical issues may continue to have an adverse effect on the Group s reputation and until the historical issues are resolved customers may be reluctant to work with the Group and potential new investors may be reluctant to invest	The Board continues to devote considerable time to addressing impacts from past events and receives regular reports from management and where necessary external legal counsel The Board made provision in the 2010 financial statements for the probable settlement of a number of claims in respect of locums supply in the UK and continues to work through the open matters The Board reviews all material litigation in detail and takes advice from the Group's legal advisers The Board's policy is only to take or defend legal action when it is highly confident of its position The Group s policy is to cooperate with all regulators including the AADB investigation The CEO and senior operational management are actively engaged with customers to ensure historical issues are set in context The Board is actively implementing higher standards of corporate governance

RISK	MITIGATION
Availability of finance The Group is dependent on the continuing availability of finance from its banks The Group has given undertakings including financial covenants, to which it must adhere Should it fail to meet these undertakings, the banks could demand early repayments of their loans	The Board regularly monitors current and forecast compliance with its obligations to the banks Senior executives meet representatives of the banks on a regular basis to keep them appraised of the Group's performance and future plans
IT Systems and security The Group relies on computer systems to deliver its services to customers Any material disruption to these systems will impact revenues as lost time for locum supplies cannot be replaced In the UK, a new system to manage the candidate database and match candidates to opportunities is being implemented Implementation of any new system carries certain risks, including risk of disruption The Group s IT systems contain valuable information such as the candidate database	The Board mitigates the risks involved in IT systems by the following • review of personnel in the group's IT function • regular monitoring of progress on the implementation of new IT systems, • regular reviews of IT security strategy and procedures and • reviews of disaster recovery arrangements at least annually The Group is taking steps to enhance information security through the implementation of the new front-office system in the UK
Compliance The Group has obligations under contracts and, in some circumstances, under legislation to supply locums to specified standards of clinical capability and to make checks before locums are placed in roles Under some contracts especially those with the NHS the compliance requirements are extensive Failure to complete maintain and refresh those checks could lead to legal, financial and reputational consequences These matters are not able to be insured	In the UK, a Head of Clinical Compliance and Governance was appointed in October 2011, who reports to the CFO to ensure independence from operational management The Board receives monthly reports from the Head of Clinical Compliance and Governance and reviews the ongoing implementation of corrective measures
Availability of suitably qualified locums The Group has adopted a growth strategy and these growth plans assume that it will be possible to retain and expand a pool of locums of sufficient skills and in the right locations to meet the needs of customers If sufficient locums are not available then the Group's revenue targets will not be met	The marketing departments in the UK and Australia are responsible for campaigns to attract new locums and retain existing locums Divisional managing directors have KPIs related to the size of their locum pools and the proportion that are working at any one time In addition the Group operates a number of schemes to promote the retention of existing locums
Exchange rate The Group s operations are principally located in UK and Australia and local revenues and costs are accounted for in Sterling and Australian Dollars The reporting currency of the Group is Sterling The Sterling value of the Australian results depends on the exchange rate used to translate the results of overseas operations The Group's bank debt is denominated in Australian Dollars and the Sterling value will fluctuate with the exchange rate to Sterling Foreign exchange risk is described more fully in Note 24 The Board considers exchange rate translation to be a principle risk because of the relative size of the overseas operations in the Group results and the potential impact of fluctuating exchange rates on Group results	The borrower of the Group's bank debt is an Australian subsidiary and the debt is denominated in Australian Dollars The debt is approximately 50% of total Australian Dollar assets before debt denominated in Australian Dollars This bank debt gives a partial natural hedge against translation effects on profits and net assets
Other business model risks There are other inherent risks in the business model such as risks relating to healthcare locum market demand recruitment and retention of consultants, availability of locums and the associated taxation legislation risks of self employed staff and VAT and the use of umbrella companies for the supply of agency workers	These risks are managed on a day-to-day basis by executive management and are a regular part of Board discussions

DIRECTORS AND ADVISERS

Healthcare Locums plc is a public limited company incorporated in England and Wales

DIRECTORS

Peter Sullivan	Chairman, Non-executive
Stephen Burke	Chief Executive Officer
Bill Jessup	Interim Chief Financial Officer
Sue Bygrave	Chief Financial Officer (Designate)
Andrew McRae	Managing Director of Healthcare Australia
Mark Andrews	Independent Non-executive Director
David Henderson	Senior Independent Non-executive Director

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DIRECTORS

The biographies of the current Directors are as follows

PETER SULLIVAN *Chairman* (age 64)

Appointed 18 February 2011

Peter was previously the Chief Executive Officer of Standard Chartered Bank Limited s operations in Hong Kong and North Asia and was responsible for the Bank's daily business and operations in those regions He joined Standard Chartered in 1994 having previously spent 14 years with Citibank in Sydney, Singapore, Chicago and London in a variety of senior positions He currently holds a number of Directorships of international public companies including JP Morgan Indian Investment Trust plc Cenkos Securities plc The Bankers Investment Trust plc, AXA CRIB registered in Hong Kong and Techtronic Industries also registered in Hong Kong

STEPHEN BURKE *Chief Executive Officer* (age 52)

Appointed 10 May 2011

Stephen has approximately 31 years experience of working in international recruitment companies since 2001 at a senior Board level Stephen was previously Managing Director of Michael Page UK and a Director of Michael Page International plc ("Michael Page") He joined Michael Page in the early 1980s shortly after graduation, and spent the following 24 years with the group during which time he worked across many of its business units as a divisional Managing Director, both in the UK and in Continental Europe He was responsible for significant growth in each of the business units and was appointed to the Michael Page International Plc Board in 2001 as one of four Executive Directors He played a central role in the group s full listing in 2001 and subsequent position in the FTSE 250 Stephen left Michael Page in 2005 to develop his career as a Non-executive Director on the boards of both listed and private companies He is a Non-executive Director of Matchtech Group plc, the AIM listed technical and professional services recruitment company a post he has held since 2006

SUE BYGRAVE *Chief Financial Officer* (age 46)

Appointed 6 February 2012

Sue joined the Company from Biome Technologies plc the AIM listed bioplastics and RF (radio frequency) technology business, where she was Group Finance Director supporting an acquisition strategy whilst driving organic growth Prior to Biome Technologies, Sue was Group Finance Director of VEGA Group plc, an organisation delivering consulting, technology and managed solutions into aerospace, defence and government markets She was Joint Chair of the Executive Management team that saw the repositioning of the business as an independent specialist services company prior to its acquisition by Finmeccanica in 2008 Sue is an ACA qualified accountant and began her career with KPMG in audit

AUDIT COMMITTEE

David Henderson – Chairman
Peter Sullivan
Mark Andrews

REMUNERATION COMMITTEE

Mark Andrews – Chairman
David Henderson
Peter Sullivan

NOMINATIONS COMMITTEE

Peter Sullivan – Chairman
David Henderson
Mark Andrews

ANDREW MCRAE *Managing Director of Healthcare Australia Holdings Pty Ltd* (age 53)

Appointed 10 May 2011

Andrew ("Andy") McRae was instrumental in overseeing the integration into HCL of HCA, which was acquired in December 2010 He was formerly Managing Director of international operations at Hays Plc and was later the Managing Director of the UK and Ireland Andy is a Chartered Accountant and has worked in the human capital sector for the last 18 years and in the specialist recruitment sector for the last eight years Andy has worked in both public and private company sectors

BILL JESSUP *Interim Chief Financial Officer* (age 60)

Appointed 1 October 2011

William ("Bill") Jessup is a Chartered Accountant and has been the CFO of a number of quoted companies on both a permanent and interim basis Prior to his appointment to the Board he was a director of Ricardo PLC He has previous experience in the UK healthcare recruitment sector as a Non-executive director of Blue Group International Limited for five years before it was acquired by the Company in 2006 Bill Jessup will resign from the Board following the publication of this Annual Report

DAVID HENDERSON *Non-executive Director* (age 63)

Appointed 18 February 2011

After qualifying as a Chartered Accountant in 1974 David joined Morgan Grenfell where he worked for ten years in London and New York in the International Banking division In 1984 he joined Russell Reynolds, where he worked until 1995 as a Managing Director specialising in financial services executive recruitment In 1995 he joined the board of Kleinwort Benson Group plc as Personnel Director and was appointed Chief Executive of its private banking business in 1997 a position he held until he became Chairman in 2004 Following the sale of Kleinwort Benson Private Bank in 2009 David became a Special Adviser to the bank where he continues to support a number of senior client relationships He currently holds a number of directorships of public companies including Majedie Investments plc and Novae Group plc

MARK ANDREWS *Non-executive Director* (age 59)

Appointed 1 October 2011

Mark was until April 2011 a partner specialising in corporate restructuring at the law firm SNR Denton UK LLP He was head of the firm's Restructuring Group in the UK for 20 years until 2010 and advised upon innumerable high profile and large-scale corporate restructurings, many of which were multi-jurisdictional Prior to that he was the Senior Partner (chairman) of SNR Denton s predecessor firm Wilde Sapte from 1996-2000, then Deputy Chairman from 2000-2002 He was a member of the firms' boards for nine of the last 11 years of his partnership with them and he was also a council member of the Association of Business Recovery Professionals until February 2011, when he resigned Mark remains a consultant to SNR Denton UK LLP

REPORT OF THE DIRECTORS

The Directors present their report and business review together with the audited Financial Statements for the year ended 31 December 2011

GROUP PERFORMANCE

The Consolidated Statement of Comprehensive Income is set out on page 41 and shows the Group loss from continuing operations was £10 3m (2010 restated loss £61 1m)

Loss from continuing operations before tax was £12 9m (2010 restated loss £63 6m)

Basic and diluted loss per share from continuing operations was 3 1p (2010 restated loss 56 2p) Using the Board s preferred method, based on adjusted operating profit, the basic and diluted loss per share from continuing operations was 3 7p (2010 restated loss 5 1p)

Information about performance is given in the Chairman's Statement, the Financial Review, the Operational Review (including KPIs) and the Financial Statements

PRINCIPAL ACTIVITIES

The principal activity of the Group and each of the trading subsidiaries is that of providing workforce solutions to the healthcare and social care sectors

PRINCIPAL RISKS & UNCERTAINTIES

The Board s assessment of the Principal Risks and Uncertainties facing the business is set out on pages 19 to 20

Information on Contingent Liabilities is provided in Note 28 to the Financial Statements

DIVIDENDS

A dividend of 1 8p per share, costing £2 1m, was paid on 10 January 2011

The Directors are not proposing a final dividend for 2011

As disclosed in Note 13 since the date of issue of the Financial Statements for the year ended 31 December 2010 further work has been performed in relation to the payment of prior year dividends and the Board has concluded that the dividend paid on 10 January 2011 was unlawful as the then Board should have known at the date that the dividend was approved and paid that the Company had insufficient reserves available to make the payment

The Board has been unable as yet to come to a definite conclusion about the legality of the dividends paid on 1 April and 25 June 2010 No action will be taken to recover unlawful dividends from shareholders in general However, the Board is considering whether remedies are available against former directors to recover unlawful dividends paid to them and damages for breach of duty in authorising the relevant dividends

SHARE CAPITAL

Details of movements in share capital are set out in Note 26

RIGHTS ATTACHED TO SHARES

During a show of hands at a general meeting every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote Where there is a poll vote every member present in person or by proxy shall have one vote for every ordinary share held In accordance with the provisions of the Articles of Association, holders of ordinary shares are entitled to a dividend where declared or paid out of profits available for such purposes On a return of capital on a winding up holders of Ordinary Shares are entitled to participate in such a return

PAYMENTS TO SUPPLIERS

Whilst the Group does not follow any formal payment code it does agree terms of payment with suppliers when opening an account, ensuring each supplier is made aware of these terms The Group aims to comply with the payment terms agreed The Group makes payment to the majority of its suppliers tax authorities and employees electronically via the BACS payments system in order to facilitate a fast effective and secure transmission of payment
Given the nature of its principal activities the Groups largest supplier type is a temporary worker Such temporary workers supply their services to the Group's customers and clients on a daily basis and the Group also remunerates its temporary workforce on a daily basis Other suppliers are paid according to the agreed terms of trade normally within 30 days for both the Group and the Company

Due to the cash flow constraints that the UK operations were under as at 1 January 2011 under the direction of the old Board and without formal approval or an agreed payment arrangement the Group fell behind with payments to Her Majesty's Revenue & Customs ('HMRC') by approximately £6 4m HMRC was paid all outstanding amounts by the end of September 2011 and the Group has remained up-to-date with all payments since that date

CHARITABLE AND POLITICAL DONATIONS

During the year the Group made charitable donations of approximately £22 000 (2010 £26,000)

The Group made no donations for political purposes either in the UK or overseas during the year

DISABLED PERSONS

The Group's and the Company's policy is to consider the applications of disabled workers for vacancies that they are able to fill All necessary assistance with initial training courses is given Once employed, a career plan is developed to ensure suitable opportunities for each disabled person Arrangements are made wherever possible for retraining employees who become disabled to enable them to perform work identified as appropriate to their aptitudes and abilities

EMPLOYEE INVOLVEMENT

The Group's policy is to consult and discuss with employees and employee forums on matters likely to affect employees' interests Information on matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance

In November 2011 the Company consulted with its employees on the proposed closure of its Loughton office and possible relocation of those employees to its Old Bailey office The Board informed employees that the proposed relocation would generate long-term operational benefits and reduce ongoing facility and property costs Additionally, the Board reported its belief that it would allow investment in new technology and create management efficiencies through staff being housed in a single location The majority of the Company's employees agreed to relocate and so the relocation was executed in January 2012

DIRECTORS AND THEIR INTERESTS

The Directors who served during the year and to the date of this report together with the date they were appointed or left the Board and their level of attendance at Board meetings is as follows

Director	Position	Date of appointment (if after 31 December 2010)	Date of leaving	No of meetings could have attended	No of meetings attended
Peter Sullivan	Non-executive Chairman	18 February 2011	-	44	44
Stephen Burke	Chief Executive Officer	10 May 2011	-	27	27
Andrew McRae	Managing Director of Healthcare Australia Holdings Pty Ltd	10 May 2011	-	27	16
Bill Jessup*	Interim Chief Financial Officer	1 October 2011		6	6
Sue Bygrave	Chief Financial Officer	6 February 2012	-	-	-
David Henderson	Non-executive Director	18 February 2011	-	44	42
Mark Andrews	Non-executive Director	1 October 2011	-	6	6
Alan Walker	Chairman		18 February 2011	5	5
Kate Bleasdale	Executive Vice Chairman		23 February 2011	5	-
Mo Dedat	Chief Operating Officer		1 March 2011	5	5
Diane Jarvis	Chief Financial Officer		24 March 2011	10	2
Colin Whipp	Interim Chief Financial Officer & Interim Chief Restructuring Officer	10 May 2011	1 October 2011	21	20
Alasdair Liddell	Non-executive Director		31 March 2011	14	14

* Bill Jessup will resign from the Board following the completion of the 2011 Annual Report

Kate Bleasdale and Diane Jarvis were suspended from the Board prior to leaving the Company and although technically entitled to attend Board meetings they did not do so Andy McRae was unable to attend a number of Board meetings due solely to the meetings being held in UK business hours while he was in Australia, but he received paperwork beforehand and had the opportunity to make his views known to the Chairman before the meeting

All details relating to Directors who served during the year and their interests can be found within the Report on Remuneration on page 30

The biographical details of the Directors of the Company as at the date of this report are set out on pages 22 to 23

At the Annual General Meeting ("AGM") held on 29 June 2011 all the Directors who were appointed in 2011 prior to that date were re-elected

APPOINTMENT AND REPLACEMENT OF DIRECTORS

The Company may by ordinary resolution appoint any individual to the Board The Board may appoint any individual willing to act as a Director either to fill a vacancy or act as an additional Director The appointee can only hold office until the next AGM whereupon he or she will be put forward for reappointment

The Articles of Association prescribe that at each AGM, not less than one-third of the Directors must retire by rotation and any Director who has been in office for three years or more since his or her last appointment or reappointment must retire by rotation

A retiring Director is eligible for reappointment The 2010 UK Corporate Governance Code recommends that all Directors be subject to annual re-election by shareholders Therefore, with effect from the AGM to be held in 2012, all Directors will offer themselves for annual re-election except those who have announced their intention to resign before the notification of the AGM is posted to shareholders

DIRECTORS' INDEMNITIES AND INSURANCE

Directors and Officers of the Company and its subsidiaries benefit from Directors' and Officers' liability insurance cover in respect of legal actions brought against them In addition Directors of the Company are indemnified in accordance with Article 148 of the Company's Articles of Association, to the maximum extent permitted by law Neither the insurance nor the indemnities provide cover where the relevant Director or Officer has acted fraudulently or dishonestly The US litigation against the Company and its former Directors, as referred to in Note 28, may not be covered under the existing Directors and Officers liability insurance cover This is because the Plaintiffs' arguments revolve around the alleged dishonesty or misleading conduct of former Board members None of the current Board members are a party to this claim

ARTICLES OF ASSOCIATION

The Board may exercise all the powers of the Company subject to the provisions of relevant legislation, the Company's Memorandum and Articles of Association and any directions given by a special resolution of the shareholders Specific powers are detailed in the Company's Articles of Association, including the power to issue shares, along with the rules for the appointment and removal of Directors

The Board has noted that the Company's current Articles of Association need to be updated to reflect developments in the law and corporate practice and to have further regard to the nature and size of the Company The Articles of Association may only be amended by a special resolution passed by shareholders at a general meeting Accordingly the Board intends to propose that new Articles of Association be adopted by shareholders at the 2012 AGM

SUBSTANTIAL SHAREHOLDERS

In addition to the Directors interests shown in the Remuneration Report on page 30 and in accordance with Part 22 of the Companies Act 2006, the Company has been notified that the following shareholders' interests exceeded 3% of the Company s Ordinary Share capital in issue at the date of this report

Shareholder	
Toscafund Concert Party (as defined in the Circular dated 19 August 2011)	42 22%
ACE Concert Party (as defined in the Circular dated 19 August 2011)	30 27%
Jupiter Asset Management Limited	5 07%
Craig Tibbles	3 17%

The shareholdings of the Toscafund Concert Party and the ACE Concert Party would normally require a takeover offer to have been made under Rule 9 of the Takeover Code The Takeover Panel agreed to waive this requirement, subject to approval of the waiver at the AGM held to approve the Refinancing on 12 September 2011 As the waiver resolution was passed at that meeting Rule 9 does not apply to these shareholdings

Members of the ACE Concert Party, and Craig Tibbles are restricted from disposing of any of their shareholdings of the Company until 12 September 2012 unless particular circumstances arise such as agreeing to the sale of the Company as part of general offer to all shareholders or pursuant to a scheme of arrangement under section 11 of the Insolvency Act 1986

During the time of the Refinancing, Daniel Sinclair and/or Mike Dennis of ACE attended ten of the Board meetings held during the period March 2011 – June 2011 Their attendance was as observers and it was pursuant to a contractual right which enabled them to attend on behalf of ACE in its capacity as a lender of mezzanine finance to the Group

RELATED PARTY TRANSACTIONS

Details of related party transactions, including transactions with close family of former Directors are set out in Note 31 to the accounts

As noted in his biography Mark Andrews has advised on many corporate restructurings in his role as a former Partner and he remains a consultant to SNR Denton, a significant supplier of legal services to the Company in 2011 The Board (excluding Mark Andrews) has considered any potential conflict of interest regarding SNR Denton s related party relationship It was decided that there was no such conflict given that SNR Denton was engaged as a supplier of legal services many months prior to Mark joining the Board However to avoid any potential conflicts going forward the Board has agreed that Mark Andrews may not vote on any resolution regarding the appointment of SNR Denton for any future legal services

CONFLICTS OF INTEREST

Where potential conflicts of interest or duties arise decisions can only be authorised by Directors who do not have an interest in the matter being considered and in making such decisions the Directors must act in a way they consider, in good faith, will most likely promote the success of the Company The Company has established a procedure whereby actual and potential conflicts of interest and duties are advised to the Company Secretary and are reviewed annually In addition, conflicts are requested to be identified and addressed as appropriate prior to the commencement of the business of any Board meeting Appropriate authorisations are sought for any ad hoc notifications of any new conflicts of interest or duties, or any changes to existing conflicts of interest or duties

DISCLOSURE OF AUDIT INFORMATION

As required by Section 418 of the Companies Act 2006 each of the Directors confirm that as at the date this report was approved, so far as each Director is aware there is no relevant information of which the Independent Auditor is unaware and that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant information and to establish that the Independent Auditor is aware of that information

AUDITOR

Following a recommendation by the Audit Committee, the Board concluded that it was appropriate to undertake a tender for the audit following the signing of the Financial Statements for the year ended 31 December 2010 After a review of four audit firms including the incumbent auditor BDO LLP (who subsequently withdrew from the tender process) the Audit Committee recommended that Deloitte LLP be appointed auditor to the Company and all subsidiary companies

William Touche is the Senior Statutory Auditor

Further information on the Audit Committee and its actions is contained within the Corporate Governance section of this report

POST BALANCE SHEET EVENTS

Details of post balance sheet events are set out in Note 33 to the Financial Statements

CAUTIONARY STATEMENT

A company s Annual Report is required among other matters, to contain a fair review by the Directors of the Group's business through a balanced and comprehensive analysis of the development and performance of the business of the Group and the position of the Group at the year end, consistent with the size and complexity of the business The Directors' Report, the Chairman's Statement the Financial Review and the Operational Review have been prepared only for the shareholders of the Company as a whole, and their sole purpose and use is to assist shareholders to exercise their governance rights In particular, the Directors' Report, the Chairman s Statement the Financial Review and the Operational Review have not been audited or otherwise independently verified The Company and its Directors and employees are not responsible for any other purpose or use or to any other person in relation to the Annual Report

These reports and statements contain indications of likely future developments and other forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time-to-time in the countries, sectors and business segments in which the Group operates These factors include, but are not limited to those discussed under Principal Risks and Uncertainties

These and other factors could adversely affect the Group s results, strategy and prospects Forward-looking statements involve risks uncertainties and assumptions They relate to events and/or depend on circumstances in the future which could cause actual results and outcomes to differ materially from those currently anticipated No obligation is assumed to update any forward-looking statements, whether as a result of new information future events or otherwise

Approved by the Board and signed on its behalf by

MARTIN HUGHES
Company Secretary

13 April 2012

REPORT ON REMUNERATION

INTRODUCTION

This report has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006 Although not required by AIM regulations, on a voluntary basis the report has been prepared to meet some of the requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration in the UK Corporate Governance Code The Board has opted not to disclose any remuneration of past and current executive Directors which has been earned from services provided to other companies As a Company whose shares are traded on Alternative Investment Market ("AIM") the remuneration report is not required to be approved by the Company in AGM However, the Directors have decided that a resolution to approve the report will be proposed at the AGM of the Company at which the Financial Statements will be presented for approval

The Directors also requested that the Company's auditor report to the Company's members on certain parts of the Report on Remuneration and to state whether in their opinion those parts of the report have been properly prepared in accordance with the accounting regulations The report has, therefore, been divided into separate sections for audited and unaudited information

UNAUDITED INFORMATION

REMUNERATION COMMITTEE

In the light of the number of Board meetings during 2011, the Company did not form a Remuneration Committee and the whole Board participated in the discussions normally delegated to a Remuneration Committee

The Company established a Remuneration Committee on 27 January 2012 which is constituted in accordance with the recommendations of the UK Corporate Governance Code The terms of reference of the Remuneration Committee are available at http//investor hclplc com/docs/remuneration-committee-terms-of-reference pdf The Committee has met three times in 2012 and those meetings were attended by its full membership

Apart from Mark Andrews whose interest is discussed on page 78, none of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business

The Committee's purpose is to review the performance of the Executive Directors and other senior executives and to determine appropriate levels of remuneration

The remuneration and emoluments of Executive Directors are determined by the Board based on the recommendations of the Remuneration Committee

To assist with determining the recommended remuneration of the Executive Directors for the year, the Committee has appointed PricewaterhouseCoopers to advise on suitable long term incentive plans

REMUNERATION POLICY FOR THE EXECUTIVE DIRECTORS

The remuneration policy is designed to attract, retain and motivate Executive Directors of the calibre required to deliver the Group s business strategy Individual remuneration packages are structured to align rewards with the performance of the Group and the interests of shareholders

The Committee will also review the pay policy and levels for senior executives below the Board It will review the executive reward arrangements in the light of comment from shareholders and the provisions of the UK Corporate Governance Code, and will ensure that its arrangements are compliant with the Code

The policy is based on the following remuneration principles

- salaries should be set at a market competitive level by benchmarking against appropriate external comparators and taking into account the external business environment
- remuneration packages should maintain an appropriate balance of fixed and performance related pay which delivers over the short, medium and longer term with the balance becoming more long term and more highly performance related with seniority
- incentive plans should be linked to demanding performance targets with performance measures being reviewed to ensure that they do not drive unacceptable behaviours or encourage excessive risk taking,
- incentive arrangements should align the interests of Directors and shareholders by balancing the need to retain Directors suitable for a company of this Company's size and nature whilst incentivising value creation for shareholders, and

- the overall package should reflect market practice

In accordance with these principles the Remuneration Committee is developing long-term incentive plans which shareholders will be asked to approve at a general meeting of the Company

The other elements of remuneration for Executive Directors are described in the following paragraphs

BASIC SALARY

Salaries are reviewed annually with changes taking effect on 1 January each year taking into account individual performance market data and levels of increases applicable to other employees in the Group None of the Executive Directors' salaries were increased from 1 January 2012 and their current salaries are

Stephen Burke	**£350,000**
Andy McRae	**£275,000**
Bill Jessup*	**£1,500 per day**
Sue Bygrave	**£205,000**

* As an interim director Bill Jessup charged the Company a daily rate for his services through his own company In line with standard company policy Bill is responsible for any tax liabilities to HMRC which arise from this arrangement

ANNUAL BONUS

Pursuant to their service contracts the Executive Directors may be awarded a discretionary bonus based on individual performance and for achieving certain objectives In respect of their 2011 performances Stephen Burke was paid a guaranteed bonus amounting to £113 000 and Andy McRae was paid £50,000

At the time of this report bonus arrangements are still being considered for 2012 and subsequent years However, Sue Bygrave, has been guaranteed a minimum bonus to the value of £40 000 for 2012 50% of which is payable in shares and 50% of which is payable in cash

LONG-TERM INCENTIVE PLAN

It is anticipated that the long-term incentive for the Executive Directors will be a Value Creation Plan and the award of a percentage of annual bonuses in shares Full details of these proposals will be available at a General meeting of the Company for approval by shareholders

EXTERNAL APPOINTMENTS

The Company recognises that Executive Directors may be invited to become Non-executive Directors of other companies and that this can help broaden the skills and experience of a Director Executive Directors are normally permitted to accept one external appointment with the approval of the Board and may retain the fees for this appointment

EXECUTIVE DIRECTORS' CONTRACTS

The details of the Executive Director's contracts are summarised in the table below

Name	**Date of contract**	**Notice period**
Stephen Burke	6 May 2011	6 months
Andy McRae	16 May 2011	6 months
Bill Jessup	26 August 2011	1 month
Sue Bygrave	30 January 2012	6 months

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

All Non-executive Directors, including the Chairman, serve under letters of appointment and either party can terminate on three months' written notice Their remuneration is determined by the Board within the limits set by the Articles of Association and is based on information on fees paid in similar companies and the skills and expected time commitment of the individual concerned and reflects their roles on the Board s sub-committees No Non-executive Director has the right to compensation on the early termination of their appointment

From the date of their appointment until August 2011 the then Non-executive Directors, Peter Sullivan and David Henderson were paid daily fees of £2 500 for their work. This was an appropriate arrangement to compensate them for their substantial commitment to the Refinancing and restructuring of the Group during this period

The Non-executive Directors current annual fees are

Peter Sullivan	£125,000
David Henderson	£75,000
Mark Andrews	£60,000

AUDITED INFORMATION

AGGREGATE DIRECTORS' REMUNERATION

The total amounts for Directors' remuneration were as follows

	2011	2010
	£'000	£ 000
Salaries, fees and bonus	**1,798**	952
Benefits-in-kind	**109**	41
Total	**1,907**	993

DIRECTORS' EMOLUMENTS

	Salary/fees	Benefits-in kind	Bonus	2011	2010
	£'000	£ 000	£'000	£'000	£ 000
Executive:					
Stephen Burke	226	-	113	339	-
Andy McRae[1]	176	103	50	329	-
Bill Jessup	128	-	-	128	-
Non-executive					-
Peter Sullivan	254	-	-	254	-
David Henderson	158	-	-	158	-
Mark Andrews	15	-	-	15	-
Former Directors					
Colin Whipp[2]	245	-	-	245	-
Kate Bleasdale	60	6	-	66	327
Diane Jarvis[5]	62	-	-	62	217
Mo Dedat	159	-	-	159	261
Alasdair Liddell[3]	89	-	-	89	86
Alan Walker[4]	63	-	-	63	102
Total	1 635	109	163	1,907	993

(1) Prior to joining the Board Andy McRae was remunerated as an employee of the Group s Australian business Healthcare Australia Andy is paid in Australian $ so the amounts listed may have varied slightly in line with the exchange rates over the period of his remuneration His benefits-in-kind include a housing allowance and a living away allowance and return travel to the UK for himself and his spouse which are normal for an expatriate executive

(2) Colin Whipp was remunerated through the company he controlled Amersham Business Management Limited Prior to joining the Board Colin Whipp provided consultancy services to the Board

(3) Alasdair Liddell received a bonus of £50 000 in 2010 and received remuneration through the Company he controlled Alasdair Liddell Limited

(4) Alan Walker controlled Alfa International Limited Included in the 2010 amount is a bonus of £50 000 paid to Alfa International Limited

(5) Pension contributions were paid on behalf of Diane Jarvis of £3 563 in 2011 (2010 £14 250)

DIRECTORS' SHARE INTERESTS

As at 31 December 2011 the Directors serving at that date had the following beneficial interests in the issued shares of the Company

Name	**Shares as at 31 December 2011**	**Shares as at 31 December 2010**
Peter Sullivan	200,000	-
Stephen Burke	1 000 000	-
Andy McRae	900,000	-
David Henderson	200,000	-
Bill Jessup	-	-
Mark Andrews	-	-

Sue Bygrave, who was appointed after the year-end, has no beneficial interests in the issued shares of the Company at the date of this report

No changes have taken place in the interests of Directors between 31 December 2011 and the date of this report

None of the Directors appointed during 2011 or 2012 have interests over unissued shares pursuant to share options granted by the Company at the date of this report The movements on options held at 31 December 2010 by former Directors were

Former Director	At 1 January 2011	Forfeited during the year	At 31 December 2011	Exercise price	Earliest exercise date	Expiry date
Kate Bleasdale	225,000	225 000	Nil	124p	Sep 11	Sep 18
Kate Bleasdale	100 000	100,000	Nil	207p	Sep 12	Sep 19
Mo Dedat	1 000,000	1,000,000	Nil	89 5p	Dec 10	Dec 17
Mo Dedat	100,000	100 000	Nil	207p	Sep 12	Sep 19
Diane Jarvis	116,564	116,564	Nil	10p	Jan 06	Apr 15
Diane Jarvis	582,822	582,822	Nil	59p	Aug 09	Aug 16
Diane Jarvis	375 000	375 000	Nil	124p	Sep 11	Sep 18
Diane Jarvis	100,000	100,000	Nil	207p	Sep 12	Sep 19
Alasdair Liddell	25,000	25,000	Nil	207p	Sep 12	Sep 19
Alan Walker	25 000	25,000	Nil	207p	Sep 12	Sep 19

All of the options of the former Directors were forfeited due to the resignation of the Director and/or the provisions of the scheme rules

SHARE PERFORMANCE

No performance graph has been presented as the shares of the Company were suspended for nearly eight months of the year The price per share on 31 December 2010 was 130p The shares were suspended on 24 January 2011 at a price of 112 5p The first day trading resumed was 13 September 2011 and the shares closed at 7 8p and at 31 December 2011 the shares closed at 3 08p

On behalf of the Board

MARK ANDREWS
Chairman Remuneration Committee

13 April 2012

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of Corporate Governance, managing the Group in an effective, entrepreneurial and ethical manner for the benefit of the shareholders over the longer term

As disclosed in the 2010 Annual Report when the Chairman joined the Board it was evident that there were extremely poor levels of Corporate Governance under the previous Board Additionally, there was a lack of normal business policies and procedures and insufficient management of costs The level of record keeping surrounding major decisions taken by the previous Board was well below the standard which shareholders would expect from a publicly listed company

The Board is committed to maintaining high standards of Corporate Governance, managing the Group in an effective, entrepreneurial and ethical manner for the benefit of the shareholders over the longer term Under the AIM rules, the Company is not required to implement the full provisions of the UK Corporate Governance Code However, the Board is committed to apply the principles of good governance contained in the UK Corporate Code as appropriate for a Company of this size and nature Since the completion of the Refinancing in September 2011, the Board has been progressively putting this policy into effect and the paragraphs below describe how the Board and its Committees are now operating

THE BOARD

During 2011 the Board met many times to ensure the survival of the Company through the reorganisation and refinancing of the Group The matters which the Board considered are described in more detail elsewhere in this Annual Report but included the complete change in the membership of the Board investigation of accounting irregularities negotiation of emergency funding and the refinancing package the suspension and relisting of the Company's shares, fundamental change in the Group's advisers, significant change in the UK management team the sale of the Homecare division of HCA, and the management of important litigation and dealing with other legacy issues

Since September 2011, the Board has been able to concentrate more on operational matters and now has the membership structure and processes to ensure good oversight in the future

The Board will hold routine monthly meetings (except in August) and at least one meeting per year will be in Australia The Chairman and the Company Secretary work together to plan the agenda for each Board meeting Prior to the Board meetings, the Board is issued with supporting papers relevant to the meeting including monthly management accounts, briefing papers on commercial and operational matters and major capital projects as well as reports on relations with investors and updates on the implementation of key strategic plans All Directors also have access to the advice and services of the Company Secretary

A formal schedule of matters reserved for the Board was approved on 27 February 2012 The matters reserved for the Board include

- monitoring and supervising the overall management and strategies of the Company
- reviewing changes to the Company's capital structure,
- approving all annual budgets and financial statements,
- ensuring maintenance of a sound system of control and risk management
- approving all acquisitions and disposals and all material contracts and capital projects
- approving all resolutions and correspondence to shareholders in connection with general meetings, and
- undertaking reviews of its own performance and that of its sub-committees and Directors

MONITORING PERFORMANCE OF THE BOARD

It is acknowledged that all Board members need the appropriate knowledge of the Company and access to its operations and staff to adequately supervise the management of the Company Presentations and reports on commercial initiatives, the Company's industry and its competitive position are given periodically to the Board In addition, from this year onwards, the Company will hold Board meetings away from the head office, normally at least twice a year, to provide the Non-executive Directors with opportunities to meet the different divisions of the business and their operations

During 2011, the Board received regular updates and advice from the Company Secretary, its insurers and insurance brokers, its legal advisers SNR Denton LLP and Manches LLP, its nominated advisers and brokers FairFax and then Investec, its financial advisers Hawkpoint Partners Limited and other external advisers

Upon the successful completion of the Refinancing of the Group in September 2011, the Board considered its effectiveness and required expansion and considered the future initiatives and responsibilities of the committees that were re-established in 2012

The full schedule of matters reserved to the Board is available on the Company's website, http //investor hclplc com/docs/Schedule%20of%20Matters_Feb2012 pdf

AUDIT COMMITTEE

Alan Walker (Chairman) and Alasdair Liddell served on the Committee from 1 January 2011 to the dates of leaving the Board David Henderson (Chairman), Peter Sullivan and Mark Andrews are the current members of the Committee which they joined from the date of their respective appointments as Non-executive Directors Colin Whipp was a member of the Committee during the period that he was an Executive Director While the Committee will in the future only be comprised of Non-executive Directors, Colin s membership was deemed appropriate given the nature of the work that the Committee was undertaking during that period

Some of its key responsibilities are to

- ensure that the appropriate financial reporting procedures are properly maintained
- consider the annual appointment of the external auditor and assess the independence of the external auditor
- review the need for an internal audit function and if appropriate the resources devoted to internal audit activities,
- review the Company's compliance with regulatory requirements and the procedures for handling allegations from whistleblowers and the detection of fraud,
- review management's reports on the effectiveness of systems for internal financial control financial reporting and risk management, and
- review accounts review and approve accounting policies

The Committee met nine times during the year and took the leading role in supervising the investigation of the accounting irregularities announced in January 2011 and working with the Company s then auditors to finalise the 2010 Financial Statements which included liaising with the Financial Reporting Review Panel ("FRRP") to address irregularities relating to accounting policies adopted in 2009/2010 under the old Board In addition the Committee reviewed the Group's accounting policies and approved the 2011 Interim Accounts and was involved in a substantial tender exercise to engage its new auditor for the Company, Deloitte Those invited to tender were BDO Deloitte, KPMG, Ernst & Young and PwC Where the auditor provides other services to the Group auditor independence is safeguarded by the Audit Committee authorising the additional services

Attendance

The Committee's policy is to meet at least twice a year

The records of attendance during 2011 are

Name of Committee member	No of meetings could have attended	No of meetings attended
David Henderson (Chairman)	9	9
Peter Sullivan	9	6
Colin Whipp	8	8
Mark Andrews	1	1

REMUNERATION COMMITTEE

The constitution and activities of the Remuneration Committee are described in the Remuneration Report on pages 30 to 33

Significant steps have been taken to improve the overall structure of the control environment

NOMINATION COMMITTEE

During 2011 the role of the Nomination Committee was performed by the Board In November 2011, the Board set up a new Nomination Committee which did not meet until 2012 The current members are Peter Sullivan (Chairman) David Henderson and Mark Andrews As at the date of this Report, the Committee has met once in 2012 to consider and recommend the appointment of Sue Bygrave to the Board

The Committee makes recommendations on all new Board appointments

Some of its key responsibilities are to

- evaluate the balance of skills knowledge and experience on the Board and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment,
- use performance evaluation to assess whether Non-executive Directors are spending enough time to fulfil their duties
- consider candidates from a wide range of backgrounds with a wide range of capabilities and experience, and
- give full consideration to succession planning in the course of its work and regularly review the structure, size and composition (including the skills, knowledge and experience) of the Board

COMMITTEES' TERMS OF REFERENCE

The Board approved new terms of reference for all three Committees in February 2012 to ensure they were in line with best practice guidance and the Company's policies and practices The full terms of reference can be reviewed on the Company's website http // investor hclplc com/committee_members html

INTERNAL CONTROLS

In the 2010 Annual Report, the Board reported deficiencies in corporate governance, financial and operating controls, including compliance controls Since the Refinancing in September 2011, the Board and senior management have been able to devote more attention to improving the overall control environment structure with particular focus on the operations of the UK businesses

The Board is responsible for the Group s risk management process and its system of internal controls Day-to-day responsibility for embedding controls is delegated to executive and senior management Any system of internal control (encompassing strategic, financial, operational, compliance controls and risk management) is designed to manage but not eliminate risk as the Group seeks to achieve its objectives The control framework should provide reasonable but not absolute assurance that the Group s assets and reputation are safeguarded and not subject to material loss or misstatement

The Board has reviewed the control environment in 2011 and up to the date of this report Significant steps have been taken to improve the overall structure of the control environment The Chairman has led the appointment of a new Board, the schedule of matters reserved for the Board has been introduced, Board Committees have renewed terms of reference The Board has reviewed and considered the principal risks, which are set out on pages 19 to 20, and is implementing risk management and reporting procedures for these risks In particular the improvement of UK clinical compliance has been a major focus area, supported by the appointment of a UK Head of Clinical Governance and Compliance in October 2011

The Board has considered whether the restatements to the 2010 Financial Statements represent material losses The restatements relate to HCA acquisition accounting matters and an isolated calculation error in the Social Care impairment review The restatements have no future cash impact for the group 2012 will see a review and reshaping of resources in the finance department under the leadership of Sue Bygrave, who was appointed Chief Financial Officer on 6 February 2012 During the remainder of 2012 the UK control environment will also be improved by the planned implementation of revisions to the corporate structure to reduce the number of active legal entities the rolling out of ITTs which will assist in embedding enhanced controls and standard policies and procedures

On behalf of the Board

PETER SULLIVAN
Chairman

13 April 2012

DIRECTORS' RESPONSIBILITIES

INTRODUCTION

On 25 January 2011 in the light of material financial accounting irregularities that had come to light, the Company's shares were suspended from trading on AIM The then existing Board was replaced and a new Board appointed The Directors of the new Board were appointed over the period of January 2011 – February 2012 and therefore no Directors were in office throughout 2011

With the assistance of accountants Grant Thornton and legal advisers SNR Denton and Manches, the Board launched an investigation to review (amongst other things) the actions of the previous management The Board s investigation confirmed that there were a number of material misstatements in earlier years' accounts and these were addressed in the 2010 Annual Report

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 are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the 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 Company and of the profit or loss of the Company for that period

In preparing the parent Company financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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

In preparing the Group Financial Statements International Accounting Standard 1 requires that Directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance and
- make an assessment of the Company's ability to continue as a going concern

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 enable them to ensure that the Financial Statements comply with the Act They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

WEBSITE PUBLICATION

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge

a) the Financial Statements, prepared in accordance with the relevant financial reporting framework give a true and fair view of the assets liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and

b) the management report which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face

By order of the Board

STEPHEN BURKE
Chief Executive Officer

WILLIAM JESSUP
Interim Chief Financial Officer

13 April 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEALTHCARE LOCUMS PLC

We have audited the financial statements of Healthcare Locums plc for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income the Consolidated Statement of Changes in Equity the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Parent Company Balance Sheet and the related Notes 1 to 54 The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

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

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 the 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 In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Basis for qualified opinion on the financial statements in relation to prior period comparative amounts

With respect to a computer system with a cost of £5,252,000 that was fully impaired in the year ended 31 December 2009, the audit evidence was limited as to whether some or all of the impairment charge should have been recorded in the year ended 31 December 2009 or the year ended 31 December 2010 Therefore we have been unable to obtain sufficient appropriate evidence on the comparative figures for the year ended 31 December 2010 which are required by IAS 1 Presentation of Financial Statements, in the Consolidated Statement of Comprehensive Income Were any adjustment required to the comparative figures in the Consolidated Statement of Comprehensive Income there would be no financial effect on the Consolidated Statement of Financial Position or the Parent Company Balance Sheet as at 31 December 2011 or 2010 or in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

Basis for qualified opinion on the Parent Company financial statements in relation to impairment of investments in the Company's subsidiaries

As described in note 39, the Directors have revised the impairment methodology used to assess the carrying value of the Parent Company's investments in its subsidiaries and recorded an additional impairment charge of £14 4m in 2010 as a prior period adjustment The audit evidence was limited as to the amount of the impairment and its timing as to whether some of the impairment should have been recorded in the current period Therefore in relation to this matter we have been unable to obtain sufficient appropriate evidence whether further adjustment is required to the Parent Company financial statements in respect of the comparative figures for the year ended 31 December 2010, the loss for the year ended 31 December 2011 and the carrying value of the Parent Company's investment in its subsidiaries as at 31 December 2011

Qualified opinion on financial statements
In our opinion, except for the possible effects of the matters described in the basis for qualified opinion on the financial statements paragraphs

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group s loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – uncertain outcome of claims
In forming our opinion on the financial statements, we have considered the adequacy of the disclosures made in note 28 to the financial statements concerning the uncertain outcome of two material claims one from the former Executive Vice Chairman and the other from a number of shareholders No provision has been made for future legal costs or for any settlement or adverse determination in respect of these claims Any material adverse judgment would require the group to seek additional finance The ultimate outcome of these matters cannot presently be determined Our opinion is not modified in respect of this matter

Emphasis of matter – Going concern
In forming our opinion on the financial statements, we have considered the adequacy of the disclosure made in note 3(c) to the financial statements which refers to the Directors' Statement on Going Concern in the Financial Review concerning the Group s and Company's ability to continue as a going concern Note 25 refers to the financial restructuring during the year ended 31 December 2011 and the Statement on Going Concern describes how the Board s budget for the year to 31 December 2012 and future plans assume significant increases in revenue and margin principally from gains in market share, no adverse outcome in relation to the outstanding legal claims against the company described in note 28 and no significant contract cancellations as a result of compliance issues or otherwise The Directors forecast headroom against financial covenant tests in the Group s bank facilities allows for only a narrow margin for variation in actual performance against the Group's financial plans These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern Our opinion is not modified in respect of this matter

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

Matters on which we are required to report by exception
In respect of the limitation of our work relating to the impairment of the computer system in the prior period and the impairment of the Parent Company's investments in its subsidiaries described above

- we have not received all the information and explanations that we considered necessary for the purpose of our audit, and
- we were unable to determine whether adequate accounting records had been kept by the Parent Company

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

- 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

Other matter
In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the company a quoted company

WILLIAM TOUCHE
Senior Statutory Auditor
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London United Kingdom

13 April 2012

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £m	Restated[1] 2010 £m
Revenue	4	**227 1**	154 9
Cost of sales		**(177 4)**	(114 2)
Gross profit	4	**49 7**	40 7
Operating expenses		**(50 8)**	(43 7)
Highlighted items			
Goodwill impairment	14	-	(51 4)
Net exceptional operating expenses	7	**(9 6)**	(4 8)
Total operating expenses		**(60 4)**	(99 9)
Loss from operations		**(10 7)**	(59 2)
Finance income	9	**24 5**	2 0
Finance expense	9	**(26 7)**	(6 4)
Loss before taxation from continuing operations	4	**(12.9)**	(63 6)
Tax benefit from continuing operations	10	**2 6**	2 5
Loss for the year from continuing operations		**(10 3)**	(61 1)
Profit for the year from discontinued operations, net of tax	11	**1 4**	-
Loss for the year attributable to owners of the parent		**(8 9)**	(61 1)
Other comprehensive income			
Release of deferred losses on cash flow hedges		-	0 7
Tax relating to cash flow hedge reserve		-	(0 3)
Translation adjustment		**0 3**	(0 2)
Total other comprehensive income		**0 3**	0 2
Total comprehensive loss for the year		**(8.6)**	(60 9)
Loss per share for loss attributable to the owners of the parent			
Basic and diluted – continuing business (pence)	12	**(3 1)**	(56 2)
Adjusted basic and diluted – continuing business (pence)	12	**(3.7)**	(5 1)
Basic and diluted – discontinued business (pence)	12	**0 4**	-

(1) 2010 figures have been restated for the revised impairment of goodwill and other assets in the UK Social Care division (Note 1) In addition the amounts credited or charged in the various headings for the operations of the Homecare division have been moved to profit for the year from discontinued operations – a net £nil result – as the Homecare division was sold in 2011 (Note 11) Earnings per share calculations have been corrected for the year ended 31 December 2010 as disclosed in more detail in Note 12

The Notes are an integral part of these Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	2011 £m	Restated[1] 2010 £m	2009 £m
ASSETS				
Non-current assets				
Goodwill	14	**39.8**	46 2	60 3
Other intangible assets	15	**53 9**	75 6	3 5
Property, plant and equipment	16	**2.0**	2 5	1 0
Deferred tax asset	23	**-**	-	1 7
		95 7	124 3	66 5
Current assets				
Trade and other receivables	18	**29 9**	37 1	27 3
Current tax receivable		**3 0**	-	-
Cash and cash equivalents		**14 2**	10 6	4 1
		47.1	47 7	31 4
Total assets		**142 8**	172 0	97 9
LIABILITIES				
Current liabilities				
Trade and other payables	19	**(25 5)**	(33 5)	(18 4)
Borrowings				
Short term borrowings	20	**-**	(0 1)	(11 6)
Current portion of long term borrowings	21	**(0 9)**	(114 4)	(4 3)
Derivative financial liabilities	24	**(1.7)**	(1 7)	(0 8)
Current tax payable		**-**	(0 5)	(5 6)
Deferred consideration	22	**(1 5)**	-	-
Provisions	22	**(2 7)**	(5 0)	-
		(32 3)	(155 2)	(40 7)
Non-current liabilities				
Borrowings	21	**(39 3)**	(0 5)	(5 5)
Deferred tax liability	23	**(9 2)**	(14 3)	(1 7)
Provisions	22	**(2 1)**	(2 1)	-
		(50 6)	(16 9)	(7 2)
Total liabilities		**(82.9)**	(172 1)	(47 9)
TOTAL NET ASSETS		**59 9**	(0 1)	50 0
SHARE CAPITAL AND RESERVES ATTRIBUTABLE TO THE OWNERS OF THE PARENT				
Share capital	26	**84 8**	11 3	10 5
Share premium reserve		**55 2**	45 3	34 5
Cash flow hedge reserve		**-**	-	(0 7)
Share option reserve		**1 2**	4 7	1 1
Translation reserve		**0.1**	(0 2)	-
Retained earnings		**(81 4)**	(61 2)	4 6
TOTAL EQUITY		**59 9**	(0 1)	50 0

(1) Restated for amounts as reported in Note 1

The Notes are an integral part of these Financial Statements
The Financial Statements were approved and authorised for issue by the Board of Directors on 13 April 2012 and were signed on its behalf by

Steph Burke

STEPHEN BURKE
Director

William Jessup

WILLIAM JESSUP
Director

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 £m	Restated[1] 2010 £m
Cash flows from operating activities		
Loss for the year	**(8 9)**	(61 1)
Adjustments for		
Discontinued operation	**(1 4)**	-
Loss / (gain) on fair value changes in contingent consideration	**2 9**	(4 2)
Depreciation of property, plant and equipment	**1 1**	0 6
Amortisation of intangible assets	**6 4**	1 7
Foreign exchange gain on operating activity	**(0 4)**	-
Goodwill impairment	**-**	51 4
Impairment of property plant and equipment	**-**	0 7
Impairment of other intangible assets	**-**	2 7
Finance income	**(24 5)**	(2 0)
Finance expense	**26 7**	6 4
Share based payments (credit)/charge	**(0 5)**	0 6
Corporation tax benefit	**(2.6)**	(2 5)
Cash flows from operating activities before changes in working capital	**(1 2)**	(5 7)
Changes in receivables	**2.8**	10 3
Changes in payables	**(1 8)**	(1 0)
Cash generated from operations before tax	**(0 2)**	3 6
Corporation tax paid	**(2 5)**	(4 0)
Net cash flows from operating activities[2]	**(2.7)**	(0 4)
Investing activities		
Interest received	**0 1**	1 5
Acquisition of subsidiaries, net of cash acquired	**-**	(89 8)
Disposal of Homecare division	**20 3**	-
Disposal of property, plant and equipment	**0 4**	-
Contingent and deferred consideration paid	**(2 6)**	-
Capital element of lease payments	**(0.5)**	-
Acquisition of property, plant and equipment	**(0 7)**	(1 3)
Acquisition of intangible assets	**(0 4)**	(0 5)
Net cash received from / (used in) investing activities	**16 6**	(90 1)
Financing activities		
Issue of ordinary shares	**56.2**	11 7
New loans acquired	**11 5**	140 5
Loans repaid	**(59 0)**	(24 9)
Interest and similar expenses paid	**(11.2)**	(12 4)
Refinancing professional fees (Note 25(h))	**(5 5)**	-
Dividends paid to the owners of the parent	**(2 1)**	(3 6)
Net cash (used in) / provided by financing activities	**(10 1)**	111 3
Net increase in cash and cash equivalents	**3.8**	20 8
Cash and cash equivalents (including short-term borrowings) at the beginning of the year	**10.5**	(7 5)
Effect of exchange rates on cash and cash equivalents	**(0.1)**	(2 8)
Cash and cash equivalents (including short-term borrowings) at the end of the year	**14 2**	10 5

(1) The 2010 cash flow has been restated to take account of the prior year adjustments disclosed in more detail in Note 1
(2) After cash spend on exceptional operating expenses of £6 0m (2010 £4 9m)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Share premium	Cash flow hedge reserve	Share option reserve	Translation reserve	Retained earnings	Total
		£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2009		10 5	34 3	(1 0)	0 6	-	4 2	48 6
Profit for the year		-	-	-	-	-	3 0	3 0
Other comprehensive income		-	-	0 3	-	-	0 3	0 6
Dividends		-	-	-	-	-	(3 8)	(3 8)
Issue of share capital		-	0 2	-	-	-	-	0 2
Deferred tax recognised on share based payment		-	-	-	-	-	0 9	0 9
Credit in respect of share scheme charges		-	-	-	0 5	-	-	0 5
Balance at 31 December 2009		10 5	34 5	(0 7)	1 1	-	4 6	50 0
Loss for the year (as previously reported)		-	-	-	-	-	(54 4)	(54 4)
Other comprehensive income (loss) for the year		-	-	0 7	-	(0 2)	(0 3)	0 2
Dividends	13	-	-	-	-	-	(3 6)	(3 6)
Issue of share capital	26	0 8	10 8	-	-	-	-	11 6
Deferred tax recognised on share based payment		-	-	-	-	-	(0 8)	(0 8)
Warrants issued during the year	21	-	-	-	3 0	-	-	3 0
Credit in respect of share scheme charges	32	-	-	-	0 6	-	-	0 6
Balance at 31 December 2010 (as previously reported)		**11 3**	**45 3**	**-**	**4 7**	**(0 2)**	**(54 5)**	**6 6**
Prior year adjustment	1	-	-	-	-	-	(6 7)	(6 7)
Balance at 31 December 2010 (restated)		**11.3**	**45.3**	**-**	**4.7**	**(0 2)**	**(61 2)**	**(0 1)**
Loss for the year		-	-	-	-	-	(8 9)	(8 9)
Other comprehensive income for the year		-	-	-	-	0.3	-	0 3
Dividends	13	-	-	-	-	-	(2 1)	(2 1)
Issue of share capital	26	73 5	9 9	-	-	-	(2.3)	81 1
Gain on Ares Lux debt for equity swap		-	-	-	-	-	(9 9)	(9 9)
Warrants lapsed during the year	21	-	-	-	(2 7)	-	2.7	-
Amortisation of warrants		-	-	-	(0.3)	-	0 3	-
Debit in respect of share scheme credits	32	-	-	-	(0 5)	-	-	(0.5)
Balance at 31 December 2011		**84 8**	**55 2**	**-**	**1.2**	**0.1**	**(81.4)**	**59.9**

The Notes are an integral part of these Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND PRIOR YEAR RESTATEMENT

HCL is a Company incorporated in the United Kingdom under the Companies Act 2006 ("the Act") The Company is listed on the AIM of the London Stock Exchange The nature of the Group's operations and its principal activities are set out in the Report of the Directors on page 24 and in the Operational Review on pages 4 to 9

The primary Financial Statements and the majority of figures in the notes are presented in Pounds Sterling ("£") because that is the currency of the primary economic environment in which the Group operates Where it is considered useful and appropriate certain figures for the operations of the Australian business are disclosed in the notes in Australian Dollars ("A$")

Overseas operations are included in accordance with the policies set out in Note 3

Prior year restatement

During the preparation of the Consolidated Financial Statements for the year ended 31 December 2011 it became apparent that the recognition of a deferred tax liability of £9 6m (A$15 1m converted at rates ruling on the acquisition dates) on trademarks and other intangible assets of £31 8m (A$50 1m) recognised on the acquisition of Last Minute Locums ("LML") and HCA had been omitted As a result a restatement is required in the acquisition balance sheets to recognise this liability on the dates of acquisition of 1 August 2010 and 20 December 2010 respectively with goodwill increasing by £9 6m at the date of acquisition

Also an escrow amount of £0 8m (A$1 2m) from a prior acquisition by HCA had been omitted and has also been included in the restated receivables on the acquisition balance sheet, with goodwill reducing by £0 8m at the date of acquisition

In addition, when completing the accounts for the consolidated Australian tax group for the tax year to June 2011 it was determined that the deferred tax asset estimate in the acquisition balance sheet was understated by £1 1m (A$ 1 7m) and the estimate in the acquisition balance sheet has been corrected, with goodwill increasing by £1 1m at the date of acquisition

A summary of the restatement entries is as follows

	Acquisition date		Forex	31 December 2010
	A$m	£m	£m	£m
Goodwill	**15 6**	**9 9**	**0 3**	**10 2**
Receivables	**1.2**	**0.8**	**-**	**0 8**
Deferred tax asset	**(1 7)**	**(1 1)**	**-**	**(1 1)**
Deferred tax liability	**(15 1)**	**(9 6)**	**(0 3)**	**(9 9)**

Also during the preparation of the Consolidated Financial Statements for the year ended 31 December 2011 a clerical error in the 2010 calculation of the value in use of the UK Social Care division was discovered which, had the error not occurred would have meant the impairment of the goodwill and assets associated with that division would have increased by £7 1m A prior year adjustment has been booked to correct this misstatement, reducing goodwill by £5 4m other intangible assets by £1 4m, tangible fixed assets by £0 3m, deferred tax liability by £0 4m and retained earnings at 31 December 2010 by £6 7m

The impact of the Social Care prior year adjustments on the loss from operations and loss for the year ended 31 December 2010 was as follows

	Loss from operations	Loss for the year
	£m	£m
As reported for the year ended 31 December 2010	**(52 1)**	**(54 4)**
Goodwill impairment of Social Care division	**(5 4)**	**(5 4)**
Intangible asset impairment of Social Care division	**(1.4)**	**(1 4)**
Tangible asset impairment of Social Care division	**(0 3)**	**(0 3)**
Deferred tax	**-**	**0 4**
As restated for the year ended 31 December 2010	**(59 2)**	**(61 1)**

The combined impact of the above prior year adjustments on the relevant figures in the Consolidated Statement of Financial Position at 31 December 2010 was as follows

	As previously reported £m	Impact of restatements £m	Restated £m
Goodwill	41 4	4 8	46 2
Other intangible assets	77 0	(1 4)	75 6
Property, plant and equipment	2 8	(0 3)	2 5
Trade and other receivables	36 3	0 8	37.1
Deferred tax	(3 7)	(10 6)	(14 3)
Impact of restatements		(6.7)	
Profit and loss for the year	(54 4)	(6 7)	(61 1)
Profit and loss reserve	(54 5)	(6 7)	(61 2)

The Group presents adjusted earnings per share in Note 12 The calculation for the year ended 31 December 2010 was misstated as detailed in that note

The acquisition note has been restated in Note 17

2 ADOPTION OF NEW AND REVISED STANDARDS

In the current year the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these Financial Statements

Standards affecting the Financial Statements

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	The Interpretation provides guidance on the accounting for "debt for equity swaps" from the perspective of the borrower As discussed in Note 25c the Group extinguished debt by issuing equity instruments as part of the Refinancing As a result of this a gain of £9 9m was recognised within finance income

Standards not affecting the reported results or the financial position

The following new and revised Standards and Interpretations have been adopted in the current year Their adoption has not had any significant impact on the amounts reported in these Financial Statements and with the exception of the amendment to IFRS 1 should the accounting for the Company (as opposed to the Group) be amended to IFRS are unlikely to have any significant impact on the accounting for future transactions and arrangements

Amendment to IFRS 1 – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	The amendment provides a limited exemption for first-time adopters from providing comparative fair-value hierarchy disclosures under IFRS 7
IAS 24 (2009) – Related Party Disclosures	The revised Standard has a new, clearer definition of a related party, with inconsistencies under the previous definition having been removed
Amendment to IAS 32 – Classification of Rights Issues	Under the amendment, rights issues of instruments issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency and which otherwise meet the definition of equity are classified as equity
Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement	The amendments now enable recognition of an asset in the form of prepaid minimum funding obligations
Improvements to IFRSs 2010	The amendments made to standards under the 2010 improvements to IFRSs have had no impact on the Group

At the date of authorisation of these Financial Statements the following Standards and Interpretations which have not been applied in these Financial Statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

IFRS 1 (amended)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
IFRS 7 (amended)	Disclosures Transfers of Financial Assets
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 1 (amended)	Presentation of Items of Other Comprehensive Income
IAS 12 (amended)	Deferred tax Recovery of Underlying Assets
IAS 19 (revised)	Employee Benefits
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investments in Associates and Joint Ventures
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

The Directors do not consider that the adoption of the above standards will have a material impact on the Financial Statements of the Group in future periods

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU") and therefore the Consolidated Financial Statements comply with Article 4 of the EU IAS Regulation

The Consolidated Financial Statements have been prepared under the historical cost basis, except for derivative financial instruments which are stated at their fair value Historical cost is generally based on the fair value of the consideration given in exchange for the assets The principal accounting policies adopted are set out below

(b) Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate Where necessary the accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group All intra-Group transactions balances income and expenses are eliminated on consolidation

(c) Going concern

The Directors have adopted the going concern basis of accounting in preparing the Financial Statements Further details of the Directors consideration of the current economic environment, including the industry specific circumstances in which the Group operates, and details of the material uncertainties which may cast significant doubt over the Group s and Company's ability to continue as a going concern are included in the Financial Review on page 10

(d) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree Acquisition-related costs are expensed as incurred

Where applicable the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement measured at its acquisition-date fair value Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below) All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs Changes in the fair value of contingent consideration classified as equity are not recognised

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) are recognised at their fair value at the acquisition date except that

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 – Income Taxes and IAS 19 – Employee Benefits respectively
- liabilities or equity instruments related to the replacement by the Group of an acquiree s share-based payment awards are measured in accordance with IFRS 2 - Share-based Payment, and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed at the acquisition date, and is subject to a maximum of one year

(e) Revenue recognition

Revenue represents the amounts earned from the provision of services to external customers during the reporting period – the time of provision of services being the point at which the amount of revenue can be measured reliably and when it is probable that the economic benefits will flow to the Group Revenue is stated at invoiced amounts less value added tax or local taxes on sales, plus revenue earned but unbilled which is included as accrued income in receivables

- Revenue from temporary placements, which represents revenue for the services of temporary staff is recognised when the services have been provided Revenue includes the salary costs of the temporary staff unless paid directly by the client in which case revenue represents commission only and
- Revenue from permanent placements is recognised at the date when a candidate commences work. Appropriate provision is made for the expected cost of meeting obligations where employees do not work for the specified contractual period

(f) Foreign currency

Revenues generated by the Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur Foreign currency receivables are retranslated at the rates ruling at each reporting date Exchange differences arising on the retranslation of unsettled receivables are recognised immediately in the Consolidated Statement of Comprehensive Income

On consolidation, the results of overseas operations are translated into Sterling at average rates All assets and liabilities of overseas operations including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the period end All exchange differences arising on translation are recognised in the Consolidated Statement of Comprehensive Income and accumulated in the translation reserve

In preparing the Financial Statements of each individual group entity transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated

(g) Share-based payments

The Group operates an equity-settled share-based compensation plan When share options are awarded to employees a charge is made to the profit or loss recognising on a straight line basis the fair value of the options issued over the vesting period with a corresponding adjustment to share option reserve, based on the Group's estimate of the number of equity instruments that will eventually vest The options vest after a specific period (three years for options issued from 2006 onwards one year for options issued earlier) There are no other vesting conditions, other than that the options lapse should the employee leave the Group The cumulative expense is adjusted for failure to achieve non-market vesting conditions such as an employee leaving

(h) Employee benefits

Contributions to the Group's defined contribution pension schemes are charged to the Consolidated Statement of Comprehensive Income in the period in which they become payable

The liability for Long Service Leave in respect of employees in Australia is recognised by way of a provision and measured at the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method Consideration is given to expected future wage and salary levels experience of employee departures and periods of service Expected future benefits payable more than 12 months after the period-end are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible the estimated future cash outflows Where data specific enough to calculate a provision as described above are not available provision is made for Long Service Leave on an estimated basis

(i) Taxation

The charge for current taxation is provided at rates of corporation tax that have been enacted or substantively enacted by the reporting date Current tax is based on taxable profits for the year and any adjustments to tax payable in respect of previous years Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible

Deferred tax is provided, using the liability method, on all temporary differences which result in an obligation at the reporting date to pay more tax, or a right to pay less tax, at a future date, based on tax rates and tax laws that have been enacted or substantively enacted at that date Temporary differences arise between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements The exceptions, where deferred tax assets are not recognised nor deferred tax liabilities provided, are

- at initial recognition of goodwill
- the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit or loss nor taxable profit or loss and
- taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised

(j) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date) Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed

If, after reassessment the Group's interest in the fair value of the acquiree s identifiable net assets exceeds the sum of the consideration transferred the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) the excess is recognised immediately in the Statement of Comprehensive Income as a bargain purchase

Goodwill is not amortised but is reviewed for impairment at least annually For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination Cash-generating units to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired If the recoverable amount, being the value in use or – where reliably measurable – fair value less costs to sell, of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit An impairment loss recognised for goodwill is not reversed in a subsequent period

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

(k) Other intangible assets

Intangible assets (other than goodwill) acquired by the Group as part of a business combination are stated at fair value and are amortised on a straight-line basis over their expected useful lives The amortisation is shown as part of administrative expenses within the Consolidated Statement of Comprehensive Income

Internally generated intangible assets arising from the Group s development of software are recognised only if all of the following conditions are met

- an asset is created that can be identified,
- it is probable that the asset created will generate future economic benefits, and
- the development cost of the asset can be measured reliably

Internally generated intangible assets are amortised on a straight-line basis over their useful lives commencing on the date they come into use

The estimated useful lives are as follows

Brands/trademarks	-	20 years
Customer relationships	-	Over the contractual term or 6 years in absence of a specified term
Computer software	-	3 to 5 years
Acquired candidate database	-	3 to 10 years
Knowledge database	-	2 years
Non-compete agreements	-	5 years

Intangible assets other than goodwill, with finite lives are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable When the carrying value of an asset exceeds its recoverable amount, being the value in use or – where reliably measurable – fair value less costs to sell the asset is written down accordingly Impairment of other intangible assets is included in operating expenses in the Consolidated Statement of Comprehensive Income

(l) Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost As well as the purchase price, cost includes directly attributable costs All items are carried at depreciated cost

Depreciation is provided on a straight-line basis to write off the cost, less estimated residual values, of property plant and equipment over their expected useful lives It is calculated at the following rates

Improvements to leasehold buildings	-	Over the lease term
Motor vehicles	-	4 years
Office and computer equipment	-	3 to 8 years

An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount

(m) Impairment of assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired A financial asset is considered to be impaired if objective evidence indicates that one or more events has had a negative effect on the estimated future cash flows of that asset For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with defaults on receivables

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account When a trade receivable is considered uncollectible, it is written off against the allowance account Subsequent recoveries of amounts previously written off are credited against the allowance account Changes in the carrying amount of the allowance account are recognised in the Consolidated Statement of Comprehensive Income

(n) Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a 'finance lease'), the asset is treated as if it had been purchased outright The amount initially recognised as an asset is the lower of the fair value of the leased asset and the present value of the minimum lease payments payable over the term of the lease, each determined at the inception of the lease The corresponding lease commitment is shown in the Consolidated Statement of Financial Position as a finance lease obligation

Lease payments are apportioned between finance expenses and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability Finance expenses are recognised immediately in the Consolidated Statement of Comprehensive Income

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease') the total rentals payable under the lease are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight line basis Provision is made for dilapidation costs expected to be incurred at the end of the lease term under tenant repairing leases

(o) Sales ledger credits

From time-to-time in the United Kingdom the Group receives payments which are in excess of the amounts which the Group s accounting records show as due The reasons include duplicate payments, credit notes not taken by customers and payments by customers who are "self billing" which are higher than our calculation of the amounts due These matters are investigated and wherever possible the overpayments are resolved with the paying client and appropriate accounting entries made If, after actively seeking to resolve the balance it remains unresolved beyond the period set out in the Statute of Limitations (six years), the amount is credited to the Consolidated Statement of Comprehensive Income The balance of sales ledger credits at the period end is shown within creditors

(p) Financial instruments

Financial assets and financial liabilities are recognised in the Group's Statement of Financial Position when the Group becomes a party to the contractual provision of the instrument

The Group classifies its financial assets and liabilities into one of the following categories, depending on the purpose for which the asset or liability was acquired The Group's accounting policy for each category is as follows

Financial assets·
Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They arise principally through the provision of services to customers (trade receivables) They are initially recognised at fair value and subsequently at amortised cost Impairment provisions are recognised where there is evidence that the Group will be unable to collect all of the amounts due under the terms of the receivable Trade receivables are reported net of impairment provisions which due to the nature of the customer base are not significant The Group's receivables comprise trade and other receivables in the Consolidated Statement of Financial Position

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts Bank overdrafts are shown within current liabilities on the Consolidated Statement of Financial Position and are included within cash and cash equivalents for the purposes of the Consolidated Statement of Cash Flows

Derivative financial instruments and hedging activities Derivatives, including the embedded derivative within the Zero Coupon Loan Note are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value through the Consolidated Statement of Comprehensive Income unless the derivative is designated in a hedging relationship

The Group holds a number of interest rate instruments, protecting a portion of the Group's borrowings against movements in interest rates Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met

- at the inception of the hedge there is a formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge,
- for cash flow hedges the hedged item in a forecast transaction presents an exposure to variations in interest cash flows that could ultimately affect profit or loss on their scheduled payment dates,
- the cumulative change in the value of the hedging instrument is expected to be between 80-125% of the cumulative change in the fair value or cash flows of the hedged item attributable to the risk hedged (i e it is expected to be highly effective)
- the effectiveness of the hedge can be reliably measured
- the hedge remains highly effective on each date it is tested The Group tests the effectiveness of its hedges twice a year, at each external reporting date

The Group only holds two derivative instruments which are not economic hedges, the interest rate swaps as required as part of the Refinancing

Cash flow hedge Effective hedges which are used to manage cash flow interest rate risk are measured at fair value with changes in fair value recognised directly in equity The gain or loss relating to any ineffective portion is recognised directly in the Consolidated Statement of Comprehensive Income within finance income or expense When a hedging instrument expires or is sold or when a hedge no longer meets all the criteria for hedge accounting, hedge accounting is stopped immediately and any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Consolidated Statement of Comprehensive Income When a forecast transaction is no longer expected to occur the cumulative gain or loss that was reported in equity is immediately transferred to the Consolidated Statement of Comprehensive Income within finance income or expense

There were no new financial instruments entered into during the year ended 31 December 2011 that were effective hedges and therefore hedge accounting was not applied

Other financial liabilities:
Trade payables and other short-term monetary liabilities These are initially recognised at fair value and subsequently at amortised cost

Zero Coupon Loan Notes These are initially recognised at fair value, being the present value at the time of issue of future cash payments to extinguish the instrument They are subsequently measured at amortised cost using the effective interest method with interest expense recognised on an effective yield basis

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period to the net carrying amount on initial recognition

Bank borrowings These liabilities are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument The costs of raising the financing are offset against the loan amount and are amortised over the term of the loan and are included within finance costs on the face of the Consolidated Statement of Comprehensive Income When loans are refinanced drawings under the existing facilities are either extinguished or modified Where facilities are extinguished the balance of unamortised fees are written off to Finance Expense Where modified the unamortised fees are carried forward in the Consolidated Statement of Financial Position to be written off over the term of the modified facilities

(q) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the date of the Consolidated Statement of Financial Position, taking into account the risks and uncertainties surrounding the obligation Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows

Obligations arising under onerous contracts are recognised and measured as provisions An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Group

Contingent liabilities are possible obligations which arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group Provision is not made for any liability which could arise in the future but significant contingent liabilities are reported in Note 28

(r) Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability The Group's ordinary shares are classified as equity instruments

(s) Dividends

Final dividends are recognised as a liability in the year in which they are declared and approved by the Company's shareholders in the AGM Interim dividends are recognised when they are paid

(t) Parent Company

The Financial Statements of the Parent Company Healthcare Locums plc have been prepared in accordance with UK GAAP The Company Financial Statements are presented separately on pages 81 to 91

The principal subsidiaries of the Parent Company are listed on page 87

(u) Highlighted items

Where certain items of operating expense or income recorded in a period are material by their size or incidence the Group reflects such items as highlighted items and these are shown separately in the Consolidated Statement of Comprehensive Income and disclosed in detail in the Notes to the Financial Statements Highlighted items may include costs associated with restructuring the business, incremental costs of staff working directly on restructuring and refinancing, one-off gains and losses, impairment of goodwill and intangible assets In addition amounts of finance income or expense which are material by their size or incidence are disclosed in detail in the Notes to the Financial Statements

(v) Adjusted operating profit

Adjusted operating profit is operating profit before share-based payments charges or credits and before highlighted items The Board considers adjusted operating profit to be a better indicator of performance than operating profit as highlighted items being exceptional in their nature by virtue of size or incidence, distort the results of the underlying business Adjusted EBITDA is adjusted operating profit before charging depreciation and amortisation

(w) Critical accounting judgements and key sources of estimation uncertainty

The Group makes estimates and assumptions regarding the future Estimates and judgements are continually evaluated based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances In the future, actual experience may differ from these estimates and assumptions The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

Measurement of intangible assets and contingent consideration on acquisition The allocation of the purchase price and valuation of contingent consideration requires management to make significant estimates in determining fair values, especially for intangible assets and contingent consideration These estimates are based on historical experience, information obtained from the management of the acquired businesses, relevant market and industry data and the forecast performance of the acquired businesses These estimates can include but are not limited to the cash flows that an asset is expected to generate in the future, the appropriate discount rate the useful lives of intangible assets and probabilities of achievement of financial targets under contingent consideration arrangements These estimates are inherently uncertain and unanticipated events and circumstances may occur, which may affect the accuracy or validity of such estimates To assist in making these significant estimates the Company engages expert professional valuers to assist with material acquisitions Management monitors the carrying values of assets and adjustments are made if future market conditions indicate that such adjustments are appropriate

Impairment of goodwill The Group is required to test on at least an annual basis, whether goodwill has suffered any impairment The recoverable amount is determined based on the higher of value in use calculations or the fair value less costs to sell method These both require the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows Actual outcomes may vary More information on carrying values is included in Note 14

Contractual claims and regulatory contingencies The Group conducts its business principally in the UK and Australia and contractual claims or regulatory proceedings may arise The Group estimates and provides for potential losses that may arise out of litigation and regulatory proceedings to the extent that such losses are probable and can be estimated in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets Contingencies in respect of these matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance Significant judgment is required in assessing probability and making estimates in respect of contingencies and the Group s final liability may ultimately be materially different from that estimated Provisions in respect of legal claims contractual and regulatory proceedings are determined on a case by case basis and represent an estimate of probable losses after considering among other factors the progress of each case, the Group's experience of others in similar cases and the views of legal counsel Where no estimate can be reliably made of the likely outcome of any claims, and they are potentially material, those claims are disclosed as contingent liabilities (Note 28)

Uncertain tax positions Uncertain tax positions may arise where the Directors have had to make particular judgments in relation to certain tax treatments Based on the status of enquiries with the relevant tax authorities and consideration of tax legislation the Group estimates and provides for potential losses that may arise from uncertain income tax positions to the extent that such losses are probable and can be estimated, in accordance with IAS 12 – Income Taxes However, significant judgment is required in making these estimates, particularly in relation to the recovery of losses, and the Group s final liabilities may ultimately be materially different

Estimation of useful economic lives of long-lived assets The economic life used to amortise intangible assets and depreciate property, plant and equipment relates to the future performance of the assets in question and management's judgment of the period over which the economic benefit will be derived from the asset

As at 31 December 2011 the amount of property, plant and equipment included in the Consolidated Statement of Financial Position was £2 0m (2010 Restated £2 5m)

As at 31 December 2011, the amount of intangible assets included in the Consolidated Statement of Financial Position was £53 9m (2010 Restated £75 6m)

Employee benefits provision In Australia employees, including locums, are entitled to long service leave after ten years service (subject to specific rules and conditions which vary state by state) In determining the amount of the employee benefits provision, representing the value of expected future payments to be made in respect of services provided by employees up to the date of the Consolidated Statement of Financial Position the Directors consider salary levels, the past experience of employee departures and periods of service As at 31 December 2011 the amount provided for in the Consolidated Statement of Financial Position was £2 8m (2010 £3 6m)

Zero Coupon Loan Notes The Zero Coupon Loan Notes were issued during the year as part of the Refinancing The nominal value of the Zero Coupon Loan Notes was discounted to fair value at a rate of 15% which the Directors considered fairly represented the return a non-senior lender would seek from the Company for a loan maturing in September 2021 The Directors assessed at the date of issue and at the year end the likelihood of further Zero Coupon Loan Notes being issued if future EBITDA or enterprise value targets are achieved

4 SEGMENTAL ANALYSIS

The segmental analysis provided below represents the information presented to the Board of Directors, which is the Chief Operating Decision Maker as defined by IFRS 8

In the UK the Group provides locum recruitment services for health and social care staff, being doctors, nurses, Allied Health Professionals ("AHP") and Qualified Social Workers ("QSW") The permanent placement business which places staff in each of these sectors is managed as a separate segment Australia is also managed as a separate, single segment During the year ended 31 December 2011 placement of theatre nurses, which was previously included within AHP, was moved to the nurses segment Prior year segmental information has been restated to reflect the current reporting structure

The Board views these six as its principal business segments and regularly reviews information on the revenue, cost of sales and gross profits of each of these business segments The Board considers gross profit to be its current, consistent measure for determining segment profitability it being the contribution generated towards overheads It does not receive segment information on the costs below gross profit or on assets and liabilities by segment For 2012 operating costs will be charged to each division, either directly or by a central allocation, and this enhanced divisional analysis will be reported in accounts beginning with the Interim Results for the six months to June 2012

	Year ended 31 December 2011		Restated year ended 31 December 2010	
	Revenue £m	**Gross profit £m**	Revenue £m	Gross profit £m
UK				
Locum doctors	**25 5**	**3.7**	33 7	6 3
Locum Qualified Social Workers	**26.5**	**4 6**	35 6	6 8
Locum Allied Health Professionals (restated)	**30 6**	**8 2**	47 0	14 7
Locum nursing (restated)	**25 2**	**6.9**	26 3	7 0
Permanent placements	**2 6**	**2.6**	3 9	3 9
Inter-segment	**(0.1)**	**-**	(0 6)	(0 4)
Total UK	**110 3**	**26.0**	145 9	38 3
Australia	**116 8**	**23.7**	9 0	2 4
Continuing operations	**227 1**	**49.7**	154 9	40 7
Operating expenses		**(50 8)**		(43 7)
Goodwill impairment		**-**		(51 4)
Net exceptionals		**(9 6)**		(4 8)
Loss from operations		**(10 7)**		(59 2)
Finance income		**24.5**		2 0
Finance expense		**(26 7)**		(6 4)
Loss before taxation from continuing operations		**(12 9)**		(63 6)

Inter-segment adjustments represent removal of the overlapping commission revenue from placements recognised by two or more segments revenue and cost of sales not allocable to the reported segments and measurement differences between the basis used to report invoiced transactions to the chief operating decision maker and the basis used in the Group Financial Statements

The geographical distribution of the non-current assets of the Group as at 31 December was as follows

2011	**UK £m**	**Australia £m**	**Other £m**	**Total £m**
Property, plant and equipment	**0 8**	**1.2**	**-**	**2 0**
Goodwill	**19.5**	**20 3**	**-**	**39.8**
Other intangible assets	**4.7**	**49.2**	**-**	**53 9**
Total	**25.0**	**70.7**	**-**	**95 7**

2010 (Restated)	UK £m	Australia £m	Other £m	Total £m
Property plant and equipment	0 9	1 5	0 1	2 5
Goodwill	19 5	26 7	-	46 2
Other intangible assets	5 7	69 9	-	75 6
Total	26 1	98 1	0 1	124 3

At 31 December 2009 all the assets of the Group were in the UK

Separate entities operating as registered NHS Trusts in the UK are considered a single customer by the Group Of the total Group revenue, NHS Trusts accounted for 32 4% (2010 66 1%) The decrease is due to the inclusion of a full year's revenue from HCA There were no other single customers contributing more than 10% of Group revenue in 2011 or 2010

As an additional voluntary disclosure the analysis of operating expenses is as follows

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
UK-based administration expenses (including corporate)	**28 8**	38 5
Depreciation amortisation and share scheme movements	**1 0**	2 5
	29.8	41 0
Australia-based administration expenses	**15 0**	2 3
Depreciation and amortisation	**6 0**	0 4
	21 0	2 7
Total	**50 8**	43 7

5 EMPLOYEES

	Year ended 31 December 2011	Year ended 31 December 2010
	£m	£m
Staff costs (including Directors) comprise		
Wages and salaries	**26.2**	22 9
Social Security costs	**2.2**	2 4
Long service leave costs	**0 1**	0 1
Defined contribution pension costs	**0 8**	0 1
Share-based payment (credit) / charge (Note 32)	**(0 5)**	0 6
	28 8	26 1

	Year ended 31 December 2011	Year ended 31 December 2010
The average number of employees during the year was	**583**	442

The average number of employees for 2010 includes an average for the year in Australia of ten, although the majority of Australia-based employees joined the Group on 20 December 2010 and the actual number of employees during the period of ownership, excluding Homecare employees was 230 The costs include the post acquisition costs only

6 KEY MANAGEMENT PERSONNEL

	Year ended 31 December 2011	Year ended 31 December 2010
	£m	£m
Emoluments	**1 6**	1 0
Benefits	**0 1**	-
Bonuses	**0.2**	-
Share-based payment (credit) / charge	**(0 4)**	0 2
	1 5	1 2

The Board has determined that the Directors are the key management personnel

Pension contributions of £3 563 (2010 £14 250) were paid on behalf of one former Director

Further detail on Directors remuneration and the interests of the Directors over unissued ordinary shares pursuant to share options granted by the Company are disclosed in the Report on Remuneration on page 30

7 NET EXCEPTIONAL OPERATING EXPENSES

	Year ended 31 December 2011	Restated year ended 31 December 2010
	£m	£m
Exceptional operating income/(expense).		
Reorganisation and refinancing costs		
Restructuring costs	**(1 8)**	(0 3)
Refinancing additional costs	**(0.7)**	-
Australia – integration costs	**(0 6)**	(0 4)
Onerous leases	**(0 7)**	(0 7)
	(3 8)	(1 4)
(Loss) / gain on fair value changes in contingent and deferred consideration (Note 17)	**(2 9)**	4 2
Investigation and resolution of accounting irregularities	**(2 9)**	-
Acquisition related transaction costs (Note 17)	**-**	(2 8)
Costs related to advice concerning possible disposal of business	**-**	(1 4)
Impairment of property, plant and equipment (Note 16)	**-**	(0 7)
Impairment of other intangible assets (Note 15)	**-**	(2 7)
Net exceptional operating expenses	**(9.6)**	(4 8)

Reorganisation and refinancing costs in 2011 include

Restructuring costs primarily related to redundancies and office relocation costs

Refinancing additional costs includes the incremental costs of staff wholly or predominantly, involved in work related to the Refinancing

The investigation and resolution of the accounting irregularities includes external professional advisers and the incremental costs of staff wholly or predominantly, involved in work relating to the investigation

The 2010 figures are restated for the additional impairment of the fixed assets of the Social Care division as reported in Note 1 The reorganisation costs in 2010 principally included employee redundancy costs, relocation of offices associated with the ongoing off-shoring of back and middle office functions to India and also the ongoing restructuring within the QSW division Provision for onerous lease contracts in 2010 were as a result of lease liabilities acquired on the acquisitions of Orion Locums Limited ("Orion") and MJC Locums Limited ("MJV"), for which the Group then decided to close the offices following the acquisitions

The tax effect of the above exceptional items is a tax credit of £0 1m for Australia (2010 £nil) There is no tax effect in relation to the UK exceptional items (2010 £1 2m credit)

8 LOSS FROM OPERATIONS

Loss from operations for the year has been arrived at after charging / (crediting) the following

	Year ended 31 December 2011	Year ended 31 December 2010
	£m	£m
Amortisation of other intangible assets	**6 4**	1 6
Depreciation of property plant and equipment	**1 1**	0 6
Foreign exchange losses	**(0 6)**	(0 6)
Hire of other assets – operating leases	**0 7**	0 9
Share-based payments (credits) /charges (Note 32)	**(0 5)**	0 6
Gain on disposal of property plant and equipment	**(0 1)**	-
Fees payable to the Company s current auditor for		
– audit of the Company's annual accounts	**0 2**	-
– audit of the Company's subsidiaries	**0 1**	-
Fees payable to the Company's previous auditor for		
– audit of the Company's annual accounts	**-**	0 5
– audit of the Company's subsidiaries	**0 1**	0 2
– other services	**-**	0 1

9 FINANCE INCOME AND EXPENSE

Finance income	**Year ended 31 December 2011 £m**	Year ended 31 December 2010 £m
Exceptional finance income		
Refinancing – difference between fair value of shares issued to Ares Lux and the mezzanine finance retired (Note 25c)	**9 9**	-
Fair value adjustment on Zero Coupon Loan Note (Note 25e)	**7 7**	-
Bank debt waived (Note 25f)	**5 9**	-
Accrued interest payable written off in Refinancing (Note 25f)	**0 6**	-
	24 1	-
Interest received on bank deposits	**0.1**	-
Foreign exchange gains	**0 2**	1 5
Gain on fair value changes in derivative financial instruments	**0 1**	0 5
	24 5	2 0

Finance expense	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Exceptional finance expense		
Bank fees relating to debt repaid written off (Note 25g)	**4 4**	-
Professional fees of Banks advisers (Note 25h)	**3.0**	-
Advisers fees on the Refinancing (Note 25h)	**2.5**	-
Warrant option written off (Note 21)	**2.6**	-
Forex on Refinancing	**0 3**	-
Arrangement fee on ACE Limited facility (Note 25(b)(iv))	**0 2**	-
	13 0	-
Bank loans and overdrafts	**12 4**	3 4
Amortisation of fees	**1.0**	0 3
Loss on fair value changes in derivative financial instruments	**-**	2 5
Finance lease interest	**0 2**	0 2
Imputed interest on Zero Coupon Loan Notes (Note 24)	**0 1**	-
	26 7	6 4

The Group did not apply, in either 2011 or 2010, cash flow hedge accounting in respect of the derivative financial instruments previously designated in a hedge relationship or to new instruments acquired during the year Accordingly all fair value changes were recognised in the Consolidated Statement of Comprehensive Income Gains and losses recognised in other comprehensive income in prior years were recycled to the Consolidated Statement of Comprehensive Income upon settlement of related hedging instruments in 2010

10 TAX BENEFIT

	Year ended 31 December 2011 £m	Restated year ended 31 December 2010 £m
UK corporation tax – current year	**-**	-
UK corporation tax – prior year	**(0 8)**	-
Overseas tax – current year	**(0 4)**	-
Carry back to prior year	**-**	(1 1)
Current tax credit	**(1.2)**	(1 1)
Deferred tax		
Origination and reversal of temporary differences	**(1 4)**	(1 4)
Total tax benefit on continuing operations	**(2 6)**	(2 5)

The tax benefit assessed for the period is lower than the standard rate of corporation tax in the UK The differences are explained below

	Year ended 31 December 2011 £m	Restated year ended 31 December 2010 £m
Loss before taxation (including discontinued operations)	**(11.1)**	(63 6)
Tax at the standard rate of corporation tax in the UK of 26 5% (2010 – 28%)	**(2.9)**	(17 8)
Effects of		
Expenses not deductible for tax purposes	**3 4**	12 3
Non-taxable income	**(3 0)**	-
Over provision in prior years	**(0 8)**	-
Unrecognised potential deferred tax assets	**1 4**	3 0
Impact of overseas tax	**(0 3)**	-
Total tax benefit for the year (including discontinued operations)	**(2 2)**	(2 5)
Represented by		
Tax on continuing operations	**(2 6)**	(2 5)
Tax on discontinued operations	**0 4**	-
	(2 2)	(2 5)

11 PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS, NET OF TAX

On 27 June 2011 the Group announced that its wholly owned Australian subsidiary HCA, had agreed to sell its Homecare division to KinCare Health Services Pty Limited The sale was completed on 18 July 2011

The disposal enables HCL to focus on the development of the core UK and Australian businesses and realise value from non-core elements of the business which would have required further investment to realise their true potential The net proceeds were used to reduce the Group's debt

The net assets sold comprised

	£m
Property, plant and equipment	**0 2**
Intangible assets – goodwill	**6 6**
Intangible assets – other	**15 9**
Deferred tax asset	**0 4**
Trade and other receivables	**4 4**
Assets sold	**27 5**
Trade and other payables	**(1 6)**
Short-term provisions	**(1 8)**
Long-term provisions	**(0 2)**
Deferred tax liability	**(4.3)**
Liabilities transferred	**(7 9)**
Net assets sold	**19 6**
Disposal proceeds	**22.7**
Costs of sale	**(2.4)**
Net proceeds of disposal	**20 3**
Net gain on disposal	**0 7**

There was no tax effect from the disposal

The results of trading and cash flows for the current year to the date of disposal and the prior year from the date of acquisition were as follows

	1 January to 17 July 2011	20 December to 31 December 2010
	£m	£m
Revenue	**16 3**	2 3
Cost of sales	**(11.5)**	(1 7)
Gross profit	**4 8**	0 6
Administrative expenses	**(3 3)**	(0 5)
Other operating expenses	**(0 4)**	(0 1)
Profit from operations	**1.1**	-
Finance expense (net)	**-**	-
Profit before taxation	**1 1**	-
Tax (expense)	**(0 4)**	-
Profit for the period	**0 7**	-
Operating cash flows	**1 3**	0 3
Financing cash flows	**(0.1)**	-
Total cash flows	**1.2**	0 3

12 EARNINGS PER SHARE

	Year ended 31 December 2011 Number '000	Restated year ended 31 December 2010 Number 000
Number of ordinary 10p shares		
Weighted average number of shares	**334,075**	108 768
Calculation of adjusted earnings for the year:	**£m**	£m
Loss for the year from continuing operations	**(10 3)**	(61 1)
Adjustments		
Goodwill impairment	**-**	51 4
Net exceptional operating expenses (Note 7)	**9 6**	4 8
Share-based payment (credits) charges	**(0 5)**	0 6
Exceptional finance income (Note 9)	**(24 1)**	-
Exceptional finance expense (Note 9)	**13 0**	-
	(2 0)	56 8
Tax effect of above items	**(0 1)**	(1 2)
Post tax adjustments	**(2 1)**	55 6
Adjusted loss for the year from continuing operations	**(13 0)**	(5 5)
Earnings per share from continuing operations	**Pence**	Pence
Basic and dilutive earnings per share	**(3 1)**	(56 2)
Adjusted basic and dilutive earnings share	**(3 7)**	(5 1)
	£m	£m
Profit for the year from discontinued operations	**1.4**	-
Earnings per share from discontinued operations.	**Pence**	Pence
Basic and dilutive earnings per share	**0 4**	-

The restatement of the 2010 earnings per share relates to the prior year adjustment of the Social Care goodwill and other asset impairments as disclosed in Note 1 and a correction of the calculated tax effect of the adjustments as noted below The amounts reported last year were 50 0p for basic and diluted loss per share and 18 5p for adjusted basic and diluted loss per share

During the preparation of the Consolidated Financial Statements for the year ended 31 December 2011 it became apparent that the tax effect of adjusting items for earnings per share ("EPS") purposes presented in Note 10 to the Consolidated Financial Statements for the year ended 31 December 2010 was misstated The note presented the tax effect of adjusting items as £13 3m but it should have been £0 8m The impact of this restatement would have been to reduce the adjusted loss by £12 5m from a loss of £20 1m to a loss of £7 6m After incorporating the £0 4m tax credit in relation to the prior year adjustment for Social Care the total restated tax effect of adjusting items is £1 2m as stated in the table above, and reduces adjusted basic loss per ordinary share by 13 4p from 18 5p to 5 1p as stated in the table above

In preparing the adjusted earnings per share for 2011 the gain on inter-company financing with Australia was excluded as it is not a one-off credit The £1 5m booked as an adjusting entry in the 2010 earnings per share calculation has been eliminated

Loss per share from continuing and discontinued operations in 2011 was 2 7p per share and adjusted loss from continuing and discontinued operations was 3 3p per share

At 31 December 2011 there were 175,495 (2010 4 019,281) potentially dilutive share options and zero (2010 2,943,453) potentially dilutive warrants which have not been included above as they do not affect EPS on the basis that they are not currently dilutive

13 DIVIDENDS

	Year ended 31 December 2011 **£m**	Year ended 31 December 2010 £m
Interim dividend of 1 8p paid on 10 January 2011 (2010 – 1 5p paid on 1 April 2010) per ordinary share relating to the previous year's results	**2 1**	1 6
Final dividend in 2009 of 1 9p paid on 25 June 2010 per ordinary share relating to the previous year's results	**-**	2 0
	2 1	3 6

The Directors are not proposing a final dividend for 2011 (2010 nil)

As reported in the Consolidated Financial Statements for the year ended 31 December 2010 the Board became aware that certain of the dividends paid under the management of the previous Board were potentially unlawful

Since the date of issue of the Consolidated Financial Statements for the year ended 31 December 2010 further analysis has been performed After taking legal and accounting advice the Board has concluded that the dividend paid on 10 January 2011 was unlawful as the then Board should have known at the date that the dividends were approved and paid that the Company had insufficient reserves available to make the payment The Board has been unable as yet to come to a definite conclusion about the legality of the dividends paid on 1 April and 25 June 2010 No action will be taken to recover unlawful dividends from shareholders in general However, the Board is considering whether remedies are available against former directors to recover unlawful dividends paid to them and damages for breach of duty in authorising the relevant dividends

14 GOODWILL

	Restated[1] Total £m
Cost	
At 1 January 2009 and 31 December 2009	60 3
Additions as reported	26 5
Restatement of additions (Notes 1 and 17)	9 9
Effect of movements in foreign exchange (as reported)	0 6
Restatement of the effect of movements in foreign exchange (Note 1)	0 3
At 31 December 2010	**97 6**
Disposals	**(6 5)**
Effect of movements in foreign exchange	**0.1**
At 31 December 2011	**91 2**
Impairment	
At 1 January 2009 and 31 December 2009	-
Charge in the year as originally reported	46 0
Restatement (Note 1)	5 4
At 31 December 2010 and 31 December 2011	**51 4**
Carrying amount	
At 31 December 2011	**39 8**
At 31 December 2010 (restated)	46 2
At 31 December 2009	60 3

The carrying amount is attributable to the following business segments

	31 December 2011	Restated[1] 31 December 2010	31 December 2009
	£m	£m	£m
Doctors	**-**	-	22 4
Social Care	**-**	-	20 6
Allied Health Professionals	**8 0**	10 7	17 3
Nursing	**11 5**	8 8	-
Australia	**20 3**	26 7	-
Total	**39.8**	46 2	60 3

(1) The amount reported for Australia in the 2010 Financial Statements was £16 5m Prior year adjustments as reported in detail in Note 1 and Note 17 for LML of £0 7m and for HCA of £9 5m increased the amount in the restated Consolidated Statement of Financial Position to £26 7m The amount reported for Social Care was £5 4m at 31 December 2010 As reported in Note 1 this amount has been fully impaired by a prior year adjustment

As a result of the transfer of the theatre nurses operations from the AHP segment to the Nursing segment £2 7m of associated goodwill was transferred between those segments during 2011

At 31 December 2011 goodwill was tested for impairment The recoverable amounts of all the above segments were determined from value in use calculations, based on cash flow projections from the formally approved budget for 2012 formally approved forecasts for 2013 and 2014 and estimates for subsequent years

The impairment charge taken in 2010 reflected a revision in the assessment of the future cash flows from the business due to reduced margins and changes in the NHS procurement practices

The key assumptions in the value in use calculations for 2011 and 2010 were

- Risk-free rate – 2 1% (2010 4 1%),
- Equity market risk premium – 7 2% (2010 5%),
- Beta 1 195 (2010 1 09),
- Small stock premium 6% (2010 5%),
- Gross cost of debt, inclusive of amortisation of fees, 11 0% (2010 7 2%)
- Expected long-term tax rate – 25% UK, 30% Australia (2010 25% and 30%),
- Zero Coupon Loan Notes discount rate 15% (2010 not applicable)
- The post-tax discount rate used was 11 76% for UK operations and 11 72% for Australian operations, based on the estimated pre-tax discount rate of 15 68% (2010 16 67%) and
- Long-term revenue growth estimate 2% for the UK operations and 2 5% for the Australian operations (2010 2% for both the UK and Australia)

Based on the stated assumptions there was no impairment of goodwill at 31 December 2011 To assess the likelihood of an impairment changes to the assumptions were made singly and in combination, including a 1% increase in the weighted average cost of capital reducing the revenue growth estimate to 2%, reducing the gross margin by 1% None of these indicated a need for an impairment charge

If the discount rate used in 2010 had been decreased or increased by 2% the impairment amount would have been lower by £2 7m or higher by £2 0m, respectively

15 OTHER INTANGIBLE ASSETS

	Customer relationships	Computer software	Acquired candidate database	Brands and trademarks	Knowledge database	Non-compete agreements	Total
	£m	£m	£m	£m	£m	£m	£m
Cost:							
At 1 January 2009	4 0	6 0	-	-	0 1	-	10 1
Additions	-	1 6	-	-	-	-	1 6
Disposals	-	(0 1)	-	-	-	-	(0 1)
At 31 December 2009	4 0	7 5	-	-	0 1	-	11 6
Acquisitions	27 4	0 6	13 1	32 1	-	0 5	73 7
Additions	-	0 5	-	-	-	-	0 5
Disposals	-	(0 5)	-	-	-	-	(0 5)
Effect of movements in foreign exchange	0 8	-	0 4	1 0	-	-	2 2
At 31 December 2010	**32 2**	**8 1**	**13 5**	**33 1**	**0 1**	**0 5**	**87 5**
Additions	**-**	**0 4**	**-**	**-**	**-**	**-**	**0 4**
Transfer to property, plant & equipment	**-**	**(0 2)**	**-**	**-**	**-**	**-**	**(0 2)**
Disposals	**(7 5)**	**(1 3)**	**(3 3)**	**(5.3)**	**(0.1)**	**-**	**(17 5)**
Written off	**-**	**(5.6)**	**-**	**-**	**-**	**-**	**(5 6)**
Effect of movements in foreign exchange	**0 2**	**-**	**0 1**	**0 2**	**-**	**-**	**0 5**
At 31 December 2011	**24 9**	**1 4**	**10.3**	**28 0**	**-**	**0 5**	**65 1**
Amortisation.							
At 1 January 2009	1 0	0 8	-	-	0 1	-	1 9
Provided for the year	0 5	0 5	-	-	-	-	1 0
Impairment	-	5 3	-	-	-	-	5 3
Disposals	-	(0 1)	-	-	-	-	(0 1)
At 1 January 2010	1 5	6 5	-	-	0 1	-	8 1
Provided for the year	0 8	0 4	0 3	0 1	-	-	1 6
Disposals	-	(0 5)	-	-	-	-	(0 5)
Impairment as previously reported	0 7	0 6	-	-	-	-	1 3
Impairment (prior year adjustment (Note 1))	1 3	0 1	-	-	-	-	1 4
At 31 December 2010	**4 3**	**7 1**	**0 3**	**0 1**	**0 1**	**-**	**11 9**
Provided for the year	**2 9**	**0 3**	**1 4**	**1 7**	**-**	**0 1**	**6 4**
Disposals	**(0 3)**	**(0 8)**	**(0.2)**	**(0 2)**	**(0 1)**	**-**	**(1 6)**
Written off	**-**	**(5.6)**	**-**	**-**	**-**	**-**	**(5 6)**
Effect of movements in foreign exchange	**-**	**-**	**-**	**0 1**	**-**	**-**	**0 1**
At 31 December 2011	**6 9**	**1 0**	**1.5**	**1.7**	**-**	**0 1**	**11 2**
Net book value·							
At 31 December 2011	**18 0**	**0 4**	**8.8**	**26 3**	**-**	**0 4**	**53 9**
At 31 December 2010 (Restated)	27 9	1 0	13 2	33 0	-	0 5	75 6
At 31 December 2009	2 5	1 0	-	-	-	-	3 5

At 31 December 2011 computer software included £0 2m under construction (2010 £nil) The Group amortises intangible assets from the date the assets are ready to use

Bank loans are secured on all assets of the Group

The asset lives of the material intangible assets have been assessed at 20 years for brands and trademarks and ten years for the main acquired candidate database Customer relationships are amortised over the life of the contracts

16 PROPERTY, PLANT AND EQUIPMENT

	Improvements to leasehold buildings £m	Office and computer equipment £m	Motor vehicles £m	Total £m
Cost				
At 1 January 2009	0 9	1 9	-	2 8
Additions	-	0 4	-	0 4
Disposals	-	(0 9)	-	(0 9)
At 31 December 2009	0 9	1 4	-	2 3
Acquisition	0 6	0 7	0 2	1 5
Additions	0 2	1 1	-	1 3
Disposals	(0 2)	(0 5)	-	(0 7)
At 31 December 2010	**1 5**	**2 7**	**0 2**	**4 4**
Additions	**0 3**	**0 4**	**-**	**0 7**
Transfer from intangible assets	**-**	**0 2**	**-**	**0 2**
Disposals	**(0.3)**	**(0.5)**	**(0 1)**	**(0 9)**
At 31 December 2011	**1 5**	**2 8**	**0 1**	**4 4**
Depreciation and impairment				
At 1 January 2009	0 5	1 2	-	1 7
Provided for the year	0 1	0 4	-	0 5
Disposals	-	(0 9)	-	(0 9)
At 31 December 2009	0 6	0 7	-	1 3
Provided for the year	0 1	0 5	-	0 6
Impairment as reported in 2010	-	0 4	-	0 4
Impairment prior year adjustment (Note 1)	-	0 3	-	0 3
Disposals	(0 2)	(0 5)	-	(0 7)
At 31 December 2010	**0 5**	**1 4**	**-**	**1 9**
Provided for the year	**0 3**	**0 8**	**-**	**1 1**
Disposals	**(0 3)**	**(0 3)**	**-**	**(0 6)**
At 31 December 2011	**0 5**	**1 9**	**-**	**2.4**
Net book value				
At 31 December 2011	**1 0**	**0 9**	**0 1**	**2 0**
At 31 December 2010 (as restated)	**1 0**	**1 3**	**0 2**	**2.5**
At 31 December 2009	**0 3**	**0 7**	**-**	**1 0**

Assets included above held under finance leases (Note 21)				
Net book value				
At 31 December 2011	**-**	**0 1**	**-**	**0 1**
At 31 December 2010	0 1	0 8	-	0 9
At 31 December 2009	-	0 4	-	0 4
Depreciation charge				
Year ended 31 December 2011	**-**	**0 3**	**-**	**0 3**
Year ended 31 December 2010	-	0 4	-	0 4
Year ended 31 December 2009	0 1	0 3	-	0 4

Bank loans are secured on all assets of the Group

17 ACQUISITIONS

There were no acquisitions during the year ended 31 December 2011 However, following a further review of the assets and liabilities acquired with LML and HCA, the Group has made prior year adjustments, as disclosed in Note 1 and in part (e) of this note As a result of making the prior year adjustments set out below is the revised table of the 2010 acquisitions

	Orion and MJV	LML Restated[1]	Redwood	HCA Restated[1]	Total
	£m	£m	£m	£m	£m
Cash consideration	37	49	50	833	969
Contingent consideration (at acquisition date fair value)	48	12	16	-	76
Total consideration	**85**	**61**	**66**	**833**	**104.5**
Fair value of assets and liabilities acquired·					
Intangible assets					
Customer relationships	10	13	12	239	274
Computer software	-	-	-	06	06
Acquired candidate database	09	-	13	109	131
Brands and trademarks	09	18	04	290	321
Non-compete agreements	-	05	-	-	05
	28	36	29	644	737
Cash/(invoice discounting balance) acquired	(1 0)	-	-	76	66
Property plant and equipment	-	-	-	15	15
Trade and other receivables originally reported	15	-	-	167	182
Trade and other receivables restatement (Note 1)	-	-	-	08	08
Deferred tax asset as originally stated	-	-	-	48	48
Deferred tax asset restatement (Note 1)	-	-	-	(1 1)	(1 1)
Trade and other payables	(0 6)	-	-	(13 8)	(14 4)
Employee benefits provision	-	-	-	(3 5)	(3 5)
Current taxation	(0 2)	-	-	(0 2)	(0 4)
Deferred tax liability originally reported	(0 8)	(0 5)	-	(7 2)	(8 5)
Deferred tax liability restatement (Note 1)	-	(0 7)	-	(8 9)	(9 6)
Net assets acquired	**17**	**24**	**29**	**61.1**	**681**
Goodwill as previously stated	**68**	**30**	**37**	**130**	**265**
Goodwill restatement	**-**	**0.7**	**-**	**9.2**	**99**

[1] Of the total cash consideration £562 000 was paid in January 2011

Transaction costs (Note 7)	**0.2**	**07**	**02**	**1.7**	**28**

During 2010 HCL completed four acquisitions and a number of amendments to the purchase consideration amounts and terms were negotiated during the year ended 31 December 2011 as detailed below These resulted in the following credits / (charges) which were reported within net exceptional operating costs in the Consolidated Statement of Comprehensive Income (Note 7)

	£m
a below) Orion / MJV variation agreement	**(4.5)**
c below) LML contingent consideration written off	**0.9**
d below) Redwood variation agreements	**07**
	(2.9)

(a) On 23 July 2010 the Group acquired 100% of the voting share capital of Orion, a leading nursing and healthcare staffing locum business in the UK for an initial cash consideration of £3 200 000 and 100% of the voting share capital of MJV for an initial cash consideration of £500 000 from a common shareholder, Craig Tibbles who held 100% of the issued share capital of both companies. The Group also agreed to pay contingent consideration in cash on these acquisitions of up to £5 600,000 for Orion and £1,400,000 for MJV The fair value of the contingent consideration at the time of acquisition was £4,780,000

Following a review of post-acquisition performance to 31 December 2010 the fair value was reassessed as £548,000 and the reduction was recognised as a gain of £4 232,000 in the Consolidated Statement of Comprehensive Income in 2010

On 4 January 2011 the total contingent consideration was replaced by a fixed £5,000 000 of deferred consideration (£2,000,000 payable in 2011 and £3 000,000 payable in 2012) following the signing of a variation agreement and £4 452 000 was charged to the Consolidated Statement of Comprehensive Income in 2011

(b) As disclosed in Note 25b as part of the Refinancing Craig Tibbles agreed to accept 25,000 000 New Ordinary Shares in return for releasing HCL from paying £1,000,000 of the deferred consideration due in 2011 and £1 500 000 of the deferred consideration due in 2012 As part of the same agreement the remaining £2,500,000 due to Craig Tibbles was amended to £1,000,000 payable on 3 October 2011 and £900,000 payable on 1 October 2012 or at Craig Tibbles' election, £800 000 on 1 June 2012 The balance of £600,000 was released to the Consolidated Statement of Comprehensive Income to cover matching costs and asset write-offs including an assessment of underpaid VAT due to input tax having been incorrectly calculated prior to the acquisition

(c) On 1 August 2010 HCL International Pty Ltd (a wholly owned Australian subsidiary of HCL acquired the business and assets of LML, an established Australian medical staffing business with a database of over 3,500 qualified doctors for an initial cash consideration of A$7 850 000 (£4 834 000) and a contingent consideration based on post-acquisition results of up to a maximum of A$5,000 000 At the date of acquisition the fair value of the contingent consideration was assessed to be A$2,000,000 (£1,232 000) Exchange rate movements to 31 December 2010 increased the contingent consideration in Sterling terms to £1,309,000 During 2011 additional consideration was earned, based on exceeding the post-acquisition results targets of A$275,291 (2010 A$298 161) and both of these amounts were paid during the year The likelihood of meeting the remaining targets has been reviewed and the balance of the contingent consideration amounting to A$1,426,548 (£0 9m) has been written off to the Consolidated Statement of Comprehensive Income in 2011

(d) On 19 August 2010 Medical Technical Ltd (a wholly owned subsidiary of HCL acquired the business and certain assets of Redwood Health Limited (subsequently renamed as Dancorp Limited "Dancorp") for an initial cash consideration of £5 000 000 and a contingent consideration of up to a maximum of £1,650 000 The fair value of the contingent consideration at the date of acquisition was £1 650,000 This was a related party transaction as set out in Note 31

On 25 March 2011 the total contingent consideration was replaced by £1,328,194 of deferred consideration following the signing of a variation agreement and £321 806 was credited to the Consolidated Statement of Comprehensive Income in the year ended 31 December 2011 £650,000 was paid during the year ended 31 December 2011 and agreement was reached with the administrators of Dancorp before 31 December 2011 to settle the balance of the deferred consideration by a final payment of £325 000 (paid after the year-end) with the remaining £353,194 credited to the Statement of Comprehensive Income in the year ended 31 December 2011 making the total amount credited in the year £675 000

(e) On 20 December 2010 the Company acquired the entire share capital of HCA The acquisition from certain CHAMP Private Equity funds and a small number of private individuals was completed for a total cash consideration of A$131 200 000 (approximately £83,345,000 of which £562 000 was deferred and paid in 2011) HCA was established in 2004 and is a leading provider of nursing agency staff to public and private health institutions in Australia Approximately 40% of healthcare in Australia is provided by the private sector

As reported in Note 1, a review during the year ended 31 December 2011 identified that deferred tax liabilities on trademarks and other intangible assets had not been recognised in the acquisition balance sheets of LML and HCA These deferred tax liabilities have now been recognised as a prior year adjustment In addition a provision from a prior acquisition by HCA was recognised but not an associated asset, a £0 8m (A$1 2m) escrow account, which matched the liability In addition when completing accounts for the consolidated Australian tax group for the tax year to June 2011 it was determined that the deferred tax estimate in the acquisition balance sheet was understated by £1 1m ($1 7m) and the estimate in the acquisition balance sheet has been corrected Goodwill receivables and the deferred tax liability at 31 December 2010 were increased by £10 2m £0 8m and £11 0m respectively

Transaction costs were all expensed

The acquisitions represented a significant step towards implementing a stated strategy of the previous Board of establishing a significant presence in the UK nursing recruitment market and pursuing international acquisitions which will generate additional revenue outside of the UK The completion of the acquisitions significantly broadened HCL's international operations

18 TRADE AND OTHER RECEIVABLES

	31 December 2011	Restated[1] 31 December 2010	31 December 2009
	£m	£m	£m
Trade receivables	**25 1**	28 6	17 6
Other receivables	**0 6**	3 1	5 0
Prepayments	**1 0**	0 7	1 2
Accrued income	**3.2**	4 7	3 5
	29 9	37 1	27 3

(1) Other receivables were reported in the Financial Statements at 31 December 2010 as £2 3m They have been restated to £3 1m following the recognition of a £0 8m (A$1 2m) escrow account of HCA omitted from the Acquisition Balance Sheet (Note 1 and Note 17(e))

All amounts shown under receivables fall due for payment within one year The ageing analysis of the trade receivables and the amounts denominated in currencies other than Sterling are set out in Note 24 There are no differences between book value and fair value of these trade and other receivables at any reporting date

19 TRADE AND OTHER PAYABLES

	31 December 2011	31 December 2010	31 December 2009
	£m	£m	£m
Trade creditors	**5 8**	6 6	2 1
Other taxes and social security	**2 4**	7 7	5 8
Accruals	**9.0**	10 6	5 2
Deferred income	**0 2**	0 6	-
Sales ledger credits	**4 3**	4 3	3 3
Other creditors	**3 8**	3 7	2 0
	25 5	33 5	18 4

There are no differences between book value and fair value of these trade and other payables at any reporting date

20 SHORT TERM BORROWINGS

	31 December 2011	31 December 2010	31 December 2009
	£m	£m	£m
Bank overdraft	**-**	0 1	-
Invoice discounting	**-**	-	11 6
	-	0 1	11 6

21 LOANS AND LONG TERM BORROWINGS

	31 December 2011	31 December 2010	31 December 2009
	£m	£m	£m
Non-current			
Sterling denominated			
Secured bank loans	**-**	-	5 6
Zero Coupon Loan Notes	**2.6**	-	-
Obligations under finance leases	**0.1**	0 5	0 1
Unamortised debt issue costs	**-**	-	(0 2)
Australian Dollar denominated			
Secured bank loans	**38.2**	-	-
Unamortised debt issue costs	**(1 6)**	-	-
Total non-current borrowings	**39.3**	0 5	5 5
Current portion of long-term debt			
Sterling denominated			
Secured bank loans	-	51 5	4 3
Mezzanine finance	-	30 0	-
Obligations under finance leases	**0 3**	0 4	0 2
Unamortised debt issue costs	**-**	(5 3)	(0 2)
Fair value of warrants	**-**	(2 9)	-
Australian Dollar denominated			
Secured bank loans	**1.3**	43 0	-
Unamortised debt issue costs	**(0 7)**	(2 3)	-
Total current borrowings	**0 9**	114 4	4 3

When preparing the 2010 Consolidated Financial Statements the Board believed it was probable that as at 31 December 2010 the Group was in default under the SFA and the MFA with its lenders If a default did exist then the lenders would have had the right, on service of a notice, to require the loans drawn under the SFA and the MFA to be repaid immediately In those specific circumstances it was considered appropriate to classify all the Group's loans as current liabilities Following the completion of the Refinancing the Group is not in default and so for 31 December 2011 the portions of the loans repayable after 31 December 2012 have been reported as non-current liabilities

There are no differences between the book value and the fair value of the loans and long-term borrowings at either date

The Group capitalised total fees of £0 7m (2010 £7 7m) paid for the loans modified during the year Fees are amortised using the effective interest method over the term of the respective loans The loans to which the capitalised fees at 31 December 2010 above relate were either repaid, hence derecognised during the year and the appropriate proportion of unamortised fees were charged to Finance Costs, or modified in which case the appropriate proportion of fees at the time of the modification were carried forward

The Zero Coupon Loan Notes are stated at fair value, being the fair value recognised at date of issue plus the imputed interest to 31 December 2011 More details are set out in Note 25(e)

The warrants recognised at fair value at 31 December 2010 were partly amortised during the year through Finance Expense and the balance of £2 6m outstanding at the date of Refinancing lapsed as part of the Refinancing at the time of the derecognition of the mezzanine facility and so have been written off to Finance Expense (Note 9)

The finance leases are secured on the assets to which they relate The carrying values of these assets are disclosed in Note 16

Future lease payments are due as follows

	Minimum lease payments 2011	**Interest 2011**	**Present value 2011**
	£m	**£m**	**£m**
Not later than one year	**0 4**	**0 1**	**0 3**
Later than one year and not later than five years	**0.1**	**-**	**0 1**
	0 5	**0.1**	**0 4**

	Minimum lease payments 2010	Interest 2010	Present value 2010
	£m	£m	£m
Not later than one year	0 6	0 2	0 4
Later than one year and not later than five years	0 6	0 1	0 5
	1 2	0 3	0 9

	Minimum lease payments 2009	Interest 2009	Present value 2009
	£m	£m	£m
Not later than one year	0 4	0 1	0 3
Later than one year and not later than five years	0 1	-	0 1
	0 5	0 1	0 4

22 PROVISIONS AND DEFERRED CONSIDERATION

	Contingent consideration	Employee benefits	Onerous leases	Total provisions	Deferred consideration
	£m	£m	£m	£m	£m
At 1 January 2009	1 2	-	-	1 2	-
Paid during the year	(1 2)	-	-	(1 2)	-
At 31 December 2009	-	-	-	-	-
On acquisition					
Contingent consideration	7 6	-	-	7 6	-
Employee benefits (Note 17)	-	3 5	-	3 5	-
Movement during the year					-
Employee benefits	-	0 1	-	0 1	-
Orion and MJV – fair value (Note 17)	(4 2)	-	-	(4 2)	-
LML – foreign exchange variation	0 1	-	-	0 1	-
At 31 December 2010	**3 5**	**3 6**	**-**	**7 1**	**-**
Movement during the year					
Disposal	**-**	**(1.1)**	**-**	**(1.1)**	**-**
Orion and MJV – deed of variation (Note 17)	**(0 5)**	**-**	**-**	**(0.5)**	**0.5**
Redwood – deed of variation (Note 17)	**(1 7)**	**-**	**-**	**(1.7)**	**1 7**
Paid during the period	**(0 4)**	**(0.3)**	**(0.2)**	**(0.9)**	**(1 7)**
Applied in settlement for new shares subscription (Note 25 (b))	**-**	**-**	**-**	**-**	**(2 5)**
Reclassifications	**-**	**-**	**0.9**	**0 9**	**(0 3)**
Charged/(credited) to income statement	**(0 9)**	**0 6**	**1 3**	**1 0**	**3 8**
				-	
At 31 December 2011	**-**	**2.8**	**2.0**	**4 8**	**1 5**
31 December 2011					
Current	**-**	**1 6**	**1.1**	**2 7**	**1 5**
Non-current	**-**	**1 2**	**0 9**	**2 1**	**-**
31 December 2010					
Current	2 8	2 2	-	5 0	-
Non-current	0 7	1 4	-	2 1	-

Details of the Orion MJV and Redwood contingent and deferred consideration movements are set out in Note 17

Employee benefits comprise long service leave benefits of £2,299,000 (2010 £2,767,000) and provision for paid leave of £444,000 (2010 £795,000) relating to the employees of HCA.

The onerous lease provision represents the future payments to which the Group is committed on properties which were vacated prior to 31 December 2011 or where the intention to move was announced prior to that date The longest remaining lease term for any of the applicable properties expires on 23 January 2015 Due to the relatively short timeframe and the amounts involved, the future payments have not been discounted as the impact would not be significant

Contingent consideration paid during 2009 related to the acquisition of Tempaid

23 DEFERRED TAXATION

The movement on the deferred tax account is shown below

	Intangible fixed assets	Tax losses	Accelerated capital allowances	Other short-term temporary differences	Total
	£m	**£m**	**£m**	**£m**	**£m**
At 31 December 2009	0 7	-	(0 2)	(0 5)	-
Arising on acquisitions as originally reported (Note 17)	8 5	-	-	(4 8)	3 7
Arising on acquisitions restatement (Notes 1 and 17)	9 6	(0 3)	-	1 4	10 7
(Credited)/charged to income statement as originally reported (Notes 1 and 10)	(0 5)	-	0 2	(0 7)	(1 0)
Credited to income statement on restatement (Notes 1 and 10)	(0 4)	-	-	-	(0 4)
Charged to equity	-	-	-	1 2	1 2
Foreign exchange adjustment as originally reported	0 1	-	-	-	0 1
Foreign exchange adjustment on restatement (Note 1)	0 3	-	-	-	0 3
Other	(0 3)	-	-	-	(0 3)
At 31 December 2010 (as restated)	**18 0**	**(0 3)**	**-**	**(3 4)**	**14 3**
Arising on disposals	**(4 3)**	**-**	**-**	**0 4**	**(3.9)**
(Credited)/charged to income statement (Note 10)	**(0 9)**	**(0 6)**	**-**	**0 1**	**(1 4)**
Foreign exchange adjustment	**0 2**				**0 2**
At 31 December 2011	**13.0**	**(0 9)**	**-**	**(2 9)**	**9 2**

(1) As reported in Note 1 and Note 17 the Financial Statements for the year ended 31 December 2010 have been restated to account for a deferred tax liability recognised on trademarks and other intangible assets included within the assets acquired, and to reflect a corrected estimate of the deferred tax liability at the date of acquisition The previously reported figure for deferred tax on acquisitions of £3 7m has been increased by £10 7m to £14 4m and the foreign exchange impact of restating the acquired amount to the 31 December 2010 rate of exchange has been increased from £0 1m to £0 4m The charge to the Consolidated Statement of Comprehensive Income was reported as £1 0m and increased to £1 4m as a result of the Social Care goodwill restatement The total deferred tax at 31 December 2010 was £3 7m and the adjustments combine to increase that amount by £10 6m to £14 3m

Deferred tax has been calculated on UK and Australian temporary differences at 25% and 30% respectively The UK Government has announced a future decrease in the UK corporation tax rate to 24% with effect from 1 April 2012, falling by a further 1% per annum to 22% by 1 April 2014 The impact of these proposed rate changes has not been reflected in the table above as they have not been substantively enacted at the balance sheet date The impact of these rate changes would be to reduce the group's UK deferred tax balance above by £48,000 if the UK temporary difference were all to reverse at 22%

The analysis of the net deferred tax balance between deferred tax assets and deferred tax liabilities is as follows

	At 31 December 2011	Restated at 31 December 2010	At 31 December 2009
	£m	£m	£m
Represented by deferred tax asset	**-**	-	(1 7)
Represented by deferred tax liability	**9 2**	14 3	1 7

There are unrecognised deferred tax assets in respect of the following items

	At 31 December 2011	Restated at 31 December 2010
	£m	£m
UK losses	**4 3**	6 0
Other UK short-term temporary differences	**0 2**	0 1
Accelerated capital allowances	**0 8**	0 7
Australian capital losses	**3 8**	-
Total	**9 1**	6 8

The above assets have not been recognised as in the opinion of the Directors it is not probable that they will be recovered None of the tax losses have an expiry date

There are no temporary differences in relation to unremitted earnings of overseas subsidiaries

24 FINANCIAL INSTRUMENTS

The Group s financial instruments comprise bank term loans, Zero Coupon Loan Notes, cash and interest rate swap agreements, trade and other receivables and payables Balances at the year-end for these financial instruments were as follows

	Monetary assets		
	2011	Restated 2010	2009
	£m	£m	£m
Current financial assets			
Trade and other receivables	**29 9**	37 1	27 3
Cash and cash equivalents	**14 2**	10 6	4 1
Total current financial assets	**44 1**	47 7	31 4
Analysed by currency (GBP equivalent)·			
Pound Sterling	**29 8**	31 0	31 3
Australian Dollar	**14 3**	16 7	0 1
	44 1	47 7	31 4

	Financial liabilities measured at amortised cost		
	2011	2010	2009
	£m	£m	£m
Current financial liabilities			
Trade and other payables	**25 5**	33 5	18 4
Short term borrowings	**-**	0 1	11 6
Current portion of long-term borrowings	**0 9**	114 4	4 3
Deferred consideration	**1 5**	-	-
Total current financial liabilities	**27 9**	148 0	34 3
Non-current financial liabilities			
Long-term borrowings	**39 3**	0 5	5 5
Total non-current financial liabilities	**39.3**	0 5	5 5
Analysed by currency (GBP equivalent)·			
Pound Sterling	**20 2**	94 5	39 7
Australian Dollar	**47.0**	54 0	0 1
	67 2	148 5	39 8

	Derivative financial liability in an eligible hedge relationship			Derivative financial liability held at fair value through profit or loss		
	2011	2010	2009	**2011**	2010	2009
	£m	£m	£m	**£m**	£m	£m
Derivative financial liabilities	-	-	0 3	**1 7**	1 7	0 5

The Group s bank loans of A$60 0m (£39 5m) (2010 A$65 7m (£43 0m) and £51 5m) bear interest based upon Reuters quoted market bid rates at the time of drawdown for the applicable drawdown period, plus a margin (2010 LIBOR plus a margin) The bank loans are subject to terms and conditions which include quarterly mandatory prepayments from excess cash flow subject to adequate working capital continuing to be available which would accelerate the repayment schedule set out below under liquidity risk The Company is prohibited from paying dividends until the outstanding amount under the SFA has been reduced to less than £35m

The Zero Coupon Loan Notes of nominal £10 2m (2010 £nil) which fall due in September 2021, bear no interest but the loan note agreement provides for the issue of further Zero Coupon Loan Notes of up to £2 5m in nominal value if the Group achieves certain EBITDA and enterprise value targets (See below for information on the fair value attributed to the Zero Coupon Loan Notes and the embedded derivative)

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken

The Group's activities expose it to a variety of financial risks market risk (including currency risk, fair value interest rate risk and cash flow interest risk) credit risk and liquidity risk The Board reviews and agrees policies for managing each of these risks and they are summarised below

(a) Market risk

(i) Foreign exchange risk

The Group had a term loan of A$60m outstanding as at 31 December 2011 (2010 A$65 7m) which exposes the Group to currency risk. Since the Refinancing the loan has been held within the sub-group in Australia and so forms part of the A$ net assets of that sub-group The impact of movements of the exchange rate of the A$ against Sterling on net assets pass through the translation reserve in the Consolidated Statement of Comprehensive Income

There is an A$ denominated inter-company account between HCL and the Australian sub-group which gives rise to exchange gains and losses booked in finance costs in the Consolidated Statement of Comprehensive Income As at 31 December 2011 the amount of A$18m was recorded as a receivable balance in HCL At 31 December 2011 the rate of exchange was £1 – A$1 5195 (2010 £1 – A$1 5274)

As at 31 December 2011 60% (2010 67%) of the total assets of the Group were held in subsidiary companies outside the UK and denominated in currencies other than Sterling, principally in A$ Group policy is not to hedge the net investments in foreign operations using derivative financial instruments as it does not consider that the reduction in foreign currency exposure warrants the cash flow risk created from such hedging techniques

If Sterling had been 10% stronger against the A$ during the year ended 31 December 2011 with all other variables held constant, the post tax loss for the year would have been £0 9m higher (2010 £4 9m higher)

If Sterling had been 10% stronger against the A$ during the year ended 31 December 2011 with all other variables held constant the additional charge to other comprehensive income would have been £1 1m higher (2010 £0 1m lower)

(ii) Cash flow and fair value interest rate risk

Market risk also arises from the Group s use of interest bearing financial instruments, which expose the Group to interest rate risk The Group finances its operations through a mix of equity bank debt and loan notes Interest rate risk arising due to the Group s borrowings in A$ at floating rates of interest is mitigated by agreement with the lenders, by interest rate instruments that generate a desired risk profile to manage the Group's exposure to interest rate fluctuations The SFA requires that at least 60% of the outstanding indebtedness is hedged At 31 December 2011 67% of the A$ floating rate (2010 66% of the total floating rate) interest exposure had been swapped to a fixed rate The hedge offers protection to the Group should A$ market interest rates move over 6 14% (2010 A$ 6 14% and Sterling 3 305%) The last rollover of the A$ borrowings prior to the year-end was based on market rates of 4 47%

Hedge accounting has not been applied to the swap instruments and therefore they are measured at fair value through the Consolidated Statement of Comprehensive Income and a credit of £0 1m (2010 charge of £1 7m) has been made to the Consolidated Statement of Comprehensive Income to reflect the movement in the fair value of these instruments At 31 December 2011 no instruments were recorded in equity (2010 none)

As of the close of business at 31 December 2011 interest rate exposure was limited to the unhedged 33% of the A$60m of borrowings (2010 34% of the total borrowings) i e on A$20m (£13 2m), offset by the cash balances of £14 2m which earn floating rate interest income The impact of a 1% change in interest rates is therefore not significant

(b) Credit risk

Credit risk arises principally from the Group's trade receivables and is the risk that the customer fails to discharge its obligations in respect of the instrument The Group's exposure to credit risk is considered to be insignificant due to the heavy weighting of its customer base in the UK towards NHS Trusts local authorities and other government institutions and in Australia to public hospitals and health providers Private sector customers are subject to credit checking procedures prior to commencing trade with them The quality and hence the low risk of the customer base is also shown by the small amounts of overdue debt None of the overdue balances of the Group are considered impaired

The Group transacts with counterparties which it considers to be creditworthy During the year ended 31 December 2011 surplus cash was deposited with Lloyds Bank plc After the year end, as noted in liquidity risk below, most of the surplus cash was moved to a Liquidity Fund managed by Scottish Widows which reduced the credit risk.

	Current	Up to 1 month overdue	1 to 2 months overdue	>2 months overdue
Trade debtors 31 December 2011	**£19 4m**	**£3 5m**	**£1 9m**	**£0 3m**
% of trade debt per ageing category – 31 December 2011	**77.5%**	**13 9%**	**7 6%**	**1 0%**
Trade debtors 31 December 2010	£21 4m	£4 2m	£1 7m	£1 3m
% of trade debt per ageing category – 31 December 2010	74 6%	14 7%	6 1%	4 6%
Trade debtors 31 December 2009	£13 3m	£3 2m	£0 7m	£0 4m
% of trade debt per ageing category – 31 December 2009	76 0%	18 0%	4 0%	2 0%

(c) Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments The Board receives regular cash flow projections

Liquidity risk arises principally from the volume of revenue forecast and the potential for adverse outcomes in litigation

The factors considered by the Board in assessing going concern are set out in Note 3(c) and the Financial Review

In December 2011 the Board approved a Treasury Policy setting out, inter alia, how the short term cash resources should be managed Until then, short-term cash resources were deposited with Lloyds Bank plc Shortly after the year end, in accordance with the Treasury Policy, the Group opened a Liquidity Fund account managed by Scottish Widows, a subsidiary of Lloyds Banking Group plc Liquidity Funds provide instant access to the deposited funds The Liquidity Fund is rated AAA by S&P, whose rating criteria stipulates that a minimum of 50% of the portfolio should be composed of A-1+ (or equivalent) instruments in order for the fund to maintain a AAA rating The methodology S&P applies to calculate the A-1+ percentage counts A-1 (or equivalent) rated instruments maturing in seven days or less towards the A-1+ percentage minimums, as historical default rates on A-1 paper maturing within seven days are similar to the default rates of A-1+ issuers By using such funds counterparty risk for the Group is reduced as the fund invests in a wide range of counterparties

Gross, undiscounted liabilities are due as follows (2010 figures refer to the contractual payment dates for bank loans and not the classification of those loans as current in the Consolidated Statement of Financial Position as reported in Note 21)

	On demand £m	Due within 1 year £m	Due in 1 to 2 years £m	Due in 2 to 5 years £m	Over 5 years £m
2011 Non derivative financial instruments – outflows					
Long and short-term borrowings	-	**4 8**	**7 3**	**37 3**	**10 2**
Finance leases	-	**0 4**	**0 1**	-	-
Trade and other payables	-	**25 5**	-	-	-
Deferred consideration	-	**1 5**	-	-	-
	-	**32 2**	**7 4**	**37.3**	**10 2**
Derivative financial instruments – net outflows	-	-	-	**1 7**	-
Total	-	**32.2**	**7.4**	**39 0**	**10 2**
2010 Non derivative financial instruments – outflows					
Long and short-term borrowings[1]	0 1	16 6	19 5	120 5	
Finance leases	-	0 4	0 5	-	
Trade and other payables	-	33 5	-	-	
Contingent consideration	-	2 7	0 4	0 3	
	0 1	53 2	20 4	120 8	
Derivative financial instruments – net outflows	-	1 2	1 2	2 3	
Total	0 1	54 4	21 6	123 1	
2009 Non-derivative financial instruments – outflows					
Long and short-term borrowings	11 6	4 4	4 8	0 9	
Finance leases	-	0 3	0 1	-	
Trade and other payables	-	18 4	-	-	
	11 6	23 1	4 9	0 9	
Derivative financial instruments – net outflows	-	0 7	0 2	-	
Total	11 6	23 8	5 1	0 9	

The above tables summarise undiscounted cash flows based on the financial liabilities of the Group outstanding at the year-end and assuming no changes in interest rates from the year-end rates

Fair value estimation

In the opinion of the Board the carrying value of the assets and liabilities of the Group approximate their fair values As noted above the only other financial instruments that are measured at fair value through the Consolidated Statement of Comprehensive Income are interest rate swaps There are no financial assets or liabilities held for trading purposes or any investments classified as available-for-sale

£10 212,500 of Zero Coupon Loan Notes were issued to Ares Lux as part of the Refinancing as reported in Note 25(e) They are repayable in normal circumstances in September 2021, or earlier in the event of another refinancing or a change of control of the Group The Directors have discounted the Zero Coupon Loan Notes at 15%, a rate between the cost of the Group's senior debt and the cost of equity after the Refinancing to give a fair value at the time of issue of £2,505,115 The imputed interest is charged to finance expenses from the date of issue until the repayment date The charge in the year ended 31 December 2011 was £113,245 (2010 £nil) The Loan Notes contain an embedded derivative as additional Loan Notes up to a maximum value of £2 500,000, will be issued if the Group achieves certain EBITDA targets in the years ended 31 December 2013 and/or 2014 or if the Enterprise Value at 31 December 2013 and/or 31 December 2014 and/or 31 December 2015 exceeds certain target amounts No value has been attributed by the Directors to the embedded derivative at the time of issue or at the year-end as the Directors believe these targets will not be met

The fair value of interest rate swaps is based on information derived from respective bankers quotes and as such they fall into Level 2 of the fair value hierarchy The fair value of the Zero Coupon Loan Notes is based on management judgement and as such falls into Level 3 of the fair value hierarchy

Capital risk management
The Group considers its capital to comprise its ordinary share capital, share premium, and accumulated retained earnings In managing its capital the Group s long-term objective is to ensure its continued ability to provide a growing return for its equity shareholders through a combination of capital growth and distributions

As reported in the Consolidated Financial Statements for the year ended 31 December 2010, the Board determined that it was a priority to reduce the gearing of the Group As a result of the restatement of the 2010 Financial Statements net equity became negative at 31 December 2010 As at 31 December 2011 the gearing was 43 4% Two transactions in particular during the year contributed significantly to the reduction Firstly, the sale of the Homecare division of HCA, as announced on 18 July Net proceeds of sale of A$30 5m (£20 3m) were used to reduce debt Secondly the Refinancing approved by shareholders on 12 September 2011 as set out in detail in Note 25

The facilities provided by the Group's bankers include a number of financial covenants on interest cover and leverage (debt to EBITDA) The first testing of the covenants will be at 30 September 2012

25 REFINANCING

On 19 August 2011 the Board announced a substantial Refinancing of the Company, comprising a £60 000,000 Placing of Ordinary Shares of 10p each at par, an Open Offer of up to £4 250 579 of Ordinary Shares of 10p each at par, a Debt for Equity Conversion and a Debt Repayment and Restructuring (together the "Refinancing")

The Refinancing was conditional on the approval of the Refinancing Resolutions by Shareholders in general meeting, and the Refinancing Resolutions were all passed at the AGM held on 12 September 2011

On 13 September 2011 the shares of the Company were relisted on the AIM, following the suspension of trading on 25 January 2011, and 734 450 971 new shares were admitted to trading on the AIM

There were a number of steps within the Refinancing and these are described in more detail below

(a)	*New shares issued*	
	The following new shares were issued as part of the Refinancing	**Number**
	£60,000,000 Placing of New Ordinary Shares of 10p each	**600,000,000**
	Debt for Equity swap by way of issue of Ordinary Shares at 18p to Ares Capital Europe (Luxembourg) S a r l	**125,000,000**
	Open Offer of up to £4,250,579 New Ordinary Shares of 10p each	**9,450,971**
	Total number of New Ordinary Shares issued	**734,450,971**
(b)	*Utilisation of the proceeds of the Placing*	
	The Placing raised £60,000,000 which was utilised as follows	**£**
	Repayment of existing bank debt	**35,000,000**
	Settlement of debt owed to Craig Tibbles (i)	**2,500,000**
	Commission to Toscafund Asset Management LLP(ii)	**1,137,500**
	Commission to ACE Limited (iii)	**200,000**
	Working capital facility fee to ACE Limited (iv)	**250,000**
	Settlement of working capital facility capital and accrued interest due to Ares (iv)	**3,017,540**
	Nomad fees to Fairfax	**710,920**
	Cash received – available to pay costs and professional fees	**17,184,040**
	Total	**60,000,000**

(i) The Company and Craig Tibbles agreed, subject to completion of the Refinancing, to restructure the two deferred consideration payments of £2,000,000 and £3 000,000 payable by the Company to Craig Tibbles under the terms of the acquisitions of Orion and MJV in 2010 One element of the agreement was that £2 500 000 be released by way of subscription by Craig Tibbles for 25,000,000 New Ordinary Shares under the Placing He has agreed not to sell any of the New Ordinary Shares purchased for a period of 12 months after the date of the Refinancing

(ii) The Company agreed to pay Toscafund Asset Management LLP a commission of £1,137 500 for participating in the Placing, in which Toscafund Asset Management LLP agreed to subscribe for 336,375,000 New Ordinary Shares The commission was considered to be within the range of normal market rates for a transaction of this type The cost is included in the £2 3m share issue costs in the Consolidated Statement of Comprehensive Income

(iii) The Company agreed to pay ACE Limited, a member of the ACE concert party a commission of £200 000 for participating in the Placing in which ACE Limited agreed to subscribe for 131,625,000 New Ordinary Shares The commission was considered to be within the range of normal market rates for a transaction of this type The cost is included in the £2 3m share issue costs in the Consolidated Statement of Comprehensive Income

(iv) The Company negotiated an Interim Working Capital Facility of up to £5,000 000 with ACE Limited on 19 August 2011 The arrangement fee of £250 000 for the facility, which was made available until the earlier of the Refinancing or 17 October 2011, was agreed to be repaid by way of set-off against subscription monies payable by ACE Limited in the Placing In addition the Company agreed to repay ACE Limited all capital and accrued interest drawn, amounting to £3,017 540 under the Interim Working Capital Facility by way of set-off against subscription monies payable by ACE Limited in the Placing The arrangement fee was expensed in finance costs (Note 9)

(c) *Debt for Equity Swap with Ares Capital Europe (Luxembourg) S a r l ("Ares Lux")*

Ares Lux provided finance to the Company through a MFA, as part of the financing raised to acquire HCA in December 2010, and agreed subject to the Admission of New Ordinary Shares to the AIM and subject to the terms of the Restructuring Agreement to convert up to £22,400,000 of capital and accrued interest into 125,000 000 New Ordinary Shares This was the same in economic terms as Ares Lux subscribing £12 500 000 for New Ordinary Shares at par and writing off up to £9,900,000 of capital and accrued interest At the date of completion of the Refinancing the actual amount due to Ares Lux, excluding the £10 212,500 referred to in (e) below, was £22 396 586 As noted below the fair value of the New Ordinary Shares issued to Ares Lux was 10p per share or £12 500 000 in total The difference between the fair value of the shares issued and the amount of principal and accrued interest outstanding under the MFA, being £9,896 586, was recorded as a gain in Finance Income (Note 9)

(d) *Utilisation of the proceeds of the Open Offer*

The Open Offer raised £945 097 which was utilised as follows	**£**
Registrar's fees	**18,551**
Cash received	**926,546**
Total	**945,097**

(e) *Debt for Zero Coupon Loan Note ("Note" or "Notes") Swap with Ares Lux*

Ares Lux agreed, subject to the same conditions as in (c) above, to convert £10,212,500 of the debt owed to it by the Company under the MFA into Notes, for a principal amount of £10,212 500 If the Group achieves certain EBITDA or Enterprise Value targets or if certain conditions are met, the Company will be obliged to issue additional Notes to the holders The maximum number of new Notes to be issued is £2,500,000 The Notes do not accrue interest and they fall due for repayment on 30 September 2021 except in certain circumstances relating to a change in control of the Group or a further refinancing in which case the redemption date may be brought forward As disclosed in Note 24 the fair value of the Notes at the date of issue was £2,505,115 and the gain of £7,707 385 is reported in finance income (Note 9) A finance expense is being recognised in the Consolidated Statement of Comprehensive Income post the date of issue which will increase the liability to the full value of £10,212,500 by the 30 September 2021 For the period from issue to 31 December 2011 the amount of the charge was £113 245 (2010 £nil)

(f) *Waiver of existing bank debt*

The banks agreed to waive debt existing immediately prior to the Refinancing amounting to capital of £5,941,826 and accrued interest of £564 605 and these amounts were credited to Finance Income (Note 9)

(g) *Write off of capitalised bank fees*

Fees incurred in negotiating bank facilities are recorded in the Consolidated Statement of Financial Position as a reduction of the total borrowings and written off to the Consolidated Statement of Comprehensive Income over the term of the facility As part of the Refinancing, drawings under the existing facilities were either extinguished or modified Where facilities were extinguished the balance of unamortised fees were written off to Finance Expense Where modified the appropriate proportion of unamortised fees were carried forward in the Consolidated Statement of Financial Position to be written off over the term of the modified facilities The amount of £4,380 402 was written off to Finance Expense (Note 9)

(h) *Costs*

Advisers' fees totalling £5 556 819 were incurred in negotiating the Refinancing Of these costs £2,472 116 was paid to the advisers to the Company and the Company also paid £3,084,703 of costs incurred by the banks All of these costs have been charged to Finance Expense (Note 9)

(i) *Share issue costs*

Costs of £2 315,194 were incurred which were directly related to the issue of shares in the Refinancing As no share premium was created from the issue of those shares the cost has been charged to the Profit and Loss Reserve

(j) *Modified loans*

Modified loans of A$60,000,000 (£38 9m) were drawn by HCA under the SFA, although no additional cash actually came into the Group The loans are secured by a charge on the assets of the Group Details of the terms of the loans are set out in Note 24 Costs directly attributable to the raising of the loans amounting to £672 134, were debited to unamortised debt issue costs within borrowings (Note 21)

(k) *Warrants*

Under the terms of the mezzanine facility granted by Ares Lux in 2010 the Company granted Ares Lux warrants over 2,493 453 shares in the Company at an exercise price of 10p per share The warrants lapsed as part of the Refinancing and £2 6m was charged to Finance Expense (Note 9)

Based on the price paid for new shares in the Placing and the Open Offer, and the prices in the open market immediately after the shares were relisted the Directors consider the fair value of the shares issued in exchange for debt to be 10p each

26 SHARE CAPITAL

Authorised

	31 December 2011	31 December 2010	31 December 2009	**31 December 2011**	31 December 2010	31 December 2009
	Number '000	Number 000	Number 000	**Number '000**	Number 000	Number 000
Equity share capital						
Ordinary shares of 10p each	**847,799**	200,000	200 000	**84 8**	20 0	20 0

Allotted, called up and fully paid

	31 December 2011	31 December 2010	31 December 2009	**31 December 2011**	31 December 2010	31 December 2009
	Number '000	Number 000	Number 000	**Number '000**	Number 000	Number 000
Equity share capital						
Ordinary shares of 10p each	**847,799**	113,338	104 667	**84 8**	11 3	10 5

The movements in the issued share capital are set out below

	Ordinary shares of 10p	
	Number '000	**£m**
As at 1 January 2009	104 272	10 4
Shares issued following exercise of share options granted to employees at 30 September 2009	395	0 1
As at 31 December 2009	104,667	10 5
Shares issued following exercise of share options granted to employees and other parties on		
27 January 2010	500	-
29 April 2010	250	-
20 September 2010	4	-
3 November 2010	584	0 1
New ordinary shares issued on 16 July 2010	7 333	0 7
As at 31 December 2010	**113,338**	**11 3**
Shares issued in year (i)	**10**	**-**
New ordinary shares issued on 13 September 2011 (Note 25)	**734,451**	**73 5**
As at 31 December 2011	**847,799**	**84 8**

(i) During 2011 the Registrars issued a share certificate for an incorrect number of shares and the purchaser subsequently sold the shares The Registrars paid the Company 20p per share after the year end in settlement

The shares issued in January 2010 following exercise of share options granted to employees comprised 500 000 options that were issued at the exercise price of 106p per share The shares issued in April 2010 following exercise of share options granted to employees comprised 250 000 options that were issued at the exercise price of 112 5p per share At the same exercise price, 4,000 shares were issued in September 2010

In November 2010 583,836 shares were issued pursuant to an option deed dated 4 November 2005 at the exercise price of 55 0p per share

On 16 July 2010 the Company issued 7,333 334 new 10p ordinary shares at 150p per share raising a total of £11 0m Transaction costs of £469 000 were incurred in relation to this issue which were charged to the Share Premium Account

All the new shares issued during the year and the prior year have the same rights preferences and restrictions as those relating to the ordinary shares already in issue at the start of the year

27 RESERVES

The share premium account represents amounts subscribed for share capital in excess of the nominal value of the shares issued

The cash flow hedge reserve represents gains and losses arising on recognising hedging instruments at fair value in a qualifying cash flow hedge

The share option reserve represents the fair value of warrants issued to ACE Limited in connection with the mezzanine facility taken out in 2010 and share options granted to employees The warrants lapsed on the Refinancing when the mezzanine facility was extinguished

The translation reserve comprises foreign exchange differences arising from the translation of the Financial Statements of foreign operations that are integral to the operations of the Group

The retained earnings represent the cumulative profit or loss recognised in the Consolidated Statement of Comprehensive Income, as adjusted for subsequent transfers to or from other reserves

28 CONTINGENT LIABILITIES

Claims and litigation

From time-to-time the Group and Company are in receipt of claims from customers and employees arising in the normal course of business

The following disclosures are made in connection with claims or exposures which the Directors consider represent material uncertainties Any adverse judgement in respect of these matters may have a material impact on the Group s and Company's results from operations, cash flows and financial position In this event, the Directors may have to enter into negotiations with the Group's providers of finance or seek alternative sources of finance since the Group's cash flow forecasts and currently available financing assume no outflow of funds for any settlement or Court award in respect of these matters

Dismissal of Executive Vice Chairman – Ms. Kate Bleasdale

The former Executive Vice Chairman was dismissed on 11 March 2011 She has since that date launched legal proceedings against the Company for unfair dismissal, victimisation and sex discrimination, claiming damages of £12m The Company has taken legal advice and will vigorously defend itself against these charges initially at an Employment Tribunal in April 2012 Whilst the outcome is uncertain, on the basis of legal advice received, the Board believes the claims are unfounded and therefore that there is no liability or probable cash outflow for the Group and Company, other than legal costs in defending the claim

Litigation

Proceedings were filed on 12 February 2012 against HCL, the Company's former Executive Vice Chairman Kathleen V Bleasdale former Group Finance Director Diane Jarvis and former Chairman Alan Walker ("the Defendants") in the United States District Court for the Southern District of New York The proceedings were filed by Permian Master Fund, LP, Permian Investments Partners, LP, Arundel Capital LLC, Arundel Long Fund LP Arundel Hedge Fund LP Privet Capital, LLC and Flinn Investments LLC ("the Plaintiffs") On 26 March 2012 notice was received that the claims against Kathleen V Bleasdale had been dismissed without prejudice

The Summons alleges that the Plaintiffs were induced to invest in securities issued by HCL or instruments linked to those securities on the basis of knowing or reckless misrepresentations by the Defendants concerning the Company's accounting practices and operating results and that disclosures concerning the Company's accounting irregularities caused material declines in the prices of HCL securities and instruments linked thereto injuring the Plaintiffs The Complaint alleges that the Plaintiffs have suffered substantial damages The Complaint is available for inspection from the court

The Complaint requests a trial by jury and the Plaintiffs seek rescission and or compensatory damages (including interest thereon) Whilst the information provided is insufficient to enable the Board to assess the quantum of the compensatory damages claimed, it would appear that the Plaintiffs seek to assert a loss in the value of their investments In the claim, the Plaintiffs assert that they spent in the region of £13m purchasing their investments The Plaintiffs also seek an award for punitive damages for each claim to the maximum extent allowable by US law together with an award of costs and such other relief as the US Court may deem just and proper The Board are unable to quantify the claim

The Board is taking legal advice on the merits of the Complaint and the proper jurisdiction for the determination of any such claim At this early stage the Board has been unable to form a view as to whether any liability exists to quantify the claim, whether any economic outflow is probable and if so its timing

No provision has been made for future legal costs which are written off as incurred

Other contingent liabilities

Managed service and Umbrella companies
The Board has taken external advice from Grant Thornton as to whether any financial exposure might exist from sourcing locums through "Umbrella" and/or Managed Service Companies HCL has recruited through a small number of companies which HMRC could seek to argue were Managed Service Companies If such arguments were successful this could leave the Group at risk of claims from HMRC for unpaid income tax and/or national insurance should a Managed Service Company become insolvent with debts owing to HMRC in respect of locums who had worked through HCL Whilst the Board is unaware of Umbrella Company being in arrears with payments to HMRC in respect of any locums provided from such companies a residual risk remains

The Company operates self-billing arrangements for a large part of the locum workforce which enables the Group to obtain a VAT deduction but which requires the supplier to account for VAT accordingly There are a number of requirements associated with the operation of self-billing arrangements to obtain the VAT deduction Should these requirements not be met there may be a contingent liability in respect of the VAT deduction claimed

As well as the specific material contingent liabilities set out above, the Group's principal risks and uncertainties are set out in the statement on Principal Risks and Uncertainties on page 19 to 20

29 PENSIONS

The Group operates defined contribution pension schemes in the UK and Australia There were no outstanding or prepaid contributions at either the beginning or end of the financial year

30 COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2011 the Group had total commitments under non-cancellable operating leases as set out below

	Land and buildings			**Other**		
	31 December 2011	Restated[1] 31 December 2010	31 December 2009	**31 December 2011**	31 December 2010	31 December 2009
	£m	£m	£m	**£m**	£m	£m
Operating lease commitments payable.						
Under 1 year	**1 4**	1 8	0 7	**0 1**	0 1	0 1
1 – 2 years	**2 1**	1 7	-	**-**	0 1	-
2 – 5 years	**3 2**	5 5	1 4	**-**	-	0 1
Over 5 years	**2.9**	3 8	0 4	**-**	-	-
	9 6	12 8	2 5	**0 1**	0 2	0 2

(1) Restated for one property omitted from the figures reported in 2010 The total reported in 2010 was £6 6m and has been increased by £6 2m

The leases on the land and buildings range from ten months to nine years in length The operating leases described as "other" are mainly for cars and normally have a lifetime of three years

31 RELATED PARTY TRANSACTIONS

MyWorkforce Limited, Nationwide Accreditation Bureau Company Limited Montagu Nursing Agencies Limited, Dancorp Limited and Netengines Holdings Limited were related parties to the Group by virtue of a significant shareholder of the Company and husband of Ms Kate Bleasdale Mr John Carss, owning the majority of the share capital of these companies

There were no transactions with any of the above companies in 2011 other than settlement of the amounts outstanding at 31 December 2010 of £52 000 to Nationwide Accreditation Bureau Company Limited and £65,000 to Redwood Group Limited There were no balances outstanding at 31 December 2011 During 2010 the Group purchased services from Nationwide Accreditation Bureau Company Limited of £199,000 and from Redwood Group Limited of £200,000 The Group invoiced services provided to Netengines Holdings Limited of £20,000 Nationwide Accreditation Bureau Company Limited and Netengines Holdings Limited have both made commercial claims against the Group which have been rejected after an assessment by the Directors of the likelihood of the claims being successful They are disclosed here as they are related parties

During the year ended 31 December 2010 the Group purchased the trade and assets of Redwood Health Limited from the previous owners for a maximum consideration of £6,650 000, and Redwood Health Limited subsequently changed its name to Dancorp Limited The previous owners were Cardale Investments LLP, a company controlled at one time by Ms Kate Bleasdale and her husband Mr John Carss Dancorp Limited is now in administration and negotiations took place with the Administrator regarding the final settlement of the deferred consideration as detailed in Note 17

On 20 August 2010 the Company received an interest free £400 000 loan from Cardale Investments LLP The loan was fully repaid on 6 September 2010

During the year ended 31 December 2010 wages and salaries were paid to relatives of Directors then in office of £33,101 to Mr Ian Jarvis, the husband of Ms Diane Jarvis, £525 to Daniel Cariss, the son of Ms Kate Bleasdale, and £79 to Danial Dedat, the son of Mr Mo Dedat

On 24 January 2011 the Company assigned the lease, which expires on 23 January 2020 of an office in London to Cardale Investments LLP There was a rent free period until 23 June 2011 included within the agreement and the office furniture fixtures and fittings with a net book value of £20,000 that were owned by the Company were transferred free of charge to Cardale Investments LLP

During 2011 the law firm SNR Denton provided a significant level of legal services to the Group Mark Andrews who joined the Board on 1 October 2011, was a Partner in SNR Denton until 30 April 2011 and remains a consultant Whilst SNR Denton was not a related party at any time in the year the Board considers the prior business relationship with SNR Denton before Mark Andrews joined the Board should be noted here for completeness

A number of the Directors who served during the year provided their services through their management companies The amounts paid to those companies for services provided are included in the Remuneration Report on page 30 In addition small amounts of expenses directly incurred in providing their services were billed through those companies The Directors and their companies were

Andrew McRae (to 31 January 2011)	MCR Consulting Limited
Colin Whipp	Amersham Business Management Limited
Alan Walker	Alfa International Limited
Bill Jessup	Corporate Navigator Limited
Alasdair Liddell	Alasdair Liddell Limited

Under the rules of the AIM a shareholder controlling in excess of 10% of the issued share capital is a related party The Toscafund Concert Party was a related party during the year and the Company paid fees of £1 137 500 to Toscafund Asset Management LLP as disclosed in Note 25(b)(ii) The Toscafund Concert Party subscribed for 336,375,000 New Ordinary Shares in the Placing a part of the Refinancing paying £33 637 500 The ACE concert party became a related party when the Refinancing was completed Concurrently to the completion of the Refinancing the Company paid fees of £200 000 to ACE Limited as disclosed in Note 25(b)(iii) swapped debt for equity as disclosed in Note 25(c) and swapped debt for the Zero Coupon Loan Note as disclosed in Note 25(e) ACE also subscribed for 131,625 000 New Ordinary shares in the Placing, partially paid for by writing off £3 0m of borrowings advanced under the Working Capital Facility The Zero Coupon Loan Note was still held by Ares Lux at 31 December at which time the fair value in the Consolidated Statement of Financial Position was £2 618,360

32 SHARE OPTION SCHEME

The Company has a share option scheme in place The share options in issue over ordinary shares of £0 10p as at 31 December 2011 were the following

Issue date	At 1 January 2011 No '000	Granted No '000	Exercised No '000	Forfeited No '000	At 31December 2011 No '000	Exercise price (Pence)	Expiry date
Apr 2005	**120**	-	-	**(116)**	**4**	10 00	Apr 2015
Aug 2006	**583**	-	-	**(583)**	-	59 00	Aug 2016
Dec 2007	**1,000**	-	-	**(1,000)**	-	89 50	Dec 2017
May 2008	**766**	-	-	**(694)**	**72**	112 50	May 2018
Sep 2008	**1,000**	-	-	**(1,000)**	-	124 00	Sep 2018
Sep 2009	**450**	-	-	**(450)**	-	207 00	Sep 2019
Dec 2010	**100**	-	-	-	**100**	98 50	Dec 2020
Total	**4,019**	-	-	**(3,843)**	**176**		

The vesting period for share options issued during 2005 is one year The vesting period for all share options issued since 2006 is three years None of the share options issued contains any performance criteria parameters and all are equity settled

The total number of share options exercisable at 31 December 2011 was 75 495 (2010 1 703 481) The weighted average exercise price at 31 December 2011 was 107 1p (2010 73 4p)

No share options were granted or exercised in 2011 At the times the share options were forfeited during 2011 the Company's shares were suspended from trading on the AIM The mid-market closing price immediately prior to the suspension was 112 5p For the share options forfeited in 2010 the weighted average share price at the date of forfeiture was 173 74p

For the remaining share options the weighted average contractual life of these options is 94 months (2010 87 months)

Comparative information for 2010 is as follows

Issue date	At 1 January 2010 No 000	Granted No 000	Exercised No 000	Forfeited No 000	At 31December 2010 No 000	Exercise price (Pence)	Expiry date
Apr 2005	120	-	-	-	120	1000	Apr 2015
Aug 2006	583	-	-	-	583	5900	Aug 2016
Dec 2007	1 000	-	-	-	1,000	8950	Dec 2017
May 2008	1 061	-	(254)	(41)	766	11250	May 2018
Jun 2008	8	-	-	(8)	-	10500	Jun 2018
Sep 2008	1 000	-	-	-	1,000	12400	Sep 2018
Nov 2008	500	-	(500)	-	-	10600	Nov 2018
Sep 2009	510	-	-	(60)	450	20700	Sep 2019
Dec 2010	-	100	-	-	100	9850	Dec 2020
Total	4,782	100	(754)	(109)	4,019		

For the year ended 31 December 2010 the weighted average share price at the date of exercise was 259 56p, the weighted average exercise price for options granted was 98 5p

In respect of these share-based payments an income has been credited to the profits of the Group and the Company for the year of £508,000 (2010 expense charged – £608 000)

The fair value of options granted during 2010 determined using the Black-Scholes valuation model was £13,018 The significant inputs into the model were share prices of 98 63p, exercise price as in the table above, standard deviation of expected share price of 47 3%, option life as disclosed in the table above, dividend yield of 2 82% and annual risk-free interest rate of 2 25% The volatility measured at the annualised standard deviation of daily changes in share price was based on statistical analysis of daily share prices of comparable companies between November 2005 and December 2010

There were non-employee share options brought forward at 1 January 2010 over 583,836 shares at 55 0p per share These options were exercised in November 2010

33 POST BALANCE SHEET EVENT

Information relating to a claim made in New York after the year end by Permian Master Fund LP, et al is disclosed in Note 28

FINANCIAL STATEMENTS OF THE PARENT COMPANY HEALTHCARE LOCUMS PLC UNDER UK GAAP

PARENT COMPANY BALANCE SHEET AS AT 31 DECEMBER 2011

	Note	2011 £m	Restated[1] 2010 £m
ASSETS			
Fixed assets			
Intangible assets	37	-	-
Property, plant and equipment	38	**0.8**	0 6
Investments	39	**7 5**	7 5
		8 3	8 1
Current assets			
Trade and other receivables	41	**63 9**	104 3
Cash and cash equivalents		**11 0**	0 6
		74.9	104 9
Total assets		**83 2**	113 0
LIABILITIES			
Current liabilities			
Trade and other payables	42	**(22.5)**	(46 4)
Bank loans amounts falling due within one year	43	-	(73 3)
Deferred consideration	44	**(0.9)**	-
Provisions for liabilities	44	**(0 8)**	(0 5)
		(24 2)	(120 2)
Total assets less current liabilities		**59 0**	(7 2)
Creditors: Amounts falling due after more than one year			
Zero Coupon Loan Note	45	**(2 6)**	-
Provisions for liabilities	44	**(1 1)**	-
		(3 7)	-
NET ASSETS		**55.3**	(7 2)
CAPITAL AND RESERVES			
Share capital	46	**84 8**	11 3
Share premium account	47	**55 2**	45 3
Share option reserve	47	**1.2**	4 7
Retained earnings	47	**(85 9)**	(68 5)
SHAREHOLDERS' FUNDS		**55.3**	(7 2)

1 Full details of the restatements to the Balance Sheet at 31 December 2010 are set out in Note 35 and Note 42

The Financial Statements were approved by the Board and authorised for issue on 13 April 2012

STEPHEN BURKE
Director

WILLIAM JESSUP
Director

The notes on pages 82 to 91 form part of these Financial Statements

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

34 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements have been prepared under the historical cost convention and are in accordance with UK Generally Accepted Accounting Principles

The policies adopted are consistent with those applied in the preparation of the audited accounts for the year ended 31 December 2010 except where noted below

The following principal accounting policies have been applied

Turnover

Turnover represents the amounts earned from the provision of services to external customers during the reporting period – the time of provision of services being the point at which the amount of revenue can be measured reliably and when it is probable that the economic benefits will flow to the Company Turnover is stated at invoiced amounts less value added tax or local taxes on sales, plus revenue earned but unbilled which is included as accrued income in receivables

- Turnover from temporary placements, which represents revenue for the services of temporary staff is recognised when the services have been provided Turnover includes the salary costs of the temporary staff unless paid directly by the client in which case turnover represents commission only
- Turnover from permanent placements is recognised at the date when a candidate commences work. Appropriate provision is made for the expected cost of meeting obligations where employees do not work for the specified contractual period

Depreciation

Depreciation is provided to write off the cost, less estimated residual values of all tangible fixed assets, evenly over their expected useful lives It is calculated at the following rates

Improvements to leasehold buildings	- Term of lease
Motor vehicles	- 4 years
Office and computer equipment	- 3 to 8 years
Software	- 3 to 5 years

Taxation

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted, or substantively enacted by the balance sheet date

In accordance with FRS 19 deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in Financial Statements Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment

Goodwill

Purchased goodwill in respect of the acquisitions of trade and assets of a business is capitalised Goodwill is amortised to nil by equal annual installments over its estimated useful life

Impairment

The Directors carry out impairment reviews annually or whenever an indication of impairment has been identified Provisions for impairment are taken to the Profit and Loss account

The valuation of investment in subsidiary undertakings is calculated by reference to estimated future cash flows of the relevant company discounted using an appropriate, risk adjusted, rate

For the year ended 31 December 2010 and 2011 the Company has made estimates that are more fully described in Note 39

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright The amount capitalised is the present value of the minimum lease payments payable during the lease term The corresponding leasing commitments are shown as amounts payable to the lessor Depreciation on the relevant assets is charged to the Profit and Loss account

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the Profit and Loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding The capital part reduces the amounts payable to the lessor

All other leases are treated as operating leases Their annual rentals are charged to the Profit and Loss account on a straight-line basis over the term of the lease

Foreign exchange
Turnover generated by the Company in a currency other than the currency of the primary economic environment in which it operates is recorded at the rates ruling when the transactions occur Foreign currency monetary assets and liabilities are retranslated at the rates ruling at each balance sheet date Exchange differences arising are recognised immediately in the Profit and Loss account

Share-based employee remuneration
The Group operates an equity-settled share-based compensation plan When share options are awarded to employees a charge is made to the Profit and Loss account recognising the fair value of the options issued over the vesting period The options vest after a specific period (three years for options issued in 2006 to 2010, one year for options issued earlier) There are no other vesting conditions other than that the options lapse should the employee leave the Group The cumulative expense is adjusted for failure to achieve non-market vesting conditions, such as an employee leaving

Management charges are levied on subsidiary undertakings which take into account the share-based compensation plan charges or credits

The credit entry for this charge is taken to the share option reserve and reported in the reconciliation of movements in shareholders' funds

Pension costs
Contributions to the Company's defined contribution pension scheme are charged to the Profit and Loss account in the year in which they become payable

Financial instruments
The Company uses interest rate swap instruments to manage the Group's interest rate risk. These financial instruments are not recognised on the Balance Sheet of the Company Receipts or payments resulting from these interest rate instruments are accounted for within Profit and Loss in the period during which the receipts or payments arise

Deferred and contingent consideration
Acquisitions are initially booked at cost, including an estimate of any payments to be made at a later date as either deferred or contingent consideration Deferred consideration is fixed and contingent consideration is normally dependant on the achievement of certain future targets by the acquired business The deferred and contingent consideration amounts, including the movements during the year, are reported in detail in Note 44 Changes to deferred or contingent consideration, whether due to variation agreements or changes in estimate relating to the likely achievement of future targets are reflected in additions to, or reductions in, the cost of the investment

Provisions and contingent liabilities
The Group policy for provisions and contingent liabilities as set out in Note 3(q) applies equally to the Company which has the same policy

35 PRIOR YEAR ADJUSTMENTS

As reported in Note 1 goodwill and assets of the Social Care division were impaired by £7 1m (£6 1m in investments, £0 4m in property, plant and equipment and £0 6m in amounts due from subsidiary undertakings) as a prior year adjustment due to the correction of a clerical error in the calculation of goodwill impairment at 31 December 2010 In addition, £2 0m of the goodwill impairment which was recognised at the Group level in 2010 in relation to Social Care, should also have been reflected in an impairment of the goodwill of the Company and this has also been booked as a prior year adjustment

In addition, as disclosed in detail in Note 39, the methodology of valuing the investments in subsidiaries at the year-end has been changed, resulting in an additional prior year adjustment of £14 4m in the valuation of investments

In the year ended 31 December 2010 the Company made investments in Australia, in part financed by loans to subsidiaries in that country These loans were recorded in A$ in the Australian subsidiaries but in Sterling in the books of the Company An exchange gain was recorded in income in the Consolidated Financial Statements as at 31 December 2010 but the gain was not recorded in the books of the Company which bears the foreign exchange risk. A prior year adjustment of £1 8m has therefore been recorded as a credit to income in the books of the Company and an increase in the amounts due from subsidiary undertakings

In summary the impact on the previously reported figures is as follows

	Reported 31 December 2010 £m	Prior year adjustments £m	Restated 31 December 2010 £m
Intangible assets:			
Originally reported	2 0		
Restatement re Social Care		(2 0)	
Restated amount			-
	2 0	**(2 0)**	**-**
Property, plant and equipment·			
Originally reported	1 0		
Restatement re Social Care		(0 4)	
Restated amount			0 6
	1 0	**(0 4)**	**0 6**
Investments.			
Originally reported	28 0		
Restatement re Social Care		(6 1)	
Restatement re revised valuation methodology		(14 4)	
Restated amount			7 5
	28.0	**(20 5)**	**7.5**
Amounts due from subsidiary undertakings			
Originally reported	99 6		
Restatement re impairment due to additional impairment of Social Care goodwill		(0 6)	
Exchange gain on amount due from Australian subsidiaries		1 8	
Restated amount			100 8
	99.6	**1 2**	**100 8**
Profit and loss reserve			
Originally reported	(46 8)		
Restatements as above			
Intangible assets		(2 0)	
Property, plant and equipment		(0 4)	
Investments		(20 5)	
Amounts due from subsidiary undertakings		1 2	
Restated amount			(68 5)
	(46 8)	**(21 7)**	**(68 5)**

36 LOSS FOR THE YEAR

The loss after tax for the year dealt with in the Financial Statements of the Company amounts to £6 1m (2010 restated £63 6m) As allowed by the provisions of Section 408 of the Companies Act 2006 the Company has not published its own Profit and Loss account

37 INTANGIBLE ASSETS

Cost:	Purchased Goodwill £m
At 1 January 2010, 31 December 2010 and 31 December 2011	**2 7**
Amortisation·	
At 1 January 2010	0 5
Provided for the year	0 2
Prior year impairment adjustment (Note 35)	2 0
At 31 December 2010 and 31 December 2011	**2.7**
Net book value·	
As at 31 December 2011	-
As at 31 December 2010 – restated	-

38 PROPERTY, PLANT AND EQUIPMENT

Cost:	Improvements to leasehold buildings £m	Office and computer equipment £m	Software development £m	Total £m
At 1 January 2010	0 2	6 3	-	6 5
Additions	0 2	0 5	-	0 7
Disposals	-	(0 2)	-	(0 2)
At 31 December 2010	**0 4**	**6 6**	**-**	**7 0**
Additions	-	**0 2**	**0 2**	**0 4**
Transfer	-	**(5 9)**	**5 9**	-
Disposals	-	**(0 1)**	**(5 6)**	**(5 7)**
At 31 December 2011	**0 4**	**0 8**	**0 5**	**1 7**
Depreciation				
At 1 January 2010	0 1	5 8	-	5 9
Provided for the year	-	0 3	-	0 3
Impairment – prior year adjustment (Note 35)	-	0 4	-	0 4
Disposals	-	(0 2)	-	(0 2)
At 31 December 2010 (restated)	**0 1**	**6 3**	**-**	**6 4**
Provided for the year	-	**0 1**	**0 1**	**0 2**
Transfer	-	**(5 7)**	**5 7**	-
Disposals	-	**(0 1)**	**(5 6)**	**(5 7)**
At 31 December 2011	**0 1**	**0 6**	**0 2**	**0 9**
Net book value.				
At 31 December 2011	**0 3**	**0 2**	**0 3**	**0 8**
At 31 December 2010 (restated)	0 3	0 3	-	0 6

Software costs have been separated out from office and computer equipment as they are considered to be fundamentally different in nature therefore meriting a separate analysis

Disposals within software refer to assets fully impaired during 2010 which are no longer in use

39 FIXED ASSET INVESTMENTS

Cost	Restated shares in subsidiary undertakings £m
At 1 January 2010	46 5
Additions	5 6
At 31 December 2010	**52.1**
Additions	**4 4**
Disposals	-
At 31 December 2011	**56 5**
Impairment	
At 1 January 2010	-
Charged in the year – as originally reported	24 1
Charged in the year – restatement (Note 35)	20 5
At 31 December 2010 – restated	**44 6**
Charged in the year	**4 4**
At 31 December 2011	**49 0**
Net book value	
As at 31 December 2011	**7 5**
As at 31 December 2010 – restated	7 5

For the year ended 31 December 2011 the Directors have changed the methodology for calculating the recoverable amount of the Company's investment in its subsidiaries

In preparing the accounts of the Parent Company for the year ended 31 December 2010 if an impairment indicator was identified the value in use for the Group s Income Generating Units ("IGUs") was mapped to the investments held in the Balance Sheet of the Company by allocating the value in use of the Group s IGUs on the basis of revenue of each relevant subsidiary This methodology did not involve a value in use assessment of each subsidiary and has the effect of assessing investments on a cluster basis

In preparing the accounts of the Company for the year ended 31 December 2011, the Directors have performed a value in use assessment by applying a perpetuity factor (using the UK business pre-tax cost of capital of 15 68% (Note 14)) to the EBITDA for the year ended 31 December 2011 of each subsidiary as a reasonable proxy for pretax cash flow Future cash flow forecasts for each subsidiary have not been prepared in light of the group reorganisation described below The Company has concluded that this methodology is more appropriate as it enables an estimation of each investment individually as required by Financial Reporting Standard 11 The Directors believe that the methodology does have limitations as future cash flows have not been prepared for each subsidiary individually and the application of a perpetuity factor to 2011 results represents a simplified approach to determining value in use, which the Directors believe to be reasonable in light of the 2012 reorganisation described below

The Directors have concluded that had this more appropriate and reliable methodology been applied in the prior year, an additional impairment of £14 4m would have been recorded, and this has been shown as a prior period adjustment due to its magnitude No exercise has been undertaken to determine whether the investment carrying values at 31 December 2009 should be adjusted using this methodology

The Directors have plans to reorganise the Company's UK subsidiaries in 2012 in order to reduce the number of legal entities and align the legal structure with the market brands of the Company's UK businesses This reorganisation will involve transfers of trade between subsidiaries and will align the legal entity structure more closely with the IGUs

The Directors have performed an estimated value in use assessment using estimated 2010 EBITDA figures, which has confirmed their approach to be reasonable, but they are unable to determine with certainty whether any part of the impairment presented as a prior period adjustment should have been recorded in the year ended 31 December 2011, but do not believe that 2011 saw a material deterioration in value In addition the Directors acknowledge that the simplified approach has resulted in carrying values at 31 December 2010 and 2011 determined not strictly in compliance with UK accounting standards Nevertheless, the Directors believe that the approach adopted produces a more reliable result than the previous approach and acknowledge that in respect of this area and the Company s investment in Social Care businesses the Company may not have maintained proper accounting records as required by the Companies Act 2006

In addition to the prior year adjustment of £14 4m noted above, a prior year impairment of £6 1m has been booked to reflect the prior year adjustment relating to the Social Care division as disclosed in Note 1 and Note 35

40 SUBSIDIARY UNDERTAKINGS

The principal undertakings in which the Company has an interest at the year-end are as follows

Name	Nature of business
Thames Medics Limited	Supply of professional health services of statutorily registered doctors
HCL Healthcare Limited	Supply of professional health services of statutorily registered medical staff
Medical Technical Limited	Supply of professional health services of statutorily registered medical staff
Recruitment Specialist Group Limited	Supply of professional health services of statutorily registered medical staff and social workers
BBL Medical Limited	Supply of professional health services of statutorily registered doctors
HCL GPs Limited	Supply of professional health services of statutorily registered doctors
Allied Health Professionals Limited	Supply of professional health services of statutorily registered medical staff
Docshop Limited	Supply of professional health services of statutorily registered doctors
Nurselink Worldwide Limited	Supply of professional health services of statutorily registered medical staff
Blue Group International Limited *	Supply of professional health services of statutorily registered medical staff and social workers
JCJ Group Ltd	Supply of professional health services of statutorily registered doctors
JCJ Ltd **	Supply of professional health services of statutorily registered doctors
Orion Locums Ltd	Supply of Nursing and healthcare locums
MJV Locums Ltd	Supply of off-contract pharmacists
HCL International Pty Ltd	Supply of medical staff on a permanent placement basis
Healthcare Australia Holdings Pty Ltd***	Holding company for Australian subsidiary undertakings
Healthcare Australia Pty Ltd***	Principal subsidiary of Healthcare Australia Holdings Pty Ltd
Acclaim Recruitment Pty Ltd****	Nursing agency
ASEPS Pty Ltd****	Nursing agency
Care Services Admin Pty Ltd****	Admin staff for the business
Goongee Pty Ltd****	Nursing agency
Malvern Payroll Management Services Pty Ltd****	Nursing agency
NT Medic Pty Ltd****	Nursing agency
Nursing Agency Australia Pty Ltd****	Nursing agency
PNS (PCC) Pty Ltd****	Nursing agency
PNS (Staffing Synergy) Pty Ltd****	Nursing agency
PNS (Vic) Pty Ltd****	Nursing agency
Select Unit Trust****	Nursing agency

All subsidiaries are 100% owned by HCL, other than those marked * which are 100% owned by Blue Group International Holdings Limited, those marked ** which are 100% owned by JCJ Group Limited those marked with *** which are 100% owned by HCL International Pty Limited, and those marked **** which are 100% owned by HCA

In December 2011 HCL issued new shares to Recruitment Specialist Group Limited, which has been identified as the prospective new intermediate holding company in a restructuring of the UK subsidiaries which is currently under way

These 100% share ownerships also represent 100% of the voting rights

All subsidiaries operate in the United Kingdom and are registered in England and Wales other than HCL International Pty Limited and subsidiaries thereof which are registered in Australia The table above excludes dormant subsidiaries in the United States Canada and South Korea All companies have been included in the consolidated results of the Group

41 TRADE AND OTHER RECEIVABLES

	31 December 2011	Restated[1] 31 December 2010
	£m	£m
Trade debtors	**3 5**	2 1
Other debtors	**0 2**	0 7
Prepayments	**0 7**	0 6
Accrued income	**0 1**	0 1
Corporation tax	**0.5**	-
Amounts receivable from subsidiary undertakings (restated)	**58 9**	100 8
	63 9	104 3

(1) There were two prior year adjustments impacting on amounts receivable from subsidiary undertakings as disclosed in Note 35

Included within amounts receivable from subsidiary undertakings are loans to HCL International Pty Limited ("HCI") of A$18 000 000 (£11 846,000) (2010 A$73,400,000 (£48,056 000)) which were interest free and repayable on demand The movement in the year partly represents a repayment made by HCI after it was recapitalised by an issue of new shares as reported in Note 40 The Company advanced funds of £16 1m to Recruitment Specialist Group Limited to enable that company to make the additional investment in HCI, and the balance remained outstanding at the year-end

All other amounts due from subsidiary undertakings were repayable on demand and did not bear any interest

All amounts shown under debtors fall due for payment within one year

42 TRADE AND OTHER PAYABLES AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2011	Restated 31 December 2010
	£m	£m
Trade creditors	**1.2**	1 6
Amounts due to subsidiary undertakings	**16 9**	39 1
Other taxes and social security	**0 6**	2 0
Other creditors	**0.2**	0 3
Accruals	**3 5**	3 3
Deferred income	**0 1**	0 1
	22 5	46 4

All amounts due to subsidiary undertakings are repayable on demand and do not bear any interest

Contingent consideration of £0 5m relating to the Orion and MJV acquisitions in 2010 was disclosed within trade and other payables at 31 December 2010 The balance was reclassified to the contingent consideration provision and it is now shown as an opening balance to that account in Note 44

43 BANK LOANS AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2011	31 December 2010
	£m	£m
Bank loans (secured)	**-**	81 5
Debt issue costs	**-**	(5 3)
Warrants	**-**	(2 9)
	-	73 3

Contractual maturity of debt

	31 December 2011 £m	31 December 2010 £m
Maturity of debt		
Up to 1 year, or on demand	-	27
1 - 2 years	-	41
2 - 5 years	-	665
	-	733

See Note 21 to the Group Financial Statements for an explanation of the classification of bank loans as falling due within one year at 31 December 2010 As a result of the Refinancing during the year ended 31 December 2011 the Group's bank loans are in the books of Australian subsidiary undertakings as at 31 December 2011 but they are secured, by cross guarantee, on the assets of all Group companies

The Company has guaranteed bank borrowings of its subsidiaries totaling £39 5m (2010 £45 7m)

44 PROVISIONS

	Contingent consideration £m	Onerous contracts £m	Onerous leases £m	Total provisions £m	Deferred consideration £m
At 31 December 2010 – reclassified from creditors (Note 42)	**0.5**	-	-	**0.5**	-
Movement during the year					
Orion and MJV – deed of variation (Note 17)	**(0 5)**	-	-	**(0.5)**	**0 5**
Paid during the year	-	-	-	-	**(1 0)**
Applied in settlement for new shares subscription (Note 25(b)(i))	-	-	-	-	**(2 5)**
Charged to income statement	-	**0.4**	**1 5**	**1 9**	**3.9**
At 31 December 2011	-	**0 4**	**1 5**	**1 9**	**0 9**
31 December 2011·					
Current	-	-	**0 8**	**0 8**	**0 9**
Non-current	-	**0 4**	**0.7**	**1 1**	-
31 December 2010					
Current (restated)	05	-	-	05	-
Non-current	-	-	-	-	-

At the time of the Refinancing, described in Note 25, the Company was obliged to enter into two interest rate swaps with a fair value loss of £0 4m at inception These onerous contracts have no purpose, are not held for either trading or investment and therefore a provision has been recorded for the expected loss as an onerous contract The fair value loss at 31 December 2011 was £0 4m

There are two contracts, each with principal amounts of £2 720,000, The Company pays a fixed rate of 3 305% to the bank and receives floating rate interest, based on LIBOR in return The contracts expire on 31 December 2014

45 ZERO COUPON LOAN NOTES

	31 December 2011 £m	31 December 2010 £m
Fair value of notes issued	**2.5**	-
Imputed interest in the year	**0 1**	-
Loan notes	**2.6**	-

£10 212 500 of Zero Coupon Loan Notes were issued to Ares Lux as part of the Refinancing as reported in Note 25(e) They are repayable in normal circumstances in September 2021, or earlier in the event of another refinancing or a change of control of the Group The Directors have discounted the Zero Coupon Loan Notes at 15% a rate between the cost of the Group s senior debt and the cost of equity after the Refinancing to give a fair value at the time of issue of £2,505 115 The imputed interest is charged to finance expenses from the date of issue until the repayment date The charge in the year ended 31 December 2011 was £113,245 (2010 £nil) The Loan Notes contain an embedded derivative as additional Loan Notes up to a maximum value of £2,500,000, will be issued if the Group achieves certain EBITDA targets in the years ended 31 December 2013 and/or 2014 or if the Enterprise Value at 31 December 2013 and/or 31 December 2014 and/or 31 December 2015 exceeds certain target amounts No value has been attributed by the Directors to the embedded derivative at the time of issue or at the year-end as the Directors believe these targets will not be met

46 SHARE CAPITAL

All details of the allotted called up and fully paid share capital, plus the movements during the year are set out in Note 26 to the Group Financial Statements

47 RESERVES

	Share premium account £m	Share option reserve £m	Profit and loss account £m
At 1 January 2010	34 5	1 1	(3 8)
Loss for the year	-	-	(41 9)
Share scheme costs	-	0 6	-
Warrants issued during the year	-	3 0	-
Dividend paid during the year	-	-	(1 1)
Premium on shares issued during the year	10 8	-	-
At 31 December 2010 (as previously reported)	**45.3**	**4 7**	**(46 8)**
Restatement as detailed in Note 35	-	-	**(21 7)**
At 31 December 2010 (restated)	**45 3**	**4 7**	**(68 5)**
Loss for the year	-	-	**(6.1)**
Issue of share capital	**9.9**	-	**(2.3)**
Gain on Ares Lux debt for equity swap (Note 25(c))	-	-	**(9 9)**
Share scheme credits	-	**(0 5)**	-
Warrants lapsed during the year	-	**(2 6)**	**2 6**
Warrants amortised during the year	-	**(0.4)**	**0 4**
Dividend paid during the year	-	-	**(2 1)**
At 31 December 2011	**55 2**	**1 2**	**(85 9)**

48 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Loss for the year (as previously reported)	**(6 1)**	(41 9)
Prior year adjustment	-	(21 7)
Loss for the year (as restated)	**(6 1)**	(63 6)
Gain on Ares Lux debt for equity swap	**(9 9)**	-
Dividend paid during the year	**(2 1)**	(1 1)
Issue of shares	**73 5**	0 9
Share issue costs	**(2 3)**	-
Premium on shares issued	**9 9**	10 8
Warrants issued during the year	-	3 0
Share scheme costs for the year	**(0 5)**	0 6
Net addition to/(reduction in) shareholders' funds	**62.5**	(49 4)
Add Opening shareholders' funds	**(7.2)**	42 2
Closing shareholders' funds	**55 3**	(7 2)

For information on the dividend paid during the year refer to Note 13 to the Group Financial Statements including details of the Directors' opinion on the lawfulness of previously paid dividends

49 PENSIONS

The Company operates a defined contribution pension scheme These were no outstanding or prepaid contributions at either the beginning or end of the financial year

50 COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2011, the Company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings		Other	
	31 December 2011	31 December 2010	**31 December 2011**	31 December 2010
	£m	£m	**£m**	£m
Operating Lease commitments payable·				
Under 1 year	**0 1**	-	**0.1**	01
1 – 2 years	**0.1**	01	**0 4**	01
2 – 5 years	**-**	01	-	04
Over 5 years	**0 8**	08	-	-
	1 0	10	**0 5**	06

51 RELATED PARTY TRANSACTIONS

See Note 31 to the Group Financial Statements for transactions with and balances due from and to related parties All the reported transactions were with the Company

The Company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related Party Disclosures" not to disclose transactions with members of the Group headed by the Company on the grounds that 100% of the voting rights in the other members of the Group are controlled by the Company and the results of all subsidiary undertakings are included in the Group Financial Statements

52 SHARE OPTION SCHEME

Full details on the Company share option scheme are given in Note 32 to the Group Financial Statements

53 CONTINGENT LIABILITIES

Details of the main material contingent liabilities for the Company are set out in Note 28 In addition the Company is party to the SFA and as a result, is a guarantor of all borrowings of the Group Details of Group borrowings are disclosed in Note 21

54 POST BALANCE SHEET EVENTS

Information relating to a claim made in New York after the year end by Permian Master Fund LP, et al, is disclosed in Note 28

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