

# A market leader in Australia & the UK

in the supply of high quality workforce solutions  
to the health and social care industries

**HCL**  
Expect more

Report and Financial Statements  
Year Ended 31 December 2010

Company number: 04736913

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# KEY FEATURES

## HIGHLIGHTS

### Market challenges & the new Board's response

- HCL has a very experienced new Board and executive management team. Since the new Board and executive management team was formed in 2011, the business has been refocused and good progress has been made over recent months.
- Challenges faced have been considerable. The new Board has needed to extensively restate prior year figures, propose a significant Refinancing of the Group to ensure future stability and importantly, re-engineer the UK business to meet the changing needs in the healthcare staffing market.
- Following these actions, the Board now believes that HCL is in a far stronger position to respond to the needs of its customers and grow sustainably over the long term.

### UK & Australian businesses

- In the UK, HCL is a leading business, one capable of generating good levels of profit by delivering a high level of service on competitive terms to the NHS and private sector. The new executive team is committed to re-focusing the business, to address changing market dynamics.
- In Australia, the HCA business, which was acquired in December 2010 shortly before the financial year end, has continued to trade in line with expectations since its acquisition. The Board's goal is to build a broadly based specialist healthcare recruitment business in Australia, similar to HCL's position in the UK.
- Synergies can be achieved over time by owning both the UK and Australian healthcare recruitment businesses.

### Proposed Refinancing & Trading on AIM

- The Board's priority remains to improve the Group's financial situation by reducing debt. The Board believes that the proposed Refinancing announced today is in the best interests of all shareholders.
- Trading in the Company's shares is scheduled to resume consequent to shareholder approval of the proposed Refinancing.

## FINANCIAL SUMMARY

| <b>Consolidated Income Statement</b>        | <b>2010</b>    | 2009<br>(Restated) |
|---|----------------|--------------------|
|   | <b>£m</b>      | £m                 |
| Revenue                                     | <b>157.2</b>   | 167.5              |
| Gross profit                                | <b>41.2</b>    | 50.4               |
| Gross profit %                              | <b>26%</b>     | 30%                |
| Adjusted EBITDA *                           | <b>(0.1)</b>   | 15.6               |
| Adjusted (loss) / profit from operations ** | <b>(2.9)</b>   | 13.7               |
| Highlighted items                           |                |                    |
| Goodwill impairment                         | <b>(46.0)</b>  | -                  |
| Others (net) ***                            | <b>(3.2)</b>   | (5.8)              |
| (Loss) / profit from operations             | <b>(52.1)</b>  | 7.8                |
| Foreign exchange gains / (losses) (net)     | <b>1.5</b>     | -                  |
| Finance expense (net)                       | <b>(5.9)</b>   | (2.0)              |
| (Loss) / Profit before tax                  | <b>(56.5)</b>  | 5.9                |
| Taxation                                    | <b>2.1</b>     | (2.8)              |
| (Loss) / Profit for the year                | <b>(54.4)</b>  | 3.1                |
| Basic (loss) / earnings per share (pence)   | <b>(50.0)p</b> | 2.9p               |

\* Adjusted EBITDA is adjusted (loss) / profit from operations before depreciation of property, plant and equipment, amortisation of intangibles and share scheme charges.

\*\* Adjusted (loss) / profit from operations refers to (Loss) / Profit from operations before impairment of goodwill and other highlighted items as analysed in Note 5 to the Financial Statements

\*\*\* Other highlighted items are analysed in Note 5 to the Financial Statements.

## RESTATEMENTS

The Board has restated the 2009 Financial Statements, as set out in Note 1. The impact of the Prior Year Adjustments on previously reported Net Equity may be summarised as follows:

|                                   | 31 December<br>2009<br>£m | 1 January<br>2009<br>£m |
|-----------------------------------|---------------------------|-------------------------|
| Net equity as previously reported | 67.2                      | 56.1                    |
| Restatements for:                 |                           |                         |
| Accounting errors                 | (15.3)                    | (6.6)                   |
| Change in accounting policies     | (4.0)                     | (0.9)                   |
|                                   | (19.3)                    | (7.5)                   |
| Tax effect of above               | 2.1                       | -                       |
| Net equity as restated            | 50.0                      | 48.6                    |

Further information is provided in Note 1 to the Financial Statements.

# CHAIRMAN'S STATEMENT

## INTRODUCTION

This is my first Annual Report Statement since joining the Board as Chairman on 18 February 2011, some seven weeks after the end of the period being reported to shareholders.

As shareholders will be aware, on 25 January 2011 the Board announced the suspension of its shares from trading on AIM with immediate effect. The announcement stated that the Board had strong reason to believe that the financial performance of HCL for the year ended 31 December 2010 would be materially below expectations. Serious accounting irregularities had been brought to the attention of the Board as a result of which the Company announced that it would be carrying out an immediate investigation to consider the financial implications.

Since then an entirely new Board has been appointed. David Henderson and I were appointed on 18 February 2011. We were pleased to be joined on 10 May 2011 by Stephen Burke as Chief Executive Officer, Colin Whipp as Interim Chief Financial Officer and Andy McRae as Managing Director of Healthcare Australia Holdings Pty Limited.

## RESULTS OF THE INVESTIGATION

Following the announcement on 25 January 2011, the then Board launched an immediate internal investigation into the serious accounting irregularities, the circumstances surrounding their existence and the financial implications for the Group.

The internal investigation into the apparent accounting irregularities initially focused on the responsibility, if any, of the then Chief Financial Officer, Diane Jarvis, and the then Executive Vice Chairman, Kate Bleasdale. It involved interviews with all of the previous Directors and senior members of the finance staff in the UK.

The internal investigation then went on to investigate the knowledge of the other previous Directors and senior finance staff regarding the accounting irregularities and other related issues of Corporate Governance.

The principal findings of the internal investigation and other reviews by the Directors and the corrective actions taken are that:

- In reporting results for earlier years the Group recognised revenue of £0.9m in 2008 in relation to sales in the US, although none of the revenue had yet been invoiced.

In 2009 a further £3.1m of revenue was recognised in advance of invoice date as the previous Directors assessed that the appropriate milestones had been reached to recognise revenue in accordance with

IAS 18 "Revenue". None of the revenue was invoiced in 2009.

The Board has reviewed the Group's accounting policy for revenue recognition in this area and determined that it is more appropriate to recognise this revenue only when it is invoiced.

The impact before tax of this restatement is to reduce net assets at 31 December 2009 by £4.0m.

- Software development costs had been capitalised and were still on the balance sheet even though the assets were no longer being used by the business.

The Board has made the appropriate impairment.

The impact before tax of this restatement is to reduce net assets at 31 December 2009 by £5.4m.

- In previous years, the Group capitalised costs associated with the development of an international candidate database. The judgement surrounding the appropriateness of that treatment was disclosed as a 'critical judgement' in prior Annual Reports. The costs capitalised included the costs of collecting information in connection with identified candidates.

Following an approach by the Financial Reporting Review Panel (FRRP), the Directors have reconsidered the previous judgements made regarding whether these costs meet the definition of an intangible asset under IAS 38. The Board concluded that whilst the costs of construction of the underlying database would result in an intangible asset under IAS 38, the costs of collecting information in connection with identified candidates do not in themselves result in obtaining legal control over the individual candidates and as such the costs are indistinguishable from the costs of developing the business as a whole.

Consequently, the Board wrote off such costs as incurred, rather than capitalise them.

The impact before tax of this restatement is to reduce net assets at 31 December 2009 by £4.8m.

- Sales ledger credits arise as a result of unintentional overpayments by customers. The Group informs customers when this happens; amounts overpaid remain as a liability until repaid or no longer repayable.

The Group previously accounted for such overpayments by reflecting a liability that represented the Directors' assessment of the likely amount due to be returned to customers based on historical levels of credits actually redeemed over a 12 month period. The remainder of the credits were released to income.

Following a review of the sales ledger credits released to income, the Directors believe it would be more appropriate to reinstate these amounts as liabilities of the Group and only to release such credits to income after the Statute of Limitations (six years) renders the amount irredeemable or earlier only if appropriate to derecognise in accordance with IAS 39.

The impact before tax of this restatement is to reduce net assets at 31 December 2009 by £3.3m.

- During 2010 the Group had an invoice discounting facility with Barclays Bank, under which it could borrow against certain unpaid customer invoices.

On a number of occasions the Group used the facility inappropriately by double counting certain invoices and by borrowing against fictitious invoices.

The Group discontinued all its invoice discounting facilities in December 2010.

- Costs had been allocated incorrectly to reorganisation costs in the monthly management accounts during 2010, thereby overstating Adjusted Profit from operations.
- The Directors have reviewed the definition of costs previously designated as reorganisation costs. In the 2009 Financial Statements, the full year-to-date costs including salary, employment costs and redundancy or compensation payments of any staff made redundant during the year were classified as reorganisation costs. For



the 2010 Financial Statements only the costs directly associated with such terminations have been classified as reorganisation costs and 2009 has been restated for consistency.

The reorganisation costs principally include employee redundancy costs, relocation of offices associated with the ongoing off-shoring of back and middle office functions to India, legal and professional fees and also the ongoing restructuring within the Qualified Social Workers division.

- Additionally, the Directors have undertaken a review of the level of accruals at 31 December 2008 and 31 December 2009. The Group had accounted for various costs for commissions and bonus expenses for employees and Directors in the year in which they were paid, rather than accruing them based upon the activities and performance of the year for which the incentives arose.

The Directors have reviewed this practice and restated the prior year accounts by accruing costs in the year to which they relate.

The impact before tax of this restatement is to reduce net assets at 31 December 2009 by £1.8m.

The overall impact after tax of the restatements above is to reduce net assets at 31 December 2009 from the previously reported £67.2m to the restated £49.9m, a reduction of 26%.

The previous Directors resigned at various times prior to the completion of the internal investigation and, as noted above, a new Board was appointed.

In response to the findings of the internal investigation, Grant Thornton was engaged in April 2011 to investigate and report in relation to the accounting adjustments, the acquisition of Redwood, the payment of dividends and cash flow management.

Grant Thornton also investigated certain other issues and identified that historically there were specific transactions which suggest that the Company was not fully complying with the NHS terms and conditions set out in the Framework Agreements (FAs).

The Board has had limited time to undertake an entire review of the practices within the Group and has therefore prioritised areas which have been highlighted by customer complaints or specific issues identified internally. The Board has committed significant resource to uncovering and taking appropriate remedial action in relation to potential historical breaches of the terms of FAs.

The Group is currently in discussion with certain NHS trusts to resolve issues they have raised. Should further issues be raised by customers, the Board will seek to resolve them promptly.

Appropriate specific provisions have been made in the 2010 Financial Statements and in the Board's cash flow forecasts.

The investigations also found that Corporate Governance was below the level expected from a publicly listed company, as reported on below.

As a result of the matters described above, a number of disciplinary hearings have been held with the outcome that certain previous Directors and other staff were either dismissed or chose to resign.

The Board is currently considering with its legal advisers how best to progress any claims that the Company may be able to bring in connection with the matters described above.

Furthermore, the Board has sought to ensure that appropriate remedial measures have been taken. New systems have been put in place so that monthly management accounts can be relied upon in the future.

## 2010 PERFORMANCE

Whilst preparing the Financial Statements for 2010 and further to the findings of the investigations as detailed above, the Board restated the 2009 Financial Statements, including Net Equity previously reported at 31 December 2008. Further information is provided in the Financial Review.

The audited Financial Statements for the year ended 31 December 2010 (including restated figures for 2009) are now available to shareholders.

As analysed in the Results Summary in the Financial Review, the Board reports an adjusted loss before interest, tax, depreciation and amortisation, shares scheme charges and highlighted items (adjusted EBITDA) of £0.1m (2009: £15.6m profit). There was a non-cash goodwill impairment charge of £46.0m (2009: £Nil). Loss before tax was £56.5m (2009: £5.9m profit).

The Board believes that during 2010 the Company's previous strategy of operating largely by contracts not governed by FAs left it wrong-footed and ill-prepared to respond sufficiently to the increasing focus of NHS spending through the purchasing FAs. The previous Board's failure to respond to the changing market place meant firstly the business had an inadequate supply of locums clinically compliant with the more detailed and onerous framework standards and secondly it had access to only a restricted number of FAs.

The impact on the UK business\* in the second half of 2010 compared with the first half was a reduction in revenue of 15% and gross profit of 24%. Gross profit percentage fell from 28% to 25%.

\* excluding the contribution from acquisitions.

The primary reason for the deterioration in performance was the reduction in typically higher margin off-framework business.

Your new Board has already taken measures to seek to ensure the UK business model is adapted to changes in its market place.

A more detailed review of the financial information for 2010 and 2009 is provided in the Financial Review, including the effect of prior year adjustments.

Shareholders' attention is drawn to the Independent Auditors' Report in which the Company's auditors BDO LLP have qualified their opinion on the 2010 Financial Statements on the basis stated and have included sections respectively headed "Emphasis of matter - Going concern" and "Emphasis of matter - potential illegality of dividends". See also under Dividend below.

## ACQUISITIONS AND DEBT

During the second half of 2010, the previous Directors' strategy led to the acquisition of Orion Locums Ltd, MJV Locums Ltd, the assets of Last Minute Locums Pty Ltd and the assets of Redwood Health Ltd. These acquisitions were made for a total initial consideration of £14.5m (net of cash acquired).

In December 2010 the previous Directors then took up new loan facilities with the Commonwealth Bank Australia and the National Australia Bank and a mezzanine facility provided by Ares Capital Europe. These facilities were used to repay existing debt and to fund the acquisition of Healthcare Australia Holdings Pty Limited in Australia for an initial consideration of £75.2m (net of cash acquired). Further information is provided in the Financial Review.

At 31 December 2010 the gross debt was £125.6m. This significant increase of £104.2m when compared to 2009 (2009: £21.4m) was mainly due to £89.7m (net of cash acquired) being spent during the year on acquisitions.

As noted above, on 25 January 2011, just over one month after the refinancing, the Board announced to shareholders that the financial performance of HCL for the year to 31 December 2010 would be materially below market expectations. In particular, it became evident that the UK business was cash negative before dividend payments and its business model had not adapted sufficiently to the changing market

place. During the course of the investigations which took place over the following months, it quickly became apparent that the current capital structure of the Group and the costs of servicing its debt were unsustainable and accordingly a capital restructuring was required.

The new Board believes that it is probable that at 31 December 2010 the Group was in default under the Senior Facilities Agreement ('SFA') and Mezzanine Facility Agreement ('MFA') with its lending banks. Accordingly the Board considers it appropriate to treat all of the Group's loans as current liabilities at 31 December 2010. Further information is provided in the Financial Review.

#### BOARD OF DIRECTORS

The Board of HCL now comprises three Executive Directors and two Non-Executive Directors, all of whom joined after 25 January 2011.

The Directors appointed have a wide breadth of experience in both managing and resolving complex business issues and have played a significant role in the stabilisation process, for which I am very grateful.

In particular, I welcome the appointment of Stephen Burke as CEO. Stephen has joined the business as a long term appointment in extremely challenging circumstances and has played a critical role in identifying a number of issues in the UK business earlier than otherwise may have been the case. Clearly, the situation remains challenging and Stephen's leadership through this phase will be critical.

The Interim Chief Financial Officer, Colin Whipp, has quickly and effectively identified and tackled the multiple accounting and financial issues facing the business in a short space of time.

Colin has announced that following the successful stabilisation and recapitalisation of the Company he will be stepping down from his interim role. Following the completion of the Refinancing, the Board will commence the process of recruiting a permanent Chief Financial Officer and will update shareholders in due course.

Special mention must be made of Andy McRae who, as Managing Director of Healthcare Australia (HCA), was instrumental in overseeing the successful integration of HCA into HCL. HCA has continued to perform strongly since its acquisition by the Group and Andy's leadership has been a key part of this.

The Board is seeking to appoint two additional independent non-executive directors and will update shareholders as soon as possible.

#### CORPORATE GOVERNANCE

On joining as Chairman it was evident that there were extremely poor levels of Corporate Governance. 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.

Your new Board is committed to maintaining high standards of Corporate Governance, managing the Group in an effective, entrepreneurial and ethical manner for the benefit of 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 (formerly the Combined Code), which applies for financial years starting on or after 29 June 2010. However, the Company is committed to applying the principles of good governance contained in the Code as appropriate for a company of this size and nature. Further information on the Board Committees is provided on page 37.

The Board will continue to review appropriate compliance with the UK Corporate Governance Code at regular intervals. I will be reporting to shareholders in the 2011 Interim Report and the 2011 Annual Report on further developments in the Group's corporate governance.

#### DISPOSAL OF HOMECARE DIVISION IN AUSTRALIA

As a first major step in reducing the Group's debt levels, on 18 July 2011 the Directors were pleased to announce that the Company's wholly owned Australian subsidiary, Healthcare Australia Holdings (Pty) Ltd ("HCA") had completed the sale of its Homecare Division. The gross consideration (before estimated expenses of A\$2 million) was A\$34 million (approximately £22.4 million).

The net proceeds of the sale have been used to reduce the Group's debt.

#### PROPOSED REFINANCING

In the context of the probable default under the SFA and MFA referred to above, the Board has considered a range of alternatives that would deliver in the timeframe available the optimum value for stakeholders and revise the Company's current capital structure to allow a strengthened business to move forward.

The Board believes that the Refinancing, if completed, will provide the Group with a strengthened balance sheet and additional cash funding for operational initiatives, thereby creating a viable, sustainable capital structure giving it the capability to achieve significant returns.

The Board has today announced a substantial refinancing of the Company designed to secure the Company's future by putting it on a solid financial footing and provide it with the requisite cash and debt resources and capital structure to give it the capability to generate significant returns and enable trading in Ordinary Shares on AIM to be resumed.

The refinancing comprises a £60 million placing of new ordinary shares in the Company, an open offer to qualifying shareholders of up to £4.25 million, a debt for equity conversion and debt repayment and restructuring as described in the Circular to shareholders dated 19 August 2011 (together referred to as the "Refinancing").

The key terms of the Refinancing are as follows:

- A £60 million Placing of 600 million New Ordinary Shares at 10p per share;
- An equitisation of £2.5 million of existing debt owed to Craig Tibbles into 25 million New Ordinary Shares and equitisations of £1.14 million of commission owed to Toscafund and £0.45 million of fees and commission owed to ACE Limited, in each case as part of the Placing. The Interim Working Capital Facility will, to the extent borrowed, also be equitised as part of the Placing;
- A £22.4 million debt (including accrued interest) for equity swap with Ares Lux resulting in the issue of 125 million New Ordinary Shares to Ares Lux at approximately 18p per share, equating to 14.91 per cent. of the issued share capital (excluding any take up under the Open Offer) immediately following the Placing;
- This is the same in economic terms as Ares Lux converting £12.5 million of the debt owed to it by the Company into New Ordinary Shares at the Issue Price and writing off £9.9 million of debt and accrued interest owed to it;
- A £10.21 million conversion of existing debt owed to Ares Lux into Zero Coupon Notes issued to Ares Lux in an initial principal amount of £10.21 million, which may increase depending on certain events occurring, including in relation to the future performance of the Group;
- A write-off of approximately £6.5 million of existing debt and accrued interest owed to the Banks. The final figure will be determined when exchange rates are fixed on or around Admission;

- The Company and the Banks will partially close their existing hedging agreements in respect of the sterling facilities under the Senior Facilities Agreement which will incur brake costs of up to a value of £2.71 million which will be written off by the Banks;
- A £35.0 million repayment of existing debt owed to the Banks and a restatement of the terms of the remaining debt owed to the Banks;
- An Open Offer of up to 42,505,790 New Ordinary Shares, open to all Qualifying Shareholders *pro rata* to their shareholdings at a subscription price of 10p per New Ordinary Share; and
- Qualifying Shareholders wishing to apply for New Ordinary Shares under the Open Offer in excess of their *pro rata* entitlements will be able to apply for additional shares to the extent that other shareholders do not take up their entitlements.

The placing, the open offer, the debt for equity conversion and the debt repayment and restructuring are all conditional upon the approval of Shareholders at the General Meeting be held at 11.00 hours on 12 September 2011.

The General Meeting will also consider the audited Financial Statements and conduct other business which would normally be considered at the Annual General Meeting. The restoration of trading on AIM of the Ordinary Shares will take place upon and subject to completion of the Refinancing.

The placing has been offered to, and supported by, a range of new and existing shareholders. In particular, as part of the placing, Toscafund, an existing shareholder, has agreed to subscribe £33.6 million for 336,375,000 new Ordinary Shares and (separately from the debt for equity conversion) ACE Limited has agreed to subscribe £13.16 million for 131,625,000 new Ordinary Shares. The issue of placing shares to both Toscafund and ACE Limited is conditional upon the waiver being granted by the Takeover Panel becoming effective, which is in turn conditional upon the approval of the independent shareholders at the General Meeting voting on a poll.

The independent shareholders are the Shareholders other than the Toscafund Concert Party. The Toscafund Concert Party comprises Toscafund, any funds managed or advised by Toscafund and by virtue of his interest in Toscafund, Mr. Martin Hughes and thereby Old Oak Holdings Limited, Cheviot Asset Management Limited, Tosca Penta Holdings Limited, Penta Capital LLP and any funds

managed by Cheviot Asset Management Limited and Penta Capital LLP.

In the event that the Refinancing Resolutions are not passed at the General Meeting and the Refinancing is not implemented, then the Group will be unable to satisfy its existing financial covenants and/or service its existing borrowings or meet its ongoing funding requirements without further support from the Lenders. In such event, the Group would be in default under the Existing Facilities.

Such a default under the Existing Facilities, in addition to any default which may subsist due to misrepresentations made under the terms of the Existing Facilities at the time they were entered into would entitle the Lenders to demand repayment of the Existing Facilities.

Further, if the Refinancing does not proceed, the Banks have informed the Company that they will only continue to support the business on the basis that a sale of all or part of the Group is pursued. This would be likely to involve formal insolvency proceedings for all or part of the Group. This would, in the Board's opinion, result in Shareholders receiving no value for their current shareholdings.

The Board believes that the Refinancing, if completed, will provide the Group with a strengthened balance sheet and additional cash funding for operational initiatives, thereby creating a viable, sustainable capital structure giving it the capability to achieve significant returns.

#### DIVIDEND

As a result of the Group's constrained financial position and the Company's distributable reserves being in deficit at 31 December 2010, the Board will not be recommending the payment of a final dividend.

The Board will continue to keep its dividend policy under review with the aim of reintroducing dividends at the appropriate time.

It has come to the Directors' attention that the dividends paid in June 2010 and January 2011 were potentially unlawful. The Directors are taking legal advice in relation to the dividends paid and what steps would be required to remedy any breach of the law. Further information is provided in the Financial Review.

#### THE FUTURE

Since the announcement on 25 January 2011 of the suspension of the Company's shares from trading on AIM with immediate effect, the Group has faced considerable challenges.

However, following the conclusion of the internal investigations and the subsequent progress made to improve all the business processes and governance and to re-engineer the business, your Board believes that HCL is now in a position where, subject to shareholder approval of the Refinancing, it is able to look forward to the future with confidence.

The UK business, which remains a leading business in its field, is in a good position to grow and to meet the changing requirements of the UK healthcare staffing market.

The HCA business in Australia has continued to trade in line with expectations since its acquisition.

We also believe that synergies can be achieved over time by owning both the Australian and UK healthcare recruitment businesses.

The complexity and extent of the challenges faced by the Company has meant that the process of producing these audited Financial Statements has taken considerably longer than initially expected. Nevertheless, the action taken by your Board has been appropriate in restoring stability and positioning the Group for sustainable growth in the future.

Despite its recent troubles, HCL remains fundamentally a good business. Today the Group employs some 580 staff and plays a very important role in fulfilling medical staffing needs in both Australia and the UK, with over 13,000 locums placed and over 600 permanent placements made in the first half of 2011.

In what has been an exceptionally challenging period for HCL, I would like to thank our staff for the tremendous commitment and dedication they have shown.

The Board and I are confident that HCL can grow again and prosper from here on.



**Peter Sullivan**  
Chairman

19 August 2011

# FINANCIAL REVIEW

## INTRODUCTION

Whilst preparing the Financial Statements for 2010, and further to the findings of the investigations as detailed in the Chairman's Statement, the Board recognised the need to restate the 2009 Financial Statements, including Net Equity at 31 December 2008.

The Board believes that the Group's accounts are a true and fair representation of the financial position as at 31 December 2010.

Further information is provided in the Statement of significant accounting policies in the Financial Statements.

## GOING CONCERN

The Consolidated Financial Statements have been prepared on a Going Concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

In forming their opinion that Going Concern is an appropriate basis, the Directors have reviewed forecasts for the period to 31 December 2012, which have been drawn up with appropriate regard for the current macroeconomic environment and the particular circumstances in which the Group operates. These were prepared with reference to historic and current industry knowledge, taking into account the Board's strategy for the Group.

The Directors have taken into account conditions which could indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a Going Concern.

Shareholders' attention is drawn to the conditions which were of material relevance in forming the Board's opinion, as set out in the Statement of Significant Accounting Policies in the Financial Statements.

These conditions include the Board's plans to resolve the Group's financing challenges

by way of a proposed Refinancing. The Chairman's Statement sets out the key terms of the proposed Refinancing, which is conditional upon the approval of Shareholders at the General Meeting to be held on 12 September 2011.

In the event that the Refinancing Resolutions are not passed at the General Meeting and the refinancing is not implemented, then the Group will be unable to satisfy its existing financial covenants and/or service its existing borrowings or meet its ongoing funding requirements without further support from the lending banks. In such event, the Group would be in default under the existing facilities.

Such a default under the existing facilities, in addition to any default which may subsist under the representations made under the terms of the existing facilities at the time they were entered into, would entitle the lending banks to demand repayment of all outstanding amounts and to cancel the facilities immediately.

Further, if the Refinancing does not proceed, the lending banks have informed the Company that they will only continue to support the business on the basis that a sale of all or part of the Group is pursued. This would be likely to involve the insolvency of all or part of the Group. This would, in the Board's opinion, result in shareholders receiving no value for their current shareholdings.

Additionally, the Group faces a number of Principal Risks & Uncertainties, as set out on pages 24 to 26.

In reviewing the forecasts for the period to 31 December 2012, the Board has sought to take a measured assessment of each and all the risks in determining the Group's capital requirements.

Notwithstanding the above uncertainties, including the need to obtain approval from

shareholders for the Refinancing, obtain approval for the waiver under Rule 9 and the relisting on AIM, the Directors are confident that the proposed Refinancing will be successful. On this basis, they have prepared the Consolidated Financial Statements on a going concern basis.

The Consolidated Financial Statements do not contain the adjustments that would be necessary were the Group unable to continue as a Going Concern.

Given the inherent uncertainty about future events and as with all business forecasts, the Directors' statement cannot guarantee that the Going Concern basis will remain appropriate.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 Board considers that the estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement of intangible assets and contingent consideration on acquisition, the impairment of goodwill (which the Group tests on an annual basis), the measurement of intangible assets (where the Group estimates useful lives for the purposes of amortisation), legal and regulatory contingencies and finally uncertain tax positions.

Further information is provided in the Statement of Significant Accounting Policies in the Financial Statements.

### RESTATEMENT OF TOTAL EQUITY FOR ACCOUNTING ERRORS & FOR CHANGE IN ACCOUNTING POLICIES

I note above the need to restate earlier years' Financial Statements. Further information on the nature and quantum of the prior year adjustments can be found in Note 1 of the Financial Statements.

Shareholders' attention is drawn to the Independent Auditors' Report and their qualified opinion on certain prior year adjustments.

The impact of the prior year adjustments on previously reported Net Equity may be summarised as follows:

|  | 31 December 2009 | 1 January 2009 |
|--|------------------|----------------|
|  | £m               | £m             |
| Net equity as previously reported              | 67.2             | 56.1           |
| Restatement for accounting errors:             |                  |                |
| Candidate database write-off                   | (4.8)            | (3.0)          |
| Sales ledger credits                           | (3.3)            | (1.8)          |
| Computer software impairment                   | (5.4)            | (0.2)          |
| Under-accrual of costs                         | (1.8)            | (1.6)          |
|  | (15.3)           | (6.6)          |
| Restatement for change in accounting policies: |                  |                |
| Accrued income adjustment                      | (4.0)            | (0.9)          |
| Total adjustments                              | (19.3)           | (7.5)          |
| Tax effect of above                            | 2.1              | -              |
| Net equity as restated                         | 50.0             | 48.6           |

The impact of prior year adjustments on the previously reported Revenue, Profit from operations and Profit for the year ended 31 December 2009 may be summarised as follows:

|  | Revenue | Profit from operations | Profit for the year |
|--|---------|------------------------|---------------------|
|  | £m      | £m                     | £m                  |
| Previously reported                            | 172.1   | 19.7                   | 12.8                |
| Restatement for accounting errors:             |         |                        |                     |
| Candidate database write-off                   | -       | (1.7)                  | (1.7)               |
| Sales ledger credits                           | (1.5)   | (1.5)                  | (1.5)               |
| Computer software impairment                   | -       | (5.3)                  | (5.3)               |
| Under-accrual of costs                         | -       | (0.2)                  | (0.2)               |
|  | (1.5)   | (8.7)                  | (8.7)               |
| Restatement for change in accounting policies: |         |                        |                     |
| Accrued income adjustment                      | (3.1)   | (3.1)                  | (3.1)               |
| Total adjustments                              | (4.6)   | (11.8)                 | (11.8)              |
| Tax effect of above                            | -       | -                      | 2.0                 |
| As restated                                    | 167.5   | 7.9                    | 3.0                 |

The impact of prior year adjustments on the 31 December 2009 Consolidated Statement of Financial Position may be summarised as follows:

|                         | 2009 Previously reported | Restatements | 2009 Restated |
|-------------------------|--------------------------|--------------|---------------|
|                         | £m                       | £m           | £m            |
| Non-current assets      | 76.5                     | (10.0)       | 66.5          |
| Current assets          | 35.5                     | (4.1)        | 31.4          |
| Non-current liabilities | (7.8)                    | 0.7          | (7.1)         |
| Current liabilities     | (36.9)                   | (3.9)        | (40.8)        |
| Net assets              | 67.3                     | (17.3)       | 50.0          |

**RESTATEMENT OF UNAUDITED RESULTS FOR SIX MONTHS ENDED 30 JUNE 2010**

The Board's reviews have concluded that the unaudited results for the six months ended 30 June 2010 previously reported to shareholders should also be restated, as follows:

|                        | Adjustments                     |  |  | H1 2010 Restated<br>£m |
|------------------------|---------------------------------|--|--|------------------------|
|                        | H1 2010 Previously stated<br>£m | To comply with then<br>Accounting Policies *<br>£m | Effect of PYAs made in 2010<br>Financial Statements **<br>£m |                        |
| Revenue                | 76.4                            | (1.5)  | -  | 74.9                   |
| Cost of sales          | (54.0)                          | -  | -  | (54.0)                 |
| Gross Profit           | 22.4                            | (1.5)  | -  | 20.9                   |
| Administrative costs   | (14.8)                          | (3.9)  | 2.0  | (16.7)                 |
| Profit from Operations | 7.6                             | (5.4)  | 2.0  | 4.2                    |
| Financing costs (net)  | (0.8)                           | 0.1  | -  | (0.7)                  |
| Profit before taxation | 6.8                             | (5.3)  | 2.0  | 3.5                    |

\* The current Board have concluded that the unaudited results for the six months ended 30 June 2010 reported to shareholders by the previous Board require adjustments to comply with the Group's Accounting Policies then extant.

\*\* PYAs = Prior Year Adjustments. Note 1 to the Financial Statements provides information about the Prior Year Adjustments and their impact on 2009 and earlier years.

The Prior Year Adjustments reported above show the effect on the previously reported unaudited results for the six months ended 30 June 2010. The £2.0m adjustment in the table above arose from the impact in the six months period from accelerated depreciation and amortisation in 2009 and earlier years of £1.0m and accruals made in 2009 of £1.0m and hence lower costs in the period.

**RESULTS SUMMARY**

|  | 2010<br>£m     | 2009 (Restated)<br>£m |
|--|----------------|-----------------------|
| Revenue  | <b>157.2</b>   | 167.5                 |
| Cost of Sales                                  | <b>(116.0)</b> | (117.1)               |
| Gross Profit                                   | <b>41.2</b>    | 50.4                  |
| Gross Profit %                                 | 26%            | 30%                   |
| Administrative costs                           | <b>(41.3)</b>  | (34.8)                |
| Adjusted EBITDA *                              | <b>(0.1)</b>   | 15.6                  |
| Depreciation of property, plant and equipment. | <b>(0.6)</b>   | (0.5)                 |
| Amortisation of intangible assets              | <b>(1.7)</b>   | (1.0)                 |
| Share scheme charges                           | <b>(0.5)</b>   | (0.5)                 |
| Adjusted (loss) / profit from operations **    | <b>(2.9)</b>   | 13.6                  |
| Highlighted items                              |                |                       |
| Goodwill impairment                            | <b>(46.0)</b>  | -                     |
| Others (net) ***                               | <b>(3.2)</b>   | (5.8)                 |
| (Loss) / profit from operations                | <b>(52.1)</b>  | 7.8                   |
| Foreign exchange gains (net)                   | <b>1.5</b>     | -                     |
| Finance expense (net)                          | <b>(5.9)</b>   | (2.0)                 |
| (Loss) / Profit before tax                     | <b>(56.5)</b>  | 5.9                   |
| Taxation                                       | <b>2.1</b>     | (2.8)                 |
| (Loss) / Profit for the year                   | <b>(54.4)</b>  | 3.1                   |
| Basic earnings per share (pence)               | <b>(50.0)p</b> | 2.9p                  |

\* Adjusted EBITDA is Adjusted (loss) / profit from operations before depreciation of property, plant and equipment, amortisation of intangibles and share scheme charges.

\*\* Adjusted (loss) / profit from operations refers to (Loss) / Profit from operations before impairment of goodwill and other highlighted items as analysed in Note 5 to the Financial Statements.

\*\*\* Other highlighted items are analysed in Note 5 to the Financial Statements.

Highlighted items totalled £49.2m (2009 restated: £5.8m), including £46.0m (2009 restated: £Nil) for Goodwill impairment, which is explained in the Goodwill section below.

Other highlighted items may be analysed as follows:

|  | 2010<br>£m   | 2009 Restated<br>£m |
|--|--------------|---------------------|
| Income:  |              |                     |
| Gain on fair value changes in contingent consideration | <b>4.2</b>   | -                   |
| Other income   | -            | 2.7                 |
|  | <b>4.2</b>   | 2.7                 |
| Expenses:  |              |                     |
| Acquisition costs                                      | <b>(2.9)</b> | -                   |
| Reorganisation costs                                   | <b>(2.8)</b> | (1.8)               |
| Impairment of property, plant & equipment              | <b>(0.4)</b> | -                   |
| Impairment of intangibles                              | <b>(1.3)</b> | (5.3)               |
| Costs associated with other income                     | -            | (1.4)               |
|  | <b>(7.4)</b> | (8.5)               |
|  | <b>(3.2)</b> | (5.8)               |

Revenue in 2010 was £157.2m, down 6% on 2009 (restated).

Gross profit in 2010 was £41.2m, down 18% on 2009 (restated). Gross profit percentage was 26% compared to 30% in 2009 (restated).

Further information on the Group's businesses - including performance in 2010 H1 and H2, together with the effect of acquisitions made in 2010 on Revenue and Gross Profit - is provided in the Operational Review.

Although as noted above, Gross Profit in 2010 was down 18% on 2009 (restated), the Group's administrative costs of £41.3m were £6.5m (19%) higher.

The result was that the Group reported an adjusted EBITDA loss of £0.1m (2009 restated: EBITDA £15.6m profit).

Depreciation, amortisation and share scheme charges were £2.8m (2009 restated: £2.0m).

After Highlighted items of £49.2m (2009 restated: £5.8m), the Loss from operations was £52.1m (2009 restated: £7.8m profit).

Foreign exchange gains, which arose from the re-translation of foreign currency borrowings at the exchange rates at the year end, were £1.5m (2009 £nil)

Finance expense (net) of £5.9m (2009: £2.0m) was up almost three-fold, as the Group's net debt rose from £17.3m at 31 December 2009 to £104.4m at 31 December 2010. The Group's cashflow in 2010 and the Group's net debt at year end are explained below.

The Loss before tax was £56.5m (2009 restated: profit £5.9m).

After taxation credit of £2.1m (2009 restated: charge of £2.8m), the Loss for the year was £54.4m (2009 restated: profit: £3.1m).

**ACQUISITIONS**

During 2010 the Group made four acquisitions.

| Acquisition - Country              | Business                                       | Month    | Cash Consideration * | Total Consideration ** | Goodwill on acquisition |
|------------------------------------|--|----------|----------------------|------------------------|-------------------------|
| Orion Locums & MJV Locums - UK *** | Nursing And Healthcare Staffing Locum Business | July     | 3.7                  | 8.5                    | 6.8                     |
| Last Minutes Locums - Australia    | Qualified Doctors Staffing Business            | August   | 4.8                  | 6.1                    | 3.0                     |
| Redwood Health - UK                | Specialist In Nursing Locum Placement          | August   | 5.0                  | 6.7                    | 3.7                     |
| Healthcare Australia - Australia   | Provider Of Nursing Agency Staff               | December | 83.3                 | 83.3                   | 13.0                    |
|                                    |  |          | <b>96.8</b>          | <b>104.6</b>           | <b>26.5</b>             |

\* Of the cash consideration of £96.8m, £96.3m was paid in 2010 and £0.5m deferred consideration was paid in January 2011. The initial cash consideration included the acquisition of £6.6m (net) cash. Therefore the net initial payment was £89.7m, as shown in the Group's cash flow.

\*\* Including contingent consideration at fair value at acquisition date of £7.7m.

\*\*\* Orion Locums and MJV Locums had a common 100% shareholder prior to the acquisition.

The UK acquisitions represent a significant step towards implementing the former Board's strategy of developing a major presence in the UK nursing recruitment market.

The acquisition of Last Minute Locums and especially Healthcare Australia arose from the previous Board's strategy to pursue international acquisitions which would generate additional revenue outside of the UK. The completion of the Healthcare Australia acquisition significantly increases the Group's international operations.

Further information about the acquisitions and their impact on the Group's 2010 performance is provided in the Operational Review and Note 14 to the Financial Statements.

**GOODWILL**

Goodwill may be analysed as follows:

|           | 01 Jan 10   | Additions   | Foreign Exchange | Impairment    | 31 Dec 10   |
|-----------|-------------|-------------|------------------|---------------|-------------|
|           | £m          | £m          | £m               | £m            | £m          |
| Doctors   | 22.4        | -           | -                | (22.4)        | -           |
| QSW       | 20.6        | -           | -                | (15.2)        | 5.4         |
| AHP       | 17.3        | 1.8         | -                | (8.4)         | 10.7        |
| Nursing   | -           | 8.7         | -                | -             | 8.7         |
| Permanent | -           | -           | -                | -             | -           |
| Australia | -           | 16.0        | 0.6              | -             | 16.6        |
|           | <b>60.3</b> | <b>26.5</b> | <b>0.6</b>       | <b>(46.0)</b> | <b>41.4</b> |

As noted above under Critical Accounting Estimates and Judgements, the Group tests for possible impairment of goodwill on an annual basis.

The impairment charge reflects revisions in the assessment of the future cash flows from the business due to reduced margins and changes in the NHS procurement practices.

The recoverable amounts have been determined from value in use calculations based on cash flow projections from formally approved budgets and forecasts for 2011 and 2012 and estimates for subsequent years.

The goodwill impairment of £46.0m arose after goodwill of £87.4m at 31 December 2010 was assessed to have a value in use below its carrying value.

Further information is given in Note 13 to the Financial Statements.

**OTHER INTANGIBLE ASSETS**

As noted above, the Group makes critical accounting estimates and judgements about Other intangible assets.

The Group's Other intangible assets may be analysed as follows:

|                        | <b>2010</b> | 2009 Restated |
|------------------------|-------------|---------------|
|                        | <b>£m</b>   | £m            |
| Brands and trademarks  | <b>33.0</b> | -             |
| Customer relationships | <b>29.2</b> | 2.5           |
| Candidate database     | <b>13.2</b> | -             |
| Non-compete agreements | <b>0.5</b>  | -             |
| Computer software      | <b>1.2</b>  | 1.1           |
|                        | <b>77.1</b> | 3.6           |

An analysis of the geographical distribution of the Group's non-current assets is provided in Note 2 to the Financial Statements.

**DIVIDENDS**

The Directors are not proposing a final dividend for 2010 (2009: 1.9p, £2,003,000).

During 2010, the Company paid dividends of 1.5p per share (on 1 April 2010), 1.9p per share (on 25 June 2010) and declared a dividend of 1.8p per share which was paid on 10 January 2011. At the previous year end, the parent company profit and loss reserves as stated in the year-end financial statements showed reserves of £3,576,000 which were sufficient to cover the first of the dividends. Under the Companies Act 2006 (the "Act"), distributions by the Company must not exceed the amount of the distributable profits that are reported in the Company's last annual accounts unless interim accounts demonstrate that there are sufficient distributable profits. Such interim accounts are required to be filed with Companies House before the dividend is paid.

It has come to the Directors' attention that interim accounts were not prepared and filed and that the dividends paid in June 2010 and January 2011 were therefore potentially unlawful.

Furthermore, as the existence of the errors as discussed in Note 1 may not have been known at the time of declaration of previous dividends, it is possible that the Company did not have sufficient distributable reserves at the time of declaring such dividends. The Directors are seeking advice in relation to the impact of the correction of errors, described in Note 1, in relation to the dividends previously paid.

The Directors are also taking legal advice in relation to the dividends previously paid and what steps would be required to remedy any breach of the law.

Shareholders' attention is drawn to the Independent Auditors' Report and their Emphasis of Matter on the potential illegality of dividends.

**CASHFLOW**

The following table reconciles the Loss for the year to the Cashflow from operating activities:

| <b>Cashflow from operating activities</b>  | <b>2010<br/>£m</b> | 2009 Restated<br>£m |
|--|--------------------|---------------------|
| (Loss) / profit for the year   | <b>(54.4)</b>      | 3.0                 |
| Adjustments for:   |                    |                     |
| Depreciation, amortisation & impairment  | <b>50.0</b>        | 6.8                 |
| Finance expense (net)  | <b>5.9</b>         | 2.0                 |
| Share based payments charges   | <b>0.6</b>         | 0.5                 |
| Corporation tax expense  | <b>(2.1)</b>       | 2.8                 |
| Gain on FV changes in contingent consideration                                       | <b>(4.2)</b>       | -                   |
| Cashflows from operating activities before changes in working capital and provisions | <b>(4.2)</b>       | 15.1                |
| Reduction in working capital and provisions  | <b>9.3</b>         | 4.2                 |
| Cash generated from operations   | <b>5.1</b>         | 19.3                |
| Corporation tax paid   | <b>(4.0)</b>       | (1.0)               |
| <b>Cashflow from operating activities</b>  | <b>1.0</b>         | 18.3                |

The following table analyses Cashflows from Operating, Investing and Financing activities:

| <b>Cashflows from operating activities &amp; investing and financing activities</b> | <b>2010<br/>£m</b> | 2009 Restated<br>£m |
|---|--------------------|---------------------|
| Cashflow from operating activities  | <b>1.0</b>         | 18.3                |
| Investing activities  |                    |                     |
| Acquisition of subsidiaries (net of cash acquired)                                  | <b>(89.7)</b>      | -                   |
| Contingent consideration  | <b>-</b>           | (1.2)               |
| Acquisition of tangible and intangible assets                                       | <b>(1.8)</b>       | (1.9)               |
| Net cash used in investing activities   | <b>(91.5)</b>      | (3.1)               |
| Financing activities  |                    |                     |
| Issue of ordinary shares  | <b>11.7</b>        | 0.2                 |
| New loans acquired  | <b>140.5</b>       | 0.1                 |
| Interest paid   | <b>(12.4)</b>      | (1.9)               |
| Repayment of borrowings   | <b>(24.9)</b>      | (6.2)               |
| Dividends   | <b>(3.6)</b>       | (3.7)               |
| Net cash provided / (used in) financing activities                                  | <b>111.3</b>       | (11.5)              |
| Effect of exchange rates movements  | <b>(2.8)</b>       | -                   |
| <b>Movement in cash *</b>   | <b>18.0</b>        | 3.7                 |

\* Cash and cash equivalents, including short-term borrowings.

**BORROWINGS**

Net borrowings at 31 December 2010 were £104.4m (2009: £17.3m).

As reported under Cashflow above, the significant increase in borrowing is principally due to the loans and mezzanine finance facility taken by the Group to finance acquisitions during 2010.

Net borrowings at 31 December 2010 may be analysed as follows:

|                              | 2010<br>£m    |
|------------------------------|---------------|
| Bank loans:                  |               |
| Loans - Principal amount     | <b>124.6</b>  |
| Less: Unamortised loan fees  | <b>(7.6)</b>  |
| Less: Fair value of warrants | <b>(3.0)</b>  |
|                              | <b>114.0</b>  |
| Bank overdraft               | <b>0.1</b>    |
| Finance lease liability      | <b>0.9</b>    |
|                              | <b>115.0</b>  |
| Less Cash                    | <b>(10.6)</b> |
| <b>Net debt</b>              | <b>104.4</b>  |

Bank loans - Principal amount at 30 June 2011 may be reconciled to 31 December 2010 as follows:

|                             | £m           |
|-----------------------------|--------------|
| At 31 December 2010         | <b>124.6</b> |
| Drawings since the year end | <b>6.6</b>   |
| Capitalised interest        | <b>0.8</b>   |
| Effect of foreign exchange  | <b>(0.3)</b> |
| <b>At 30 June 2011</b>      | <b>131.7</b> |

**CLASSIFICATION OF LOANS AS CURRENT LIABILITIES AND PROPOSED REFINANCING**

The Board believes that it is probable that at 31 December 2010 the Group was in default under the Senior Facilities Agreement ('SFA') and Mezzanine Facility Agreement ('MFA') with its lending banks.

This potential default relates to misrepresentations in relation to financial statements and other information provided by the Group under the SFA and MFA which on signing on 17 December 2010 required the Group to give representations in relation inter alia to financial statements and other financial information some of which are qualified by "the knowledge of the Company". A breach in December 2010 would have occurred if (1) the financial statements did not fairly represent the financial position of the Group or (2) the information representations were not true, bearing in mind what the Company knew at the time. This would apply in relation to (1) above even if neither the Company nor the lending banks knew in December 2010 that the financial statements were inaccurate.

The lending banks have reserved their rights in relation to any defaults that may subsist and have not waived any defaults that may subsist.

If a default does subsist the lending banks would, on service of a notice, have the right, among other things, to require the loans under the SFA and MFA to be repaid immediately.

In these specific circumstances the Board consider it appropriate to classify all of the Group's loans as current liabilities.

The Board has sought to address the Group's financing challenges by way of a Refinancing. The Chairman's Statement sets out the key terms of the proposed Refinancing, which is subject to shareholder approval at the forthcoming General Meeting.

**PRINCIPAL RISKS & UNCERTAINTIES**

The Board's assessment of the Principal Risks & Uncertainties facing the business is set out on pages 24 to 26.

Shareholders' attention is also drawn to Contingent Assets and Liabilities in Note 25 to the Financial Statements.

**POST BALANCE SHEET EVENTS**

On 27 June 2011 the Group announced that it had agreed to sell its Australian Homecare Division to KinCare Health Services Pty Limited for A\$34 million (approximately £22.2 million) before estimated expenses of A\$2 million.

The sale was completed on 18 July 2011 and the net cash proceeds have been used to reduce the Group's debt.

In the year ended 31 December 2010, based on unaudited management accounts, the Homecare Division generated a turnover of A\$44.7 million (approximately £28.1 million), a gross profit of A\$12.2 million\* (approximately £7.6 million) and an EBITDA before highlighted items of A\$4.0 million\* (approximately £2.5 million).

\* for HCA for the year ending 31 December 2010.

The disposal enables the Group to focus on the development of the core UK and Australian businesses and to realise value from non-core elements of the business.

Information on the proposed Refinancing is provided in the Chairman's Statement.

Further information on Post Balance sheet events is provided in Note 30 to the Financial Statements.



**Colin Whipp**

*Interim Chief Financial Officer*

19 August 2011

# OPERATIONAL REVIEW

## KEY FEATURES IN 2010

- Challenging year for the Company, because market dynamics shifted in the UK as a result of changing dynamics of NHS spending initiatives.
- Strategic acquisitions in Australia to diversify from dependence on UK market, with purchase of Last Minute Locums in August 2010 and Healthcare Australia in December 2010.
- Creation of the Nursing division, with critical mass gained through acquisitions of Orion and Redwood Health in the UK.
- UK business remains a Top 3 healthcare staffing provider and the Australian business is the largest provider of nursing agency staff in a consolidating Australian market.
- Revenues across all UK business units under pressure from public spending cuts, resulting in an 18% decline year-on-year (excluding the impact of acquisitions).
- Pricing and margins under pressure across the UK healthcare recruitment sector, with competitive reactions to reduced business from the public sector cuts and a steady movement by trusts to increasingly buy through Framework Agreements at lower margins and with higher compliance requirements.
- Success in negotiating key new contracts with NHS procurement hubs in London, North-West England and Southern England.
- International Placements were affected by tighter immigration rules restricting recruitment from outside the European Union. The division has seen growth in Private Sector, with almost half of revenue now coming from Private Hospitals and clinics.
- Closure of International offices in Far East and Middle East to reduce cost base.

On pages 15 and 16 I report on the Revenue and Gross Profit for 2010 and 2009 and for 2010 H1 and H2, including the impact of acquisitions.

Subsequently, each of the Group's UK divisions and our Australian business report on their performance in 2010 (including the period in 2010 prior to its acquisition by the Group) and provide an update on Current Trading on pages 17 to 23.

## PEOPLE

The Group has been through a very difficult and uncertain period. I would like to thank our staff for their resilience, loyalty and perseverance over the course of the past months.

Across the Group, we have a team of highly experienced and professional personnel. The Board and management are committed to nurturing and developing the careers of all our employees within a structured and performance driven environment.

## STRATEGY

The new Board's strategy is founded on a commitment to strong operational and cost control. It is the intention to grow the business organically, building on what is already a Top Three healthcare staffing business in the UK and a leading Australian healthcare staffing firm.

In the UK, the process of adapting to the changed public sector environment is now well underway in HCL. We are focused on building a long term relationship with the NHS and with private sector providers through a stringent compliance and quality led offering with pricing transparency. We believe that the current economic pressures and the longer term market dynamics referred to below will give rise to opportunities for well-positioned providers to demonstrate efficiency and value for money in outsourcing services.

We have undertaken a detailed review of the internal systems and are now starting to invest in improved systems and compliance structures and are considering a simplified

brand structure, which we believe will enhance our market presence, whilst generating both cost savings and improved productivity.

HCA is the largest nursing agency in Australia and a Panel Supplier (Tier 1) in all States and Territories. Notwithstanding its leading position, we see significant growth opportunities in a consolidating market, particularly in the populous Eastern States. We are in the process of expanding Last Minute Locums, the locum Doctor business acquired in August 2010, from its core market in New South Wales into the other States and we will pursue the same organic strategy for Allied Health Professionals in Australia. Our goal is to build a broadly based specialist healthcare recruitment business in Australia, similar to HCL's position in the UK.

Market dynamics favour the Group's new business model and long term drivers of growth - the growing and ageing population in the UK and Australia, the demand for greater flexibility amongst both healthcare workers and providers - remain unchanged.

I look forward with confidence to reporting to shareholders on our performance in 2011.



**Stephen Burke**  
Chief Executive Officer

19 August 2011

# PERFORMANCE BY SEGMENT

## ANNUAL PERFORMANCE

Performance by segment in 2010 and 2009 may be analysed as follows:

|                             | 2010         |              |             | 2009 Restated |              |      |
|-----------------------------|--------------|--------------|-------------|---------------|--------------|------|
|                             | Revenue      | Gross profit |             | Revenue       | Gross profit |      |
|                             | £m           | £m           | %           | £m            | £m           | %    |
| Doctors                     | <b>33.9</b>  | <b>6.3</b>   | <b>19%</b>  | 49.0          | 12.8         | 26%  |
| Qualified Social Workers    | <b>35.4</b>  | <b>6.8</b>   | <b>19%</b>  | 41.0          | 8.9          | 22%  |
| Allied Health Professionals | <b>60.7</b>  | <b>18.1</b>  | <b>30%</b>  | 65.2          | 21.6         | 33%  |
| Nursing                     | <b>12.0</b>  | <b>2.9</b>   | <b>24%</b>  | 7.5           | 1.9          | 25%  |
| Permanent Placements        | <b>4.6</b>   | <b>4.6</b>   | <b>100%</b> | 4.4           | 4.4          | 100% |
| Australia                   | <b>11.2</b>  | <b>3.0</b>   | <b>27%</b>  | NA            | NA           | NA   |
| Inter-segment *             | <b>(0.7)</b> | <b>(0.5)</b> | <b>NA</b>   | 0.5           | 0.8          | NA   |
| <b>Group</b>                | <b>157.1</b> | <b>41.2</b>  | <b>26%</b>  | 167.6         | 50.4         | 30%  |

\* Inter-segment adjustments, which include other reconciling items, represent removal of the overlapping commission revenue from placements recognised by two or more segments and measurement differences between the basis used to report invoiced transactions to the chief operating decision maker and the basis used in the Consolidated Financial Statements.

2010 may be reconciled to 2009 as follows:

|                  | Revenue      | Gross profit |
|------------------|--------------|--------------|
|                  | £m           | £m           |
| 2009 Restated    | 167.6        | 50.4         |
| Due to:          |              |              |
| Organic business | - 29.5       | -13.7        |
| Acquisitions     | + 19.0       | + 4.5        |
| <b>2010</b>      | <b>157.1</b> | <b>41.2</b>  |

Excluding the impact of acquisitions, revenue in 2010 was down 18% on 2009 and gross profit down 27%.

## KEY PERFORMANCE INDICATORS - KPIs

The three KPIs used by the Group in 2010 all revolved around the gross profit.

The key metrics monitored were as follows:

|                               | 2010       | 2009 Restated | Change |
|-------------------------------|------------|---------------|--------|
|                               | £'000      | £'000         | %      |
| Average gross profit per week | <b>793</b> | 970           | -18%   |
| Gross profit per employee     | <b>91</b>  | 132           | -31%   |
| Gross profit as % of revenue  | <b>26%</b> | 30%           | -4%    |

All three KPIs demonstrate the Group's decline in performance in 2010 compared with 2009.

**2010 PERFORMANCE: H1 & H2 (UNAUDITED)**

Performance by segment in 2010 H1 and H2 may be analysed as follows:

| Revenue                     | H1          |             | H2           |             | Total H2 |
|-----------------------------|-------------|-------------|--------------|-------------|----------|
|                             | Restated    | Organic     | Acquisitions |             |          |
|                             | £m          | £m          | £m           | £m          |          |
| Doctors                     | 17.0        | 16.2        | 0.7          | 16.9        |          |
| Qualified Social Workers    | 18.5        | 16.9        | -            | 16.9        |          |
| Allied Health Professionals | 32.3        | 25.5        | 2.9          | 28.4        |          |
| Nursing                     | 4.5         | 3.3         | 4.2          | 7.5         |          |
| Permanent Placements        | 2.9         | 1.7         | -            | 1.7         |          |
| Australia                   | NA          | NA          | 11.2         | 11.2        |          |
| Inter-segment               | (0.3)       | (0.4)       | -            | (0.4)       |          |
| <b>Group</b>                | <b>74.9</b> | <b>63.2</b> | <b>19.0</b>  | <b>82.2</b> |          |

| Gross Profit                | H1          |             | H2           |             | Total |
|-----------------------------|-------------|-------------|--------------|-------------|-------|
|                             | Restated    | Organic     | Acquisitions |             |       |
|                             | £m          | £m          | £m           | £m          |       |
| Doctors                     | 3.4         | 2.8         | 0.1          | 2.9         |       |
| Qualified Social Workers    | 3.4         | 3.4         | -            | 3.4         |       |
| Allied Health Professionals | 10.0        | 7.4         | 0.6          | 8.0         |       |
| Nursing                     | 1.2         | 1.0         | 0.8          | 1.8         |       |
| Permanent Placements        | 2.9         | 1.7         | -            | 1.7         |       |
| Australia                   | NA          | NA          | 3.0          | 3.0         |       |
| Inter-segment               | -           | (0.5)       | -            | (0.5)       |       |
| <b>Group</b>                | <b>20.9</b> | <b>15.8</b> | <b>4.5</b>   | <b>20.3</b> |       |

Gross profit H2 may be reconciled to H1 as follows:

|                          | £m          |
|--------------------------|-------------|
| 2010 - H1                | 20.9        |
| Organic business         |             |
| Effect of lower Volume   | (3.0)       |
| Effect of lower Margin % | (2.1)       |
|                          | (5.1)       |
| Acquisitions             | 4.5         |
| <b>2010 - H2</b>         | <b>20.3</b> |

| Gross Margin %              | Organic Gross Profit % |            |
|-----------------------------|------------------------|------------|
|                             | H1 Restated            | H2         |
|                             | %                      | %          |
| Doctors                     | 20%                    | 17%        |
| Qualified Social Workers    | 18%                    | 20%        |
| Allied Health Professionals | 31%                    | 29%        |
| Nursing                     | 27%                    | 29%        |
| Permanent Placements        | 100%                   | 100%       |
| Australia                   | NA                     | NA         |
| Inter-segment               | NA                     | NA         |
| <b>Group</b>                | <b>28%</b>             | <b>25%</b> |

Excluding the impact of acquisitions, 2010 H2 revenue was down 16% on H1 and gross profit was down 24%..

# DOCTORS

|              | 2010        |              |            | 2009 Restated |              |     |
|--------------|-------------|--------------|------------|---------------|--------------|-----|
|              | Revenue     | Gross Profit |            | Revenue       | Gross Profit |     |
|              | £m          | £m           | %          | £m            | £m           | %   |
| Organic      | <b>33.2</b> | <b>6.2</b>   | <b>19%</b> | 49.0          | 12.8         | 26% |
| Acquisitions | <b>0.7</b>  | <b>0.1</b>   | <b>14%</b> | NA            | NA           | NA  |
|              | <b>33.9</b> | <b>6.3</b>   | <b>19%</b> | 49.0          | 12.8         | 26% |

2010 v 2009 - Organic **- 32%** **- 52%**

| H1 / H2 split is unaudited | 2010 H2     |              |            | 2010 H1 Restated |              |     |
|----------------------------|-------------|--------------|------------|------------------|--------------|-----|
|                            | Revenue     | Gross Profit |            | Revenue          | Gross Profit |     |
|                            | £m          | £m           | %          | £m               | £m           | %   |
| Organic                    | <b>16.2</b> | <b>2.8</b>   | <b>17%</b> | 17.0             | 3.4          | 20% |
| Acquisitions               | <b>0.7</b>  | <b>0.1</b>   | <b>14%</b> | NA               | NA           | NA  |
|                            | <b>16.9</b> | <b>2.9</b>   | <b>17%</b> | 17.0             | 3.4          | 20% |

H2 v H1 - Organic **- 5%** **- 18%**

## 2010 PERFORMANCE

In 2009 the Doctors division made a strategic choice to focus on higher margin, direct business outside of the Purchasing Framework Agreements, termed 'off contract'. During this time, high demand from the NHS for locum doctors outstripped supply, consequently 'off contract' work was not only profitable for the division, but also more flexible for hospitals where staffing was a key priority.

However during 2010, in response to the public spending cuts, there was a shift in the NHS to buying through the Buying Solutions National Framework, termed 'on contract'. Although at lower margins, supplying through the Framework Agreements offers potentially higher volumes with stricter compliance requirements.

By mid 2010 it was evident that this trend was set to continue. Reversing the earlier strategic decision and to switch the focus to supplying 'on contract' was challenging and required major operational changes for the division, which included adhering to a different set of compliance requirements as well as changed business and administrative processes.

This impacted the division significantly. Essentially a large database of doctors, which had been built over many years, now needed to be converted to National Framework compliance standards. Consequently, margins fell to 'on contract' levels and volumes declined.

Towards the end of 2010, changes were made to the management structure to oversee and focus on the new processes required to ensure the division's database was made fully compliant and available for work under the NHS PASA Framework.

## CURRENT TRADING

The business change process that started in 2010 has continued through the first half of 2011, leaving the division well positioned to grow in the current environment. Margin pressures remain a challenge for the business, however, the outlook remains positive as the NHS is still suffering from a shortage of doctors and there are doctors who choose locum work because of the flexible working conditions.

Our position in the market remains good and recent contract wins within key regions of the UK - such as PROCure (Beds, Bucks, Oxfordshire, Hampshire, IOW) and NWCCA (The North West region) have increased our fill rate opportunities and serve as reference sites for new tenders in the future.

# QUALIFIED SOCIAL WORKERS

|                       | 2010         |              |            | 2009 Restated |              |     |
|-----------------------|--------------|--------------|------------|---------------|--------------|-----|
|                       | Revenue      | Gross Profit |            | Revenue       | Gross Profit |     |
|                       | £m           | £m           | %          | £m            | £m           | %   |
| Organic               | <b>35.4</b>  | <b>6.8</b>   | <b>19%</b> | 41.0          | 8.9          | 22% |
| Acquisitions          | <b>NA</b>    | <b>NA</b>    | <b>NA</b>  | NA            | NA           | NA  |
|                       | <b>35.4</b>  | <b>6.8</b>   | <b>19%</b> | 41.0          | 8.9          | 22% |
| 2010 v 2009 - Organic | <b>- 14%</b> | <b>- 24%</b> |            |               |              |     |

| H1 / H2 split is unaudited | 2010 H2     |              |            | 2010 H1 Restated |              |     |
|----------------------------|-------------|--------------|------------|------------------|--------------|-----|
|                            | Revenue     | Gross Profit |            | Revenue          | Gross Profit |     |
|                            | £m          | £m           | %          | £m               | £m           | %   |
| Organic                    | <b>16.9</b> | <b>3.4</b>   | <b>20%</b> | 18.5             | 3.4          | 18% |
| Acquisitions               | <b>NA</b>   | <b>NA</b>    | <b>NA</b>  | NA               | NA           | NA  |
|                            | <b>16.9</b> | <b>3.4</b>   | <b>20%</b> | 18.5             | 3.4          | 18% |
| H2 v H1 - Organic          | <b>- 9%</b> | <b>+ 0%</b>  |            |                  |              |     |

## 2010 PERFORMANCE

The market for Qualified Social Workers (QSWs) is split between direct supply to Local Authorities and supply through Master Vendors.

Levels of candidate supply were impacted 5 years ago when the academic requirements for QSWs changed from a 2 year diploma to a 3 year degree course leading to a general shortage of candidates. However through 2010, market conditions became much more uncertain, with Local Authorities facing budgetary pressures, despite their need for QSWs.

2010 saw an increasing number of Local Authorities adopt Master Vendor solutions to help manage their supply of flexible workers and to reduce their expenditure. This has resulted in margin pressure and a reduction in the volumes of 'off contract' work available.

## CURRENT TRADING

The demand for QSW's remains acute, however the trend that began to develop towards the end of 2010 of higher case loads for Social Workers, has continued into 2011 affecting the level of demand.

Recent steps have been taken to reduce the cost base and align it to current market conditions. Business processes have also been addressed which we anticipate will result in an increase in fill rates going forward.

# ALLIED HEALTH PROFESSIONALS

|                       | 2010         |              |            | 2009 Restated |              |     |
|-----------------------|--------------|--------------|------------|---------------|--------------|-----|
|                       | Revenue      | Gross Profit |            | Revenue       | Gross Profit |     |
|                       | £m           | £m           | %          | £m            | £m           | %   |
| Organic               | <b>57.8</b>  | <b>17.5</b>  | <b>30%</b> | 65.2          | 21.6         | 33% |
| Acquisitions          | <b>2.9</b>   | <b>0.6</b>   | <b>21%</b> | NA            | NA           | NA  |
|                       | <b>60.7</b>  | <b>18.1</b>  | <b>30%</b> | 65.2          | 21.6         | 33% |
| 2010 v 2009 - Organic | <b>- 11%</b> | <b>- 19%</b> |            |               |              |     |

| H1 / H2 split is unaudited | 2010 H2      |              |            | 2010 H1 Restated |              |     |
|----------------------------|--------------|--------------|------------|------------------|--------------|-----|
|                            | Revenue      | Gross Profit |            | Revenue          | Gross Profit |     |
|                            | £m           | £m           | %          | £m               | £m           | %   |
| Organic                    | <b>25.5</b>  | <b>7.5</b>   | <b>29%</b> | 32.3             | 10.0         | 31% |
| Acquisitions               | <b>2.9</b>   | <b>0.6</b>   | <b>21%</b> | NA               | NA           | NA  |
|                            | <b>28.4</b>  | <b>8.1</b>   | <b>29%</b> | 32.3             | 10.0         | 31% |
| H2 v H1 - Organic          | <b>- 21%</b> | <b>- 25%</b> |            |                  |              |     |

## 2010 PERFORMANCE

The Allied Health Professionals (AHP) division has historically been a supplier of locum staff to the NHS on an 'off contract' basis. This model proved to be very profitable in previous years due to high demand from the NHS and a shortage of skilled staff available.

As a result of the Public Spending cuts in 2010, the division saw the same trend within the NHS to move its flexible staffing purchasing to National Framework contracted agencies and an increase in the creation of Regional Purchasing hubs allowing Trusts to collaborate to purchase goods and services. The result was a decline in hospitals hiring staff from 'off contract' agencies.

The division's response to the new market conditions was affected by the lack of available compliant candidates necessary to be placed within 'on contract' bookings.

## CURRENT TRADING

A key project to migrate locums to Framework supply is well underway, as we move to align ourselves with our customers' requirements.

The division holds the National Framework Agreement contract and regional hub contracts including London, Southern England and the North West, providing an opportunity to increase volumes significantly going forward.

Current trading is in line with plan and we are forecasting a further slight decline in gross profit during H2, due to lower margins not yet being compensated for by higher volumes.

# NURSING

|              | 2010        |              |            | 2009 Restated |              |     |
|--------------|-------------|--------------|------------|---------------|--------------|-----|
|              | Revenue     | Gross Profit |            | Revenue       | Gross Profit |     |
|              | £m          | £m           | %          | £m            | £m           | %   |
| Organic      | <b>7.8</b>  | <b>2.1</b>   | <b>27%</b> | 7.5           | 1.9          | 25% |
| Acquisitions | <b>4.2</b>  | <b>0.8</b>   | <b>19%</b> | NA            | NA           | NA  |
|              | <b>12.0</b> | <b>2.9</b>   | <b>24%</b> | 7.5           | 1.9          | 25% |

2010 v 2009 - Organic **+ 4%** **+ 11%**

| H1 / H2 split is unaudited | 2010 H2    |              |            | 2010 H1 Restated |              |     |
|----------------------------|------------|--------------|------------|------------------|--------------|-----|
|                            | Revenue    | Gross Profit |            | Revenue          | Gross Profit |     |
|                            | £m         | £m           | %          | £m               | £m           | %   |
| Organic                    | <b>3.3</b> | <b>1.0</b>   | <b>30%</b> | 4.5              | 1.1          | 27% |
| Acquisitions               | <b>4.2</b> | <b>0.8</b>   | <b>19%</b> | NA               | NA           | NA  |
|                            | <b>7.5</b> | <b>1.8</b>   | <b>24%</b> | 4.5              | 1.1          | 27% |

H2 v H1 - Organic **- 27%** **- 9%**

## 2010 PERFORMANCE

The Nursing division was formed in October 2010 following the acquisition in July 2010 of Orion Locums Ltd and in August 2010 the acquisition of the business and certain assets of Redwood Health Ltd, including Montague Nursing Agency (based in London) and MPS Healthcare based near Cardiff in Wales.

At the time of acquisition, Montague had the London Procurement Programme contract for the supply of nurses to London and had Service Level Agreements ('SLAs') with a number of NHS Trusts in London. Orion's nursing division held (and continues to hold) the National Framework agreement and the London Procurement Programme contract. In October 2010 Orion's nursing division and Montague Nursing Agency were amalgamated with Nurselink, an existing HCL business operating 'off Framework'. These merged operations are based in our London office.

MPS Healthcare successfully secured another place on the All Wales Agency Project ('AWAP') contract in October 2010. This is a 2 year contract, with an option to extend for a further 2 years. During the AWAP tender process, agencies were scored on quality and price. MPS scored highest on quality and joint 10th on price.

In general, there is a shortage of candidates in the nursing market; this is particularly acute for midwives and specialist nurses. There is the same drive towards using nursing agencies on framework. However, in areas such as Accident & Emergency, Intensive Treatment Units and Paediatrics, opportunities remain to supply outside of the agreements due to severe candidate shortages.

The creation of the UK Nursing division provides HCL with the critical mass from which to expand in a market which is forecast to experience continuing supply shortages in the coming years.

## CURRENT TRADING

Progress in the Nursing division has been very encouraging. We have successfully increased both volumes and gross profit. However, the market remains short of candidates and the main challenge that we face is maintaining the pace of growth of our compliant nursing database.

We have expanded our NHS coverage regionally, providing us access to NHS Framework business in the North West, East and West Midlands, Oxfordshire, Bucks and along the South Coast. MPS Healthcare has consolidated its position as the leading supplier of Nurses and experienced Health Care Support Workers on the All Wales Agency Project, which has been achieved through a commitment to quality and maintaining the highest standards of clinical governance.

We have also successfully developed our capability to service care packages and to provide nursing services which are not in a hospital setting, such as Community Services where demand continues to increase. The pressure on beds in the NHS presents the opportunity to develop the scope of our Community Care Section to include Hospital Admission Prevention Team, Discharge Support Team and End of Life Teams. Such activities regularly use temporary staff, as nurses are often only required for short periods of time.

At present, the NHS represents over 90% of our revenues. However, there are further opportunities to expand our non-NHS client base. As and when waiting times within the NHS increase and other cost cutting measures are implemented, private healthcare service providers are expected to see an increase in demand. HCL Nursing is well placed to meet this demand.

# PERMANENT PLACEMENTS

|              | 2010       |              |             | 2010 H1 Restated |              |      |
|--------------|------------|--------------|-------------|------------------|--------------|------|
|              | Revenue    | Gross Profit |             | Revenue          | Gross Profit |      |
|              | £m         | £m           | %           | £m               | £m           | %    |
| Organic      | <b>4.6</b> | <b>4.6</b>   | <b>100%</b> | 4.4              | 4.4          | 100% |
| Acquisitions | <b>NA</b>  | <b>NA</b>    | <b>NA</b>   | NA               | NA           | NA   |
|              | <b>4.6</b> | <b>4.6</b>   | <b>100%</b> | 4.4              | 4.4          | 100% |

2010 v 2009 - Organic

**+ 5%**    **+ 5%**

| H1 / H2 split is unaudited | 2010 H2    |              |             | 2010 H1 Restated |              |      |
|----------------------------|------------|--------------|-------------|------------------|--------------|------|
|                            | Revenue    | Gross Profit |             | Revenue          | Gross Profit |      |
|                            | £m         | £m           | %           | £m               | £m           | %    |
| Organic                    | <b>1.7</b> | <b>1.7</b>   | <b>100%</b> | 2.9              | 2.9          | 100% |
| Acquisitions               | <b>0.0</b> | <b>0.0</b>   | <b>NA</b>   | NA               | NA           | NA   |
|                            | <b>1.7</b> | <b>1.7</b>   | <b>100%</b> | 2.9              | 2.9          | 100% |

H2 v H1 - Organic

**- 41%**    **- 41%**

## 2010 PERFORMANCE

The Permanent Placements division faced a number of significant challenges during 2010. Candidate sourcing operations in South Korea and Abu Dhabi, set up in 2009, were closed down in 2010 H2, having delivered limited revenue since inception. The North American offices in New York and Toronto also generated minimal revenues whilst incurring significant costs.

Following the UK General Election in May 2010, the tighter immigration rules introduced by the Coalition Government significantly reduced the scope to source candidates from outside of the UK and the European Union, notwithstanding candidate shortages for both nurses and doctors. The division addressed this by focusing on attracting candidates into the UK from other EU countries.

## CURRENT TRADING

The business has been refocused on permanent placements in the UK, particularly attracting international candidates into the UK from European Union countries, as well as candidates based in Australia and New Zealand through the working holiday visa scheme. The loss making North American offices were closed in H1 2011.

We continue to supply highly skilled UK Social Workers into some of Australia's remote areas and are actively engaged in expanding this offering in other parts of Australia.

The total headcount in this division has been reduced from 80 at 31 December 2010 to 30 at 30 June 2011. This provides a solid foundation from which the division can grow as and when market conditions improve. Indeed there have been some early indications that NHS Trusts may now be able to secure higher numbers of Certificates of Sponsorship for critical areas. HCL remains well placed to deliver global sourcing projects to its clients.

# AUSTRALIA

Performance of the two Australian acquisitions made during 2010 from the date of acquisition to 31 December 2010 may be summarised as follows:

|                      | Acquired         | Consideration* | 2010 Turnover | 2010 Gross margin | 2010 Gross margin |
|----------------------|------------------|----------------|---------------|-------------------|-------------------|
|                      |                  | £m             | £m            | £m                | %                 |
| Last Minute Locums   | 01 August 2010   | 6.1            | 1.5           | 1.0               | 67%               |
| Healthcare Australia | 20 December 2010 | 83.3           | 9.7           | 2.0               | 21%               |
|                      |                  | 89.4           | 11.2          | 3.0               | 27%               |

\* Includes Contingent and Deferred consideration

## STRATEGIC RATIONALE

On 1 August 2010 the Group acquired the business and assets of Last Minute Locums Pty Ltd ("LML"), a Sydney based medical staffing business with a database of over 3,500 qualified doctors and operating primarily across New South Wales.

On 20 December 2010, the Group completed the acquisition of 100% of the issued share capital of Healthcare Australia Holdings Pty Ltd (HCA). The acquisition was a key step in the Group's previously stated strategy to pursue international acquisitions which will generate additional revenue outside of the UK.

Importantly the acquisition of HCA significantly enhances HCL's international capability; the Board expects Australia\* will deliver around half of the Group's\* Gross Profit in 2011.

\* excluding the Homecare division, which was sold in July 2011.

## HCA'S BUSINESS, MANAGEMENT AND FINANCIAL PERFORMANCE

*Business:* HCA was established in 2004 and is a leading provider of nursing agency staff to public and private health institutions in Australia; HCA has grown rapidly by acquisition and is the largest national nursing agency in Australia, with operations in all States and Territories and with a database of approximately 6,300 active nurses.

Prior to the sale of the Homecare division in July 2011, the Group's business in Australia comprised three principal divisions:

| Division           | Activity  | % of Revenue * |
|--------------------|---|----------------|
| Nursing Agency     | Provider of nursing agency staff  | 77%            |
| Last Minute Locums | Provider of locum doctors   | 3%             |
| Homecare division  | Provider of professional nursing, health and support services to individuals in their homes | 20%            |
|                    |   | 100%           |

\* estimated for year ended 31 December 2010

HCA and LML's principal customers include the State Departments of Health, Private Hospital Groups, and the Department for Defence.

*Management:* The Board considers that HCA has a strong operational management team and other than the senior management synergies implemented immediately on completion of the acquisition, all senior management remain with the business, reporting to Andy McRae who was appointed Managing Director of HCA on 10 January 2011.

**HCA FINANCIAL PERFORMANCE:**

As detailed in Note 14 of the Financial Statements, HCA was acquired on 20 December 2010.

The following shows the results of this business for the full year including the period prior to acquisition.

|                            | Year to 30 June |                 | 6 months to 31 December |                 |
|----------------------------|-----------------|-----------------|-------------------------|-----------------|
|                            | 2010<br>AUD \$m | 2009<br>AUD \$m | 2010<br>AUD \$m         | 2009<br>AUD \$m |
| Revenue                    | 223.6           | 265.9           | 111.3                   | 117.4           |
| Adjusted EBITDA *          | 17.2            | 20.0            | 7.6                     | 8.6             |
| EBITDA post abnormals      | -               | -               | 2.0                     | -               |
| Profit before Tax          | 1.7             | 0.9             | (6.3)                   | 1.1             |
| Net assets - at period end | 36.4            | 35.1            | 102.1                   | 35.9            |

\* Adjusted EBITDA is before non-recurring items.

Note: All periods prior to acquisition (including the 2009 results) have been taken from the unaudited management accounts.

The EBITDA adjusted for non-recurring items was AUD\$17.2m (2009: AUD\$20.0m). Therefore the acquisition price represented a multiple of 7.1x adjusted historic EBITDA.

The main reason behind the fall in turnover and EBITDA in the year to 30 June 2010 was the decline in billable nursing agency hours due to the shortage of available agency nurses. As at 30 June 2010, HCA had net assets of AUD\$36.4m (2009: AUD\$35.1m).

For information, the AUD\$ exchange rate as at the date of acquisition of HCA was AUD\$ 1.57/£1 as against the year-end rate of AUD\$ 1.53/£1. The average rate for the period post-acquisition period was AUD\$ 1.55/£1.

**MARKET & OPPORTUNITIES**

The nursing agency market in Australia is highly fragmented and is estimated to be worth approximately AUD\$ 1billion in size. HCA is significantly larger than any other company operating in the agency nursing market in Australia and the only company with a truly national geographic footprint. Companies wishing to supply to the Public Health system in Australia are required to be appointed to approved "Panel" supplier lists under contracts of between three and five years duration. HCA is an approved supplier in all States and Territories and thus well positioned to grow its agency nursing business.

The Private Hospital sector in Australia is significant in size and HCA has a number of national exclusive and preferred supplier agreements and state based preferred supplier agreements in place.

Demand for nursing staff in Australia exceeds HCA's present ability to supply although much of this unfilled demand is due to the lack of investment undertaken by HCA's previous Private Equity owners in candidate generation marketing activities. It is hoped that once marketing activity is increased that HCA will be able to increase nurse supply, both domestically and internationally. The largest Australian urban centres in New South Wales, Victoria and Queensland account for some 75% of the total Australian population and yet HCA is underweight in revenue terms in these states. This represents an exciting growth opportunity for the business. LML presently operates primarily in New South Wales and the opportunity exists to expand to all other states in which HCA operates using the existing office network.

It is also the Board's intention to develop an Allied Health division within HCA which will create a broadly based business, very similar to HCL in the UK.

**CURRENT TRADING**

Under previous ownership, there had been a lack of investment in the central services and infrastructure of HCA with the result that the business was ill equipped to take advantage of growth opportunities on a speedy basis. Accordingly, we have made a number of key appointments during the first half of 2011 in sales, marketing and HR which we believe will help drive future growth of the HCA business and have also invested in increasing our candidate generation activities that will commence in the second half of the year. It is hoped that this will help increase nurse supply to meet current unmet demand.

Since the start of the year we have launched a permanent recruitment division in Australia, focusing initially on domestic recruitment into permanent roles of doctors and nurses and we are working closely with the UK to ensure that we capitalise fully on the opportunities to utilise the pipeline of candidates in the UK and Europe that wish to consider working in Australia. Whilst in its infancy the early signs for this division are encouraging.

We are also seeking to leverage existing client relationships within the nursing agency business of HCA to accelerate the growth of LML into other states in Australia other than New South Wales.

# PRINCIPAL RISKS & UNCERTAINTIES

The Group has identified potential principal risks and uncertainties which could have a material impact on its short and / or long term performance.

In order to achieve its business objectives and to enable it to deliver value to all stakeholders, the Board endeavours to mitigate these risks, where possible.

It is not, however, possible to fully mitigate all risks that the Group encounters.

Information on Contingent Assets and Liabilities is provided in Note 25 to the Financial Statements.

During 2011 the Board will be seeking to ensure that risk management is embedded in the strategic planning processes, including a three-year Plan, annual budgeting and forecasting processes and operational practices. This will include establishing risk management procedures, involving the identification and monitoring of strategic and operational risks at various levels of management, including a risk register.

The Board regularly reviews material risks identified.

In addition to market risk, credit risk and liquidity risk (which are covered under Group financial risk management in Note 22 to the Financial Statements) and Contingent assets and liabilities set out in Note 25 to the Financial Statements, the Principal Risks and Uncertainties for the Group have been assessed by the Board as follows:

## 1. Importance of passing the Refinancing Resolutions to complete the Refinancing

In the event that the Refinancing resolutions set out in the Chairman's Statement are not passed at the General Meeting and the Refinancing is not implemented, then the Group will be unable to satisfy its existing financial covenants and / or service its existing borrowings or meet its ongoing funding requirements without further support from the Lenders. In such event, the Group would be in default under the existing facilities. Such a default under the existing facilities, in addition to any default which may subsist under the representations made under the terms of the existing facilities at the time they were entered into, would entitle the lenders to demand repayment of all outstanding amounts and to cancel the facilities. Further, if the Refinancing does not proceed, the banks have informed the Company that they will only continue to support the business on the basis that a sale of all or part of the Group is pursued. This would be likely to involve formal insolvency proceedings for all or part of the Group.

This would, in the Board's opinion, result in Shareholders receiving no value for their current shareholdings.

## 2. Customer relations

In the UK, contracts governed by Framework Agreements (or "FAs") represent a considerable element of the NHS market. A large proportion of the services that the Group provides to the NHS is pursuant to FAs. Services provided under FAs are subject to the NHS terms and conditions. Any material breach of those terms and conditions, or the terms of FAs would enable the NHS to terminate the Group's ability to provide services under the FAs. A loss by the Group of its ability to tender for contracts under the FAs would have a material adverse impact on the business.

In response to the findings of the internal investigation, Grant Thornton was engaged in April 2011. Grant Thornton confirmed the principal findings of the Group's internal investigation. They also investigated certain other issues and identified that historically there were specific transactions which suggest that the Company was not fully complying with the NHS terms and conditions and the terms set out in the Framework Agreements.

The current Board has not had sufficient time to undertake an entire review of the practices within the Group and has therefore focused on the specific areas which have been highlighted by customer complaints or specific issues identified internally. It is possible that there will be further instances of non-compliance with NHS terms and conditions and the terms of FAs which could have a material impact on the business. The Board has committed significant resource to uncovering potential historical breaches of the terms of Framework Agreements and taking appropriate remedial action in relation to any such breaches. The Group is currently in discussion with certain NHS trusts to resolve issues they have raised. Should further issues be raised by customers, the Board will seek to resolve them promptly.

It is possible nevertheless that the NHS may consider that it is in a position to terminate the Group's ability to provide services under the FAs on the basis of the Group's historical performance of those contracts. Alternatively, for the same reasons, it is possible that the NHS may bring proceedings against the Group for breach of contract, or seek to move business away from the Group in the future by procuring services from providers outside the Group. In each case, this could have a material adverse impact on the business. See risk 3 below in relation to dependence on key clients.

In Australia, the Group is a significant provider of agency nurses to the public and private sectors. In this regard the Group is an approved "Panel" supplier of agency nurses to the public health system in all States and Territories in Australia. These contracts may be terminated immediately

in the event of a breach or by notice. The termination of these contracts would have a material adverse impact on the business.

Further, the Group also has exclusive or preferred supplier agreements on either a National or State basis with private sector health providers in Australia. Several agreements contain Key Performance Indicators (KPI) targets. Failure to achieve the KPI targets could result in those contracts being terminated which would have a material adverse impact on the business.

More generally, there is a risk that in some cases customers' willingness to trade with the Group may be adversely affected by the impact which the circumstances giving rise to the investigation - as reported in the Chairman's Statement - may have on the Group's reputation or by the current state of the Group's finances, which the Refinancing is intended to address.

## 3. Dependence on key clients

Significant exposure to one or a few clients (such as the NHS in the UK or the various State and Territory health systems in Australia) is an area of risk. In the event that any such clients cease to procure services from the Group, or do not pay for services provided by the Group in a timely manner, this may have a material adverse effect on the Group's cash flow and prospects.

## 4. Litigation and Claims

All current significant litigation against the Company and possible claims that the Company may be able to bring are summarised or referred to in Note 25 of the Financial Statements. The Group has dismissed a number of employees in the recent past, following the investigations that have taken place in the UK. It is possible that the dismissal of employees may lead to claims being brought by those employees, although the Company is not aware of any such claims being threatened (other than claims disclosed to in Note 25 of the Financial Statements).

The current Board is not aware of any other significant litigation or threatened significant litigation against the Group, other than disclosed in Note 25 of the Financial Statements. However, in light of the circumstances giving rise to the investigation referred to in the Chairman's Statement, it is possible that further significant litigation may be commenced by parties who consider that they have claims against the Company arising out of the financial irregularities. Litigation is time consuming and can be expensive. Litigation against the Group could have a material adverse impact on the business, its reputation and the financial condition of the Group.

The Company is listed on AIM. In light of the accounting irregularities that have come to light, referred to in the Chairman's Statement, it is possible that regulatory bodies may carry out an investigation or investigations into the Company.

In the event that any such investigation finds that the Company is culpable, it may give rise to a liability on the Company to pay compensation to those affected, or a fine. Any such finding could have a material adverse impact on the business, reputation and financial condition of the Group.

#### 5. *Integrity of compliance controls*

In the UK under FAs the Group has an obligation to provide agency workers to the NHS that are compliant in respect of all categories listed in the relevant FA, NHS terms and conditions or service level agreement. Under the current Board the Group makes every effort to provide only compliant agency workers to the NHS. To the extent that the Group has complied with FAs, the FAs provide that the Group will not be liable for any damages resulting from clinical negligence attributable to an agency worker. Any such liability would fall on the relevant NHS trust, and there is a NHS clinical negligence insurance scheme in place.

If the Group were to provide an agency worker to the NHS under a FA, but not compliant with the FA, and that agency worker was negligent in a manner related to the non-compliance, then not only would the Group have breached the FA, and be susceptible to termination of the FA by the NHS, but the Group could incur a substantial liability and suffer reputational risks. To date no such claims have ever been pursued or notified against the Group. The Group does not hold insurance for this type of liability.

Similar issues arise for the Group under its contracts with other customers as well as the NHS. Any such uninsured claim or claims could have a material adverse effect on the Group's business, financial condition and results of operations. In addition, claims, regardless of their merit or eventual outcome, may have a material adverse effect on the Company's reputation.

#### 6. *New business plan*

In light of the historical issues that arose in the UK under the previous management, and as a part of the restructuring currently taking place, the Group's intention is to implement a new three year business plan which involves a re-focusing of the Group's UK business. As with any new business plan, there is execution risk. There is a risk that the new business plan will not succeed, or may take longer to achieve than planned, and its ability to gain market share in the FA market is not successful. This could have a material adverse impact on the business.

#### 7. *Board recently appointed*

The current Board were appointed between February and May this year. There is a risk that, notwithstanding the review which the Board has so far been able to undertake of the practices within the Group, other matters may come to light of which the Board is not currently aware, and which may have a material adverse impact on the business.

#### 8. *Self-employed staff*

In the UK the Group makes significant use of self-employed staff. HMRC could seek to challenge that self-employed status and recover income tax through the Pay As You Earn system and National Insurance Contributions (and any associated interest and penalties) from the Group. This could have a material adverse impact on the business. The Group takes all steps to minimise these risks.

#### 9. *Umbrella Companies and Managed Service Companies*

In the UK the Group makes significant use of umbrella companies for the purpose of supplying agency workers. Whilst steps are taken to ensure those umbrella companies are not Managed Service Companies as defined in section 61B Income Tax (Earnings and Pensions) Act 2003, if HMRC were able to assert successfully that such companies were Managed Service Companies there could be a liability to HMRC.

Additionally because the use of Managed Service Companies is forbidden under the FAs, if any of the agency workers recruited through any such companies had been provided to the NHS under FAs, the Group could be exposed to claims of damages for breach of contract and the risk that the NHS might terminate the contracts under the FAs.

Where the new Board has identified a specific concern about any individual umbrella company on which it has not been able to satisfy itself it has taken steps to cease to use that company to supply agency workers.

#### 10. *A change in treatment of flexible staff for UK tax, employment and benefits purposes could result in increased costs.*

When the UK government introduces legislation to implement the Temporary Agency Workers Directive there will be a requirement to give agency workers engaged for a period of more than 12 weeks at least the same basic working and employment conditions as other employees of the client or the same basic working and employment conditions that they would have received had they been recruited directly by the client. This may make the use of agency workers less attractive to the Group's customers.

The Pensions Act 2008 is to be phased in over a number of years and is likely to result in the Group having to contribute a minimum of 3% of the agency workers' qualifying earnings by way of a pension contribution. This will be an additional cost to the Group and it is not yet clear whether, or the extent to which, the Group will be able to recover that cost from its customers. If the Group is not able to recover that costs from its customers, there may be a material adverse impact on the Group's profit and growth margins. Any other changes in the treatment of flexible staff for tax, employment and benefits purposes

in the UK or Australia could result in increased costs for the business.

#### 11. *Technology systems*

The successful operation of the Group's business depends upon maintaining the integrity of the Group's IT systems, which currently suffer from underinvestment. However, these systems and operations are vulnerable to damage, breakdown or interruption from events which are beyond the Company's control, such as fire, flood and other natural disasters; power loss or telecommunications or data network failures; improper or negligent operation of the Group's system by employees or unauthorised physical or electronic access; and interruptions to internet system integrity generally as a result of attacks by computer hackers or viruses or other types of security breaches. Any such damage or interruption could cause significant disruption to the operations of the Group. This could be harmful to the Group's business, financial condition or operating results and reputation and could deter current or potential customers from using its services.

There can be no guarantee that the Group's security measures in relation to its computer, communication and information systems technology will protect it from all potential breaches of security, and any such breach of security could have an adverse effect on the Group's business, financial condition or operating results.

Immediately following completion of the Refinancing the Board will need to implement a review and upgrade of the Group's existing IT systems in both the UK and Australia. This may cause some disruption to the business while the review and upgrade is taking place, but when complete should among other things result in a material enhancement of the Group's existing disaster recovery capability beyond its current limited capability.

#### 12. *VAT*

The First Tier Tax Tribunal held, in the case of Reed Employment Limited v H.M. Revenue & Customs, that supplies for VAT purposes by a particular recruitment business to its clients were supplies of introductory and ancillary services and not supplies of staff. The case suggests that other employment businesses may, historically, have incorrectly charged VAT to their customers. This is because many employment businesses, including the UK Company, have charged VAT not only by reference to the amount of their commission but also on the value of all the payments related to the worker supplied including remuneration, Pay as You Earn (PAYE) and National Insurance Contributions. The Tribunal stated that VAT was chargeable only on the commission element of the supply. The effect of the decision is that the UK Company's clients may seek repayment of VAT charged by the UK Company on any amounts other than the UK

Company's commission. The Company may not be able to fully recover this VAT from HMRC.

### 13. *Changes in government spending and policy*

Any change of government spending, policy or change of administration could have an adverse effect on the financial prospects of the Group in the UK and in Australia. In addition, NHS funding in the UK, or public health funding in Australia, may become more dependent upon private funding including compulsory company or private insurance schemes. It is not possible to foresee what the impact of such a change may have on the prospects of the business. The NHS is under pressure to realise a considerable improvement in its financial performance. This could result in the reduced usage of Agency staff.

The business is dependent upon NHS trusts and its customers in Australia continuing to use agency staff. If these customers are not sufficiently funded there is a risk that they will reduce the use of agency staff which may have an adverse impact on the Group.

### 14. *Dependence on retention and recruitment of key personnel*

The success of the Group and its business strategy are dependent on its ability to retain and attract management, and key sales, marketing and other operating personnel with the relevant expertise and experience. As the Group expands, the Group will need to recruit and integrate additional personnel. In a period of high growth, the loss of the services of one or more members of the management group or the inability to recruit and effectively integrate additional personnel as needed could have an adverse effect on the Group's its business, financial condition and results. One of the execution risks related to the three-year business plan (see risk 6) is the retention and recruitment of key personnel.

### 15. *Shortage of candidates and skills*

The Group's clients often require large numbers of staff, both contract and permanent. To meet this demand, the Group has developed increasingly sophisticated and flexible recruitment services. The quality and size of the Group's database of locums is key to the success of the Group. However, it cannot guarantee that it will be able to supply sufficient numbers of, or suitably skilled, locums and other candidates to meet the future demand of its clients. This may adversely affect the Group's business. One of the execution risks related to the three year business plan (see section 6 above) is the retention and recruitment of locums.

### 16. *Outsourced services*

The Group's UK business is dependent for the delivery of a number of its services on outsourcing contracts, some of which are performed outside of the UK. As a result the Group does not have management control of

a number of the operations that are critical to the efficient running of its business and could potentially suffer service failures or IT or other technical failures. Although in these cases the Group may be entitled to change supplier, its ability to do so and the cost of doing so would be dependent on the terms of the individual contracts and there would be a risk in any event of the Group suffering material business disruption in making any such change.

### 17. *Exposure of the Group to economic conditions*

Demand for the Group's services may be significantly affected by the general level of economic activity and economic conditions in the regions and sectors in which the Group operates. If there is an actual or perceived threat of economic downturn, many companies hire fewer employees. Therefore, an actual or perceived economic downturn, especially in regions where the Group's operations are more focused, could have a material adverse effect on the Group's business and financial results. In addition, there may be a delay between the emergence of an actual or perceived threat of economic downturn and the impact this could have on the Group's financial results.

### 18. *Changes in regulatory environment*

Changes in employment law and working time regulations may have an adverse impact on the Group's business in the UK and in Australia. In addition, regulation governing the use of staff from abroad may impact on the Group's ability to source staff from some of its current overseas partners.

### 19. *Competitive environment*

In the UK and Australia, the markets for the provision of permanent, temporary and flexible staff are highly competitive and fragmented. In these well developed markets, competitor risk manifests itself in continued competition for clients and candidates and in pricing pressures. Competitors range from large multi-national organisations to small privately-owned local businesses. In all of the Group's markets, it is continually subject to both existing and new competitors.

### 20. *Investment in new sectors and geographical markets*

Failure to expand into new markets could result in a business growing to saturation point within a specific sector, thereby impairing the potential for growth in that sector.

### 21. *Financing*

In addition to the matters which have given rise to the Refinancing, as a more general matter a failure to secure adequate financing, whether to fund expansion, to finance the slowing of payment terms or financing bad debt, would have a material effect on results of the Group.

### 22. *Adequacy of insurance coverage*

A failure to hold sufficient insurance cover could result in the Group having to fund uninsured losses.

The Group's insurance policies are generally subject to exclusions, so if an event occurs which falls within any such exclusion the Group would be unable to claim under the applicable policy.

### 23. *Integrity of financial controls*

Since it was formed earlier in 2011, the new Board has sought to ensure that appropriate measures have been taken and new systems put in place so that management accounts can be relied upon in the future. However, a failure to maintain sufficient financial controls may lead to reputational damage and financial loss or to incorrect and / or incomplete financial information used to manage the business.

### 24. *Exchange rate risk*

Exchange rate fluctuations may affect the cash flow that the Group will realise from its operations. The Group's revenues and costs are incurred primarily in British pounds and Australian dollars. Fluctuations in exchange rates between currencies in which the Group operates may cause fluctuations in its financial results which are not necessarily related to the Group's underlying operations.

### 25. *Interest rate risk*

The Group is exposed to the risk that a rise in interest rates will increase the interest payments of the Group, principally through increases in the interest payable under the Amended and Restated Facilities Agreement and any other borrowings of the Group which are variable. The Group has entered into interest rate swaps and interest rate caps to seek to mitigate this risk.

### 26. *Credit risk*

The Group has implemented policies that require appropriate credit checks on potential customers to be made before sales are made. Procedures have been put in place to seek to ensure that customers pay on a timely basis. However, a failure of a major customer to meet its contractual obligations may adversely affect the Group's business.

On behalf of the Board



**Peter Sullivan**

Chairman

19 August 2011

# DIRECTORS AND ADVISERS

Healthcare Locums Plc is a public limited company incorporated in England.

|   |  |   |
|---|--|---|
| <b>DIRECTORS</b>                            | Peter Sullivan<br>Stephen Burke<br>Colin Whipp<br>Andrew McRae<br>David Henderson<br>Martin Hughes   | Chairman, Non-Executive<br>Chief Executive Officer<br>Interim Chief Financial Officer &<br>Interim Chief Restructuring Officer<br>Managing Director of Healthcare Australia<br>Non Executive Director |
| <b>COMPANY SECRETARY</b>                    |  |   |
| <b>REGISTERED OFFICE OF THE COMPANY</b>     | 10 Old Bailey, London EC4M 7NG   |   |
| <b>NOMINATED ADVISER &amp; JOINT BROKER</b> | Fairfax I. S. plc<br>46 Berkeley Square<br>Mayfair<br>London<br>W1J 5AT  |   |
| <b>JOINT BROKER</b>                         | Jefferies International Limited<br>Vintners Place<br>68 Upper Thames Street<br>London<br>EC4V 3BJ  |   |
| <b>FINANCIAL ADVISER</b>                    | Hawkpoint Partners Limited<br>41 Lothbury<br>London<br>EC2R 7AE  |   |
| <b>AUDITORS</b>                             | BDO LLP<br>55 Baker Street, London W1U 7EU   |   |
| <b>SOLICITORS</b>                           | SNR Denton UK LLP<br>One Fleet Place, London EC4M 7WS  |   |
| <b>LENDERS</b>                              | Ares Capital Europe Limited<br>1 Finsbury Square<br>London<br>EC2A 1AE<br><br>Commonwealth Bank of Australia<br>Level 8, 201 Sussex Street<br>Sydney<br>NSW 2000<br><br>National Australia Bank Limited<br>Level 25, 255 George Street<br>Sydney<br>NSW 2000 |   |
| <b>BANKERS</b>                              | Lloyds TSB Bank plc<br>City Office, PO Box 72<br>Bailey Drive, Gillingham, Kent ME8 0LS  |   |
| <b>FINANCIAL PUBLIC RELATIONS ADVISERS</b>  | Pelham Bell Pottinger<br>6th Floor, Holborn Gate<br>330 High Holborn<br>London WC1V 7QD  |   |
| <b>REGISTRARS</b>                           | Capita Registrars<br>The Registry, 34 Beckenham Road<br>Beckenham, Kent BR3 4TU  |   |

# DIRECTORS

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The biographies of the current Directors are as follows:



**Peter Sullivan**  
Chairman

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 these regions. He joined Standard Chartered in 1994, having previously spent fourteen years with Citibank in Sydney, Singapore, Chicago and London in a variety of senior positions. He currently holds a number of Directorships of public companies.



**Stephen Burke**  
Chief Executive Officer

Appointed 10 May 2011.

Stephen has approximately 30 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 main Board 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 Europe. He was responsible for significant growth in each of the business units and was appointed to the Michael Page 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 has most recently been a Non-Executive Board Director for Matchtech Group, the AIM listed technical and professional services recruitment company, a post he has held since 2006.



**Colin Whipp**  
Interim Chief Financial Officer & Interim Chief Restructuring Officer

Appointed 10 May 2011.

Colin, a Chartered Accountant and Member of the Institute for Turnaround, has played a significant role in the stabilisation and recovery of HCL since March. He has extensive senior experience in multinational public and private sector companies in turnaround situations, particularly in Health, and has worked in some of the UK largest NHS Acute Teaching hospitals.

Colin has announced that following the successful stabilisation and recapitalisation of the company he will be stepping down from his Interim role. The Company has therefore already started the process of recruiting a permanent Chief Financial Officer.



**Andrew McRae**

*Managing Director of Healthcare Australia Holdings Pty Ltd*

Appointed 10 May 2011.

Andy was instrumental in overseeing the integration into HCL of HCA, which was acquired in December 2010. Formerly Managing Director of international operations at Hays Plc, later Managing Director of the UK & Ireland and an executive director of HCL, Andy is a Chartered Accountant and has worked in the human capital sector for the last 16 years and in the specialist recruitment sector for the last six years. Andy has worked in both public and private company sectors.



**David Henderson**

*Non-Executive Director*

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 Advisor to the Bank where he continues to support a number of senior client relationships. He currently holds a number of directorships of public companies.

**FINANCE AND AUDIT COMMITTEE**

**David Henderson** - *Chairman*  
**Peter Sullivan**  
**Colin Whipp**

**REMUNERATION COMMITTEE**

**David Henderson** - *Chairman*  
**Peter Sullivan**

**NOMINATIONS COMMITTEE**

**Peter Sullivan** - *Chairman*  
**David Henderson**

**Financial Statements**

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# REPORT OF THE DIRECTORS

The Directors present their report and business review together with the audited financial statements for the year ended 31 December 2010.

## GOING CONCERN

The Consolidated Financial Statements have been prepared on a Going Concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

Shareholders' attention is drawn to further information on Going Concern which is set out in the Statement of Significant Accounting Policies in the Financial Statements.

In forming their opinion that Going Concern is an appropriate basis, the Directors have reviewed forecasts for the period to 31 December 2012, which have been drawn up with appropriate regard for the current macroeconomic environment and the particular circumstances in which the Group operates. These were prepared with reference to historic and current industry knowledge, taking into account the Board's strategy for the Group.

The Directors have taken into account conditions which could indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a Going Concern. These are set out in the Statement of Significant Accounting Policies in the Financial Statements.

The Directors are confident that the proposed Refinancing will be successful and approved by shareholders. On this basis, they have prepared the Consolidated Financial Statements on a going concern basis. However, there is a risk that shareholders do not approve the proposed Refinancing.

The Consolidated Financial Statements do not contain the adjustments that would be necessary were the Group unable to continue as a Going Concern.

Although the Directors believe the Going Concern basis is the most appropriate basis on which to prepare the Consolidated Financial Statements, the risk noted above that the shareholders do not approve the proposed Refinancing constitutes a specific material uncertainty. This may cast significant doubt over Going Concern, and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Given the inherent uncertainty about future events and as with all business forecasts, the Directors' statement cannot guarantee that the Going Concern basis will remain appropriate given the inherent uncertainty about future events.

Shareholders' attention is drawn to the Independent Auditors' Report and their Emphasis of Matter on Going Concern.

## RESTATEMENT OF TOTAL EQUITY FOR ACCOUNTING ERRORS & FOR CHANGE IN ACCOUNTING POLICIES

Together with an approach by the Financial Reporting Review Panel (FRRP) on the Candidate database, the reviews set out in the Chairman's Statement have identified some items which the Directors believe had not been accounted for appropriately during 2009 and earlier years. In accordance with IAS 8 "Accounting Policies, Changes in Estimates and Errors", the nature of the errors, the change in accounting policy and the impact on each financial item affected is stated in Note 1 to the Financial Statements.

## GROUP PERFORMANCE

The Consolidated Statement of Comprehensive Income is set out on page 41 and shows the Group loss from operations was £52.1m (2009 restated: profit £7.9m).

Loss before tax was £56.5m (2009 restated: profit £5.9m).

Loss per share was 50.0p (2009 restated: earnings 2.9p).

Information about performance, including further details about the goodwill impairment of £46.0m (2009:£Nil) is given in the Chairman's Statement, the Financial Review, the Operational Review (including Key Performance Indicators) and the Financial Statements.

## PRINCIPAL ACTIVITIES, INCLUDING TRADING REVIEW AND FUTURE DEVELOPMENTS

The principal activity of the Group and each of the trading subsidiaries is that of a recruitment agency, providing temporary and permanent staff to the healthcare and social care sectors.

Consideration of the trading review and future developments of the Group is included in the Chairman's Statement and the Operational Review (including Key Performance Indicators - KPIs)

## PRINCIPAL RISKS & UNCERTAINTIES

The Board's assessment of the Principal Risks & Uncertainties facing the business is set out on pages 24 to 26.

Information on Contingent Assets and Liabilities is provided in Note 25 to the Financial Statements.

## DIVIDENDS

On 1 April 2010 a second interim dividend relating to 2009's results of 1.5p per share (£1,578,000) was paid.

On 25 June 2010 a final dividend relating to 2009's results of 1.9p per share (£2,003,000) was paid.

Subsequent to the year end, on 10 January 2011 a dividend of 1.8p per share (£2,030,000) was paid.

The Directors are not proposing a final dividend for 2010 (2009: 1.9p, £2,003,000).

During 2010, the Company paid dividends of 1.5p per share (on 1 April 2010), 1.9p per share (on 25 June 2010) and declared a dividend of 1.8p per share which was paid on 10 January 2011. At the previous year end, parent company profit and loss reserves as stated in the year-end financial statements showed reserves of £3,576,000 which were sufficient to cover the first of the dividends. Under the Companies Act 2006 (the "Act"), distributions by the Company must not exceed the amount of the distributable profits that are reported in the Company's last annual accounts unless interim accounts demonstrate that there are sufficient distributable profits. Such interim accounts are required to be filed with Companies House before the dividend is paid.

It has come to the Directors' attention that interim accounts were not prepared and filed and that the dividends paid in June 2010 and January 2011 were therefore potentially unlawful.

Furthermore, as the existence of the errors as discussed in Note 1 may not have been known at the time of declaration of previous dividends, it may be possible that the Company did not have sufficient distributable reserves at the time of declaring such dividends. The Directors are seeking advice in relation to the impact of the correction of errors, described in Note 1, in relation to the dividends previously paid.

The Directors are also taking legal advice in relation to the dividends previously paid and what steps would be required to remedy any breach of the law.

Shareholders' attention is drawn to the Independent Auditors' Report and their Emphasis of Matter on the potential illegality of dividends.

#### SHARE CAPITAL

The ordinary share capital of the Company has a nominal value of £0.10 per share.

The movement in the year may be reconciled as follows:

|  | Number<br>Million | Value £m    |
|--|-------------------|-------------|
| At 1 January 2010  | 104.7             | 10.5        |
| Issued during the year   |                   |             |
| Exercise of share options granted  | 1.3               | 0.1         |
| July 2010: Placing as part of the funding for the acquisition of Redwood Health Ltd. | 7.3               | 0.7         |
| <b>At 31 December 2010</b>   | <b>113.3</b>      | <b>11.3</b> |

Further information is provided in Note 23 to the Financial Statements.

#### EQUITY

The table below reconciles changes in equity from that previously reported at 31 December 2009 to that reported at 31 December 2010:

|   | £m         |
|---|------------|
| At 31 December 2009                             |            |
| As previously reported                          | 67.2       |
| Re-statement *                                  |            |
| Accounting errors                               | (15.3)     |
| Change in accounting policy                     | (4.0)      |
| Less tax impact                                 | 2.1        |
|   | (17.2)     |
| As restated                                     | 50.0       |
| Total comprehensive (loss) for the year         | (54.2)     |
| Dividends                                       | (3.6)      |
| Issue of share capital, including share premium | 11.7       |
| Warrants issued                                 | 3.0        |
| Credit relating to share scheme charges         | 0.6        |
| <b>At 31 December 2010</b>                      | <b>7.5</b> |

\* Further information is provided in the Financial Review and Note 1 to the Financial Statements.

#### 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.

The number of day's purchases outstanding for the Group and the Company at 31 December 2010 is calculated at 49 days (2009: 43 days) and 42 days (2009: 50 days) respectively.

Due to the cash flow constraints that the UK operations were under as at 31 December 2010, without formal approval or agreed payment arrangement, the Group fell behind with payments to Her Majesty's Revenue & Customs ('HMRC') by £6.4m. As at the date of this report this overdue position has been reduced to £0.6m and formal dialogue with HMRC is continuing.

#### CORPORATE RESPONSIBILITY

The Board recognises its employment, environmental and health and safety responsibilities. It devotes appropriate resources towards monitoring and improving compliance with existing standards. The Executive Directors have responsibility for these areas at Board level, ensuring that the Group's policies are upheld and providing the necessary resources.

#### THE COMMUNITY, INCLUDING CHARITABLE AND POLITICAL DONATIONS

The Group is committed to providing support to the community and society through a number of charitable activities. During the year the Group made charitable donations of £26,000 (2009: £19,000).

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

The Directors consider the impact on the community in making their decisions.

#### DISABLED PERSONS

The Group and the Company's policy is to consider the applications of disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as 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.

Details about the Company's employee share option scheme for UK employees are set out in Note 29 to the Financial Statements.

**DIRECTORS AND THEIR INTERESTS**

The Directors who served during the year, together with the date they left the Board, were:

| Director         | Position                | Date of Termination of Appointment |
|------------------|-------------------------|------------------------------------|
| Kate Bleasdale   | Executive Vice Chairman | 23 February 2011                   |
| Mo Dedat         | Chief Operating Officer | 1 March 2011                       |
| Diane Jarvis     | Chief Financial Officer | 24 March 2011                      |
| Alasdair Liddell | Non Executive Director  | 31 March 2011                      |
| Alan Walker      | Chairman                | 18 February 2011                   |

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

Since the year end the following have been appointed as Directors:

| Director        | Position  | Date of Appointment |
|-----------------|---|---------------------|
| David Henderson | Non Executive Director  | 18 February 2011    |
| Peter Sullivan  | Non Executive Chairman  | 18 February 2011    |
| Stephen Burke   | Chief Executive Officer   | 10 May 2011         |
| Andrew McRae    | Managing Director of Healthcare Australia Holdings Pty Ltd            | 10 May 2011         |
| Colin Whipp     | Interim Chief Financial Officer & Interim Chief Restructuring Officer | 10 May 2011         |

The biographical details of the Directors of the Company as at the date of this report are set out on pages 28 and 29.

At the Annual General Meeting held on 29 June 2011 all the Directors appointed in 2011 were re-elected.

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 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.

**SUBSTANTIAL SHAREHOLDERS**

In addition to the Directors' interests shown in the Remuneration Report on page 35, 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                | %     |
|----------------------------|-------|
| Mason Hill Advisors        | 20.29 |
| Toscafund Asset Management | 15.04 |
| Healthmark UK              | 8.83  |

The Company has been informed that Ms Kate Bleasdale, a former Director, is a beneficial owner of the shares held by Healthmark UK.

**RELATED PARTY TRANSACTIONS**

Information is provided in Note 28 to the Financial Statements.

**DISCLOSURE OF AUDIT INFORMATION**

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.

**AUDITORS**

The Independent Auditors are currently BDO LLP, who have acted in this capacity since 2005. Julian Frost is the Senior Statutory Auditor.

Following a recommendation by the Audit Committee, the Board considers that it is appropriate to undertake a tender for the audit before the 2011 Financial Statements are presented to shareholders. The outcome of the tender process will be reported to shareholders in due course.

Accordingly, no resolution will be proposed at the General Meeting for the appointment or re-appointment of auditors.

**POST BALANCE SHEET EVENTS**

The Board draws shareholders' attention to the proposed refinancing which is set out in the Chairman's Statement.

Further information on Post Balance Sheet events is provided in Note 30 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*

19 August 2011

# REPORT ON REMUNERATION

## REMUNERATION COMMITTEE

The remuneration and emoluments of Executive Directors are determined by the Board based on the recommendations of the Remuneration Committee. The composition of the Remuneration Committee both during 2010 and currently is set out on page 37.

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

## DIRECTORS' REMUNERATION

|                               | 2010                            | 2010              | 2010           | 2009<br>Restated* | 2010             | 2009             |
|-------------------------------|---------------------------------|-------------------|----------------|-------------------|------------------|------------------|
|                               | Salary, Fee<br>& Bonus<br>£'000 | Benefits<br>£'000 | Total<br>£'000 | Total<br>£'000    | Pension<br>£'000 | Pension<br>£'000 |
| Executive Directors           |                                 |                   |                |                   |                  |                  |
| Kate Bleasdale                | 318                             | 9                 | 327            | 746               | -                | -                |
| Diane Jarvis                  | 187                             | 30                | 217            | 498               | 13               | 13               |
| Carole Hepburn <sup>(1)</sup> | -                               | -                 | -              | 230               | -                | -                |
| Mo Dedat                      | 259                             | 2                 | 261            | 535               | -                | -                |
| A McRae <sup>(2)</sup>        | -                               | -                 | -              | 675               | -                | -                |
| Non-Executive Directors       |                                 |                   |                |                   |                  |                  |
| Alasdair Liddell              | 86                              | -                 | 86             | 95                | -                | -                |
| Alan Walker <sup>(3)</sup>    | 102                             | -                 | 102            | 110               | -                | -                |
| <b>Total</b>                  | <b>952</b>                      | <b>41</b>         | <b>993</b>     | <b>2,889</b>      | <b>13</b>        | <b>13</b>        |

1. Carole Hepburn resigned on 19 January 2009. £90,000 compensation for loss of office is included in the 2009 amount.
2. Andy McRae was appointed Director on 19 January 2009 and resigned as a Director on 7 September 2009. He was re-appointed a Director on 10 May 2011. £470,000 compensation for loss of office is included in the 2009 amount.
3. Alasdair Liddell received a bonus of £50,000 (2009: £60,000).
4. Alan Walker controls Alfa International Ltd. Included in the 2010 amount is a bonus of £50,000 (2009: £60,000) paid to Alfa International Ltd.

The 2009 Financial Statements as originally reported did not accrue for the bonuses payable to the then Executive Directors for which the current Directors believe there was a constructive liability at 31 December 2009. These bonuses were paid in the first half of 2010.

## DIRECTORS' SHARE INTERESTS

As at 31 December 2010 the Directors serving at that date had the following beneficial interests in the issued shares of the Company:

|                  | Ordinary shares of 10p<br>at 31 December 2010 | Ordinary shares of 10p<br>at 31 December 2009 |
|------------------|---|---|
| Kate Bleasdale   | 12,107,854                                    | 10,062,569                                    |
| Diane Jarvis     | 64,273  | 54,773  |
| Mo Dedat         | 35,500  | 27,000  |
| Alasdair Liddell | 86,202  | 75,152  |
| Alan Walker      | 108,000                                       | 98,000  |

None of the Directors appointed since the year end have beneficial interests in the issued shares of the Company at the date of this report.

The amounts originally reported may be reconciled with the amounts now reported as follows:

|                     | £'000 | £'000 |
|---------------------|-------|-------|
| Originally reported |       | 2,268 |
| Adjustments         |       |       |
| Kate Bleasdale      | 240   |       |
| Diane Jarvis        | 165   |       |
| Mo Dedat            | 216   |       |
|                     |       | 621   |
| As restated         |       | 2,889 |

The restated 2009 Financial Statements have also accrued £76,000 for Employer's National Insurance costs.

As at 31 December 2010 the Directors serving at that date who had interests over unissued ordinary shares of 10p pursuant to share options granted by the Company were as follows:

|                  | At 1 January<br>2010 | Awarded<br>during<br>year | At 31<br>December<br>2010 | Exercise price | Earliest<br>date of<br>exercise | Expiry date |
|------------------|----------------------|---------------------------|---------------------------|----------------|---------------------------------|-------------|
| Kate Bleasdale   | 225,000              | -                         | <b>225,000</b>            | 124p           | Sep-11                          | Sep-18      |
| Kate Bleasdale   | 100,000              | -                         | <b>100,000</b>            | 207p           | Sep-12                          | Sep-19      |
| Mo Dedat         | 1,000,000            | -                         | <b>1,000,000</b>          | 89.5p          | Dec-10                          | Dec-17      |
| Mo Dedat         | 100,000              | -                         | <b>100,000</b>            | 207p           | Sep-12                          | Sep-19      |
| Diane Jarvis     | 116,564              | -                         | <b>116,564</b>            | 10p            | Jan-06                          | Apr-15      |
| Diane Jarvis     | 582,822              | -                         | <b>582,822</b>            | 59p            | Aug-09                          | Aug-16      |
| Diane Jarvis     | 375,000              | -                         | <b>375,000</b>            | 124p           | Sep-11                          | Sep-18      |
| Diane Jarvis     | 100,000              | -                         | <b>100,000</b>            | 207p           | Sep-12                          | Sep-19      |
| Alasdair Liddell | 25,000               | -                         | <b>25,000</b>             | 207p           | Sep-12                          | Sep-19      |
| Alan Walker      | 25,000               | -                         | <b>25,000</b>             | 207p           | Sep-12                          | Sep-19      |

As at the date of this report all of the above share options have been forfeited due to the resignation of the said Director and / or instigation of the scheme rules in accordance with the relevant circumstances.

None of the Directors appointed since the year end have interests over unissued ordinary shares of 10p pursuant to share options granted by the Company at the date of this report.

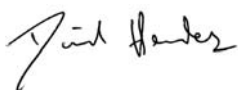
The average share price of the Company's ordinary shares during the year was 182.4p (2009: 194p).

During 2010 the highest share price was 287p and the lowest 89.5p.

The share price at 31 December 2010 was 130p (2009: 277p).

On 25 January 2011 the Company's shares were temporarily suspended from AIM at a share price of 112.5p

#### On behalf of the Board



**David Henderson**

Chairman Remuneration Committee

19 August 2011

# CORPORATE GOVERNANCE

On joining as Chairman it was evident that there were extremely poor levels of Corporate Governance. 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.

Your new Board is committed to maintaining high standards of Corporate Governance, managing the Group in an effective, entrepreneurial and ethical manner for the benefit of 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 (formerly the Combined Code), which applies for financial years starting on or after 29 June 2010. However, the Company is committed to applying the principles of good governance contained in the UK Corporate Governance Code as appropriate for a company of this size and nature.

The Board is seeking to appoint two additional independent non-executive directors and will update Shareholders as soon as possible.

The Board will continue to review appropriate compliance with the UK Corporate Governance Code at regular intervals. The Chairman will be reporting to shareholders in the 2011 Interim Report and the 2011 Annual Report on further developments in the Group's Corporate Governance.

## FINANCE & AUDIT COMMITTEE

The members who served on this Committee during 2010 and in 2011 until their departure from the Board were Alan Walker (Chairman) and Alasdair Liddell.

The current members are David Henderson (Chairman), Peter Sullivan and Colin Whipp.

The Committee is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported on and for meeting the auditors and reviewing their reports relating to the Group's accounts and internal control systems.

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

## REMUNERATION COMMITTEE

The members who served on this committee during 2010 and in 2011 until their departure from the Board were Alasdair Liddell (Chairman) and Alan Walker.

The current members are David Henderson (Chairman) and Peter Sullivan.

The Committee has not met since under its current membership.

The Committee is responsible for reviewing the performance of the Executive Directors and other senior executives and for determining appropriate levels of remuneration.

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

## NOMINATION COMMITTEE

The members who served on this committee during 2010 and in 2011 until their departure from the Board were Alan Walker (Chairman) and Alasdair Liddell.

The current members are Peter Sullivan (Chairman) and David Henderson.

The Committee has not met since under its current membership.

The Committee makes recommendations on all new Board appointments.

The Committee meets as required.

**On behalf of the Board**



**Peter Sullivan**  
Chairman

19 August 2010

# STATEMENT OF 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 new Board was therefore not in office during 2009 and 2010, being the periods being reported.

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 mis-statements in earlier years' accounts. The Board considers that the appropriate Prior Year Adjustments have been made in these Financial Statements now reported to shareholders. The Board is not aware of any other areas of mis-statement in the prior year accounts.

## DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors

have elected to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare Financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these 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 they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;

- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial statements Comply with the requirements of the Companies Act 2006. 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 ensuring the Annual Report and the Financial Statements are made available on a website. Financial Statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of Financial Statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

# 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 2010 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Financial Position, Consolidated Statement of Cashflows and the related Notes. 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 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 sections 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 AUDITORS

As explained more fully in the Statement of Directors' Responsibilities, 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 (APB's) Ethical Standards for Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## BASIS FOR QUALIFIED OPINION ON FINANCIAL STATEMENTS

### *Limitation of scope in relation to the Prior Year Adjustment of Fixed Assets*

Included within the prior year adjustments of £19,329,000 presented by the Directors is £5,252,000 which relates to capitalisation of internal costs relating to internal computer systems development; see Note 1. The Directors have determined that as at 31 December 2009 certain Information Technology systems were no longer in use and hence the costs previously capitalised have been impaired. The impact is to impair intangible assets by £5,252,000 as at 31 December 2009 and to increase administrative expense for the year ended 31 December 2009 by the same amount.

We have not been able to obtain sufficient appropriate audit evidence over the usage of the Information Technology systems in order to form an opinion about the extent to which this impairment should properly be charged in the prior year or whether it should be included, either fully or partially, within the current financial year. We are therefore unable to form an opinion as to whether it is appropriate to make a prior year adjustment.

The financial effect of such adjustments, if any, would have an effect of decreasing reported profits for the year ended 31 December 2010 and a corresponding increase on the prior year comparative net assets and reported profit.

There would be no financial effect of such adjustments, if any, on net assets reported as at 31 December 2010.

## QUALIFIED OPINION ON FINANCIAL STATEMENTS

In our opinion, except for the possible effects of the matters described in the Basis of qualified opinion paragraph:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company's 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 - GOING CONCERN

In forming our opinion on the Financial Statements, we have considered the adequacy of the disclosures made in the Statement of Significant Accounting Policies in the Financial Statements concerning the Group's ability to continue as a going concern.

The Group needs to refinance its borrowings with banks in order to enable it to continue as a going concern. Whilst the Directors are confident that the refinancing will be successful, it is subject to shareholder approval, as well as relisting on AIM, and obtaining shareholder approval for the waiver of Rule 9 granted by the Panel on Takeovers and Mergers, and there is no certainty that these approvals will be obtained or the relisting occur.

This condition indicates 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 Group was unable to continue as a going concern.

## EMPHASIS OF MATTER - POTENTIAL ILLEGALITY OF DIVIDENDS

In forming our opinion on the Financial Statements we have considered the adequacy of the disclosures made in Note 11 to the Financial Statements concerning dividends paid in previous periods which could potentially be deemed to have been illegal distributions on the basis of the Company having insufficient distributable reserves at the time dividends were paid. It has also come to the Directors' attention that interim accounts were not prepared and filed and that the dividends paid in June 2010 and January 2011 were therefore potentially unlawful. The Directors' are taking legal advice to determine the steps, if any, that they should take to remedy any breach of the law.

Due to its significance, we draw your attention to this matter.

**OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion the information given in the Directors' Report on pages 31 to 34 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 solely of the limitation on our work relating to the impairment of intangible fixed assets, described above:

- we have not obtained 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.

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 Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' Remuneration specified by law are not made.

**Julian Frost**

*Senior Statutory Auditor*

**For and on behalf of BDO LLP,  
Statutory Auditor**

55 Baker Street  
London  
W1U 7EU

19 August 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Consolidated Statement of Comprehensive Income

|   | Note | Year ended<br>31 December 2010<br>£'000 | Year ended<br>31 December 2009<br>(Restated)<br>£'000 |
|---|------|---|---|
| <b>Revenue</b>  | 2    | <b>157,159</b>                          | 167,477   |
| Cost of sales   |      | <b>(115,932)</b>                        | (117,030)   |
| <b>Gross profit</b>   | 2    | <b>41,227</b>                           | 50,447  |
| Administrative expenses   |      | <b>(44,202)</b>                         | (36,762)  |
| Highlighted items:  |      |   |   |
| Goodwill impairment   | 13   | <b>(45,972)</b>                         | -   |
| Other operating income  | 5    | <b>4,232</b>                            | 2,707   |
| Other operating expenses  | 5    | <b>(7,384)</b>                          | (8,499)   |
| <b>(Loss) / Profit from operations</b>  | 5    | <b>(52,099)</b>                         | 7,893   |
| Foreign exchange gains, net   | 5    | <b>1,542</b>                            | -   |
| Finance income  | 8    | <b>522</b>                              | 107   |
| Finance expense   | 8    | <b>(6,440)</b>                          | (2,138)   |
| <b>(Loss) / Profit before taxation</b>  |      | <b>(56,475)</b>                         | 5,862   |
| Tax benefit / (expense)   | 9    | <b>2,112</b>                            | (2,826)   |
| <b>(Loss) / Profit for the year</b>   |      | <b>(54,363)</b>                         | 3,036   |
| <b>Other comprehensive income:</b>  |      |   |   |
| Cash flow hedges:   |      |   |   |
| Gains recognised directly in equity   |      | -                                       | 66  |
| Release of deferred losses on cash flow hedges  |      | <b>672</b>                              | 230   |
| Tax relating to cash flow hedge reserve   |      | <b>(270)</b>                            | 270   |
| Translation adjustment  |      | <b>(198)</b>                            | -   |
| <b>Total other comprehensive income</b>   |      | <b>204</b>                              | 566   |
| <b>Total comprehensive (loss) / income for the year</b>   |      | <b>(54,159)</b>                         | 3,602   |
| <b>(Loss) / earnings per share for (loss) / profit attributable to the owners of the parent</b> |      |   |   |
| Basic (pence)   | 10   | <b>(50.0)</b>                           | 2.9   |
| Diluted (pence)   | 10   | <b>(50.0)</b>                           | 2.8   |

The Notes are an integral part of these Financial Statements.

# Consolidated Statement of Changes in Equity

|   | Note     | Called up<br>share capital<br>£'000 | Share<br>premium<br>£'000 | Cash flow<br>hedge<br>reserve<br>£'000 | Share option<br>reserve<br>£'000 | Translation<br>reserve<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>£'000 |
|---|----------|-------------------------------------|---------------------------|--|----------------------------------|---------------------------------|-------------------------------|----------------|
| <b>Balance at 1 January 2009 (as previously reported)</b>   |          | <b>10,427</b>                       | <b>34,324</b>             | <b>(968)</b>                           | -                                | -                               | <b>12,275</b>                 | <b>56,058</b>  |
| Restatement due to errors and change in accounting policies | 1        | -                                   | -                         | -                                      | -                                | -                               | (7,507)                       | (7,507)        |
| Reclassification to conform to 2010 presentation            |          | -                                   | -                         | -                                      | 615                              | 5                               | (620)                         | -              |
| <b>Balance at 1 January 2009 (Restated)</b>                 | <b>1</b> | <b>10,427</b>                       | <b>34,324</b>             | <b>(968)</b>                           | <b>615</b>                       | <b>5</b>                        | <b>4,148</b>                  | <b>48,551</b>  |
| Profit for the year   |          | -                                   | -                         | -                                      | -                                | -                               | 3,036                         | 3,036          |
| Other comprehensive income for the year                     |          | -                                   | -                         | 296                                    | -                                | -                               | 270                           | 566            |
| Dividends   | 11       | -                                   | -                         | -                                      | -                                | -                               | (3,754)                       | (3,754)        |
| Issue of share capital                                      | 23       | 40                                  | 193                       | -                                      | -                                | -                               | -                             | 233            |
| Deferred tax recognised on share based payment              |          | -                                   | -                         | -                                      | -                                | -                               | 886                           | 886            |
| Credit in respect of share scheme charges                   | 29       | -                                   | -                         | -                                      | 464                              | -                               | -                             | 464            |
| <b>Balance at 31 December 2009 (Restated)</b>               | <b>1</b> | <b>10,467</b>                       | <b>34,517</b>             | <b>(672)</b>                           | <b>1,079</b>                     | <b>5</b>                        | <b>4,586</b>                  | <b>49,982</b>  |
| <b>Balance at 31 December 2009 (as previously reported)</b> |          | <b>10,467</b>                       | <b>34,517</b>             | <b>(672)</b>                           | -                                | -                               | <b>22,936</b>                 | <b>67,248</b>  |
| Restatement due to errors and change in accounting policies | 1        | -                                   | -                         | -                                      | -                                | -                               | (17,266)                      | (17,266)       |
| Reclassification to conform to 2010 presentation            |          | -                                   | -                         | -                                      | 1,079                            | 5                               | (1,084)                       | -              |
| <b>Balance at 31 December 2009 (Restated)</b>               | <b>1</b> | <b>10,467</b>                       | <b>34,517</b>             | <b>(672)</b>                           | <b>1,079</b>                     | <b>5</b>                        | <b>4,586</b>                  | <b>49,982</b>  |
| Loss for the year   |          | -                                   | -                         | -                                      | -                                | -                               | (54,363)                      | (54,363)       |
| Other comprehensive income for the year                     |          | -                                   | -                         | 672                                    | -                                | (198)                           | (270)                         | 204            |
| Dividends   | 11       | -                                   | -                         | -                                      | -                                | -                               | (3,581)                       | (3,581)        |
| Issue of share capital                                      | 23       | 867                                 | 10,801                    | -                                      | -                                | -                               | -                             | 11,668         |
| Deferred tax recognised on share based payment              |          | -                                   | -                         | -                                      | -                                | -                               | (886)                         | (886)          |
| Warrants issued during the year                             | 19       | -                                   | -                         | -                                      | 2,970                            | -                               | -                             | 2,970          |
| Credit in respect of share scheme charges                   | 29       | -                                   | -                         | -                                      | 586                              | -                               | -                             | 586            |
| <b>Balance at 31 December 2010</b>                          |          | <b>11,334</b>                       | <b>45,318</b>             | <b>-</b>                               | <b>4,635</b>                     | <b>(193)</b>                    | <b>(54,514)</b>               | <b>6,580</b>   |

The Notes are an integral part of these Financial Statements.

# Consolidated Statement of Financial Position

|   | Note | As at 31<br>December 2010<br>£'000 | As at 31 December<br>2009 (Restated)<br>£'000 | As at 1 January<br>2009 (Restated)<br>£'000 |
|---|------|------------------------------------|---|---|
| <b>ASSETS</b>   |      |                                    |   |   |
| <b>Non-current assets</b>   |      |                                    |   |   |
| Property, plant and equipment   | 12   | 2,776                              | 958   | 1,163                                       |
| Goodwill  | 13   | 41,376                             | 60,289  | 60,318                                      |
| Other intangible assets   | 15   | 77,014                             | 3,550   | 8,188                                       |
| Deferred tax asset  | 21   | 5,117                              | 1,665   | -   |
|   |      | <b>126,283</b>                     | 66,462  | 69,669                                      |
| <b>Current assets</b>   |      |                                    |   |   |
| Trade and other receivables   | 16   | 36,333                             | 27,305  | 26,489                                      |
| Cash and cash equivalents (excluding short-term borrowings)                 |      | 10,546                             | 4,102   | 481   |
|   |      | <b>46,879</b>                      | 31,407  | 26,970                                      |
|   |      | <b>173,162</b>                     | 97,869  | 96,639                                      |
| <b>Liabilities</b>  |      |                                    |   |   |
| <b>Non-current liabilities</b>  |      |                                    |   |   |
| Long term borrowings  | 19   | (467)                              | (5,482)                                       | (11,518)                                    |
| Deferred tax liability  | 21   | (8,839)                            | (1,665)                                       | (1,643)                                     |
| Long term provisions  | 20   | (2,109)                            | -   | -   |
|   |      | <b>(11,415)</b>                    | (7,147)                                       | (13,161)                                    |
| <b>CURRENT LIABILITIES</b>  |      |                                    |   |   |
| Trade and other payables  | 17   | (33,456)                           | (18,407)                                      | (13,465)                                    |
| Short term borrowings   | 18   | (53)                               | (11,570)                                      | (11,594)                                    |
| Current portion of long-term borrowings                                     | 19   | (114,444)                          | (4,343)                                       | (4,300)                                     |
| Current tax payable   |      | (528)                              | (5,622)                                       | (3,380)                                     |
| Short term provisions   | 20   | (4,960)                            | -   | (1,220)                                     |
| Derivative financial liabilities  | 22   | (1,726)                            | (798)   | (968)                                       |
|   |      | <b>(155,167)</b>                   | (40,740)                                      | (34,927)                                    |
|   |      | <b>(166,582)</b>                   | (47,887)                                      | (48,088)                                    |
| <b>TOTAL NET ASSETS</b>   |      | <b>6,580</b>                       | 49,982  | 48,551                                      |
| <b>ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO THE OWNERS OF THE PARENT</b> |      |                                    |   |   |
| Share capital   | 23   | 11,334                             | 10,467  | 10,427                                      |
| Share premium reserve   | 24   | 45,318                             | 34,517  | 34,324                                      |
| Cash flow hedge reserve   | 24   | -                                  | (672)   | (968)                                       |
| Share option reserve  | 24   | 4,635                              | 1,079   | 615   |
| Translation reserve   |      | (193)                              | 5   | 5   |
| Retained earnings   | 24   | (54,514)                           | 4,586   | 4,148                                       |
| <b>TOTAL EQUITY</b>   |      | <b>6,580</b>                       | 49,982  | 48,551                                      |

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 19 August 2011 and were signed on its behalf by:

**David Henderson**  
Director

**Colin Whipp**  
Director

# Consolidated Statement of Cash Flows

|   | Note | Year ended 31<br>December 2010<br>£'000 | Year ended 31 December<br>2009 (Restated)<br>£'000 |
|---|------|---|--|
| <b>Cash flows from operating activities</b>   |      |   |  |
| (Loss) / Profit for the year  |      | <b>(54,363)</b>                         | 3,036  |
| Adjustments for:  |      |   |  |
| Gain on fair value changes in contingent consideration                                    | 5    | <b>(4,232)</b>                          | -  |
| Depreciation of property, plant and equipment   | 12   | <b>594</b>                              | 556  |
| Amortisation of intangible assets   | 15   | <b>1,693</b>                            | 958  |
| Goodwill impairment   | 13   | <b>45,972</b>                           | -  |
| Impairment of property plant and equipment  | 12   | <b>401</b>                              | -  |
| Impairment of other intangible assets   | 15   | <b>1,296</b>                            | 5,252  |
| Finance income  | 8    | <b>(522)</b>                            | (107)  |
| Finance expense   | 8    | <b>6,440</b>                            | 2,138  |
| Loss on disposal of property plant and equipment and other intangible assets              |      | <b>46</b>                               | -  |
| Share based payments charges  | 29   | <b>586</b>                              | 464  |
| Corporation tax expense   | 9    | <b>(2,112)</b>                          | 2,826  |
| <b>Cash flows from operating activities before changes in working capital</b>             |      | <b>(4,201)</b>                          | 15,123   |
| Changes in receivables  |      | <b>10,322</b>                           | (726)  |
| Changes in payables   |      | <b>(1,044)</b>                          | 4,939  |
| <b>Cash generated from operations</b>   |      | <b>5,077</b>                            | 19,336   |
| Corporation tax paid  |      | <b>(4,034)</b>                          | (1,076)  |
| <b>Net cash flows from operating activities</b>   |      | <b>1,043</b>                            | 18,260   |
| <b>Investing activities</b>   |      |   |  |
| Acquisition of subsidiaries, net of cash acquired   | 14   | <b>(89,739)</b>                         | -  |
| Disposal of property, plant and equipment   | 12   | -                                       | 36   |
| Contingent consideration paid   | 20   | -                                       | (1,191)  |
| Acquisition of property, plant and equipment  | 12   | <b>(1,327)</b>                          | (387)  |
| Acquisition of intangible assets  | 15   | <b>(512)</b>                            | (1,572)  |
| <b>Net cash used in investing activities</b>  |      | <b>(91,578)</b>                         | (3,114)  |
| <b>Financing activities</b>   |      |   |  |
| Issue of ordinary shares  | 23   | <b>11,668</b>                           | 233  |
| New loans acquired  |      | <b>140,524</b>                          | 81   |
| Interest and similar expenses paid  |      | <b>(4,674)</b>                          | (1,905)  |
| Loan fees   | 19   | <b>(7,700)</b>                          | -  |
| Repayment of borrowings   |      | <b>(24,948)</b>                         | (6,156)  |
| Dividends paid to the owners of the parent  | 11   | <b>(3,581)</b>                          | (3,754)  |
| <b>Net cash provided by / (used in) financing activities</b>                              |      | <b>111,289</b>                          | (11,501)   |
| <b>Net increase in cash and cash equivalents</b>  |      | <b>20,754</b>                           | 3,645  |
| Cash and cash equivalents (including short-term borrowings) at the beginning of the year  |      | <b>(7,468)</b>                          | (11,113)   |
| Effect of exchange rates on cash and cash equivalents                                     |      | <b>(2,793)</b>                          | -  |
| <b>Cash and cash equivalents (including short-term borrowings) at the end of the year</b> |      | <b>10,493</b>                           | (7,468)  |

The Notes are an integral part of these Financial Statements.

# Statement of Significant Accounting Policies

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The accounting policies set out below, unless otherwise stated, have been applied consistently to all periods presented in these Financial statements.

## Basis of preparation

The consolidated financial statements of Healthcare Locums Plc have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS"), and under the historical cost accounting rules, except for derivative financial instruments, which are stated at their fair value.

Previous year amounts have been reclassified to conform to the current year presentation where necessary. Principal reclassifications are in various components of the Statement of Changes in Equity, Employee costs (Note 3), Directors and key management remuneration (Note 4), Reorganisation costs (Note 7), Trade and other receivables (Note 16) and Trade and other payables (Note 17). These reclassifications do not have any impact on the previously reported profit or total equity.

All amounts are presented in Pounds Sterling (£) except indicated otherwise.

## Going concern

The Consolidated Financial Statements have been prepared on a going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

In forming their opinion that going concern is an appropriate basis, the Directors have reviewed forecasts for the period to 31 December 2012, which have been drawn up with appropriate regard for the current macroeconomic environment and the particular circumstances in which the Group operates. These were prepared with reference to historic and current industry knowledge, taking into account the Board's strategy for the Group.

The Directors have taken into account conditions which could indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a Going Concern.

The following conditions were of material relevance in forming the Board's opinion:

1. On 25 January 2011, the Company announced the suspension of its shares following the discovery of serious accounting irregularities leading the Directors to believe that the financial results would be significantly below market expectations.

In the 2010 Annual Report the Company has restated previously published audited financial statements for 2009 and earlier years and restated the unaudited interim results for the six months ending 30 June 2010. The Board is confident that, in presenting the 2010 Financial Statements, the Group has adopted appropriate accounting policies with which it has complied. This provides a sound foundation from which to prepare business plans and forecasts.

2. Subsequent to 25 January 2011, the Directors commenced discussions with the Group's lending banks concerning the impact of the irregularities referred to above and the revised trading results on the lending facilities available to the Group. The Board believes that it is probable that at 31 December 2010 the Group was in default under the Senior Facilities Agreement ('SFA') and Mezzanine Facility Agreement ('MFA') with its lending banks. The lending banks have reserved their rights in relation to any defaults that may subsist and have not waived any defaults that may subsist. If a default does subsist the lending banks would, on service of a notice, have the right, among other things, to require the loans under the SFA and MFA to be repaid immediately.

In these specific circumstances the Board consider it appropriate to classify all the Group's loans as current liabilities at 31 December 2010.

3. The Board has sought to partly address the Group's financing challenges by selling its Australian Homecare Division to KinCare Health Services Pty Limited for A\$34 million (approximately £22.2 million) before expenses. The sale was completed on 18 July 2011 and the net cash proceeds used to reduce the Group's debt. Further information is provided in Note 30 to the Financial Statements.

As well as the Homecare disposal referred to above, the Board has further sought to address the Group's financing challenges by way of a proposed Refinancing. The Chairman's Statement sets out the key terms of the proposed Refinancing, which is conditional upon the approval of Shareholders at the General Meeting to be held on 12 September 2011.

In the event that the Refinancing Resolutions are not passed at the General Meeting and the refinancing is not implemented, then the Group will be unable to satisfy its existing financial covenants and / or service its existing borrowings or meet its ongoing funding requirements without further support from the lending banks. In such event, the Group would be in default under the existing facilities.

Such a default under the existing facilities, in addition to any default which may subsist under the representations made under the terms of the existing facilities at the time they were entered into, would entitle the lending banks to demand repayment of all outstanding amounts and to cancel the facilities.

Further, if the Refinancing does not proceed, the lending banks have informed the Group that they will only continue to support the business on the basis that a sale of all or part of the Group is pursued. This would be likely to involve the insolvency of all or part of the Group. This would, in the Board's opinion, result in shareholders receiving no value for their current shareholdings and would require adjustments to be made to the Financial Statements.

There is also a risk that the independent shareholders (being the shareholders other than Toscafund Asset Management LLP and its concert parties) fail to approve the waiver of Rule 9 granted by the Panel on Takeovers and Mergers.

Finally, if the suspension of trading in the Company's securities on AIM was not lifted or Admission not taking place, then there is a risk that the Refinancing will not be successful.

4. The Group faces a number of Principal Risks and Uncertainties, as set out in the Principal Risks and Uncertainties section on pages 24 to 26.

In determining the Group's capital requirements for the period to 31 December 2012, the Board has sought to take a measured assessment of each and all the risks in reviewing the forecasts.

Notwithstanding the above uncertainties, including the need to obtain approval from shareholders for the Refinancing, obtain approval for the waiver under Rule 9 and the relisting on AIM, the Directors are confident that the proposed Refinancing will be successful. On this basis, they have prepared the Consolidated Financial Statements on a going concern basis.

The Consolidated Financial Statements do not contain the adjustments that would be necessary were the Group unable to continue as a going concern.

Although the Directors believe the going concern basis is the most appropriate basis on which to prepare the Consolidated Financial Statements, the risks noted above constitutes a specific material uncertainty that may cast significant doubt over the Group's ability to continue as a Going Concern, and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Given the inherent uncertainty about future events and as with all business forecasts, the Directors' statement cannot guarantee that the Going Concern basis will remain appropriate.

#### **Basis of consolidation**

Subsidiaries are fully consolidated from the date on which the power to control is transferred to the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### **Business combinations**

The Group uses the acquisition method of accounting to account for business combinations in accordance with IFRS 3 (revised) "Business combinations". The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the Statement of Comprehensive Income.

#### **Revenue recognition**

Revenue represents sales to external customers at invoiced amounts less value added tax or local taxes on sales. These consist of:

- Revenue from temporary placements which represents amounts billed for the services of temporary staff. This is recognised when the services have been provided. These include the salary cost of these staff unless they are paid directly by the client when the commission only is billed; 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.

All revenue relates to the rendering of services.

See Note 1 for change in the accounting policy.

### Foreign exchange

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 Statement of Comprehensive Income.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transaction took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. All exchange differences arising on translation are recognised in the Statement of Comprehensive Income and accumulated in the translation reserve.

### Share based payment

The Group operates an equity-settled, share-based compensation plan. When share options are awarded to employees a charge is made to profit or loss recognising the fair value of the options issued over the vesting period with a corresponding adjustment to share option reserve. The options vest after a specific period (3 years for options issued from 2006 onwards, 1 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.

### Employee benefits

Contributions to the Group's defined contribution pension schemes are charged to the Statement of Comprehensive Income in the year 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 payments 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 the data specific enough to calculate a provision as described above is not available, provision is made for long service leave on an estimated basis.

Liability for annual paid leave expected to be settled within 12 months from the reporting date is recognised by way of a provision in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when liabilities are settled.

### Highlighted items

Where certain expense or income items 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 Statement of Comprehensive Income.

### 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.

Deferred tax is provided, using the balance sheet 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 or deferred tax liabilities are not 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 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.

### Goodwill

Goodwill represents the excess of the cost of an acquisition of a business over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is tested annually for any impairment and carried at cost less accumulated impairment losses. Any impairment charge is included in the Statement of Comprehensive Income. Goodwill impairment charges are not reversed. Gains and losses on the disposal of an entity are calculated after including the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, typically identified according to operating segment.

### Other intangible assets - Brands / trademarks, Customer Relationships, Computer Software and Acquired Candidate Database

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 useful lives. The amortisation is shown as part of Administrative Expenses within the Statement of Comprehensive Income.

The estimated useful lives are as follows:

|                             |   |
|-----------------------------|---|
| Brands / trademarks         | - 10 to 20 years  |
| Customer relationships      | - Over the contractual term or 6 years in the 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 with finite lives, other than goodwill, 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 the asset is written down accordingly. Impairment of other intangible assets is included in other operating expenses in the Statement of Comprehensive Income.

### 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 to write off the cost, less estimated residual values, of all 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       | - 2.5 to 13.3 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.

### 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 property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the Statement of Comprehensive Income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the amount owed to the lessor.

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 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.

The land and building elements of property leases are considered separately for the purposes of lease classification.

### Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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 default 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 Statement of Comprehensive Income.

### Financial instruments

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:

**Loans and receivables:** These assets 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), but also incorporate other types of contractual monetary asset. 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 receivable. Trade receivables are reported net of impairment provisions which, due to the nature of the customer base, are not material. The Group's loans and receivables comprise trade and other receivables and cash in the Statement of Financial Position.

**Derivative financial instruments and hedging activities:** Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value through profit or loss 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 has chosen to test the effectiveness of its hedges on a twice yearly basis.

The Group does not hold or issue derivative instruments for speculative purposes.

**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 Statement of Comprehensive Income within finance income or expense. When a hedging instrument expires or is sold, or when a hedge no longer meets 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 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 Statement of Comprehensive Income within finance income or expense.

There were no new financial instruments entered into during the year ended 31 December 2010 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.

*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 Statement of Comprehensive Income.

**Cash and cash equivalents**

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

**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.

**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 annual general meeting. Interim dividends are recognised when they are paid.

**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 82 to 91.

The principal subsidiaries of the parent company are listed in the above accounts. The ultimate parent company of the Group is Healthcare Locums Plc, a company incorporated in England and listed on the Alternative Investment Market of the London Stock Exchange.

**Critical accounting estimates and judgements**

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 with respect to intangible assets and contingent consideration. These estimates are based on historical experience, information obtained from the management of the acquired companies, relevant market and industry data and the forecasted 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 unpredictable. In addition, unanticipated events and circumstances may occur, which may affect the accuracy or validity of such estimates.
- Impairment of goodwill - The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires 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 13.
- Legal and regulatory contingencies - The Group conducts its business principally in the UK and Australia and, accordingly, legal 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 legal 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. The Group's total liability in respect of litigation, arbitration and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case, the Group's experience and the experience of others in similar cases and the opinions and views of legal counsel.

- Uncertain tax positions - The Group conducts its business principally in the UK and Australia and, accordingly uncertain tax positions may arise where the Directors have had to make particular judgements in relation to certain tax treatments. 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". Significant judgment is required in making these estimates and the Group's final liabilities may ultimately be materially different.

#### **New standards, interpretations and amendments effective from 1 January 2010**

IFRS 3 (revised) "Business combinations", and consequential amendments to IAS 27 "Consolidated and separate financial statements", IAS 28 "Investments in associates", and IAS 31 "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The revised standard was applied to all the acquisitions completed by the Group during the year ended 31 December 2010. Acquisitions prior to 1 July 2009 have not been restated.

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

#### **New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted**

The Group's and parent entity's assessment of the impact of these new standards and interpretations is set out below.

- IFRS 9 "Financial instruments" was issued in November 2009. This standard is the first step in the process to replace IAS 39 "Financial instruments: recognition and measurement". IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU. The Group is yet to assess IFRS 9's full impact.
- IAS 24 (revised) "Related party disclosures", issued in November 2009. It supersedes IAS 24 "Related party disclosures", issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. When the revised standard is applied, the Group and the parent will need to disclose any transactions between its subsidiaries and its associates. The Group will review its list of related parties and the transactions between them in 2011. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

- "Financial instruments: Presentation - Classification of rights issues" (amendment to IAS 32). The amendment to IAS 32 was made to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is effective for annual periods beginning 1 February 2010. The Group is yet to assess the impact of this amendment.
- IFRIC 19 'Extinguishing financial liabilities with equity instruments'. The amendment clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. This amendment is effective for annual periods beginning 1 July 2010. As noted in the post balance sheet events note (Note 30) and the going concern discussion above, the Group has been in discussions with their bankers to renegotiate the terms of existing facilities and / or consider alternative funding strategy. If the Group converts or settles its existing borrowings by converting or issuing ordinary shares of the Company, any difference between the carrying amounts of the financial liabilities settled and the fair value of the shares issued will be recognised in the Statement of Comprehensive Income. As the terms of the Refinancing have not been agreed yet the impact, if any, is not currently ascertainable.

New standards and amendments below are generally applicable for annual periods beginning after 1 January 2011. The impact of these standards and amendments on the Group and the parent company's financial reporting in the future will be assessed closer to the date of their respective effective dates unless otherwise stated.

- "Presentation of financial statements" (amendment to IAS 1). This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity either in statement of changes in equity or in the notes to the financial statements. This amendment is to be applied retrospectively.
- IFRS 10 "Consolidated financial statements". The IFRS supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation—Special Purpose Entities".

This standard contains a:

- revised definition of control and related application guidance so that a single control model can be applied to all entities.
- enhanced disclosures about consolidated and unconsolidated entities to be published in a separate comprehensive disclosure standard related to involvement with other entities.

This standard is effective for annual periods beginning on or after 1 January 2013 with permission to early adopt but is yet subject to be endorsed by the European Union (EU).

- IFRS 12 "Disclosures of interest in other entities" - This is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. It is effective for periods on or beginning after 1 January 2013. Early adoption is permitted. The standard has not yet been endorsed by the EU.
- IFRS 13 "Fair value measurement" - The standard is effective from 1 January 2013, defines fair value and sets out in a single standard a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The standard has not been endorsed by the EU yet. Early adoption is permitted.
- 'Financial Instruments' (amendments to IFRS 7). The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. It is subject to EU endorsement. Early adoption is permitted.

None of the other standards, interpretations, amendments and revisions is either relevant or is considered to have a material effect on the Group's and parent company's financial statements.

# Notes to the Consolidated Financial Statements

## 1. PRIOR YEAR ADJUSTMENTS AND CHANGES IN ACCOUNTING POLICIES

The Board considers that the investigation referred to in the Chairman's Statement revealed that previously reported results were consistently overstated, both to shareholders in 2008, 2009 and in the 2010 Interim Results and subsequently to the Board in the internal management accounts in the second half of 2010.

The Board believes that this overall situation arose from the aggregation of a number of consistently inappropriate practices which led to an over-statement of performance, as described below.

This approach may have been a contributory factor in the Board not fully understanding the Group's trading position and cash flow problems which the Group faced at the end of 2010 and into 2011, where, for example, it was unable to meet its regulatory payments to HM Revenue and Customs, and subsequently required renegotiation of borrowing facilities.

The Board regards it as a top priority to provide a reassessment of the trading position of the business by this comprehensive restatement of previously reported results and net assets.

The Directors have substantially completed a review of the Group's operational and accounting systems, processes and internal controls and the Corporate Governance practices following the departure after the year-end of the former Chief Financial Officer and Executive Vice Chairman.

This review has identified some items which the Directors believe had not been accounted for appropriately during 2009 and earlier years. Additionally the Board believes that a change of accounting policy is now appropriate. In accordance with IAS 8 "Accounting Policies, Changes in Estimates and Errors", these items have been amended by way of prior period adjustments. The nature of the adjustments and the impact on the financial items affected in the Group Statement of Financial Position is stated below.

The impact of the prior year adjustments on previously reported Net Equity may be summarised as follows:

|   | 31 December 2009<br>£'000 | 1 January 2009<br>£'000 |
|---|---------------------------|-------------------------|
| Net equity as previously reported           | 67,248                    | 56,058                  |
| Restatement for accounting errors           |                           |                         |
| Candidate database write-off                | (4,779)                   | (3,003)                 |
| Sales ledger credits                        | (3,278)                   | (1,823)                 |
| Computer software costs                     | (5,419)                   | (167)                   |
| Under-accrual of costs                      | (1,794)                   | (1,594)                 |
|   | (15,270)                  | (6,587)                 |
| Restatement for change in accounting policy |                           |                         |
| Accrued income adjustment                   | (4,059)                   | (920)                   |
|   | (19,329)                  | (7,507)                 |
| Impact of restatements on taxation          | 2,063                     | -                       |
| Net equity as restated                      | 49,982                    | 48,551                  |

The impact of the prior year adjustments on the previously reported Group Statement of Financial Position as at 31 December 2009 may be summarised as follows:

|                               | As previously reported<br>£'000 | Impact of restatements<br>£'000 | Restated<br>£'000 |
|-------------------------------|---------------------------------|---------------------------------|-------------------|
| Property, plant and equipment | 958                             | -                               | 958               |
| Other intangible assets       | 13,748                          | (10,198)                        | 3,550             |
| Deferred tax asset            | 1,454                           | 213                             | 1,667             |
| Trade and other receivables   | 31,364                          | (4,059)                         | 27,305            |
| Deferred tax liability        | (2,321)                         | 654                             | (1,667)           |
| Trade and other payables      | (13,335)                        | (5,072)                         | (18,407)          |
| Current tax payable           | (6,818)                         | 1,196                           | (5,622)           |

The impact of the prior year adjustments on the previously reported Group Statement of Financial Position as at 1 January 2009 may be summarised as follows:

|                               | As previously reported<br>£'000 | Impact of restatements<br>£'000 | Restated<br>£'000 |
|-------------------------------|---------------------------------|---------------------------------|-------------------|
| Property, plant and equipment | 1,163                           | -                               | 1,163             |
| Other intangible assets       | 11,358                          | (3,170)                         | 8,188             |
| Deferred tax asset            | 161                             | (161)                           | -                 |
| Trade and other receivables   | 27,409                          | (920)                           | 26,489            |
| Deferred tax liability        | (1,804)                         | 161                             | (1,643)           |
| Trade and other payables      | (10,048)                        | (3,417)                         | (13,465)          |
| Current tax payable           | (3,380)                         | -                               | (3,380)           |

Impact of prior year adjustments on the reported revenue, profit from operations and profit for the year ended 31 December 2009 is summarised as follows:

|   | Revenue<br>£'000 | Profit from operations<br>£'000 | Profit for the year<br>£'000 |
|---|------------------|---------------------------------|------------------------------|
| As reported                                 | 172,071          | 19,715                          | 12,795                       |
| Restatement for accounting errors           |                  |                                 |                              |
| Candidate database write-off                | -                | (1,776)                         | (1,776)                      |
| Sales ledger credits                        | (1,455)          | (1,455)                         | (1,455)                      |
| Computer software costs                     | -                | (5,252)                         | (5,252)                      |
| Under-accrual of costs                      | -                | (200)                           | (200)                        |
|   | (1,455)          | (8,683)                         | (8,683)                      |
| Restatement for change in accounting policy |                  |                                 |                              |
| Accrued income adjustment                   | (3,139)          | (3,139)                         | (3,139)                      |
|   | (4,594)          | (11,822)                        | (11,822)                     |
| Impact of restatements on taxation          | -                | -                               | 2,063                        |
| As restated                                 | 167,477          | 7,893                           | 3,036                        |

The prior year adjustments relating to errors are as follows:

#### Candidate database write off

In previous years, the Group capitalised costs associated with the development of an international candidate database. The judgement surrounding the appropriateness of that treatment under IAS 38 "Intangible assets" was disclosed as a 'critical judgement' in prior Annual Reports. The costs capitalised included the costs of collecting information in connection with identified candidates. Following an approach by the Financial Reporting Review Panel (FRRP), the Directors have reconsidered the previous judgements made regarding whether these costs meet the definition of an intangible asset under IAS 38. They have concluded that whilst the costs of construction of the underlying database would result in an intangible asset under IAS 38, the costs of collecting information in connection with identified candidates do not in themselves result in obtaining legal control over the individual candidates and as such the costs are indistinguishable from the costs of developing the business as a whole. Consequently, they have concluded that a more appropriate judgement would have been to write off such costs as incurred, rather than capitalise them. This reassessment of judgement has been reflected in accordance with IAS 8 as a prior year adjustment to write off all such costs previously capitalised.

The impact of this restatement is to reduce opening net assets at 1 January 2009 by £3,003,000 and by £4,779,000 as at 31 December 2009; and to reduce reported 2009 profit before tax by £1,776,000.

#### Sales ledger credits

These arise as a result of unintentional overpayments by customers. The Group previously accounted for sales ledger credits by reflecting a liability that represented the Directors' assessment of the likely amount due to be returned to customers based on historical levels of credits actually redeemed over a 12 month period. The remainder of the credits were released to income. Following a review of the sales ledger credits released to income, the Directors believe it would be more appropriate to reinstate these amounts as liabilities of the Group and only to release such credits to income after the Statute of Limitations (6 years) renders the amount irredeemable or earlier only if appropriate to derecognise in accordance with IAS 39 "Financial instruments: Recognition and measurement".

The impact of this restatement, based on the Directors' review noted above is to decrease net assets at 1 January 2009 by £1,823,000, decrease net assets at 31 December 2009 by £3,278,000 and to reduce reported 2009 profit before tax by £1,455,000.

#### **Computer software costs**

In reporting results for 2009 and earlier years, the Group capitalised costs incurred in respect of the development of front office systems. Following a review of the capitalisation of such expenses and potential benefit arising, the Directors have determined that previously capitalised costs aggregating £5,419,000 related to front office systems which were subsequently decommissioned either in late 2009 or early 2010 and therefore should have been impaired at 31 December 2009.

The impact of this restatement is to reduce opening net assets at 1 January 2009 by £167,000 and by £5,419,000 as at 31 December 2009; and to reduce reported 2009 profit before tax by £5,252,000.

Attention is drawn to the Independent Auditor's Report which is qualified in relation to this issue.

#### **Under-accrual of costs**

The Directors have undertaken a review of the level of accruals at 31 December 2008 and 31 December 2009, including where the Group accounted for various costs for commissions and bonus expenses for employees and Directors in the year in which they were paid, rather than accruing them based upon the activities and performance of the year for which the incentives arose. The Directors have reviewed this practice and restated the prior year accounts by accruing costs in the year to which they relate.

The impact of this restatement is to reduce opening net assets at 1 January 2009 by £1,594,000 and by £1,794,000 as at 31 December 2009; and to reduce reported 2009 profit before tax by £200,000.

The net impact of these corrections for errors before considering any related tax adjustment is to reduce 2009 basic earnings per share by 8.32p and 2009 diluted earnings per share by 8.11p.

The prior year adjustments relating to changes in accounting policies are as follows:

#### **Accrued income adjustment**

In reporting results for earlier years the Group recognised revenue of £920,000 in 2008 in relation to sales in the US, although this was not yet invoiced. In 2009 a further £3,139,000 of revenue was recognised in advance of invoice date as the Directors assessed that the appropriate milestones had been reached to recognise revenue in accordance with IAS 18 "Revenue". None of the revenue was invoiced in 2009. The Board have reviewed the policy for revenue recognition in this area and determined that it is more appropriate to recognise this revenue only when it is invoiced. Accordingly, the policy has been revised for 2010.

The impact of this restatement is to reduce opening net assets at 1 January 2009 by £920,000 and by £4,059,000 as at 31 December 2009; and to reduce 2009 profit before tax by £3,139,000.

In the prior year, the impact of the restatement before related tax adjustment is to reduce 2009 basic earnings per share by 3.01p and 2009 diluted earnings per share by 2.93p.

The net impact of all of the adjustments including related tax effect to the prior year is to reduce 2009 basic earnings per share by 9.35p and 2009 diluted earnings per share by 9.12p.

As noted in accordance with IAS 1 (revised) "Presentation of financial statements" a Statement of Financial Position as at the date of the beginning of the earliest comparative period (1 January 2009) has been presented. Other notes have been restated where relevant.

#### **Impact of restatements on taxation**

The tax impact of the prior year adjustments was to increase net equity at 31 December 2009 by £2,063,000 from that previously reported. Pending clarification of 2008 and the earlier years, no potential tax benefit has been recognised for those years.

## 2. SEGMENTAL ANALYSIS

The Group provides locum recruitment services for health and social care staff, being Doctors, Qualified Social Workers (QSW) and Allied Health Professionals (AHP). During the year, following the acquisition of Redwood Health Limited, management started reviewing separate segmental information for Nursing. The existing Nursing business was included in Doctors, QSW and AHP in 2009 and so these have been restated to present these components in line with the 2010 segmental presentation below. Staff are also placed in each of these sectors on a permanent basis which is identified as a separate segment.

Following the acquisitions of Last Minute Locums Pty Ltd ("LML") and Healthcare Australia Holdings Pty Ltd ("HCA"), management also view Australia as a separate segment. The Group 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. It does not prepare segment information on the costs below gross profit or on assets and liabilities by segment.

|                      | Locum Doctors                 |                 | Locum Qualified Social Workers |                 | Locum Allied Health Professionals |                 | Locum Nursing |                 |
|----------------------|-------------------------------|-----------------|--------------------------------|-----------------|-----------------------------------|-----------------|---------------|-----------------|
|                      | <b>Year ended 31 December</b> |                 |                                |                 |                                   |                 |               |                 |
|                      | <b>2010</b>                   | 2009 (Restated) | <b>2010</b>                    | 2009 (Restated) | <b>2010</b>                       | 2009 (Restated) | <b>2010</b>   | 2009 (Restated) |
|                      | <b>£'000</b>                  | £'000           | <b>£'000</b>                   | £'000           | <b>£'000</b>                      | £'000           | <b>£'000</b>  | £'000           |
| Revenue              | <b>33,873</b>                 | 48,880          | <b>35,416</b>                  | 40,964          | <b>60,749</b>                     | 65,183          | <b>12,032</b> | 7,537           |
| Segment gross profit | <b>6,291</b>                  | 12,802          | <b>6,824</b>                   | 8,859           | <b>18,091</b>                     | 21,612          | <b>2,967</b>  | 1,917           |

|  | Permanent Placements<br>(Restated) |                 | Australia     |       | Inter-segment and other reconciling<br>items |                 | Group           |                 |
|--|------------------------------------|-----------------|---------------|-------|--|-----------------|-----------------|-----------------|
|  | <b>Year ended 31 December</b>      |                 |               |       |  |                 |                 |                 |
|  | <b>2010</b>                        | 2009 (Restated) | <b>2010</b>   | 2009  | <b>2010</b>                                  | 2009 (Restated) | <b>2010</b>     | 2009 (Restated) |
|  | <b>£'000</b>                       | £'000           | <b>£'000</b>  | £'000 | <b>£'000</b>                                 | £'000           | <b>£'000</b>    | £'000           |
| Revenue                                  | <b>4,573</b>                       | 4,386           | <b>11,186</b> | -     | <b>(670)</b>                                 | 527             | <b>157,159</b>  | 167,477         |
| Segment gross profit                     | <b>4,573</b>                       | 4,379           | <b>2,953</b>  | -     | <b>(471)</b>                                 | 878             | <b>41,227</b>   | 50,447          |
| Unallocated administrative expense       |                                    |                 |               |       |  |                 | <b>(44,202)</b> | (36,762)        |
| Goodwill impairment                      |                                    |                 |               |       |  |                 | <b>(45,972)</b> | -               |
| Other operating income / (expenses), net |                                    |                 |               |       |  |                 | <b>(3,152)</b>  | (5,792)         |
| (Loss) / Profit from operations          |                                    |                 |               |       |  |                 | <b>(52,099)</b> | 7,893           |
| Foreign exchange gains, net              |                                    |                 |               |       |  |                 | <b>1,542</b>    | -               |
| Finance income                           |                                    |                 |               |       |  |                 | <b>522</b>      | 107             |
| Finance expense                          |                                    |                 |               |       |  |                 | <b>(6,440)</b>  | (2,138)         |
| (Loss) / Profit before taxation          |                                    |                 |               |       |  |                 | <b>(56,475)</b> | 5,862           |

Inter-segment adjustments represent removal of the overlapping commission revenue from placements recognised by two or more segments and measurement differences between the basis used to report invoiced transactions to the chief operating decision maker and the basis used in the Consolidated Financial Statements.

Geographical distribution of total non-current assets of the Group as at 31 December 2010 is as follows:

|                               | <b>UK</b>     | <b>Australia</b> | <b>Other</b> | <b>Total</b>   |
|-------------------------------|---------------|------------------|--------------|----------------|
|                               | <b>£'000</b>  | <b>£'000</b>     | <b>£'000</b> | <b>£'000</b>   |
| Property, plant and equipment | <b>1,227</b>  | <b>1,530</b>     | <b>40</b>    | <b>2,797</b>   |
| Goodwill                      | <b>24,832</b> | <b>16,544</b>    | <b>-</b>     | <b>41,376</b>  |
| Other intangible assets       | <b>7,138</b>  | <b>69,876</b>    | <b>-</b>     | <b>77,014</b>  |
| Total                         | <b>33,197</b> | <b>87,950</b>    | <b>40</b>    | <b>121,187</b> |

As at 31 December 2009, all assets of the Group were held in 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 accounted for 66.1% (2009: 69.9%). There were no other single customers contributing more than 10% to the Group revenue in 2010 or 2009.

**3. EMPLOYEES**

|  | Year ended<br>31 December 2010<br>£'000 | Year ended<br>31 December 2009<br>(Restated)<br>£'000 |
|--|---|---|
| Staff costs (including Directors) comprise:          |   |   |
| Wages and salaries                                   | 22,855                                  | 18,564  |
| Social Security costs                                | 2,435                                   | 1,534   |
| Defined contribution pension costs                   | 125                                     | 36  |
| Share based payment charge (Note 29)                 | 586                                     | 464   |
|  | <b>26,001</b>                           | <b>20,598</b>   |
|  |   |   |
|  | Year ended<br>31 December 2010          | Year ended<br>31 December 2009                        |
| The average number of employees during the year was: |   |   |
| Administration Staff                                 | 442                                     | 381   |

**4. DIRECTORS AND KEY MANAGEMENT**

|                                      | Year ended<br>31 December 2010<br>£'000 | Year ended 31 December<br>2009 (Restated)<br>£'000 |
|--------------------------------------|---|--|
| Directors' remuneration consists of: |   |  |
| Emoluments                           | 993                                     | 2,329  |
| Company contribution for pension     | 13                                      | 13   |
| Payments for loss of office          | -                                       | 560  |
| Share based payment charge           | 177                                     | 257  |
|                                      | <b>1,183</b>                            | <b>3,159</b>                                       |

There was 1 Director (2009: 2 Directors) within the Group's defined contribution pension scheme during 2010.

The total amount payable to the highest paid director in respect of emoluments was £327,000 (2009: £746,000 restated). This excludes any amounts payable under compromise agreements.

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 35.

**5. OTHER OPERATING INCOME AND EXPENSES**

|  | Year ended<br>31 December 2010<br>£'000 | Year ended 31 December<br>2009<br>£'000 |
|--|---|---|
| <b>Other operating income:</b>                                   |   |   |
| Gain on fair value changes in contingent consideration (Note 20) | 4,232                                   | -                                       |
| Other income (Note 6)  | -                                       | 2,707                                   |
|  | <b>4,232</b>                            | <b>2,707</b>                            |
| <b>Other operating expenses:</b>                                 |   |   |
| Acquisition related transaction costs (Note 14)                  | 2,853                                   | -                                       |
| Reorganisation costs (Note 7)                                    | 2,834                                   | 1,855                                   |
| Impairment of property, plant and equipment (Note 12)            | 401                                     | -                                       |
| Impairment of other intangible assets (Note 15)                  | 1,296                                   | 5,252                                   |
| Costs associated with other income (Note 6)                      | -                                       | 1,392                                   |
|  | <b>7,384</b>                            | <b>8,499</b>                            |
| <b>Other operating income / (expenses), net</b>                  | <b>(3,152)</b>                          | <b>(5,792)</b>                          |

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

|   | <b>Year ended<br/>31 December 2010</b> | Year ended 31 December<br>2009 (Restated) |
|---|--|---|
|   | <b>£'000</b>                           | £'000                                     |
| Amortisation of other intangible assets   | <b>1,693</b>                           | 958                                       |
| Depreciation of property, plant and equipment   | <b>594</b>                             | 556                                       |
| Foreign exchange (gains) / losses   | <b>(585)</b>                           | 142                                       |
| Hire of other assets - operating leases   | <b>881</b>                             | 1,116                                     |
| Share scheme charges (Note 29)  | <b>586</b>                             | 464                                       |
| Loss on disposal of property, plant and equipment and other intangible assets (Notes 12 and 15) | <b>46</b>                              | -   |
| Fees payable to the Company's auditor for:  |  |   |
| - audit of the Company's annual accounts  | <b>465</b>                             | 50  |
| - audit of the Company's subsidiaries   | <b>197</b>                             | 120                                       |
| - other services pursuant to legislation  | <b>7</b>                               | 7   |
| - other services  | <b>136</b>                             | -   |

Foreign exchange gains / losses disclosed above do not include £1,542,000 (2009: nil) arising on non-operating items comprising principally of those arising on the re-translation of foreign currency borrowings at the reporting date exchange rate.

Audit fees for the Company's subsidiaries include £77,000 for the audit of certain subsidiaries in Australia.

Other than the items included above, administrative expenses increased principally due to higher costs as a result of properties taken over through acquisitions and rationalisation of the portfolio.

## 6. OTHER INCOME AND ASSOCIATED COSTS

Other operating income comprises £2,707,000 relating to the proceeds of various legal actions with which the Group had been involved in during 2009. Legal costs of £1,392,000 were incurred in pursuing these legal actions. The net amount is £1,315,000.

## 7. REORGANISATION COSTS

|                                   | <b>Year ended<br/>31 December 2010</b> | Year ended<br>31 December 2009 |
|-----------------------------------|--|--------------------------------|
|                                   | <b>£'000</b>                           | £'000                          |
| Staff costs                       | <b>164</b>                             | 379                            |
| Directors' salary costs           | <b>-</b>                               | 685                            |
| Professional service charges      | <b>1,479</b>                           | 540                            |
| Onerous leases                    | <b>694</b>                             | -                              |
| Relocation and dilapidation costs | <b>123</b>                             | 28                             |
| Others                            | <b>374</b>                             | 223                            |
|                                   | <b>2,834</b>                           | 1,855                          |

The Directors have reviewed the definition of costs previously designated as reorganisation costs. In the 2009 financial statements, the full year-to-date costs including salary, employment costs and redundancy or compensation payments of any staff that were made redundant during the year were classified as reorganisation costs. For 2010 financial statements, only the costs directly associated with such terminations have been classified as reorganisation costs and 2009 has been restated for consistency.

The reorganisation costs principally include employee redundancy costs, relocation of offices associated with the ongoing off-shoring of back and middle office functions to India, legal and professional fees and also the ongoing restructuring within the qualified social workers division.

Directors' salary costs comprise amounts paid to ex-directors for periods after they had ceased to work for the Group, including payments for compensation for loss of office.

Of total Professional service charges £1,376,000 (2009: £71,165) relate to fees paid to external consultants for services in connection with potential disposal of the business to trade / private acquirers.

Provisions for onerous lease contracts in 2010 were as a result of lease liabilities acquired on the acquisitions of Orion and MJV, for which the Group then decided to close the offices following the acquisition.

Other costs in 2010 comprise integration expenses in connection with the acquisition of HCA. Other costs in 2009 mainly comprise property and office closure charges.

**8. FINANCE INCOME AND EXPENSE**

| <b>Finance Income</b>  | <b>Year ended<br/>31 December 2010<br/>£'000</b> | Year ended<br>31 December 2009<br>£'000 |
|--|--|---|
| Interest received on bank deposits                                 | 24   | 4                                       |
| Gain on fair value changes in derivative financial instruments     | 498  | -                                       |
| Change in fair value of derivative instrument- ineffective portion | -  | 103                                     |
|  | <b>522</b>                                       | <b>107</b>                              |
|  |  |   |
| <b>Finance Expense</b>   | <b>Year ended<br/>31 December 2010<br/>£'000</b> | Year ended<br>31 December 2009<br>£'000 |
| Bank loans, overdrafts and invoice discounting facility            | 3,675  | 1,725                                   |
| Finance lease interest   | 192  | 183                                     |
| Loss on fair value changes in derivative financial instruments     | 2,573  | 230                                     |
|  | <b>6,440</b>                                     | <b>2,138</b>                            |

Finance expense relating to bank loans and overdraft includes break costs of £1,011,000 (2009: nil) paid during the year for early repayment of loans and £325,000 of transaction costs relating to Lloyds bank loan facility taken and repaid during the year.

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

**9. TAX (BENEFIT) / EXPENSE**

|   | <b>Year ended<br/>31 December 2010<br/>£'000</b> | Year ended<br>31 December 2009<br>Restated<br>£'000 |
|---|--|---|
| <i>Domestic current year tax</i>                  | <b>£'000</b>                                     | £'000   |
| UK corporation tax                                | -  | 1,574   |
| Foreign tax                                       | (38)   | 46  |
| Adjustment in respect of prior years              | -  | 1,693   |
| Carry back to prior year                          | (1,073)  | -   |
| <b>Current tax charge</b>                         | <b>(1,111)</b>                                   | <b>3,313</b>  |
| <b>Deferred tax</b>                               |  |   |
| Origination and reversal of temporary differences | (1,001)  | (487)   |
| <b>Total tax (benefit) / expense</b>              | <b>(2,112)</b>                                   | <b>2,826</b>  |

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

|  | <b>Year ended<br/>31 December 2010<br/>£'000</b> | Year ended 31 December<br>2009 Restated<br>£'000 |
|--|--|--|
| <b>(Loss) / profit before taxation</b>                                     | <b>(56,475)</b>                                  | <b>5,862</b>                                     |
| Tax at the standard rate of corporation tax in the UK of 28 % (2009 - 28%) | <b>(15,813)</b>                                  | 1,641  |
| Effects of:  |  |  |
| Expenses not deductible for tax purposes                                   | 10,672   | (825)  |
| (Over) / under provision in prior years                                    | -  | 1,692  |
| Unrecognised potential deferred tax assets                                 | 3,047  | 561  |
| Share based payments   | -  | (121)  |
| Impact of marginal rate of tax   | -  | (2)  |
| Impact of overseas tax   | (24)   | 2  |
| Losses relieved outside of the period                                      | -  | (147)  |
| Other differences  | 6  | 25   |
| <b>Total tax charge for the year</b>                                       | <b>(2,112)</b>                                   | <b>2,826</b>                                     |

**10. EARNINGS PER SHARE**

|  | <b>Year ended<br/>31 December 2010</b> | Year ended<br>31 December 2009<br>Restated |
|--|--|--|
|  | <b>Number '000</b>                     | Number '000                                |
| <b>Number of ordinary 10p shares</b>                   |  |  |
| Weighted average number of shares                      | <b>108,768</b>                         | 104,374                                    |
| Dilution effect of share options                       | <b>-</b>                               | 2,658                                      |
| Weighted average number of shares used for diluted EPS | <b>108,768</b>                         | 107,032                                    |
|  |  |  |
| Adjusted earnings for the year                         | <b>£'000</b>                           | £'000                                      |
| (Loss) / Profit for the year                           | <b>(54,363)</b>                        | 3,036                                      |
| Goodwill impairment                                    | <b>45,972</b>                          | -  |
| Other operating income (Note 5)                        | <b>(4,232)</b>                         | (2,707)                                    |
| Other operating expenses (Note 5)                      | <b>7,384</b>                           | 8,499                                      |
| Net foreign exchange (gains) / losses (non-operating)  | <b>(1,542)</b>                         | -  |
|  | <b>47,582</b>                          | 5,792                                      |
| Tax effect of above items                              | <b>(13,323)</b>                        | (1,622)                                    |
| <b>Adjusted earnings</b>                               | <b>(20,104)</b>                        | 7,206                                      |
|  | <b>Pence</b>                           | Pence                                      |
| Basic earnings per ordinary share of 10p               | <b>(49.98)</b>                         | 2.91                                       |
| Diluted earnings per ordinary share of 10p             | <b>(49.98)</b>                         | 2.84                                       |
| Adjusted basic earnings per ordinary share of 10p      | <b>(18.48)</b>                         | 6.90                                       |
| Adjusted diluted earnings per ordinary share of 10p    | <b>(18.48)</b>                         | 6.73                                       |

Adjusted earnings for the Group for 2009 has been restated to conform to the highlighted items identified by the Directors for 2010 to be of an exceptional and non-recurring nature while calculating the adjusted earnings for 2010.

At 31 December 2010, there were 4,019,281 (2009: 510,000 restated) potentially dilutive share options and 2,943,453 (2009: nil) potentially dilutive warrants which have not been included above as they do not affect EPS, on the basis that they are not currently dilutive.

In the previous year, an error was made in calculating the 2009 diluted earnings per share figures. This error relates to the use of an incorrect average share price for some options and omission to remove some of the options forfeited during 2009. Accordingly, the number of dilutive share options should have been 2,658,000 rather than 343,000 as originally stated. Consequently, the number of anti-dilutive shares was also incorrectly stated; it should have been 510,000 options rather than 4,216,266 as disclosed in the financial statements.

**11. DIVIDENDS**

|   | <b>2010</b>  | 2009  |
|---|--------------|-------|
|   | <b>£'000</b> | £'000 |
| Interim dividend of 1.5p (2009 - 0.8p) per ordinary share paid during the year relating to the previous year's results            | <b>1,578</b> | 834   |
| Final dividend of 1.9p (2009 - 1.2p) per ordinary share proposed and paid during the year relating to the previous year's results | <b>2,003</b> | 1,251 |
| Interim dividend of 1.8p (2009 - 0.8p) per ordinary share proposed and paid during 2009 relating to 2009 results                  | <b>-</b>     | 1,669 |
|   | <b>3,581</b> | 3,754 |

The Directors are not proposing a final dividend for 2010 (2009 - 1.9p, £2,003,000).

During 2010, the Company paid dividends of 1.5p per share (on 1 April 2010), 1.9p per share (on 25 June 2010) and declared a dividend of 1.8p per share which was paid on 10 January 2011. At the previous year end, parent company profit and loss reserves as stated in the year-end financial statements showed reserves of £3,576,000 which were sufficient to cover the first of the dividends. Under the Companies Act 2006 (the "Act"), distributions by the Company must not exceed the amount of the distributable profits that are reported in the Company's last annual accounts unless interim accounts demonstrate that there are sufficient distributable profits. Such interim accounts are required to be filed with Companies House before the dividend is paid.

It has come to the Directors' attention that interim accounts were not prepared and filed and that the dividends paid in June 2010 and January 2011 were therefore potentially unlawful.

Furthermore, as the existence of the errors as discussed in Note 1 may not have been known at the time of declaration of previous dividends, it may be possible that the Company did not have sufficient distributable reserves at the time of declaring such dividends. The Directors are seeking advice in relation to the impact of the correction of errors, described in Note 1, in relation to the dividends previously paid.

The Directors are also taking legal advice in relation to the dividends previously paid and what steps would be required to remedy any breach of the law.

## 12. PROPERTY, PLANT AND EQUIPMENT

|   | Improvements<br>to leasehold<br>buildings | Office and<br>Computer<br>Equipment | Motor Vehicles | Total        |
|---|---|-------------------------------------|----------------|--------------|
|   | £'000                                     | £'000                               | £'000          | £'000        |
| <b>Cost</b>                             |   |                                     |                |              |
| At 1 January 2010                       | 879                                       | 1,382                               | 45             | <b>2,306</b> |
| Acquisition of subsidiary               | 593                                       | 735                                 | 152            | <b>1,480</b> |
| Additions                               | 205                                       | 1,122                               | -              | <b>1,327</b> |
| Disposals                               | (239)                                     | (519)                               | (44)           | <b>(802)</b> |
| Effect of movements in foreign exchange | 18  | 22                                  | 5              | <b>45</b>    |
| <b>At 31 December 2010</b>              | <b>1,456</b>                              | <b>2,742</b>                        | <b>158</b>     | <b>4,356</b> |
| <b>Depreciation</b>                     |   |                                     |                |              |
| At 1 January 2010                       | 553                                       | 755                                 | 40             | <b>1,348</b> |
| Provided for the year                   | 80  | 506                                 | 8              | <b>594</b>   |
| Impairment                              | -   | 401                                 | -              | <b>401</b>   |
| Disposals                               | (196)                                     | (519)                               | (44)           | <b>(759)</b> |
| Effect of movements in foreign exchange | (2)                                       | (2)                                 | -              | <b>(4)</b>   |
| <b>At 31 December 2010</b>              | <b>435</b>                                | <b>1,141</b>                        | <b>4</b>       | <b>1,580</b> |
| <b>Net book value</b>                   |   |                                     |                |              |
| <b>At 31 December 2010</b>              | <b>1,021</b>                              | <b>1,601</b>                        | <b>154</b>     | <b>2,776</b> |
| At 31 December 2009                     | 326                                       | 627                                 | 5              | 958          |
| <b>Cost</b>                             |   |                                     |                |              |
| At 1 January 2009                       | 896                                       | 1,901                               | 45             | 2,842        |
| Additions                               | 19  | 368                                 | -              | 387          |
| Disposals                               | (36)                                      | (887)                               | -              | (923)        |
| At 31 December 2009                     | 879                                       | 1,382                               | 45             | 2,306        |
| <b>Depreciation</b>                     |   |                                     |                |              |
| At 1 January 2009                       | 430                                       | 1,224                               | 25             | 1,679        |
| Provided for the year                   | 123                                       | 418                                 | 15             | 556          |
| Disposals                               | -   | (887)                               | -              | (887)        |
| At 31 December 2009                     | 553                                       | 755                                 | 40             | 1,348        |
| <b>Net book value</b>                   |   |                                     |                |              |
| At 31 December 2009                     | 326                                       | 627                                 | 5              | 958          |
| At 31 December 2008                     | 466                                       | 677                                 | 20             | 1,163        |

|   | Improvements<br>to leasehold<br>buildings<br>£'000 | Office and<br>Computer<br>Equipment<br>£'000 | Motor Vehicles<br>£'000 | Total<br>£'000 |
|---|--|--|-------------------------|----------------|
| <b>Net book value of assets held under finance leases:</b>      |  |  |                         |                |
| <b>As at 31 December 2010</b>                                   | <b>113</b>   | <b>755</b>                                   | <b>46</b>               | <b>914</b>     |
| As at 31 December 2009  | 25   | 384  | 5                       | 414            |
| <b>Depreciation charge on assets held under finance leases:</b> |  |  |                         |                |
| <b>Year ended 31 December 2010</b>                              | <b>28</b>  | <b>383</b>                                   | <b>17</b>               | <b>428</b>     |
| Year ended 31 December 2009                                     | 77   | 264  | 15                      | 356            |

### 13. GOODWILL

Goodwill as at 31 December 2009 as previously reported has been reallocated between segments in 2010 on a more appropriate basis. The reallocation was as follows:

|                                   | As previously reported<br>£'000 | Reallocated<br>£'000 | Restated<br>£'000 |
|-----------------------------------|---------------------------------|----------------------|-------------------|
| Locum Doctors                     | 17,862                          | 4,500                | 22,362            |
| Locum Qualified Social Workers    | 20,007                          | 566                  | 20,573            |
| Locum Allied Health Professionals | 22,420                          | (5,066)              | 17,354            |
|                                   | 60,289                          | -                    | 60,289            |

Movement in goodwill in 2010 and segment wise classification is as follows:

|                                   | At 1 January 2010<br>£'000 | Additions<br>£'000 | Foreign exchange<br>£'000 | Impairment<br>£'000 | At 31 December 2010<br>£'000 |
|-----------------------------------|----------------------------|--------------------|---------------------------|---------------------|------------------------------|
| Locum Doctors                     | 22,362                     | -                  | -                         | (22,362)            | -                            |
| Locum Qualified Social Workers    | 20,573                     | -                  | -                         | (15,168)            | 5,405                        |
| Locum Allied Health Professionals | 17,354                     | 1,767              | -                         | (8,442)             | 10,679                       |
| Locum Nursing                     | -                          | 8,748              | -                         | -                   | 8,748                        |
| Permanent Placements              | -                          | -                  | -                         | -                   | -                            |
| Australia                         | -                          | 15,955             | 589                       | -                   | 16,544                       |
| <b>Total</b>                      | <b>60,289</b>              | <b>26,470</b>      | <b>589</b>                | <b>(45,972)</b>     | <b>41,376</b>                |

Comparative information for 2009 is as follows:

|          | At 1 January 2009<br>£'000 | Adjustment in respect of<br>earn-out (Note 20)<br>£'000 | At 31 December 2009<br>£'000 |
|----------|----------------------------|---|------------------------------|
| Goodwill | 60,318                     | (29)  | 60,289                       |

#### Goodwill impairment

During the year the goodwill was tested for impairment. The impairment charge reflects 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 recoverable amounts of all the above segments have been determined from value in use calculations based on cash flow projections from formally approved budgets for 2011 and 2012 and estimates for subsequent years.

The key assumptions in the value in use calculations for 2010 and 2009 were:

- Risk-free rate - 4.1% (2009: 3.96%)
- Gearing - 20% (2009: 6%)
- Equity market risk premium - 5% (2009: 5%)
- Small stock premium - 4% to 6% (2009: 2%)
- Debt margin - 2.3% (2009: 1.75%)
- Expected long-term tax rate - 25% (2009: 28%)
- The post-tax discount rate used was based on the estimated weighted average cost of capital of 16.67% (2009: 15.22%)
- Profit growth estimate 2% on 2011 budget (2009: 5% on 2010 budgets for 2012 to 2014 and 2.5% from 2014).

|                                 | Locum AHP     | Locum Doctors | Locum QSW     | Locum Nursing |
|---------------------------------|---------------|---------------|---------------|---------------|
|                                 | 2010          | 2010          | 2010          | 2010          |
| <b>Discount rate (post-tax)</b> | <b>16.67%</b> | <b>16.67%</b> | <b>16.67%</b> | <b>16.67%</b> |
| <b>Profit growth rate</b>       | <b>2.00%</b>  | <b>2.00%</b>  | <b>2.00%</b>  | <b>2.00%</b>  |
|                                 | 2009          | 2009          | 2009          | 2009          |
| Discount rate (post-tax)        | 15.22%        | 15.22%        | 15.22%        | 15.22%        |
| Profit growth rate              | 2.5 - 5%      | 2.5 - 5%      | 2.5 - 5%      | 2.5 - 5%      |

As the level of debt has increased significantly towards the end of 2010, the weighted average cost of capital is determined by comparing the discount rates used by HCL competitors in their own valuations. In addition, independent professional advice was also taken. The discount rate determined on this basis thus worked out to be higher than in 2009.

If the discount rate used above was decreased or increased by 2%, the impairment amount would be lower by £2.7m or higher by £2.0m, respectively.

#### 14. ACQUISITIONS

During 2010, the Group completed four acquisitions as follows:

- On 23 July 2010 the Company acquired 100% of the voting share capital of Orion Locums Ltd ("Orion") for an initial cash consideration of £3.2m and 100% of the voting share capital of MJV Locums Ltd ("MJV") for an initial cash consideration of £0.5m from a common shareholder who held 100% issued share capital of both companies. The Group also agreed to pay a contingent consideration in cash on these acquisitions of up to £5.6m for Orion and £1.4m for MJV. Subsequent to the year-end, the total contingent consideration was replaced by an aggregate of £5m of deferred consideration following the signing of a variation agreement. Orion is a leading nursing and healthcare staffing locum business in the UK. MJV supplies off-contract pharmacists.
- On 1 August 2010 HCL International Pty Ltd (a wholly owned subsidiary of Healthcare Locums Plc) acquired the business and assets of Last Minute Locums Pty Ltd ("LML") for an initial cash consideration of A\$7.85m (£4.8m) and a contingent consideration of up to a maximum of A\$5m. LML is an established Australian medical staffing business with a database of over 3,500 qualified doctors.
- On 19 August 2010 Medical Technical Ltd (a wholly owned subsidiary of Healthcare Locums Plc) acquired the business and certain of the assets of Redwood Health Ltd for an initial cash consideration of £5m. This was a related party transaction as set out in Note 28. Contingent consideration is also payable in cash on this acquisition up to a maximum of £1.65m. Subsequent to the year-end, the contingent consideration was replaced by an aggregate of £1.33m of deferred consideration of which £678,000 has already been paid post year-end. Redwood Health Limited ("Redwood") was a nursing locum placement provider.
- On 20 December 2010 the Company acquired the entire share capital of Healthcare Australia Holdings Pty Ltd ("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\$131.23m (approximately £83.35m of which £0.56m was deferred). 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.

These acquisitions represented a significant step towards implementing a stated strategy of the previous Board of: (a) establishing a significant presence in the UK nursing recruitment market and (b) to pursue international acquisitions which will generate additional revenue outside of the UK. The completion of these acquisitions significantly broadens HCL's international operations.

In calculating the goodwill arising on these acquisitions, the acquisition date fair value of the consideration and fair values of assets and liabilities acquired have been assessed as follows:

|   | Orion and MJV<br>£'000 | LML<br>£'000 | Redwood<br>£'000 | HCA <sup>1</sup><br>£'000 | Total<br>£'000  |
|---|------------------------|--------------|------------------|---------------------------|-----------------|
| Cash consideration  | 3,700                  | 4,834        | 5,000            | 83,345                    | <b>96,879</b>   |
| Contingent consideration (at acquisition date fair value) | 4,780                  | 1,232        | 1,650            | -                         | <b>7,662</b>    |
| <b>Total consideration</b>                                | <b>8,480</b>           | <b>6,066</b> | <b>6,650</b>     | <b>83,345</b>             | <b>104,541</b>  |
| <b>Fair value of assets and liabilities acquired:</b>     |                        |              |                  |                           |                 |
| Intangible assets:  |                        |              |                  |                           |                 |
| Customer relationships                                    | 1,019                  | 1,300        | 1,204            | 23,909                    | <b>27,432</b>   |
| Computer software   | -                      | -            | -                | 599                       | <b>599</b>      |
| Acquired candidate database                               | 948                    | -            | 1,249            | 10,925                    | <b>13,122</b>   |
| Brands and trademarks                                     | 845                    | 1,816        | 438              | 29,019                    | <b>32,118</b>   |
| Non-compete agreements                                    | -                      | 459          | -                | -                         | <b>459</b>      |
|   | <b>2,812</b>           | <b>3,575</b> | <b>2,891</b>     | <b>64,452</b>             | <b>73,730</b>   |
| Cash / (invoice discounting facility) acquired            | (1,002)                | -            | -                | 7,580                     | <b>6,578</b>    |
| Property plant and equipment                              | -                      | -            | -                | 1,480                     | <b>1,480</b>    |
| Trade and other receivables                               | 1,458                  | -            | 45               | 16,691                    | <b>18,194</b>   |
| Deferred tax asset  | -                      | -            | -                | 4,826                     | <b>4,826</b>    |
| Trade and other payables                                  | (657)                  | -            | -                | (13,776)                  | <b>(14,433)</b> |
| Employee benefits provision                               | -                      | -            | -                | (3,482)                   | <b>(3,482)</b>  |
| Current taxation  | (145)                  | -            | -                | (163)                     | <b>(308)</b>    |
| Deferred tax liability                                    | (787)                  | (528)        | -                | (7,199)                   | <b>(8,514)</b>  |
| <b>Net assets / liabilities acquired</b>                  | <b>1,679</b>           | <b>3,047</b> | <b>2,936</b>     | <b>70,409</b>             | <b>78,071</b>   |
| <b>Goodwill</b>   | <b>6,801</b>           | <b>3,019</b> | <b>3,714</b>     | <b>12,936</b>             | <b>26,470</b>   |

<sup>1</sup> Of the total cash consideration, £562,000 was paid in January 2011.

### Orion and MJV Locums

Intangible assets acquired and fair valued include acquired candidate databases, customer contracts and relationships and brands / trademarks.

Contingent consideration in relation to the acquisition, as originally agreed, was payable up to £7.0 million based on future EBITDA of the acquired business meeting certain targets in the 2 years ended 31 December 2012. Subsequently, the Group agreed to pay a deferred consideration of £5m in lieu of the contingent consideration.

Acquired trade receivables were fair valued at £1.46m after deducting approximately £0.01m not expected to be collected.

There were no significant contingent liabilities acquired.

None of the goodwill is expected to be tax deductible. Goodwill represents the expected synergies arising from combining the operations of the acquiree and acquirer including administrative efficiencies and the value of the assembled workforce.

In assessing the acquisitions, the Directors have treated the following as separate from the business combination:

- Transaction costs paid to advisors of £0.23m have been charged to the Statement of Comprehensive Income within administration costs.

Orion and MJV Locums contributed £4.0m of revenue, £0.8m of gross profit and £1.1m of loss before tax for the period between the date of acquisition and the date of the Statement of Financial Position. If the acquisition of Orion and MJV Locums had been completed on 1 January 2010 the Group revenue for the year would have been approximately £5.8m higher and gross profit would have been approximately £1.1m higher than reported.

**Last Minute Locums Pty Limited ("LML")**

The exchange rate used at the acquisition date was A\$1.73379: £1.

Contingent consideration in relation to the acquisition is payable up to a maximum of A\$5m based on the future gross profit of the acquired business meeting certain targets in the 36 month period ending from the date of completion. Contingent consideration is payable in tranches and in cash or by the issue of shares, at the Group's option. None of the goodwill is expected to be tax deductible.

In assessing the acquisitions, the Directors have treated the following as separate from the business combination:

- Transaction costs paid to advisors of £0.74m have been charged to the Statement of Comprehensive Income within administration expenses.
- Discharge of all debts, liabilities and obligations incurred after the completion of acquisition including undertaking that the Group will assume liability for the rent in respect of lease for office premises and licence fee for car space after the completion date.
- No contingent liabilities were acquired by the Group as part of this acquisition.

LML contributed £1.5m of revenue, £1m of gross profit and £0.67m of profit before tax for the period between the date of acquisition and the date of the Statement of Financial Position. If the acquisition of LML had been completed on 1 January 2010 the Group revenue and gross profit for the year would have been higher by £2.1m and £1.4m, respectively.

**Redwood Health Limited**

Contingent consideration in relation to the acquisition of assets as originally agreed was payable up to £1.65 million based on future EBITDA of the acquired business meeting certain targets in the 3 months ended 31 March 2011. As discussed above, this was, subsequent to the year-end, replaced by deferred consideration of £1.33m.

There were no acquired trade receivables and there were no contingent liabilities acquired.

Goodwill of £3.7m is expected to be tax deductible. Goodwill represents the expected synergies arising from combining the operations of the acquiree and acquirer including administrative efficiencies and the value of the assembled workforce.

In assessing the acquisitions, the Directors have treated the following as separate from the business combination:

- Transaction costs paid to advisors of £0.2m have been charged to the Statement of Comprehensive Income within administration costs

Assets of Redwood Health Limited contributed £3.8m of revenue, £0.7m of gross profit and £0.3m of profit before tax for the period between the date of acquisition and the date of the Statement of Financial Position. Based on pre-acquisition forecast, if the acquisition of assets of Redwood Health had been completed on 1 January 2010 the Group revenue for the period would have been £6.8m higher with an increase in gross profit of £1.2m.

**Healthcare Australia Holdings Pty Limited ("HCA")**

The exchange rate used at the acquisition date was A\$1.5745:£1.

Acquired trade and other receivables were fair valued at £16,691,000.

None of the goodwill is expected to be tax deductible. Goodwill represents the expected synergies arising from combining the operations of the acquiree and acquirer including administrative efficiencies and the value of the assembled workforce.

In assessing the acquisitions, the Directors have treated the following as separate from the business combination:

- Transaction costs paid to advisors of £1.7m have been charged to the Statement of Comprehensive Income within administration costs

HCA contributed £9.7m of revenue, £2.0m of gross profit and £0.1m of loss before tax for the period between the date of acquisition and the date of the Statement of Financial Position. If the acquisition of HCA had been completed on 1 January 2010 the Group revenue for the period would have been £56.2m higher, gross profit would have been £11.3m higher.

**15. OTHER INTANGIBLE ASSETS**

|   | Customer relationships | Computer software | Acquired candidate database | Brands and trademarks | Knowledge database | Non-compete agreements | Total         |
|---|------------------------|-------------------|-----------------------------|-----------------------|--------------------|------------------------|---------------|
|   | £'000                  | £'000             | £'000                       | £'000                 | £'000              | £'000                  | £'000         |
| <b>Cost</b>                               |                        |                   |                             |                       |                    |                        |               |
| At 1 January 2010 (Restated)              | 3,953                  | 7,550             | -                           | -                     | 100                | -                      | <b>11,603</b> |
| Acquisition of subsidiary                 | 27,432                 | 599               | 13,122                      | 32,118                | -                  | 459                    | <b>73,730</b> |
| Additions                                 | -                      | 512               | -                           | -                     | -                  | -                      | <b>512</b>    |
| Effect of movements in foreign exchange   | 819                    | 19                | 337                         | 1,010                 | -                  | 29                     | <b>2,214</b>  |
| Disposals                                 | -                      | (549)             | -                           | -                     | -                  | -                      | <b>(549)</b>  |
| <b>At 31 December 2010</b>                | <b>32,204</b>          | <b>8,131</b>      | <b>13,459</b>               | <b>33,128</b>         | <b>100</b>         | <b>488</b>             | <b>87,510</b> |
| <b>Amortisation</b>                       |                        |                   |                             |                       |                    |                        |               |
| At 1 January 2010 (Restated)              | 1,477                  | 6,476             | -                           | -                     | 100                | -                      | <b>8,053</b>  |
| Provided for the year                     | 778                    | 458               | 272                         | 148                   | -                  | 37                     | <b>1,693</b>  |
| Disposals                                 | -                      | (546)             | -                           | -                     | -                  | -                      | <b>(546)</b>  |
| Impairment                                | 733                    | 563               | -                           | -                     | -                  | -                      | <b>1,296</b>  |
| <b>At 31 December 2010</b>                | <b>2,988</b>           | <b>6,951</b>      | <b>272</b>                  | <b>148</b>            | <b>100</b>         | <b>37</b>              | <b>10,496</b> |
| <b>Net book value At 31 December 2010</b> | <b>29,216</b>          | <b>1,180</b>      | <b>13,187</b>               | <b>32,980</b>         | <b>-</b>           | <b>451</b>             | <b>77,014</b> |
| At 31 December 2009 (Restated)            | 2,476                  | 1,074             | -                           | -                     | -                  | -                      | <b>3,550</b>  |

|                                | Customer Relationships | Computer software (Restated) | Candidate database (Restated) | Knowledge database | Total (Restated) |
|--------------------------------|------------------------|------------------------------|-------------------------------|--------------------|------------------|
|                                | £'000                  | £'000                        | £'000                         | £'000              | £'000            |
| <b>Cost</b>                    |                        |                              |                               |                    |                  |
| At 1 January 2009              | 3,953                  | 6,094                        | -                             | 100                | 10,147           |
| Additions                      | -                      | 1,572                        | -                             | -                  | 1,572            |
| Disposals                      | -                      | (116)                        | -                             | -                  | (116)            |
| At 31 December 2009            | 3,953                  | 7,550                        | -                             | 100                | 11,603           |
| <b>Amortisation</b>            |                        |                              |                               |                    |                  |
| At 1 January 2009              | 1,038                  | 821                          | -                             | 100                | 1,959            |
| Provided for the year          | 439                    | 519                          | -                             | -                  | 958              |
| Impairment                     | -                      | 5,252                        | -                             | -                  | 5,252            |
| Disposals                      | -                      | (116)                        | -                             | -                  | (116)            |
| At 31 December 2009            | 1,477                  | 6,476                        | -                             | 100                | 8,053            |
| <b>Net book value</b>          |                        |                              |                               |                    |                  |
| At 31 December 2009            | 2,476                  | 1,074                        | -                             | -                  | 3,550            |
| At 31 December 2008 (Restated) | 2,915                  | 5,273                        | -                             | -                  | 8,188            |

As discussed in Note 1 above, the Group wrote off the candidate database costs brought forward as a correction of a prior year error. The impact of this restatement is to reduce opening net assets (at 1 January 2009) by £3,003,000; and to reduce reported 2009 profits by £1,776,000. The costs incurred during the year ended 31 December 2010 on the candidate database were expensed as administrative expenses.

At 31 December 2010, computer software did not include any component that was under construction (2009: £0.6m). The Group amortises intangible assets from the date the assets are ready to use.

**16. TRADE AND OTHER RECEIVABLES**

|                                | 31 December 2010 | 31 December 2009 (Restated) | 1 January 2009 (Restated) |
|--------------------------------|------------------|-----------------------------|---------------------------|
|                                | £'000            | £'000                       | £'000                     |
| Trade receivables              | <b>28,624</b>    | 17,594                      | 19,526                    |
| Other receivables              | <b>2,299</b>     | 5,053                       | 1,913                     |
| Prepayments and accrued income | <b>5,410</b>     | 4,658                       | 5,050                     |
|                                | <b>36,333</b>    | 27,305                      | 26,489                    |

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 22. There are no differences between book value and fair value of these trade and other receivables at either reporting date.

Refer to Note 1 for an explanation of the change in accounting policy.

## 17. TRADE AND OTHER PAYABLES

|                                 | 31 December 2010 | 31 December 2009<br>(Restated) | 1 January 2009<br>(Restated) |
|---------------------------------|------------------|--------------------------------|------------------------------|
|                                 | £'000            | £'000                          | £'000                        |
| Trade creditors                 | 6,565            | 2,130                          | 1,731                        |
| Other taxes and social security | 7,648            | 5,816                          | 3,888                        |
| Accruals and deferred income    | 10,810           | 5,185                          | 5,025                        |
| Sales ledger credits            | 4,301            | 3,296                          | 1,823                        |
| Other creditors                 | 4,132            | 1,980                          | 998                          |
|                                 | <b>33,456</b>    | 18,407                         | 13,465                       |

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

## 18. SHORT TERM BORROWINGS

|                              | 31 December 2010 | 31 December 2009 |
|------------------------------|------------------|------------------|
|                              | £'000            | £'000            |
| Bank overdraft               | 53               | -                |
| Invoice discounting facility | -                | 11,570           |
|                              | <b>53</b>        | 11,570           |

The invoice discounting facility was discontinued in December 2010.

The invoice discounting facility was secured on the approved debtors within the trade receivables balance, the approved debtors comprising those debts which are less than 120 days old. When a debt reaches 120 days old any amount borrowed which has been secured over these debtors is returned to the bank.

## 19. LOANS AND LONG TERM BORROWINGS

|  | 31 December 2010 | 31 December 2009 |
|--|------------------|------------------|
|  | £'000            | £'000            |
| <b>Non-Current</b>   |                  |                  |
| Bank loans (secured)   | -                | 5,413            |
| Obligations under finance leases and hire purchase contracts | 467              | 69               |
| <b>Total non-current borrowings</b>                          | <b>467</b>       | 5,482            |
| <b>Current portion of long-term debt</b>                     |                  |                  |
| Bank loans (secured) (see note below)                        | 114,015          | 4,080            |
| Obligations under finance leases and hire purchase contracts | 429              | 263              |
| <b>Total current borrowings</b>                              | <b>114,444</b>   | 4,343            |
| <b>Total borrowings</b>                                      | <b>114,911</b>   | 9,825            |

The Board believes that it is probable that at 31 December 2010 the Group was in default under the Senior Facilities Agreement ('SFA') and Mezzanine Facility Agreement ('MFA') with its lending banks. The lending banks have reserved their rights in relation to any defaults that may subsist and have not waived any defaults that may subsist.

If a default does subsist the lending banks would, on service of a notice, have the right, among other things, to require the loans under the SFA and MFA to be repaid immediately.

In these specific circumstances the Board considered it appropriate to classify all of the Group's loans as current liabilities.

There are no differences between the book value and fair value of these loans and long term borrowings at either reporting date. The bank loans are secured by a first charge over all assets of the Company and its subsidiaries.

The borrowings are denominated in £ sterling and Australian Dollars (A\$).

The term loans taken by the Group to finance the acquisitions made in December 2010 and provide additional working capital in Australia are with the Commonwealth Bank Australia and the National Australia Bank with a mezzanine facility provided by Ares Capital Europe ("Ares").

As per the terms of the mezzanine facility, the Company granted Ares warrants over 2,493,453 shares in the Company representing 2.2% of the issued share capital. The warrants can be exercised after 5 years, or earlier upon occurrence of certain events such as sale or significant issuance of shares by the Company, change of control etc., at an exercise price of 10.00p per share. The warrants include an anti-dilution provision which entitles the holder to maintain its 2.2% holding in the issued share capital to the extent that ordinary shares are issued at a price below 85.00p. In the event that further shares are issued at a price above 85.00p per share, warrant holders will be issued additional warrants representing 1.1% of the new ordinary shares. The fair value of these warrants as at the date of issuance to Ares was determined to be £2.97m by an independent firm of valuers and is being amortised over the 5 year term of the mezzanine facility using the effective interest method. Of this, £22,000 was amortised in 2010.

The Group paid total fees of £7.7m for the above loans taken during the year. These fees are amortised using the effective interest method over the term of the respective loans. In 2010, of £7.7m the Group amortised £0.1m. The bank loans outstanding in the table above are after reducing the unamortised fees of £7.6m and unamortised fair value of warrants of £2.95m. If the Group refinances these loans before their scheduled repayment date, any unamortised fees as at the date of refinancing will be charged to the Statement of Comprehensive Income immediately.

Other facilities with the Group's bankers, Barclays Bank Plc and Allied Irish Banks Plc, originally repayable by instalments over the period to April 2012 were repaid during the year. These loans were secured by a floating charge over the assets of the Company and its subsidiaries.

The Group also borrowed £15m from Lloyds TSB Bank during the year. The facility partly funded some of the acquisitions during the year and was partly used to repay other outstanding loans and invoice discounting facility. The Lloyds facility was fully repaid before the year-end from the proceeds of the Commonwealth Bank Australia and National Australia Bank loans.

The hire purchase contracts and finance leases are secured on the assets to which they relate. The carrying values of these assets are disclosed in Note 12. Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the Group has the right to purchase the assets outright at the end of the minimum lease period by paying a nominal amount.

Future lease payments are due as follows:

|   | 2010 (£ '000)          |            |               |
|---|------------------------|------------|---------------|
|   | Minimum lease payments | Interest   | Present Value |
| Not later than one year                           | 604                    | 175        | 429           |
| Later than one year and not later than five years | 631                    | 164        | 467           |
| Later than five years                             | -                      | -          | -             |
|   | <b>1,235</b>           | <b>339</b> | <b>896</b>    |
|   | 2009 (£ '000)          |            |               |
|   | Minimum lease payments | Interest   | Present Value |
| Not later than one year                           | 398                    | 135        | 263           |
| Later than one year and not later than five years | 97                     | 28         | 69            |
| Later than five years                             | -                      | -          | -             |
|   | 495                    | 163        | 332           |

**20. PROVISIONS**

|                                     | 31 December 2010         |                   |              | 31 December 2009         |
|-------------------------------------|--------------------------|-------------------|--------------|--------------------------|
|                                     | Contingent consideration | Employee benefits | Total        | Contingent consideration |
|                                     | £'000                    | £'000             | £'000        | £'000                    |
| Balance at 1 January                | -                        | -                 | -            | 1,220                    |
| On acquisition:                     |                          |                   |              |                          |
| Contingent consideration            | 7,662                    | -                 | 7,662        | -                        |
| Employee benefits (Note 14)         | -                        | 3,482             | 3,482        | -                        |
| Movement during the year:           |                          |                   |              |                          |
| Employee benefits                   | -                        | 80                | 80           | -                        |
| Orion and MJV - fair value          | (4,232)                  | -                 | (4,232)      | -                        |
| LML - movements in foreign exchange | 77                       | -                 | 77           | -                        |
| Fair value                          | -                        | -                 | -            | (29)                     |
| (Paid) during the year              | -                        | -                 | -            | (1,191)                  |
| <b>Balance at 31 December</b>       | <b>3,507</b>             | <b>3,562</b>      | <b>7,069</b> | -                        |
| <b>Of which:</b>                    |                          |                   |              |                          |
| Current                             | 2,737                    | 2,223             | 4,960        | -                        |
| Non-current                         | 770                      | 1,339             | 2,109        | -                        |

As noted in Note 14, the fair value of contingent consideration as at the date of acquisition of Orion and MJV was £4,780,000. Based on the post acquisition performance of Orion and MJV, the fair value of this contingent consideration was determined to be £548,000. This reduction is recognised as a gain in the Statement of Comprehensive Income (see Note 5).

Other provisions above consist of the long service leave benefits of £2,767,000 and provision for paid leave of £795,000 relating to the employees of HCA. For other employees, the paid leave liability as at 31 December 2010 was not significant enough to require a provision.

The liability for long service leave is recognised in the provision of employee benefits and measured as the value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to salary levels, experience of employee departures and periods of service. The provision includes an estimate for long service leave to cover any potential exposure relating to claims where the data is not specific enough to determine the liability in accordance with the above policy.

Contingent consideration paid during 2009 arose on the acquisition of Tempaid. The consideration was contingent on the profitability of the business acquired.

**21. DEFERRED TAXATION**

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 27% (2009: 28%). The movement on the deferred tax account is shown below:

|   | 2010<br>£'000 | 2009 (Restated)<br>£'000 |
|---|---------------|--------------------------|
| <b>At 1 January</b>                             | -             | 1,643                    |
| Acquisition                                     | -             | -                        |
| Profit and loss charge / (credit)               | (1,001)       | (487)                    |
| Deferred tax on acquisitions (Note 14)          | 3,688         | -                        |
| Foreign exchange                                | 115           | -                        |
| Deferred tax movement recognised through equity | 1,156         | (1,156)                  |
| Other   | (236)         | -                        |
| At 31 December                                  | <b>3,722</b>  | -                        |
| Represented by:                                 |               |                          |
| Deferred taxation asset                         | (5,117)       | (1,665)                  |
| Deferred taxation liability                     | 8,839         | 1,665                    |
|   | <b>3,722</b>  | -                        |

Details of the deferred tax account, amounts charged to the Statement of Comprehensive Income and amounts charged to reserves are as follows:

|   | Deferred (asset) / liability<br>2010<br>£'000 | Charged to income<br>2010<br>£'000 | Charged / (Credited) to<br>reserves 2010<br>£'000 |
|---|---|------------------------------------|---|
| Accelerated capital allowances                          | -   | 211                                | -   |
| Deferred tax on recognition of other intangible assets: |   |                                    |   |
| Orion   | 674   | (114)                              | -   |
| Blue Group International                                | 367   | (326)                              | -   |
| LML   | 463   | (48)                               | -   |
| HCA (asset)   | (5,117)                                       | -                                  | -   |
| HCA liability   | 7,335   | (50)                               | -   |
| Hedge accounting  | -   | 17                                 | 270   |
| Other temporary differences                             | -   | (973)                              | -   |
| Equity settled options                                  | -   | 282                                | 886   |
|   | <b>3,722</b>                                  | <b>(1,001)</b>                     | <b>1,156</b>                                      |

|   | Deferred (asset) / liability<br>£'000 | Charged / (credited) to<br>income<br>£'000 | Charged / (credited) to<br>reserves<br>£'000 |
|---|---------------------------------------|--|--|
|   |                                       | 2009 (Restated)                            |  |
|   |                                       |  |  |
| Accelerated capital allowances                        | (212)                                 | (598)                                      | -  |
| Hedge accounting                                      | (286)                                 | (17)                                       | (270)  |
| Deferred tax on recognition of customer relationships | 693                                   | 26   | -  |
| Other temporary differences                           | 972                                   | 271  | -  |
| Equity settled share options                          | (1,167)                               | (120)                                      | (886)  |
| Prior year adjustment                                 | -                                     | (49)                                       | -  |
|   | -                                     | (487)                                      | (1,156)                                      |

Deferred tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group did not recognise deferred tax assets:

- (i) Of £4,922,000 (2009: £916,000) in respect of losses amounting to £18,230,000 (2009: £3,271,000) that can be carried forward against future taxable income; and
- (ii) Of £4,516,000 (2009: £434,000) in respect of items other than tax losses.

## 22. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise bank term loans, mezzanine facility, bank overdraft facilities, invoice discounting facilities, cash and interest rate swap instruments and trade and other receivables and payables. Balances as at the year-end for these financial instruments were as follows:

|   | Loans and receivables |               |
|---|-----------------------|---------------|
|   | 2010<br>£'000         | 2009<br>£'000 |
| <b>Current financial assets</b>                             |                       |               |
| Trade and other receivables                                 | 36,333                | 27,305        |
| Cash and cash equivalents (excluding short-term borrowings) | 10,546                | 4,102         |
| <b>Total current financial assets</b>                       | <b>46,879</b>         | <b>31,407</b> |

|  | Financial liabilities measured at amortised cost                 |       |  |               |
|--|--|-------|--|---------------|
|  | 2010   |       | 2009   |               |
|  | £'000  | £'000 | £'000  | £'000         |
| <b>Current financial liabilities</b>           |  |       |  |               |
| Trade and other payables                       | 33,456   |       |  | 18,407        |
| Short term borrowings                          | 53   |       |  | 11,570        |
| Current portion of long term borrowings        | 114,444  |       |  | 4,343         |
| <b>Total current financial liabilities</b>     | <b>147,953</b>   |       |  | <b>34,320</b> |
| <b>Non-current financial liabilities</b>       |  |       |  |               |
| Long term borrowings                           | 467  |       |  | 5,482         |
| <b>Total non-current financial liabilities</b> | <b>467</b>   |       |  | <b>5,482</b>  |
|  | Derivative financial liability in an eligible hedge relationship |       | Derivative financial liability held at fair value through profit or loss |               |
|  | 2010   | 2009  | 2010   | 2009          |
|  | £'000  | £'000 | £'000  | £'000         |
| Derivative financial liabilities               | -  | 300   | 1,726  | 498           |

The Group's bank loans, A\$62.3m (approximately £41m) and £74m as at 31 December 2010 (2009 - £9.5m) are based upon LIBOR plus a margin. The invoice discounting facility was repaid during 2010. As at 31 December 2009, the amount outstanding was £11.6m which was at a floating rate linked to the base rate plus a margin.

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 in A\$ outstanding as at 31 December 2010 that exposes the Group to currency risk. The A\$ exchange rate as at the date of acquisition of HCA was A\$1.5745/£1 as against the year-end rate of A\$1.5274/£1. The average rate for the period post-acquisition period was A\$1.5510/£1.

Further, the Group has agreed a number of contracts with customers for the provision of staff for permanent placements where the revenue derived under the contract is in US dollars. Also, due to the acquisitions of the subsidiaries outside the UK during the year, at 31 December 2010, 42% (2009: 1%) of the trade receivables were denominated in foreign currencies.

As at 31 December 2010 59% (2009: 0.17%) of the total assets of the Group were held in subsidiary companies in countries outside of the UK and denominated in currencies other than sterling; principally in A\$. Only in exceptional circumstances will the Group consider hedging its net investments in overseas operations as generally it does not consider that the reduction in foreign currency exposure warrants the cash flow risk created from such hedging techniques.

At 31 December 2010, if sterling had weakened / strengthened by 10% against the US dollar with all variables held constant, it would have had an insignificant impact on the Group loss for the year. If sterling had weakened / strengthened by 10% against the A\$ with all variables held constant, post tax loss for the year would have been £5.1m (2009: no exposure) higher / lower, mainly as a result of foreign exchange gains / losses on translation of trade receivables, foreign currency denominated borrowings and cash and cash equivalents.

(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 mixture of equity and bank borrowings. Interest rate risk arising due to the Group's borrowings in sterling and A\$ at floating rates of interest is mitigated by interest rate instruments that generate a desired interest profile to manage the Group's exposure to interest rate fluctuations. The interest rate instruments entered into by the Group as at 31 December 2010 are not accounted for using cash flow hedge accounting principles however these are intended to economically hedge the exposure due to variable interest rates.

Under the terms of the loan facilities of the Group taken out in December 2010 the Group is exposed to interest rate risks from any movements in the LIBOR rate with respect to sterling denominated loans and the Australian base rate for A\$ denominated loans. Interest rate risk is managed through interest rate derivatives which cap the Group's exposure to interest rate increases. The Group purchased interest rate swaps with Commonwealth Bank Australia and National Australia Bank in December 2010 that protected £33.2m and A\$44.9m of borrowings (reducing across the lifetime of the loans in line with loan repayments) with fixed interest rate of 3.305% in the case of sterling loans and 6.14% in the case of A\$ loans.

These interest rate instruments are measured at fair value through profit or loss and a debit of £1.7m has been made to the Statement of Comprehensive Income to reflect the movement in the fair value of these instruments from the dates these were purchased through to the year end. At 31 December 2010 no instruments (2009: £300,000) were recorded in equity.

The fair value of the interest rate swaps at 31 December 2010 was a liability of £1.7m (2009: £0.8m).

As at the year end, the Group's total term loans and mezzanine facility amounted to £130m (including letters of credit) before deducting the unamortised loan fees and fair value of warrants. £96m of these borrowings, representing 74% of the Group's borrowings, were covered by these financial instruments. A further £33.8m of borrowings were covered by management through similar instruments subsequent to the date of the Statement of Financial Position thus extending the cover to all of the total long term borrowings held by the Group as at 31 December 2010.

At 31 December 2010, if the interest rates on floating rate borrowings increased or decreased by 100 basis points with all other variables held constant, loss for the year would have been £11,000 lower or higher, respectively mainly as a result of higher / lower interest expense on these borrowings.

(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 towards NHS trusts, Local Authorities and other Government institutions. Private sector customers are subject to credit checking procedures prior to commencing to trade with them. The public sector organisations comprised 68% (2009: 80%) of the total UK trade receivables and 42% (2009: nil) of the Australia trade receivables as at 31 December 2010. The quality, and therefore 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.

|  | Current    | 1 month overdue | 2 months overdue | ≥3 months overdue |
|--|------------|-----------------|------------------|-------------------|
| % of trade debt per ageing category - 31 December 2010 | <b>75%</b> | <b>15%</b>      | <b>6%</b>        | <b>5%</b>         |
| % of trade debt per ageing category - 31 December 2009 | 76%        | 18%             | 4%               | 2%                |

(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.

At the date of issuing the financial statements, these projections indicated that the Group will need to raise further capital or borrowings to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances. Further information is set out under 'going concern' in the Statement of Significant Accounting Policies.

Gross undiscounted cash flows are due as follows:

|  | On demand<br>£'000 | Due within 1 year<br>£'000 | Due in 1 to 2<br>years<br>£'000 | Due in 2 to 5<br>years<br>£'000 |
|--|--------------------|----------------------------|---------------------------------|---------------------------------|
| <b>2010</b>  |                    |                            |                                 |                                 |
| <b>Non derivative financial instruments - outflows</b> |                    |                            |                                 |                                 |
| Long and short term borrowings <sup>1</sup>            | 53                 | 16,605                     | 19,516                          | 120,452                         |
| Finance leases   | -                  | 429                        | 467                             | -                               |
| Trade and other payables                               | -                  | 33,456                     | -                               | -                               |
| Contingent consideration                               | -                  | 2,737                      | 440                             | 330                             |
|  | <b>53</b>          | <b>53,227</b>              | <b>20,423</b>                   | <b>120,782</b>                  |
| <b>Derivative financial instruments - net outflows</b> | -                  | 1,183                      | 1,183                           | 2,367                           |
| <b>Total</b>   | <b>53</b>          | <b>54,410</b>              | <b>21,606</b>                   | <b>123,149</b>                  |
| <b>2009</b>  |                    |                            |                                 |                                 |
| <b>Non derivative financial instruments - outflows</b> |                    |                            |                                 |                                 |
| Long and short term borrowings                         | 11,570             | 4,424                      | 4,822                           | 860                             |
| Finance leases   | -                  | 263                        | 69                              | -                               |
| Trade and other payables                               | -                  | 18,407                     | -                               | -                               |
|  | 11,570             | 23,094                     | 4,891                           | 860                             |
| <b>Derivative financial instruments - net outflows</b> | -                  | 707                        | 226                             | 12                              |
| <b>Total</b>   | <b>11,570</b>      | <b>23,801</b>              | <b>5,117</b>                    | <b>872</b>                      |

<sup>1</sup> Cash flows in respect of bank loans are included based on their contractual maturities and do not reflect the classification of these loans as current due to breach of covenants as discussed in Note 19.

This table summarises undiscounted cash flows based on the financial liabilities outstanding at the year-end and assuming no changes in interest rates from the year end rates.

#### Fair value estimation

The carrying value of the assets and liabilities of the Group approximate their fair values. As noted above, the only financial instruments that are measured at fair value through profit or loss are interest rate swaps. There are no other financial assets or liabilities held for trading purposes or any investments classified as available-for-sale.

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.

### 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 primary objective is to ensure its continued ability to provide a growing return for its equity shareholders through a combination of capital growth and distributions. In order to achieve this objective the Board seeks to establish and maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. The Group's gearing ratio at the reporting date is shown below:

|  | 2010<br>£'000   | 2009 (Restated)<br>£'000 |
|--|-----------------|--------------------------|
| Invoice discounting facility                                 | -               | 11,570                   |
| Bank overdraft   | 53              | -                        |
| Bank loans   | 114,015         | 9,493                    |
| Obligations under finance leases and hire purchase contracts | 896             | 332                      |
| <b>Total borrowings</b>                                      | <b>114,964</b>  | 21,395                   |
| Less: Cash in hand   | <b>(10,546)</b> | (4,102)                  |
| <b>Net borrowings</b>  | <b>104,418</b>  | 17,293                   |
| Share capital  | 11,334          | 10,467                   |
| Share premium  | 45,318          | 34,517                   |
| Cash flow hedge reserve                                      | -               | (672)                    |
| Share option reserve   | 4,635           | 1,079                    |
| Translation reserve  | (193)           | 5                        |
| Retained earnings  | (54,514)        | 4,586                    |
| <b>Total capital</b>   | <b>6,580</b>    | 49,982                   |
| <b>Gearing ratio</b>   | <b>1,587%</b>   | 35%                      |

The increase in gearing is principally due to the bank loans and mezzanine facility taken by the Group to finance the acquisitions in December 2010, to meet the working capital requirements and the losses arising during the year. As reported in the Basis of Preparation note under "Going Concern", the Group intends to significantly reduce this gearing ratio as soon as possible.

As a first major step in reducing the Group's debt levels, on 18 July 2011 the Directors were pleased to announce that the Company's wholly owned Australian subsidiary, Healthcare Australia Holdings (Pty) Ltd ("HCA") had completed the sale of its Homecare Division. The gross consideration (before estimated expenses of A\$2 million) was A\$34 million (approximately £22.4 million). The sale was completed on 18 July 2011 and the net proceeds of the sale have been used to reduce the Group's debt.

The Group also intends to raise additional equity funding. More detail is contained in the Post Balance Sheet Events note (Note 30) and the Chairman's Statement.

### 23. SHARE CAPITAL

#### Authorised

|                               | 31 December 2010 | 31 December 2009 | 31 December 2010 | 31 December 2009 |
|-------------------------------|------------------|------------------|------------------|------------------|
|                               | Number '000      |                  | £'000            |                  |
| <i>Equity share capital</i>   |                  |                  |                  |                  |
| Ordinary shares of £0.10 each | 200,000          | 200,000          | 20,000           | 20,000           |

#### Allotted, called up and fully paid

|                               | 31 December 2010 | 31 December 2009 | 31 December 2010 | 31 December 2009 |
|-------------------------------|------------------|------------------|------------------|------------------|
|                               | Number '000      |                  | £'000            |                  |
| <i>Equity share capital</i>   |                  |                  |                  |                  |
| Ordinary shares of £0.10 each | 113,338          | 104,667          | 11,334           | 10,467           |

The movements during the year in the authorised and the issued share capital are as set out below.

#### Authorised share capital - Number and Nominal Value

|  | Equity shares<br>Ordinary shares of £0.10<br>Number '000 | Equity shares<br>Ordinary shares of £0.10<br>£ '000 |
|--|--|---|
|  | As at 1 January 2010 and 31 December 2010                | <b>200,000</b>                                      |

#### Issued share capital - Number and Nominal Value - 2010

|  | Equity shares                           |                                   |
|--|---|-----------------------------------|
|  | Ordinary shares of £0.10<br>Number '000 | Ordinary shares of £0.10<br>£'000 |
| As at 1 January 2010   |   |                                   |
| Shares issued following exercise of share options granted to employees and other parties in: |   |                                   |
| 27 January 2010  | <b>104,667</b>                          | <b>10,467</b>                     |
| 29 April 2010  | <b>500</b>                              | <b>50</b>                         |
| 20 September 2010  | <b>250</b>                              | <b>25</b>                         |
| 3 November 2010  | <b>4</b>                                | <b>1</b>                          |
| New ordinary shares issued on 16 July 2010   | <b>584</b>                              | <b>58</b>                         |
| <b>As at 31 December 2010</b>  | <b>7,333</b>                            | <b>733</b>                        |
|  | <b>113,338</b>                          | <b>11,334</b>                     |

The shares issued in January 2010 following the 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 the 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 to an external adviser pursuant an option deed dated 4 November 2005 at the exercise price of 55p per share.

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

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

#### Issued share capital - Number and Nominal Value - 2009

|   | Equity shares                           |                                   |
|---|---|-----------------------------------|
|   | Ordinary shares of £0.10<br>Number '000 | Ordinary shares of £0.10<br>£'000 |
| As at 1 January 2009  | 104,272                                 | 10,427                            |
| Shares issued following exercise of share options granted to employees on 30 September 2009 | 395                                     | 40                                |
| As at 31 December 2009  | 104,667                                 | 10,467                            |

The shares issued on 30 September 2009 following the exercise of share options granted to employees comprised 394,700 that were issued at the exercise price of 59.0p per share and 699 that were exercised at 10.0p per share, therefore total consideration amounted to £233,000.

All the new shares issued during 2009 have the same rights, preferences and restrictions as those relating to the ordinary shares already in issue at the start of the year.

#### 24. RESERVES

The share premium account represents amounts subscribed for share capital in excess of nominal value.

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 the warrants granted to Ares Capital Europe in connection with the mezzanine facility taken out during 2010 and also the share options granted to the employees.

The translation reserve comprises all 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 reserve represents the cumulative profit or loss recognised in the Statement of Comprehensive Income.

## 25. CONTINGENT ASSETS AND LIABILITIES

### Customer claims

Following claims from customers alleging that the Group had invoiced for charges which were not fully compliant with contracts or customer signed term sheets, the Board commissioned an external investigation by Grant Thornton to identify other potential instances of additional charges and / or charging locums at other than pre-agreed rates. The investigation concluded that the levying of the largest proportion of additional charges outside contractual terms was primarily restricted to the activities of particular consultants who have since been dismissed. We are working with specific customers to resolve outstanding claims. A provision has been included in the 2010 accounts where appropriate. Should there be further claims from the customers the Board will seek to resolve any such claims appropriately.

### Dividends

The then existing Board declared on 27 September 2010 and on 10 January 2011 paid an Interim Dividend of 1.8p per share, a total payment of £2,030,000. This followed dividend payments on 1 April 2010 and 25 June 2010 of £1,578,000 and £2,003,000 respectively.

The Board is currently taking professional advice on whether there were sufficient distributable reserves at those times for the dividends paid and what steps, if any would be required to remedy any breach of the law.

### Ms Kate Bleasdale

The former Executive Vice Chairman was dismissed as an employee on 11 March 2011. She has, since that date, launched legal proceedings against the Company for unfair dismissal, victimisation and sex discrimination. The Company has taken legal advice and will vigorously defend itself against these charges. Whilst the outcome is currently uncertain, the Board believes the charges are unfounded.

### Taxation

The Group has restated financial statements for 2009 and earlier years where the tax returns have already been filed and tax paid where due. Following the restatement, tax returns for the relevant accounting periods will be re-filed and claims be made for either tax refunds or tax losses established for offset against future taxable profits.

As set out in critical accounting estimates and judgements, the Group conducts its business in a number of different tax environments and accordingly uncertain tax positions may arise, which once resolved could impact reported net equity.

### The Administrator of Redwood Health Ltd

On 19 August 2010 Medical Technical Ltd (a wholly-owned subsidiary) acquired the business and certain of the assets of Redwood Health Ltd for an initial cash consideration of £5,000,000. Contingent consideration is also payable in cash on this acquisition up to a maximum of £1,650,000. Further information about Redwood is provided under Related Parties in Note 28.

A claim has been asserted by the administrator of Redwood Health Ltd in respect of the final payment of £678,194 due in respect of the acquisition of the business and assets of Redwood Health Ltd by Medical Technical Ltd.; the Company guaranteed the payment of the consideration. The claim is being disputed by the Company which, if successful, may result in some or all of the amount currently provided for being released.

### 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 three companies which Her Majesty's Revenue and Customs ("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 any Umbrella company being in arrears with payments to the HMRC in respect of any locums provided from such companies, a residual risk remains. The Board has started to phase out the use of these companies.

As well as the specific contingent assets and liabilities set about above, the Group's principal risks and uncertainties are set out on page 24.

## 26. PENSIONS

The Groups operates a defined contribution pension scheme in the UK and Australia. There were no outstanding or prepaid contributions at either the beginning or end of the year.

**27. COMMITMENTS UNDER OPERATING LEASES**

As at 31 December 2010 the Group had total commitments under non-cancellable operating leases as set out below:

|   | 31 December 2010           | 31 December 2009 | 31 December 2010 | 31 December 2009 |
|---|----------------------------|------------------|------------------|------------------|
|   | Land and buildings (£'000) |                  | Other (£'000)    |                  |
| <b>Operating Lease commitments payable:</b> |                            |                  |                  |                  |
| Under 1 year                                | 1,734                      | 727              | 50               | 102              |
| 1-2 years                                   | 1,444                      | -                | 96               | -                |
| 2-5 years                                   | 3,093                      | 1,392            | 30               | 100              |
| Over 5 years                                | 291                        | 404              | 1                | -                |
|   | <b>6,562</b>               | <b>2,523</b>     | <b>177</b>       | <b>202</b>       |

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

**28. RELATED PARTY TRANSACTIONS**

|   | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|-----------------------------|-----------------------------|
|   | Purchased from / (sold to)  | Purchased from / (sold to)  |
|   | £'000                       | £'000                       |
| <b>Trading transactions</b>                 |                             |                             |
| MyWorkforce Ltd                             | -                           | 24                          |
| Nationwide Accreditation Bureau Company Ltd | 199                         | 503                         |
| Montagu Nursing Agencies Ltd                | -                           | (21)                        |
| Redwood Group Ltd*                          | 200                         | (151)                       |
| Netengines Holdings Ltd                     | (20)                        | (17)                        |
| <b>Total</b>                                | <b>379</b>                  | <b>338</b>                  |

\* Redwood Group Limited's new name is Dalecorp Ltd

|   | 31 December 2010                       | 31 December 2009                       |
|---|--|--|
|   | Amounts owed by / (to) related parties | Amounts owed by / (to) related parties |
|   | £'000                                  | £'000                                  |
| <b>MyWorkforce Ltd</b>                      |  |  |
| Nationwide Accreditation Bureau Company Ltd | (52)                                   | (46)                                   |
| Montagu Nursing Agencies Ltd                | -                                      | -                                      |
| Redwood Group Ltd                           | (65)                                   | 211                                    |
| Netengines Holdings Ltd                     | -                                      | 13                                     |
| <b>Total</b>                                | <b>(117)</b>                           | <b>178</b>                             |

MyWorkforce Limited, Nationwide Accreditation Bureau Company Limited, Montagu Nursing Agencies Ltd, Redwood Group Ltd and Netengines Holdings Ltd are related parties to the Group. One of the former Directors and a significant shareholder of the Company is a close family member of JS Cariss, who owns a majority of the share capital of these companies. Redwood Group Ltd is also partly owned by that Director.

During the year, as noted in the acquisitions note, the Group purchased the trade and assets of Redwood Health Ltd from the previous owners. Redwood Health Ltd's name has since been changed to Dancorp Ltd. This transaction was subject to shareholder approval as required under AIM rules and is currently being reviewed by the Board, as explained below.

As noted in Note 14, the Company entered a Heads of terms dated 7 May 2010 to acquire certain assets from Redwood Health Ltd for a total consideration of £6.65m. This consisted of £5m paid in cash upon completion and a deferred earn-out of a maximum of £1.65m. Redwood Health Ltd was owned by Cardale Investments Ltd, a company controlled by Mr John Cariss and a former Director of the Company. The Company understands that this former Director resigned from Cardale Investments Ltd in June 2010. The Company believes that this resignation was not declared to shareholders in the July 2010 Circular which supported the Redwood asset purchase.

Subsequently, early in 2011, the Company changed the terms of the deferred earn-out purchase terms into a deferred consideration sum payable in February and May 2011. The Board have been in discussion over this final payment with the Administrator of Redwood Health Ltd.

On the 20 August 2010 Healthcare Locums Plc was the beneficiary of a £400,000 short term loan from Cardale Investments LLP, a company controlled by Mr John Cariss. The loan was fully repaid on 6 September 2010 and was not subject to any interest or any other cost.

Since the year end, on 24 January 2011 Healthcare Locums Plc assigned the lease, which expires on 23 January 2020 of an office in London to Cardale Investments LLP, a company controlled by Mr John Cariss. There was a rent free period until 23 June 2011 included within the transaction and the office furniture, fixtures and fittings, with a net book value of £20,000, that were owned by Healthcare Locums Plc were transferred without charge to Cardale Investments LLP.

## 29. SHARE OPTION SCHEME

The Company has an employee share option scheme in place. The share options in issue over ordinary shares of £0.10p as at 31 December 2010 were the following:

|                  | At 1 January<br>2010 | Granted    | Exercised    | Forfeited    | At 31 December<br>2010 | Exercise price | Expiry date |
|------------------|----------------------|------------|--------------|--------------|------------------------|----------------|-------------|
|                  | No '000              | No '000    | No '000      | No '000      | No '000                | (Pence)        |             |
| Issued Apr 2005  | 120                  | -          | -            | -            | <b>120</b>             | 10.00          | Apr 2015    |
| Issued Aug 2006  | 583                  | -          | -            | -            | <b>583</b>             | 59.00          | Aug 2016    |
| Issued Dec 2007  | 1,000                | -          | -            | -            | <b>1,000</b>           | 89.50          | Dec 2017    |
| Issued May 2008  | 1,061                | -          | (254)        | (41)         | <b>766</b>             | 112.50         | May 2018    |
| Issued June 2008 | 8                    | -          | -            | (8)          | -                      | 105.00         | Jun 2018    |
| Issued Sept 2008 | 1,000                | -          | -            | -            | <b>1,000</b>           | 124.00         | Sep 2018    |
| Issued Nov 2008  | 500                  | -          | (500)        | -            | -                      | 106.00         | Nov 2018    |
| Issued Sept 2009 | 510                  | -          | -            | (60)         | <b>450</b>             | 207.00         | Sep 2019    |
| Issued Dec 2010  | -                    | 100        | -            | -            | <b>100</b>             | 98.50          | Dec 2020    |
| <b>Total</b>     | <b>4,782</b>         | <b>100</b> | <b>(754)</b> | <b>(109)</b> | <b>4,019</b>           |                |             |

Non-employee share options in issue over the ordinary shares of 10p per share were the following:

|                 | At 1 January<br>2010 | Granted | Exercised    | Forfeited | At 31 December<br>2010 | Exercise price            | Expiry date |
|-----------------|----------------------|---------|--------------|-----------|------------------------|---------------------------|-------------|
|                 | No '000              | No '000 | No '000      | No '000   | No '000                | (Pence)                   |             |
| Issued Nov 2005 | <b>584</b>           | -       | <b>(584)</b> | -         | -                      | 55.00                     | Nov 2010    |
|                 | At 1 January<br>2009 | Granted | Exercised    | Forfeited | At 31 December<br>2009 | Exercise price<br>(pence) | Dec 2017    |
| Issued Nov 2005 | 584                  | -       | -            | -         | 584                    | 55.00                     | Nov 2010    |

The vesting period for all employee 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 employee share options exercisable at 31 December 2010 was 1,703,481 (2009: 703,481). The weighted average exercise price for options exercisable as at 31 December 2010 was 73.44p (2009: 50.61p). The weighted average exercise price for all options outstanding as at 31 December 2010 was 109.04p (2009: 110.39p).

For the share options exercised in 2010, the weighted average share price at the date of exercise was 259.56p (2009: 58.91p). For the share options granted in 2010, the weighted average share exercise price was 98.5p (2009: 207.00p). For the share options forfeited in 2010, the weighted average share price at the date of forfeiture was 173.74p (2009: 66.21p).

For the remaining share options, the weighted average contractual life of these options is 87 months (2009: 100 months).

In addition to the above employee share options, the Group has also granted warrants to one of its lenders that grant the right to the warrant holder to subscribe to the shares of the Company. Please see Note 19 for details of these warrants.

Comparative information for 2009 for employee share options is as follows:

|                  | At 1 January<br>2009 | Granted | Exercised | Forfeited | At 31 December<br>2009 | Exercise price | Expiry date |
|------------------|----------------------|---------|-----------|-----------|------------------------|----------------|-------------|
|                  | No '000              | No '000 | No '000   | No '000   | No '000                | (Pence)        |             |
| Issued Apr 2005  | 121                  | -       | (1)       | -         | 120                    | 10.00          | Apr 2015    |
| Issued Aug 2006  | 980                  | -       | (394)     | (3)       | 583                    | 59.00          | Aug 2016    |
| Issued Dec 2007  | 1,000                | -       | -         | -         | 1,000                  | 89.50          | Dec 2017    |
| Issued May 2008  | 1,093                | -       | -         | (32)      | 1,061                  | 112.50         | May 2018    |
| Issued June 2008 | 8                    | -       | -         | -         | 8                      | 105.00         | Jun 2018    |
| Issued June 2008 | 200                  | -       | -         | (200)     | -                      | 59.00          | Jun 2018    |
| Issued Sept 2008 | 1,000                | -       | -         | -         | 1,000                  | 124.00         | Sep 2018    |
| Issued Nov 2008  | 500                  | -       | -         | -         | 500                    | 106.00         | Nov 2018    |
| Issued Sept 2009 | -                    | 510     | -         | -         | 510                    | 207.00         | Sep 2019    |
| Total            | 4,902                | 510     | (395)     | (235)     | 4,782                  |                |             |

In respect of these share based payments an expense has been charged against the profits of the Group and the Company for the year of £608,000 (2009: £464,000). Of this, £22,000 was charged to finance expense as amortisation of fair value of warrants issued to certain lender banks during the year. The fair value of options granted during the year determined using the Black-Scholes valuation model was £13,018 (2009: £449,200). The significant inputs into the model were share prices of 98.63p (2009: 230p), exercise price as in the table above, standard deviation of expected share price of 47.3% (2009: 38.5%), option life as disclosed in the table above, dividend yield of 2.82% (2009: 1.22%), and annual risk-free interest rate of 2.25% (2009: 2%). The volatility measured at the annualised standard deviation of daily changes in share price is based on statistical analysis of daily share prices of comparable companies between November 2005 and December 2010 (2009: November 2005 and September 2009).

### 30. POST BALANCE SHEET EVENTS

#### (i) Suspension of trading of shares

On 25 January 2011 the Company announced the suspension of its shares following the discovery of serious accounting irregularities leading the Directors to believe that financial results would be significantly below market expectations.

#### (ii) Directorate changes

##### Suspension of Executive Vice Chairman and CFO

Kate Bleasdale and Diane Jarvis were suspended on 25 January 2011 pending the outcome of the investigations into the accounting irregularities. Kate Bleasdale was removed from the Board on 23 February 2011.

##### Resignation of Executive Directors

Mo Dedat resigned as a Director on 1 March 2011 and Diane Jarvis subsequently resigned on 24 March 2011.

##### Dismissal of Executive Vice Chairman - Kate Bleasdale

The former Executive Vice Chairman was dismissed as an employee on 11 March 2011. She has since that date launched legal proceedings against the Company for unfair dismissal, victimisation and sex discrimination. The Company has taken legal advice and will vigorously defend itself against these charges which it believes are unfounded.

##### New Board Chairman plus 4 new Directors

The Non-Executive Chairman, Alan Walker, resigned on 18 February 2011 and a new Non-Executive Chairman, Peter Sullivan was appointed on the same day.

The appointment of Stephen Burke as Group Chief Executive Officer on 10 May 2011 is a long term appointment in extremely challenging circumstances and he has already played a critical role in identifying a number of issues earlier than otherwise may have been the case. As the situation remains challenging, his leadership through this phase will be critical.

The Board believes that it will be able to secure a permanent CFO when the Group is on a stable financial footing. The interim CFO, Colin Whipp, was appointed on 10 May 2011 and has quickly and effectively identified and tackled the multiple issues facing the business in a short space of time and he will remain with the Group to see it through to being on a stable platform. Andrew McRae was appointed Director of Healthcare Australia (HCA) in December 2010 and was appointed as a member of the full board of HCL on 10 May 2011.

David Henderson was appointed Senior Non-Executive Director on 18 February 2011 and Alasdair Liddell resigned as Non-Executive Director on 21 March 2011.

Once the Group is on a stable footing, the intention is to appoint additional high quality non-executive members.

The Board of HCL now comprises a Chairman, three Executive Directors and one independent Non-Executive Director, all of whom have joined in 2011. The Board is seeking to appoint two further independent Non-Executive Directors.

The current Board members have a breadth of experience in both managing and resolving complex business issues. The creation of an entirely new, well regarded and experienced management team is an important milestone in the progress being made in stabilising the business since its statement of 25 January 2011 and the suspension of its shares from trading on AIM. The Board were all re-elected at the AGM on 29 June 2011. Full biographies of the current Directors are included on Page 28 and 29.

### **(iii) Investigation**

Following the announcement of the suspension in trading of the Company's shares an immediate investigation was launched to establish the circumstances surrounding the commission of, the extent of and the financial implications of these accounting irregularities. The current Board's aim has been to ensure that the investigation of the accounting irregularities is as thorough as possible. The investigations have been time consuming and added a number of costs, but these have been considered necessary in order to establish the true financial position of the Group.

In response to the findings of the internal investigation, Grant Thornton was engaged in April 2011 to investigate and report in relation to the accounting adjustments, the acquisition of Redwood, the payment of dividends and cash flow management. Grant Thornton also investigated certain other compliance issues and identified that historically there were certain transactions which suggest that the Company was not fully complying with the NHS terms and conditions and the terms set out in the Framework Agreements (FA's). The investigation by Grant Thornton for the purposes of preparing the 2010 financial statements has now been completed. A considerable amount of time has been spent reviewing the financial statements of a number of years to identify any potential misstatements. In the circumstances it has been important for the Directors to fulfil their responsibilities in issuing the 2010 financial statements. The investigations have revealed that there had been a breakdown in controls over a protracted period.

This has been an extremely complex process as a number of misstatements relating to prior years have resulted in a significant restatement of Total Equity as at 31 December 2009 and 2008 as previously reported to the shareholders. Full details of the restatement are contained in Note 1 to these financial statements.

Most of the irregularities relate to how the activities of the Group were represented in the Group's financial statements but there were also certain issues related to the way in which trading was conducted by the AHP division where it is believed that a short-term approach, which was not in the longer term interests of the Group, was adopted. The managing director of the AHP division has resigned and been replaced by the previous Head of Social Care and Doctors who has already shown strong leadership in addressing the previous issues.

None of the irregularities relate to HCA, which the Group acquired on 20 December 2010.

The Board has made the appropriate disclosures under its Directors' and Officers' insurance policy. The present policy is due for renewal on 23 August 2011.

Having taken legal advice, the Board has already notified certain regulatory authorities of the outcome of these investigations. On issue of the financial statements, the Board will be notifying other regulatory authorities.

### **(iv) Potentially illegal dividend**

Information is provided in Note 11.

### **(v) Change to acquisition agreements and contingent consideration - explanation and amounts**

Information is provided in Note 14 for the changes to the acquisition agreements already made with the vendors of Orion, MJV and the Administrator of Redwood Health Limited.

Additionally, the Company and Craig Tibbles have agreed, conditional on completion of the Refinancing, to restructure the two deferred consideration payments of £2 million and £3 million payable by the Company to Craig Tibbles under the terms of the Orion and MJV Acquisition. £2.5 million is to be released by way of subscription by Craig Tibbles for 25 million New Ordinary Shares under the Placing. He has agreed a 12 month lock up in relation to the Placing Shares he receives. He is to be paid by the Company in October 2011 £1 million and in October 2012 £0.9 million (or alternatively, at his election £0.8 million in June 2012). Upon the posting of this document he is to be released £90,000 plus interest accrued from an escrow account and he has agreed to waive certain claims he had made against the Company. The Company has also agreed to release Craig Tibbles from certain claims it has made against him conditional on completion of the Refinancing.

**(vi) HM Revenue and Customs**

Due to the cash flow constraints that the UK operations were under as at 31 December 2010, without formal approval or agreed payment arrangement, the Group fell behind with payments to HMRC by £6.4m. As at the date of this report this overdue position has been reduced to £0.6m and formal dialogue with HMRC is continuing.

**(vi) Disposal**

On 27 June 2011 the Group announced that its wholly-owned Australian subsidiary, HCA had agreed to sell its Australian Homecare Division to KinCare Health Services Pty Limited ("Purchaser") for A\$34 million (approximately £22.2 million).

The sale is in line with the Board's belief that the Homecare Division is non-core to the overall business of the Group and reflects that the Homecare Division would have required further investment to realise its true potential.

The disposal enables HCL to focus on the development of the core UK and Australian businesses and to realise value from non-core elements of the business. The net proceeds have been used to reduce the Company's debt.

In the year ended 31 December 2010 the Homecare Division generated a turnover of A\$44.7 million\* (approximately £28.1 million), a gross profit of A\$12.2 million\* (approximately £7.6 million) and an EBITDA before extraordinary items of A\$4.0 million\* (approximately £2.5 million).

\* Based on unaudited management accounts for HCA for the year ending 31 December 2010.

The sale was completed on 18 July 2011.

**(vii) Renegotiation with lending banks / Covenant breaches**

As discussed in Note 19, the Board believes that it is probable that at 31 December 2010 the Group was in default under the Senior Facilities Agreement ('SFA') and Mezzanine Facility Agreement ('MFA') with its lending banks. The lending banks have reserved their rights in relation to any defaults that may subsist and have not waived any defaults that may subsist.

If a default does subsist the lending banks would, on service of a notice, have the right, among other things, to require the loans under the SFA and MFA to be repaid.

Subject to the comments above, the lending banks have continued to support the Group and have made additional advances under the existing facilities in 2011. A reconciliation of loans at 31 December 2010 and at 30 June 2011 is provided in the Financial Review.

Accordingly, the Board's proposed Refinancing will be put to shareholders for their approval at the General Meeting on 12 September 2011. Information about the proposed Refinancing is set out in the Chairman's Statement.

**(viii) Filing extension**

Companies House has granted an extension until 30 August 2011 for the filing of the 2010 Annual Report.

# Financial statements of the Parent Company Healthcare Locums Plc

Under UK GAAP

# Company balance sheet as at 31 December 2010

|  | Note | 31 December<br>2010<br>£'000 | 31 December<br>2010<br>£'000 | 31 December 2009<br>(Restated)<br>£'000 | 31 December 2009<br>(Restated)<br>£'000 |
|--|------|------------------------------|------------------------------|---|---|
| <b>Fixed assets</b>  |      |                              |                              |   |   |
| Intangible assets  | 33   |                              | 1,992                        |   | 2,174                                   |
| Tangible assets  | 34   |                              | 1,047                        |   | 644                                     |
| Investments  | 35   |                              | 27,942                       |   | 46,506                                  |
|  |      |                              | <b>30,981</b>                |   | 49,324                                  |
| <b>Current assets</b>  |      |                              |                              |   |   |
| Debtors  | 36   | 103,112                      |                              | 41,309                                  |   |
| Cash at bank and in hand                                       |      | 645                          |                              | 29                                      |   |
|  |      | <b>103,757</b>               |                              | 41,338                                  |   |
| Bank loans: amounts falling due within one year                | 38   | (73,287)                     |                              | (5,795)                                 |   |
| Trade and other creditors: amounts falling due within one year | 37   | (46,967)                     |                              | (37,218)                                |   |
| <b>Net current liabilities</b>                                 |      |                              | <b>(16,497)</b>              |   | (1,675)                                 |
| <b>Total assets less current liabilities</b>                   |      |                              | <b>14,484</b>                |   | 47,649                                  |
| Bank loans: amounts falling due after more than one year       | 38   |                              | -                            |   | (5,413)                                 |
| Deferred tax liability   |      |                              | -                            |   | -                                       |
| <b>Net assets</b>  |      |                              | <b>14,484</b>                |   | 42,236                                  |
| <b>Capital and reserves</b>                                    |      |                              |                              |   |   |
| Called up share capital  | 39   |                              | 11,334                       |   | 10,467                                  |
| Share premium account  | 40   |                              | 45,318                       |   | 34,517                                  |
| Share option reserve   | 40   |                              | 4,635                        |   | 1,079                                   |
| Profit and loss account  | 40   |                              | (46,803)                     |   | (3,827)                                 |
| <b>Shareholders' funds</b>                                     | 41   |                              | <b>14,484</b>                |   | 42,236                                  |

The Notes are an integral part of these Financial Statements.

The Financial Statements were approved by the Board and authorised for issue on 19 August 2011.

**David Henderson**  
Director

**Colin Whipp**  
Director

# Notes to the Parent Company Financial Statements

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## 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 2009, except where noted below.

The following principal accounting policies have been applied:

### Turnover and income recognition

Turnover represents sales to external customers at invoiced amounts less value added tax or local taxes on sales. These consist of:

- Turnover from temporary placements which represents amounts billed for the services of temporary staff. This is recognised when the services have been provided. These include the salary cost of these staff unless they are paid directly by the client when the commission only is billed; and
- 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.

All revenue relates to the rendering of services.  
(See Note 1 of the Group financial statements for change in the accounting policy)

### 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  |

### Valuation of investments

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

### Goodwill

Purchased goodwill in respect of acquisitions of incorporated businesses is capitalised. Goodwill is amortised to nil by equal annual instalments over its estimated useful life, over 15 years.

The Directors carry out impairment reviews whenever an indication of impairment has been identified. Provisions for impairment are taken to the profit and loss account.

### Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the date of the Statement of Financial Position except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

### 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 are recorded at the rates ruling when the transactions occur. Foreign currency debtors are retranslated at the rates ruling at the date of the Statement of Financial Position. Exchange differences arising on the retranslation of unsettled receivables 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. Where shares are issued to employees of subsidiary companies, the fair value of the award is capitalised against the cost of investment relating to that subsidiary with a corresponding entry to reserves. The options vest after a specific period (3 years options issued in 2006 to 2010, 1 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.

The credit entry for this charge is taken to the profit and loss 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 and a structured collar instrument 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 the profit and loss account in the period during which the receipts or payments arise.

**Related party disclosures**

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 Healthcare Locums Plc on the grounds that 100% of the voting rights in the Company are controlled within that Group and that company is included in the consolidated financial statements.

**31. PRIOR YEAR ADJUSTMENTS**

As discussed in Note 1 in the Group financial statements, the correction of prior year errors and change in the accounting policies had the following impact on the parent company financial statements. For detailed description of the restatements, see Note 1.

|   | 31 December 2009<br>£'000 | 1 January 2009<br>£'000 |
|---|---------------------------|-------------------------|
| Net equity as previously reported           | 48,560                    | 46,506                  |
| Restatement for accounting errors           |                           |                         |
| Candidate database write-off                | (4,779)                   | (3,003)                 |
| Sales ledger credits                        | (116)                     | (27)                    |
| Computer software adjustment                | (5,209)                   | -                       |
| Under-accrual of costs                      | (1,794)                   | (1,594)                 |
|   | (11,898)                  | (4,624)                 |
| Restatement for change in accounting policy |                           |                         |
| Accrued income adjustment                   | (4,059)                   | (920)                   |
|   | (15,957)                  | (5,544)                 |
| Impact of restatements on taxation          | 9,633                     | -                       |
| Net equity as restated                      | 42,236                    | 40,962                  |

**32. LOSS FOR THE YEAR**

The loss after tax for the year dealt with in the financial statements of the Company amounts to £41,895,000 (2009: profit for the year of £4,331,000 restated). As allowed by the provisions of Section 408 of the Companies Act 2006 the Company has not published its own profit and loss account.

**33. INTANGIBLE ASSETS**

|                                      | <b>Purchased Goodwill</b> |
|--------------------------------------|---------------------------|
|                                      | <b>£'000</b>              |
| <b>Cost</b>                          |                           |
| As at 1 January and 31 December 2010 | <b>2,736</b>              |
| <b>Amortisation</b>                  |                           |
| At 1 January 2010                    | 562                       |
| Provided for the year                | 182                       |
| As at 31 December 2010               | <b>744</b>                |
| <b>Net book value</b>                |                           |
| As at 31 December 2010               | 1,992                     |
| As at 31 December 2009               | <b>2,174</b>              |

The purchased goodwill relates to the purchase of the trade and assets of Tempaid on 1 December 2006. Final cost of investment is made up of £300,000 initial consideration, £300,000 deferred consideration, earn-out payments of £1,984,000 and costs of acquisition of £152,000. All earn-out payments have now been made.

**34. TANGIBLE ASSETS**

|                              | <b>Improvements to<br/>leasehold buildings</b> | <b>Office and computer<br/>equipment</b> | <b>Total</b> |
|------------------------------|--|--|--------------|
|                              | <b>£'000</b>                                   | <b>£'000</b>                             | <b>£'000</b> |
| <b>Cost</b>                  |  |  |              |
| At 1 January 2010 (Restated) | 233  | 6,306                                    | <b>6,539</b> |
| Additions                    | 189  | 549                                      | <b>738</b>   |
| Disposals                    | (42)   | (165)                                    | <b>(207)</b> |
| At 31 December 2010          | 380  | 6,690                                    | <b>7,070</b> |
| <b>Depreciation</b>          |  |  |              |
| At 1 January 2010 (Restated) | 65   | 5,830                                    | <b>5,895</b> |
| Provided for the year        | 33   | 279                                      | <b>312</b>   |
| Disposals                    | (19)   | (165)                                    | <b>(184)</b> |
| At 31 December 2010          | 79   | 5,944                                    | <b>6,023</b> |
| <b>Net book value</b>        |  |  |              |
| At 31 December 2010          | <b>301</b>                                     | <b>746</b>                               | <b>1,047</b> |
| At 31 December 2009          | <b>168</b>                                     | <b>476</b>                               | <b>644</b>   |

|                                | <b>Improvements to<br/>leasehold buildings</b> | <b>Office and computer<br/>equipment (Restated)</b> | <b>Total<br/>(Restated)</b> |
|--------------------------------|--|---|-----------------------------|
|                                | <b>£'000</b>                                   | <b>£'000</b>  | <b>£'000</b>                |
| <b>Cost</b>                    |  |   |                             |
| At 1 January 2009              | 233  | 5,262   | 5,495                       |
| Additions                      | 19   | 1,224   | 1,243                       |
| Disposals                      | (19)   | (180)   | (199)                       |
| At 31 December 2009            | 233  | 6,306   | 6,539                       |
| <b>Depreciation</b>            |  |   |                             |
| At 1 January 2009              | 42   | 486   | 528                         |
| Provided for the year          | 23   | 316   | 339                         |
| Impairment                     | -  | 5,208   | 5,208                       |
| Disposals                      | -  | (180)   | (180)                       |
| At 31 December 2009 (Restated) | 65   | 5,830   | 5,895                       |
| <b>Net book value</b>          |  |   |                             |
| At 31 December 2009 (Restated) | 168  | 476   | 644                         |
| At 31 December 2008            | 191  | 4,776   | 4,967                       |

Due to the computer software classification as an intangible asset in the Group financial statements prepared in accordance with IFRS, the prior year adjustment was made to the other intangible assets. In the Company financial statements, however, computer software has been classified as a tangible assets and as such, the prior year tangible assets have been restated in the table above.

**35. FIXED ASSET INVESTMENTS**

|                            | <b>Company<br/>£'000</b> |
|----------------------------|--------------------------|
| Cost                       |                          |
| At 1 January 2010          | <b>46,506</b>            |
| Additions                  | <b>5,622</b>             |
| Impairment                 | <b>(24,186)</b>          |
| <b>At 31 December 2010</b> | <b>27,942</b>            |
| Cost                       |                          |
| At 1 January 2009          | 46,477                   |
| Adjustment                 | 29                       |
| At 31 December 2009        | 46,506                   |

For additional investments in 2010, refer to Note 14 to the Group financial statements. The adjustment relates to investments in new overseas subsidiaries in 2009.

**Subsidiary undertakings**

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

| <b>Name</b>                                      | <b>Nature of business</b>   |
|--|---|
| 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  |
| Private Care Pty Ltd ****                        | Homecare Services   |
| Stanhope Healthcare Services (SA) Pty Ltd ****   | Homecare Services   |
| Stanhope Healthcare Services Pty Ltd ****        | Homecare Services   |
| Select Unit Trust ****                           | Nursing Agency  |

All subsidiaries are 100% owned by Healthcare Locums Plc other than those marked \* which are 100% owned by Blue Group International Holdings Ltd, those marked \*\* which are 100% owned by JCJ Group Ltd, those marked \*\*\* which are 100% owned by HCL International Pty Ltd, and those marked \*\*\*\* which are controlled by Healthcare Australia Pty Ltd. 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 Inc which is registered in the USA, HCL International Pty Ltd and subsidiaries thereof which are registered in Australia, HCL International Canada Ltd which is registered in Canada and HCL Korea LLC which is registered in the Republic of Korea. All companies have been included in the consolidated results of the Group.

### 36. DEBTORS

|   | <b>31 December 2010</b> | 31 December 2009 (Restated) |
|---|-------------------------|-----------------------------|
|   | <b>£'000</b>            | £'000                       |
| Trade debtors                                   | <b>2,083</b>            | 2,938                       |
| Other debtors                                   | <b>733</b>              | 3,991                       |
| Prepayments and accrued income                  | <b>739</b>              | 1,292                       |
| Corporation tax                                 | -                       | 1,158                       |
| Amounts receivable from subsidiary undertakings | <b>99,557</b>           | 31,930                      |
|   | <b>103,112</b>          | 41,309                      |

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

### 37. TRADE AND OTHER PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

|  | <b>31 December 2010</b> | 31 December 2009 (Restated) |
|--|-------------------------|-----------------------------|
|  | <b>£'000</b>            | £'000                       |
| Trade creditors                        | <b>1,600</b>            | 1,927                       |
| Amounts due to subsidiary undertakings | <b>39,051</b>           | 29,554                      |
| Other taxes and social security        | <b>1,977</b>            | 2,218                       |
| Other creditors                        | <b>265</b>              | 400                         |
| Accruals and deferred income           | <b>3,526</b>            | 3,119                       |
| Contingent consideration               | <b>548</b>              | -                           |
|  | <b>46,967</b>           | 37,218                      |

Contingent consideration relates to the Orion and MJV acquisition in 2010. All contingent consideration which related to the acquisition of Tempaid was paid during 2009. Refer to Note 20 in the Group financial statements.

**38. BANK LOANS**

The amount of bank loans falling due within one year is as follows:

|                      | <b>31 December 2010</b> | 31 December 2009 |
|----------------------|-------------------------|------------------|
|                      | <b>£'000</b>            | £'000            |
| Bank loans (secured) | <b>73,287</b>           | 5,795            |

See Note 19 to the Group financial statements for the classification of the Company's borrowings as current.

The amount of bank loans falling due after one year is as follows:

|                      | <b>31 December 2010</b> | 31 December 2009 |
|----------------------|-------------------------|------------------|
|                      | <b>£'000</b>            | £'000            |
| Bank loans (secured) | -                       | 5,413            |

The table below shows the contractual maturity of debt:

|                            | <b>31 December 2010</b> | 31 December 2009 |
|----------------------------|-------------------------|------------------|
|                            | <b>£'000</b>            | £'000            |
| Maturity of debt:          |                         |                  |
| Up to 1 year, or on demand | <b>2,657</b>            | 5,795            |
| 1 - 2 years                | <b>4,081</b>            | 4,597            |
| 2 - 5 years                | <b>66,549</b>           | 816              |
|                            | <b>73,287</b>           | 11,208           |

The contractual maturities of loans above do not reflect the classification of these loans as current due to breach of covenants as discussed in Note 19 to the Group financial statements.

The borrowings as discussed in Note 19 of the Group financial statements were all taken by the Company except those taken for acquisitions in Australia. Refer to Note 19 for a detailed discussion of these loans. The bank loan facility is shown on the balance sheet of the Company and is secured against the assets of the entire Group. The Company has guaranteed bank borrowings of its subsidiaries totalling £45.7m (2009: invoice discounting facilities of £9.9m).

**39. SHARE CAPITAL**

All details on the authorised and allotted, called up and fully paid share capital, plus the movements during the year are as set out in Note 23 in the Group section of the financial statements.

**40. RESERVES**

|  | Share premium account<br>£'000 | Share option reserve<br>£'000 | Profit and loss account<br>£'000 |
|--|--------------------------------|-------------------------------|----------------------------------|
| <b>At 1 January 2010</b>                     | <b>34,517</b>                  | <b>1,079</b>                  | <b>(3,827)</b>                   |
| Loss for the year                            | -                              | -                             | <b>(41,895)</b>                  |
| Share scheme costs                           | -                              | <b>586</b>                    | -                                |
| Warrants issued during the year              | -                              | <b>2,970</b>                  | -                                |
| Dividend paid during the year                | -                              | -                             | <b>(1,081)</b>                   |
| Premium on shares issued during the year     | <b>10,801</b>                  | -                             | -                                |
| <b>At 31 December 2010</b>                   | <b>45,318</b>                  | <b>4,635</b>                  | <b>(46,803)</b>                  |
| At 1 January 2009 (as previously reported)   | 34,324                         | -                             | 1,755                            |
| Prior year adjustments                       | -                              | -                             | (5,544)                          |
| Reclassification of share option reserve     | -                              | 615                           | (615)                            |
| At 1 January 2009 (Restated)                 | 34,324                         | 615                           | (4,404)                          |
| Profit for the year (as previously reported) | -                              | -                             | 5,111                            |
| Prior year adjustment                        | -                              | -                             | (780)                            |
| Profit for the year (Restated)               | 34,324                         | 615                           | 4,331                            |
| Share scheme costs                           | -                              | 464                           | -                                |
| Dividend paid during the year                | -                              | -                             | (3,754)                          |
| Premium on shares issued during the year     | 193                            | -                             | -                                |
| At 31 December 2009 (Restated)               | 34,517                         | 1,079                         | (3,827)                          |

**41. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

|  | Year ended 31 December 2010<br>£'000 | Year ended 31 December 2009<br>£'000 |
|--|--------------------------------------|--------------------------------------|
| <b>(Loss) / Profit for the year (as previously reported)</b> | <b>(41,895)</b>                      | 5,111                                |
| Prior year adjustment  | -                                    | (780)                                |
| <b>(Loss) / Profit for the year (Restated)</b>               | <b>(41,895)</b>                      | 4,331                                |
| Dividend paid during the year                                | <b>(1,081)</b>                       | (3,754)                              |
| Issue of shares  | <b>867</b>                           | 40                                   |
| Premium on shares issued                                     | <b>10,801</b>                        | 193                                  |
| Warrants issued during the year                              | <b>2,970</b>                         | -                                    |
| Share scheme costs for the year                              | <b>586</b>                           | 464                                  |
| Net additions to shareholders' funds                         | <b>(27,752)</b>                      | 1,274                                |
| Add: Opening shareholders' funds                             | <b>42,236</b>                        | 40,962                               |
| <b>Closing shareholders' funds</b>                           | <b>14,484</b>                        | 42,236                               |

The Directors have not recommended a final dividend for 2010. For interim dividend, refer to Note 11 in the Group financial statements.

**42. 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.

**43. COMMITMENTS UNDER OPERATING LEASES**

As at 31 December 2010, the Company had annual commitments under non-cancellable operating leases as set out below:

|                                       | Year ended 31 December     |            | Year ended 31 December |            |
|---------------------------------------|----------------------------|------------|------------------------|------------|
|                                       | 2010                       | 2009       | 2010                   | 2009       |
|                                       | Land and buildings (£'000) |            | Other (£'000)          |            |
| <b>Operating Leases which expire:</b> |                            |            |                        |            |
| Under 1 year                          | 34                         | 241        | 92                     | 244        |
| 1 - 2 years                           | 97                         | -          | 120                    | -          |
| 2 - 5 years                           | 46                         | 171        | 409                    | 169        |
| Over 5 years                          | -                          | -          | 14                     | -          |
|                                       | <b>177</b>                 | <b>412</b> | <b>635</b>             | <b>413</b> |

**44. RELATED PARTY TRANSACTIONS**

|   | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|-----------------------------|-----------------------------|
|   | Purchased from / (sold to)  | Purchased from / (sold to)  |
|   | £'000                       | £'000                       |
| <b>Trading transactions</b>                 |                             |                             |
| MyWorkforce Ltd                             | -                           | 24                          |
| Nationwide Accreditation Bureau Company Ltd | 199                         | 503                         |
| Montagu Nursing Agencies Ltd                | -                           | (21)                        |
| Redwood Group Ltd*                          | 200                         | (151)                       |
| Netengines Holdings Ltd                     | (20)                        | (17)                        |
| <b>Total</b>                                | <b>379</b>                  | <b>338</b>                  |

\* Redwood Group Limited's new name is Dalecorp Ltd

|   | 31 December 2010                       | 31 December 2009                       |
|---|--|--|
|   | Amounts owed by / (to) related parties | Amounts owed by / (to) related parties |
|   | £'000                                  | £'000                                  |
| <b>Year end balances</b>                    | <b>£'000</b>                           | <b>£'000</b>                           |
| MyWorkforce Ltd                             | -                                      | -                                      |
| Nationwide Accreditation Bureau Company Ltd | (52)                                   | (46)                                   |
| Montagu Nursing Agencies Ltd                | -                                      | -                                      |
| Redwood Group Ltd                           | (65)                                   | 211                                    |
| Netengines Holdings Ltd                     | -                                      | 13                                     |
| <b>Total</b>                                | <b>(117)</b>                           | <b>178</b>                             |

MyWorkforce Limited, Nationwide Accreditation Bureau Company Limited, Montagu Nursing Agencies Ltd, Redwood Group Ltd and Netengines Holdings Ltd are related parties to the Group. One of the former Directors and a significant shareholder of the Company is a close family member of JS Cariss, who owns a majority of the share capital of these companies. Redwood Group Ltd is also partly owned by that Director.

During the year, as noted in the acquisitions note, the Group purchased the trade and assets of Redwood Health Ltd from the previous owners. Redwood Health Ltd's name has since been changed to Dancorp Ltd. This transaction was subject to shareholder approval as required under AIM rules and is currently being reviewed by the Board, as explained below.

As noted in Note 14, the Company entered a Heads of terms dated 7 May 2010 to acquire certain assets from Redwood Health Ltd for a total consideration of £6.65m. This consisted of £5m paid in cash upon completion and a deferred earn-out of a maximum of £1.65m. Redwood Health Ltd was owned by Cardale Investments Ltd, a company controlled by Mr John Cariss and a former Director of the Company. The Company understands that this former Director resigned from Cardale Investments Ltd in June 2010. The Company believes that this resignation was not declared to shareholders in the July 2010 Circular which supported the Redwood asset purchase.

Subsequently, early in 2011, the Company changed the terms of the deferred earn-out purchase terms into a deferred consideration sum payable in February and May 2011. The Board have been in discussion over this final payment with the Administrator of Redwood Health Ltd.

On the 20 August 2010 Healthcare Locums Plc was the beneficiary of a £400,000 short term loan from Cardale Investments LLP, a company controlled by Mr John Cariss. The loan was fully repaid on 6 September 2010 and was not subject to any interest or any other cost.

Since the year end, on 24 January 2011 Healthcare Locums Plc assigned the lease, which expires on 23 January 2020 of an office in London to Cardale Investments LLP, a company controlled by Mr John Cariss. There was a rent free period until 23 June 2011 included within the transaction and the office furniture, fixtures and fittings, with a net book value of £20,000, that were owned by Healthcare Locums Plc were transferred without charge to Cardale Investments LLP.

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 Healthcare Locums Plc on the grounds that 100% of the voting rights in the Company are controlled within that Group and that company is included in the consolidated financial statements.

#### **45. SHARE OPTION SCHEME**

Full details on the Company's employee share option scheme are given in Note 29 to the Group accounts.

#### **46. POST BALANCE SHEET EVENTS**

Post balance sheet events are set out in Note 30 in the Group section of the financial statements.