

Tunstall Healthcare (UK) Limited

Annual Report and Financial Statements

for the Year Ended 30 September 2016

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Strategic Report for the Year Ended 30 September 2016

The Directors present their Strategic Report for the year ended 30 September 2016.

Principal activity

The principal activity of the Company is that it develops, manufactures, markets, installs, monitors and services a range of Connected Care and Connected Health solutions and propositions across the UK. The Company undertakes all the Tunstall Group's (headed by Tunstall Healthcare Group Limited) manufacturing, Research and Development and Product Management activities, developing and selling the Group's products and services to all the Group operations across the Globe.

Adoption of Financial Reporting Standard 101

For all periods up to and including the year ended 30 September 2015, the Company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP"). These financial statements for the year ended 30 September 2016 are the first the Company has prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006.

Review of the business

Financial performance

Revenue for the year at £91,327,564 (2015 - £91,413,272) is in line with the prior year. Export revenues, wholly relating to trade with other Group companies, reduced to £22,932,716 (2015 - £25,460,497). Operating profit for the year amounted to £14,911,256 (2015 - £14,846,480).

The core UK business has experienced improved trading conditions in the year and revenue of £68,394,848 (2015 - £65,952,775) reflects this.

The growth seen in the Connected Care Managed Services market has continued (17.4% year on year), supported by strong deployment on new contracts. The pipeline for new opportunities remain strong with local authorities developing an increased interest in the partnership approach to secure increased benefits realisation and cost savings. The Birmingham City Council contract had formally expired, but has been extended to March 2017. This provides us with the opportunity to convert the majority of existing users to a private pay model in the coming year.

The Assisted Living market has also seen significant growth (21.5% year on year), particularly in the new build housing sector, in both the private and social care markets. It is expected that the levels of growth seen in the year will slow in 2017, however pipeline and order book from long term agreements remain strong. It is anticipated that IP enabled Assisted Living solutions will also drive support growth.

EBITDA for the year was £22,660,479 (2015 - £19,019,259), an increase of 19.1%. The weakening of sterling has positively impacted export revenues and EBITDA margin has improved to 24.8% (2015 - 20.8%) through careful management of costs. Administration costs have increased to £29,530,000 in the year (2015 - £27,622,000) to reach normalised levels following the exceptional intercompany receivables provision release in 2015.

Depreciation and amortisation

The depreciation charge for the year was £2,387,366 (2015 - £2,277,013), with the increase resulting from continued investment.

Amortisation of development expenditure and customer software for the year amounted to £4,597,664 (2015 - £4,692,637), as the Group continued to develop its Connected Care and Connected Health solutions with a particular focus on IP technology.

Strategic Report for the Year Ended 30 September 2016 (continued)

Exceptional items

The Company incurred an exceptional charge of £764,194 (2015 - £428,129) in relation to restructuring costs incurred as part of the Company's initiative to drive significant cost and operational efficiencies to support the implementation of the Group's growth strategy. The prior year resulted from the write off of a deferred revenue balance.

Profit on ordinary activities before taxation

The Company achieved profit on ordinary activities before taxation of £25,482,832 (2015 - £24,045,106) as a result of improvement at EBITDA level £22,659,688 (2015 - £19,019,259), offset by increased amortisation of development expenditure £4,598,123 (2015 - £4,692,637), increased exceptional costs £764,194 (2015 - credit of £2,796,871) and increased net finance income of £11,446,497 (2015 - £9,917,915).

Net finance costs

Finance income in the year was £11,446,809 (2015 - £9,291,272) and was derived from loans to fellow Group undertakings. Finance costs in the year were £103 (2015 - £92,646), relating principally to currency loss. An analysis of finance income and finance costs are shown in notes 6 and 7 of the financial statements.

Taxation

The taxation charge for the year was £4,131,851 (2015 - £3,373,478). The rate of taxation for the year was 20% (2015 - 20.5%).

Key performance indicators

The Directors have monitored the performance of the Company with particular reference to key performance indicators ("KPI's") which have been chosen by the Directors as those that measure the key elements of the Company's performance towards the achievement of the Company's business strategy. The Company's KPIs are set out below:

	Unit	2016	2015
Revenue	£m	91.33	91.41
EBITDA	£m	22.66	22.24
EBITDA margin	%	24.80	24.33

- Revenue for the year at £91,327,564 (2015 - £91,413,272) is in line with the prior year, with a slight decrease of £85,708.
- EBITDA for the year was £22,660,479 (2015 - £22,244,259), an increase of 18.7% resulting from trading and careful management of costs.
- EBITDA margin of 24.8% (2015 - 20.8%) increased through trading and careful management of costs.

Strategic Report for the Year Ended 30 September 2016 (continued)

Events after the financial period

On 17 March 2017 the Group's (headed by Tunstall Healthcare Group Limited) Acquisition Facility of £40m was cancelled and an agreement was reached with the Group's Senior Debt providers to reset the Group's financial covenants in order to provide additional flexibility to implement the Group's strategy at pace. The new financial covenants comprise a gross leverage ratio, liquidity and capital expenditure. The gross leverage and liquidity covenants are tested quarterly and will be tested for the first time on 31 March 2017. The capital covenant is an annual test and will be tested for the first time on 30 September 2017.

As a condition of the covenant reset agreement, the Group transferred 24.9% of its shareholding in TGH Acquisitions Limited to the Senior Debt providers and 25% to Management.

Following the agreement with the Group's Senior Debt providers to reset the financial covenants, the Group also undertook a capital restructuring exercise designed to simplify the group structure. As part of the process, on 17 March 2017, the Group changed its tax strategy in relation to claiming Group relief.

Going concern

In considering the appropriate basis on which to prepare the financial statements, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future.

The Company is part of the Group (headed by Tunstall Healthcare Group Limited). The Group as a whole operates a stable business with a number of customers and suppliers across different geographic regions and has considerable financial resources with a cash balance at 30 September 2016 amounting to £48,742,215 (2015 - £42,479,340).

The Directors have made an assessment and satisfied themselves of the Group's and Company's ability to continue as a going concern. The key element of this assessment were the Group's forecasts and projections which, taking account of reasonably possible changes in trading performance, show the Group has adequate resources to continue in operational existence for at least twelve months from the date of this report. In addition the Group's Senior Debt covenants were reset effective from 17 March 2017 in order to provide additional flexibility to implement the Group's strategy at pace.

The Directors are of the opinion that the Group has adequate resources to continue in operational existence for at least twelve months from the date of this report. The Group continues to adopt the going concern basis of accounting in preparing the financial statements.

Strategic Report for the Year Ended 30 September 2016 (continued)

Business strategy

The Company develops, manufactures, markets, installs, monitors and services a range of Connected Care and Connected Health solutions and propositions across the UK.

The Company's strategy therefore looks to build on these capabilities by investing to grow its revenues over the next 5 years and to maintain its leading position in the Connected Care and Connected Health markets.

This growth will be achieved by focusing on 3 strategic growth priorities:

- Delivering innovative solutions that exploit IP-connected technology
- Growing and enhancing our managed service offering
- Accelerating growth in remote patient monitoring and support

These growth priorities are underpinned by detailed proposition roadmaps, research & development plans and organic growth from the Company's existing contract base.

Business model

The Company works closely with local authorities, health and social care commissioners, housing associations and charities to bring care into the home, monitoring physical vital signs and managing risk.

Our solutions help bridge the gap between health, housing and social care, enabling providers to deliver more efficient, integrated services that offer value for money and a better quality of life for the individual.

We have structured our business functionality around helping customers to deliver a fully integrated approach, effectively embedding Connected Care and Connected Health into the organisation's culture. We work in partnership to redesign service delivery and care pathways in order to achieve broader strategic goals and generate financial efficiencies.

The Tunstall Managed Services model has been designed to support integrated health and social care services in delivering a truly holistic model, where the individual is offered support which takes into account all of their health and social care needs within a single pathway. This not only improves the user experience but also rapidly achieves operational efficiencies.

In addition to a comprehensive set of solutions and propositions the Company also has a unique set of capabilities that differentiates it from its competitors as follows:

- Domain knowledge and understanding of our markets with over 50 years of experience delivering health and social care solutions
- Ability to access a global footprint and leadership position in key markets through the Tunstall Group's operations in six Regions, including market leadership positions across Europe
- Embedded relationships across health and social care
- Ability to connect stakeholders in multiple environments with technology enabled solutions integrated into a variety of care and health settings
- Experience in providing high touch, value adding services with solutions adapted to user needs

The Company also performs the Product Marketing, Research & Development and Operations functions for the wider Tunstall Group operating as a Shared Service Centre from the Company's Whitley headquarters. Product Marketing work closely alongside the regional sales teams to define product offering in each market. The Group's Research & Development function develops new products to support the Product Marketing roadmaps across all business areas. In addition they also maintain and enhance existing products. The Operations function undertakes the manufacture and assembly of the majority of Tunstall products, supplying units to all the Group's operations around the Globe.

Strategic Report for the Year Ended 30 September 2016 (continued)

Business environment

Health and social care systems are continuing to face increasing pressure as result of a global ageing population. It is estimated by The United Nations that between 2015 and 2030 the population aged 60+ will grow by 56%, from 901 million to 1.4 billion, and by 2050 will reach nearly 2.1 billion. It is further projected that the population aged 80+ will triple by 2050, to 434 million. These figures are in sharp contrast to the overall expected population growth rate of 1.1%.

The issue of caring for an increasingly older population is further compounded, in that chronic conditions requiring long term care (e.g diabetes, stroke, heart disease and dementia) are also expected to rise. The current average cost per day of staying in a UK hospital is estimated to be £400. This significant financial burden is requiring both health and local authorities to reassess long term care plans and form partnerships with external providers to avoid lengthy hospital stays.

To meet the needs of this changing market there is a requirement for integrated solutions, with digital connectivity transforming products and services to be proactive rather than responsive. With the trend towards the elderly and vulnerable being able to live more independently for as long as possible, there is now also a requirement for services that can be used outside of the home. A number of new products will be launched in 2017 to meet these demands. IP solutions will also continue to be developed to support the switchover of analogue to digital networks.

Principal risks and uncertainties

Foreign exchange risk

The Company sells products and services to the Group's operations around the globe, invoicing in local currency. The Company also sources product in a number of currencies. As a result the Company is exposed to foreign exchange risk, principally against the Euro, US dollar and Swedish Kroner. The Company's strategy is to mitigate the transactional risk through natural hedges where possible. In respect of the Euro exposure this is managed through the Euro denomination of one of the parent Company's term loans.

Credit risk

The Company sells to both government and non-government customers and is therefore subject to credit risk. The risk is managed through operating policies relating to credit approvals for non-government customers. The Company has no significant concentration of credit risk, with exposure spread over a large number of customers and has a key focus on debtor collection to minimise bad debt exposure.

People

The success of the Company is dependent on the efforts, abilities, experience and expertise of its senior management and on recruiting, retaining, motivating and communicating effectively with its employees at all levels of the organisation. Policies and targets are supported by a governance structure including a Remuneration Committee and employees are engaged through staff surveys and regular communications with senior management.

Competition from new entrants

The Company recognises that as its core markets grow this is likely to attract new entrants to the market. To mitigate this risk the Company continues to invest in Research and Development to retain its market share and has implemented a new growth strategy focusing on end-to-end managed services solutions that will extract additional value from its market and also provide greater visibility of earnings through contracted revenues.

Approved by the Board on 28 March 2017 and signed on its behalf by:



Jon Furniss
Company secretary

Directors' Report for the Year Ended 30 September 2016

The Directors present their report and the financial statements financial statements for the year ended 30 September 2016.

Directors of the Company

The Directors, who held office during the year and subsequently, were as follows:

Gordon Sutherland (appointed 19 September 2016)

Shaun Parker (resigned 31 December 2016)

Elaine Quinn

Paul Stobart (resigned 26 September 2016)

Simon Arnold (resigned 27 January 2017)

The following director was appointed after the year end:

David McKinney (appointed 1 February 2017)

Dividend

No dividends have been paid in the year (2015 - £nil). The Directors do not propose the payment of a final dividend (2015 - £nil).

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee involvement

The Company places considerable value on the involvement of its employees and has continued its previous practice of ensuring effective two-way communication on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal meetings and the Company intranet. Employees are consulted regularly on a wide range of matters affecting their current and future interests.

Disclosure of information to the auditor

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditor

In accordance with section 487 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 28 March 2017 and signed on its behalf by:



Jon Furniss
Company secretary

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 *'Reduced Disclosure Framework'* (FRS 101'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors 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 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.



KPMG LLP

1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
United Kingdom

Independent Auditor's Report to the members of Tunstall Healthcare (UK) Limited

We have audited the financial statements of Tunstall Healthcare (UK) Limited for the year ended 30 September 2016 set out on pages 10 to 39. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent Auditor's Report to the members of Tunstall Healthcare (UK) Limited *(continued)*

Opinion on other matters prescribed by the Companies Act 2006

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

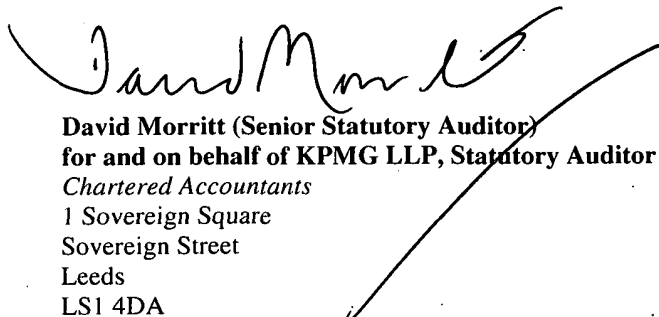
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or 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; or
- we have not received all the information and explanations we require for our audit.



David Morritt (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

29 March 2017

Income Statement for the Year Ended 30 September 2016

	Note	2016 £ 000	2015 £ 000
Revenue	4	91,328	91,413
Cost of sales		<u>(46,888)</u>	<u>(48,944)</u>
Gross profit		44,440	42,469
Administrative expenses		<u>(29,529)</u>	<u>(27,622)</u>
Operating profit	5	<u>14,911</u>	<u>14,847</u>
Analysed as:			
Operating profit before charging depreciation and amortisation and exceptional items ("EBITDA")	5	22,661	19,020
Depreciation and amortisation	5	(6,986)	(6,970)
Exceptional items	5	(764)	(428)
Provision release - Intercompany receivables		-	3,225
Impairment of non-current assets	13	<u>(875)</u>	<u>-</u>
Finance income	6	11,447	9,291
Finance costs	7	<u>-</u>	<u>(93)</u>
Net finance income		<u>11,447</u>	<u>9,198</u>
Profit before tax		25,483	24,045
Income tax expense	11	<u>(4,132)</u>	<u>(3,374)</u>
Profit for the year		<u>21,351</u>	<u>20,671</u>

The above results were derived from continuing operations.

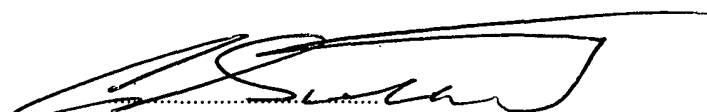
Statement of Comprehensive Income for the Year Ended 30 September 2016

	Note	2016 £ 000	2015 £ 000
Profit for the year		<u>21,351</u>	<u>20,671</u>
Total comprehensive income for the year		<u><u>21,351</u></u>	<u><u>20,671</u></u>

Statement of Financial Position as at 30 September 2016

	Note	2016 £ 000	2015 £ 000
Non-current assets			
Property, plant and equipment	12	7,793	8,423
Intangible assets	13	22,543	19,708
Investments	14	-	600
Deferred tax assets	11	3,966	2,945
Amounts owed by fellow Group undertakings	16	187,218	169,964
		<u>221,520</u>	<u>201,640</u>
Current assets			
Inventories	15	5,115	6,070
Trade and other receivables	16	23,187	20,082
Cash and cash equivalents		13,677	10,290
		<u>41,979</u>	<u>36,442</u>
Total assets		<u>263,499</u>	<u>238,082</u>
Current liabilities			
Trade and other payables	17	(20,220)	(18,898)
Loans and borrowings	18	(3,290)	(1,157)
Income tax liability		(4,997)	(3,670)
Deferred income		(4,081)	(5,045)
Provisions	19	(660)	(412)
		<u>(33,248)</u>	<u>(29,182)</u>
Non-current liabilities			
Loans and borrowings	18	<u>(668)</u>	<u>(668)</u>
Total liabilities		<u>(33,916)</u>	<u>(29,850)</u>
NET ASSETS		<u>229,583</u>	<u>208,232</u>
Equity			
Share capital	21	150	150
Share premium		3	3
Retained earnings		229,430	208,079
TOTAL EQUITY		<u>229,583</u>	<u>208,232</u>

Approved by the Board on 28 March 2017 and signed on its behalf by:



Gordon Sutherland

Director

Registration number: 1332249

Statement of Changes in Equity for the Year Ended 30 September 2016

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 October 2014	150	3	187,408	187,561
Profit for the year	-	-	20,671	20,671
Total comprehensive income	-	-	20,671	20,671
At 30 September 2015	150	3	208,079	208,232

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 October 2015	150	3	208,079	208,232
Profit for the year	-	-	21,351	21,351
Total comprehensive income	-	-	21,351	21,351
At 30 September 2016	150	3	229,430	229,583

Notes to the Financial Statements for the Year Ended 30 September 2016

1 General information

The Company is a private Company limited by share capital incorporated and domiciled in United Kingdom.

The address of its registered office is:

Whitley Lodge
Whitley Bridge
Doncaster
DN14 0HR
United Kingdom

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

For all periods up to and including the year ended 30 September 2015, the Company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP"). These financial statements for the year ended 30 September 2016 are the first the Company has prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the European Union ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position, financial performance and cash flows of the Company is provided in note 26.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

2 Accounting policies (continued)

Summary of disclosure exemptions

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures;

- Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- An additional Statement of Financial Position for the beginning of the earliest comparative period;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements of the ultimate parent Company, Tunstall Healthcare Group Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures;

- Certain disclosures required by IFRS 13 - 'Fair Value Measurement' and the disclosures required by IFRS 7 - 'Financial Instrument Disclosures'.

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

Application of new and revised International Financial Reporting Standards

Amendments to IFRSs that are mandatorily effective for the current year

The following accounting standards and interpretations, issued by the International Accounting Standards Board ("IASB") or International Financial Reporting Interpretations Committee ("IFRIC") (as endorsed by the European Union), are effective for the first time in the current financial year.

- IAS 16 (Amendment) - 'Property, Plant and Equipment' (effective 1 January 2016); and
- IAS 38 (Amendment) - 'Intangible Assets' (effective 1 January 2016).

IFRS 15 - 'Revenue from Contracts with Customers' (effective 1 January 2018) and IFRS 9 - 'Financial Instruments' (effective 1 January 2018) have been endorsed subsequent to the year end. These standards will be adopted by the Company in future accounting periods. The Directors have not yet assessed the impact of these standards on the financial statements.

The following Adopted IFRSs have been issued but have not been applied by the Company in these financial statements as they are not relevant to the Company and their adoption is not expected to have a material effect on the financial statements unless otherwise indicated;

- IFRS 10 (Amendment) - 'Consolidated Financial Statements' (effective 1 January 2016);
- IFRS 12 (Amendment) - 'Disclosure of Interests in Other Entities' (effective 1 January 2016);
- IAS 28 (Amendment) - 'Investments in Associates and Joint Ventures' (effective 1 January 2016); and
- IFRS 11 (Amendment) - 'Joint Arrangements' (effective 1 January 2016).

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

2 Accounting policies (continued)

Exemption from preparing Group financial statements

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because it is a wholly-owned subsidiary of Tunstall Healthcare Group Limited which prepares consolidated financial statements in accordance with International Financial Reporting Standards that are publicly available and may be obtained from the Registrar of Companies; Companies House, Crown Way, Cardiff CF14 3UZ. These financial statements present information about the Company as an individual undertaking and not about its Group.

Going concern

In considering the appropriate basis on which to prepare the financial statements, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future.

The Company is part of the Group (headed by Tunstall Healthcare Group Limited). The Group as a whole operates a stable business with a number of customers and suppliers across different geographic regions and has considerable financial resources with a cash balance at 30 September 2016 amounting to £48,742,215 (2015 - £42,479,340).

The Directors have made an assessment and satisfied themselves of the Group's and Company's ability to continue as a going concern. The key element of this assessment were the Group's forecasts and projections which, taking account of reasonably possible changes in trading performance, show the Group has adequate resources to continue in operational existence for at least twelve months from the date of this report. In addition the Group's Senior Debt covenants were reset effective from 17 March 2017 in order to provide additional flexibility to implement the Group's strategy at pace.

The Directors are of the opinion that the Group has adequate resources to continue in operational existence for at least twelve months from the date of this report. The Group continues to adopt the going concern basis of accounting in preparing the financial statements.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

2 Accounting policies (continued)

Revenue recognition

Revenue from the sale of the Company's Connected Care and Connected Health equipment and services is stated net of value added tax, trade discounts and returns and is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue, and the associated costs incurred, or to be incurred, can be reliably measured.

Connected Care - Independent Living

Revenue generated from equipment sales of Base Units and peripherals such as sensors and triggers is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, typically on delivery of the goods to the customer or despatch of goods from the warehouse.

Revenue generated from the sale and installation of software and hardware is recognised with reference to contract milestones as a proxy for percentage of completion ("POC"). Once the initial licence term expires and the licence is prolonged, revenue is recognised over the period of the licence.

Connected Care - Assisted Living

Revenue generated from the installation of equipment is recognised using the POC basis over the period from signing of the contract to customer acceptance. POC is measured using records of actual time and cost incurred compared with the estimated time and cost required, or with reference to contract milestones.

Amounts recoverable on contracts are included in trade receivables and represent revenue recognised in excess of payments on account. Payments received on account in excess of work done and work in progress are included within trade payables.

Revenue generated from the provision of equipment repairs and maintenance services is recognised on a straight line basis over the life of the contract or as services are provided.

Connected Care - Managed Service Contracts

The sale of products and services can be combined under one contractual arrangement. These arrangements are either capital contracts, where the equipment is sold to the customer, or revenue contracts where the customer can avoid up-front capital payments for the units by effectively renting the equipment.

Under capital contracts the risks and rewards of the equipment are transferred when the equipment is sold to the customer and the revenue is recognised at this point. Revenue for services provided is recognised as the services are being performed throughout the contract period.

Under revenue contracts actual revenue achieved is contingent on a range of factors outside of the control of both the customer and the Company including churn and growth of the user base. As a result it is not possible to measure the amount of revenue for each element reliably and instead the contract is considered as a whole with revenue recognised on a straight line basis as the services are delivered to the users.

Connected Health - Remote Patient Monitoring

Remote Patient Monitoring ("RPM") comprises revenue generated from the sale of equipment and is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, typically on delivery of the goods to the customer or despatch of goods from the warehouse. Revenue also includes that generated from the sale of products and services continued under one contractual arrangement or Managed Services Contract.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

2 Accounting policies (continued)

Taxation

Current and deferred tax are recognised in the Income Statement as income tax expense or receipt, except when the tax relates to items charged or credited directly in equity, in which case the tax is also recognised in equity.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the United Kingdom.

Deferred tax is recognised, using the liability method, in respect of temporary differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax is determined using tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Finance income and costs policy

Finance costs and income arising on interest-bearing financial instruments carried at amortised cost are recognised in the Income Statement using the effective interest rate method. Finance costs include the amortisation of fees that are an integral part of the effective finance cost of a financial instrument, including issue costs, and the amortisation of any other differences between the amount initially recognised and the redemption price.

Finance costs and income also include foreign currency gains or losses on foreign currency financial assets and liabilities.

Provisions

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

Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement in the line which most appropriately reflects the nature of the item or transaction.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

2 Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost net of accumulated depreciation and impairment. Such cost includes expenditure directly attributable to the acquisition and installation of the items.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, with the exception of freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

<i>Asset class</i>	<i>Depreciation method and rate</i>
Freehold property	2% straight line
Plant, fixtures and vehicles	10% - 33% straight line

No depreciation is provided on freehold land.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets

Intangible assets acquired separately are capitalised at cost and those acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. The costs related to internally generated intangible assets, principally development costs, are capitalised as an intangible asset only when the future economic benefits expected to arise are deemed probable and the costs can be reliably measured. Other expenditure is charged against profit in the year in which the expenditure is incurred.

A summary of the policies applied to the Company's intangible assets is as follows:

Development costs

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible, the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development.

Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the Income Statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets for internally developed software. Direct costs include specific employee costs for software development.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

2 Accounting policies (continued)

Amortisation

Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are tested for impairment at each reporting date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

<i>Asset class</i>	<i>Amortisation method and rate</i>
Development costs	4 years straight line
Computer software	4 years straight line

Impairment of non-financial assets

Intangible assets with finite useful lives and property, plant and equipment are tested for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is conducted, the recoverable amount is assessed by reference to the higher of the net present value of expected future cash flows (value in use) of the relevant cash generating unit and the fair value less cost to sell.

Trade receivables

Trade receivables are amounts due from customers for equipment sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Estimated future cash flows are not discounted due to the relatively short period of time between recognition of trade receivables and receipt of cash.

Inventories

Inventory mainly comprises items of equipment, held for sale or rental, and consumable items.

Equipment held and consumable items are stated at the lower of cost and estimated net realisable value, after provisions for obsolescence. Cost comprises direct material and, where applicable, direct labour costs and those overheads that have been incurred in bringing inventories to their present location and condition on a first in first out basis.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

The value of trade payables is the value that would be payable to settle the liability at the reporting date.

Financial instruments

Financial instruments include interest bearing loans and other borrowings which are initially recognised at the fair value of the consideration received net of issues costs associated with the borrowing. After initial recognition, interest bearing loans are subsequently measured at amortised cost using the effective interest method.

Government grants

Capital based government grants are included within accruals and deferred income in the Statement of Financial Position and credited to the Income Statement over the estimated useful economic lives of the assets to which they relate. Where a grant is awarded as a contribution towards costs expensed, the grant receivable in the period is matched against costs incurred and credited to the Income Statement in the period.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

2 Accounting policies (continued)

Leases

Leases of property, plant and equipment where the Company holds substantially all the risks and rewards of ownership are classified as finance leases.

Finance lease assets are capitalised at the commencement of the lease at the lower of the present value of the minimum lease payments or the fair value of the leased asset. The obligations relating to finance leases, net of finance charges in respect of future periods, are recognised as liabilities. Leases are subsequently measured at amortised cost using the effective interest method.

Leases where a significant portion of the risks and rewards are held by the lessor are classified as operating leases. Rentals are charged to the Income Statement on a straight line basis over the period of the lease.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined contribution pension obligation

The Company operates a defined contribution scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the Income Statement represents the contributions payable to the scheme in respect of the accounting period.

Defined benefit pension obligation

The Company participates in the Tunstall Group Limited Pension Scheme, which is a funded pension scheme for UK employees providing benefits based on final pensionable pay. The Scheme is closed to future accrual. The assets of the scheme are held separately from those of the Company.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and the exercise of judgement in applying accounting policies. Management continually evaluate estimates, assumptions and judgements based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. The areas involving a higher degree of judgement or complexity are described below.

Revenue recognition

The measurement of revenue and resulting post recognition for software and equipment sold by the company is based on the percentage of completion method ("POC"). The POC method requires the exercise of judgement estimating the time and cost required to achieve customer acceptance.

Provisions

The Company has recognised provisions for the impairment of inventories and trade receivables which require Management to make judgements. The judgements, estimates and associated assumptions necessary to calculate these provisions are based on historical experience and other reasonable factors.

Estimate of useful economic lives of Property, Plant and Equipment and Intangible assets

The charge in respect of amortisation and depreciation is derived after determining an estimate of an assets useful economic life and are determined by Management at the time the asset is acquired and reviewed annually for reasonableness. The lives are based on historical experience as well as anticipated future events which may impact their life such as changes in technology.

Provisions

The Group has recognised provisions for the impairment of inventories and trade receivables which require Management to make judgements. The judgements, estimates and associated assumptions necessary to calculate these provisions are based on historical experience and other reasonable factors.

Deferred tax

Deferred tax assets and liabilities require judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income.

Current tax

The actual tax paid is determined according to complex tax laws and regulations. Where the effect of these laws and regulations is unclear estimates are used to determine the liability for the tax to be paid on past profits recognised in the financial statements. The final determination of prior year tax liabilities could be different from the estimates reflected in the financial statements.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

4 Segmental analysis

The Company is managed on the basis of one reportable segment with the Board of Directors reviewing internal management reports on a monthly basis with the focus on revenue, and profit before interest, tax, depreciation and amortisation and exceptional items ("EBITDA").

Since the Company has only one principal business, no segmental information is presented by class of business. All turnover originates in the United Kingdom.

	2016 £ 000	2015 £ 000
<i>Analysis of revenue by destination:</i>		
United Kingdom	68,395	65,953
Other European Countries	20,654	23,109
Rest of the world	2,279	2,351
	<u>91,328</u>	<u>91,413</u>

5 Operating profit

Arrived at after charging/(crediting)

	2016 £ 000	2015 £ 000
Depreciation expense	2,388	2,277
Amortisation expense	4,598	4,693
Provision release - Intercompany receivables	-	(3,225)
Research and development cost	3,088	2,539
Operating lease expense - property	126	175
Operating lease expense - plant and machinery	1,179	1,201
Exceptional items	<u>764</u>	<u>428</u>

Included within costs and overheads in 2016 are operating exceptional items of £0.8m in relation to restructuring costs incurred as part of the Company's initiative to deliver significant cost and operational efficiencies to support the implementation of the Group's growth strategy.

The exceptional items included within operating profit in 2015 comprised £0.4m write-off of deferred revenues which could not be validated.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

6 Finance income

	2016 £ 000	2015 £ 000
Finance income from fellow Group undertakings	<u>11,447</u>	<u>9,291</u>

7 Finance costs

	2016 £ 000	2015 £ 000
Interest on obligations under finance leases and hire purchase contracts	-	3
Foreign exchange (gains) / losses	<u>-</u>	<u>90</u>
	<u>-</u>	<u>93</u>

8 Staff costs

The aggregate payroll costs (including Directors' remuneration) were as follows:

	2016 £ 000	2015 £ 000
Wages and salaries	19,714	19,603
Social security costs	2,130	2,018
Pension costs	<u>1,670</u>	<u>1,498</u>
	<u>23,514</u>	<u>23,119</u>

The average number of persons employed by the Company (including Directors) during the year, analysed by category was as follows:

	2016 No.	2015 No.
Production	334	327
Sales and administration	334	303
Research and development	<u>45</u>	<u>46</u>
	<u>713</u>	<u>676</u>

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

9 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2016 £ 000	2015 £ 000
Remuneration	164	143
Pension contributions in respect of money purchase schemes	10	9
	<u>174</u>	<u>152</u>

In respect of the highest paid Director:

	2016 £ 000	2015 £ 000
Remuneration	164	143
Pension contributions in respect of money purchase schemes	10	9
	<u>174</u>	<u>152</u>

No Directors (2015 - none) accrued benefits under the defined benefit pension scheme in respect of qualifying services during the year. One Director (2015 - one) accrued benefits under defined contribution schemes. Three Directors (2015 - three) were paid through another Group company. It is not possible to ascertain what proportion of their remuneration is related to this Company.

10 Auditor's remuneration

	2016 £ 000	2015 £ 000
Audit of these financial statements	144	144
Taxation services	73	71
	<u>217</u>	<u>215</u>

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

11 Income tax

Tax charged in the income statement

	2016 £ 000	2015 £ 000
Current taxation		
UK corporation tax	5,137	3,670
UK corporation tax adjustment to prior periods	17	(76)
	<u>5,154</u>	<u>3,594</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	(387)	256
Arising from changes in tax rates and laws	206	-
UK deferred tax adjustment to prior periods	(841)	(476)
Total deferred taxation	<u>(1,022)</u>	<u>(220)</u>
Tax expense in the income statement	<u>4,132</u>	<u>3,374</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2015 - lower than the standard rate of corporation tax in the UK) of 20% (2015 - 20.5%).

Factors affecting the tax charge for the current period

The differences are reconciled below:

	2016 £ 000	2015 £ 000
Profit for the year	21,351	20,671
Income tax expense	4,132	3,374
Profit before tax	<u>25,483</u>	<u>24,045</u>
Corporation tax at standard rate	5,097	4,929
UK corporation tax adjustment to prior periods	16	(76)
Short term timing differences not recognised	-	(41)
Expenses not deductible in determining taxable profit	63	(423)
UK Deferred tax adjustment to prior periods	(841)	(476)
Deferred tax expense relating to changes in tax rates	206	-
Effect of adjustment in research development tax credit	16	(539)
Tax credit in relation to Patent Box	(425)	-
Total tax charge	<u>4,132</u>	<u>3,374</u>

Factors affecting future tax charges

Changes to the UK Corporation tax rates were substantively enacted as part of the Finance Bill 2015 on 26 October 2015. These include reductions to the main rate to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020. A further change to the UK corporation tax rate was substantively enacted as part of the Finance Bill 2016 on 6 September 2016. This includes a reduction in the main rate to reduce the rate to 17% from 1 April 2020.

Deferred taxes at the reporting date have been measured using the enacted tax rates and reflected in these financial statements.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

11 Income tax (continued)

Deferred tax

The Company has deferred tax assets recognised at 17% (2015 - 20%).

Deferred tax movement during the year:

	At 1 October 2015 £ 000	Recognised in income £ 000	At 30 September 2016 £ 000
Accelerated tax depreciation	2,690	1,167	3,857
Other items	255	(146)	109
Net tax assets/(liabilities)	<u>2,945</u>	<u>1,021</u>	<u>3,966</u>

Deferred tax movement during the prior year:

	At 1 October 2014 £ 000	Recognised in income £ 000	At 30 September 2015 £ 000
Accelerated tax depreciation	2,616	74	2,690
Other items	108	147	255
Net tax assets/(liabilities)	<u>2,724</u>	<u>221</u>	<u>2,945</u>

There are no unrecognised deferred tax assets (2015 - nil).

The utilisation of deferred tax assets relies on a number of factors including the future profitability of the UK and overseas companies. Current forecasts indicate that recoverability of these amounts will occur within the foreseeable future and, therefore, the deferred tax asset has been recognised in the Statement of Financial Position.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

12 Property, plant and equipment

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation			
At 1 October 2014	4,877	21,814	26,691
Additions	<u>407</u>	<u>1,287</u>	<u>1,694</u>
At 30 September 2015	<u>5,284</u>	<u>23,101</u>	<u>28,385</u>
At 1 October 2015	5,284	23,101	28,385
Additions	<u>278</u>	<u>1,479</u>	<u>1,757</u>
At 30 September 2016	<u>5,562</u>	<u>24,580</u>	<u>30,142</u>
Depreciation			
At 1 October 2014	1,627	16,058	17,685
Charge for year	<u>130</u>	<u>2,147</u>	<u>2,277</u>
At 30 September 2015	<u>1,757</u>	<u>18,205</u>	<u>19,962</u>
At 1 October 2015	1,757	18,205	19,962
Charge for the year	<u>219</u>	<u>2,168</u>	<u>2,387</u>
At 30 September 2016	<u>1,976</u>	<u>20,373</u>	<u>22,349</u>
Carrying amount			
At 30 September 2016	<u>3,586</u>	<u>4,207</u>	<u>7,793</u>
At 30 September 2015	<u>3,527</u>	<u>4,896</u>	<u>8,423</u>
At 1 October 2014	<u>3,250</u>	<u>5,756</u>	<u>9,006</u>

Assets held under finance leases and hire purchase contracts

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

2016	2015
£ 000	£ 000
<u>-</u>	<u>22</u>

Land and buildings

Included within the net book value of land and buildings above is £3,585,267 (2015 - £3,527,174) in respect of freehold land and buildings.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

13 Intangible assets

	Internally generated software development costs £ 000	Research and development £ 000	Total £ 000
Cost or valuation			
At 1 October 2014	1,285	25,482	26,767
Additions	-	7,697	7,697
At 30 September 2015	1,285	33,179	34,464
At 1 October 2015	1,285	33,179	34,464
Additions	-	8,307	8,307
At 30 September 2016	1,285	41,486	42,771
Amortisation			
At 1 October 2014	709	9,354	10,063
Amortisation charge	231	4,462	4,693
At 30 September 2015	940	13,816	14,756
At 1 October 2015	940	13,816	14,756
Amortisation charge	230	4,367	4,597
Impairment	-	875	875
At 30 September 2016	1,170	19,058	20,228
Carrying amount			
At 30 September 2016	115	22,428	22,543
At 30 September 2015	345	19,363	19,708
At 1 October 2014	576	16,128	16,704

Impairment review - Research and Development

The Directors have reviewed the carrying value of Research and Development at the reporting date. The Directors have deemed that for certain projects, future discounted cash flows do not support the carrying value of the asset. As such, an impairment of £875,129 was recognised for the year ended 30 September 2016 (2015 - £nil).

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

14 Investments

Subsidiaries	£ 000
Cost or valuation	
At 1 October 2014	-
Additions	600
At 30 September 2015	600
At 1 October 2015	600
Disposals	(600)
At 30 September 2016	-
Carrying amount	
At 30 September 2016	-
At 30 September 2015	600

During the current year, the Company disposed of the entire issued share capital of Tunstall Monitoring Limited to Tunstall Group Limited.

During the prior year, the Company acquired the entire issued share capital of Tunstall Monitoring Limited from Telearm Care Holdings (UK) Limited.

At 30 September 2016, the Company's investments are as follows (* indicates direct investment of the Company rather than via a subsidiary):

All shares held are Ordinary Shares unless otherwise stated.

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	% Shareholding
Tunstall Electronics Limited*	Non-trading entity	England	100%
Tunstall Response Limited*	Non-trading entity	England	100%
Tunstall International Limited*	In liquidation	England	100%

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

15 Inventories

	2016 £ 000	2015 £ 000
Raw materials and consumables	1,553	1,915
Work in progress	163	144
Finished goods and goods for resale	2,221	2,742
Contract work in progress	1,178	1,269
	<u>5,115</u>	<u>6,070</u>

The cost of inventories recognised as an expense in the year amounted to £37,398,985 (2015 - £38,335,846).

The amount of write-down of inventories recognised as an expense in the year is £413,861 (2015 - £65,639).

Both of these costs are included within cost of sales.

16 Trade and other receivables

Current

	2016 £ 000	2015 £ 000
Trade receivables	9,704	10,097
Amounts owed by fellow Group undertakings	12,524	9,001
Prepayments and other receivables	959	984
Total current trade and other receivables	<u>23,187</u>	<u>20,082</u>

Non-current

	2016 £ 000	2015 £ 000
Amounts owed by fellow Group undertakings	<u>187,218</u>	<u>169,964</u>
Total non-current trade and other receivables	<u>187,218</u>	<u>169,964</u>

The Company has formal documented intercompany loan agreements. Under the terms of the agreements, interest is charged at a rate of 6% (2015 - 6%) which reflects the cost of borrowing to the Group. The loans are unsecured and are repayable 12 months from the Company giving written notice or, a change of ownership of the borrower, whichever is earlier.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

17 Trade and other payables

	2016 £ 000	2015 £ 000
Trade payables	9,324	9,327
Accrued expenses	10,896	9,571
	<u>20,220</u>	<u>18,898</u>

18 Loans and borrowings

	2016 £ 000	2015 £ 000
Non-current loans and borrowings		
Amounts owed to fellow Group undertakings	<u>668</u>	<u>668</u>
	2016 £ 000	2015 £ 000
Current loans and borrowings		
Finance lease liabilities	-	5
Amounts owed to fellow Group undertakings	<u>3,290</u>	<u>1,152</u>
	<u>3,290</u>	<u>1,157</u>

The Company has formal documented intercompany loan agreements. Under the terms of the agreements, interest is charged at a rate of 6% (2015 - 6%) which reflects the cost of borrowing to the Group. The loans are unsecured and are repayable 12 months from the Company giving written notice or, a change of ownership of the borrower, whichever is earlier.

19 Provisions

	Warranties £ 000	Restructuring £ 000	Total £ 000
At 1 October 2015	412	-	412
Expensed in the year	648	359	1,007
Utilised in the year	(639)	-	(639)
Released during the year	<u>(120)</u>	<u>-</u>	<u>(120)</u>
At 30 September 2016	<u>301</u>	<u>359</u>	<u>660</u>
Current liabilities	<u>301</u>	<u>359</u>	<u>660</u>

Warranties

Warranty provisions relate to warranties provided as part of product sales in respect of which liabilities exist for the warranty period of the product.

Restructuring

During the year, the Company committed to an initiative to deliver significant cost and operational efficiencies to support the implementation of the Group's growth strategy. As a result, the Group recognised a provision of £359,632. The restructuring is expected to be completed in the year ended 30 September 2017.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

20 Obligations under leases and hire purchase contracts

Finance leases

	Minimum lease payments £ 000	Present value £ 000
2015		
Within one year	<u>5</u>	<u>5</u>

The present values of future finance lease payments are analysed as follows:

	2016 £ 000	2015 £ 000
Current liabilities	-	5

Operating leases

At 30 September 2016, the Company had the following commitments outstanding:

The total future value of minimum lease payments is as follows:

	2016 £ 000	2015 £ 000
Within one year	1,126	1,071
In two to five years	<u>1,283</u>	<u>908</u>
	<u>2,409</u>	<u>1,979</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £1,307,805 (2015 - £1,375,451).

21 Share capital

Allotted, called up and fully paid shares

	2016		2015	
	No.	£ 000	No.	£ 000
150,000 ordinary shares of £1 each	<u>150,000</u>	<u>150</u>	<u>150,000</u>	<u>150</u>

22 Pension and other schemes

The Company participated in the Tunstall Group Limited Pension Fund, a defined benefit pension scheme, which was closed to future accrual in 2013. A full actuarial valuation was carried out at 5 April 2013 and was updated for IAS19 purposes to 30 September 2016, by a qualified independent actuary.

As at 30 September 2016, the scheme had net liabilities amounting to £36,401,000 (2015 - £20,236,375). This liability is recognised in the Statement of Financial Position of the Company's immediate parent undertaking, Tunstall Group Limited.

Additional contributions of £1,100,000 (2015 - £995,000) were paid in the period to reduce the pension deficit. Contributions for the year ended 30 September 2017 are expected to be £1,210,000.

The Company also paid £945,328 (2015 - £884,000) in respect of defined contribution arrangements. The accrued contributions at the end of the financial year were £93,000 (2015 - £93,000).

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

23 Contingent liabilities

At 30 September 2016, the Company had contingent liabilities in respect of performance bonds and other letters of credit entered into on behalf of its subsidiary undertakings totalling £458,906 (2015 - £378,500).

The Company is aware of certain claims or potential claims which involve or may involve legal proceedings against the Company. The Directors are of the opinion, having regard to legal advice received and the Company's insurance arrangements that it is unlikely these matters will, in aggregate, have a material effect on the Company's financial position.

24 Parent and ultimate parent undertaking

The Company's immediate parent is Tunstall Group Limited.

The ultimate parent is Tunstall Healthcare Group Limited.

The most senior parent entity producing publicly available financial statements is Tunstall Healthcare Group Limited. These financial statements are available upon request from the Registrar of Companies, Companies House, Crown Way, Cardiff CF14 3UZ.

25 Events after the financial period

On 17 March 2017 the Group's (headed by Tunstall Healthcare Group Limited) Acquisition Facility of £40m was cancelled and an agreement was reached with the Group's Senior Debt providers to reset the Group's financial covenants in order to provide additional flexibility to implement the Group's strategy at pace. The new financial covenants comprise a gross leverage ratio, liquidity and capital expenditure. The gross leverage and liquidity covenants are tested quarterly and will be tested for the first time on 31 March 2017. The capital covenant is an annual test and will be tested for the first time on 30 September 2017.

As a condition of the covenant reset agreement, the Group transferred 24.9% of its shareholding in TGH Acquisitions Limited to the Senior Debt providers and 25% to Management.

Following the agreement with the Group's Senior Debt providers to reset the financial covenants, the Group also undertook a capital restructuring exercise designed to simplify the group structure. As part of the process, on 17 March 2017, the Group changed its tax strategy in relation to claiming Group relief.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

26 Transition to FRS 101

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. For periods up to and including the year ended 30 September 2015, the Company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP").

Accordingly the Company has prepared financial statements which comply with FRS 101 applicable for periods ending on or after 30 September 2016, together with the comparative period data as at and for the year ended 30 September 2015, as described in the summary of significant accounting policies. In preparing these financial statements, the Company's opening Statement of Financial Position was prepared as at 1 October 2014, the Company's date of transition to FRS 101. This note explains the principal adjustments made by the Company in restating its UK GAAP financial statements, including the Statement of Financial Position as at 1 October 2014 and the financial statements as at and for the year ended 30 September 2015.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Company has applied the following exemptions:

IFRS 3 - 'Business Combinations'

IFRS 1 provides an optional exemption whereby a first-time adopter may elect not to apply IFRS 3 - 'Business Combinations' retrospectively to business combinations that occurred before the date of transition. The Company has decided to take advantage of this exemption and to not restate business combinations (including trade and asset acquisitions) prior to the transition date.

IFRIC 18 - 'Transfers of assets from customers'

A first-time adopter of IFRS can use the transitional provisions of IFRIC 18 - 'Transfers of assets from customers'. This means that IFRIC 18 may be applied prospectively from the date of transition to IFRS (1 October 2014 in the Company's case).

Alternatively, an entity may designate any date before the date of transition and apply IFRIC 18 to all transfers of assets on or after that date.

The Directors have applied IFRIC 18 prospectively from 1 October 2014.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

26 Transition to FRS 101 (continued)

Statement of Financial Position at 1 October 2014

	Note	Under UK GAAP £ 000	Effect of transition £ 000	Under FRS 101 £ 000
Non-current assets				
Property, plant and equipment	26.1	9,582	(576)	9,006
Intangible assets	26.2	17,288	(584)	16,704
Deferred tax assets	26.4	2,445	279	2,724
		<u>29,315</u>	<u>(881)</u>	<u>28,434</u>
Current assets				
Inventories		6,449	-	6,449
Trade and other receivables		175,927	-	175,927
Cash and cash equivalents		5,036	-	5,036
		<u>187,412</u>	<u>-</u>	<u>187,412</u>
Total assets		<u>216,727</u>	<u>(881)</u>	<u>215,846</u>
Current liabilities				
Trade and other payables	26.3	(18,798)	(239)	(19,037)
Loans and borrowings		(21)	-	(21)
Income tax liability		(4,875)	-	(4,875)
Deferred income		(4,047)	-	(4,047)
Provisions		<u>(302)</u>	<u>-</u>	<u>(302)</u>
		<u>(28,043)</u>	<u>(239)</u>	<u>(28,282)</u>
Non-current liabilities				
Loans and borrowings		<u>(5)</u>	<u>-</u>	<u>(5)</u>
Total liabilities		<u>(28,048)</u>	<u>(239)</u>	<u>(28,287)</u>
NET ASSETS		<u>188,679</u>	<u>(1,120)</u>	<u>187,559</u>
Equity				
Share capital		150	-	150
Share premium		3	-	3
Retained earnings		<u>188,526</u>	<u>(1,120)</u>	<u>187,406</u>
		<u>188,679</u>	<u>(1,120)</u>	<u>187,559</u>
TOTAL EQUITY		<u>188,679</u>	<u>(1,120)</u>	<u>187,559</u>

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

26 Transition to FRS 101 (continued)

Statement of Financial Position at 30 September 2015

	Note	Under UK GAAP £ 000	Remeasurement £ 000	Under FRS 101 £ 000
Non-current assets				
Property, plant and equipment	26.1	8,769	(346)	8,423
Intangible assets	26.2	20,581	(871)	19,710
Investments		600	-	600
Deferred tax assets	26.4	2,654	291	2,945
Amounts owed by group undertakings		169,964	-	169,964
		<u>202,568</u>	<u>(926)</u>	<u>201,642</u>
Current assets				
Inventories		6,070	-	6,070
Trade and other receivables		20,080	-	20,080
Cash and cash equivalents		10,290	-	10,290
		<u>36,440</u>	<u>-</u>	<u>36,440</u>
Total assets		<u>239,008</u>	<u>(926)</u>	<u>238,082</u>
Current liabilities				
Trade and other payables	26.3	(18,659)	(239)	(18,898)
Loans and borrowings		(1,825)	-	(1,825)
Income tax liability		(3,670)	-	(3,670)
Deferred income		(5,045)	-	(5,045)
Provisions		(412)	-	(412)
		<u>(29,611)</u>	<u>(239)</u>	<u>(29,850)</u>
Total liabilities		<u>(29,611)</u>	<u>(239)</u>	<u>(29,850)</u>
NET ASSETS		<u>209,397</u>	<u>(1,165)</u>	<u>208,232</u>
Equity				
Share capital		150	-	150
Share premium		3	-	3
Retained earnings		209,244	(1,165)	208,079
TOTAL EQUITY		<u>209,397</u>	<u>(1,165)</u>	<u>208,232</u>

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

26 Transition to FRS 101 (continued)

Income statement for the financial year ended 30 September 2015

	Note	Under UK GAAP £ 000	Effect of transition £ 000	Under FRS 101 £ 000
Revenue		91,413	-	91,413
Cost of sales		(48,945)	-	(48,945)
Gross profit		42,468	-	42,468
Administrative expenses		(27,563)	(58)	(27,621)
Operating profit		14,905	(58)	14,847
Analysed as:				
Operating profit before charging depreciation and amortisation and exceptional items ("EBITDA")	26.2	19,272	(253)	19,019
Depreciation and amortisation	26.2	(7,164)	195	(6,969)
Exceptional items		2,797	-	2,797
Finance income		9,291	-	9,291
Finance costs		(93)	-	(93)
Net finance income		9,198	-	9,198
Profit/(loss) before tax		24,103	(58)	24,045
Income tax expense		(3,385)	11	(3,374)
Profit for the financial year		20,718	(47)	20,671

Notes to the reconciliation of equity as at 1 October 2014 and 30 September 2015 and loss for the year ended 30 September 2015

26.1 Computer software

Computer software meeting the definition of Intangible Assets in IAS 38 have been reclassified from Property Plant and Equipment. The carrying value of these assets at 30 September 2015 amounted to £0.3m (2014 - £0.6m). The amortisation charge for the year ended 30 September 2015 amounted to £0.3m.

26.2 Research and Development

Certain of the Company's Research and Development costs do not meet the capitalisation criteria of IAS38 - 'Intangible assets'. Previously capitalised costs of £1.6m have been charged to Retained Earnings at 1 October 2014. An amortisation credit of £0.5m has been recognised within Retained Earnings at 1 October 2014. Previously capitalised costs of £0.3m have been expensed in the Income Statement for the year ended 30 September 2015. An amortisation charge of £0.2m has been credited to the Income Statement for the year ended 30 September 2015.

26.3 Annual leave provision

Under IAS19 - 'Employee Benefits', the Group is required to recognise a liability of £0.2m in relation to holiday pay at 1 October 2014 and £0.2m at 30 September 2015. There was no such requirement to recognise a liability under UK GAAP.

Notes to the Financial Statements for the Year Ended 30 September 2016 (continued)

26 Transition to FRS 101 (continued)

26.4 Deferred tax

Transitional adjustments have resulted in a deferred tax asset of £0.3m being recognised at 1 October 2014 and 30 September 2015.