

Tunstall Healthcare (UK) Limited

**Directors' report and financial
statements**

Registered number 1332249

For the year ended 30 September 2013

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Strategic report

Objectives and strategies

Tunstall is the world's leading provider of telehealthcare solutions and has a growing telehealth capability. Our objective is to strengthen further that leadership position in the years ahead.

Our vision is "To enable people to live as independently as possible in a place of their choice".

Our understanding of the four drivers that are shaping the telehealth and telecare markets are:

- The demographic challenge worldwide:
 - ageing of the population
 - rising dependency ratios
 - increased prevalence of long term conditions that need non-acute care
 - break-up of the nuclear family in many countries
- Technology advances and falling technology costs which radically change the ways in which health and social care can be delivered. These increase the potential to move care from the secondary to the primary sector, so delivering services closer to the home at lower cost.
- Healthcare advances which are increasing demand for increasingly capable and extensive care
- Falling healthcare and social care budgets worldwide which drive higher pressure for cost-effective care

These drivers are accelerating demand for the integration of Telehealth and Telecare service delivery and Single Point of Access referral centres. Tunstall has invested in telehealth for the last 10 years and is one of the top 3 players. In parallel it has built global market leadership in Telecare over a 35 year period. From this point, our medium term objectives are to:

- Consolidate Tunstall's position as the leading services-led global health solutions provider
- Continue to innovate and develop today's telecare market
- Drive and lead the integration of telehealth and telecare where markets demand it
- Mature the organisation with global service standards, systems, products, processes and skills
- Expand further geographically

Business Review

For Tunstall Healthcare (UK) Limited, 2013 proved to be a challenging year. Revenues in the year fell by 8.5% to £89.6m and operating profit, at £18.5m, was down 45.4%, which includes a one-off provision against recoverability of intercompany trade receivables amounting to £4.8m, and increased depreciation and amortisation charges.

Tunstall's export business, wholly relating to trade with fellow group companies, was impacted by a number of structural changes, in addition to macro-economic factors within export territories. The acquisition by the Group of a Spanish monitoring centre business, whilst improving the overall Group revenues and quality of earnings, had a direct effect on the existing Spanish business, resulting in a 50% reduction in year-on-year export sales from the UK to Spain. In addition, the introduction of a revised transfer pricing policy, reflecting changes in the Group's operations, altered the pricing of export products. Finally, the difficult market conditions within certain export countries resulted in a reduction in sales volumes year on year. Overall, export revenues fell by 23% to £21.4m.

The core UK business performed just slightly below last year, reporting revenue of £68.2m (2012: £70.1m). The company has continued its investment in the development of its managed service capability and saw some significant long-term success across all segments during the year – namely Hertfordshire County Council and Hampshire County Council within telecare, Calderdale CCG across telehealth and telecare and a ten year exclusive contract with Hanover Housing within Assisted Living. With both the continuation of existing and the addition of new programmes in England and Northern Ireland, Tunstall has demonstrated its ability to deploy at scale both Telecare and Telehealth managed service solutions and has identified the Managed Service offer, which works for Assisted Living clients. As such, the business has continued to lead the market development. At the end of the year a direct to consumer proposition was also launched via the web, and this is expected to deliver growth opportunities in the coming year through three major direct and partner channels.

Strategic report *(continued)*

The successful launch of the next generation of telecare units, Lifeline Vi, saw domestic base unit sales grow by 19.7%. This level of growth highlights the strength of the Tunstall brand within the UK and the desire from customers to adopt the latest technology. The business has also seen an increase in peripherals being used to support end users to achieve independent living.

The abolition of Primary Care Trusts (PCT's) and creation of Clinical Commissioning Groups (CCG's) in April 2013 has led to a period of uncertainty with the traditional telehealth market. The resulting change has been a reluctance across the sector to commit capital spend and a slow-down in the telehealth capital market. Nevertheless, the benefits of Telehealthcare technology are becoming widely recognised and we have seen a continued move towards the subscription based managed services model, where Tunstall provides additional services such as monitoring, triage, asset tracking and business information services, in addition to the product offering. Revenue in this area increased by 13.5% to £8.6m. As a result of the benefits being achieved we have secured extensions to a number of existing deals.

The domestic housing market has continued to be affected by the UK economic position, with a limited number of new build projects given the go ahead in year. The impact on our assisted living revenues was a decline of 9% year on year. However, Tunstall has successfully demonstrated the application of the managed service offering to the assisted living market, resulting in the business securing a 10 year multi-million pound contract win with a key customer. In addition, the launch of the next generation of monitoring software has raised a high level of interest from our customers and we leave the year with a strong order book in place, although the challenge remains to convert these orders into revenue in the face of the continued financial pressures faced by our customer base.

Overall the commercial sales margins have remained consistent year on year, although the planned investment in managed service development and delivery capability contributed to an increase in overhead spend, resulting in a domestic Operating Profit margin of 28.8%.

Profit for the year after taxation was £21.0 million (2012: £29.7 million).

Summary of risks and uncertainties

Foreign exchange risk

The company sells to a number of international territories, invoicing in local currency, and sources its product in a number of currencies. As such, the company is exposed to foreign exchange risk, principally against the Euro and US dollar. The risk in relation to the Euro is managed through a natural hedge in respect of the denomination of bank borrowings of the parent companies. The US dollar risk is mitigated to some extent through US dollar receivables, and further managed through a series of foreign exchange contracts as necessary, to purchase sufficient quantities of US dollars to meet production requirements.

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.

Future Prospects

The core market continues to be challenging as the latest CSR impacts take hold within 2013/14 budgets. However, within the year we have seen movement from some customers to shift away from short term projects into longer term strategic partnerships, these partnerships are multi-year agreements and give an increased confidence around longer term revenue growth. For such clients, enabling technology offers an opportunity to provide improved outcomes at lower cost for patients and citizens.

Following its launch in January 2012, 3millionlives, the Department of Health campaign to use telecare and telehealth technology to improve the lives of three million people by 2018, has steadily progressed. Fourteen integrated care Pioneer sites have been identified and these sites have been charged with boosting the delivery of better person-centred coordinated care and support. Tunstall is already well known within a number of these sites and is in an excellent position to be able to drive forward and shape the initiative.

Strategic report *(continued)*

The Housing sector is also now being viewed as a critical component within the local health economy and Tunstall's unique positioning as a trusted partner gives us a significant platform for our extended service offering, which includes both the next generation warden call systems, launched in summer 2013, as well as the new MyWorld social inclusion tablet, which enables people to keep in contact with friends, family, events and local services through hosted set of tablet-enabled applications.

The Managed Services proposition continues to develop within England and Northern Ireland, with the current pipeline holding a wide variety of opportunities and positive discussions are ongoing with current partners to extend and develop the opportunities within their programmes.

The continued development and launch of the next generation telehealth device in 2014 will bring to market an advanced monitor with touch screen functionality. This device, combined with newly developed peripherals will further strengthen the case for the use of Telehealth in the home.

In terms of market extension, a key focus for the coming year will be the ongoing development of Tunstall's direct to consumer proposition. Working alongside a number of strategic partners the current offering will be extended and developed, this focus along with infrastructure investment will ensure the business is in the best possible position to maximise the developing private pay market.

Research & Development

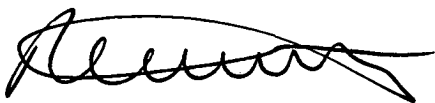
Despite the economic downturn, the company invested £11.6 million in research & development. This represents 13% of revenues (2012: 4.7%). Tunstall have invested in the continued development of call centre software, design and development of peripherals in response to market demands and enhanced features for existing product ranges.

KPI's

Overdue debt (accounts receivable balances beyond normal collection terms) increased by £0.4m to £2.9m at September 2013, and represents 26% (2012: 18%) of total Accounts Receivable balances.

Operating cashflow, excluding movements in intercompany balances, represented 120% of EBITDA (2012: 83%).

By order of the board



R Webster
Company Secretary

Whitley Lodge
Whitley Bridge
Yorkshire
DN14 0HR

28 January 2014

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2013.

Principal activities

The principal activities of the company are the development, manufacture, marketing, installation, monitoring and service of telecare, telehealth and hospital systems in the UK and overseas.

Dividend

No dividends have been paid in the year (2012: £nil). The directors do not propose the payment of a final dividend (2012: £nil).

Directors

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

E Quinn	
S Arnold	
D Cockayne	
J Cicero	(appointed 5 February 2013; resigned 29 August 2013)
K Dyson	(resigned 26 February 2013)
R Webster	(appointed 26 February 2013)
G Baldwin	(resigned 30 October 2013)
P Stobart	(appointed 27 November 2013)

Agency companies

The following companies trade as agents of the company:

Tunstall Electronics Limited
Tunstall International Limited
Tunstall Central Services Limited
Tunstall Response Limited

Disabled employees

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 group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The group 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 group. 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.

Directors' report *(continued)*

Disclosure of information to auditor

The directors who hold office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG LLP will therefore continue in office.

By order of the board

A handwritten signature in black ink, appearing to read 'R Webster', with a long horizontal line extending to the right.

R Webster
Company Secretary

Whitley Lodge
Whitley Bridge
Yorkshire
DN14 0HR

28 January 2014

Statement of directors' responsibilities in respect of the Strategic and Directors' Reports and the financial statements

The directors are responsible for preparing the Strategic Report and Directors' 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 they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW

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 2013, set out on pages 9 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 its company's affairs as at 30 September 2013 and of the 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.

Opinion on other matter prescribed by the Companies Act 2006

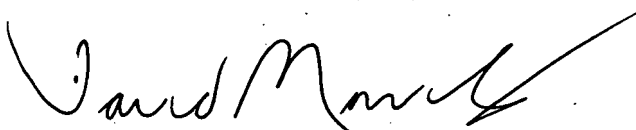
In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which we are required to report by exception

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

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



David Morritt (Senior Statutory Auditor)

For and on behalf of

KPMG LLP

Statutory Auditor

Chartered Accountants

1 The Embankment

Leeds

West Yorkshire

LS1 4DW

28 January 2014

Profit and loss account
for the year ended 30 September 2013

	<i>Note</i>	2013 £000	2012 £000
Turnover	2	89,556	97,907
Costs and overheads	3	(66,265)	(64,078)
Provision against intercompany receivables		(4,820)	-
Operating profit		18,471	33,829
Interest receivable and similar income	7	11,280	6,553
Interest payable and similar charges	8	(401)	(553)
Profit on ordinary activities before taxation	4	29,350	39,829
Taxation	9	(8,331)	(10,100)
Profit for the financial year	18	21,019	29,729

All activities have been classified as continuing.

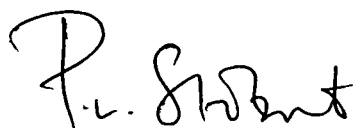
The notes on pages 14 to 24 form part of the financial statements.

Balance sheet
at 30 September 2013

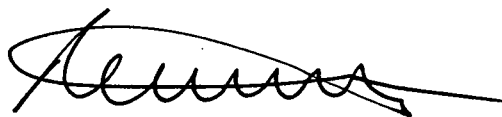
	<i>Note</i>	2013 £000	2012 £000
Fixed assets			
Intangible assets	<i>10</i>	15,470	8,152
Tangible assets	<i>11</i>	10,716	7,586
		26,186	15,738
Current assets			
Stocks	<i>13</i>	6,161	4,082
Debtors	<i>14</i>	176,744	165,332
Cash at bank and in hand		2,850	3,000
		185,755	172,414
Creditors: Amounts falling due within one year	<i>15</i>	(38,668)	(35,328)
Net current assets		147,087	137,086
Total assets less current liabilities		173,273	152,824
Creditors: Amounts falling due after more than one year		-	-
Provisions for liabilities and charges	<i>16</i>	(236)	(262)
Net assets		173,037	152,562
Capital and reserves			
Called up share capital	<i>17</i>	150	150
Share premium account	<i>18</i>	3	3
Revaluation reserve	<i>18</i>	-	578
Profit and loss account	<i>18</i>	172,884	151,831
Shareholders' funds	<i>19</i>	173,037	152,562

The notes on pages 14 to 24 form part of the financial statements.

These financial statements were approved by the board of directors on 28 January 2014 and were signed on its behalf by:



P Stobart
Director



R Webster
Director

Company registered number: 1332249

Statement of total recognised gains and losses
for the year ended 30 September 2013

	2013 £000	2012 £000
Profit for the financial year and total recognised gains and losses relating to the year	21,019	29,729
Movement in revaluation reserve	(544)	-
Total recognised gains and losses in the year	20,475	29,729

The notes on pages 14 to 24 form part of these financial statements.

Cash flow statement
for the year ended 30 September 2013

	Note	2013 £000	2012 £000
Net cash inflow/(outflow) from operating activities	(iii)	26,354	(19,296)
Returns on investments and servicing of finance	(iv)	(401)	6,000
Taxation		(10,063)	(10,267)
Capital expenditure	(v)	(16,040)	(5,738)
Net cash outflow before financing		(150)	(29,301)
Financing		-	-
Decrease in cash		(150)	(29,301)

The notes on pages 12 to 13 form part of this financial statement.

Notes to the cash flow statement
for the year ended 30 September 2013

(i) Reconciliation of net cash flow to movement in net funds

	2013 £000	2012 £000
Decrease in cash	(150)	(29,301)
Cash flow from increase in net funds	-	-
Movement in net funds resulting from cash flows	(150)	(29,301)
Exchange adjustments	-	-
Movement in net funds	(150)	(29,301)
Opening net funds	3,000	32,301
Closing net funds	2,850	3,000

(ii) Analysis of changes in net funds

	At 30 September 2012 £000	Cash flow £000	Non-cash Movements £000	At 30 September 2013 £000
Cash at bank and in hand	3,000	(150)	-	2,850
Net funds	3,000	(150)	-	2,850

(iii) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2013 £000	2012 £000
Operating profit	18,471	33,829
Depreciation charges	2,023	810
Amortisation of intangible fixed assets	3,025	1,618
(Increase)/Decrease in stocks	(2,079)	1,180
Decrease/(increase) in debtors	89	(59,757)
Increase in creditors	4,825	3,024
Net cash inflow/(outflow) from operating activities	26,354	(19,296)

Notes to the cash flow statement *(continued)*
for the year ended 30 September 2013

(iv) Returns on investments and servicing of finance

	2013 £000	2012 £000
Interest received	-	6,553
Currency (loss)/gain	(396)	(524)
Interest paid	(5)	(29)
	<u>(401)</u>	<u>6,000</u>

(v) Capital expenditure

	2013 £000	2012 £000
Purchase of intangible fixed assets	(10,343)	(3,805)
Purchase of tangible fixed assets	(5,697)	(1,933)
	<u>(16,040)</u>	<u>(5,738)</u>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, as modified by the revaluation of certain tangible fixed assets.

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 which are publicly available. These financial statements present information about the company as an individual undertaking and not about its group.

Related party transactions

The company is a wholly owned subsidiary of Tunstall Healthcare Group Limited and has taken advantage of the exemption within FRS 8 not to disclose transactions with entities that are part of that group, as the financial statements of that company are publicly available.

Tangible fixed assets and depreciation

Freehold property is stated at historical cost less accumulated depreciation. Other fixed assets are stated at cost less depreciation. Depreciation is provided to write off the cost of the assets over their estimated useful lives as follows:

Freehold buildings	-	2% straight line
Plant, fixtures and vehicles	-	10% - 33% straight line

No depreciation is provided on freehold land.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Stocks

Stocks are stated at the lower of cost and net realisable value on a first in, first out basis. Work in progress and finished goods include an appropriate proportion of attributable labour and overheads.

Installation contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Payments received on account in excess of work done and work in progress are included within creditors.

Warranty

Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provision is made for labour, material and related overhead costs necessary to repair product that has been returned by customers for in-warranty repairs. Provision is made as a percentage of sales revenue, at rates based on historical returns and repair costs.

Notes (continued)

1 Accounting policies (continued)

Cash and liquid resources

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are rather readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise of term deposits of less than one year.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the estimated useful economic lives of the assets to which they relate.

Where the grant is awarded as a contribution towards costs expensed, the grant receivable in the period is matched against costs incurred and credited to the profit and loss account in the period.

Turnover

Turnover is stated net of value added tax, trade discounts and returns. Installation income represents the value of work done on contracts within the year. Maintenance and monitoring income is recognised on a straight line basis over the contract life. Rental income is recognised on a straight line basis over the period of the lease. All other sales are recognised on despatch or on the transfer of legal title.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Pension costs

The company participates in the Tunstall Group Limited Pension Scheme, which is a funded pension scheme providing benefits based on final pensionable pay. The scheme was closed to future accrual on 31 July 2013. The assets of the scheme are held separately from those of the group. Because the company is unable to identify its share of the scheme assets on a consistent and reasonable basis, as permitted by FRS 17: 'Retirement benefits', the scheme has been accounted for in these financial statements as if it were a defined contribution scheme.

The company also 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 profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Research and development expenditure

Development expenditure is capitalised only where there is a clearly defined project, the expenditure is separately identifiable, the outcome of the project can be assessed with reasonable certainty, aggregate costs are not expected to exceed related future sales and adequate resources exist to enable the project to be completed. Capitalised research and development expenditure is written off over a four year period.

Expenditure not meeting this criteria is written off to the profit and loss account in the year in which it is incurred.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences, except as otherwise required by FRS 19.

Notes (continued)

2 Segmental information

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

	2013 £000	2012 £000
<i>Analysis of turnover by country of destination:</i>		
United Kingdom	68,168	70,064
Other European countries	17,416	24,488
Rest of the world	3,972	3,355
	<u>89,556</u>	<u>97,907</u>

3 Costs and overheads

	2013 £000	2012 £000
Movement in stocks	(2,079)	1,180
Raw materials and consumables	31,435	31,290
Other external charges	8,407	8,740
Staff costs	23,454	20,440
Depreciation and amortisation	5,048	2,428
	<u>66,265</u>	<u>64,078</u>

4 Profit on ordinary activities before taxation

	2013 £000	2012 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Research and development costs	1,300	829
Operating lease rentals:		
Land and buildings	94	94
Motor vehicles	1,550	1,648
Auditor's remuneration:		
Audit of these financial statements pursuant to legislation	150	135
Taxation services	20	19
	<u> </u>	<u> </u>

In 2013, audit fees of £150,000 (2012:£135,000), together with tax compliance fees of £20,000 (2012:£18,750) were recharged to the company.

Notes (continued)

5 Remuneration of directors

The directors received the following emoluments for their services to the company and its subsidiaries:

	2013 £000	2012 £000
Directors' emoluments	560	381
Pension contributions in respect of money purchase schemes	29	22
	<u>589</u>	<u>403</u>
Highest paid director:		
Emoluments	216	167
Pension contributions in respect of money purchase schemes	13	10
	<u>229</u>	<u>177</u>

No directors (2012: none) accrued benefits under the defined benefit pension scheme in respect of qualifying services during the year. Four directors (2012: three) accrued benefits under defined contribution schemes. Three directors (2012: two) were paid through another group company.

6 Staff numbers and costs

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

	Number of employees	
	2013	2012
Production and distribution	285	395
Sales and administration	322	223
Research and development	48	39
	<u>655</u>	<u>657</u>

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	19,392	17,428
Social security costs	2,007	1,658
Other pension costs	1,396	1,354
Compensation for loss of office	659	-
	<u>23,454</u>	<u>20,440</u>

7 Interest receivable and similar income

	2013 £000	2012 £000
Bank interest	-	9
Interest from parent undertakings	11,280	6,539
Interest from other group companies	-	5
	<u>11,280</u>	<u>6,553</u>

Notes (continued)

8 Interest payable and similar charges

	2013 £000	2012 £000
Bank interest	5	29
Currency loss	396	524
	<u>401</u>	<u>553</u>

9 Taxation

Analysis of charge in year

	2013 £000	2012 £000
<i>UK corporation tax</i>		
Current year	8,552	10,224
Adjustments in respect of prior years	-	(143)
	<u>8,552</u>	<u>10,081</u>
<i>Deferred tax</i>		
Current year	(435)	(168)
Adjustments in respect of prior years	(147)	31
Impact of deferred tax rate change	361	156
	<u>8,331</u>	<u>10,100</u>

Factors affecting the tax charge for the current year

The current tax charge for the period is higher (2012: higher) than the standard rate of corporation tax in the UK of 23.5% (2012: 25%). The differences are explained below.

	2013 £000	2012 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	29,350	39,829
	<u>6,897</u>	<u>9,957</u>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	1,221	99
Capital allowances less than depreciation	441	168
Other timing differences	(7)	-
Adjustments in respect of prior years	-	(143)
	<u>8,552</u>	<u>10,081</u>

Factors affecting future tax charges

The tax charge in future periods will be affected by the group's ability to utilise its deferred tax asset as set out in note 16.

Notes (continued)

10 Intangible fixed assets

	Research and development expenditure £000
Cost	
At beginning of year	10,276
Additions	10,343
	<hr/>
At end of year	20,619
	<hr/>
Amortisation	
At beginning of year	2,124
Charge for year	3,025
	<hr/>
At end of year	5,149
	<hr/>
Net book value	
At 30 September 2013	15,470
	<hr/>
At 30 September 2012	8,152
	<hr/>

11 Tangible fixed assets

	Freehold property £000	Plant, fixtures and vehicles £000	Total £000
Cost or valuation			
At beginning of year	5,427	23,789	29,216
Additions	14	5,683	5,697
Revaluation to historical cost basis	(544)	-	(544)
	<hr/>	<hr/>	<hr/>
At end of year	4,897	29,472	34,369
	<hr/>	<hr/>	<hr/>
Depreciation			
At beginning of year	1,641	19,989	21,630
Charge for year	122	1,901	2,023
	<hr/>	<hr/>	<hr/>
At end of year	1,763	21,890	23,653
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 September 2013	3,134	7,582	10,716
	<hr/>	<hr/>	<hr/>
At 30 September 2012	3,786	3,800	7,586
	<hr/>	<hr/>	<hr/>

No assets are held under finance lease (2012: nil).

Freehold property was previously accounted for using a revaluation policy. The directors consider that a move back to historic cost accounting provides a fairer reflection of the carrying value. Consequently, the amount held within the revaluation reserve has been released against the cost of freehold property. This adjustment is not considered material.

Notes (continued)

12 Fixed asset investments

The company owns the entire issued share capital of the following companies, all of which are dormant companies registered in England and Wales:

Tunstall Central Services Limited
 Tunstall International Limited
 Tunstall Electronics Limited
 Tunstall Response Limited

13 Stocks

	2013 £000	2012 £000
Raw materials	938	446
Work in progress	900	594
Contract work in progress	566	574
Finished goods	3,757	2,468
	<u>6,161</u>	<u>4,082</u>

14 Debtors

	2013 £000	2012 £000
Due within one year:		
Trade debtors	10,884	14,488
Amounts owed by other group undertakings	163,028	143,484
Prepayments	809	5,558
Due after one year:		
Deferred tax (see note 16)	2,023	1,802
	<u>176,744</u>	<u>165,332</u>

Included within amounts owed by other group undertakings are certain loans which are repayable on demand and bear interest at a rate which reflects the cost of borrowing of the group.

Notes (continued)

15 Creditors: amounts falling due within one year

	2013 £000	2012 £000
Trade creditors	8,519	7,067
Amounts owed to other group undertakings	13,374	6,982
Corporation tax	8,552	10,063
Other taxes and social security	3,744	2,323
Accruals and deferred income	4,479	8,893
	<u>38,668</u>	<u>35,328</u>

Amounts owed to other group undertakings are repayable on demand and bear interest at a rate which reflects the cost of borrowing of the group.

16 Provisions for liabilities and charges

	Warranty provision £000	Deferred tax £000
At beginning of year	262	(1,802)
Utilised	(262)	-
Charge/(credit) to the profit and loss account in the year	236	(221)
At end of year	<u>236</u>	<u>(2,023)</u>

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

The company has the following recognised deferred tax assets at 20% (2012: 23%):

	Recognised	
	2013 £000	2012 £000
Excess book depreciation over tax allowances on fixed assets	1,976	1,742
Other timing differences	47	60
	<u>2,023</u>	<u>1,802</u>

There are no unrecognised deferred tax assets.

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 as disclosed in note 14.

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and from 21% to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. These will reduce the company's future UK tax charge accordingly and have been taken account when performing the relevant deferred tax calculations.

Notes (continued)

17 Called up share capital

	2013 £000	2012 £000
<i>Allotted, called up and fully paid:</i>		
150,000 ordinary shares of £1 each	150	150

18 Reserves

	Share capital £000	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
At beginning of year	150	3	578	151,831
Profit for the financial year	-	-	-	21,019
Other movements	-	-	(34)	34
Write down fixed assets to historical cost basis	-	-	(544)	-
At end of year	150	3	-	172,884

Freehold property was previously accounted for using a revaluation policy. The directors consider that a move back to historic cost accounting provides a fairer reflection of the carrying value. Consequently, the amount held within the revaluation reserve has been released against the cost of freehold property.

19 Shareholders' funds

	2013 £000	2012 £000
Opening equity shareholders' funds	152,562	122,833
Profit for the financial year	21,019	29,729
Revaluation of fixed assets to historical cost basis	(544)	-
Closing shareholders' funds	173,037	152,562

Notes (continued)

20 Guarantees and other financial commitments

(a) Operating lease commitments

At 30 September 2013, the company had the following commitments outstanding:

	Land and buildings		Plant, machinery and vehicles	
	2013 £000	2012 £000	2013 £000	2012 £000
Minimum annual lease rentals under operating leases which expire:				
Within one year	1	5	412	604
Within two to five years	28	-	742	1,070
After five years	89	89	-	-
	<u>118</u>	<u>94</u>	<u>1,154</u>	<u>1,674</u>

The leases of land and buildings are subject to rent reviews at various intervals specified in the leases.

(b) Contingencies

At 30 September 2013, the company had contingent liabilities in respect of performance bonds totalling £450,723 (2012: £730,000) given to certain of its customers by the group's bankers.

(c) Security

The assets of the company are pledged by TGH Finance Limited to their bankers as security against loans.

21 Pension scheme

The company is a member of a larger group wide pension scheme providing benefits based on final pensionable pay. Because the company is unable to identify its share of the scheme assets on a consistent and reasonable basis, as permitted by FRS 17 "Retirement benefits", the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme. The scheme was closed to new entrants from 1 January 2002, with new employees offered defined contribution arrangements under the company stakeholder scheme. On 31 July 2013 the scheme was closed to future accrual, following a consultation period with active members. A curtailment gain of £2,653,000 was realised on closure of the scheme.

As at 30 September 2013, the scheme had net liabilities amounting to £10.4 million (2012: £8.9 million). The Group are taking steps to manage and reduce this deficit over the forthcoming year.

The latest actuarial valuation was carried out at 6 April 2012 and was updated for FRS 17 purposes to 30 September 2013, by a qualified independent actuary. The regular contributions for the year were £781,000 (2012: £827,000). Additional contributions of £892,000 (2012: £768,000) have been paid in the period to reduce the pension deficit. Prior to scheme closure on 31 July 2013, the employer contribution rates to the defined benefit scheme were 10% (2012: 10.0%). From 1 August 2013, following scheme closure, the employer contributions to the scheme were 0%, but the Company continued to pay the deficit reduction contributions. Contributions for the year ended September 2014 are expected to be £936,000.

The company also paid £856,000 (2012: £526,000) in respect of defined contribution arrangements. The accrued contributions at the end of the financial year were £117,700 (2012: £89,500).

Notes *(continued)*

22 Ultimate parent company

The ultimate holding company is Tunstall Healthcare Group Limited.

The results of the company are consolidated into the financial statements of Tunstall Group Limited. The consolidated financial statements of that group may be obtained from Tunstall Group Limited, Whitley Lodge, Whitley Bridge, Yorkshire DN14 0HR or from the Registrar of Companies.

The results of the company are also consolidated into the financial statements of Tunstall Healthcare Group Limited, which are filed with the Registrar of Companies.