

Registration number: 01332249

# Tunstall Healthcare (UK) Limited

Annual Report and Financial Statements

for the Year Ended 30 September 2020



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## Strategic Report for the Year Ended 30 September 2020

The Directors present their Strategic Report for the year ended 30 September 2020.

### Principal activity

The principal activity of Tunstall Healthcare (UK) Limited (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 Integrated Healthcare Holdings Limited) manufacturing, Innovation and Development and Product Management activities, developing and selling the Group's products and services to all the Group's operations across the globe.

### Review of the business

#### *Financial performance*

Revenue for the year at £88,507,000 (2019: £100,115,000) has decreased from the prior year, primarily as a result of the impact of COVID-19. Export revenues, wholly relating to trade with other Group companies, decreased to £27,601,000 (2019: £31,929,000). Operating profit for the year amounted to £12,469,000 (2019: £16,833,000).

The core UK business revenue of £60,906,000 reduced by 10.7% year on year (2019: £68,186,000).

The UK Connected Care market has been significantly impacted by the COVID-19 pandemic, in particular Group Living Installations, which made up £6.2m of the year on year decline of £7.3m. This was primarily due to the closure of construction sites and the inability to access Assisted Living schemes housing vulnerable residents. Independent Living ("IL") Equipment revenues were also adversely impacted (-2.3%), with local authorities increasing stock levels during March in anticipation of increased demand, however due to the impact of COVID-19 self isolation and social distance requirements, this stock was unable to be deployed. This led to a downturn in sales from April to July, however signs of recovery began in August and this has continued into the new financial year.

Despite the pandemic, outsourced Managed Services continued to deliver year on year, with revenues increasing by 4.4%. This has mainly been driven by growth in existing customer contracts. Pressure on public funding budgets against an ever-increasing demand for care services continues to drive the need for Local Authorities to improve utilisation of their scarce resources and an imperative to realise efficiency driven cost savings. These factors contribute to a strong market demand for outsourced Managed Services solutions and in turn a healthy pipeline for the UK business.

IL Software revenues were also impacted over the period of UK lockdown, with Alarm Receiving Centres focussed on providing services, rather than deployment of new software. As the effects of the pandemic eased over the summer, August and September saw increased deployments of the latest alarm calls handling software (PNC 8.2). Further development of TSP (Tunstall Services Platform), adding additional functionality, is expected to drive strong growth in the year to 30 September 2021, delivering secured recurring revenues for future years.

Digital Health revenues increased by 13.7% in the year to 30 September 2020, with the launch of a new cloud-based service and the ability for customers to use their own devices delivering growth in both existing customer contracts and attracting new customers. The COVID-19 pandemic has also stimulated interest in Integrated Care Platform ("ICP") software, with customers now looking at new use cases, i.e. monitoring of eating disorders and MyKiosk. It is anticipated that this will generate growth in the Digital Health market in the year to 30 September 2021 and beyond.

The Company's operating profit before charging depreciation, amortisation and exceptional items ("Adjusted EBITDA" as reconciled on Page 2) for the year was £24,959,000 (2019: £27,403,000), a decrease of 8.9%. The adjusted EBITDA margin has increased to 28.2% (2019: 27.4%) due to product mix along with the impact of the adoption of IFRS 16. Administration costs have increased to £33,093,000 in the year (2019: £32,563,000).

## Strategic Report for the Year Ended 30 September 2020 (continued)

### Review of the business (continued)

#### Financial performance (continued)

The Company secures its funding from fellow Group companies. There is now a single financial covenant with which the Group was compliant over the period to 30 September 2020.

#### Depreciation and amortisation

The depreciation charge for the year was £2,620,000 (2019: £2,279,000). Amortisation of development expenditure and software for the year amounted to £8,190,000 (2019: £6,874,000), as the Group continued to develop its Connected Care and Connected Health solutions with a particular focus on IP technology.

#### Exceptional items

The Company incurred a net exceptional charge of £1,680,000 in the year ended 30 September 2020 (2019: £1,417,000). Whilst it is not possible to accurately quantify the total impact of COVID-19 on the performance of the Company, incremental costs in relation to additional personnel costs and protective equipment of £385,000 were incurred in the year. Management consider these to be exceptional in nature and have therefore presented them as such in the financial statements.

In addition, restructuring costs of £1,295,000 were incurred as part of the Group's initiative to deliver significant cost and operational efficiencies to support the implementation of the Group's growth strategy.

#### Profit on ordinary activities before taxation

The Company achieved profit on ordinary activities before taxation of £26,741,000 (2019: £31,294,000) as a result of a decline at adjusted EBITDA level to £24,959,000 (2019: £27,403,000); increased exceptional costs of £1,680,000 (2019: £1,417,000); increased impairment of non-current assets £816,000 (2019: £274,000) and increased net finance income of £15,088,000 (2019: £14,735,000), along with increased amortisation of development expenditure and computer software of £8,190,000 (2019: £6,874,000).

#### Net finance income

Finance income in the year was £15,493,000 (2019: £14,735,000) and was derived from loans to Group companies. Finance costs in the year were £405,000 and were mainly due to foreign exchange losses (2019: £nil). An analysis of finance income and finance costs is shown in notes 6 and 7 of the financial statements.

#### Taxation

The taxation charge for the year was £3,266,000 (2019: £4,124,000). The rate of taxation for the year was 19.0% (2019: 19.0%).

#### 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	2020	2019
Revenue	£m	88.51	100.12
Adjusted EBITDA	£m	24.96	27.40
Adjusted EBITDA margin	%	28.20	27.40

- Revenue for the year at £88,507,000 (2019: £100,115,000) has decreased from the prior year primarily as a result of the impact of COVID-19 on both intercompany export revenues and core UK business revenue.
- Adjusted EBITDA for the year was £24,959,000 (2019: £27,403,000), a decrease of 8.9% (2019: 2.4%).
- Adjusted EBITDA margin of 28.2% (2019: 27.4%) increased due to change in product mix along with the impact of the adoption of IFRS 16.

The Directors expect the Company to continue with the same principal activities for the foreseeable future.

## Strategic Report for the Year Ended 30 September 2020 (continued)

### Review of the business (continued)

#### Key performance indicators (continued)

#### Reconciliation of non-statutory measures

	2020 £ 000	2019 £ 000
Operating profit as reported	12,469	16,833
Depreciation and amortisation	10,810	9,153
Exceptional items	1,680	1,417
Adjusted EBITDA	<u>24,959</u>	<u>27,403</u>

### Going concern

These financial statements have been prepared on a going concern basis. The Directors consider this to be appropriate for the following reasons.

The Directors have prepared detailed cash flow forecasts that extend to 31 March 2022. The forecasts consider the Directors' views of current and future economic conditions that are expected to prevail over the period.

The forecasts indicate the Company is able meet its liabilities as they fall due throughout the period to 31 March 2022. The key factors considered in reaching this conclusion are summarised below:

- The fact that the wider Group completed the refinancing of its banking facilities during August 2020.
- In performing their assessment the directors have considered the impact of COVID-19 in the forecasts and have adjusted assumptions accordingly.
- In addition, the directors have considered a severe but plausible downside scenario which models the impact of risks to the base case forecast such as product delays, depressed demand, contract losses and increased margin pressure amongst others. In this downside scenario the directors have not assumed any further government support or cost.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

### 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 leverage IP-connected technology
- Growing and enhancing our Managed Services offering
- Accelerating growth in remote patient monitoring and support

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

## **Strategic Report for the Year Ended 30 September 2020 (continued)**

### **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 solution, 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 60 years of experience delivering health and social care solutions
- Ability to access a pan European footprint and leadership position in key markets through the Tunstall Group's operations in twelve countries, with 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 Innovation & Development and Operations functions for the wider Tunstall Group operating as a Shared Service Centre from the Company's UK headquarters. The Company's Innovation & Development function develops new products to support the product and service 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.

### **Business environment**

The Company's core markets are underpinned by strong demographics, with the global population of people aged 65+ expected to grow at three times that of the overall population, a 25% increase in chronic diseases in the 65+ age group from 2015 to 2025, and a more than 50% old age dependency ratio in the EU by 2070.

Age is one of the major contributing factors to long term conditions. Increasing numbers of patients with chronic long term conditions is a global phenomenon, which is presenting major challenges for all advanced health systems. Patients with long term conditions typically represent 30% of the population but consume 70% of health resources and many patients have multiple chronic conditions (MCC) and in these instances the demand on healthcare increases at a disproportionate rate. The challenges in delivering healthcare for an ageing population presents cost, capacity and frequently systems issues for most countries.

In addition, Health and Social care budgets remain under pressure to deliver the required levels of care when faced with ever increasing demand. Care commissioners and providers continue to face significant pressure to deliver more and better care services, for less. This pressure will inevitably lead them to focus on value for money and the quality of service provision which is where the Company excels.

## Strategic Report for the Year Ended 30 September 2020 (continued)

### Business environment (continued)

The consumerisation of technology enabled care products could present a threat to international standards and compliance with protocols for hardware in the social and healthcare market. However, the market is moving towards a managed service model with service providers taking on core services previously provided by government funded organisations. IP technology and the Internet of Things is expected to help drive efficiency in this transitioning market. Therefore, positioning as a technology and device agnostic provider with the ability to interface and manage a diverse network of digital care devices, while aggregating the resultant data created to provide innovative and predictive services will drive a new model of care delivery. This combined with the highly regulated critical alarm communication pathways over an end to end digital infrastructure positions the Company favourably to benefit from market and technology transition.

To address these market trends the Company successfully launched a new IP-enabled Smart Hub carephone for people living in their own home in addition to a new integrated IP monitoring platform (PNC8), enabling end to end IP care services, optimising workflow through the use of improved data analytics. The Company also invested in a global data services platform that will enable the Company to develop responsive products and services utilising multiple data sources and devices at pace. This gives the Company the ability to respond to emerging market requirements more quickly and deliver consolidated value propositions across the Company's software and services portfolio.

The Company is therefore well placed to take advantage of the growth opportunities in its core markets by adapting to the changing needs of its customers and the technological landscape and continuing to deliver care services of higher quality with improved outcomes at best value for our customers.

### 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 products the Company manufactures utilise components principally denominated in GBP, EUR and USD. 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 structural and 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 and in the case of US Dollar exposure through the purchase of US Dollar forward contracts.

#### *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 Innovation 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. Partnerships and coalitions with multiple stakeholders and companies with merging technologies are critical and investment in the global data services platform to enable this connectivity in an easy to use manner has been and will continue to be critical to our success.

## Strategic Report for the Year Ended 30 September 2020 (continued)

### Brexit

On June 23, 2016, the United Kingdom ("UK") held a referendum in which voters approved for the UK to leave the European Union ("EU") ("Brexit"). The UK officially left the EU on January 31, 2020, entering into a 'transition period' that is set to last until December 31, 2020. At the time of this report, the UK government and the EU have agreed, amongst other things, a Trade and Cooperation Agreement and continue to explain the terms of the UK's future relationship with the EU.

Uncertainty over these terms could cause volatility in global stock markets and further devaluation of Sterling against the foreign currencies (principally the Euro, and Swedish Kroner) in which we conduct business. Furthermore, it is possible that there will be greater restrictions on imports and exports between the U.K. and E.U. countries, increased regulatory complexities and impact on the availability of markets and market access rights that could affect the Company. These changes may adversely affect the Company's operations and financial results. The Directors are fully aware of the risks of Brexit and are engaged in planning to deal with those risks as appropriate. Processes are in place to deal with the additional administrative requirements of Brexit post 1 January 2021.

### COVID-19

In early 2020, an outbreak of the novel strain of coronavirus ("COVID-19") emerged globally. There have been mandates from governments and local authorities worldwide that have resulted in an overall decline in economic activity across the globe. The Company has reacted swiftly to ensure continuation of its critical health and care management services in the community and new propositions are being developed to enable rapid deployments to ensure the Group can contribute to the solution to this global crisis.

This has impacted the financial performance of the Company in 2020 and will continue to do so in 2021 - driven largely by a reduction in deployment activity due to a lack of access to end users and community settings during global lockdown. The Company remains in a strong financial position however and well placed to react to future changes in its markets as a result of the crisis.

### S172 Companies Act 2006

In accordance with Section 172 of the Companies Act 2006, the Board takes its responsibility to promote the success of the Company and the Group very seriously. The Board understands that the future of the business depends on its relationships and dealings with its stakeholder groups, and as such consider the following in all decision making:

- The long term consequences of any decisions;
- The interest of the company's employees;
- Building, maintaining and improving relationships with external investors, shareholders, suppliers, customer, end users and other stakeholders;
- Environmental impact of the operations of the Company; and
- The requirement to treat all stakeholders and members of the company equally.

Where possible, the Directors take into account the views and interests of a wider set of stakeholders when making decisions, however, it is not always possible to make decisions to please all of the stakeholders, and the Board will balance those difference perspectives in the formation of their short-term decisions and longer term strategies.

Monthly board meetings are held at which a standing agenda of points and papers are presented. In addition the board will undertake strategic reviews throughout the year. An annual budget process is undertaken and reviewed by the board, along with more frequent regular reviews of the progress towards those targets.

Shareholders receive monthly financial information from the business as well as presentations from management on a regular basis.

Environmental matters are considered in conjunction with the Health Safety and Environmental committee.



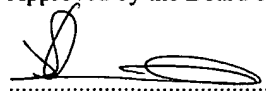
**Strategic Report for the Year Ended 30 September 2020 (continued)**

**S172 Companies Act 2006 (continued)**

The Company envisages having regular engagement with both customers and suppliers.

Employee engagement is discussed further in the Directors Report.

Approved by the Board on 2 February 2021 and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'Jon Furniss', is written over a horizontal dotted line.

Jon Furniss  
Company secretary

## **Directors' Report for the Year Ended 30 September 2020**

The report and the financial statements for the year ended 30 September 2020.

Tunstall Healthcare (UK) Limited (the 'Company') has chosen in accordance with Section 414c(11) of the Companies Act 2006, to set out in the Strategic Report, information that would otherwise be required to be contained in the Directors' Report.

### **Directors of the Company**

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

G Bashar

L Robinson

E Quinn

G Sutherland

K Heaton (resigned 14 November 2019)

S Belfield (appointed 14 November 2019)

L Kenworthy (appointed 11 May 2020)

### **Qualifying third party indemnity provisions**

Certain Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

### **Financial risk policy**

The Company's financial risk policy is disclosed in the Strategic Report.

### **Dividend**

The dividends paid during the year were £nil (2019: £4,045,000). The Directors do not propose the payment of a final dividend (2019: £nil).

### **Political contributions**

The Company made no political donations and did not incur any political expenditure during the year (2019: £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.

## **Directors' Report for the Year Ended 30 September 2020 (continued)**

### **SECR reporting**

Under the Streamline Energy and Carbon Reporting (SECR) framework under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, the Company is not required to report its emissions as they are included in those of the consolidated Group accounts of Tunstall Group Holdings Limited.

### **Disclosure of information to the auditor**

Each Director has taken steps that he/she ought to have taken as a Director in order to make himself/herself 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.

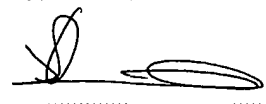
### **Other information**

An indication of likely future developments in the business has been shown in the Strategic Report.

### **Re-appointment 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 2 February 2021 and signed on its behalf by:



.....  
Jon Furniss  
Company secretary

Whitley Lodge  
Whitley Bridge  
Doncaster  
DN14 0HR

## **Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements**

The Directors are responsible for preparing the Strategic Report, the 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 financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company, cease operations or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TUNSTALL HEALTHCARE (UK) LIMITED**

## **Opinion**

We have audited the financial statements of Tunstall Healthcare (UK) Limited ("the company") for the year ended 30 September 2020 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2020 and its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

## **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; 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**

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

#### **Directors' responsibilities**

As explained more fully in their statement set out on page 10, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

#### **The purpose of our audit work and to whom we owe our responsibilities**

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.



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

3 February 2021

**Income Statement for the Year Ended 30 September 2020**

	Note	2020 £ 000	2019 £ 000
Revenue	4	88,507	100,115
Cost of sales		<u>(42,945)</u>	<u>(50,719)</u>
Gross profit		45,562	49,396
Administrative expenses		<u>(33,093)</u>	<u>(32,563)</u>
<b>Operating profit</b>	5	<u>12,469</u>	<u>16,833</u>
<b>Analysed as:</b>			
Operating profit before charging depreciation and amortisation and exceptional items ("Adjusted EBITDA")	5	24,959	27,403
Depreciation and amortisation	5	(10,810)	(9,153)
Exceptional items	5	(1,680)	(1,417)
Impairment of non-current assets	14	(816)	(274)
Finance income	6	15,493	14,735
Finance costs	7	<u>(405)</u>	<u>-</u>
Net finance income		<u>15,088</u>	<u>14,735</u>
<b>Profit before tax</b>		26,741	31,294
Income tax expense	11	<u>(3,266)</u>	<u>(4,124)</u>
<b>Profit for the year</b>		<u>23,475</u>	<u>27,170</u>

The above results were derived from continuing operations.

**Statement of Comprehensive Income for the Year Ended 30 September 2020**

	<b>2020</b>	<b>2019</b>
	<b>£ 000</b>	<b>£ 000</b>
Profit for the year	<u>23,475</u>	<u>27,170</u>
Total comprehensive income for the year	<u><u>23,475</u></u>	<u><u>27,170</u></u>



**Statement of Financial Position as at 30 September 2020**

	Note	2020 £ 000	2019 £ 000
<b>Non-current assets</b>			
Property, plant and equipment	12	7,581	6,979
Intangible assets	14	37,826	31,730
Investments	15	-	-
Deferred tax assets	11	5,055	4,150
Amounts owed by Group undertakings	17	285,313	263,365
		<u>335,775</u>	<u>306,224</u>
<b>Current assets</b>			
Inventories	16	4,794	4,345
Trade and other receivables	17	13,052	16,941
Income tax asset	17	498	430
Cash and cash equivalents		3,369	4,413
		<u>21,713</u>	<u>26,129</u>
<b>Total assets</b>		<u>357,488</u>	<u>332,353</u>
<b>Current liabilities</b>			
Trade and other payables	18	(19,779)	(18,009)
Loans and borrowings	19	(2,478)	(1,657)
Income tax liability	11	(4,113)	(5,037)
Derivative financial instruments	21	(287)	-
Deferred income		(4,143)	(4,979)
Provisions	21	(112)	(144)
		<u>(30,912)</u>	<u>(29,826)</u>
<b>Net current liabilities</b>		<u>(9,199)</u>	<u>(3,697)</u>
<b>Total assets less current liabilities</b>		<u>326,576</u>	<u>302,527</u>
<b>Non-current liabilities</b>			
Loans and borrowings	19	(1,242)	(668)
<b>Total liabilities</b>		<u>(32,154)</u>	<u>(30,494)</u>
<b>Net assets</b>		<u>325,334</u>	<u>301,859</u>
<b>Equity</b>			
Share capital	22	150	150
Share premium		3	3
Retained earnings		325,181	301,706
<b>Equity attributable to owners of the Company</b>		<u>325,334</u>	<u>301,859</u>

The notes on pages 18 to 44 form an integral part of these financial statements.

**Statement of Financial Position as at 30 September 2020 (continued)**

Approved by the Board on 2 February 2021 and signed on its behalf by:



.....  
L Robinson

Director

Registration number: 01332249

**Statement of Changes in Equity for the Year Ended 30 September 2020**

	<b>Share capital £ 000</b>	<b>Share premium £ 000</b>	<b>Retained earnings £ 000</b>	<b>Total £ 000</b>
At 1 October 2018	150	3	278,581	278,734
Profit for the year	-	-	27,170	27,170
Total comprehensive income	-	-	27,170	27,170
Dividends	-	-	(4,045)	(4,045)
<b>At 30 September 2019</b>	<b>150</b>	<b>3</b>	<b>301,706</b>	<b>301,859</b>
	<b>Share capital £ 000</b>	<b>Share premium £ 000</b>	<b>Retained earnings £ 000</b>	<b>Total £ 000</b>
At 1 October 2019	150	3	301,706	301,859
Profit for the year	-	-	23,475	23,475
Total comprehensive income	-	-	23,475	23,475
Dividends	-	-	-	-
<b>At 30 September 2020</b>	<b>150</b>	<b>3</b>	<b>325,181</b>	<b>325,334</b>

## Notes to the Financial Statements for the Year Ended 30 September 2020

### 1 General information

Tunstall Healthcare (UK) Limited (the 'Company') is a private company limited by share capital incorporated in England and Wales and domiciled in the United Kingdom.

The address of its registered office is:

Whitley Bridge  
Yorkshire  
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

These financial statements for the year ended 30 September 2020 have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

The financial statements are prepared on the historical cost basis, modified for the revaluation of certain financial assets and liabilities at fair value.

#### 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;
- Comparative period reconciliations for share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- 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.

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 2 Accounting policies (continued)

#### Summary of disclosure exemptions (continued)

As the consolidated financial statements of the parent Company, Tunstall Healthcare Group Holdings 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 IAS 36 - 'Impairment of assets' in respect of the impairment of goodwill and indefinite life intangible assets; and
- Certain disclosures required by IFRS 13 - 'Fair Value Measurement' and the disclosures required by IFRS 7 - 'Financial Instrument Disclosures'.

#### Standards and interpretations adopted by the Company in the year ended 30 September 2020

- IFRS 16: Leases (see note 26) This has been adopted using the modified retrospective method and as a result the comparatives have not been restated and are reported under IAS 17.
- IFRIC 23: Uncertainty over Income Tax Treatments.
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement.
- Amendments to IFRS 9: Prepayments Features with Negative Compensation.
- Annual Improvements to IFRS Standards 2015-2017 Cycle.

All the above standards and interpretations have been adopted by the group on 1 October 2019. Other than the change under IFRS 16 highlighted in note 26 none of the new standards and interpretations have had a significant impact on the financial performance and position of the Group. Comparative financial information has therefore not been restated.

#### New standards and interpretations issued but not yet effective and not early adopted

The following adopted IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements:

- IFRS 17 Insurance Contracts (effective date to be confirmed)
- Amendments to References to the Conceptual Framework in IFRS Standards (effective date 1 January 2020).
- Amendments to IFRS 3: Definition of a Business (effective date to be confirmed).
- Amendments to IAS 1 and IAS 8: Definition of Material (effective date 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective date to be confirmed).

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Company.

Other new standards and interpretations in the year have not been included in the list above as they are not considered relevant for the Company.

#### 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 Group Holdings 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.

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 2 Accounting policies (continued)

#### Going concern

The Strategic Report on pages 1 to 7 outlines the business activities of the Company alongside the factors which may affect its future development and performance. The Company's financial position is discussed in the Business Review section of the Strategic Report along with details of its cash flow and liquidity. The Strategic Report also sets out the Company's financial risks and the management of those risks.

These financial statements have been prepared on a going concern basis. The Directors consider this to be appropriate for the following reasons.

The Directors have prepared detailed cash flow forecasts that extend to 31 March 2022. The forecasts consider the Directors' views of current and future economic conditions that are expected to prevail over the period.

The forecasts indicate that, taking into account of severe but plausible downsides, the Company is able meet its liabilities as they fall due throughout the period to 31 March 2022. The key factors considered in reaching this conclusion are summarised below.

- The fact that the wider Group completed the refinancing of its banking facilities during August 2020.
- In performing their assessment the directors have considered the impact of COVID-19 in the forecasts and have adjusted assumptions accordingly.
- In addition, the directors have considered a severe but plausible downside scenario which models the impact of risks to the base case forecast such as product delays, depressed demand, contract losses and increased margin pressure amongst others. In this downside scenario the directors have not assumed any further government support or cost mitigations.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

#### Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods or service supplied, stated net of discounts returns and value added tax. The Group recognises revenue when the performance obligations in the contract have been satisfied. This will be either at point in time, or over the period of the contract depending on the nature of the goods or service provided.

#### *Connected Care - Independent Living*

Revenue generated from equipment sales of Base Units and peripherals such as sensors and triggers is recognised at the point where 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, where the software sale constitutes a right to use the software in its existing state is recognised in line with the provision of the service with reference to contract milestones as a proxy for percentage of completion ("POC"). The software and installation are considered one performance obligation and recognised as such. In certain cases rights are granted to the software for use over a fixed period. In such cases the revenues are recognised on straight line over the period of the contract.

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 2 Accounting policies (continued)

#### Revenue recognition (continued)

##### *Connected Care - Group 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, which reflected the services supplied to that point in time.

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 in the case of a maintenance agreement, or, where such services are charged for on a time and material basis in accordance with the contract, on provision of the service.

##### *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, reflecting the fact that the delivery of the service is considered one performance obligation.

##### *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 sales generated from the sale of products and services contained under one contractual arrangement or Managed Services Contract. These are recognised as the service is provided.

#### Taxation

Current and deferred tax are recognised in the Income Statement as income tax expense or credit, except when the tax relates to items expensed 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 expense 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.

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 2 Accounting policies (continued)

#### Taxation (continued)

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 reporting 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 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.

#### 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 rate and method</i>
Freehold property	2% straight line
Furniture, fittings and equipment	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.



## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 2 Accounting policies (continued)

#### 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.

#### 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 rate and method</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.

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 2 Accounting policies (continued)

#### Financial instruments

##### (i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value to Profit and Loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

##### (ii) Classification and subsequent measurement

###### *Financial assets*

###### *(a) Classification*

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value to Profit and Loss ("FVOCI") - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Investments in subsidiaries are carried at cost less impairment.

###### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 2 Accounting policies (continued)

#### Financial instruments (continued)

##### (ii) Classification and subsequent measurement (continued)

###### *Financial assets (continued)*

###### *(b) Subsequent measurement and gains and losses*

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

###### *(b) Subsequent measurement and gains and losses (continued)*

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI - these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

###### *Financial liabilities and equity*

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 2 Accounting policies (continued)

#### Financial instruments (continued)

##### (iii) Derivative financial instruments and hedging

###### *Derivative financial instruments*

The Company uses derivative financial instruments mainly to reduce exposure to exchange rate movements. Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. In the current year no items qualified for hedge accounting.

##### (iv) Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

###### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

###### *Credit-impaired financial assets*

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

###### *Write-offs*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 2 Accounting policies (continued)

#### 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.

#### Deferred income

Where payments are received up front this is recognised as deferred income until the point the goods or services have been provided.

#### 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.

#### Leases (policy applicable before 1 October 2019)

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.

#### Leases (policy applicable from 1 October 2019)

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16.

#### *As a lessee*

At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Group accounts for each lease component separately from the non-lease components. The Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 2 Accounting policies (continued)

#### Leases (policy applicable from 1 October 2019) (continued)

##### *As a lessee (continued)*

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise,
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the Statement of Financial Position.

#### 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.

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 2 Accounting policies (continued)

#### 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.

### 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 for software and equipment sold by the Company is based on the percentage of completion ("POC") method. 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 asset's useful economic life and is 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.

#### 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.

### 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 ("Adjusted 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.

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 4 Segmental analysis (continued)

	2020 £ 000	2019 £ 000
<i>Analysis of revenue by destination:</i>		
United Kingdom	60,841	68,186
Other European Countries	27,191	31,022
Rest of the world	475	907
	<u>88,507</u>	<u>100,115</u>

### 5 Operating profit

Arrived at after charging:

	2020 £ 000	2019 £ 000
Depreciation expense	2,620	2,279
Amortisation expense	8,190	6,874
Research and development cost	3,770	3,856
Government grants	(347)	-
Exceptional items	<u>1,680</u>	<u>1,417</u>

Included within costs and overheads are operating exceptional items of £1,680,000 (2019: £1,417,000), £1,295,000 was 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. £385,000 related to certain additional costs incurred relating to COVID-19.

### 6 Finance income

	2020 £ 000	2019 £ 000
Interest income on bank deposits	-	12
Finance income from Group undertakings	15,493	14,678
Foreign exchange gains	-	45
	<u>15,493</u>	<u>14,735</u>

### 7 Finance costs

	2020 £ 000	2019 £ 000
Other interest	22	-
Interest on obligations under finance leases and hire purchase contracts	69	-
Fair value movement of financial instruments	287	-
Foreign exchange losses	<u>27</u>	<u>-</u>
	<u>405</u>	<u>-</u>



## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 8 Staff costs

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

	2020 £ 000	2019 £ 000
Wages and salaries	21,951	22,901
Social security costs	2,333	2,414
Pension costs	1,034	1,080
	<u>25,318</u>	<u>26,395</u>

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

	2020 No.	2019 No.
Production and distribution	259	263
Sales and administration	318	336
Research and development	71	61
	<u>648</u>	<u>660</u>

### 9 Directors' remuneration

Three Directors received the following emoluments for their services to the Company and its subsidiaries (2019: four). The remaining Directors were paid through Tunstall Group Holdings Limited and none of their remuneration has been allocated to this Company.

	2020 £ 000	2019 £ 000
Remuneration	519	615
Pension contributions in respect of money purchase schemes	34	34
Compensation for loss of office	-	107
	<u>553</u>	<u>756</u>

In respect of the highest paid Director:

	2020 £ 000	2019 £ 000
Remuneration	253	204
Pension contributions in respect of money purchase schemes	15	14
	<u>268</u>	<u>218</u>

No Directors (2019: none) accrued benefits under the defined benefit pension scheme in respect of qualifying services during the year. Three Directors (2019: four) accrued benefits under defined contribution schemes.

**Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)**

**10 Auditor's remuneration**

	<b>2020</b>	<b>2019</b>
	<b>£ 000</b>	<b>£ 000</b>
Audit of these financial statements	<u>115</u>	<u>115</u>

**11 Income tax**

Tax expensed in the income statement:

	<b>2020</b>	<b>2019</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Current taxation</b>		
UK corporation tax	4,113	5,037
UK corporation tax adjustment to prior periods	<u>58</u>	<u>(325)</u>
	<u>4,171</u>	<u>4,712</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	(388)	(473)
UK deferred tax adjustment to prior periods	(47)	(115)
Arising from changes in tax rates and laws	<u>(470)</u>	<u>-</u>
Total deferred taxation	<u>(905)</u>	<u>(588)</u>
Tax expense in the income statement	<u><u>3,266</u></u>	<u><u>4,124</u></u>

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 11 Income tax (continued)

The tax on profit before tax for the year is based on the UK statutory rate of corporation tax for the period of 19% (2019: 19%).

#### Factors affecting the tax charge for the current period

The differences are reconciled below:

	2020 £ 000	2019 £ 000
Profit for the year	23,475	27,170
Income tax expense	3,266	4,124
Profit before tax	26,741	31,294
Corporation tax at standard rate of 19% (2019: 19%)	5,081	5,946
UK corporation tax adjustment to prior periods	58	(325)
Expenses not deductible in determining taxable profit	(612)	(517)
Deferred tax - origination and reversal of timing differences	-	56
UK Deferred tax adjustment to prior periods	(47)	(115)
Impact of deferred tax rate change	(470)	-
Effect of adjustment in research development tax credit	65	69
Tax credit in relation to Patent Box	(809)	(990)
Total tax expense	3,266	4,124

#### Factors affecting future tax charges

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantially enacted on September 2016. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at 19% and not reduce to 17% from 1 April 2020. As a result the deferred tax liability as at the balance sheet date was measured at the enacted tax rate of 19% (2019: 17%).

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 11 Income tax (continued)

#### Deferred tax

The Company has deferred tax assets recognised at 19% (2019: 17%).

Deferred tax movement during the year:

	At 1 October 2019	Recognised in income	At 30 September 2020
	£ 000	£ 000	£ 000
Accelerated tax depreciation	4,083	796	4,879
Revaluation of intangible assets	(72)	31	(41)
Other items	139	78	217
Net tax assets	<u>4,150</u>	<u>905</u>	<u>5,055</u>

Deferred tax movement during the prior year:

	At 1 October 2018	Recognised in income	At 30 September 2019
	£ 000	£ 000	£ 000
Accelerated tax depreciation	3,642	441	4,083
Revaluation of intangible assets	(183)	111	(72)
Other items	103	36	139
Net tax assets	<u>3,562</u>	<u>588</u>	<u>4,150</u>

There are no unrecognised deferred tax assets (2019: 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 2020 (continued)**

**12 Property, plant and equipment**

	<b>Land and buildings £ 000</b>	<b>Furniture, fittings and equipment £ 000</b>	<b>Total £ 000</b>
<b>Cost or valuation</b>			
At 1 October 2018	6,031	27,216	33,247
Additions	140	1,827	1,967
Disposals	-	(436)	(436)
At 30 September 2019	6,171	28,607	34,778
<i>Recognition of right-of use assets on initial application of IFRS 16</i>	43	1,108	1,151
Additions	263	1,811	2,074
Disposals	-	(929)	(929)
At 30 September 2020	6,477	30,597	37,074
<b>Depreciation</b>			
At 1 October 2018	2,545	23,411	25,956
Charge for year	295	1,984	2,279
Eliminated on disposal	-	(436)	(436)
At 30 September 2019	2,840	24,959	27,799
At 1 October 2019	2,840	24,959	27,799
Charge for the year	369	2,251	2,620
Eliminated on disposal	-	(926)	(926)
At 30 September 2020	3,209	26,284	29,493
<b>Carrying amount</b>			
At 30 September 2020	3,268	4,313	7,581
At 30 September 2019	3,331	3,648	6,979
At 30 September 2018	3,486	3,805	7,291

**Land and buildings**

Included within the net book value of land and buildings above is £3,209,000 (2019: £3,227,000) in respect of freehold land and buildings.

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 12 Property, plant and equipment (continued)

At 30 September 2020 property, plant and equipment includes right-of use assets as follows:

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
<b>Right-of-use asset</b>			
At 30 September 2020	167	1,009	1,176

### 13 Right-of-use assets

Right-of-use assets related to leases properties that do not meet the definition of investment properties are presented as property, plant and equipment (see note 12).

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
<b>Cost</b>			
Assets under finance lease at 30 September 2019	-	-	-
<i>Recognition of right-of use assets on initial application of IFRS 16</i>	43	1,108	1,151
At 1 October 2019	43	1,108	1,151
Additions	193	567	760
<b>At 30 September 2020</b>	<b>193</b>	<b>567</b>	<b>760</b>
<b>Depreciation</b>			
Assets under finance lease at 30 September 2019	-	-	-
At 1 October 2019	-	-	-
Charge for the year	69	666	735
<b>At 30 September 2020</b>	<b>69</b>	<b>666</b>	<b>735</b>
<b>Carrying amount</b>			
<b>At 30 September 2020</b>	<b>167</b>	<b>1,009</b>	<b>1,176</b>

The following amounts have been recognised in the profit or loss for which the company is a lessee:

	<b>2020</b>
<b>Lease liabilities</b>	<b>£ 000</b>
Interest expense on lease liabilities	69
Expenses related to short term leases	142
	<b>211</b>
	<b>2019</b>
<b>Operating leases under IAS 17</b>	<b>£ 000</b>
Expenses related to short term leases	1,049

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 13 Right-of-use assets (continued)

#### Finance leases

	2020 £ 000	2019 £ 000
<b>Analysed as</b>		
Current liabilities	617	-
Non-Current liabilities	559	-
	<u>1,176</u>	<u>-</u>

### 14 Intangible assets

	Internally generated software development costs £ 000	Research and development £ 000	Total £ 000
<b>Cost or valuation</b>			
At 1 October 2018	3,292	57,014	60,306
Additions	<u>2,334</u>	<u>10,673</u>	<u>13,007</u>
At 30 September 2019	<u>5,626</u>	<u>67,687</u>	<u>73,313</u>
At 1 October 2019	5,626	67,687	73,313
Additions	<u>2,610</u>	<u>12,492</u>	<u>15,102</u>
At 30 September 2020	<u>8,236</u>	<u>80,179</u>	<u>88,415</u>
<b>Amortisation</b>			
At 1 October 2018	1,301	33,134	34,435
Amortisation charge	27	6,847	6,874
Impairment	<u>-</u>	<u>274</u>	<u>274</u>
At 30 September 2019	<u>1,328</u>	<u>40,255</u>	<u>41,583</u>
At 1 October 2019	1,328	40,255	41,583
Amortisation charge	90	8,100	8,190
Impairment	<u>-</u>	<u>816</u>	<u>816</u>
At 30 September 2020	<u>1,418</u>	<u>49,171</u>	<u>50,589</u>
<b>Carrying amount</b>			
At 30 September 2020	<u>6,818</u>	<u>31,008</u>	<u>37,826</u>
At 30 September 2019	<u>4,298</u>	<u>27,432</u>	<u>31,730</u>
At 30 September 2018	<u>1,991</u>	<u>23,880</u>	<u>25,871</u>

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 14 Intangible assets (continued)

#### Impairment review - Research and Development

The Directors have reviewed the carrying value of Research and Development at the reporting date. The recoverable amount of each project was based on its value in use with the calculations based on the financial plans approved by the Board covering a 3 year period to 2023. The discount rate is based on the Group's Weighted Average Cost of Capital ("WACC") at 12.53% (2019: 13.31%). The Directors have deemed that for future discounted cash flows do not support the carrying value of the asset. As such, an impairment of £816,000 was recognised for the year ended 30 September 2020 (2019: £274,000).

### 15 Investments

Subsidiaries	£ 000
<b>Cost or valuation</b>	
At 1 October 2018	-
At 30 September 2019 and 30 September 2020	-
<b>Carrying amount</b>	
At 30 September 2019 and 30 September 2020	-

At 30 September 2020, the Company's investments are as follows:

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%

All investments are direct investments of the Company rather than via a subsidiary.

The registered office for entities in the respective country of incorporation is as follows:

Country	Registered office
England	Whitley Lodge, Whitley Bridge, Doncaster, DN14 0HR, United Kingdom



## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 16 Inventories

	2020	2019
	£ 000	£ 000
Raw materials, spare parts and consumables	2,002	2,166
Work in progress	208	289
Finished goods and goods for resale	1,754	1,279
Contract work in progress	830	611
	<u>4,794</u>	<u>4,345</u>

The cost of inventories recognised as an expense in the year amounted to £24,012,000 (2019: £29,114,000).

The amount of write-down of inventories recognised as an expense in the year is £111,000 (2019: £195,000).

Both of these costs are included within cost of sales.

### 17 Trade and other receivables

#### Current

	2020	2019
	£ 000	£ 000
Trade receivables	9,109	10,438
Amounts owed by Group undertakings	1,598	4,297
Prepayments and other receivables	2,345	2,206
Total current trade and other receivables	<u>13,052</u>	<u>16,941</u>

#### Non-current

	2020	2019
	£ 000	£ 000
Amounts owed by Group undertakings	<u>285,313</u>	<u>263,365</u>

The Company applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses trade receivables have been grouped based on shared credit risk characteristics and days past due. The expected loss rates are based on historical payment profiles of sales and the corresponding historical credit losses experienced.

The Company has formal documented intercompany loan agreements. Under the terms of these agreements, interest is charged at a rate of 5% (2019: 6%). The loans are unsecured and repayable 12 months following written notice from the Company.

**Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)**

**18 Trade and other payables**

	<b>2020</b>	<b>2019</b>
	<b>£ 000</b>	<b>£ 000</b>
Trade payables	7,618	8,149
Accrued expenses	12,161	9,860
	<u>19,779</u>	<u>18,009</u>

**19 Loans and borrowings**

**Non-current loans and borrowings**

	<b>2020</b>	<b>2019</b>
	<b>£ 000</b>	<b>£ 000</b>
Finance lease liabilities	559	-
Amounts owed to group undertakings	683	668
	<u>1,242</u>	<u>668</u>

**Current loans and borrowings**

	<b>2020</b>	<b>2019</b>
	<b>£ 000</b>	<b>£ 000</b>
Other loans	49	-
Finance lease liabilities	617	-
Amounts owed to group undertakings	1,812	1,657
	<u>2,478</u>	<u>1,657</u>

The Company has formal documented intercompany loan agreements. Under the terms of the agreements, interest is charged at a rate of 5% (2019: 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.

**20 Derivative financial instruments**

**Derivative financial instruments - Foreign currency forward contracts**

Where possible the Group manages its foreign currency risk by buying and selling in the same currency. However, the Group will also review whether to manage its future exposure by means of currency forward contracts. At the year end a number of contracts were in place for the purchase of US dollars. No formal hedging arrangement is in place so movements in the currency instrument are reflected in the income statement.

At the year end the fair value of the instruments was a liability of £287,000 (2019: £nil)

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 21 Provisions

	Warranties £ 000	Total £ 000
At 1 October 2019	144	144
Increase in existing provisions	204	204
Utilised in the year	<u>(236)</u>	<u>(236)</u>
At 30 September 2020	<u>112</u>	<u>112</u>
Current liabilities	<u>112</u>	<u>112</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.

### 22 Share capital

#### Allotted, called-up and fully paid shares

	2020		2019	
	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>

### 23 Pension and other schemes

The Company participated in the Tunstall Group Limited Pension Fund, a defined benefit scheme, which was closed to future accrual in 2013. A full actuarial valuation of the scheme was carried out at 5 April 2019 and updated for IAS 19 purposes to 30 September 2020 by a qualified actuary, independent of the scheme's sponsoring employer.

As at 30 September 2020, the scheme had net liabilities of £28,648,000 (2019: £25,360,000). This liability is recognised in the Statement of Financial Position of the Company's immediate parent undertaking, Tunstall Group Limited.

Additional contributions of £2,848,000 (2019: £2,625,000) were paid in the period to reduce the pension deficit. The expected contributions to the plan for the next reporting period are £3,178,000.

The Company also paid £1,034,000 (2019: £1,080,000) in respect of defined contribution arrangements. The accrued contributions at the end of the financial year were £175,890 (2019: £177,988).

### 24 Contingent liabilities

The shares and assets of the Company are pledged by Tunstall Group Holdings to their lenders as security against loans provided.

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 25 Capital commitments

The Company is committed to incur other capital expenditure of £180,000 (2019: £121,000).

### 26 Changes in significant accounting policies

The Company has applied IFRS 16 using the modified retrospective with cumulative effect method - i.e. by recognising the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of equity at 1 October 2019. Therefore, the comparative information has not been restated and continues to be reported under IAS 17. The disclosure requirements in IFRS 16 have not been applied to comparative information. The details of the changes and the quantitative impact are set out.

#### (a) Definition of a lease

Previously the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4: Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 1. On transition to IFRS 16, the Company elected to apply the practical expedient to apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not previously identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 October 2019.

#### (b) As a lessee

The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Only finance leases were then recognised on the balance sheet.

Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases - i.e. these leases are on-balance sheet.

#### *Leases classified as operating leases under IAS 17*

On transition, for operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted based on the Company's incremental borrowing rate for the region, as at 1 October 2019.

Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Company applied this approach to all other leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular these were:

- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- used hindsight when determining the lease term.

## Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)

### 26 Changes in significant accounting policies (continued)

#### (b) As a lessee (continued)

*Leases classified as finance leases under IAS 17*

The Company previously had no leases classified as finance leases under IAS 17.

The following table summarises the quantitative impact of adopting IFRS 16 on the Company's financial statements for the year ending 30 September 2020.

#### *Impact of adoption of IFRS 16*

	As reported	Adjustments	Balances without adoption of IFRS 16
	£ 000	£ 000	£ 000
<b>Balance sheet</b>			
Property, plant and equipment	7,581	(1,176)	6,405
Loans and borrowings (current)	(2,478)	617	(1,861)
Loans and borrowings (non-current)	(1,242)	559	(683)
Retained earnings	325,181	-	325,181

When measuring the lease liabilities for leases that were classified as operating leases, the Group discounted lease payments based on its incremental borrowing rate at 1 October 2019. The weighted average rate applied was 6% in the UK.

The following table summarises the difference between the operating lease commitments disclosed under IAS 17 at 30 September 2019 in the company's financial statements and the lease liabilities recognised at 1 October 2019.

	As reported
	£ 000
Operating lease commitments at 30 September 2019	991
Impact of discounting on the lease liabilities	(74)
Additional items identified and classified as leases	233
	<u>1,150</u>

### 27 Related party transactions

The Company has taken advantage of the exemption to disclose transactions with wholly owned Group companies.

**Notes to the Financial Statements for the Year Ended 30 September 2020 (continued)**

**28 Parent and ultimate parent undertaking**

The Company's immediate parent is Tunstall Group Limited.

The Company's ultimate parent company was Tunstall Healthcare Group Limited until 3 August 2020. Following this, the ultimate parent company is now Tunstall Integrated Healthcare Holdings Limited, a company incorporated in Jersey.

The smallest and largest groups in which the results of the Company are consolidated are Tunstall Group Limited and Tunstall Group Holdings Limited respectively. These financial statements are available upon request from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.

Each of these companies is registered in England and Wales with a registered office of Whitley Lodge, Whitley Bridge, DN14 0HR

Until 3 August 2020 a controlling interest in the Company was held by Charterhouse General Partners (VIII) Limited by virtue of its 60.8% holding in the issued shares of Tunstall Healthcare Group Limited and Charterhouse General Partners (VIII) Limited was the ultimate controlling party of Tunstall Healthcare Group Limited. Following this there is no individual controlling party of the ultimate parent.