

Registration number: 01332249

Tunstall Healthcare (UK) Limited

Annual Report and Financial Statements

for the Year Ended 30 September 2021

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Strategic Report for the Year Ended 30 September 2021

The Directors present their Strategic Report for the year ended 30 September 2021.

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 of £92,700,000 (2020: £88,507,000), has increased from the prior year, driven by increases in both export and core UK business revenues. Export revenues, wholly relating to trade with other Group companies, increased to £29,490,000 (2020: £27,666,000). Operating profit for the year amounted to £9,379,000 (2020 as restated*(see note 27): £10,431,000).

The core UK business revenue of £63,210,000 increased by 3.8% year on year (2020: £60,841,000).

Group Living Installation revenue grew by 32.2% in FY21. FY20 revenue was significantly impacted by the COVID-19 pandemic, due to the closure of construction sites and the inability to access Assisted Living schemes housing vulnerable residents.

Independent Living Equipment revenue reduced year on year (-4.4%) due to global shortages of component parts. This has affected numerous products across the Independent Living Equipment product portfolio.

Outsourced Managed Service continued to deliver year on year growth, with revenues increasing by 1.7%. 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.

Independent Living Software revenues, negatively impacted by COVID-19 in FY20, has seen revenue increases of 26.9% as Alarm Receiving Centres have started to once again focus on investing in the deployment of new software. Increased deployments of the latest alarm calls handling software (PNC 8.2) at the end of FY20 secured recurring revenue in FY21. Module releases offering additional functionality, plus customer upgrade pathways has driven further growth in FY21.

Digital Health revenues increased by 35.3% in FY21. The availability of new cloud-based services, the ability for customers to use their own devices, plus remote patient monitoring stimulated by the COVID-19 pandemic has ensured retention of our customer base whilst attracting new customers.

The Company's operating profit before charging depreciation, amortisation and exceptional items ("Adjusted EBITDA**" as reconciled on Page 3) for the year was £22,033,000 (2020: £24,959,000), a decrease of 11.7%. The adjusted EBITDA** margin has decreased to 23.8% (2020: 28.2%) due to product mix. Administration costs have decreased to £34,988,000 in the year (2020 as restated*(see note 27): £35,131,000).

Depreciation and amortisation

The depreciation charge for the year was £2,725,000 (2020: £2,620,000). Amortisation of development expenditure and software for the year amounted to £9,307,000 (2020: £8,190,000), as the Group continued to develop its Connected Care and Connected Health solutions with a particular focus on IP technology.

Strategic Report for the Year Ended 30 September 2021 (continued)

Review of the business (continued)

Exceptional items

The Company presents certain items that are non-recurring and significant in nature as exceptional items. These relate to items which, in the Directors' judgement, need to be disclosed by virtue of their size and incidence in order to obtain a more meaningful understanding of the information contained in the financial statements.

The Company incurred a net exceptional charge of £622,000 in the year ended 30 September 2021 (2020 as restated*(see note 27): £3,718,000). 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 in order to maintain performance against contractual service level agreements, and protective equipment of £622,000 were incurred in the year. Management consider these to be exceptional in nature and have therefore presented them as such in the financial statements.

Profit on ordinary activities before taxation

The Company achieved profit on ordinary activities before taxation of £24,432,000 (2020 as restated*(see note 27): £24,703,000) as a result of a decline at adjusted EBITDA level to £22,033,000 (2020: £24,959,000); increased amortisation of development expenditure and computer software of £9,307,000 (2020: £8,190,000); decreased exceptional costs of £622,000 (2020 as restated*(see note 27): £3,718,000); impairment of non-current assets £nil (2020: £816,000) along with decreased net finance income of £15,053,000 (2020: £15,088,000).

Net finance income

Finance income in the year was £15,142,000 (2020: £15,493,000) and was derived from loans to Group companies and foreign exchange gains. Finance costs in the year were £89,000 and was mainly due to foreign exchange losses and lease interest. 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 £1,910,000 (2020 as restated*(see note 27): £2,879,000).

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	2021	2020
Revenue	£m	92.70	88.51
Adjusted EBITDA**	£m	22.03	24.96
Adjusted EBITDA** margin	%	23.76	28.20

- Revenue for the year at £92,700,000 (2020: £88,507,000) has increased from the prior year primarily as a result of the impact of COVID-19 on both intercompany export revenues and core UK business revenue in the prior year.
- Adjusted EBITDA** for the year was £22,033,000 (2020: £24,959,000), a decrease of 11.7% (2020: 8.9%) as a result of reduced gross profit due to product mix changes and increased admin expenses excluding exceptional items.
- Adjusted EBITDA** margin of 23.76% (2020: 28.2%) decreased due to change in product mix.

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

**Prior year restatement*

Certain items have been restated as a result of a prior year adjustment for a change in accounting policies. Further details are provided in note 27.

Strategic Report for the Year Ended 30 September 2021 (continued)

Review of the business (continued)

***Reconciliation of non-statutory measures*

The company uses adjusted EBITDA as a measurement of performance as this is linked to covenants of the Group's banking facilities. Adjusted EBITDA is reconciled below.

	2021	(as restated*) 2020
	£ 000	£ 000
Operating profit as reported	9,379	10,431
Depreciation and amortisation	12,032	10,810
Exceptional items	622	3,718
Adjusted EBITDA	<u>22,033</u>	<u>24,959</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 performed a going concern assessment of the Company by reviewing the Group's cash flow forecasts for the period of 12 months from the date of approval of these financial statements. 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 account of severe but plausible downsides and the continued impact of COVID-19 on operations and its financial resources, the Group is able to meet its liabilities as they fall due and comply with covenants throughout the forecast period. The key factors considered in reaching this conclusion are summarised below:

- At the year end the Group had access to banking facilities consisting of a drawn term loan of €197,676,000 repayable on 3 August 2025 and a partially drawn term loan of €20,000,000 repayable on 3 August 2023. The partially drawn term loan had a balance of €13,500,000 at 30 September 2021. In November 2021 a further €6,500,000 was drawn against this facility. Both term loans are subject to covenants.
- In December 2021 a further incremental facility of €14,880,000 was made available for drawdown. In January 2022 the Group received a further equity injection of £12,500,000 from a share issue. The additional funding has been secured to support the Group's growth strategy.
- In performing their assessment, the directors have considered a severe but plausible downside scenario which models the impact of further lockdowns in 2022/2023 similar to that experienced in 2020. In the model profits are depressed throughout 2022 and 2023 using actual experience of 2020. 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.

Strategic Report for the Year Ended 30 September 2021 (continued)

Business strategy

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

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

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

- Delivering innovative solutions that 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.

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.

Strategic Report for the Year Ended 30 September 2021 (continued)

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.

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.

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.

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.

The Company recognise the importance of responding to these market trends. With the launch of a new IP-enabled Lifeline for people living at home, and a new IP alarm monitoring platform we can optimise existing services and enable entry into new markets such as data analytics. The Company has also invested in a global data services platform that will support the delivery of preventative and pro-active person-centric products and services. These solutions will give the Company the ability to respond quickly to emerging market needs and deliver excellent value propositions across our portfolios.

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 and lower cost.

Principal risks and uncertainties

Foreign exchange risk

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

Strategic Report for the Year Ended 30 September 2021 (continued)

Principal risks and uncertainties (continued)

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 emerging 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.

COVID-19

The continuing prevalence of COVID-19 presents a risk of further exclusion from customer and end-user premises, restricting the flow of new business. The increasing transmission of the virus, particularly the Omicron strain, risks putting pressure on the availability of our staff in all sectors of the business.

We build strong relationships with our customers and work closely with them to ensure we maintain our service levels. The contractual recurring nature of our managed services strategy and strong customer relationships mitigates the risk of interruption to the flow of new business. Continued best practice hygiene and social distancing, together with home working where feasible, seeks to minimise the impact on staffing levels.

Global Supply Chain

The Group is reliant on certain key supply chain partners for the successful delivery of our services and solutions. The failure of a key supplier or a breakdown in relationships with a key supplier could result in short-term delay and disruption to the Group's operations. There is also a risk that credit checks undertaken in the past may no longer be valid.

Disruption in the global electronic component market presents the risk of shortages, and our inability to manufacture and supply products to support our services to customers.

We build strong relationships with our suppliers, and work with them continuously to monitor demand, consumption, and lead times. Forecasts are sent to all key suppliers on a weekly basis offering a 12-month view. Key suppliers work to a Logistics Agreement which requires them to hold typically four weeks of buffer stock to accommodate fluctuations in demand. Buffer stock is held at the supplier's cost, with the liability sitting with the Company. If buffer stock has not been moved for 6-months, the Company are required to purchase it.

Long range forecasting, active supply chain management, sourcing of alternative components and the build-up of buffer stocks seek to minimise supply disruption.

Strategic Report for the Year Ended 30 September 2021 (continued)

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 interest 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.

Both shareholders and lenders 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.

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 23 February 2022 and signed on its behalf by:



.....
L Robinson
Director

Directors' Report for the Year Ended 30 September 2021

The report and the financial statements for the year ended 30 September 2021.

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

S Belfield (resigned 13 December 2021)

L Kenworthy

G Sutherland

M Ford (appointed 1 October 2021)

G Steen (appointed 1 October 2021)

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 (2020: £nil). The Directors do not propose the payment of a final dividend (2020: £nil).

Political contributions

The Company made no political donations and did not incur any political expenditure during the year (2020: £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 2021 (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.

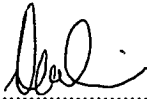
Other information

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 23 February 2022 and signed on its behalf by:



.....
L Robinson
Director

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 2021 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 2021 and of 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 of 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").

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.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

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

Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement due to fraud (continued)

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that management may be in a position to make inappropriate accounting entries; and
- the risk that revenues are overstated through recording revenues in the wrong period.

We also identified a fraud risk related to inappropriate capitalisation of internal development costs in response to possible pressures to meet profit targets.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included revenue and treasury impacting journal entries posted to unusual accounts.
- For a sample of revenue transactions around the year end, vouching to supporting documentation to corroborate whether sample items were recorded in the correct accounting period.
- For a sample of internal development projects, evaluation of the criteria applied for capitalising costs.
- Recalculation of capitalised internal development costs based on hours charged by relevant individuals at cost rates vouched to supporting documentation.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

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

Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement related to compliance with laws and regulations (continued)

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, data protection laws, anti-bribery, employment law and certain aspects of company legislation, recognising the nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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.

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

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 full description of our responsibilities is provided on the FRC's website at 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

24 February 2022
.....

Income Statement for the Year Ended 30 September 2021

		(As restated ¹)	
	Note	2021 £ 000	2020 £ 000
Revenue	4	92,700	88,507
Cost of sales		<u>(48,333)</u>	<u>(42,945)</u>
Gross profit		44,367	45,562
Administrative expenses		<u>(34,988)</u>	<u>(35,131)</u>
Operating profit	5	<u>9,379</u>	<u>10,431</u>
Analysed as:			
Operating profit before charging depreciation and amortisation and exceptional items ("Adjusted EBITDA")	5	22,033	24,959
Depreciation and amortisation	5	(12,032)	(10,810)
Exceptional items	5	(622)	(3,718)
Impairment of non-current assets	14	-	(816)
Finance income	6	15,142	15,493
Finance costs	7	<u>(89)</u>	<u>(405)</u>
Net finance income		<u>15,053</u>	<u>15,088</u>
Profit before tax		24,432	24,703
Income tax expense	11	<u>(1,910)</u>	<u>(2,879)</u>
Profit for the year		<u>22,522</u>	<u>21,824</u>

The above results were derived from continuing operations.

1 See Note 27 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021.

Statement of Comprehensive Income for the Year Ended 30 September 2021

	(As restated¹)	
	2021	2020
	£ 000	£ 000
Profit for the year	<u>22,522</u>	<u>21,824</u>
Total comprehensive income for the year	<u><u>22,522</u></u>	<u><u>21,824</u></u>

¹ See Note 27 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021.

The notes on pages 20 to 47 form an integral part of these financial statements.

Statement of Financial Position as at 30 September 2021

			(As restated ¹)	(As restated) ¹
	Note	2021 £ 000	2020 £ 000	2019 £ 000
Non-current assets				
Property, plant and equipment	12	6,099	7,581	6,979
Intangible assets	14	40,818	34,106	30,048
Deferred tax assets	11	7,141	5,762	4,470
Amounts owed by Group undertakings	16	302,237	285,313	263,365
		<u>356,295</u>	<u>332,762</u>	<u>304,862</u>
Current assets				
Inventories	15	7,057	4,794	4,345
Trade and other receivables	16	11,779	13,052	16,941
Income tax asset	11	574	498	430
Cash and cash equivalents		<u>2,184</u>	<u>3,369</u>	<u>4,413</u>
		<u>21,594</u>	<u>21,713</u>	<u>26,129</u>
Total assets		<u>377,889</u>	<u>354,475</u>	<u>330,991</u>
Current liabilities				
Trade and other payables	17	(17,783)	(19,779)	(18,009)
Loans and borrowings	18	(2,488)	(2,478)	(1,657)
Group relief payable	11	(3,192)	(4,113)	(5,037)
Derivative financial instruments	19	(90)	(287)	-
Deferred income		(4,741)	(4,143)	(4,979)
Provisions	20	<u>(79)</u>	<u>(112)</u>	<u>(144)</u>
		<u>(28,373)</u>	<u>(30,912)</u>	<u>(29,826)</u>
Net current liabilities		<u>(6,779)</u>	<u>(9,199)</u>	<u>(3,697)</u>
Total assets less current liabilities		<u>349,516</u>	<u>323,563</u>	<u>301,165</u>
Non-current liabilities				
Loans and borrowings	18	<u>(4,673)</u>	<u>(1,242)</u>	<u>(668)</u>
Total liabilities		<u>(33,046)</u>	<u>(32,154)</u>	<u>(30,494)</u>
Net assets		<u>344,843</u>	<u>322,321</u>	<u>300,497</u>

¹ See Note 27 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021.

The notes on pages 20 to 47 form an integral part of these financial statements.

Statement of Financial Position as at 30 September 2021 (continued)

			(As restated) ¹	(As restated) ¹
	Note	2021 £ 000	2020 £ 000	2019 £ 000
Equity				
Share capital	21	150	150	150
Share premium		3	3	3
Retained earnings		<u>344,690</u>	<u>322,168</u>	<u>300,344</u>
Equity attributable to owners of the Company		<u>344,843</u>	<u>322,321</u>	<u>300,497</u>

Approved by the Board on 23 February 2022 and signed on its behalf by:



.....
L Robinson

Director

Registration number: 01332249

¹ See Note 27 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021.

Statement of Changes in Equity for the Year Ended 30 September 2021

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 October 2019 (as reported)	150	3	301,706	301,859
Prior period adjustment ¹	-	-	(1,362)	(1,362)
At 1 October 2019 (As restated ¹)	150	3	300,344	300,497
Profit for the year (As restated ¹)	-	-	21,824	21,824
Total comprehensive income (As restated ¹)	-	-	21,824	21,824
At 30 September 2020 (As restated ¹)	150	3	322,168	322,321
	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 October 2020 (as reported)	150	3	325,181	325,334
Prior period adjustment ¹	-	-	(3,013)	(3,013)
At 1 October 2020 (As restated ¹)	150	3	322,168	322,321
Profit for the year	-	-	22,522	22,522
Total comprehensive income	-	-	22,522	22,522
At 30 September 2021	150	3	344,690	344,843

¹ See Note 27 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021.

The notes on pages 20 to 47 form an integral part of these financial statements.

Notes to the Financial Statements for the Year Ended 30 September 2021

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 2021 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 2021 (continued)

2 Accounting policies (continued)

Summary of disclosure exemptions (continued)

As the consolidated financial statements of the parent Company, Tunstall 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 2021

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform has been adopted from 1 October 2020.
- Amendments to IFRS 3: Definition of a Business has been adopted from 1 October 2020.
- Amendments to References to the Conceptual Framework in IFRS Standards.
- Amendments to IAS 1 and IAS 8: Definition of Material.
- COVID-19 - Related Rent Concessions (Amendment to IFRS 16) which was effective for years beginning on or after 1 June 2020.
- Adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021.

All the above standards and interpretations have been adopted by the Company on 1 October 2020 unless otherwise stated. None of the new standards and interpretations have had a significant impact on the financial performance and position of the Company with the exception of the cloud configuration change which is discussed in note 27. Other 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:

- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (effective for period beginning on or after 1 January 2021).

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.

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.

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

2 Accounting policies (continued)

Going concern (continued)

The directors have performed a going concern assessment of the Company by reviewing the Group's cash flow forecasts for the period of 12 months from the date of approval of these financial statements. 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 account of severe but plausible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the Group is able to meet its liabilities as they fall due and comply with covenants throughout the forecast period. The key factors considered in reaching this conclusion are summarised below:

- At the year end the wider Group had access to banking facilities consisting of a drawn term loan of €197,676,000 repayable on 3 August 2025 and a partially drawn term loan of €20,000,000 repayable on 3 August 2023. The partially drawn term loan had a balance of €13,500,000 at 30 September 2021. In November 2021 a further €6,500,000 was drawn against this facility. Both term loans are subject to covenants.
- In December 2021 a further incremental facility of €14,880,000 was made available for drawdown. In January 2022 the Group received a further equity injection of £12,500,000 from a share issue. The additional funding has been secured to support the Group's growth strategy.
- In performing their assessment, the directors have considered a severe but plausible downside scenario which models the impact of further lockdowns in 2022/2023 similar to that experienced in 2020. In the model profits are depressed throughout 2022 and 2023 using actual experience of 2020. 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 Company 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 in a straight line over the period of the contract.

Notes to the Financial Statements for the Year Ended 30 September 2021 (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 that 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 2021 (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 balance sheet date.

Finance income and costs policy

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

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

Provisions

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

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

Foreign currency transactions and balances

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

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 2021 (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.

In respect of Software-as-a-Service (SaaS) arrangements, amounts paid to the cloud vendor for configuration and customisation that are not distinct from access to the cloud software are expensed over the SaaS contract term. In limited circumstances, other configuration and customisation costs incurred in implementing SaaS arrangements may give rise to an identifiable intangible asset, for example, where code is created that is controlled by the entity. In all other instances, configuration and customisation costs are expensed as the customisation and configuration services are received. Licensing costs in relation to cloud computing are expensed over the period the license relates to.

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:

Asset class

Development costs

Computer software

Amortisation rate and method

4 years straight line

4 years straight line

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

2 Accounting policies (continued)

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.

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 Other Comprehensive Income ("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.

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

2 Accounting policies (continued)

Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial assets (continued)

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.

(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.

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 2021 (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 2021 (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

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.

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.

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.

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

2 Accounting policies (continued)

Leases (continued)

As a lessee (continued)

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.

Defined benefit pension obligation

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

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

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

Revenue recognition

The measurement of revenue 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 2021 (continued)

4 Segmental analysis (continued)

	2021 £ 000	2020 £ 000
<i>Analysis of revenue by destination:</i>		
United Kingdom	63,210	60,841
Other European Countries	29,186	27,191
Rest of the world	304	475
	<u>92,700</u>	<u>88,507</u>

5 Operating profit

Arrived at after charging:

	2021 £ 000	2020 £ 000
		(As restated ¹)
Depreciation expense	2,725	2,620
Amortisation expense	9,307	8,190
Research and development cost	4,563	3,770
Government grants	(60)	(347)
Exceptional items	<u>622</u>	<u>3,718</u>

Included within costs and overheads are operating exceptional items of £622,000 (2020: £3,718,000). 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 £622,000 were incurred in the year (2020: £385,000). Management consider these to be exceptional in nature and have therefore presented them as such in the financial statements. Other exceptional costs are associated with the Group's initiative to drive significant cost and operational efficiencies to support the implementation of the Group's growth strategy of £nil (2020: £1,295,000).

In addition the implementation costs in relation to the new cloud based ERP system are also considered exceptional, with a cost of £nil (2020 as restated¹: £2,038,000).

¹ See Note 27 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021.

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

6 Finance income

	2021 £ 000	2020 £ 000
Other interest	2	-
Change in fair value of financial instruments	197	-
Finance income from Group undertakings	14,943	15,493
	<u>15,142</u>	<u>15,493</u>

7 Finance costs

	2021 £ 000	2020 £ 000
Other interest	-	22
Interest on obligations under finance leases and hire purchase contracts	52	69
Fair value movement of financial instruments	-	287
Foreign exchange losses	37	27
	<u>89</u>	<u>405</u>

8 Staff costs

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

	2021 £ 000	2020 £ 000
Wages and salaries	21,300	21,951
Social security costs	2,352	2,333
Pension costs	982	1,034
	<u>24,634</u>	<u>25,318</u>

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

	2021 No.	2020 No.
Production and distribution	255	259
Sales and administration	295	318
Research and development	79	71
	<u>629</u>	<u>648</u>

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

9 Directors' remuneration

Two Directors received the following emoluments for their services to the Company and its subsidiaries (2020: 3). The remaining Directors were paid through another Group company and none of their remuneration has been allocated to this Company.

	2021 £ 000	2020 £ 000
Remuneration	627	519
Pension contributions in respect of money purchase schemes	37	34
	<u>664</u>	<u>553</u>

In respect of the highest paid Director:

	2021 £ 000	2020 £ 000
Remuneration	315	253
Pension contributions in respect of money purchase schemes	22	15
	<u>337</u>	<u>268</u>

No Directors (2020: none) accrued benefits under the defined benefit pension scheme in respect of qualifying services during the year. Two Directors (2020: three) accrued benefits under defined contribution schemes.

10 Auditor's remuneration

	2021 £ 000	2020 £ 000
Audit of these financial statements	115	115
Payroll services	2	-
	<u>117</u>	<u>115</u>

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

11 Income tax

Tax expensed in the income statement:

	(As restated ¹)	
	2021	2020
	£ 000	£ 000
Current taxation		
UK corporation tax	3,192	4,113
UK corporation tax adjustment to prior periods	97	58
	<u>3,289</u>	<u>4,171</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	288	(775)
UK deferred tax adjustment to prior periods	(1)	(47)
Arising from changes in tax rates and laws	(1,666)	(470)
Total deferred taxation	<u>(1,379)</u>	<u>(1,292)</u>
Tax expense in the Income Statement	<u>1,910</u>	<u>2,879</u>

The tax on profit before tax for the year is based on the UK statutory rate of corporation tax for the period of 19% (2020: 19%).

Factors affecting the tax charge for the current period

The differences are reconciled below:

	(As restated ¹)	
	2021	2020
	£ 000	£ 000
Profit for the year	22,522	21,824
Income tax expense	<u>1,910</u>	<u>2,879</u>
Profit before tax	<u>24,432</u>	<u>24,703</u>
Corporation tax at standard rate of 19% (2020: 19%)	4,642	4,694
UK corporation tax adjustment to prior periods	97	58
Expenses not deductible in determining taxable profit	(584)	(612)
UK Deferred tax adjustment to prior periods	(1)	(47)
Impact of deferred tax rate change	(1,666)	(470)
Effect of adjustment in research development tax credit	52	65
Tax credit in relation to Patent Box	<u>(630)</u>	<u>(809)</u>
Total tax expense	<u>1,910</u>	<u>2,879</u>

1 See Note 27 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021.

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

11 Income tax (continued)

Factors affecting future tax charges

An increase in the UK corporation tax rate from 19% to 25% (effective from 1 April 2023) was announced on 11 March 2021. This was substantively enacted on 24 May 2021 and as such the UK deferred tax asset at the balance sheet date was measured at the rate of 25% where expected to reverse after 1 April 2023. (2020: 19%).

Deferred tax

The Company has deferred tax assets recognised at 19% and 25% (2020: 19%).

Deferred tax movement during the year:

	(As restated ¹)		
	At 1 October 2020	Recognised in income	At 30 September 2021
	£ 000	£ 000	£ 000
Accelerated tax depreciation	4,879	2,039	6,918
Revaluation of intangible assets	(41)	65	24
Other items	924	(725)	199
Net tax assets	<u>5,762</u>	<u>1,379</u>	<u>7,141</u>

Deferred tax movement during the prior year:

	(As restated ¹)	(As restated ¹)	(As restated ¹)
	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	459	465	924
Net tax assets	<u>4,470</u>	<u>1,292</u>	<u>5,762</u>

There are no unrecognised deferred tax assets (2020: nil).

The utilisation of deferred tax assets relies on a number of factors including the future profitability of the UK group as whole. 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.

¹ See Note 27 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021.

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

12 Property, plant and equipment

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Cost or valuation			
At 1 October 2019	6,171	28,607	34,778
Additions	263	1,811	2,074
Recognition of right-of use assets on initial application of IFRS 16	43	1,108	1,151
Disposals	-	(929)	(929)
At 30 September 2020	6,477	30,597	37,074
At 1 October 2020	6,477	30,647	37,124
Additions	55	1,276	1,331
Disposals	(111)	(11,515)	(11,626)
At 30 September 2021	6,421	20,408	26,829
Depreciation			
At 1 October 2019	2,840	24,959	27,799
Charge for year	369	2,251	2,620
Eliminated on disposal	-	(926)	(926)
At 30 September 2020	3,209	26,284	29,493
At 1 October 2020	3,209	26,334	29,543
Charge for the year	346	2,379	2,725
Eliminated on disposal	(111)	(11,427)	(11,538)
At 30 September 2021	3,444	17,286	20,730
Carrying amount			
At 30 September 2021	2,977	3,122	6,099
At 30 September 2020	3,268	4,313	7,581
At 30 September 2019	3,331	3,648	6,979

Land and buildings

Included within the net book value of land and buildings above is £3,055,000 (2020: £3,209,000) in respect of freehold land and buildings.

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

12 Property, plant and equipment (continued)

At 30 September 2021 property, plant and equipment includes right-of use assets as follows:

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
Right-of-use asset			
At 30 September 2021	103	758	861
At 30 September 2020	167	1,009	1,176

13 Right-of-use assets

Right-of-use assets related to leased 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
Cost			
As at 30 September 2020	236	1,675	1,911
Additions	-	331	331
Disposals	(43)	(131)	(174)
At 30 September 2021	193	1,875	2,068
Depreciation			
At 1 October 2020	69	666	735
Charge for the year	64	582	646
Eliminated on disposal	(43)	(131)	(174)
At 30 September 2021	90	1,117	1,207
Carrying amount			
At 30 September 2021	103	758	861
At 30 September 2020	167	1,009	1,176

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

13 Right-of-use assets (continued)

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

	2021 £ 000	2020 £ 000
Lease liabilities		
Interest expense on lease liabilities	52	69
Finance leases		
	2021 £ 000	2020 £ 000
Analysed as		
Current liabilities	681	617
Non-current liabilities	190	559
	<u>871</u>	<u>1,176</u>

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

14 Intangible assets

	Internally generated software development costs £ 000	Research and development £ 000	Total £ 000
Cost or valuation			
At 1 October 2019 (as reported)	5,626	67,687	73,313
Prior year adjustment ¹	(1,682)	-	(1,682)
At 1 October 2019 (As restated ¹)	3,944	67,687	71,631
Additions (As restated ¹)	572	12,492	13,064
At 30 September 2020 (As restated ¹)	4,516	80,179	84,695
At 1 October 2020 (as reported)	8,236	80,179	88,415
Prior year adjustment ¹	(3,720)	-	(3,720)
At 1 October 2020 (As restated ¹)	4,516	80,179	84,695
Additions	-	16,052	16,052
Disposals	(1,320)	-	(1,320)
At 30 September 2021	3,196	96,231	99,427
Amortisation			
At 1 October 2019	1,328	40,255	41,583
Amortisation	90	8,100	8,190
Impairment	-	816	816
	1,418	49,171	50,589
At 1 October 2020	1,418	49,171	50,589
Amortisation	13	9,294	9,307
Disposals	(1,287)	-	(1,287)
	144	58,465	58,609
Carrying amount			
At 30 September 2021	3,052	37,766	40,818
At 30 September 2020 (As restated ¹)	3,098	31,008	34,106
At 30 September 2019 (As restated ¹)	2,616	27,432	30,048

1 See Note 27 for an explanation of the prior year restatement recognised in relation to the adoption of the IFRIC agenda decision on cloud configuration and customisation costs in April 2021.

Notes to the Financial Statements for the Year Ended 30 September 2021 (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 2021. The discount rate used was a blended group rate of 12.37% (2020: 12.53%). The Directors have deemed that for the future discounted cash flows support the carrying value of the asset. No impairments have been identified in the current year (2020: £816,000).

15 Inventories

	2021 £ 000	2020 £ 000
Raw materials, spare parts and consumables	3,871	2,002
Work in progress	205	208
Finished goods and goods for resale	2,041	1,754
Contract work in progress	940	830
	<u>7,057</u>	<u>4,794</u>

The cost of inventories recognised as an expense in the year amounted to £29,120,000 (2020: £24,012,000).

The amount of write-down of inventories recognised as an expense in the year is £157,000 (2020: £111,000).

Both of these costs are included within cost of sales.

	2021 £ 000	2020 £ 000
Amount of inventory written down	<u>157</u>	<u>111</u>

16 Trade and other receivables

Current

	2021 £ 000	2020 £ 000
Trade receivables	8,781	9,109
Amounts owed by Group undertakings	1,269	1,598
Prepayments and other receivables	1,729	2,345
Total current trade and other receivables	<u>11,779</u>	<u>13,052</u>

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

16 Trade and other receivables (continued)

Non-current

	2021 £ 000	2020 £ 000
Amounts owed by Group undertakings	<u>302,237</u>	<u>285,313</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 on non current loans is charged at a rate of 5.25% (2020: 5% and 6%). The loans are unsecured and repayable 12 months following written notice from the Company.

Current balances owed from Group undertakings are interest free and payable on demand.

17 Trade and other payables

	2021 £ 000	2020 £ 000
Trade payables	10,099	7,618
Accrued expenses	<u>7,684</u>	<u>12,161</u>
	<u>17,783</u>	<u>19,779</u>

18 Loans and borrowings

Non-current loans and borrowings

	2021 £ 000	2020 £ 000
Finance lease liabilities	190	559
Amounts owed to Group undertakings	<u>4,483</u>	<u>683</u>
	<u>4,673</u>	<u>1,242</u>

Current loans and borrowings

	2021 £ 000	2020 £ 000
Other loans	226	49
Finance lease liabilities	681	617
Amounts owed to group undertakings	<u>1,581</u>	<u>1,812</u>
	<u>2,488</u>	<u>2,478</u>

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

18 Loans and borrowings (continued)

The Company has formal documented intercompany loan agreements. Under the terms of the agreements, interest is charged at a rate of 5.25% (2020: 5% and 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.

Current amounts owed to Group undertakings are interest free and repayable on demand.

19 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 £90,000 (2020: £287,000).

20 Provisions

	Warranties £ 000	Total £ 000
At 1 October 2020	112	112
Charged in the year	129	129
Utilised in the year	(162)	(162)
At 30 September 2021	<u>79</u>	<u>79</u>
Current liabilities	<u>79</u>	<u>79</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.

21 Share capital

Allotted, called-up and fully paid shares

	2021		2020	
	No.	£ 000	No.	£ 000
150,000 ordinary shares of £1 each	<u>150,000</u>	<u>150</u>	<u>150,000</u>	<u>150</u>

22 Pension and other schemes

The Company participated in the Tunstall Group Limited Pension Fund, a defined benefit 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 2021 by a qualified actuary, independent of the scheme's sponsoring employer.

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

22 Pension and other schemes (continued)

As at 30 September 2021, the scheme had net liabilities of £19,989,000 (2020: £28,648,000). This liability is recognised in the Statement of Financial Position of the Company's immediate parent undertaking, Tunstall Group Limited.

Additional contributions of £3,178,000 (2020: £2,848,000) were paid in the period to reduce the pension deficit. The expected contributions to the plan for the next reporting period are £3,369,000 (2020: £3,178,000).

The Company also paid £982,000 (2020: £1,034,000) in respect of defined contribution arrangements. The accrued contributions at the end of the financial year were £177,592 (2020: £175,890).

23 Contingent liabilities

At 30 September 2021, the Group had contingent liabilities in respect of performance bonds and other letters of credit entered into on behalf of its subsidiary undertakings totalling £nil (2020: £nil).

24 Capital commitments

Future capital expenditure contracted at the year end £404,000 (2020: £180,000).

25 Related party transactions

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

26 Parent and ultimate parent undertaking

The Company's immediate parent is Tunstall Group Limited.

The Company's ultimate parent company is Tunstall Integrated Healthcare Holdings Limited, a company incorporated in Jersey, with a registered office of 3rd Floor, 44 Esplanade, St Helier, Jersey JE4 9WG.

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

The largest group in which the results of the Company are consolidated is Tunstall Integrated Healthcare Holdings Limited. The financial statements are available on request from Whitley Lodge, Whitley Bridge, DN14 0HR.

Tunstall Group Holdings Limited and Tunstall Group Limited are registered in England and Wales with a registered office of Whitley Lodge, Whitley Bridge, DN14 0HR.

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

27 Prior year adjustment

In April 2021, the IFRS Interpretations Committee (IFRIC) published an agenda decision on the clarification of accounting in relation to the configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) as follows:

- Amounts paid to the cloud vendor for configuration and customisation that are not distinct from access to the cloud are expensed over the SaaS contract term;
- In limited circumstances, other configuration and customisation costs incurred in implementing SaaS arrangements may give rise to an identifiable intangible asset, for example, where code is created that is controlled by the entity;
- In all other instances, configuration and customisation costs will be expensed as the customisation and configuration services are received.

Due to the nature of this agenda decision and the level of spend incurred in relation to the Company's new ERP system, the Company's accounting policy in relation to such customisation and configuration costs has been reviewed and changed to align with the IFRIC guidance issued in relation to SaaS costs previously capitalised. The restatement represents a non-cash adjustment.

The revision to the accounting policy has been accounted for retrospectively resulting in a prior year restatement.

The Company identified £3,720,000 of additions made in the years ended 30 September 2020 and 30 September 2019 in relation to the the ERP computer software costs capitalised that management consider related to cloud computing arrangements and should be expensed after the consideration of the IFRIC guidance. Of this £2,038,000 related to additions in the year ended 30 September 2020. None of this software had been amortised in the previous period and there is therefore no change to the reported amortisation charges.

These costs give rise to a reduction in the tax charge for the year ended 30 September 2020 of £387,000 corresponding to the movement in the resultant deferred tax asset.

The impact on the financial statements is as follows:

	As previously reported	Restatement	As restated
	2020	2020	2020
	£ 000	£ 000	£ 000
Administrative expense	(33,093)	(2,038)	(35,131)
Operating profit	12,469	(2,038)	10,431
Exceptional items	(1,680)	(2,038)	(3,718)
Profit before tax	26,741	(2,038)	24,703
Income tax expense	(3,266)	387	(2,879)
Profit for the year	23,475	(1,651)	21,824
Total comprehensive income	23,475	(1,651)	21,824

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

27 Prior year adjustment (continued)

Statement of financial position impact

	As previously reported	Restatement	As restated
	2020	2020	2020
	£ 000	£ 000	£ 000
Intangible assets	37,826	(3,720)	34,106
Deferred tax assets	5,055	707	5,762
Total non-current assets	335,775	(3,013)	332,762
Total assets	357,488	(3,013)	354,475
Total assets less current liabilities	326,576	(3,013)	323,563
Net assets	325,334	(3,013)	322,321
Retained earnings	325,181	(3,013)	322,168
Equity attributable to owners of the Company	325,334	(3,013)	322,321

A third Statement of Financial position has been presented in accordance with IAS 1 to illustrate the impact in the opening Balance sheet for the prior financial year. The Company identified that £1,682,000 of costs previously capitalised under cloud computing arrangements should be expensed. These additional costs give rise to a deferred tax asset of £320,000.

Notes to the Financial Statements for the Year Ended 30 September 2021 (continued)

27 Prior year adjustment (continued)

The opening Statement of Financial has accordingly been restated to correct for these items with the affected lines shown below:

Opening Statement of financial position impact

	As previously reported	Restatement	As restated
	2019	2019	2019
	£ 000	£ 000	£ 000
Intangible assets	31,730	(1,682)	30,048
Deferred tax assets	4,150	320	4,470
Total non-current assets	306,224	(1,362)	304,862
Total assets	332,353	(1,362)	330,991
Total assets less current liabilities	302,527	(1,362)	301,165
Net assets	301,859	(1,362)	300,497
 Retained earnings	 301,706	 (1,362)	 300,344
Equity attributable to owners of the Company	301,859	(1,362)	300,497

28 Events after the financial period

In January 2022 the shareholders of the ultimate parent company have demonstrated their support of the Group's growth strategy through a £12,500,000 equity injection. During December 2021 an additional €14,880,000 was made available in the SSTL facility.