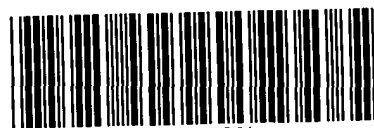


# **Tunstall Healthcare Group Limited**

Annual report and consolidated financial  
statements  
for the year ended 30 September 2014

Registered number 06495696

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## Strategic report

The Directors present the Strategic report for the year ended 30 September 2014.

### Principal Activities

The company is a parent company and the principal activities of its subsidiary undertakings are hardware and software development, product design and manufacture, marketing, installation, monitoring and service of Telecare, Assisted Living, Nursecall, Monitoring and Telehealth solutions.

### Business performance

#### *Financial performance*

In 2014 the Group continued to deliver Telecare, Assisted Living, Nursecall, Monitoring and Telehealth solutions across six main regions of UK & Ireland, Nordics, Southern Europe, Central Europe, North America and Australasia.

Approximately 71.5% of the Group's revenues are in non-sterling currencies and as a result the Group was impacted by the continued strengthening of sterling throughout 2014. With sterling increasing by 7.2% against the Euro and 12.4% against the Swedish Kroner, the Group's Revenue and EBITDA performance in 2014 have been impacted.

2014 brought significant additional challenges, in particular in the Group's UK and US markets. In the UK market slower than expected deployment of existing Telecare and Telehealth Managed Services contracts, increased competition in Assisted Living and Service, and operational challenges resulted in a decline in Revenue and EBITDA. In the US, operational challenges associated with the outsourcing of contact centre services and the loss of a major Telehealth contract also resulted in a decline in Revenue and EBITDA. In order to address these issues a number of measures have been taken, including changes to senior management, realignment of strategic focus and cost reduction initiatives.

All other regions grew Revenue and EBITDA during the period as expected. The Group as a whole achieved Revenues of £215.2m (2013: £221.0m), a decline of 2.6% and EBITDA (excluding non-controlling interest) of £43.0m (2013: £52.7m); a decline of 18.4%.

#### *Exceptional items and goodwill impairment*

The Group incurred a net exceptional charge of £6.8m in the year (2013: £5.2m). This reflected principally the costs of restructuring the organisation, including cost saving measures, to address market and operational challenges and to implement the Group's new growth strategy.

The Directors have reviewed the carrying value of Goodwill, and have determined that an impairment charge of £32.6m (2013: nil) be taken in light of the recent underperformance of certain of the Group's income generating units.

#### *Loss on ordinary activities before interest and taxation*

As a result of the trading issues in the UK and US, the continued strengthening of sterling, the impairment of goodwill and the exceptional costs incurred as a result of restructuring the organisation, the Group incurred a loss on ordinary activities before interest and taxation of £41.1m (2013: profit of £4.7m).

## Strategic report (continued)

### Funding

The Group completed a refinancing in October 2013 resulting in the repayment of existing Senior term loans and Mezzanine loans. A new syndicated Senior debt arrangement was put in place with £90m and €240m term loans together with a £20m revolving credit facility and £40m acquisition facility. At 30 September 2014 the acquisition facility was undrawn and the revolving credit facility undrawn other than a small amount of ancillary drawings as referred to in note 24. Further details of loans including repayment terms are provided in note 18.

As part of the new financing arrangements, the Group is subject to a standard set of financial covenants which are tested quarterly. The Group complied with these covenants throughout the year.

Note 18 provides details of an equity bridge loan facility amounting to £61.1m (2013: £59.2m) which is guaranteed by the Group's institutional investors and which was refinanced during the year for a further two year term.

The Group has long-term subordinated shareholder loans amounting to £787.0m (2013: £653.6m) which are repayable on exit or 2098 whichever is earlier and are required to be disclosed as debt under UK GAAP. £20m of the year over year increase is due to additional shareholder loans obtained in September 2014 in order to strengthen the Group's financial position and support the implementation of the Group's growth strategy.

### Cash flow

Net cash inflow from operating activities declined to £37.4m compared with £45.5m in the previous year. This reduction is due to the trading difficulties experienced during the year as previously reported. Operating cash flow represented 86.1% of EBITDA (2013: 86.3%) with the impact of the trading difficulties offset by improved working capital cash flows.

Net interest paid almost entirely relates to serving the Group's bank debt and amounted to £12.7m (2013: £13.1m). Interest on the equity bridge loan is compounded semi-annually and paid on redemption of the loan. Interest on the long-term subordinated shareholder loan notes is compounded annually and paid on redemption of the notes themselves.

Capital expenditure reduced by £12.2m to £16.4m (2013: £28.6m) as the Group reviewed its growth strategy.

### Key performance indicators

In 2014 the Group used the following financial key performance indicators to measure its performance:

	2014	2013
Revenue	£215.2m	£221.0m
EBITDA (excluding non-controlling interest)	£43.0m	£52.7m
EBITDA margin	20.1%	23.8%
Operating cash flow % of EBITDA	86.4%	86.3%
Net cash inflow / (outflow) before financing	£6.4m	(£19.9m)

- Revenues of £215.2m (2013: £221.0m) reduced as a result of trading and operational issues in the UK and US markets. In addition the continued strengthening of sterling throughout 2014 has materially impacted performance.
- EBITDA of £43.0m (2013: £52.7m) and EBITDA margin of 20.1% (2013: 23.8%) reduced as a result of the trading and operational issues in the UK and US markets, in addition the continued strengthening of sterling.
- Operating cash flow as a percentage of EBITDA amounted to 86.4% (2013: 86.3%)
- Net cash inflow / (outflow) before financing amounted to £6.4m (2013: outflow £19.9m) due to lower capital expenditure and 2013 being impacted by acquisitions.

## **Strategic report** *(continued)*

### **Business environment**

The Group operates in the Telehealthcare market and supplies products and services to the Assisted Living, Nursecall and Telehealth markets and also provides associated products and services including software for monitoring centres and contact centre services.

The Telehealthcare market which consists of equipment suppliers and service providers is growing at approximately 6% per annum across the Group's core markets. In Assisted Living, which is a sub-sector of the residential care market, growth is primarily in the private sector. Finally the global Telehealth market which involves the remote provision of health services remains in pilot phase. However Pharmaceutical and Medical Device companies are increasingly seeing value in funding Telehealth programmes.

The growth in the Group's core markets, particularly Telecare and Assisted Living is underpinned by growing demographic demand with 18% of the population in the markets in which the Group operates forecast to be over 65 by 2018. In Telehealth, market predictions are for a 3% compound annual growth rate in long-term conditions including dementia, diabetes and obesity. In addition the ratio of caregivers to the elderly is reducing and the focus of policy is increasingly on the provision of integrated care in the community and at home.

The profile of the Group's customers is changing with traditional publicly funded customers facing constrained budgets and the increasing trend of individuals funding their own care. The Group intends to make further progress in addressing these changes in order to take advantage of the growth opportunities.

Finally the technological landscape in which the Group operates is changing with the emergence of new technologies including wearables, mobile applications and solutions for the connected home. In addition there is increased demand for IP solutions as a result of the planned shut-down of analogue networks and cessation of support for analogue technology in many of the markets in which the Group operates. Tunstall is addressing this shift by developing and deploying best in class IP and mobile solutions as part of its growth strategy. The increased demand for IP solutions also allows for the emergence of new competitors that have not traditionally operated in the Group's core markets.

The Group is in an excellent position to take advantage of the growth opportunities in its core markets as it adapts to the changing needs of its customers and technology landscape.

### **Principal risks and uncertainties**

#### *Foreign exchange risk*

The Group operates within a number of international territories, invoicing in local currency and also sourcing its product in a number of currencies. As a result the Group is exposed to foreign exchange risk, principally against the Euro, US dollar and Swedish Kroner. The Group's strategy is to mitigate the transactional and translation risk through natural hedges. In respect of the Euro exposure this is managed through the Euro denomination of the Group's new term loans.

#### *Interest rate risk*

The Group has a number of bank borrowings as described in note 18 at fixed margins above LIBOR and EURIBOR. This risk is managed through a number of interest rate hedges as described in note 18 which fix interest rates relating to approximately 75% of bank borrowings.

#### *People*

The success of the Group 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 including the Group CEO.

## Strategic report *(continued)*

### *Competition from new entrants*

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

### **Business strategy**

Following the recruitment of Paul Stobart as Chief Executive Officer in November 2013 and Shaun Parker as Chief Financial Officer in February 2014 the Group has undertaken a review of its growth strategy.

The new strategy was launched in October 2014 and has been built to take advantage of the growth in the markets the Group operates in and to address the changing profile of the Groups customers and the technological challenges the Group faces.


The new Group strategy is focused on three key pillars:

- Protecting market share in the Group's core markets by deploying best in class IP and mobile solutions
- Accelerating transition from product to high touch managed care services
- Incubating new propositions to future-proof the business

The Group's strategic approach is centred on organic growth and is underpinned by a focus on building IP and mobile capability through enhanced product marketing and partnership capabilities.

As part of the Group's plan to establish a presence in new and/or adjacent markets, acquisitions will also be considered.

By order of the Board



**J Furniss**  
*Company Secretary*

Whitley Lodge  
Whitley Bridge  
Doncaster  
DN14 0HR

18 December 2014

## Directors' report

The Directors present their annual report and the audited financial statements for the year ended 30 September 2014.

### Results and dividends

The results for the year ending 30 September 2014 are set out on page 10. The Group recorded an EBITDA of £43.0m (2013: £52.7m) and an operating loss of £41.1m (2013: profit £4.7m). No interim or final dividend was paid or proposed (2013: nil).

### Directors

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

M Miller	
G Prestia	
T James	
R Moores	
P Stobart	(Appointed 27 November 2013)
S Parker	(Appointed 10 February 2014)
S Sadler	
J Greenhalgh	(Resigned 18 December 2013)
G Baldwin	(Resigned 30 October 2013)
R Webster	(Resigned 10 February 2014)

### Financial instruments

The Group uses financial instruments including cash, borrowings and interest rate swaps, the main purpose of which are to raise finance for the Group's activities and to manage interest rate risks. It is the Group's policy not to enter into trading of a speculative nature in financial instruments. Further detail is given in note 18 to the financial statements.

### Political donations

No political donations were made (2013: nil).

### Going concern

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

In order to satisfy themselves that adequate resources are available for the future, the Directors have reviewed the Group's financial forecasts which cover a period of more than twelve months after the date of approval of the financial statements. In assessing the forecasts the Directors have considered:

- Trading risks presented by the current economic conditions in the markets the Group operates in
- The status of the Group's financial arrangements and associated covenant requirements
- Progress made in developing and implementing the Groups new growth strategy
- Mitigating actions available should business activities fall behind current expectations

The Directors are of the opinion that the Group's forecasts and projections, taking account of reasonably possible changes in trading performance, together with planned mitigating actions and the proceeds from the additional equity investment in September 2014, show the Group has adequate financial resources to continue to operate for a period of more than 12 months from the date of this report and ensure continued compliance with its financial covenants for the foreseeable future. For this reason, the going concern basis is considered appropriate for the preparation of the financial statements.

## **Directors' report** *(continued)*

### **Post balance sheet event**

On 31 October 2014 the Group successfully concluded the purchase of the assets of Mountain Home Medical, a Telecare product and Service provider based in Colorado in the US for a consideration of \$5.25m, of which \$500,000 is deferred for 12 months and subject to performance conditions.

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

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

### **Auditor**

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

By order of the Board

A handwritten signature in black ink, consisting of a stylized 'J' followed by a horizontal line and a loop.

**J Furniss**  
*Company Secretary*

Whitley Lodge  
Whitley Bridge  
Doncaster  
DN14 0HR

18 December 2014



## **Statement of Directors' responsibilities in respect of the Strategic and Directors' reports and the financial statements**

The Directors are responsible for preparing the Strategic and Directors' reports and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

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

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



KPMG LLP  
1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

## **Independent Auditor's report to the members of Tunstall Healthcare Group Limited**

We have audited the financial statements of Tunstall Healthcare Group Limited for the year ended 30 September 2014 set out on pages 10 to 41. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 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 report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Directors and auditor**

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

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 30 September 2014 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**


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

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

### **Matters on which we are required to report by exception**

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

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



**David Morritt (Senior Statutory Auditor)**

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

Chartered Accountants  
1 The Embankment  
Leeds  
West Yorkshire  
LS1 4DW

19 December 2014

## Consolidated profit and loss account for the year ended 30 September 2014

	Note	2014 £000	2013 £000
<b>Group Turnover</b>		<b>215,241</b>	220,980
Operating profit before charging depreciation and amortisation and operating exceptional items ("EBITDA") attributable to shareholders		<b>42,975</b>	52,728
EBITDA attributable to non-controlling interest		<b>313</b>	-
Depreciation of tangible fixed assets	11	<b>(11,071)</b>	(9,004)
Amortisation of intangible fixed assets	10	<b>(33,890)</b>	(33,534)
Impairment of goodwill	10	<b>(32,638)</b>	-
Operating exceptional items	3	<b>(6,794)</b>	(5,234)
<b>Operating (loss) / profit</b>		<b>(41,105)</b>	4,956
Share of operating loss of associates		-	(267)
<b>(Loss) / Profit on ordinary activities before interest</b>		<b>(41,105)</b>	4,689
Interest receivable	7	<b>714</b>	297
Interest payable	8	<b>(130,684)</b>	(128,373)
<b>Loss on ordinary activities before taxation</b>	4	<b>(171,075)</b>	(123,387)
Tax on loss on ordinary activities	9	<b>(281)</b>	(4,424)
<b>Loss for the financial year on ordinary activities after taxation</b>		<b>(171,356)</b>	(127,811)
Non-controlling interests	22	<b>(224)</b>	-
<b>Loss attributable to shareholders for the financial year</b>	21	<b>(171,580)</b>	(127,811)

All of the turnover and results for the current year and preceding period arise from continuing activities.

The notes on pages 18 to 42 form part of the financial statements.

## Consolidated balance sheet at 30 September 2014

	Note	2014 £000	2013 £000
<b>Fixed assets</b>			
Intangible assets	10	393,266	452,380
Tangible assets	11	31,980	35,098
Investments	12	175	(66)
		<u>425,421</u>	<u>487,412</u>
<b>Current assets</b>			
Stocks	13	15,183	16,725
Debtors	14	57,181	64,932
Cash at bank and in hand		40,702	11,972
		<u>113,066</u>	<u>93,629</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>(45,873)</u>	<u>(123,595)</u>
<b>Net current assets / (liabilities)</b>		<u>67,193</u>	<u>(29,966)</u>
<b>Total assets less current liabilities</b>		<u>492,614</u>	<u>457,446</u>
<b>Creditors: amounts falling due after more than one year</b>	16	(1,114,752)	(913,684)
<b>Provisions for liabilities and charges</b>	19	(553)	(236)
<b>Net liabilities before net pension liabilities</b>		<u>(622,691)</u>	<u>(456,474)</u>
Pension liabilities	25	(17,649)	(10,398)
<b>Net liabilities</b>		<u>(640,340)</u>	<u>(466,872)</u>
<b>Capital and reserves</b>			
Called up share capital	20	100	100
Share premium account	21	9,566	9,566
Profit and loss account	21	(650,581)	(476,538)
<b>Shareholders' deficit</b>		<u>(640,915)</u>	<u>(466,872)</u>
Non-controlling interest	22	575	-
<b>Total capital employed</b>		<u>(640,340)</u>	<u>(466,872)</u>

The notes on pages 18 to 41 form part of the financial statements.

These financial statements were approved by the Board of Directors on 18 December 2014 and were signed on its behalf by:



**P Stobart**  
Director

  
**S Parker**  
Director

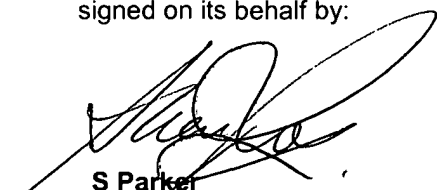
Company registered number: 06495696

**Company balance sheet**  
**at 30 September 2014**

	Note	£000	2014 £000	£000	2013 £000
<b>Fixed assets</b>					
Investments	12		9,628		9,628
<b>Current assets</b>					
Debtors	14	20		58	
Creditors: amounts falling due within one year	15	(68)		(84)	
<b>Net current liabilities</b>			(48)		(26)
<b>Net assets</b>			9,580		9,602
<b>Capital and reserves</b>					
Called up share capital	20		100		100
Share premium account	21		9,566		9,566
Profit and loss account	21		(86)		(64)
<b>Shareholders' funds</b>			9,580		9,602

The notes on pages 18 to 42 form part of the financial statements.

These financial statements were approved by the Board of Directors on 18 December 2014 and were signed on its behalf by:



**S Parker**  
Director

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## Consolidated statement of total recognised gains and losses for the year ended 30 September 2014

	2014 £000	2013 £000
Loss for the financial year	(171,580)	(127,811)
Exchange gains on the retranslation of net investments and related borrowings	6,294	1,221
Actuarial loss on pension scheme (note 25)	(8,757)	(4,947)
<b>Total recognised losses relating to the financial year</b>	<b>(174,043)</b>	<b>(131,537)</b>

## Reconciliation of movements in shareholders' (deficit)/funds for the year ended 30 September 2014

	2014 Group £000	2014 Company £000	2013 Group £000	2013 Company £000
Loss for the financial year	(171,580)	(22)	(127,811)	(17)
Other recognised gains and losses relating to the year (net)	(2,463)	-	(3,726)	-
New shares issued	-	-	2	2
<b>Net reduction in shareholders' funds</b>	<b>(174,043)</b>	<b>(22)</b>	<b>(131,535)</b>	<b>(15)</b>
Opening shareholders' (deficit)/funds	(466,872)	9,602	(335,337)	9,617
<b>Closing shareholders' (deficit)/funds</b>	<b>(640,915)</b>	<b>9,580</b>	<b>(466,872)</b>	<b>9,602</b>

The notes on pages 18 to 42 form part of the financial statements.

**Consolidated cash flow statement**  
*for the year ended 30 September 2014*

	<i>Note</i>	<b>2014</b> <b>£000</b>	2013 £000
Net cash inflow from operating activities	(iii)	37,351	45,482
Returns on investments and servicing of finance	(iv)	(12,719)	(13,091)
Taxation		(1,643)	(1,663)
Capital expenditure	(v)	(16,397)	(28,646)
Acquisitions	(vi)	(164)	(22,003)
		<hr/>	<hr/>
Net cash inflow / (outflow) before financing		6,428	(19,921)
Financing	(vii)	26,554	21,400
		<hr/>	<hr/>
Net cash inflow		<b>32,982</b>	1,479
		<hr/>	<hr/>

The notes on pages 15 to 17 form part of this financial statement.



## Notes to the consolidated cash flow statement for the year ended 30 September 2014

### (i) Reconciliation of net cash flow to movement in net debt

	2014 £000	2013 £000
<b>Increase in cash</b>	<b>32,982</b>	<b>1,479</b>
Cash flow from increase in debt	(26,554)	(21,398)
<b>Movement in net debt resulting from cash flows</b>	<b>6,428</b>	<b>(19,919)</b>
Loan note and other interest added to principal	(117,599)	(103,709)
Loans and finance leases acquired with subsidiary	-	(9,545)
Amortisation of debt issue costs	(2,748)	(5,567)
Exchange gains / (losses)	10,186	(5,373)
<b>Movement in net debt</b>	<b>(103,733)</b>	<b>(144,113)</b>
Opening net debt	(970,986)	(826,873)
<b>Closing net debt</b>	<b>(1,074,719)</b>	<b>(970,986)</b>

### (ii) Analysis of changes in net debt

	At 1 October 2013 £000	Cash flow £000	Other non-cash movements £000	Exchange adjustments £000	At 30 September 2014 £000
Cash at bank and in hand	11,972	32,982	-	(4,252)	40,702
Debt due within one year	(69,274)	10,675	57,939	(9)	(669)
Debt due after more than one year	(913,684)	(37,229)	(178,286)	14,447	(1,114,752)
	(982,958)	(26,554)	(120,347)	14,438	(1,115,421)
<b>Net debt</b>	<b>(970,986)</b>	<b>6,428</b>	<b>(120,347)</b>	<b>10,186</b>	<b>(1,074,719)</b>

Other non-cash movement of £120,347,000 includes £117,599,000 of accrued interest and amortisation of debt issue costs of £2,748,000.

## Notes to the consolidated cash flow statement *(continued)*

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

	2014 £000	2013 £000
Operating (loss) / profit before exceptional items	(34,242)	10,190
Operating exceptional items	(6,794)	(5,234)
Loss on sale of tangible fixed assets	61	24
Depreciation charges	11,071	9,004
Amortisation of intangible fixed assets	5,007	3,584
Amortisation of goodwill	28,883	29,950
Impairment of goodwill	32,638	-
Decrease/(increase) in stocks	1,433	(2,945)
Decrease in debtors	10,141	3,861
Decrease in creditors	(10,847)	(2,952)
<b>Net cash inflow from operating activities</b>	<b>37,351</b>	<b>45,482</b>

### (iv) Returns on investments and servicing of finance

	2014 £000	2013 £000
Interest received	714	297
Interest paid	(13,433)	(13,388)
	<b>(12,719)</b>	<b>(13,091)</b>

### (v) Capital expenditure

	2014 £000	2013 £000
Purchase of intangible fixed assets	(7,205)	(11,171)
Purchase of tangible fixed assets	(9,192)	(17,516)
Proceeds from sale of tangible fixed assets	-	41
	<b>(16,397)</b>	<b>(28,646)</b>

### (vi) Acquisitions

	2014 £000	2013 £000
Consideration paid in respect of purchase of subsidiary undertakings	(234)	(25,201)
Cash acquired with subsidiaries	70	3,198
	<b>(164)</b>	<b>(22,003)</b>

## Notes to the consolidated cash flow statement *(continued)*

### (vii) Financing

	2014 £000	2013 £000
New borrowings	312,796	41,569
New debt issue costs paid	(14,506)	(3,315)
Repayment of bank borrowings	(271,444)	(15,363)
Repayment of hire purchase contracts	(292)	(1,493)
Issue of ordinary share capital	-	2
	<u>26,554</u>	<u>21,400</u>

## Notes to the financial statements

### 1 Accounting policies

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

#### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules.

#### ***Going concern***

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

In order to satisfy themselves that adequate resources are available for the future the Directors have reviewed the Group's financial forecasts which cover a period of more than twelve months after the date of approval of the financial statements. In assessing the forecasts the Directors have considered:

- Trading risks presented by the current economic conditions in the markets the Group operates in
- The status of the Group's financial arrangements and associated covenant requirements
- Progress made in developing and implementing the Group's new growth strategy
- Mitigating actions available should business activities fall behind current expectations

The Directors are of the opinion that the Group's forecasts and projections, taking account of reasonably possible changes in trading performance, together with planned mitigating actions and the proceeds from the additional equity investment in September 2014, show the Group has adequate financial resources to continue to operate for a period of more than 12 months from the date of this report and ensure continued compliance with its financial covenants for the foreseeable future. For this reason, the going concern basis is considered appropriate for the preparation of the financial statements.

#### ***Basis of consolidation***

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 September 2014, under the acquisition method of accounting. Under this method, the results of the subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. The Group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

The company is exempt under s408 of the Companies Act 2006 from the requirement to present its individual profit and loss account. The company's result for the year is shown in the notes to the financial statements.

Non-controlling interests represent the proportion of the profit and loss and net assets in subsidiaries that is not held by the Group and is presented within equity in the consolidated balance sheet, separate from equity of shareholders of Tunstall Healthcare Group Ltd.

#### ***Related party transactions***

The company has taken advantage of the exemption within FRS 8 not to disclose transactions with other members of the Group.

## Notes to the financial statements *(continued)*

### 1 Accounting policies *(continued)*

#### **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of the acquisition. Goodwill is amortised to nil by equal annual instalments over its estimated useful life, deemed to be 20 years. Goodwill is stated at cost, less amortisation, less any provision for impairment in value.

On acquisition, any goodwill acquired is allocated to cash generating units ("CGU") for the purposes of impairment testing. Goodwill is reviewed for impairment where there are indicators that an impairment may have occurred. If the recoverable amount of the CGU is less than the carrying value of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis.

#### **Investments in subsidiary and associate undertakings**

Investments in subsidiary and associated undertakings are stated at cost in the company balance sheet. Investments in associated undertakings are stated at the Group's share of the net assets of each associate in the consolidated balance sheet.

#### **Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

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

No depreciation is provided on freehold land.

#### **Leases**

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

#### **Stocks**

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

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

#### **Cash and liquid resources**

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

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

## Notes to the financial statements *(continued)*

### 1 Accounting policies *(continued)*

#### **Foreign currencies**

Trading results of overseas subsidiaries and associated undertakings are translated using average exchange rates ruling during the financial year. The balance sheets of overseas undertakings are translated using the rate of exchange ruling at the balance sheet date. Exchange differences arising from these translations are taken to reserves, net of exchange differences on related foreign currency borrowings.

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

#### **Borrowings**

Borrowings are initially stated at the fair value of the amount received after deduction of issue costs. Issue costs, together with finance costs, are charged to the profit and loss account over the expected term of the borrowings.

#### **Classification of financial instruments issued by the Group**

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company (or Group as the case may be) 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 (or Group); 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.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

#### **Government grants**

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

## Notes to the financial statements *(continued)*

### 1 Accounting policies *(continued)*

#### **Turnover**

Turnover comprises the value of sales of the Group's Telecare, Assisted Living, Nursecall and Telehealth technology, either from product sales or services provided and is stated net of value added tax, trade discounts and returns.

Turnover from product sales includes the value of sales generated from the sale of original equipment, spares and equipment purchased from original equipment manufacturers. Product sales also include the sale and licensing of software.

Turnover from the sales of products are either recognised on delivery or where products are sold as part of an Assisted Living or Nursecall installation contract, turnover is recognised using a percentage-of-completion basis over the period from signing of the contract to customer acceptance. Percentage-of-completion is measured using records of actual time and cost incurred compared with the estimated time and cost required, however where appropriate contract milestones are also used as a proxy for percentage-of-completion.

Turnover from the sale of services includes equipment servicing and maintenance, software support and maintenance, monitoring and call centre services. Turnover is recognised as services are performed.

Where the sale of products and services are combined under one Managed Services contractual arrangement these activities are treated separately where appropriate with the relevant accounting policy for the recognition of turnover, as detailed above, being applied to each individual component.

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

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

#### **Pension costs**

Certain companies within the Group participate in the Tunstall Group Ltd 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 Group.

Regular valuations are prepared by independent professionally qualified actuaries. These determine the level of contributions required to fund the benefits set out in the rules of the scheme and allow for the periodic increase on pensions in payment.

A credit representing the expected return on the assets of the scheme and a charge representing the increase in the liabilities of the scheme during the year give the net return on the pension scheme and is included as a finance charge or credit within interest.

Actuarial gains and losses are a result of the changes in assumptions and are recorded in the statement of total recognised gains and losses. They include the difference between actual and expected investment return on scheme assets and experience variances resulting from the difference between assumed and actual membership movement.

In addition, a stakeholder scheme is in operation in the UK and various defined contribution schemes are in operation in other countries.

The assets of these schemes are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

## Notes to the financial statements *(continued)*

### 1 Accounting policies *(continued)*

#### ***Development expenditure***

Development expenditure is capitalised as an intangible asset only where there is a clearly defined project, the expenditure is separately identifiable, the outcome of the project can be assessed with reasonable certainty, aggregate costs are not expected to exceed related future sales and adequate resources exist to enable the project to be completed.

Capitalised development expenditure is amortised over a four year period on a straight line basis.

Other development expenditure is charged to the profit and loss account in the year in which it is incurred.

#### ***Taxation***

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

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



## Notes to the financial statements *(continued)*

### 2 Segmental information

The Group is managed on the basis of six broad geographical regions:

- UK & Ireland
- Nordics (Sweden, Finland and Denmark)
- Central Europe (Germany, Belgium, Holland and Switzerland)
- Southern Europe (Spain and France)
- Australasia (Australia and New Zealand)
- North America (USA and Canada)

Segment revenues and performance have been as follows:

	2014			2013		
	Turnover	Profit before interest and tax	Net assets/ (liabilities)	Turnover	Profit before interest and tax	Net assets/ (liabilities)
	£000	£000	£000	£000	£000	£000
<i>Analysis by geographical region:</i>						
Continuing operations:						
UK & Ireland	84,842	12,974	175,674	91,710	24,331	386,846
Nordics	47,316	7,186	31,170	50,502	6,047	12,014
Central Europe	26,389	1,462	46,223	25,556	1,201	3,689
Southern Europe	41,372	2,175	14,261	27,055	3,210	10,140
Australasia	7,933	560	(2,121)	8,461	887	(1,579)
North America	28,569	1,217	(19,522)	35,066	3,232	8,007
Corporate	104	(5,158)	(185,319)	7,109	(4,269)	(350,140)
	<u>236,525</u>	<u>20,416</u>	<u>60,366</u>	<u>255,459</u>	<u>34,639</u>	<u>68,977</u>
Less:						
IntraGroup sales	(21,284)	-	-	(34,479)	-	-
Impairment of goodwill	-	(32,638)	-	-	-	-
Amortisation of goodwill	-	(28,883)	-	-	(29,950)	-
	<u>215,241</u>	<u>(41,105)</u>	<u>60,366</u>	<u>220,980</u>	<u>4,689</u>	<u>68,977</u>
Share of net liabilities of associated undertaking			-			(225)
Goodwill			374,016			435,362
Net interest bearing liabilities			(1,074,722)			(970,986)
			<u>(640,340)</u>			<u>(466,872)</u>

## Notes to the financial statements *(continued)*

### 2 Segmental information *(continued)*

	2014 £000	2013 £000
<i>Analysis of turnover by country of origin:</i>		
United Kingdom	61,422	68,168
Spain	34,025	25,606
Sweden	30,593	32,039
North America	28,568	34,889
Germany	20,348	19,384
Other European countries	32,352	32,568
Rest of the world	7,933	8,326
	<hr/>	<hr/>
	215,241	220,980
	<hr/>	<hr/>
<i>Analysis of turnover by country of destination:</i>		
United Kingdom	61,444	68,196
Spain	33,832	25,671
Sweden	28,995	30,304
North America	28,568	35,663
Germany	18,554	17,951
Other European countries	34,683	34,170
Rest of the world	9,165	9,025
	<hr/>	<hr/>
	215,241	220,980
	<hr/>	<hr/>

## Notes to the financial statements *(continued)*

### 3 Costs and overheads

	2014 £000	2013 £000
Movement in stocks	1,542	(2,947)
Raw materials and consumables	45,543	49,079
Other external charges	40,680	42,394
Staff costs	90,982	84,960
Depreciation, amortisation and impairment	77,599	42,538
	<u>256,346</u>	<u>216,024</u>

Included within costs and overheads in 2014 are operating exceptional items of £6,794,000, comprising of £3,562,000 restructuring costs, £1,811,000 product redesign costs, £751,000 impairment costs, and £670,000 consultancy, legal and other costs of a non-recurring nature.

Included within costs and overheads in 2013 are operating exceptional items of £5,234,000, comprising of £1,503,000 ongoing integration costs in relation to the American Medical Alert Corporation, STT Condigi Holding AB and Televida Servicios Sociosanitarios SL acquisitions, £304,000 costs associated with transfer of monitoring connections acquired, £4,795,000 redundancy and restructuring costs around the Group, £1,184,000 consultancy, legal and other costs of a non-recurring nature, and a credit £2,552,000 in relation to the curtailment gain on closure of the Group's defined benefit scheme to future accrual, net of fees.

### 4 Loss on ordinary activities before taxation

	2014 £000	2013 £000
<b><i>Loss on ordinary activities before taxation is stated after charging:</i></b>		
Loss on disposal of fixed assets	61	24
Amounts receivable by auditors and their associates in respect of:		
Audit of these financial statements	12	12
Audit of financial statements of subsidiaries pursuant to legislation	540	479
Other services relating to taxation	123	346
Other services	646	1,207
Remuneration of other subsidiary auditors	9	10
Research and development costs	3,225	1,962
Operating lease rentals:		
Land and buildings	3,293	2,774
Plant, machinery and vehicles	2,448	3,030
	<u></u>	<u></u>

## Notes to the financial statements *(continued)*

### 5 Remuneration of Directors

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

	2014 £000	2013 £000
Directors' emoluments	919	893
Amounts paid to third parties for Directors' services	108	98
Pension contributions in relation to money purchase schemes	31	26
Compensation for loss of office	325	745
	<hr/> 1,383 <hr/>	<hr/> 1,762 <hr/>
Highest paid Director:		
Emoluments	327	311
Pension contributions in relation to money purchase schemes	5	18
	<hr/> 332 <hr/>	<hr/> 329 <hr/>

No Director (2013: *one*) accrued benefits under the Group's defined benefit pension scheme in respect of qualifying services during the year. Four Directors (2013: *two*) accrued benefits under defined contribution schemes.

### 6 Staff numbers and costs

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

	Number of employees 2014	2013
Production and distribution	484	465
Sales and administration	2,374	2,350
Research and development	92	97
	<hr/> 2,950 <hr/>	<hr/> 2,912 <hr/>

The aggregate payroll costs of these persons were as follows:

	2014 £000	2013 £000
Wages and salaries	75,151	73,585
Social security costs	11,985	8,457
Other pension costs	3,846	2,918
	<hr/> 90,982 <hr/>	<hr/> 84,960 <hr/>

## Notes to the financial statements *(continued)*

### 7 Interest receivable and similar income

	2014 £000	2013 £000
Bank interest	178	236
Finance income in respect of pensions (note 25)	536	61
	<hr/>	<hr/>
	714	297
	<hr/>	<hr/>

### 8 Interest payable and similar charges

	2014 £000	2013 £000
On bank loans and overdrafts	17,108	21,175
On all other loans	113,389	95,861
Retranslation of foreign currency denominated borrowings	(15,182)	6,181
All other exchange losses / (gains)	12,621	(411)
Amortisation of debt issue costs	2,748	5,567
	<hr/>	<hr/>
	130,684	128,373
	<hr/>	<hr/>

## Notes to the financial statements *(continued)*

### 9 Taxation

#### **Analysis of charge / (credit) in period**

	2014 £000	2013 £000
<i>UK corporation tax</i>		
Current tax	-	-
Adjustments in respect of prior period	-	-
	<hr/>	<hr/>
	-	-
<i>Overseas tax</i>		
Current tax	1,563	1,785
Adjustments in respect of prior period	932	1,674
	<hr/>	<hr/>
Total current tax charge	2,495	3,459
	<hr/>	<hr/>
<i>Deferred tax (note 19)</i>		
Origination and reversal of timing differences	(1,629)	229
Adjustments in respect of prior period	(857)	288
Impact of deferred tax rate change	272	448
	<hr/>	<hr/>
Total deferred tax (credit)/charge	(2,214)	965
	<hr/>	<hr/>
Tax charge on loss on ordinary activities	281	4,424
	<hr/>	<hr/>

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

The current tax charge for the year is higher (2013: *higher*) than the standard rate of corporation tax in the UK of 22% (2013: 23.5%). The differences are explained below:

	2014 £000	2013 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(171,075)	(123,387)
	<hr/>	<hr/>
Current tax at 22% (2013: 23.5%)	(37,636)	(28,996)
	<hr/>	<hr/>
<i>Effects of:</i>		
Expenses not chargeable for tax purposes	26,428	22,681
(Decrease) / increase in overseas tax losses carried forward	(217)	458
Excess depreciation over capital allowances	633	319
Overseas tax – rate differences	329	(194)
Goodwill amortisation and impairment not deductible for tax purposes	13,381	7,038
Adjustments in respect of prior periods	932	1,674
Other timing differences	(666)	(397)
(Utilisation of)/Increase in UK tax losses carried forward	(689)	876
	<hr/>	<hr/>
Total current tax charge (see above)	2,495	3,459
	<hr/>	<hr/>

## Notes to the financial statements *(continued)*

### 9 Taxation *(continued)*

#### **Factors affecting future tax charges**

The tax charge in future years will be affected by the Group's ability to utilise its deferred tax asset as set out in note 19.

### 10 Intangible fixed assets

	Development expenditure £000	Goodwill £000	Total £000
<b>Cost</b>			
At beginning of year	22,661	577,653	600,314
Additions	7,205	167	7,372
Disposals	(637)	-	(637)
Currency movements	(175)	37	(138)
	<hr/>	<hr/>	<hr/>
At end of year	29,054	577,857	606,911
	<hr/>	<hr/>	<hr/>
<b>Amortisation</b>			
At beginning of year	5,643	142,291	147,934
Charged in year	5,007	28,883	33,890
Disposals	(637)	-	(637)
Impairment	-	32,638	32,638
Currency movements	(209)	29	(180)
	<hr/>	<hr/>	<hr/>
At end of year	9,804	203,841	213,645
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 30 September 2014	19,250	374,016	393,266
	<hr/>	<hr/>	<hr/>
At 30 September 2013	17,018	435,362	452,380
	<hr/>	<hr/>	<hr/>

As a result of trading difficulties experienced during the year the Group reviewed goodwill for impairment. The impairment test was performed at the balance sheet date and was based on financial plans approved by the Board covering a three year period. The recoverable amount is based on value in use calculations derived from these plans which also include a terminal value based on projections for the final year with a growth rate assumption applied to the subsequent periods. As a result of this test an impairment charge of £32.6m (2013: nil) was taken in relation to the carrying value of the underperforming business units.

Additions to goodwill of £167,000 relates to the acquisition of 51% of the issue share capital of Saludnova Solutions S.L, a Spanish telehealthcare provider, for €255,000 on 30 April 2014. The net assets of this investment at the time of the acquisition totalled €81,000, including cash of €90,000.

## Notes to the financial statements *(continued)*

### 11 Tangible fixed assets

	Freehold property £000	Plant, fixtures and vehicles £000	Total £000
<b>Cost</b>			
At beginning of year	5,042	46,598	51,640
Additions	47	9,368	9,415
Disposals	(163)	(10,770)	(10,933)
Currency movements	(180)	(3,257)	(3,437)
	<hr/>	<hr/>	<hr/>
At end of year	4,746	41,939	46,685
	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>			
At beginning of year	756	15,786	16,542
Charge for year	60	11,011	11,071
Disposals	(163)	(10,709)	(10,872)
Currency movements	(35)	(2,001)	(2,036)
	<hr/>	<hr/>	<hr/>
At end of year	618	14,087	14,705
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 30 September 2014	4,128	27,852	31,980
	<hr/>	<hr/>	<hr/>
At 30 September 2013	4,286	30,812	35,098
	<hr/>	<hr/>	<hr/>

Included within plant, fixtures and vehicles are assets held under finance leases with a net book value of £314,000 (2013: £597,000). The depreciation charge for the year on these assets was £283,000 (2013: £292,000).

### 12 Investments

Group	Share of net assets £000
<i>Associated undertakings:</i>	
At beginning of year	(225)
Disposals	225
	<hr/>
At end of year	-
	<hr/>

The disposal of the Group's 51% share in Tunstall-Proazimut AIE is a result of the Group signing a new partnership agreement with Proazimut on 1 October 2013 and Tunstall-Proazimut AIE being wound-up and put into liquidation.

	Investments £000
<i>Investments:</i>	
At beginning of year	159
Additions	11
Adjustment to carrying value	5
	<hr/>
At end of year	175
	<hr/>

Details of the investments in subsidiary and associated undertakings are shown in note 29.



## Notes to the financial statements *(continued)*

### 12 Investments *(continued)*

#### Company

£000

#### *Subsidiary undertakings*

Cost at the beginning and end of year

**9,628**

### 13 Stocks

	2014 £000	2013 £000
Raw materials	1,831	1,758
Work in progress	1,427	989
Contract work in progress	1,191	934
Finished goods	10,734	13,044
	<u>15,183</u>	<u>16,725</u>

### 14 Debtors

	2014 Group £000	2014 Company £000	2013 Group £000	2013 Company £000
Trade debtors	36,200	-	42,676	-
Amounts owed by subsidiary undertakings	-	20	-	58
Other debtors	7,512	-	4,808	-
Prepayments	9,005	-	15,171	-
Corporation tax	-	-	129	-
Deferred tax (note 19)	4,464	-	2,148	-
	<u>57,181</u>	<u>20</u>	<u>64,932</u>	<u>58</u>

Of the deferred tax asset of £4,464,000 (2013: £2,148,000) an amount of £nil (2013: £nil) is recoverable within one year.

## Notes to the financial statements *(continued)*

### 15 Creditors: amounts falling due within one year

	2014 Group £000	2014 Company £000	2013 Group £000	2013 Company £000
Obligations under finance lease and hire purchase contracts (note 17)	300	-	300	-
Bank loans (note 18)	369	-	68,974	-
Trade creditors	14,942	-	16,686	-
Corporation tax	825	-	-	-
Other taxes and social security	4,232	-	5,503	-
Accruals and deferred income	25,205	-	32,132	-
Amounts owed to subsidiary undertakings	-	68	-	84
	<u>45,873</u>	<u>68</u>	<u>123,595</u>	<u>84</u>

### 16 Creditors: amounts falling due after more than one year

	2014 £000	2013 £000
Obligations under finance lease and hire purchase contracts (note 17)	5	297
<i>Other borrowings (note 18):</i>		
Bank loans	327,745	259,774
Unsecured subordinated shareholder loan notes	787,002	653,613
	<u>1,114,752</u>	<u>913,684</u>

### 17 Obligations under finance lease and hire purchase agreements

	2014 £000	2013 £000
Amount payable within one year	300	300
Amounts payable within two to five years	5	297
	<u>305</u>	<u>597</u>

## Notes to the financial statements (continued)

### 18 Other borrowings

	2014			2013		
	Bank loans £000	Loan notes £000	Total £000	Bank loans £000	Loan notes £000	Total £000
<b>Repayment terms</b>						
Wholly within five years						
– by instalments	-	-	-	169,204	-	169,204
Wholly within five years						
– not by instalments	61,067	-	61,067	-	-	-
Not wholly within five						
years – by instalments	-	-	-	157,916	-	157,916
Not wholly within five years						
– not by instalments	277,061	787,002	1,064,063	-	653,613	653,613
Unamortised issue costs	(12,634)	-	(12,634)	(576)	-	(576)
Accrued cash interest	2,620	-	2,620	2,204	-	2,204
	<u>328,114</u>	<u>787,002</u>	<u>1,115,116</u>	<u>328,748</u>	<u>653,613</u>	<u>982,361</u>
<b>Maturity</b>						
On demand or within one	2,620	-	2,620	69,550	-	69,550
year						
Issue cost amortisation						
within one year	(2,251)	-	(2,251)	(576)	-	(576)
	<u>369</u>	<u>-</u>	<u>369</u>	<u>68,974</u>	<u>-</u>	<u>68,974</u>
Due within one year	61,067	-	61,067	14,639	-	14,639
Between one and two						
years	-	-	-	245,135	-	245,135
Between two and five						
years	277,062	787,002	1,064,064	-	653,613	653,613
After five years						
Issue costs amortisation	(10,384)	-	(10,384)	-	-	-
after more than one year	<u>328,114</u>	<u>787,002</u>	<u>1,115,116</u>	<u>328,748</u>	<u>653,613</u>	<u>982,361</u>

Within bank loans there is an equity bridge facility of £61.1m guaranteed by the Group's institutional shareholders which is due after more than one year and now has a maturity of 10 March 2016. This replaced the previous Equity Bridge facility of £58.1m which was repaid on 10 March 2014 for a total of £60.4m including accrued interest. This loan bears interest at six month LIBOR plus a margin of 1.80%. Interest is compounded semi-annually and paid on redemption of the loan.

During the year, £20.0m of Secured Loan Notes were issued to the Group's institutional shareholders. These Loan Notes are redeemable at par on 3 April 2098 and bear interest at 20% per annum. Interest is compounded annually on 31 March and paid on redemption of the loan notes themselves.

£646.3m of the Unsecured Loan Notes are redeemable at par on 3 April 2098 and bear interest at 16% per annum. Interest is compounded annually on 3 April and paid on redemption of the loan notes themselves.

£120.6m of the Unsecured Loan Notes are redeemable at par on 3 April 2098 and bear interest at 25% per annum. Interest is compounded annually and paid on redemption of the notes themselves.

## Notes to the financial statements *(continued)*

### 18 Other borrowings *(continued)*

The terms of the bank loans are as follows:

<i>Term Loan B1</i> £90 million	Repayable in full on 18 October 2020 Bears interest at 5.0% per annum above LIBOR
<i>Term Loan B2</i> €240 million	Repayable in full on 18 October 2020 Bears interest at 4.5% per annum above EURIBOR
<i>Acquisition facility</i> Available facility £40 million Drawn facility £nil	Facility expires on 18 October 2019 Bears interest at 4.5% per annum above LIBOR
<i>Revolving credit facility</i> Available facility £20 million Drawn facility £0.5 million	Repayable in full on 18 October 2019 Bears interest at 4.5% per annum above LIBOR
£766.9m shareholders' subordinated loan notes	Investor loan notes redeemable at par in 2098, management loan notes at par in 2033. Bear interest at 16% per annum. Acquisition loan notes redeemable at par in 2098, bear interest at 25% per annum.
£20.1m shareholders' secured loan notes	Investor loan notes redeemable at par in 2098. Bear interest at 20% per annum.
Equity bridge facility £61.1 million	Current maturity 10 March 2016. Secured by shareholder guarantee. Bears interest at 1.8% above 6 month LIBOR
<i>Security</i> Term Loans	Secured by a mortgage debenture incorporating a fixed and floating charge over the company and all its present and future subsidiaries together with an unlimited composite cross-guarantee structure

### *Hedging*

The Group have interest rate hedges in place for £67.5m and €180m which expire on 30 November 2016. The fair value of these instruments as at 30 September 2014 is a liability of £1.0m (2013: A number of interest rate hedges were in place which expired on 30 November 2013, with a fair value as at 30 September 2013 of £0.5m)

### *Refinancing*

On 18 October 2013 the Group completed a refinancing of its Senior, and Mezzanine debt referred to above, drawing down £90m and €240m of new facilities which were utilised to repay the existing Senior, Mezzanine and Revolving Credit facilities.

## Notes to the financial statements (continued)

### 19 Provisions for liabilities and charges

#### Warranty provision

	£000
At beginning of year	(236)
Charge to the profit and loss account in the year	(553)
Utilised	236
<b>At end of year</b>	<b>(553)</b>

#### Deferred tax

The Group has the following recognised and unrecognised deferred tax assets at 20% (2013: 20%):

	£000
At beginning of year	2,148
Credit to the profit and loss account in the year	2,214
Foreign exchange movement	102
<b>At end of year</b>	<b>4,464</b>

	2014 Recognised £000	2014 Unrecognised £000	2013 Recognised £000	2013 Unrecognised £000
Excess book depreciation over tax allowances on fixed assets	2,852	-	1,418	-
UK losses	-	12,657	-	5,928
Other timing differences	937	3,530	-	2,646
Overseas losses	675	-	730	-
	<b>4,464</b>	<b>16,187</b>	<b>2,148</b>	<b>8,574</b>

The utilisation of deferred tax assets relies on a number of factors including the future profitability of the UK and overseas companies. Where the recoverability of these amounts within the foreseeable future is uncertain the deferred tax asset shown above has not been recognised in these financial statements. Where current forecasts indicate that recoverability of these amounts will occur within the foreseeable future, the deferred tax asset has been recognised, as disclosed in note 14.

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

## Notes to the financial statements (continued)

### 20 Called up share capital

	2014 £000	2013 £000
<b>Allotted, called up and fully paid:</b>		
8,264,996 "A" ordinary shares of £0.01 each	83	83
1,688,322 "B" ordinary shares of £0.01 each	17	17
	<u>100</u>	<u>100</u>

### Rights of shares

The A ordinary shares and B ordinary shares rank pari passu in all respects.

### 21 Reserves

#### Group

	Share capital £000	Share premium account £000	Profit and loss account £000
At beginning of year	100	9,566	(476,538)
Loss for the year	-	-	(171,580)
Currency movement	-	-	6,294
Actuarial gain on pension scheme	-	-	(8,757)
<b>At end of year</b>	<u>100</u>	<u>9,566</u>	<u>(650,581)</u>

#### Company

At beginning of year	100	9,566	(64)
Loss for the financial year	-	-	(22)
<b>At end of year</b>	<u>100</u>	<u>9,566</u>	<u>(86)</u>

### 22 Non-controlling interest

	2014 £000	2013 £000
At the beginning of the year	-	-
Movements	799	-
Share of loss for the year	(224)	-
	<u>575</u>	<u>-</u>

Movements in the year include the non-controlling interest associated with Saludnova Solutions S.L. which was acquired on 30 April 2014 and is referred to in note 10. Also included is recognition of the non-controlling interest associated with UTE Pais Vaso Televida/GSR and UTE Pais Vasco GSR/Televida, both of which were consolidated on a proportionate basis in prior years.

## Notes to the financial statements *(continued)*

### 23 Financial commitments

At 30 September 2014, the Group had the following operating lease commitments:

	2014		2013	
	Land and buildings	Plant, machinery and vehicles	Land and buildings	Plant, machinery and vehicles
	£000	£000	£000	£000
Minimum annual lease rentals under operating leases which expire:				
Within one year	229	152	92	798
Within two to five years	3,694	1,400	1,486	1,267
After five years	68	-	1,514	-
	<u>3,991</u>	<u>1,552</u>	<u>3,092</u>	<u>2,065</u>

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

### 24 Contingent liabilities

At 30 September 2014, the Group had contingent liabilities in respect of performance bonds and other letters of credit totalling £455,000 (2013: £532,000) given by the Group's bankers.

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

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

In the event of the utilisation of the shareholders' guarantee over the equity bridge loan facility referred to in note 18, a fee would become due to those shareholders who have provided the guarantee. The fee would not be payable until the earlier of either a sale of the Group or redemption of the shareholder instruments which would replace the bridge loan. The maximum amount of this fee would be £127.2 million if the guarantee is utilised at the final maturity of the bridge loan on 10 March 2016.

## Notes to the financial statements *(continued)*

### 25 Pension scheme

The Group contributes to a number of pension schemes for its employees. The Group has one defined benefit pension scheme.

The Group's defined benefit pension scheme for UK employees only (Tunstall Group Limited Pension Fund ('TGLPF')) was closed to future accrual in 2013. A full actuarial valuation of the scheme was carried out at 5 April 2013 and updated for FRS 17 purposes to 30 September 2014 by a qualified independent actuary.

During the year ended 30 September 2014, the Group paid regular contributions to the pension plan of £nil (2013: £781,000) in respect of the defined benefits arrangements. Additional contributions of £937,125 (2013: £892,000) have been paid in the period to reduce the pension deficit. Contributions for the year ended 30 September 2015 are expected to be £1,000,000.

The accrued contributions at the end of the financial year were £28,000 (2013: £117,700).

#### **FRS 17 valuation of the TGLPF scheme**

Scheme assets are stated at fair value at 30 September 2014 and the liabilities of the scheme have been assessed as at the same date.

The major assumptions used to calculate the scheme liabilities under FRS 17 are:

	2014	2013
Rate of increase in salaries	n/a	n/a
Rate of increase in pensions in payment and deferred pensions	3.45%	3.50%
Discount rate applied to scheme liabilities	3.95%	4.50%
Inflation assumption	3.45%	3.50%

The mortality table used was 110% of SAPS Year of Birth Long CMI 2009 projections (2013: PA92 Medium Cohort plus 1 year age adjustment).

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.



## Notes to the financial statements *(continued)*

### 25 Pension scheme *(continued)*

The fair value of the assets in the scheme which are not intended to be realised in the short term and may be subject to significant change before they are realised and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long term rate of return 2014 %	Value at 30 September 2014 £000	Long term rate of return 2013 %	Value at 30 September 2013 £000
Equities	7.1%	35,730	7.5%	33,046
Bonds	3.95%	11,981	4.5%	11,089
Other	0.5%	9	0.5%	218
		<hr/>		<hr/>
		47,720		44,353
Present value of scheme liabilities		(65,369)		(54,751)
		<hr/>		<hr/>
Deficit in the scheme		(17,649)		(10,398)
Related deferred tax asset (unrecognised) at 20% (2013: 20%)		3,530		2,079
		<hr/>		<hr/>
Net deficit		(14,119)		(8,319)
		<hr/>		<hr/>

#### ***Movements in fair value of plan assets***

	2014 £000	2013 £000
At beginning of year	44,353	42,222
Expected return on plan assets	2,978	2,306
Actuarial gains/(losses)	415	(671)
Contributions:		
By employer	970	1,673
By members	-	50
Benefits paid	(996)	(1,227)
	<hr/>	<hr/>
At end of year	47,720	44,353
	<hr/>	<hr/>

#### ***Movements in present value of defined benefit obligation***

	2014 £000	2013 £000
At beginning of year	(54,751)	(51,159)
Current service cost	-	(901)
Interest cost	(2,442)	(2,245)
Actuarial losses	(9,172)	(4,276)
Curtailment gain on scheme closure	-	2,653
Contributions by members	-	(50)
Benefits paid	996	1,227
	<hr/>	<hr/>
At end of year	(65,369)	(54,751)
	<hr/>	<hr/>

## Notes to the financial statements *(continued)*

### 25 Pension scheme *(continued)*

#### **Statement of total recognised gains and losses**

	2014 £000	2013 £000
Actual return less expected return on assets	415	(671)
Changes in assumptions underlying the present value of the scheme liabilities	(9,172)	(4,276)
	<hr/>	<hr/>
Actuarial loss recognised	(8,757)	(4,947)
	<hr/>	<hr/>

#### **Analysis of other pension costs charged in arriving at operating profit**

	2014 £000	2013 £000
Current service cost	-	901
	<hr/>	<hr/>

#### **Analysis of amounts included in other finance costs**

	2014 £000	2013 £000
Expected return on pension scheme assets	2,978	2,306
Interest on pension scheme liabilities	(2,442)	(2,245)
	<hr/>	<hr/>
	536	61
	<hr/>	<hr/>

#### **History of plans**

The history of the plans for the current and prior periods is as follows:

##### **Balance sheet**

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Present value of scheme liabilities	(65,369)	(54,751)	(51,159)	(46,716)	(47,257)
Fair value of scheme assets	47,720	44,353	42,222	36,769	36,407
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Deficit	(17,649)	(10,398)	(8,937)	(9,947)	(10,850)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

##### **Experience adjustments**

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Experience adjustments on scheme assets	415	(671)	2,522	(1,363)	2,274
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Experience adjustments on scheme liabilities	(3,804)	-	-	-	1,532
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

## Notes to the financial statements *(continued)*

### 26 Post balance sheet event

On 31 October 2014 the Group successfully concluded the purchase of the assets of Mountain Home Medical, a Telecare product and Service provider based in Colorado in the US for a consideration of \$5.25m, of which \$500,000 is deferred for 12 months and subject to performance conditions.

### 27 Related party disclosures

A controlling interest in the company is held by Charterhouse General Partners (VIII) Limited by virtue of its 60.8% holding in the issued shares of the company. Charterhouse General Partners (VIII) Limited also holds 73.2% of the loan notes, the repayment and interest terms of which are disclosed in note 18. Fees of £60,000 per annum were paid by the company to Charterhouse General Partners (VIII) Limited in respect of management services. Where appropriate these fees are included in the amounts disclosed as Directors' emoluments in note 5.

In the opinion of the Directors, there were no other related party transactions during the year.

### 28 Ultimate controlling party

The Directors consider that Charterhouse General Partners (VIII) Limited, a company incorporated in England, is the ultimate controlling party of the Group.

### 29 Principal subsidiary undertakings and associates

Subsidiary	Principal activity	Country of incorporation	% Shareholding
<b>Direct</b>			
TGH Investments Limited	Intermediate holding company	England	
<b>Via Subsidiary</b>			
TGH Finance Limited	Intermediate holding company	England	100%
TGH Acquisitions Limited	Intermediate holding company	England	100%
Tunstall Group Holdings Limited	Intermediate holding company	England	100%
Tunstall Group Finance Limited	Intermediate holding company	England	100%
Tunstall Group Acquisition Limited	Intermediate holding company	England	100%
Tunstall Holdings Limited	Intermediate holding company	England	100%
Blythmore Limited	Intermediate holding company	England	100%
Tunstall Group Limited	Intermediate holding company	England	100%
Tunstall Healthcare (UK) Limited	Marketing, installation, service and monitoring of community alarms and telehealth equipment	England	100%
Emergency Response Limited	Installation and monitoring of community alarms	Ireland	100%
Tunstall Group Holding GmbH	Intermediate holding company	Germany	100%
Tunstall GmbH	Installation of community alarms and hospital communications systems	Germany	100%
Tunstall BV	Marketing, installation and service of community alarms	Holland	100%
Tunstall SA	Marketing, installation and service of community alarms	Belgium	100%
Tunstall Group Holding AB	Intermediate holding company	Sweden	100%
Tunstall Nordic AB	Intermediate holding company	Sweden	100%
Tunstall AB	Marketing, installation and service of community alarms	Sweden	100%
Tunstall AS	Marketing, installation and service of community alarms	Denmark	100%
Tunstall OY	Marketing, installation and service of community alarms	Finland	100%

## Notes (continued)

### 29 Principal subsidiary undertakings and associates (continued)

Subsidiary	Principal activity	Country of incorporation	% Shareholding
Tunstall Iberica SA	Marketing, installation and service of community alarms	Spain	100%
Televida Servicios Sociosanitarios SL	Monitoring of community alarms and provider of healthcare response services	Spain	100%
Vitaris SAS	Monitoring of community alarms	France	100%
Tunstall Australasia Pty Limited	Sale and monitoring of community alarms and telehealth equipment	Australia	100%
Tunstall New Zealand Limited	Monitoring of community alarms	New Zealand	100%
Monitor AMA Holdco Corp.	Intermediate holding company	US	100%
American Medical Alert Corp.	Monitoring of community alarms and medical call centre activities	US	100%
Alpha Message Centre Acquisition Corp.	Monitoring of community alarms and medical call centre activities	US	100%
American Mediconnect Acquisition Corp.	Monitoring of community alarms and medical call centre activities	US	100%
Answer Connecticut Acquisition Corp.	Monitoring of community alarms and medical call centre activities	US	100%
HCI Acquisition Corp.	Monitoring of community alarms and medical call centre activities	US	100%
Live Message America Acquisition Corp.	Monitoring of community alarms and medical call centre activities	US	100%
MD On Call Acquisition Corp.	Monitoring of community alarms and medical call centre activities	US	100%
NM Call Centre Inc	Monitoring of community alarms and medical call centre activities	US	100%
North Shore Answering Service Inc.	Monitoring of community alarms and medical call centre activities	US	100%
Safe Com Inc.	Monitoring of community alarms and medical call centre activities	US	100%
Saludnova Solutions S.L.	Telehealth	Spain	51%
La Saleta S.L.	Monitoring of community alarms and provider of healthcare response services	Spain	75%
UTE Pais vasco Televida/GSR	Monitoring of community alarms and provider of healthcare response services	Spain	85%
UTE Pais vasco GSR/Televida	Monitoring of community alarms and provider of healthcare response services	Spain	85%
UTE Barcelona/Ayto.	Monitoring of community alarms and provider of healthcare response services	Spain	100%
Fundación Televida	Social Foundation	Spain	100%
<b>Investments</b>			
LifeComm LLC.	Monitoring of community alarms and medical call centre activities	US	10%