

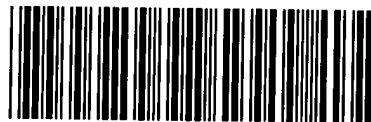
Registration number: 06495696

# Tunstall Healthcare Group Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 30 September 2018

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**Tunstall Healthcare Group Limited**  
**Consolidated Annual Report and Financial Statements**

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## Strategic Report for the Year Ended 30 September 2018

The Directors present their Strategic Report for the year ended 30 September 2018.

### Principal activity

The Company is a parent Company and the principal activity of its subsidiary undertakings is the provision of Integrated Connected Care and Connected Health solutions and propositions across each of its main Regions which are UK & Ireland, Nordics, Southern Europe, Central Europe, North America and Australasia, in addition to corporate activities.

### Review of the business

#### *Financial performance*

After taking into account the amendments to reflect the discontinued operations as required under IFRS, revenue for the year as shown in the Consolidated Income Statement amounted to £207,868,000 (2017 - £206,244,000) and the Group's operating profit was £25,515,000 (2017 - £21,142,000). The Group's operating profit before charging depreciation, amortisation and exceptional items ("EBITDA") decreased to £46,795,000 (2017 - £47,123,000). With approximately 67% (2017 - 67%) of the Group's revenues from continuing operations in non-sterling currencies, the Group's financial performance was favourably impacted by the weakening of Sterling during the year.

Including the operations in the USA, which are classified as discontinued operations, revenue for the year amounted to £239,460,000 (2017 - £240,617,000) and the Group's operating profit before charging depreciation, amortisation and exceptional items ("EBITDA") decreased to £49,103,000 (2017 - £51,397,000).

The Consolidated Income Statement as set out on page 16 of the financial statements shows a loss from continuing operations for the financial year of £268,918,000 (2017 - loss of £38,663,000). The consolidated loss for the year was £284,338,000 (2017: £45,958,000).

The following commentary sets out the performance achieved by each of the Group's six main Regions.

#### *UK & Ireland*

The UK business has experienced challenging trading conditions in the year and revenue of £67,661,000 in 2018 versus a 2017 of £67,736,000 reflects this, with almost no movement from the previous year.

However underlying this performance is strong growth in the the UK Connected Care Managed Services market which has seen the growth rate increase from 5% in 2017 to 6.5% which is due to growth in our existing customer base and securing new customers. The pipeline for new opportunities remains strong with local authorities developing an increased interest in our outsourced Managed Service solutions. The markets increased interest in Managed Service solutions is driven by a growing demand for care services, a need for Local Authorities to improve utilisation of their scarce resources and an imperative to realise efficiency driven cost savings.

UK Group Living has seen a return to growth in the year (12.7%), with a particularly strong performance in the private development sector, as predicted in last year's report. It is expected that the coming year will see further penetration into the private development market, with new IP based solutions offering the opportunity for development of recurring revenue.

In contrast to this, Digital Health saw a year on year decline of 81.5% as a result of the cessation of a large contract in Northern Ireland. This overall segment performance masks growth in other parts of the UK where we are experiencing increased interest in the demand for an Integrated Connected Health management proposition and the outlook for this business remains very strong.

## Strategic Report for the Year Ended 30 September 2018 (continued)

### Review of the business (continued)

#### *Nordics*

There was significant market structure change in the Nordics during 2018 which saw the market preferred method of procurement move from capital sales model to a managed service model with the resultant monthly recurring revenue business model. This has had the effect of dampening the revenue growth in % terms in return for security of long term revenue. The result is a 1.4% revenue decrease (2.2% growth constant currency) and 2.8% EBITDA growth (2.2% constant currency). Overall margins have improved due to product mix and efficiency improvements. 2018 was a transformative year for the Nordic regions and the focus on the shift to a Managed Service model approach to secure a strong revenue base together has been critical.

#### *Southern Europe*

8.8% revenue growth (7.1% constant currency) and 6.8% EBITDA (4.7% constant currency) growth was achieved in Southern Europe, with both organic growth in Managed Services and strong Independent Living Equipment sales. Organic growth is expected to continue into 2019 with further Managed Service growth.

#### *Central Europe*

Revenue and EBITDA decreased by 4.8% and 7.2% respectively in Central Europe with customer demand lower awaiting the introduction of new digital products in Independent Living, along with lower Nursecall revenues in comparison to the strong 2017 performance. Removing the impact of exchange rates saw a decrease of 5.6% in revenue and 8.4% in EBITDA.

#### *Australasia*

Revenue and EBITDA decreased by 17.4% and 1.2% respectively in Australasia which reflect the impact of transitioning from Australia's National Broadband Network's Medical Alarm Subsidy Scheme to support wholesale switchover from analogue devices to digital devices. This national program drove on Independent Living revenues for 2017. The scheme completed in early 2018. Excluding the impact of exchange differences revenue decreased by 12.3% and EBITDA by 0.5%.

#### *North America (Discontinued operation)*

The USA saw a decline of 9.1% in revenue and 45.5% in EBITDA, of which 11% reduction in revenue and 33% reduction in EBITDA result from the disposal of the TAS business in 2017. The decision was made during the year to divest of the USA operations and consequently these are shown as discontinued operations.

#### *Depreciation and amortisation*

The Group's depreciation charge in the year increased to £13,791,000 (2017 - £13,307,000) as a result of the investment in equipment to support the growth of the Group's Managed Services contracts. Excluding discontinued operations the charge increase to £11,040,000 (2017 - £10,623,000).

Amortisation of development expenditure increased to £6,290,000 (2017 - £5,969,000) as the Group continued to develop its Connected Care and Connected Health solutions with a particular focus on Internet Protocol machine to machine communications technology which will radically transform the services which the Group is providing to its customers.

Amortisation of customer related and computer software intangible assets amounted to £2,121,000 (2017 - £1,722,000).

Excluding discontinued operations the total amortisation charge increased to £7,139,000 (2017 - £6,603,000).

## Strategic Report for the Year Ended 30 September 2018 (continued)

### Review of the business (continued)

#### *Exceptional items*

The Group presents certain items as exceptional items that are non-recurring and significant in nature. 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.

Including the discontinued operations, the Group incurred a net exceptional charge of £5,725,000 in the year ended 30 September 2018 (2017 - £12,054,000). In terms of continuing operations, net exceptional charges were £3,101,000 (2017 - £8,755,000). This principally comprised costs associated with the Group's initiative to drive significant cost and operational efficiencies to support the implementation of the Group's growth strategy, in addition to other restructuring costs. More details are provided in note 8 of the financial statements.

#### *Goodwill impairment*

The Directors have reviewed the carrying value of Goodwill. An impairment charge of £19,807,000 (2017 - £23,795,000) has been recognised in the year ended 30 September 2018.

Of this charge £10,969,000 (2017 - £1,858,000) relates to the discontinued operations

#### *Net finance costs*

Net finance costs for the year increased to £284,136,000 (2017 - £34,752,000). This principally comprises £245,594,000 of interest accrued on the Group's long-term subordinated shareholder and management loans (2017 - £207,018,000) and £25,499,000 interest payable on the Group's Senior debt and Equity Bridge loan (2017 - £21,300,000). ). The prior year saw a one off credit of £202,574,000 in relation to the Equity Bridge Loan Guarantee. In addition to this, in the current year, there was a foreign exchange loss of £3,945,000 principally in relation to the Euro denominated Senior Term Loan and balances with overseas subsidiaries (2017 - foreign exchange loss of £4,220,000).

#### *Taxation*

The Group recorded an income tax expense of £897,000 (2017 - £111,000). Despite the loss on ordinary activities before tax of £268,021,000 (2017 - £38,552,000 as restated), the Group incurs a tax expense as a result of taxable profits in overseas jurisdictions and due to the fact that shareholder loan interest charges are not deductible in arriving at UK profits or losses chargeable for tax. The Group's tax expense is also affected by brought forward tax losses and timing differences that are recognised as deferred tax.

#### *Acquisitions and disposals*

During the year, the Group acquired the trade and assets of Kanayo Software Inc and Ewii Telecare AS, with further details provided in note 16.

The Group has made the decision to dispose of its operations in the USA, and at the year end it had been actively marketed with offers being received for the business and a sale considered highly probable. Given the expected timing of the sale, the business is classified as discontinued operations in the accounts, with the remaining assets being treated as assets and liabilities held for resale. Consequently the results for the previous year have been restated to treat the operations as discontinued.

## Strategic Report for the Year Ended 30 September 2018 (continued)

### Review of the business (continued)

#### *Cash flow*

Cash generated from operations increased to £37,684,000 compared with £35,088,000 in the previous year. Operating cash flow represented 76.7% of EBITDA (2017 - 68.3%) with the increase due to the timing of working capital cash flows and lower exceptional costs being incurred.

Net interest paid almost entirely relates to serving the Group's Senior debt and amounted to £19,483,000 (2017 - £16,585,000) with the increase being due to the timing of interest payments, which moved from bi-annually to quarterly during the year. Interest on the long-term unsecured subordinated shareholder loan notes is compounded annually and paid on redemption of the notes themselves on exit or in 2098.

Capital expenditure of £26,635,000 (2017 - £27,081,000) is in line with the previous year as the Group continued to invest in its growth strategy. The main areas of expenditure included development of new products, software and services of £9,890,000 (2017 - £6,815,000) in addition to investment in equipment installed in service users homes as part of a Managed Service arrangement of £10,903,000 (2017 - £10,016,000).

#### *Funding*

The Group continues to enjoy considerable financial resources with a cash balance at 30 September 2018 amounting to £22,076,000 (2017 - £34,072,000).

On 12 February 2018 the Group reached an agreement with its Senior Debt providers to defer key milestone dates associated with the conditions of the financing arrangement dated 17 March 2017. These dates were extended further on 17 January 2019 and this deferral means that the covenant does not fall within 12 months of the date of approval of these financial statements. This has no impact upon the other financial covenants previously agreed and the fee charged by the lenders in relation to the deferral is not material to the Group.

The financial covenants comprise a gross leverage ratio, liquidity and capital expenditure tests. The gross leverage and liquidity covenant tests are quarterly and monthly respectively. The Group complied with these covenants throughout the year.

Note 26 provides details of the Group's long-term subordinated shareholder loans amounting to £1,604,387,000 (2017 - £1,358,651,000). These are repayable at the earlier of the redemption date in 2098 or in the event of shareholder divestment of the Group.

Further details of loans including repayment terms are provided in note 26.

### 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.

The Group as a whole operates a stable business with a number of customers and suppliers across different geographic regions and has considerable financial resources with a cash balance at 30 September 2018 amounting to £22,076,000 (2017 - £34,072,000).

The Directors have made an assessment and satisfied themselves of the Group's and Company's ability to continue as a going concern. The key elements of this assessment were the Group's forecasts and projections, in addition to the resetting of the Group's Senior Debt covenants effective 17 March 2017 and further amended on 12 February 2018 and 17 January 2019 in order to provide additional flexibility to implement the Group's strategy at pace. These forecasts and projections, which taking account of reasonably possible changes in trading performance, show the Group has adequate resources to continue in operational existence for at least twelve months from the date of this report.

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

## Strategic Report for the Year Ended 30 September 2018 (continued)

### Key performance indicators

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

	Unit	2018	2017
Revenue (including discontinued operations)	£m	239.46	240.62
EBITDA (including discontinued operations)	£m	49.10	51.40
Gross profit margin (including discontinued operations)	%	43.17	44.58
EBITDA margin	%	20.50	21.36
Cash generated from operations	£m	37.68	35.09
Cash generated from operations % of EBITDA	%	76.74	68.27
Net cash flow	£m	(12.00)	(14.67)

- Revenue for the year (including discontinued operations) of £239,460,000 (2017 - £240,617,000), with growth in Southern Europe in particular offsetting the business lost from the TAS disposal in 2017.
- EBITDA of £49,103,000 (2017 - £51,397,000) decreased as a result of the items highlighted above in the review of the business.
- EBITDA margin of 20.50% (2017 - 21.4%) has decreased from the prior year.
- Cash generated from operations as a percentage of EBITDA increased to 76.74% (2017 - 68.27%) due to timing of working capital cash flows including the settlement of expenditure in relation to the Group's restructuring and other exceptional costs.
- Net cash outflow amounted to £11,996,000 (2017 - outflow of £14,669,000).

### Reconciliation of non-statutory measures

	2018	2017
Operating profit as reported	25,515	21,142
Depreciation and amortisation	18,179	17,226
Exceptional items	3,101	8,755
Operating profit of discontinued operations	(4,339)	(2,798)
Depreciation and amortisation related to discontinued operations	4,023	3,773
Exceptional items related to discontinued operations	2,624	3,299
EBITDA (including discontinued operations)	49,103	51,397

## Strategic Report for the Year Ended 30 September 2018 (continued)

### Business strategy

The Group's strategy is to provide technology-enabled solutions and managed services that streamline our customers' ability to deliver new models for health and care management in the community setting. The Group delivers these solutions and services across its five key Regions which are UK & Ireland, Nordics, Southern Europe, Central Europe and Australasia.

The Group specialises in two key sectors, telecare delivery of Social Care & Personal Emergency Alarm services and telehealth delivery of healthcare solutions and services supporting care providers to manage patients with complex long-term conditions. These services and solutions are delivered across both the public and private sector and, due to an aging population with an increasing demand for social care and healthcare, the shortage of healthcare professionals across the world, combined with ever increasing constraints on government finances, the demand for these services and new models of care are growing. Market trends in developed economies are seeing increased joint working and consolidated budgets across social care and healthcare at an operational level, placing Tunstall in an advantageous position to address the combined requirement.

At a top level, this is what we do:

Enabling clients	Facilitating the optimum level of care	Reducing and mitigating adverse events
The Group enables clients to enjoy their lifestyle, safe in the knowledge that they are being monitored and that in the event of adverse events there will be a rapid response engaging the appropriate services.	The Group enables the most appropriate level of care to be applied in care management and response. For clients and carers this provides reassurance, whilst for providers and commissioners, this is also normally the most cost efficient.	Care providers/commissioners want to avoid adverse events so that they can reduce acute capacity demands and associated costs.
The Group's solutions enable more independent living, with chronic healthcare conditions (and their management) being less constraining on lifestyles.	By monitoring clients remotely, the Group can free-up the resources of the payer which would otherwise be required in routine and acute situations.	Using Tunstall alarms (physical, biological and ambient) to identify and qualify risks, informed interventions can be made to accelerate intervention to prevent expensive hospitalisation or simply to avoid unnecessary interventions.
The Group's active monitoring for the 'cared for' and their carers provides reassurance and also helps to resolve the financial challenges faced by care/healthcare providers as the Group delivers a high quality service and allows for higher utilisation of the payers resources.	The benefits are wide spread from avoidance for the need for physical clinic attendance, to avoidance of any emergency service response, avoiding or delaying hospital admittance and faster hospital discharge thus improving resource utilisation and improving the citizens quality of life.	



## Strategic Report for the Year Ended 30 September 2018 (continued)

### Business strategy (continued)

The Group's strategy is underpinned by the following four key pillars:

- Building integrated Care & Health propositions focussed on preserving independent living out of the acute healthcare setting, enabling the citizen to live at home longer delaying expensive institutional support.
- Enhancing Tunstall's capability to deliver optimised social care & healthcare management software solutions and services.
- Establishing Tunstall as the thought leaders and point of knowledge for technology enabled health and care.
- Leveraging the Tunstall capability to meet the private pay need via multiple consumer channel focused partners

### Business environment

The Group's core markets are underpinned by strong demographics with the global population of 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 51.2% old age dependency ration in the EU by 2070.

Age is also 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 system challenges for most countries.

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

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 organisation. IP technology and the Internet of Things is expected to help drive efficiency in this transitioning market. Therefore an ability to be technology and device agnostic 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 Group favourably to benefit from this market and technology transition.

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

## Strategic Report for the Year Ended 30 September 2018 (continued)

As highlighted in last year's report the Group launched a programme to drive significant cost and operational efficiencies designed to save costs or improve profit which in turn provides resources to invest in growth.

The Group 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 health and care services of higher quality with improved outcomes at best value for our customers.

### Principal risks and uncertainties

#### *Foreign exchange risk*

The Group operates within a number of international territories with approximately 72% of the Group's revenues in non-sterling 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 one of the Group's term loans.

#### *Interest rate risk*

The Group has syndicated loans and credit facilities, including two term loans as described in note 26, at fixed margins above LIBOR and EURIBOR respectively. The risk of interest rate increase is managed through a number of interest rate hedges as described in note 27 which fix interest rates relating to approximately 97% of the borrowing.

#### *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 Innovation and Development to retain its market share and has implemented a new growth strategy focusing on end-to-end managed services that will extract additional value from its market and also provide greater visibility of earnings through contracted revenues. Partnerships and Coalitions with multiple stakeholder and companies with merging technologies are critical and investment in the Evity Platform to enable this connectivity in an easy to use manner has been and will continue to be critical to our success.

#### *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.

#### *Brexit*

On June 23, 2016, the United Kingdom ("UK") held a referendum in which voters approved for the UK to leave the European Union ("EU") ("Brexit"). At the time of this report, the British government continues to review and negotiate the terms of the U.K.'s future relationship with the E.U.

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

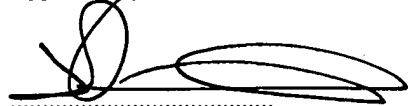
## Strategic Report for the Year Ended 30 September 2018 (continued)

### *Events after the Financial Period*

On 17 January 2019 the Group reached an agreement with its Senior Debt providers to further defer key milestone dates associated with the conditions of the financing arrangement dated 17 March 2017 and extended on 12 February 2018. At the year end there was uncertainty about the Group's ability to meet one of its milestone covenants. This deferral means the covenant does not fall within 12 months of the date of approval of these financial statements and now falls at a time when management expect the key milestone to be achievable. This has no impact upon the financial covenants previously agreed.

A judgement on the recent Lloyds Banking Group High Court hearing on Guaranteed Minimum Pension (GMP) equalisation was published on 26 October 2018. The judgement indicates that Trustees should amend scheme benefits to equalise for the effect of unequal GMPs and indicates an acceptable range of methods for how to do so. Initial estimates indicate that this obligation could be between 1% and 4% of the gross liabilities of the Group's defined benefit pension plan (£0.75m - £3 million). The effects of the ruling will be recognised in the next financial year when the obligation to amend the plan's benefits has arisen.

Approved by the Board on 24 January 2019 and signed on its behalf by:



Jon Furniss  
Company Secretary

Whitley Lodge  
Whitley Bridge  
Doncaster  
DN14 0HR

## **Directors' Report for the Year Ended 30 September 2018**

The Directors present their Report and the financial statements for the year ended 30 September 2018.

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 Group**

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

Gordon Sutherland - Chief Executive

James Arnell - Chairman

Craig Parsons

Sheena Pattni (resigned 26 July 2018)

Thomas Patrick (appointed 12 September 2018)

### **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.

### **Dividends**

The Directors do not propose the payment of a dividend (2017 - £nil).

### **Political contributions**

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

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

### **Employee involvement**

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

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

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

### **Other information**

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1.

**Directors' Report for the Year Ended 30 September 2018 (continued)**

**Reappointment of auditor**

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

Approved by the Board on 24 January 2019 and signed on its behalf by:

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

Jon Furniss  
Company Secretary

Whitley Lodge  
Whitley Bridge  
Doncaster  
DN14 0HR

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

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company 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 Group and parent Company and of the 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent 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 Group or the parent Company or to 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 parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They 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 group and to prevent and detect fraud and other irregularities.



**KPMG LLP**

1 Sovereign Square  
Sovereign Street  
Leeds  
LS1 4DA  
United Kingdom

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

**Opinion**

We have audited the financial statements of Tunstall Healthcare Group Limited ("the company") for the year ended 30 September 2018, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Financial Position, Company 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 group's and of the parent company's affairs as at 30 September 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group 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.

**The impact of uncertainties due to Britain exiting the European Union on our audit**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of goodwill and investments, retirement benefit obligations and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and 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 their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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

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

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

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

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

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

We have nothing to report in these respects.



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

### **Directors' responsibilities**

As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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

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

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

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



**David Morritt (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

1 Sovereign Square  
Sovereign Street  
Leeds  
LS1 4DA

28 January 2019

### Consolidated Income Statement for the Year Ended 30 September 2018

		2018 £ 000	(As restated)* 2017 £ 000
Revenue	4, 5	207,868	206,244
Cost of sales		<u>(116,418)</u>	<u>(113,925)</u>
Gross profit		91,450	92,319
Administrative expenses		<u>(65,935)</u>	<u>(71,177)</u>
<b>Operating profit</b>	<b>6</b>	<u><b>25,515</b></u>	<u><b>21,142</b></u>
<b>Analysed as:</b>			
EBITDA	5, 6	46,795	47,123
Depreciation and amortisation	6	(18,179)	(17,226)
Exceptional items	7	(3,101)	(8,755)
Impairment of non-current assets	15	(9,400)	(24,942)
Finance income		15	202,772
Finance costs		<u>(284,151)</u>	<u>(237,524)</u>
Net finance cost	8	<u>(284,136)</u>	<u>(34,752)</u>
<b>Loss before tax</b>		(268,021)	(38,552)
Income tax expense	12	<u>(897)</u>	<u>(111)</u>
<b>Loss for the year from continuing operations</b>		(268,918)	(38,663)
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	36	<u>(15,420)</u>	<u>(7,295)</u>
<b>Loss for the year</b>		<u><b>(284,338)</b></u>	<u><b>(45,958)</b></u>
<b>Loss attributable to:</b>			
Owners of the Company		(268,759)	(39,138)
Non-controlling interests		<u>(15,579)</u>	<u>(6,820)</u>
		<u><b>(284,338)</b></u>	<u><b>(45,958)</b></u>

\*Certain amounts shown do not correspond to the 2017 financial statements and reflect adjustments made, refer to note 36 and 37

**Consolidated Statement of Comprehensive Income for the Year Ended 30 September 2018**

	Note	2018 £ 000	2017 £ 000
Loss for the year		<u>(284,338)</u>	<u>(45,958)</u>
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurements of post employment benefit obligations	28	3,002	10,143
Deferred taxation regarding pension scheme deficit		<u>(470)</u>	<u>4,471</u>
		2,532	14,614
<b>Items that may be reclassified subsequently to profit or loss</b>			
Foreign currency translation gains/(losses)		<u>1,735</u>	<u>(2,802)</u>
<b>Total comprehensive loss for the year</b>		<u><u>(280,071)</u></u>	<u><u>(34,146)</u></u>
<b>Total comprehensive loss attributable to:</b>			
Owners of the Company		(266,587)	(34,638)
Non-controlling interests		<u>(13,484)</u>	<u>492</u>
		<u><u>(280,071)</u></u>	<u><u>(34,146)</u></u>

### Consolidated Statement of Financial Position as at 30 September 2018

	Note	2018 £ 000	2017 £ 000
<b>Non-current assets</b>			
Property, plant and equipment	13	28,334	37,491
Intangible assets	15	296,957	316,990
Equity accounted investments	17	6	6
Other non-current financial assets	18	974	926
Deferred tax assets	12	7,569	7,923
		<u>333,840</u>	<u>363,336</u>
<b>Current assets</b>			
Inventories	19	10,601	12,347
Trade and other receivables	20	39,160	40,623
Income tax asset	12	6,189	5,898
Assets held for sale	14	25,730	-
Cash and cash equivalents		22,076	34,072
Other current financial assets	18	157	263
		<u>103,913</u>	<u>93,203</u>
<b>Total assets</b>		<u>437,753</u>	<u>456,539</u>
<b>Current liabilities</b>			
Trade and other payables	21	(36,497)	(40,546)
Loans and borrowings	23	(4,128)	(1,607)
Income tax liability	12	(6,586)	(5,674)
Deferred income		(8,751)	(7,093)
Provisions	22	(3,322)	(1,601)
Liabilities held for sale	14	(2,817)	-
		<u>(62,101)</u>	<u>(56,521)</u>
<b>Non-current liabilities</b>			
Loans and borrowings	23	(320,381)	(306,381)
Loan notes	24	(1,604,387)	(1,358,651)
Retirement benefit obligations	28	(21,174)	(26,046)
		<u>(1,945,942)</u>	<u>(1,691,078)</u>
<b>Total liabilities</b>		<u>(2,008,043)</u>	<u>(1,747,599)</u>
<b>Net liabilities</b>		<u>(1,570,290)</u>	<u>(1,291,060)</u>

**Consolidated Statement of Financial Position as at 30 September 2018 (continued)**

	Note	2018 £ 000	2017 £ 000
<b>Equity</b>			
Share capital	29	100	100
Share premium		9,566	9,566
Foreign currency translation reserve		11,971	11,068
Treasury share reserve		(227)	(227)
Accumulated losses		<u>(1,580,792)</u>	<u>(1,313,350)</u>
Equity attributable to owners of the Company		<u>(1,559,382)</u>	<u>(1,292,843)</u>
Non-controlling interests		<u>(10,908)</u>	<u>1,783</u>
<b>Total equity</b>		<u>(1,570,290)</u>	<u>(1,291,060)</u>

Approved by the Board on 24 January 2019 and signed on its behalf by:



Gordon Sutherland  
Chief Executive

(Registration number: 06495696)

**Consolidated Statement of Changes in Equity for the Year Ended 30 September 2018**

	Share capital £ 000	Share premium £ 000	Foreign currency translation £ 000	Cash flow hedging reserve £ 000	Treasury share reserve £ 000	Accumulated losses £ 000	Total £ 000	Non- controlling interests £ 000	Total equity £ 000
At 1 October 2016	100	9,566	13,888	(61)	(227)	(1,282,279)	(1,259,013)	1,291	(1,257,722)
Loss for the year	-	-	-	-	-	(39,138)	(39,138)	(6,820)	(45,958)
Foreign currency translation gains/(losses)	-	-	(2,820)	-	-	-	(2,820)	18	(2,802)
Remeasurements of post employment benefit obligations	-	-	-	-	-	5,082	5,082	5,061	10,143
Deferred tax regarding pension scheme deficit	-	-	-	-	-	2,238	2,238	2,233	4,471
Total comprehensive income/(loss)	-	-	(2,820)	-	-	(31,818)	(34,638)	492	(34,146)
Share based payment transactions	-	-	-	-	-	747	747	-	747
Unwinding of cash flow hedge reserve	-	-	-	61	-	-	61	-	61
<b>At 30 September 2017</b>	<b>100</b>	<b>9,566</b>	<b>11,068</b>	<b>-</b>	<b>(227)</b>	<b>(1,313,350)</b>	<b>(1,292,843)</b>	<b>1,783</b>	<b>(1,291,060)</b>

**Consolidated Statement of Changes in Equity for the Year Ended 30 September 2018 (continued)**

	Share capital £ 000	Share premium £ 000	Foreign currency translation £ 000	Cash flow hedging reserve £ 000	Treasury share reserve £ 000	Accumulated losses £ 000	Total £ 000	Non- controlling interests £ 000	Total equity £ 000
At 1 October 2017	100	9,566	11,068	-	(227)	(1,313,350)	(1,292,843)	1,783	(1,291,060)
Loss for the year	-	-	-	-	-	(268,759)	(268,759)	(15,579)	(284,338)
Foreign currency translation gains	-	-	903	-	-	-	903	832	1,735
Remeasurements of post employment benefit obligations	-	-	-	-	-	1,504	1,504	1,498	3,002
Deferred tax regarding pension scheme deficit	-	-	-	-	-	(235)	(235)	(235)	(470)
Total comprehensive income/(loss)	-	-	903	-	-	(267,490)	(266,587)	(13,484)	(280,071)
Share based payment transactions	-	-	-	-	-	48	48	793	841
<b>At 30 September 2018</b>	<b>100</b>	<b>9,566</b>	<b>11,971</b>	<b>-</b>	<b>(227)</b>	<b>(1,580,792)</b>	<b>(1,559,382)</b>	<b>(10,908)</b>	<b>(1,570,290)</b>

### Consolidated Statement of Cash Flows for the Year Ended 30 September 2018

	Note	2018 £ 000	2017 £ 000
<b>Cash flows from operating activities</b>			
Loss for the year		(284,338)	(45,958)
Adjustments to cash flows from non-cash items:			
Depreciation and amortisation	13, 15	22,202	20,999
Impairment of non-current assets	15	20,369	26,800
Profit on disposal of intangible assets		-	(3,058)
Share based payment transactions	31	841	747
Finance income	36, 8	(24)	(202,772)
Finance costs	8	284,151	237,524
Income tax expense	12	1,018	5,808
		<u>44,219</u>	<u>40,090</u>
Working capital adjustments:			
Decrease in inventories	19	1,344	2,891
(Increase)/decrease in trade and other receivables	20	(6,632)	3,470
Increase/(decrease) in trade and other payables		(2,104)	(8,138)
Increase/(decrease) in retirement benefit obligation	28	(2,522)	(1,018)
Increase/(decrease) in provisions		1,721	(1,209)
Increase/(decrease) in deferred income		1,658	(998)
		<u>37,684</u>	<u>35,088</u>
Cash generated from operations		37,684	35,088
Income taxes paid	12	(1,354)	(3,556)
Net cash flow from operating activities		<u>36,330</u>	<u>31,532</u>
<b>Cash flows from investing activities</b>			
Acquisition of intangible assets	15	(12,838)	(11,223)
Acquisitions of property plant and equipment	13	(13,797)	(15,858)
Proceeds from sale of property plant and equipment		563	-
Interest received		24	73
Acquisition of subsidiaries net of cash acquired		(1,706)	-
Proceeds from disposal of TAS business		-	4,657
		<u>(27,754)</u>	<u>(22,351)</u>
Net cash flows from investing activities		<u>(27,754)</u>	<u>(22,351)</u>
<b>Cash flows from financing activities</b>			
Interest paid		(19,483)	(16,585)
Proceeds from issue of loan notes		-	19,400
Repayment of bank borrowing		-	(19,400)
Transaction costs for borrowings		(1,065)	(3,400)
Redemption of shares classified as liabilities		-	(414)
Payments to finance lease creditors		(28)	(25)
		<u>(20,576)</u>	<u>(20,424)</u>
Net cash flows from financing activities		<u>(20,576)</u>	<u>(20,424)</u>

The notes on pages 26 to 84 form an integral part of these financial statements.



**Consolidated Statement of Cash Flows for the Year Ended 30 September 2018  
(continued)**

	Note	2018 £ 000	2017 £ 000
<b>Net decrease in cash and cash equivalents</b>		(12,000)	(11,243)
Cash and cash equivalents at 1 October		34,072	48,742
Effect of exchange rate fluctuations on cash held		<u>4</u>	<u>(3,427)</u>
<b>Cash and cash equivalents at 30 September</b>		<u><u>22,076</u></u>	<u><u>34,072</u></u>

**Company Statement of Financial Position as at 30 September 2018**

	Note	2018 £ 000	2017 £ 000
<b>Non-current assets</b>			
Investments	17	-	-
<b>Non-current liabilities</b>			
Loans and borrowings	23	<u>(463)</u>	<u>(237)</u>
<b>Net liabilities</b>		<u>(463)</u>	<u>(237)</u>
<b>Equity</b>			
Share capital	29	100	100
Share premium		9,566	9,566
Accumulated losses		<u>(10,129)</u>	<u>(9,903)</u>
<b>Total equity</b>		<u>(463)</u>	<u>(237)</u>

Approved by the Board on 24 January 2019 and signed on its behalf by:



Gordon Sutherland  
Chief Executive

(Registration number: 06495696)

**Company Statement of Changes in Equity for the Year Ended 30 September 2018**

	<b>Share capital £ 000</b>	<b>Share premium £ 000</b>	<b>Accumulated losses £ 000</b>	<b>Total £ 000</b>
At 1 October 2016	100	9,566	(9,857)	(191)
Loss for the year	-	-	(46)	(46)
Total comprehensive loss	-	-	(46)	(46)
<b>At 30 September 2017</b>	<b>100</b>	<b>9,566</b>	<b>(9,903)</b>	<b>(237)</b>

	<b>Share capital £ 000</b>	<b>Share premium £ 000</b>	<b>Accumulated losses £ 000</b>	<b>Total £ 000</b>
At 1 October 2017	100	9,566	(9,903)	(237)
Loss for the year	-	-	(226)	(226)
Total comprehensive loss	-	-	(226)	(226)
<b>At 30 September 2018</b>	<b>100</b>	<b>9,566</b>	<b>(10,129)</b>	<b>(463)</b>

## Notes to the Financial Statements for the Year Ended 30 September 2018

### 1 General information

Tunstall Healthcare Group Limited is a private Company limited by share capital incorporated in England and Wales and domiciled in the United Kingdom under the Companies Act 2006.

The address of its registered office is:

Whitley Lodge  
Whitley Bridge  
Doncaster  
DN14 0HR  
United Kingdom

### 2 Accounting policies

#### Statement of compliance

The Group financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations adopted by the EU ("adopted IFRS's").

#### 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

##### Group

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, modified for the revaluation of certain financial assets and liabilities at fair value.

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates. It also requires Management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below in 'Critical accounting estimates and key judgements'.

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the comparative income statement has been re-presented so that the disclosures in relation to discontinued operations relate to all operations that have been discontinued by the balance sheet date (see notes 14 and 36).

#### Application of new and revised International Financial Reporting Standards

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (effective date 1 January 2018);

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 2 Accounting policies (continued)

#### Application of new and revised International Financial Reporting Standards (continued)

- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018);
- IFRS 16 Leases (effective date 1 January 2019);
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective date 1 January 2018 );
- IFRIC 23 Uncertainty over Income Tax Treatments (effective date 1 January 2019);
- Annual Improvements to IFRS Standards 2014-2016 Cycle (effective date 1 January 2018);
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective date 1 January 2019); and
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date 1 January 2018).

#### (i) *Estimated impact of the adoption of IFRS 9 and IFRS 15*

The Group is required to adopt IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* from 1 October 2018. The Group has assessed the estimated impact that the initial application of IFRS 9 and IFRS 15 will have on its consolidated financial statements. The estimated impact of the adoption of the standards on the Group's equity as at 1 October 2018 is based on assessments undertaken to date. The actual impacts of adopting these standards at 1 October 2018 may change because:

- The assessment made is preliminary as not all transition work requirements have been finalised and therefore may be subject to adjustment;
- The new standards may require the group to revise its accounting processes and internal controls, and these changes are not yet complete; and
- The new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

#### (ii) *IFRS 9 Financial Instruments*

The standard replaces IAS 39 and also results in comprehensive updates to IFRS 7 *Financial Instruments*. It introduces new requirements for classifying and measuring financial instruments, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group expects to elect to not restate comparatives on initial application of IFRS9.

IFRS 9 is not expected to have a significant impact on the regular trading activities of the Group. The key areas of focus for the Group under IFRS 9 are:

- Intercompany loan classification and recoverability; and
- Expected credit losses being recognised on trade debtors.

The new impairment model for financial assets requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses under IAS39. The Group does not expect a material impact on the loss allowance for trade debtors.

Whilst there may be changes in the basis of measurement of some intercompany loans from amortised cost to measurement at fair value, it is not anticipated that there will be a material impact on their carrying value, due to the terms of the debt.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 2 Accounting policies (continued)

#### Application of new and revised International Financial Reporting Standards (continued)

##### (iii) *IFRS 15 Revenue from customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. IT replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 18 *-Transfer of Assets from Customers*.

An initial assessment of the impact of IFRS15 is underway. The work done to date has not identified any material changes with revenue recognition under IFRS15 expected to be largely consistent with current practice for the company's revenues.

##### (iv) *IFRS 16 Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatment for both lessors and lessees. IFRS 16 will supercede the current lease guidance including IAS 18 *Leases* and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The Group currently expects to adopt IFRS 16 for the year ended 30 September 2020. No decision has been made about whether to use any of the transitional options in IFRS 16.

IFRS 16 introduces a single on-balance sheet lease accounting model for lessees. A lessee recognises a right-to-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

The Group has performed an initial assessment the impact of the new standard on its consolidated financial statements, but not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 October 2019, the composition of the lease portfolio at that date and the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

So far the most significant impact identified is that the Group will recognise new assets and liabilities, principally in relation to it leased premises and also motor vehicles. As at 30 September 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to £11,681,000 on an undiscounted basis.

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-to-use assets and interest expense on lease liabilities.

#### **Company**

The Parent Company financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 2 Accounting policies (continued)

#### Company (continued)

##### *Summary of disclosure exemptions*

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

- An Income Statement for the Company;
- A Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of the compensation of Key Management Personnel;
- Certain disclosures required by IFRS 13 - 'Fair Value Measurement' and the disclosures required by IFRS 7 - 'Financial Instrument Disclosures'; and
- Disclosures of transactions with a management entity that provides Key Management Personnel services to the Company.

#### 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.

The Group as a whole operates a stable business with a number of customers and suppliers across different geographic regions and has considerable financial resources with a cash balance at 30 September 2018 amounting to £22,076,000 (2017 - £34,072,000).

The Directors have made an assessment and satisfied themselves of the Group's and Company's ability to continue as a going concern. The key elements of this assessment were the Group's forecasts and projections, in addition to the resetting of the Group's Senior Debt covenants effective 17 March 2017 and further amended on 12 February 2018 and 17 January 2019 in order to provide additional flexibility to implement the Group's strategy at pace. These forecasts and projections, which taking account of reasonably possible changes in trading performance, show the Group has adequate resources to continue in operational existence for at least twelve months from the date of this report.

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

#### Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 30 September 2018.

No income statement is presented for the Company as permitted by section 408 of the Companies Act 2006. The Company made a loss after tax for the financial year of £226,000 (2017 - loss of £46,000).

A subsidiary is an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 2 Accounting policies (continued)

#### Basis of consolidation (continued)

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the Group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between the company and its subsidiaries, which are related parties, are eliminated in full.

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

#### Revenue recognition

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

##### *Connected Care - Independent Living*

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

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

##### *Connected Care - 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.

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.



## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 2 Accounting policies (continued)

#### Revenue recognition (continued)

##### *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 Group including churn and growth of the user base. As a result it is not possible to measure the amount of revenue for each element reliably and instead the contract is considered as a whole with revenue recognised on a straight line basis as the services are delivered to the users.

##### *Connected Health - Remote Patient Monitoring and Support*

Remote Patient Support ("RPS") comprises Medical Answering Services ("MAS"), and Telephone Answering Services ("TAS") provided in North America in addition to patient administration, monitoring and support services provided to US Hospitals, Pharmaceutical companies and other entities around the Globe. Revenue is recognised as services are performed, over the life of the contracted period and/or on a charge per call basis.

##### *Integrated Nursecall Communications*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, either on delivery of the goods or despatch of goods from the warehouse.

#### Financial instruments

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

#### 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.

#### Foreign currency transactions and balances

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in sterling, the functional and presentation currency of the Group.

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.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 2 Accounting policies (continued)

#### Foreign currency transactions and balances (continued)

On consolidation, assets and liabilities of foreign undertakings are translated into sterling at year end exchange rates. The results of foreign undertakings are translated into sterling at average rates of exchange for the year. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity, the translation reserve. At the date of transition to IFRS, the cumulative translation differences for foreign operations have been set to zero.

#### Taxation

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

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

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

Deferred tax liabilities are offset against deferred tax assets within the same taxable entity or qualifying local tax group. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

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.

#### Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement although gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to stocks, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Company's accounting policies. Intangible assets and tangible fixed assets once classified as held for sale or distribution are not amortised or depreciated.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale [or held for distribution]. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative profit and loss account is restated as if the operation has been discontinued from the start of the comparative period.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 2 Accounting policies (continued)

#### Cash and cash equivalents

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

#### Inventories

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

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

#### Trade and other receivables

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

Trade receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. A provision for the impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Estimated future cash flows are not discounted due to the relatively short period of time between recognition of trade receivables and receipt of cash.

#### Trade and other payables

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

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. The value of trade payables is the value that would be payable to settle the liability at the reporting date.

#### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 2 Accounting policies (continued)

#### Leases

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

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

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

#### 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 Group'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 Group intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group 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 Group, 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.

##### *Other intangible assets*

Other intangible assets, including customer relationships and customer lists are measured at cost less accumulated amortisation and any accumulated impairment losses.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 2 Accounting policies (continued)

#### Intangible assets (continued)

##### *Amortisation*

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

<i>Asset class</i>	<i>Amortisation method and rate</i>
Development costs	4 years straight line
Customer related intangible assets	3-10 years straight line
Computer software	4 years straight line

#### Property, plant and equipment

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

##### *Depreciation*

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

<i>Asset class</i>	<i>Depreciation method and rate</i>
Freehold property	2% straight line
Furniture, fittings and equipment	10% - 33% straight line

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

#### Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### 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.

#### 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.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (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.

Goodwill and other intangible fixed assets with an indefinite useful life are tested for impairment at least annually. If a cash generating unit is impaired, provision is made to reduce the carrying amount of the related assets to their estimated recoverable amount. Impairment losses are allocated firstly against goodwill, and secondly on a pro rata basis against intangible and other assets.

Where an impairment loss is recognised against an asset it may be reversed in future periods where there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised, except in respect of impairment of goodwill which may not be reversed in any circumstances.

Goodwill is not subject to amortisation but is tested annually for impairment.

#### Derivatives and hedging

The Group uses derivative financial instruments mainly to reduce exposure to interest rate movements. Derivative financial instruments are recognised initially at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. The gains or losses on measurement are taken to the Income Statement.

Derivative financial instruments are classified as assets when their fair value is positive, or as liabilities where their fair value is negative.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of host contracts and host contracts are not carried at fair value. Changes in the fair value of embedded derivatives are recognised in the Income Statement in the line which most appropriately reflects the nature of the item or transaction.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in Other Comprehensive Income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the Income Statement.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 2 Accounting policies (continued)

#### Defined benefit pension obligation

Certain companies within the Group participate 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 Group.

Retirement benefit scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. Actuarial valuations are obtained every three years and are updated each balance sheet date.

For the defined benefit scheme, Management makes annual estimates and assumptions in respect of discount rates, future changes in salaries, employee turnover, inflation rates and life expectancy. In making these estimates and assumptions Management considers the advice provided by external advisors such as actuaries. Where actual experience differs to these estimates, remeasurements are recognised in Other Comprehensive Income in the period in which they arise.

The retirement benefit cost relating to the defined benefit section of this fund is assessed in accordance with the advice independent qualified actuaries using the projected unit credit method. Any past service cost is recognised immediately.

Interest income or expense relating to the pension scheme is included within finance costs or income within the Income Statement.

#### Defined contribution pension obligation

The Group operates a number of defined contribution pension schemes and the Income Statement is charged with contributions payable.

#### Share based payments

The Group issues equity-settled share-based payments. Equity-settled share-based payments are measured at fair value at the date of grant based on the Group's estimate of the number of shares expected to vest. Fair value is determined using the Monte Carlo option pricing model.

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is expensed on a straight line basis in the Income Statement, with the corresponding increase in equity, over the vesting period of the awards. At the end of each reporting period, the amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met. The impact of the revision of the original estimates, if any, is recognised in the Income Statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (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.

#### Goodwill and investments

Determining whether goodwill and investments are impaired requires an estimation of the value in use allocated to the respective cash-generating units. The value in use calculation requires Management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

#### Revenue recognition

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

#### Retirement benefit obligations

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, mortality rates and inflation rates. The Group uses estimates for all these factors in determining the pension costs and liabilities incorporated in the Consolidated financial statements and the assumptions used reflect historical experience and judgement regarding future expectations.

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

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

#### Provisions

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

#### Deferred tax

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

#### Current tax

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

#### Share-based payments

The measurement of the Group's equity-settled share-based payments is determined using the Monte Carlo option pricing model. The judgements, estimates and associated assumptions used to calculate these are based on historical experience and other reasonable factors.



## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 4 Revenue

The Group's revenue is generated as follows:

	2018	*(As restated) 2017
	£ 000	£ 000
Connected Care - Independent Living	56,597	59,504
Connected Care - Group Living	62,167	59,069
Connected Care - Managed Services Contracts	78,249	75,192
Connected Health - Remote Patient Monitoring and Support	1,661	3,341
Integrated Nursecall Communications	9,194	9,138
	<u>207,868</u>	<u>206,244</u>

\*Certain amounts shown do not correspond to the 2017 financial statements and reflect adjustments made, refer to note 36 and 37

### 5 Segmental analysis

The Group is managed on the basis of six broad geographical Regions and corporate (Central Group Function), which are its reportable segments. The Group's Chief Executive and the Board of Directors review the internal management reports of each Region on a monthly basis, with focus on revenue, profit before interest, tax, depreciation and amortisation and exceptional items ("EBITDA") and net assets.

The Group's reportable segments are as follows:

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

The principal activity of the Region is the provision of Connected Care and Connected Health solutions and propositions.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 5 Segmental analysis (continued)

#### Segment revenues and performance for the year ended 30 September 2018

Analysis by reportable segment:

	Revenue £ 000	EBITDA £ 000	Net assets/ (liabilities) £ 000
UK & Ireland	83,513	23,174	26,999
Southern Europe	54,419	15,857	20,452
Nordics	47,476	10,453	5,505
North America	531	115	197
Central Europe	26,452	10,408	4,920
Australasia	11,412	1,745	3,019
Corporate	-	(14,957)	(11,518)
<b>Total for reportable segments</b>	<b>223,803</b>	<b>46,795</b>	<b>49,574</b>

#### Segment revenues and performance for the year ended 30 September 2017

Analysis by reportable segment:

	*(As restated) Revenue £ 000	*(As restated) EBITDA £ 000	Net assets/ (liabilities) £ 000
UK & Ireland	82,658	21,046	21,871
Southern Europe	50,018	14,848	18,179
Nordics	48,146	10,169	6,326
North America	691	176	19,869
Central Europe	27,780	11,215	3,721
Australasia	13,817	1,767	3,312
Corporate	-	(12,098)	(17,483)
<b>Total for reportable segments</b>	<b>223,110</b>	<b>47,123</b>	<b>55,795</b>

#### Reconciliations of information on reportable segments to IFRS measures

##### Reconciliation of Revenue from reportable segments to total Consolidated Revenue

	2018 £ 000	*(As restated) 2017 £ 000
Total revenue for reportable segments	223,803	223,110
Elimination of inter-segment revenue	(15,935)	(16,866)
<b>Total Consolidated Revenue</b>	<b>207,868</b>	<b>206,244</b>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 5 Segmental analysis (continued)

Analysis of revenue by country of origin:

	2018	*(As restated) 2017
	£ 000	£ 000
United Kingdom	67,661	67,736
Spain	40,843	38,191
North America	531	691
Other European countries	40,898	38,916
Sweden	27,764	27,783
Germany	19,667	20,135
Rest of the world	10,504	12,792
	<u>207,868</u>	<u>206,244</u>

Analysis of revenue by country of destination:

	2018	*(As restated) 2017
	£ 000	£ 000
United Kingdom	67,676	67,786
Spain	40,762	37,973
North America	531	703
Other European countries	42,759	41,709
Sweden	26,684	25,503
Germany	18,258	19,162
Rest of the world	11,198	13,408
	<u>207,868</u>	<u>206,244</u>

*Reconciliation of EBITDA of reportable segments to total Consolidated loss before tax*

	2018	*(As restated) 2017
	£ 000	£ 000
Total EBITDA for reportable segments	46,795	47,123
Impairment of non-current assets	(9,400)	(24,942)
Depreciation and amortisation	(18,179)	(17,226)
Exceptional items (note 7)	(3,101)	(8,755)
Net Finance costs	(284,136)	(34,752)
<b>Total consolidated loss before tax</b>	<u>(268,021)</u>	<u>(38,552)</u>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 5 Segmental analysis (continued)

#### *Reconciliation of net assets of reportable segments to Consolidated net liabilities*

		2018 £ 000	2017 £ 000
Total net assets for reportable segments		49,574	55,795
Goodwill and investments		263,886	285,449
Assets and liabilities held for sale	14	22,913	-
Cash and cash equivalents		22,076	34,072
Loans and borrowings		(324,509)	(307,988)
Derivative financial instruments		157	263
Loan notes		<u>(1,604,387)</u>	<u>(1,358,651)</u>
<b>Total Consolidated net liabilities</b>		<u><b>(1,570,290)</b></u>	<u><b>(1,291,060)</b></u>

### 6 Operating profit

Arrived at after charging:

	2018 £ 000	*(As restated) 2017 £ 000
Depreciation expense	11,040	10,623
Amortisation expense	7,139	6,603
Research and development cost	3,556	2,475
Operating lease expense - plant and machinery	1,505	1,692
Operating lease expense - property	1,925	2,475
Exceptional items (note 7)	<u>3,101</u>	<u>8,755</u>

### 7 Exceptional items

	2018 £ 000	2017 £ 000
Exceptional items	<u>3,101</u>	<u>8,755</u>

The Group incurred a net exceptional charge of £3,101,000 in the year ended 30 September 2018 (2017 - £8,755,000). This principally comprised of costs associated with the Group's initiative to drive significant cost and operational efficiencies to support the implementation of the Group's growth strategy £3,029,000 (2017: £5,148,000), and costs associated with restructuring of the Group's Senior Debt £126,000 (2017: £2,673,000).

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 8 Finance income and costs

	2018 £ 000	2017 £ 000
<b>Finance income</b>		
Interest income on bank deposits	15	73
Equity bridge loan guarantee fee	-	202,574
Net change in fair value of interest rate swaps	-	125
Total finance income	<u>15</u>	<u>202,772</u>
<b>Finance costs</b>		
Interest on bank overdrafts and borrowings	(25,499)	(21,300)
Interest on loan notes	(245,594)	(207,018)
Net change in fair value of interest rate swaps	(92)	-
Foreign exchange losses on borrowings	(3,945)	(4,220)
Amortisation of debt issue costs	(8,347)	(4,081)
Unwinding of cash flow hedge reserve	-	(76)
Finance costs in respect of pensions	(652)	(806)
Interest on obligations under finance leases and hire purchase contracts	(22)	(23)
Total finance costs	<u>(284,151)</u>	<u>(237,524)</u>
Net finance costs	<u>(284,136)</u>	<u>(34,752)</u>

### 9 Staff costs

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

	2018 £ 000	2017 £ 000
Wages and salaries	69,822	72,113
Social security costs	11,597	11,235
Pension costs	3,421	3,563
	<u>84,840</u>	<u>86,911</u>

Included within wages and salaries is a charge of £841,000 (2017 - £747,000) in relation to equity-settled share-based payment arrangements granted in the current year. Further details are provided in note 31.

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

	2018 No.	2017 No.
Sales, production and administration	2,990	2,857
Research and development	91	83
	<u>3,081</u>	<u>2,940</u>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 10 Directors' remuneration

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

	2018 £ 000	2017 £ 000
Directors' emoluments	614	686
Amounts receivable under long-term incentive scheme	437	377
Amounts paid to third parties for Directors' services	32	78
Pension contributions in relation to money purchase schemes	9	2
Compensation for loss of office	-	370
	<u>1,092</u>	<u>1,513</u>

In respect of the highest paid Director:

	2018 £ 000	2017 £ 000
Directors' emoluments	436	530
Amounts receivable under long-term incentive scheme	337	290
	<u>773</u>	<u>820</u>

No Director (2017 - none) accrued benefits under the Group's defined benefit pension scheme in respect of qualifying services during the year. One Director (2017 - one) accrued benefits under defined contribution schemes.

### 11 Auditor's remuneration

	2018 £ 000	2017 £ 000
Audit of Group and subsidiary financial statements	573	449
Non-audit Services	269	143
	<u>842</u>	<u>592</u>

Non-audit services relate to taxation services of £172,000 (2017 : £94,000) and £97,000 in relation to payroll and pension and other services (2017 : £48,000).

Auditors remuneration for the company amounted to £3,000 (2017: £4,000) all of which related to audit services

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 12 Income tax

Tax charged/(credited) in the income statement

	2018 £ 000	*(As restated) 2017 £ 000
<b>Current taxation</b>		
UK corporation tax	13	(1)
UK corporation tax adjustment to prior periods	15	493
	<u>28</u>	<u>492</u>
Foreign tax	1,923	2,218
Foreign tax adjustment to prior periods	4	228
	<u>1,927</u>	<u>2,446</u>
Total current income tax	<u>1,955</u>	<u>2,938</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	51	(4,010)
Arising from changes in tax rates and laws	-	57
Deferred tax adjustment to prior periods	(1,109)	1,126
Total deferred taxation	<u>(1,058)</u>	<u>(2,827)</u>
Tax expense in the income statement	<u>897</u>	<u>111</u>

Tax expense on continuing operations excludes the tax expense from discontinued operations, which is included in loss from discontinued operations net of tax.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 12 Income tax (continued)

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

The tax on loss before tax for the year is based on a blended UK statutory rate of corporation tax for the period of 19% (2017 - 19.5%).

The differences are reconciled below:

	2018 £ 000	*(As restated) 2017 £ 000
Loss for the year from continuing operations	(268,918)	(38,663)
Income tax expense	897	111
Loss before tax	<u>(268,021)</u>	<u>(38,552)</u>
Corporation tax at standard rate	(50,924)	(7,518)
Expenses not deductible in determining tax loss	177	(2,063)
UK corporation tax adjustment to prior periods	19	721
Effect of capital allowances depreciation	-	15
Impairment not deductible for tax purposes	1,715	4,278
Other timing differences	(73)	(16)
Effect of foreign tax rates	332	313
Decrease in overseas tax losses carried forward	(137)	319
Change in UK tax losses carried forward	70	193
Interest not-deductible for tax purposes	51,454	3,081
Deferred tax adjustment to prior periods	(1,109)	1,126
Deferred tax - origination and reversal of timing differences	94	35
Deferred tax expense relating to changes in tax rates or laws	-	57
Effect of adjustment in research development tax credit	96	75
Tax expense arising from Patent Box	<u>(817)</u>	<u>(505)</u>
Total tax expense	<u>897</u>	<u>111</u>

\*Certain amounts shown do not correspond to the 2017 financial statements and reflect adjustments made, refer to note 36 and 37

#### Factors affecting future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 on 26 October 2015. These include reductions to the main rate to reduce the UK corporation tax rate to 19% from 1 April 2018 and to 17% from 1 April 2020.

This will affect the Group's future tax liability accordingly.

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



## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 12 Income tax (continued)

#### Group

	2018 £ 000	2017 £ 000
Income tax asset/(liabilities)		
Current tax assets	6,189	5,898
Current tax liabilities	<u>(6,586)</u>	<u>(5,674)</u>
	<u>(397)</u>	<u>224</u>

#### Deferred tax

#### Group

The Group has deferred tax assets recognised at 17% (2017 - 17%). The Group's net deferred tax asset is summarised as follows:

	2018 £ 000	2017 £ 000
Deferred tax assets	<u>7,569</u>	<u>7,923</u>

Deferred tax movement during the current year:

	At 1 October 2017 £ 000	Recognised in income £ 000	Foreign exchange movements £ 000	Acquired with subsidiaries £ 000	Recognised in equity £ 000	At 30 September 2018 £ 000
Accelerated tax depreciation	3,074	1,367	(23)	-	-	4,418
Revaluation of intangible assets	(732)	513	-	(875)	-	(1,094)
Other items	5,672	(1,794)	(150)	-	(470)	3,258
Tax losses carry-forwards	(91)	972	-	106	-	987
Net tax assets/(liabilities)	<u>7,923</u>	<u>1,058</u>	<u>(173)</u>	<u>(769)</u>	<u>(470)</u>	<u>7,569</u>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 12 Income tax (continued)

Deferred tax movement during the prior year:

	At 1 October 2016 £ 000	Recognised in income (including discontinued operations) £ 000	Foreign exchange movements £ 000	Recognised in equity £ 000	At 30 September 2017 £ 000
Accelerated tax depreciation	4,925	(1,824)	(27)	-	3,074
Revaluation of intangible assets	(799)	67	-	-	(732)
Other items	2,265	(1,204)	154	4,457	5,672
Tax losses carry-forwards	686	(833)	56	-	(91)
Net tax assets/(liabilities)	<u>7,077</u>	<u>(3,794)</u>	<u>183</u>	<u>4,457</u>	<u>7,923</u>

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.

There are £nil of deductible temporary differences (2017 - £nil) and £11,678,000 of unused tax losses (2017 - £11,708,000) for which no deferred tax asset is recognised in the Statement of Financial Position.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 13 Property, plant and equipment

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
<b><u>Cost or valuation</u></b>			
At 1 October 2016	4,964	67,835	72,799
Additions	207	15,651	15,858
Disposals	-	(5,302)	(5,302)
Foreign exchange movements	23	373	396
At 30 September 2017	<u>5,194</u>	<u>78,557</u>	<u>83,751</u>
<b><u>Depreciation</u></b>			
At 1 October 2016	1,101	36,153	37,254
Charge for year	266	13,041	13,307
Eliminated on disposal	-	(4,438)	(4,438)
Foreign exchange movements	19	118	137
At 30 September 2017	<u>1,386</u>	<u>44,874</u>	<u>46,260</u>
<b><u>Carrying amount</u></b>			
At 30 September 2017	<u>3,808</u>	<u>33,683</u>	<u>37,491</u>
At 1 October 2016	<u>3,863</u>	<u>31,682</u>	<u>35,545</u>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

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

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Total £ 000
<b><u>Cost or valuation</u></b>			
At 1 October 2017	5,194	78,557	83,751
Additions	431	13,366	13,797
Acquired through business combinations	-	26	26
Disposals	(79)	(15,823)	(15,902)
Transfer to assets held for resale	-	(32,113)	(32,113)
Foreign exchange movements	17	467	484
<b>At 30 September 2018</b>	<b>5,563</b>	<b>44,480</b>	<b>50,043</b>
<b><u>Depreciation</u></b>			
At 1 October 2017	1,386	44,874	46,260
Charge for the year	890	12,901	13,791
Eliminated on disposal	(79)	(15,260)	(15,339)
Transfer to assets held for resale	-	(23,389)	(23,389)
Foreign exchange movements	14	372	386
<b>At 30 September 2018</b>	<b>2,211</b>	<b>19,498</b>	<b>21,709</b>
<b><u>Carrying amount</u></b>			
<b>At 30 September 2018</b>	<b>3,352</b>	<b>24,982</b>	<b>28,334</b>
<b>At 30 September 2017</b>	<b>3,808</b>	<b>33,683</b>	<b>37,491</b>

#### Assets held under finance leases and hire purchase contracts

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

	2018 £ 000	2017 £ 000
Furniture, fittings and equipment	1,307	1,258

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 14 Disposals group held for resale

#### Disposals

In September 2018, management committed to a plan to sell its US operation where the directors considered highly probable at the year end. Agreement to the sale occurred in January 2019. Accordingly the business is presented as a disposal group held for sale.

#### *Impairment losses related to the disposal group*

Impairment losses of £10,969,000 for write-downs of the disposal group to the lower of its carrying value and its fair value less costs to sell have been included as part of the impairment costs within the profit/loss from discontinued operations in the income statement.

#### *Assets and liabilities of disposal group held for sale*

At 30 September 2018, the disposal group was stated at fair value less costs to sell and comprised the following assets and liabilities.

	£ 000
Goodwill	2,312
Other intangible assets	5,977
Property plant and equipment	8,725
Other financial assets	631
Inventories	402
Trade and other receivables	7,611
Tax balances	72
<b>Assets held for sale</b>	<b>25,730</b>
Trade and other payables	(2,817)
<b>Liabilities held for sale</b>	<b>(2,817)</b>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 15 Intangible assets

#### Group

	Goodwill £ 000	Contractual customer relationships £ 000	Computer software £ 000	Research and development £ 000	Total £ 000
<b><u>Cost or valuation</u></b>					
At 1 October 2016	373,091	5,688	5,788	48,451	433,018
Additions	-	-	1,390	6,815	8,205
Acquired through business combinations	-	3,018	-	-	3,018
Disposals	-	(393)	(307)	-	(700)
Foreign exchange movements	-	(253)	357	254	358
At 30 September 2017	<u>373,091</u>	<u>8,060</u>	<u>7,228</u>	<u>55,520</u>	<u>443,899</u>
<b><u>Amortisation</u></b>					
At 1 October 2016	63,853	1,318	4,353	22,833	92,357
Amortisation charge	-	832	890	5,970	7,692
Amortisation eliminated on disposals	-	-	(298)	-	(298)
Impairment	23,795	-	-	3,005	26,800
Foreign exchange movements	-	23	(26)	361	358
At 30 September 2017	<u>87,648</u>	<u>2,173</u>	<u>4,919</u>	<u>32,169</u>	<u>126,909</u>
<b><u>Carrying amount</u></b>					
At 30 September 2017	<u>285,443</u>	<u>5,887</u>	<u>2,309</u>	<u>23,351</u>	<u>316,990</u>
At 1 October 2016	<u>309,238</u>	<u>4,370</u>	<u>1,435</u>	<u>25,618</u>	<u>340,661</u>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 15 Intangible assets (continued)

	Goodwill £ 000	Contractual customer relationships £ 000	Computer software £ 000	Research and development £ 000	Total £ 000
<b><u>Cost or valuation</u></b>					
At 1 October 2017	373,091	8,060	7,228	55,520	443,899
Additions	-	-	2,948	9,890	12,838
Acquired through business combinations	556	457	2,923	199	4,135
Transfer to assets held for resale	(17,908)	(7,318)	(3,544)	-	(28,770)
Disposals	-	-	-	(2)	(2)
Foreign exchange movements	-	230	120	(295)	55
<b>At 30 September 2018</b>	<b>355,739</b>	<b>1,429</b>	<b>9,675</b>	<b>65,312</b>	<b>432,155</b>
<b><u>Amortisation</u></b>					
At 1 October 2017	87,648	2,173	4,919	32,169	126,909
Amortisation charge	-	1,123	998	6,290	8,411
Disposals	-	-	-	(2)	(2)
Impairment	19,807	-	-	562	20,369
Foreign exchange movements	-	107	60	(174)	(7)
Transfer to assets held for resale	(15,596)	(2,691)	(2,195)	-	(20,482)
<b>At 30 September 2018</b>	<b>91,859</b>	<b>712</b>	<b>3,782</b>	<b>38,845</b>	<b>135,198</b>
<b><u>Carrying amount</u></b>					
<b>At 30 September 2018</b>	<b>263,880</b>	<b>717</b>	<b>5,893</b>	<b>26,467</b>	<b>296,957</b>
At 30 September 2017	285,443	5,887	2,309	23,351	316,990

Amortisation of intangible assets is recognised in the following line items in the income statement

	2018 £ 000	(As restated) 2017 £ 000
Cost of sales	284	370
Administrative expenses	6,855	6,233
Profit/loss in relation to discontinued operations	1,272	1,089
	<b>8,411</b>	<b>7,692</b>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 15 Intangible assets (continued)

#### Impairment review - Goodwill

The Group reviews Goodwill on an annual basis as required by IAS36 - 'Impairment of assets'. The recoverable amount of each cash generating unit ("CGU") was based on its value in use, with the key assumptions set out below. The values assigned to the key assumptions represent Management's assessment of future trends in the relevant business propositions.

- The value in use calculations were based on financial plans approved by the Board covering a 3 year period to 30 September 2020.
- The cash flow projections included specific estimates for 5 years and terminal growth rates for each CGU thereafter. The terminal growth rate for each CGU was determined based on Management's estimate of the long-term compound annual growth rate (average of the last 30 years GDP for each Region).
- In the case of the US business, the value was impaired to the expected amount recoverable on the sale of the business prior to its transfer to assets held for sale.
- The discount rate used was the Group's Weighted Average Cost of Capital ("WACC") of 14.08% (2017 - 14.07%).

The terminal growth rate for each Region was as follows:

	2018	2017
	%	%
UK	2.12%	2.21%
Nordics	1.93%	1.89%
Central Europe	1.82%	1.78%
Spain	2.32%	2.40%
France	1.77%	1.80%
Australasia	3.18%	3.20%
USA	N/A	2.53%
Canada	2.33%	2.53%

As a result of the above, an impairment of £19,807,000 was recognised in the Income Statement for the year ended 30 September 2018 (2017 - £23,795,000). Of which £10,969,000 (2017- 1,858,000) relates to operations moved to assets held for sale and discontinued operations. The charge in respect of continuing operations was £8,838,000 (2017- 21,937,000)



## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 15 Intangible assets (continued)

The carrying value of goodwill, and the amount estimated recoverable amount exceeds the carrying value of the CGU are disclosed below:

	2018	2018
	Goodwill carrying value	Excess of recoverable amount of carrying value
	£000	£000
UK	125,024	638
Nordics	30,035	11,197
Central Europe	53,081	6,499
Spain	37,401	-
France	7,796	3,302
Australasia	10,343	-
Canada	200	-
Total	<u>263,880</u>	<u>21,636</u>

Management has identified the following changes to the key assumptions would cause the carrying amount to exceed the recoverable amount for each of the regions:

	WACC required	Decline in operating cashflow %
UK	14.13%	0.3%
Nordics	16.76%	11.1%
Central Europe	15.22%	6.7%
Spain	N/A	N/A
France	16.41%	8.1%
Australasia	N/A	N/A
Canada	<u>N/A</u>	<u>N/A</u>

### 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 was the Group's Weighted Average Cost of Capital ("WACC") of 14.08% (2017 - 14.07%). The Directors have deemed that for certain projects, future discounted cash flows do not support the carrying value of the asset. As such, an impairment of £562,000 was recognised for the year ended 30 September 2018 (2017 - £3,005,000).

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 16 Acquisitions during the year

#### Kanayo Software Inc

In July 2018 the company acquired the business of Kanayo Software Inc, registered in Canada for cash consideration of CAD2,700,000 (£1,583,000). Further contingent consideration CAD850,000 is also potentially payable based on future performance criteria. At this stage a value of £nil of this is recognised based on management expectations.

The principal activities of Kanayo Software Inc are those of a software developer.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	<b>2018</b> <b>£ 000</b>
<b>Fair value of assets and liabilities acquired</b>	
Identifiable intangible asset - Computer software	2,922
Tangible fixed assets	11
Cash acquired with subsidiary	275
Trade and other receivables	159
Trade and other payables	(1)
Deferred tax liability	(774)
Loans	<u>(1,009)</u>
Net assets	<u><u>1,583</u></u>
<b>Satisfied by:</b>	
Cash	<u><u>1,583</u></u>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 16 Acquisitions during the year (continued)

#### Ewii Telecare AS

In August 2018 the company acquired the business of Ewii Telecare AS, registered in Denmark for cash consideration of DKK3,334,000. Further consideration of DKK6,666,000 is payable subject to performance criteria. Based on expectations, management have recognised DKK4,444,000 of this, giving a total purchase price of DKK7,778,000 (£929,000).

The principal activities of Ewii Telecare are those of a telecare health provider.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	2018 £ 000
<b>Fair value of assets and liabilities acquired</b>	
Goodwill	556
Customer relationships	457
Research and development	199
Tangible fixed assets	16
Trade and other receivables	36
Trade and other payables	(340)
Deferred tax asset	106
Deferred tax liability	(101)
Net assets	<u>929</u>
<b>Satisfied by:</b>	
Contingent consideration arrangement	531
Cash	<u>398</u>
<b>Total consideration</b>	<u><u>929</u></u>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 17 Investments

#### Group Investments

	2018 £ 000	2017 £ 000
At beginning and end of the year	<u>6</u>	<u>6</u>
<b>Summary of the Company investments</b>		
<b>Subsidiaries</b>		£ 000
<b>Cost or valuation</b>		
At 30 September 2017 and 30 September 2018		<u>9,628</u>
<b>Provision</b>		
At 30 September 2017 and 30 September 2018		<u>9,628</u>
<b>Carrying amount</b>		
At 30 September 2017 and 30 September 2018		<u>-</u>

At 30 September 2018, the Company's investments are as follows (\* indicates direct investment of the Company rather than via a subsidiary):

All shares held are Ordinary Shares unless otherwise stated.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 17 Investments (continued)

Name of subsidiary	Principal activity	Country of Incorporation	% Shareholding
TGH Investments Limited*	Intermediate holding company	England	100%
Tunstall Response Limited	Non-trading entity	England	50.1%
TGH Finance Limited	Intermediate holding company	England	100%
Blythmore Limited	Intermediate holding company	England	50.1%
TGH Acquisitions Limited	Intermediate holding company	England	50.1%
Tunstall Electronics Limited	Non-trading entity	England	50.1%
Tunstall Employee Benefit Trust	Employee Benefit Trust	England	50.1%
Tunstall Group Acquisition Limited	Intermediate holding company	England	50.1%
Tunstall Group Finance Limited	Intermediate holding company	England	50.1%
Tunstall Group Holdings Limited	Intermediate holding company	England	50.1%
Tunstall Group Limited	Intermediate holding company	England	50.1%
Tunstall Healthcare (UK) Limited	Marketing, installation and service of community alarms	England	50.1%
Tunstall Holdings Limited	Intermediate holding company	England	50.1%
Tunstall Monitoring Limited	Non-trading entity	England	50.1%
Tunstall Trustee Company Limited	Non-trading entity	England	50.1%
Whitley Securities Limited	Non-trading entity	England	50.1%
Emergency Response Limited	Marketing, installation and service of community alarms	Ireland	50.1%
Tunstall GmbH	Installation of community alarms and hospital communications systems	Germany	50.1%
Tunstall Group Holding GmbH	Intermediate holding company	Germany	50.1%
Tunstall SA	Marketing, installation and service of community alarms	Belgium	50.1%
Tunstall AG	Marketing, installation and service of community alarms	Switzerland	50.1%
Tunstall BV	Marketing, installation and service of community alarms	The Netherlands	50.1%
Vitaris Response BV	Monitoring of community alarms	The Netherlands	50.1%
La Saleta Tunstall S.L.	Sale and monitoring of community alarms and provider of healthcare response services	Spain	50.1%
Saludnova Solutions S.L.	Telehealth	Spain	50.1%
Televida Servicios Sociosanitarios SL	Monitoring of community alarms and provider of healthcare response services	Spain	50.1%
Tunstall Iberica SA	Marketing, installation and service of community alarms	Spain	50.1%
UTE Televida GSR	Monitoring of community alarms and provider of healthcare response services	Spain	42.6%

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 17 Investments (continued)

Name of subsidiary	Principal activity	Country of Incorporation	% Shareholding
UTE Televida Tunstall GSR IMQ	Monitoring of community alarms and provider of healthcare response services	Spain	40.1%
UTE Televida Tunstall	Monitoring of community alarms and provider of healthcare response services	Spain	47.6%
Vitaris Iberia SL	Non-trading entity	Spain	50.1%
U.T.E Televida Tunstall, GSR Grupo Igualmequisa	Monitoring of community alarms and provider of healthcare response services	Spain	40.1%
Tunstall France SA**	Monitoring of community alarms	France	50.1%
Vitaris France SAS	Intermediate holding company	France	50.1%
Vitaris SAS	Monitoring of community alarms	France	50.1%
Tunstall AB	Marketing, installation and service of community alarms	Sweden	50.1%
Tunstall Group Holding AB	Intermediate holding company	Sweden	50.1%
Tunstall Management AB	Non-trading entity	Sweden	50.1%
Tunstall Nordic AB	Intermediate holding company	Sweden	50.1%
Tunstall Sweden AB	Marketing, installation and service of community alarms	Sweden	50.1%
Tunstall AS	Marketing, installation and service of community alarms	Denmark	50.1%
Tunstall Health AS	Telecare health provider	Denmark	50.1%
Tunstall OY	Marketing, installation and service of community alarms	Finland	50.1%
Tunstall Australasia Pty Limited	Sale and monitoring of community alarms and telehealth equipment	Australia	50.1%
Alpha Message Center Acquisition Corp.	Monitoring of community alarms and medical call centre activities	US	50.1%
American Medical Alert Corp.	Monitoring of community alarms and medical call centre activities	US	50.1%
American Mediconnect Acquisition Corp.	Monitoring of community alarms and medical call centre activities	US	50.1%
Answer Connecticut Acquisition Corp.	Monitoring of community alarms and medical call centre activities	US	50.1%
HCI Acquisition Corp.	Monitoring of community alarms and medical call centre activities	US	50.1%
Live Message America Acquisition Corp.	Monitoring of community alarms and medical call centre activities	US	50.1%
MD On Call Acquisition Corp.	Monitoring of community alarms and medical call centre activities	US	50.1%
Monitor AMA Holdco Corp.	Intermediate holding company	US	50.1%

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 17 Investments (continued)

Name of subsidiary	Principal activity	Country of Incorporation	% Shareholding
NM Call Center Inc.	Monitoring of community alarms and medical call centre activities	US	50.1%
North Shore Answering Service Inc.	Monitoring of community alarms and medical call centre activities	US	50.1%
Safe Com Inc.	Monitoring of community alarms and medical call centre activities	US	50.1%
Tunstall Canada Inc.	Sale and monitoring of community alarms and telehealth equipment	Canada	50.1%
Kanayo Software Inc.	Software Development	Canada	50.1%
Tunstall New Zealand Limited	Monitoring of community alarms	New Zealand	50.1%
Tunstall Taiwan Co Limited	Non-trading entity	Taiwan	50.1%
Tunstall Norway AS	Dormant company	Norway	50.1%

**\*\*Tunstall Technologies SA changed its name to Tunstall France SA on 26 March 2018**

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

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

Country	Registered office
Australia	Unit 1, 56 Lavarack Ave, Eagle Farm, Queensland 4009, Australia
Belgium	Rusatiralaan 1, 1083 Brussels, Belgium
Canada	111 Zenway Blvd, Unit 6A, Woodbridge, Ontario, Ontario, L4H 3H9, Canada
Denmark	Niels Bohrs Vej 42, Stilling, 8660 Skanderborg, Denmark
England	Whitley Lodge, Whitley Bridge, Doncaster, DN14 0HR, United Kingdom
Finland	Äyritie 22, 01510 Vantaa, Finland
France	90A allée Hubert Curien, 71201 Le Creusot, France
Germany	Orkotten 66, 48291 Telgte, Germany
Ireland	Ryland Road, Bunclody, Enniscorthy, Co Wexford, Ireland
New Zealand	306 Cameron Road, Tauranga, New Zealand
Norway	c/o KPMG Law Advokatfirma AS, Sörkedalsveien 6, 0369 Oslo
Spain	Avda. de Castilla, 2 Parque Empresarial San Fernando, Edificio Munich, 2ª Planta, 28830 San Fernando de Henares, Madrid, Spain
Sweden	Agnesfridsvägen 113 A, Box 9028, SE-200 39 Malmö, Sweden
Switzerland	Atte Lyssstrasse 1, 3270 Aarberg, Switzerland
The Netherlands	Oslo 26 – 28, P.O. Box 311, 2990 AH Barendrecht, The Netherlands
US	36-36 33rd Street, Suite 103, Long Island City, New York 11106, USA
Taiwan	4F-1, N0220, Songjiang Rd, Zhongshan District, Taipei City, 104, Taiwan

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 18 Other financial assets

	Group	
	2018	2017
	£ 000	£ 000
<b>Non-current financial assets</b>		
Security deposits	946	893
Restricted cash	28	33
	<u>974</u>	<u>926</u>
	2018	2017
	£ 000	£ 000
<b>Current financial assets</b>		
Derivatives not used for hedging	<u>157</u>	<u>263</u>

### 19 Inventories

	Group	
	2018	2017
	£ 000	£ 000
Raw materials, spare parts and consumables	3,502	3,519
Work in progress	459	656
Contract work in progress	1,014	914
Finished goods and goods for resale	<u>5,626</u>	<u>7,258</u>
	<u>10,601</u>	<u>12,347</u>

The cost of Group inventories recognised as an expense in the year amounted to £30,323,000 (2017 - £37,940,000).

The amount of write-down of Group inventories recognised as an expense in the year is £400,000 (2017 - £1,457,000).

Both of the above costs are included within cost of sales.

### 20 Trade and other receivables

#### Current

	Group	
	2018	2017
	£ 000	£ 000
Trade receivables	33,855	33,946
Prepayments and other receivables	5,192	6,462
Other receivables	<u>113</u>	<u>215</u>
	<u>39,160</u>	<u>40,623</u>



## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 20 Trade and other receivables (continued)

The fair value of those trade and other receivables classified as financial instrument loans and receivables are disclosed in the financial instruments note 26.

The Group's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in the financial instruments note 26.

### 21 Trade and other payables

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>£ 000</b>	<b>£ 000</b>
Trade payables	13,726	15,198
Accrued expenses	22,771	25,348
	<u>36,497</u>	<u>40,546</u>

The fair value of the trade and other payables classified as financial instruments are disclosed in the financial instruments note 26.

The Group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in the financial instruments note 26.

### 22 Provisions

	<b>Warranties</b>	<b>Legal proceedings</b>	<b>Restructuring</b>	<b>Total</b>
	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>	<b>£ 000</b>
At 1 October 2017	936	229	436	1,601
Charged in the year	905	1,881	743	3,529
Provisions used	(967)	(131)	(632)	(1,730)
Provisions released	(74)	(8)	-	(82)
Foreign exchange differences	(9)	2	11	4
At 30 September 2018	<u>791</u>	<u>1,973</u>	<u>558</u>	<u>3,322</u>

#### Warranties

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

#### Restructuring

During the prior year, the Group committed to an initiative to deliver significant cost and operational efficiencies to support the implementation of the Group's growth strategy. As a result, the Group recognised additional provisions of £743,000 (2017 - £95,000) during the year. The restructuring is expected to be completed in the year ended 30 September 2019. Amounts used or utilised during the year amounted to £632,000 (2017 - £805,000).

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 22 Provisions (continued)

#### Legal proceedings

The Group is aware of certain claims or potential claims which involve or may involve legal proceedings against the Group. The Directors have made a provision with regard to legal advice received and the Group's insurance arrangements.

The restructuring and legal provisions are expected to be utilised in the next 12 months.

### 23 Loans and borrowings

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Current loans and borrowings</b>		
Bank borrowings	3,895	1,574
Finance lease liabilities	233	33
	<u>4,128</u>	<u>1,607</u>

Current bank borrowings are stated, net of debt issue costs of £nil (2017 - £5,701,000). Further details on interest rates and repayment terms can be found in note 26.

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Non-current loans and borrowings</b>		
Bank borrowings	318,303	305,126
Other loans	1,029	-
Finance lease liabilities	1,049	1,255
	<u>320,381</u>	<u>306,381</u>

Non-current bank borrowings are stated, net of debt issue costs of £nil (2017 - £1,425,000). Further details on interest rates and repayment terms can be found in note 26.

	<b>Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Non-current loans and borrowings</b>		
Amounts owed to subsidiary undertakings	463	237
	<u>463</u>	<u>237</u>

The Group's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in the financial instruments note 26.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 24 Loan notes

#### Non-current liabilities

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Loan notes</b>		
Loan notes	1,604,387	1,358,651
	<u>1,604,387</u>	<u>1,358,651</u>

Loan notes are stated, net of debt issue costs of £282,000 (2017- £424,000). Further details on interest rates and repayment terms can be found in note 26.

The loan notes classified as financial instruments are disclosed in the financial instruments note 26.

The Group's exposure to market and liquidity risk, including maturity analysis, in respect of loan notes is disclosed in the financial instruments note 26.

	<b>Loans and borrowings</b>	<b>Loan notes</b>	<b>Finance lease liabilities</b>	<b>Derivatives assets/liabilities</b>	<b>Total</b>
<b>Balance at 1 October</b>	306,700	1,358,651	1,288	(263)	1,666,376
<b>Changes from financing cash flows</b>					
Costs of issue/ proceeds from settlement of derivatives	-	-	-	-	-
Transaction costs related to loans and borrowings	(1,065)	-	-	-	(1,065)
Net payment of finance leases	-	-	(6)	-	(6)
Net payment of intercompany balances	-	-	-	-	-
<b>Total changes from financing cash flows</b>	<u>(1,065)</u>	<u>-</u>	<u>(6)</u>	<u>-</u>	<u>(1,071)</u>
The effect of changes in foreign exchange rates	2,401	-	-	-	2,401
Changes in fair value	-	-	-	92	92
<b>Other changes</b>					
Unwind of debt issue costs	8,191	142	-	14	8,347
Interest rolled into debt	5,991	245,594	-	-	251,585
Net intercompany interest charge	-	-	-	-	-
Debt acquired with subsidiaries	1,009	-	-	-	1,009
	<u>323,227</u>	<u>1,604,387</u>	<u>1,282</u>	<u>(157)</u>	<u>1,928,739</u>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 25 Obligations under leases and hire purchase contracts

#### Group

#### Finance leases

	Minimum lease payments £ 000	Present value £ 000
<b>2018</b>		
Within one year	1,543	1,282

	Minimum lease payments £ 000	Present value £ 000
<b>2017</b>		
Within one year	1,288	1,288

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

	2018 £ 000	2017 £ 000
Current liabilities	1,282	1,288

#### Operating leases

At 30 September 2018, the Group had the following operating lease commitments:

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

	2018 £ 000	2017 £ 000
Within one year	3,639	5,464
In two to five years	6,376	10,955
In over five years	1,666	1,645
	<u>11,681</u>	<u>18,064</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £3,430,000 (2017 - £4,167,000).

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 26 Financial instruments

#### Group

##### Fair value measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. The following tables show the carrying amounts and fair values of the Group's financial assets and liabilities:

#### Financial assets

##### Loans and receivables

##### At 30 September 2018

	Carrying value £ 000	Fair value £ 000
Cash and cash equivalents	22,076	22,076
Trade and other receivables	39,160	39,160
Security deposits	974	974
	<u>62,210</u>	<u>62,210</u>

##### At 30 September 2017

	Carrying value £ 000	Fair value £ 000
Cash and cash equivalents	34,072	34,072
Trade and other receivables	40,623	40,623
Security deposits	926	926
	<u>75,621</u>	<u>75,621</u>

#### Financial liabilities

##### Financial liabilities at amortised cost

##### At 30 September 2018

	Carrying value £ 000	Fair value £ 000
Trade and other payables	(36,497)	(36,497)
Loans and borrowings	(324,509)	(324,509)
Loan notes	<u>(1,604,387)</u>	<u>(1,604,387)</u>
	<u>(1,965,393)</u>	<u>(1,965,393)</u>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 26 Financial instruments (continued)

#### Financial liabilities (continued)

##### *Financial liabilities at amortised cost (continued)*

##### At 30 September 2017

	Carrying value £ 000	Fair value £ 000
Trade and other payables	(40,546)	(40,546)
Loans and borrowings	(307,988)	(307,988)
Loan notes	<u>(1,358,651)</u>	<u>(1,358,651)</u>
	<u>(1,707,185)</u>	<u>(1,707,185)</u>

#### Hedging instruments

##### *Financial assets measured at fair value*

##### At 30 September 2018

	Carrying value £ 000	Fair value £ 000
Derivative financial instruments	<u>157</u>	<u>157</u>

##### At 30 September 2017

	Carrying value £ 000	Fair value £ 000
Derivative financial instruments	<u>263</u>	<u>263</u>

#### Financial liabilities at fair value to profit and loss (FVTPL)

##### At 30 September 2018

	Carrying value £ 000	Fair value £ 000
Contingent consideration	<u>(531)</u>	<u>-</u>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 26 Financial instruments (continued)

#### Borrowings

The Group has the following facilities:

##### Senior Term Loans

B1 Term loan with an original principal amount of £90m, repayable in full on 18 October 2020 and bearing interest at 5.0% per annum above LIBOR, plus a payment in kind ("PIK") margin of 3.0% compounded on maturity of each interest period.

B2 Term loan with an original principal amount of €240m, repayable in full on 18 October 2020 and bearing interest at 4.5% per annum above EURIBOR, plus a payment in kind ("PIK") margin of 3.0% compounded on maturity of each interest period.

A amendment to the loans was made in March 2017, which the directors deemed to be a non-substantial modification. Consequently, debt issue costs of £3.2m were capitalised and will be amortised over the remaining life of the term loans.

On 12 February 2018 the Group reached an agreement with its Senior Debt providers to defer key milestone dates associated with the conditions of the financing arrangement dated 17 March 2017. The directors have deemed that this constitutes a substantial modification of the debt when considered with the previous changes. As a result of this the unamortised loan costs recorded at the date of the transaction and debt issue costs of £1,066,000 have been expensed in the year.

The carrying value of term loans at the reporting date is £315,892,000 (2017 - £301,981,000). Accrued interest on term loans amounted £6,306,000 (2017 - £11,845,000). The Term Loans are stated net of debt issue costs of £nil (2017 - £7,126,000).

The term loans are secured by a mortgage debenture incorporating a fixed and floating charge over the Group and all its present and future subsidiaries together with an unlimited composite cross-guarantee structure.

Other loans of £1,029,000 relate to a loan from the Atlantic Innovation Fund in Canada, which was taken on as part of the acquisition of Kanayo Software Inc. The loan attracts no interest and is repayable as a portion of specific profits in the Kanayo business. The total amount repayable is \$3,069,000, with the value of £1,029,000 reflecting the current estimated value of the loan using the latest projected results.

##### Revolving credit facility

The Group has a revolving credit facility of £20m which expires on 18 October 2019 and bears interest at 4.5% per annum above LIBOR. Discussions are currently underway with lenders to extend this facility to 30 April 2020.

The maximum amount drawn during the year was £556,000 (2017 - £19,951,000). The amount drawn at the reporting date is £554,000 (2017 - £457,000).

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 26 Financial instruments (continued)

#### Loan notes

The Group has the following loan note facilities:

£245,723,000 of the Unsecured Investor and Management Loan Notes issued in April 2008 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.

£57,188,000 and £10,632,000 of the Unsecured Investor Loan Notes issued in December 2011 and February 2012 respectively 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.

£20,000,000 of the Secured Investor Loan Notes issued in September 2014 are redeemable at par on 3 April 2098 and bear interest at 25% (2015 - 20%) per annum. Interest is compounded annually and paid on redemption of the notes themselves.

£64,301,000 of the Unsecured Investor Loan Notes issued on 30 September 2016 are redeemable at par on 3 April 2098 and bear interest at 19% per annum. Interest is compounded annually and paid on redemption of the notes themselves.

The carrying value of the loan notes at the reporting date is £1,604,387,000 (2017 - £1,358,651,000).

### Financial risk management and impairment of financial assets

#### Group

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management. The Board is responsible for developing and monitoring the Group's policies to risk management.

The Board of Directors aims to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls to monitor risks and adherence to limits. The policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Audit Committee oversees how Management monitors compliance with the Group's risk management policies and procedures.

#### Credit risk and impairment

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's trade receivables.

The Group's exposure to credit risk is influenced mainly by individual characteristics of each customer. However, Management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and country in which customers operate. Further details of concentration of revenue are included in notes 4 and 5.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

The carrying amount of financial assets represents the maximum credit exposure.



## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 26 Financial instruments (continued)

#### Financial risk management and impairment of financial assets (continued)

##### *Loans and receivables credit risk exposure and management*

	Maximum amount of exposure £ 000	Provision for doubtful debt £ 000	Carrying value £ 000
<b>2018</b>			
Trade and other receivables	40,352	(1,192)	39,160
	<u>40,352</u>	<u>(1,192)</u>	<u>39,160</u>
	Maximum amount of exposure £ 000	Provision for doubtful debt £ 000	Carrying value £ 000
<b>2017</b>			
Trade and other receivables	44,812	(4,189)	40,623
	<u>44,812</u>	<u>(4,189)</u>	<u>40,623</u>

#### **Past due and impaired financial assets**

The provision for impairment of trade receivables (analysed below) is the difference between the carrying value and the present value of the expected proceeds. Management believes that the unimpaired amounts that are past due but not impaired are still collectible in full, based on historical payment behaviour and extensive analysis of customer credit risk.

#### **Age of trade receivables that are past due but not impaired**

	Group	
	2018 £ 000	2017 £ 000
Up to 3 months	9,233	14,390
3 months to 1 year	1,088	2,040
Over 1 year	384	766
	<u>10,705</u>	<u>17,196</u>

#### **Age of impaired trade receivables**

	Group	
	2018 £ 000	2017 £ 000
Up to 3 months	142	309
3 months to 1 year	386	632
Over 1 year	662	3,248
	<u>1,190</u>	<u>4,189</u>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 26 Financial instruments (continued)

#### Financial risk management and impairment of financial assets (continued)

##### *Movement in provision for doubtful debt*

	<b>Provision for doubtful debt £ 000</b>
<b>2018</b>	
At start of year	(4,189)
Charged to the Income Statement	(426)
Utilised during the year	1,758
Moved to assets held for sale	1,289
Other movement	376
	<u>(1,192)</u>
	<b>Provision for doubtful debt £ 000</b>
<b>2017</b>	
At start of year	(10,944)
Charged to the Income Statement	(824)
Utilised during the year	7,261
Other movement	318
	<u>(4,189)</u>

#### **Market risk**

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### **Foreign exchange risk**

The Group operates within a number of international territories with approximately 72% of the Group's revenues in non-sterling 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 one of the Group's term loans.

During the period, the Group has been exposed to additional volatility of currency markets following the United Kingdom's decision to leave the European Union and ongoing instability in the Middle East.

The table below illustrates the hypothetical sensitivity of the Group's reported EBITDA and closing equity to a 10% increase and decrease in the Euro/Sterling exchange rates, US Dollar/Sterling and Swedish Kroner/Sterling exchange rates at the year end date, assuming all other variables remain unchanged. The sensitivity rate of 10% represents the Directors' assessment of a reasonably possible change, based on historic volatility.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 26 Financial instruments (continued)

#### Financial risk management and impairment of financial assets (continued)

##### At 30 September 2018

	Impact on EBITDA £ 000	Impact on Equity £ 000
EUR (Sterling weakens by 10%)	3,050	6,265
EUR (Sterling strengthens by 10%)	(2,495)	(5,126)
USD (Sterling weakens by 10%)	256	(1,769)
USD (Sterling strengthens by 10%)	(210)	1,447
SKR (Sterling weakens by 10%)	671	3,054
SKR (Sterling strengthens by 10%)	<u>(549)</u>	<u>(2,499)</u>

##### At 30 September 2017

	Impact on EBITDA £ 000	Impact on Equity £ 000
EUR (Sterling weakens by 10%)	3,016	6,159
EUR (Sterling strengthens by 10%)	(2,467)	(5,039)
USD (Sterling weakens by 10%)	475	(874)
USD (Sterling strengthens by 10%)	(389)	715
SKR (Sterling weakens by 10%)	594	3,158
SKR (Sterling strengthens by 10%)	<u>(486)</u>	<u>(2,584)</u>

#### Interest rate risk

The Group has syndicated loans and credit facilities, including two term loans at fixed margins above LIBOR and EURIBOR respectively.

The risk of interest rate increases is managed through a number of interest rate hedges as described below which fix interest rates.

Assuming that all other variables (in particular foreign exchange rates) remain constant, an increase in the interest rate of 0.5% per annum would decrease profit and equity by £1,480,000 (2016 - £1,499,000).

#### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 26 Financial instruments (continued)

#### Financial risk management and impairment of financial assets (continued)

##### Liquidity risk (continued)

The Group's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's short term cash flow forecasts are performed and reviewed on a bi-weekly basis. The Group's working capital is reviewed on a monthly basis. The Group operates within a liquidity covenant ensuring that the operating cashflow of the business after payment of taxes and investments in capital expenditure is sufficient to meet the debt service requirements of the Group.

The Group has a revolving credit facility of £20m which can be drawn down to meet short-term financing needs. The amount drawn down at the reporting date is £554,000 (2017 - £457,000). The facility expires on 18 October 2019 with discussions currently underway with lenders to extend it to 30 April 2020.

The following table shows the remaining contractual maturities of financial liabilities at the reporting date. The amounts at the reporting date are gross and undiscounted, and included accrued interest.

##### Maturity analysis

	Within 1 year £ 000	After 1 year £ 000	After more than 5 years £ 000	Total £ 000
<b>2018</b>				
Trade and other payables	(36,497)	-	-	(36,497)
Deferred income	(8,751)	-	-	(8,751)
Loan notes	-	-	(1,604,387)	(1,604,387)
Bank borrowings	(3,895)	(318,303)	-	(322,198)
Other loans	-	(1,029)	-	(1,029)
Finance lease liabilities	(233)	(1,049)	-	(1,282)
	<u>(49,376)</u>	<u>(320,381)</u>	<u>(1,604,387)</u>	<u>(1,974,144)</u>

	Within 1 year £ 000	Between 1 and 2 years £ 000	After more than 5 years £ 000	Total £ 000
<b>2017</b>				
Trade and other payables	(40,546)	-	-	(40,546)
Deferred income	(7,093)	-	-	(7,093)
Loan notes	-	-	(1,358,651)	(1,358,651)
Bank borrowings	(1,574)	(305,126)	-	(306,700)
Finance lease liabilities	(33)	(1,255)	-	(1,288)
	<u>(49,246)</u>	<u>(306,381)</u>	<u>(1,358,651)</u>	<u>(1,714,278)</u>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 27 Derivative Financial Instruments

#### Group

##### Derivative financial instruments - Interest Rate Caps

The Group's policy is to adopt bi-annual (every 6 months) interest periods in respect of both B1 and B2 Term Loans with cash outflows in April and October each year. As the interest on the loans is variable, the cash flows payable on the loan fluctuate as interest rates change, introducing uncertainty and potential volatility into the cash flows of the Group. The Group has hedged this interest rate exposure by entering into the interest rate caps below.

On 24 April 2017, the Group through its subsidiary, Tunstall Group Finance Limited entered into the following transactions.

- An interest rate cap with a notional amount of €232.0m, which set a cap strike price of 0% for the 6 month EURO Interbank Offered Rate ("EURIBOR") effective from 1 October 2017 until 1 April 2019. The Group paid a premium of €307,000 (£262,207) for the cap.
- An interest rate cap with a notional amount of £87.0m which set a cap strike price of 0.7% for the 6 month London Interbank Offered Rate ("LIBOR") effective from 1 October 2017 until 1 April 2019. The Group paid a premium of £128,000 for the cap.

The fair value of the caps was estimated using a standard option model. The fair value of the caps at the reporting date amounted to £150,000 (2017 - £241,000). Unamortised issue costs in relation to the interest rate caps at the end of the period amounted to £7,000 (2017 - £22,000). During the year, the Group recognised an interest expense related to the caps of £106,000 (2017 - £154,000), being £91,000 (2017 - £148,000) in relation to the change in fair value of the interest rate cap and £15,000 (2017 - £6,000) in relation to the amortisation of the issue costs.

### 28 Pension and other schemes

#### Defined benefit pension schemes

##### Tunstall Group Limited Pension Scheme

The Group operates a defined benefit scheme in the United Kingdom for UK employees only (The Tunstall Group Limited Pension Scheme). The pension scheme has been closed to future accrual since 2013. The assets of the scheme are held separately from those of the Group.

The scheme's sponsoring employer is Tunstall Group Limited.

During the year ended 30 September 2018, the Group paid regular contributions to the pension scheme of £nil (2017 - £nil) in respect of the defined benefits arrangements. Additional contributions of £2,500,000 (2017 - £1,210,000) have been paid in the period to reduce the pension deficit.

Contributions payable to the pension scheme at the end of the year are £nil (2017 - £101,000). The expected contributions to the plan for the next reporting period are £2,625,000.

The scheme was most recently valued on 5 April 2016. A full actuarial valuation of the scheme was carried out at 5 April 2016 and updated for IAS 19 purposes to 30 September 2018 by a qualified actuary, independent of the scheme's sponsoring employer.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 28 Pension and other schemes (continued)

#### Risks

##### *Investment risk*

This arises from assets underperforming, resulting in an investment return not being sufficient to meet the funding objective. The Group regularly reviews the investment strategy to ensure it is consistent with its funding objectives

##### *Inflation risk*

The Group is exposed to changes in inflation rates. The Group's investment strategy includes investing in liability driven investment (LDI) solutions which would partially offset inflation increases. Additionally, caps on inflationary increases are in place to protect against extreme inflation.

#### *Reconciliation of scheme assets and liabilities to assets and liabilities recognised*

The amounts recognised in the Statement of Financial Position are as follows:

	2018 £ 000	2017 £ 000
Fair value of scheme assets	53,950	53,062
Present value of scheme liabilities	<u>(74,954)</u>	<u>(78,916)</u>
Defined benefit pension scheme deficit	<u>(21,004)</u>	<u>(25,854)</u>

The present value of plan liabilities is measured by discounting the best estimate of future cash flows to be paid out by the plan using the defined accrued benefits funding method. The value calculated in this way is reflected in the net liability in the balance sheet as shown above.

All actuarial gains and losses will be recognised in the year in which they occur in Other Comprehensive Income (OCI).

#### *Scheme assets*

Changes in the fair value of scheme assets are as follows:

	2018 £ 000	2017 £ 000
Fair value at start of year	53,062	50,791
Interest income	1,398	1,134
Return on plan assets, excluding amounts included in interest income	88	1,889
Employer contributions	2,500	1,210
Benefits paid	<u>(3,098)</u>	<u>(1,962)</u>
Fair value at end of year	<u>53,950</u>	<u>53,062</u>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 28 Pension and other schemes (continued)

#### *Analysis of assets*

The major categories of scheme assets are as follows:

	2018 £ 000	2017 £ 000
Cash and cash equivalents	25	108
Equity instruments	37,417	38,562
Debt instruments	16,508	14,392
	<u>53,950</u>	<u>53,062</u>

#### *Actual return on scheme's assets*

	2018 £ 000	2017 £ 000
Actual return on scheme assets	<u>1,486</u>	<u>3,023</u>

The pension scheme has not invested in any of the Group's own financial instruments or in properties or other assets used by the Group.

#### *Scheme liabilities*

Changes in the present value of scheme liabilities are as follows:

	2018 £ 000	2017 £ 000
Present value at start of year	78,916	87,192
Interest expense	2,050	1,940
Actuarial gains and losses arising from changes in demographic assumptions	(1,003)	(1,549)
Actuarial gains and losses arising from changes in financial assumptions	(2,219)	(4,758)
Actuarial gains and losses arising from experience adjustments	308	(1,947)
Benefits paid	<u>(3,098)</u>	<u>(1,962)</u>
Present value at end of year	<u>74,954</u>	<u>78,916</u>

#### *Principal actuarial assumptions*

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2018 %	2017 %
Discount rate	2.80	2.65
Future pension increases	3.45	3.45
Inflation (RPI)	<u>3.45</u>	<u>3.45</u>

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 28 Pension and other schemes (continued)

The mortality table used was 110% of standard tables S2PxA, Year of Birth, no age rating for males and females, projected using CMI\_2017 converging to 1.25% p.a. (2017 - 110% of SAPS Year of Birth Long CMI 2014 projections).

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.

#### *Post retirement mortality assumptions*

	2018 Years	2017 Years
Current UK pensioners at retirement age - male	21.20	21.50
Current UK pensioners at retirement age - female	23.10	23.40
Future UK pensioners at retirement age - male	22.60	23.20
Future UK pensioners at retirement age - female	<u>24.70</u>	<u>25.20</u>

#### *Amounts recognised in the income statement*

	2018 £ 000	2017 £ 000
<b>Amounts recognised in operating profit</b>		
Recognised in arriving at operating profit	<u>-</u>	<u>-</u>
<b>Amounts recognised in finance income or costs</b>		
Finance cost in respect of pensions	<u>(652)</u>	<u>(806)</u>
Total recognised in the Income Statement	<u>(652)</u>	<u>(806)</u>

#### *Amounts taken to the Statement of Comprehensive Income*

	2018 £ 000	2017 £ 000
Actuarial gains and losses arising from changes in demographic assumptions	1,003	1,549
Remeasurements of post employment benefit obligation	2,219	4,758
Actuarial gains and losses arising from experience adjustments	(308)	1,947
Return on plan assets, excluding amounts included in interest income/(expense)	<u>88</u>	<u>1,889</u>
Amounts recognised in the Statement of Comprehensive Income	<u>3,002</u>	<u>10,143</u>

The Company have reviewed implications of the guidance provided by IFRIC14 and have concluded that it is not necessary to make any adjustments to the IAS19 figures in respect of an asset ceiling or Minimum Funding Requirement as at 30 September 2018.



## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 28 Pension and other schemes (continued)

#### Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

- A decrease in the discount rate of 0.25% per annum would increase the liability by 5.0% (2017 - 5.0%).
- An increase in the inflation rate of 0.25% per annum would increase the liability by 3.3% (2017 - 3.3%).
- An increase in the life expectancy of 1 year would increase the liability by 2.4% (2017 - 2.5%).

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension increases. The average duration of the defined benefit obligation at the period ended 30 September 2018 is 19 years.

#### Defined contribution pension scheme

The Group operates a number of defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £3,421,000 (2017 - £3,563,000).

#### Other Retirement Benefit Obligations

Included within the Retirement Benefit Obligations is £170,000 (2017 - £192,000) in relation to employee entitlements on retirement in Southern Europe.

### 29 Share capital

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

	2018		2017	
	No.	£ 000	No.	£ 000
"A" Ordinary shares of £0.01 each	8,264,996	83	8,264,996	83
"B" Ordinary shares of £0.01 each	1,704,481	17	1,704,481	17
	<u>9,969,477</u>	<u>100</u>	<u>9,969,477</u>	<u>100</u>

#### Rights of shares

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

### 30 Reserves

#### Group

#### Nature of reserves

The reserve for the Group's treasury shares comprise the cost of the Group's shares held by the Group.

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 30 Reserves (continued)

The changes to each component of equity resulting from items of other comprehensive income for the current year were as follows:

	Foreign currency translation £ 000	Accumulated losses £ 000	Total £ 000
Foreign currency translation gains	903	-	903
Remeasurements of post employment benefit obligations	-	1,504	1,504
Deferred tax regarding pension scheme deficit	-	(235)	(235)
	<u>903</u>	<u>1,269</u>	<u>2,172</u>

The changes to each component of equity resulting from items of other comprehensive income for the prior year were as follows:

	Foreign currency translation £ 000	Accumulated losses £ 000	Total £ 000
Foreign currency translation losses	(2,820)	-	(2,820)
Remeasurements of post employment benefit obligations	-	5,082	5,082
Deferred tax regarding pension scheme deficit	-	2,238	2,238
	<u>(2,820)</u>	<u>7,320</u>	<u>4,500</u>

### 31 Share-based payments

#### Tunstall Management Incentive Plan

##### Description of the share-based payment arrangements

During the year ended 30 September 2017, the Group established a Management Incentive Plan ("MIP") that entitled key management personnel and senior employees to purchase shares in TGH Acquisitions Limited, a subsidiary undertaking of the Group. Participation is subject to a number of conditions and is at the discretion of the Board of Directors.

The MIP is subject to a non-market performance condition with the right to hold shares terminating upon the employee ceasing to hold office with the Group during the vesting period, subject to certain exceptions. The shares fully vest only upon the sale of the Group.

Under IFRS 2, the MIP meets the definition of an equity-settled share-based payment arrangement.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 31 Share-based payments (continued)

#### Fair value of shares granted

The fair value of the MIP has been measured using the Monte Carlo simulation model.

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plan were as follows:

	2018	2017
Share price at date of grant (£)	-	5.81
Expected volatility (%)	-	21.00
Vesting period in years	-	1.60
Risk-free interest rate (%)	-	0.22

#### Fair value of shares granted (continued)

During the current financial year, the vesting period has been assumed to extend by a further year.

The shares were issued at nominal value. The shares are deemed to have value if the proceeds on the sale of the Group exceed the value of the higher ranking bank borrowings of the Group (Senior debt including annual interest payments) and the Group's Retirement Benefit Obligation ("Hurdle"). The directors have not disclosed the hurdle payment due to the commercially sensitive nature of the amount.

The Directors have assumed that all shares granted during the year will vest on the sale of the Group.

Of the above share awards, none are exercisable at 30 September 2018.

	2018 Number	2017 Number
Outstanding at 1st October	499,013	-
Granted during the year	-	499,013
Outstanding at 30 September	499,013	499,013

For the purposes of the fair value calculation, the Directors have concluded that all shares have been granted in the financial year ended September 2017 although certain shares were issued in the 2018 financial year. The Directors have deemed that fair value at the date of the grant of the shares still to be issued will not be materially different to the calculated above.

#### Expense recognised in the Income Statement

A charge of £841,000 has been recognised in the Income Statement for the year ended 30 September 2018 (2017 - £747,000). The corresponding credit has been recognised in retained earnings at 30 September 2018 (2017 - £747,000).

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 32 Commitments

#### Group

##### Capital commitments

The total amount for future capital expenditure contracted at the year end was £589,208 (2017 - £nil).

### 33 Contingent liabilities

At 30 September 2018, the Group had contingent liabilities in respect of performance bonds and other letters of credit entered into on behalf of its subsidiary undertakings totalling £554,000 (2017 - £457,000).

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 Group's insurance arrangements that it is unlikely these matters will, in aggregate, have a material effect on the Group's 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.

### 34 Related party transactions

#### Key Management Personnel

Key management personnel is defined as the Board of Directors (Executive and non-Executive Directors) and the Group Executive Team. The number of key management personnel are 14 (2017 - 15). Remuneration to key management personnel amounted to £2,402,000 (2017 - £3,018,000).

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 and Charterhouse General Partners (VIII) Limited is the ultimate controlling party of the Group.

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

Charterhouse General Partners (VIII) Limited also holds 74% of the loan notes, the repayment and interest terms of which are disclosed in note 25. Fees of £33,000 were paid by the Company to Charterhouse General Partners (VIII) Limited in respect of management services for the year ended 30 September 2018 (2017 - £78,000).

### 35 Parent and ultimate parent undertaking

The company's immediate parent is Charterhouse General Partners (VIII) Limited.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 36 Discontinued operations

The company began the process to dispose of its business in the USA during 2018, with agreement being reached to sell it in January 2019. The segment was not previously classified as held for sale or as a discontinued operation. The comparative consolidated statement of profit or loss and OCI has been restated to show the discontinued operation separately from continuing operations.

	<b>2018</b>	<b>2017</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Results of discontinued operations</b>		
Revenue	31,592	34,373
Expenses	<u>(35,931)</u>	<u>(37,171)</u>
<b>Operating profit related to discontinued operations</b>	<u>(4,339)</u>	<u>(2,798)</u>
<b>Analysed as:</b>		
EBITDA	2,308	4,274
Depreciation and amortisation	(4,023)	(3,773)
Exceptional items	(2,624)	(3,299)
Impairment of goodwill	(10,969)	(1,858)
Gain on disposal of trade and assets	-	3,058
Other finance income/costs	<u>9</u>	<u>-</u>
<b>Results from operating activities</b>	<u>(15,299)</u>	<u>(1,598)</u>
Income tax expense	<u>(121)</u>	<u>(5,697)</u>
<b>Loss from discontinued operations, net of tax</b>	<u>(15,420)</u>	<u>(7,295)</u>
	<b>2018</b>	<b>2017</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Cashflows as a result of discontinued operations</b>		
Net cash used in operating activities	(150)	(549)
Net cash from investing activities	<u>(3,216)</u>	<u>(3,803)</u>
<b>Net cash outflow from discontinued operations</b>	<u>(3,366)</u>	<u>(4,352)</u>

The assets of the disposal group are shown in note 14

### Disposals

In July 2017, the Group sold the trade and assets of its Medical Answering Services ("MAS") companies in North America for a consideration of \$6,226,000 (£4,657,000). This includes deferred consideration of \$500,000 which is recognised and is subject to certain performance obligations being met as part of the Sale and Purchase Agreement.

## Notes to the Financial Statements for the Year Ended 30 September 2018 (continued)

### 36 Discontinued operations (continued)

The net book value of assets and liabilities disposed at July 2017 were as follows:

	\$ 000
Property, plant and equipment	142
Intangible assets	527
Trade receivables	404
Prepayments and other receivables	16
Current tax assets	1,123
Trade and other payables	(74)
	<u>2,138</u>

The Group recognised a profit on disposal of \$4,088,000 (£3,058,000) in the Income Statement for the year ended 30 September 2017. These are included in discontinued operations above as the business was part of the US operation.

### 37 Restatement of prior period financial statements

The results for the previous year have been adjusted to reflect the treatment of the operations in the USA as discontinued operations.

### 38 Events after the financial period

On 17 January 2019 the Group reached an agreement with its Senior Debt providers to further defer key milestone dates associated with the conditions of the financing arrangement dated 17 March 2017 and extended on 12 February 2018. At the year end there was uncertainty about the Group's ability to meet one of its milestone covenants. This deferral means the covenant does not fall within twelve months of the date of approval of these financial statements and now falls at a time when management expect the key milestone to be achievable. This has no impact upon the financial covenants previously agreed.

A judgement on the recent Lloyds Banking Group High Court hearing on Guaranteed Minimum Pension (GMP) equalisation was published on 26 October 2018. The judgement indicates that Trustees should amend scheme benefits to equalise for the effect of unequal GMPs and indicates an acceptable range of methods for how to do so. Initial estimates indicate that this obligation could be between 1% and 4% of the gross liabilities of the Group's defined benefit pension plan (£0.75m - £3 m). The effects of the ruling will be recognised in the next financial year when the obligation to amend the plan's benefits has arisen.