

SUTHERLAND HEALTH GROUP PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

SUTHERLAND HEALTH GROUP PLC

COMPANY INFORMATION

DIRECTORS	F J French S Sukumaran G M Sutherland S Coke
COMPANY SECRETARY	S Coke
REGISTERED NUMBER	05255086
REGISTERED OFFICE	Unit 1 Rivermead Pipers Way Thatcham Berkshire RG19 4EP
INDEPENDENT AUDITORS	James Cowper LLP Chartered Accountants and Statutory Auditor 3 Wesley Gate Queen's Road Reading Berkshire RG1 4AP
BANKERS	Clydesdale Bank PLC Renaissance House Basing View Basingstoke RG21 4EQ
SOLICITORS	Irwin Mitchell LLP 40 Holborn Viaduct London EC1N 2PZ
REGISTRARS	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen B63 3DA

SUTHERLAND HEALTH GROUP PLC

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SUTHERLAND HEALTH GROUP PLC

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2014

INTRODUCTION

The principal activity of the company during the year was that of an investment holding company. The principal activity of the group was that of the sale of healthcare products.

BUSINESS REVIEW

Highlights

- Sales decreased by 28% to £755,955
- Gross profit decreased by 17.6% to £379,874
- Operating profit decreased by 180.0% to a loss of £55,475 (2013:profit £69,521)
- Net profit decreased by 316.0% to a loss of £78,994 (2013:profit £36,580)
- Gross margin increased to 50.0% from 44.0%
- Overheads increased by 10.9% to £445,582
- Reduced dependency on NHS Contracts
- Biston products acquired in September 2013
- Amazon increase products stocked from 39 to 40
- Now exporting to Serbia and Slovenia

Following a year where sales grew to over £1 million and we were able to deliver a profit, it is naturally disappointing to report to Shareholders that we have this year seen a 28% decrease in sales and a net loss rather than a profit.

This has been in the main due to the loss of some short term opportunity business that we gained in the first half of 2013 that we obtained from the NHS.

This has confirmed to us the importance of reducing the dependence on NHS business and our current strategy of building business outside the NHS with Wholesalers and Export markets is the right course to take.

The NHS remains an important market to us but with the pressures they are under to reduce costs it does mean at times it has been a challenging market for us.

The extension of distribution of sales outside the NHS coupled with an increase in the products now supplied means that we are seeing an improvement in gross margin having increased from 44% to 50%.

It has been very much an on-going key strategy to improve the distribution of our products outside of the NHS whilst maintaining a strong on-going relationship and this has been working well. The group has strengthened its business with key wholesalers who supply GPs, Hospitals, Pharmacies and Care Homes enabling our products to be distributed more widely in new sectors other than the hospitals which has been the traditional trade sector that the group supplies.

Our relationship with the major internet retailer Amazon.co.uk is growing with 40 of our own products now listed and stocked with a further 11 products that we supply on behalf of other companies. Sales growth via this important retailer continues to be encouraging.

We acquired the IP, products and business of Biston LLP in the second half of the period under review. The Biston Point of Care Bag designed by chartered physiotherapists has now been added to an NHS England Framework Agreement and is stocked by Amazon. The Biston Wheelchair Travel Bag is also stocked by Amazon and to support this and other customers that we now have such as mobility retailers we have commenced an advertising campaign in disability magazines.

The Company has commenced exporting to Serbia working closely with local wholesalers in the market we have registered two products with the Health Agency in Serbia and are in the process of registering four more products for sale to Hospitals; GPs and retail pharmacies. It is our strategy to identify other European markets where our own brand products will have an opportunity to be sold based on the requirement by customers in those markets for quality British manufactured health and personal care products.

SUTHERLAND HEALTH GROUP PLC

GROUP STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 MARCH 2014

PRINCIPAL OPERATING RISKS AND MITIGATIONS

The Directors maintain risk as a main Board agenda item, identifying, managing and mitigating business risk, by ongoing assessment. The principal areas covered by this assessment are summarised as follows.

Risk	Potential Impact	Mitigation
Customer issues	Non payment Loss of orders	Robust credit control Focus on quality service
Products	Quality issues	Registrations, Audits
Cash flow	Funding gap	Strong reporting, robust credit control, adequate funding sources
Intellectual Property products	Loss of business to competing awareness	Trademarks, market
Market cycles	Unplanned shifts in demand	Strong reporting, market surveillance
Loss of reputation	Loss of major business	Absolute focus on quality

FINANCIAL KEY PERFORMANCE INDICATORS

During the period to 31st March 2014 the Group achieved a turnover of £755,955 (2013: £1,044,413) representing a decrease in sales of 28% over the previous year, producing a gross profit of £379,874 (2013: £460,752). Administrative and distribution expenses were £446,757 (2013: £401,947) after charging £25,124 (2013: £25,578) for amortisation and depreciation. The pre tax loss was £80,169 (2013: £43,074) and the loss per ordinary share was 0.10p (2013: profit 0.05p). Cash at the bank on the balance sheet as at the 31st March 2014 was £192,619 (2013: £137,494)

OTHER KEY PERFORMANCE INDICATORS

The company seeks to ensure that responsible business practice is fully integrated into the management of all its operations and into the culture of all parts of its business. It believes that the consistent adoption of responsible business practice is essential for operational excellence, which in turn is expected to ensure the delivery of its core objectives of sustained real growth in future profitability.

In a company this size the directors consider there are collectively numerous non-financial performance indicators but none individually are key.

POST BALANCE SHEET

Since the end of the period we are pleased to report that we have appointed a distributor for the market of Slovenia. The company has already placed several small orders for Sutherland Lubricating Jelly that is being supplied to Hospitals and retail pharmacies in Slovenia. We hope to develop this market further with our distribution partner by adding further products to our agreement.

OUTLOOK

The new financial year has started in line with our expectations with non-NHS wholesalers showing continued growth in sales and share of our overall business. Sales in the NHS is showing a mixed picture with sales to NHS Supply Chain less than last year but sales to other Hospital customers showing growth. The group has tendered for a new contract which if successful, would be both sales and profit enhancing. Whilst the group recognises the opportunity this possible contract represents, it continues to develop business outside of the NHS to ensure that the dependence on such contracts continues to reduce.

SUTHERLAND HEALTH GROUP PLC

**GROUP STRATEGIC REPORT (continued)
FOR THE YEAR ENDED 31 MARCH 2014**

The group continues to look at new opportunities for new product development and is also reviewing products that may be suitable for launch into our existing customer base that are being presented to us by companies wishing to enter the UK market.

The group is actively looking at possible acquisitions both in products and companies that would fit the overall strategy of the Company.

This report was approved by the board on

and signed on its behalf.

F J French
Director

SUTHERLAND HEALTH GROUP PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2014

The directors present their report and the financial statements for the year ended 31 March 2014.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £80,169 (2013 - profit £36,580).

The directors have not recommended a dividend.

DIRECTORS

The directors who served during the year and their interests in the company's issued share capital were:

	Ordinary shares of 0.2p each	
	31 March 2014	31 March 2013
F J French	1,433,225	1,433,225
S Sukumaran	45,000	45,000
G M Sutherland	29,076,220	28,776,220
S Coke	31,250	31,250

The Directors hold 39.1% (2013: 43.4%) of the issued share capital at 31 March 2014.

Mr G M Sutherland holds £16,298 (2013: £42,287) unsecured loan notes.

Options held by directors are disclosed within the notes to the financial statements at note 30.

EVENTS SINCE THE END OF THE YEAR

Since the end of the period we are pleased to report that we have appointed a distributor for the market of Slovenia. The company has already placed several small orders for Sutherland Lubricating Jelly that is being supplied to Hospitals and retail pharmacies in Slovenia. We hope to develop this market further with our distribution partner by adding further products to our agreement.

FINANCIAL INSTRUMENTS

The company's principal financial instruments comprise bank balances, debt factoring, trade creditors, trade debtors, loan notes and convertible loan notes. The main purpose of these instruments is to finance the company's operations.

Due to the nature of the financial instruments used by the company there is no exposure to price risk. The company's approach to managing other risks applicable to the financial instruments concerned is shown below.

In respect of bank balances the liquidity risks are managed by maintaining a balance between the continuity of funding and flexibility through use of loans. The company makes use of money market facilities where funds are available.

Trade debtors are managed in respect of credit and cash flow risk by policies concerning the credit offered to customers and the regular monitoring of amounts outstanding for both time and credit limits.

Trade creditors, debt factoring and hire purchase liabilities liquidity risk is managed by ensuring sufficient funds are available to meet amounts due.

SUTHERLAND HEALTH GROUP PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2014

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company and the group's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company and the group's auditors are aware of that information.

AUDITORS

The auditors, James Cowper LLP, will be proposed for reappointment in accordance with section 489 of the Companies Act 2006.

This report was approved by the board on

and signed on its behalf.

G M Sutherland
Director

SUTHERLAND HEALTH GROUP PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SUTHERLAND HEALTH GROUP PLC

We have audited the financial statements of Sutherland Health Group PLC for the year ended 31 March 2014, set out on pages 8 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

UNQUALIFIED OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2014 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

SUTHERLAND HEALTH GROUP PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SUTHERLAND HEALTH GROUP PLC

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

Alan Poole BA(Hons) FCA (Senior Statutory Auditor)

for and on behalf of
James Cowper LLP

Chartered Accountants and Statutory Auditor

3 Wesley Gate
Queen's Road
Reading
Berkshire
RG1 4AP
Date:

SUTHERLAND HEALTH GROUP PLC

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2014**

	Note	2014 £	2013 £
TURNOVER	1,2	755,955	1,044,413
Cost of sales		(376,081)	(583,661)
		<hr/>	<hr/>
GROSS PROFIT		379,874	460,752
Distribution costs		(44,354)	(39,670)
Administrative expenses		(402,403)	(362,277)
Other operating income	3	10,233	10,716
		<hr/>	<hr/>
OPERATING (LOSS)/PROFIT	4	(56,650)	69,521
Interest payable and similar charges	10	(23,519)	(26,447)
		<hr/>	<hr/>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(80,169)	43,074
Tax on (loss)/profit on ordinary activities	11	-	(6,494)
		<hr/>	<hr/>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	21	(80,169)	36,580
		<hr/> <hr/>	<hr/> <hr/>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2014 or 2013 other than those included in the Profit and Loss Account.

The notes on pages 12 to 26 form part of these financial statements.

(LOSS)/EARNINGS PER SHARE IN PENCE	9	(0.10p)	0.05p
DILUTED (LOSS)/EARNINGS PER SHARE IN PENCE	9	(0.10p)	0.03p

SUTHERLAND HEALTH GROUP PLC
REGISTERED NUMBER: 05255086

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2014

		2014		2013	
	Note	£	£	£	£
FIXED ASSETS					
Intangible assets	12		247,097		247,546
Tangible assets	15		3,919		6,286
			251,016		253,832
CURRENT ASSETS					
Stocks	14	150,045		210,538	
Debtors	16	160,697		149,502	
Cash at bank and in hand		192,619		137,494	
			503,361		497,534
CREDITORS: amounts falling due within one year	17		(478,700)		(272,328)
NET CURRENT ASSETS			24,661		225,206
TOTAL ASSETS LESS CURRENT LIABILITIES			275,677		479,038
CREDITORS: amounts falling due after more than one year	18		(16,298)		(244,490)
NET ASSETS			259,379		234,548
CAPITAL AND RESERVES					
Called up share capital	20		156,274		139,505
Share premium account	21		1,160,792		1,072,561
Other reserves	21		111,478		111,478
Profit and loss account	21		(1,169,165)		(1,088,996)
SHAREHOLDERS' FUNDS	22		259,379		234,548

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

G M Sutherland
Director

The notes on pages 12 to 26 form part of these financial statements.

SUTHERLAND HEALTH GROUP PLC
REGISTERED NUMBER: 05255086

COMPANY BALANCE SHEET
AS AT 31 MARCH 2014

		2014		2013	
	Note	£	£	£	£
FIXED ASSETS					
Intangible assets	12		22,325		-
Tangible assets	15		2,416		4,144
Investments	13		411,336		411,336
			436,077		415,480
CURRENT ASSETS					
Debtors: amounts falling due after more than one year	16	4,835		1,060,614	
Debtors: amounts falling due within one year	16	24,429		16,519	
Cash at bank		3,045		8,089	
			32,309		1,085,222
CREDITORS: amounts falling due within one year	17	(241,893)		(31,162)	
			(209,584)		1,054,060
NET CURRENT (LIABILITIES)/ASSETS			(209,584)		1,054,060
TOTAL ASSETS LESS CURRENT LIABILITIES			226,493		1,469,540
CREDITORS: amounts falling due after more than one year	18		(16,298)		(244,490)
NET ASSETS			210,195		1,225,050
CAPITAL AND RESERVES					
Called up share capital	20		156,274		139,505
Share premium account	21		1,160,792		1,072,561
Profit and loss account	21		(1,106,871)		12,984
SHAREHOLDERS' FUNDS	22		210,195		1,225,050

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

G M Sutherland
 Director

The notes on pages 12 to 26 form part of these financial statements.

SUTHERLAND HEALTH GROUP PLC

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2014**

	Note	2014 £	2013 £
Net cash flow from operating activities	23	21,797	148,366
Returns on investments and servicing of finance	24	(23,519)	(26,447)
Taxation		(5,710)	(64)
Capital expenditure and financial investment	24	(23,500)	(310)
CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(30,932)	121,545
Financing	24	86,057	(55,875)
INCREASE IN CASH IN THE YEAR		55,125	65,670

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/DEBT
FOR THE YEAR ENDED 31 MARCH 2014**

	2014 £	2013 £
Increase in cash in the year	55,125	65,670
Cash outflow from decrease in debt and lease financing	28,193	31,875
MOVEMENT IN NET DEBT IN THE YEAR	83,318	97,545
Net debt at 1 April 2013	(106,996)	(204,541)
NET DEBT AT 31 MARCH 2014	(23,678)	(106,996)

The notes on pages 12 to 26 form part of these financial statements.

SUTHERLAND HEALTH GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

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

1.2 Basis of consolidation

The financial statements consolidate the accounts of Sutherland Health Group PLC and all of its subsidiary undertakings ('subsidiaries').

1.3 Turnover

Turnover comprises revenue recognised by the group in respect of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts.

1.4 Intangible fixed assets and amortisation

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities. It is amortised to the Profit and Loss Account over its estimated economic life.

Amortisation is calculated on brand names and trademarks so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Brands and trademarks	-	10% - 20% straight line
Goodwill	-	5% straight line

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Short term leasehold property	-	Over the life of lease
Plant & machinery	-	25% reducing balance
Fixtures & fittings	-	25% reducing balance
Office equipment	-	33% straight line

1.6 Investments

Investments in subsidiaries are valued at cost less provision for impairment.

1.7 Stock

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

1.8 Operating leases

Rentals under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

SUTHERLAND HEALTH GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

1. ACCOUNTING POLICIES (continued)

1.9 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

1.10 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the Profit and Loss Account.

1.11 Pensions

The group operates a defined contribution pension scheme and the pension charge represents the amounts payable by the group to the fund in respect of the year.

1.12 Going concern

At the balance sheet date the group had net assets of £259,379 (2013: £234,548) including net current assets of £24,661 (2013: £225,206) and cash at bank of £192,619 (2013: £137,494), having made a loss for the year of £80,169 (2013: £36,580 profit).

The directors have considered the appropriateness of the going concern basis of preparation very carefully bearing in mind the group's:

- recent financial performance and current financial position
- future trading prospects
- adequacy of existing and future availability of financial resources

The directors have concluded that, whilst mindful of the inherent uncertainties, they are confident that the group has sufficient financial and other resources to continue operating as a going concern for the foreseeable future and, accordingly, have concluded that it remains appropriate to prepare the financial statements on a going concern basis. In reaching this conclusion, the directors have considered a period of not less than one year from the date of approving these financial statements.

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

2. TURNOVER

The whole of the turnover is attributable to one principal activity of the group.

All turnover arose within the United Kingdom.

3. OTHER OPERATING INCOME

	2014	2013
	£	£
Net rents receivable	10,233	10,716

4. OPERATING (LOSS)/PROFIT

The operating (loss)/profit is stated after charging:

	2014	2013
	£	£
Amortisation - intangible fixed assets	23,949	21,376
Depreciation of tangible fixed assets:		
- owned by the group	640	4,200
Operating lease rentals:		
- other operating leases	27,579	25,620

5. AUDITORS' REMUNERATION

	2014	2013
	£	£
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	9,000	8,700
Fees payable to the company's auditor and its associates in respect of:		
Taxation compliance services	2,000	1,800

Auditors' remuneration in respect of the company was £4,650 (2013: £4,500). This included non-audit services of £900 (2013: £800). Auditors remuneration for all group companies is borne by the parent company.

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

6. STAFF COSTS

Staff costs, including directors' remuneration, were as follows:

	2014 £	2013 £
Wages and salaries	182,057	178,190
Social security costs	17,320	16,806
Other pension costs	8,350	9,050
	<u>207,727</u>	<u>204,046</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2014 No.	2013 No.
Administrative staff	4	4
Management staff	2	2
	<u>6</u>	<u>6</u>

7. DIRECTORS' REMUNERATION

	2014 £	2013 £
Remuneration	125,846	123,217
Company pension contributions to defined contribution pension schemes	8,350	9,050

During the year retirement benefits were accruing to 2 directors (2013 - 2) in respect of defined contribution pension schemes.

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

8. SHARE BASED PAYMENTS

At the year end the following share options were still outstanding:

320,000 shares with an exercise price of 16p each expiring 20th September 2014 granted on 20th September 2005 pursuant to the EMI share option scheme.

2,133,450 shares with an exercise price of 16p each expiring 18th October 2014 granted on 18th October 2005 pursuant to the unapproved share option scheme.

3,100,000 shares with an exercise price of 5p each expiring 28th October 2014 granted on 29 September 2009 pursuant to the unapproved share option scheme.

All share options are fully vested and hence there is no charge to the profit and loss account.

9. EARNINGS PER SHARE

	2014 pence	2013 pence
Earnings per ordinary share	(0.10)	0.05
Diluted earnings per share	(0.10)	0.03

All outstanding share options are anti-dilutive for the year ended 31 March 2014. Therefore, Diluted Earnings per Share is equal to Earnings per Share. The calculation of basic earnings per ordinary share is based upon the following data:

Earnings

	2014 £	2013 £
Earnings for the purposes of basic earnings per share	(80,169)	36,580

Number of shares

	2014 No of shares	2013 No of shares
Basic weighted average number of shares	76,579,953	69,752,345
Diluted weighted average number of shares	181,680,291	174,864,221

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

10. INTEREST PAYABLE

	2014 £	2013 £
On bank loans and overdrafts	-	16
On other loans	22,769	25,126
Interest on factored debts	750	1,305
	23,519	26,447
	23,519	26,447

11. TAXATION

	2014 £	2013 £
Analysis of tax charge in the year		
Current tax (see note below)		
UK corporation tax charge on (loss)/profit for the year	-	5,710
Deferred tax (see note 19)		
Origination and reversal of timing differences	-	784
	-	6,494
	-	6,494

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2013 - lower than) the standard rate of corporation tax in the UK of 20% (2013 - 20%). The differences are explained below:

	2014 £	2013 £
(Loss)/profit on ordinary activities before tax	(80,169)	43,074
	(80,169)	43,074
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2013 - 20%)	(16,034)	8,615
Effects of:		
Non-tax deductible amortisation of goodwill and impairment	3,332	3,332
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	5,147	-
Capital allowances for year in excess of depreciation	(28)	(108)
Utilisation of tax losses	(547)	(5,965)
Other short timing differences	(1,112)	(881)
Unrelieved tax losses and other deductions	8,869	-
Depreciation in excess of capital allowances	373	717
	-	5,710
	-	5,710

Factors that may affect future tax charges

Trading losses of £897,162 have been carried forward and can be utilised against future profits of the group.

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

12. INTANGIBLE FIXED ASSETS

Group	Brands and Trademarks £	Goodwill £	Total £
Cost			
At 1 April 2013	141,384	317,692	459,076
Additions	23,500	-	23,500
At 31 March 2014	<u>164,884</u>	<u>317,692</u>	<u>482,576</u>
Amortisation			
At 1 April 2013	96,302	115,228	211,530
Charge for the year	7,289	16,660	23,949
At 31 March 2014	<u>103,591</u>	<u>131,888</u>	<u>235,479</u>
Net book value			
At 31 March 2014	<u>61,293</u>	<u>185,804</u>	<u>247,097</u>
At 31 March 2013	<u>45,082</u>	<u>202,464</u>	<u>247,546</u>
			Brands and trademarks £
Company			
Cost			
At 1 April 2013			-
Additions			23,500
At 31 March 2014			<u>23,500</u>
Amortisation			
At 1 April 2013			-
Charge for the year			1,175
At 31 March 2014			<u>1,175</u>
Net book value			
At 31 March 2014			<u>22,325</u>
At 31 March 2013			<u>-</u>

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

13. FIXED ASSET INVESTMENTS

Company	Investments in subsidiary companies £
Cost or valuation	
At 1 April 2013 and 31 March 2014	<u>411,336</u>
Net book value	
At 31 March 2014	<u>411,336</u>
At 31 March 2013	<u>411,336</u>

Details of the principal subsidiaries can be found under note number 28.

14. STOCKS

	<u>Group</u>		<u>Company</u>	
	2014 £	2013 £	2014 £	2013 £
Finished goods and goods for resale	<u>150,045</u>	<u>210,538</u>	<u>-</u>	<u>-</u>

15. TANGIBLE FIXED ASSETS

Group	Short term leasehold Property £	Plant & machinery £	Fixtures & fittings £	Office equipment £	Total £
Cost					
At 1 April 2013 and 31 March 2014	<u>2,259</u>	<u>11,702</u>	<u>2,653</u>	<u>26,240</u>	<u>42,854</u>
Depreciation					
At 1 April 2013	194	10,101	2,653	23,620	36,568
Charge for the year	-	400	-	1,967	2,367
At 31 March 2014	<u>194</u>	<u>10,501</u>	<u>2,653</u>	<u>25,587</u>	<u>38,935</u>
Net book value					
At 31 March 2014	<u>2,065</u>	<u>1,201</u>	<u>-</u>	<u>653</u>	<u>3,919</u>
At 31 March 2013	<u>2,065</u>	<u>1,601</u>	<u>-</u>	<u>2,620</u>	<u>6,286</u>

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

Company	Short term leasehold Property £	Office equipment £	Total £
Cost			
At 1 April 2013 and 31 March 2014	2,259	16,807	19,066
Depreciation			
At 1 April 2013	194	14,728	14,922
Charge for the year	-	1,728	1,728
At 31 March 2014	194	16,456	16,650
Net book value			
At 31 March 2014	2,065	351	2,416
At 31 March 2013	2,065	2,079	4,144

16. DEBTORS

	Group		Company	
	2014 £	2013 £	2014 £	2013 £
Due after more than one year				
Amounts owed by group undertakings	-	-	4,835	1,060,614
	160,697	149,502	24,429	16,519
Due within one year				
Trade debtors	133,272	114,623	4,160	3,986
Other debtors	7,895	17,213	1,064	1,064
Prepayments and accrued income	11,538	9,674	11,213	3,477
Deferred tax asset (see note 19)	7,992	7,992	7,992	7,992
	160,697	149,502	24,429	16,519

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

**17. CREDITORS:
Amounts falling due within one year**

	Group		Company	
	2014	2013	2014	2013
	£	£	£	£
Convertible loan notes	200,000	-	200,000	-
Trade creditors	43,747	50,407	14,150	4,433
Corporation tax	-	5,710	-	5,710
Other taxation and social security	23,613	10,427	6,544	316
Other creditors	89,976	74,273	1,455	1,455
Accruals and deferred income	121,364	131,511	19,744	19,248
	478,700	272,328	241,893	31,162

Included within other creditors is an amount of £89,976 (2013: £74,273) relating to the factoring of trade debts. The factoring agreement is secured by a fixed charge over the book debts and a floating charge over the assets and undertakings of the company.

Included within Convertible loan notes is £200,000 of Loan notes 2015. These loan notes were issued on 31 March 2011. These loan notes can be converted at the holders option on the basis of 50 ordinary shares of 0.2p for each £1 of loan stock held. If not converted by 30 March 2015 the loan notes are repayable at par. The loan notes incur interest at a rate of 10.5% per annum.

**18. CREDITORS:
Amounts falling due after more than one year**

	Group		Company	
	2014	2013	2014	2013
	£	£	£	£
Convertible loan notes	-	200,000	-	200,000
Loan notes	16,298	44,490	16,298	44,490
	16,298	244,490	16,298	244,490

Loan notes are unsecured and there is no fixed repayment dates. The loan notes incur interest at 7% per annum.

19. DEFERRED TAX ASSET

	Group		Company	
	2014	2013	2014	2013
	£	£	£	£
At beginning and end of year	7,992	7,992	7,992	7,992

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

19. DEFERRED TAX ASSET (continued)

The deferred tax asset is made up as follows:

	Group		Company	
	2014	2013	2014	2013
	£	£	£	£
Accelerated capital allowances	7,992	7,992	7,992	7,992
	7,992	7,992	7,992	7,992

20. SHARE CAPITAL

	2014	2013
	£	£
Allotted, called up and fully paid		
78,136,961 (2013 - 69,752,345) Ordinary shares of £0.002 each	156,274	139,505
	156,274	139,505

During the year the company issued 8,000,000 Ordinary shares of £0.002 each for consideration of 1.25p per share and total consideration of £100,000.

The company issued a further 384,616 Ordinary shares of £0.002 each for consideration of 1.3p per share and total consideration of £5,000.

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

21. RESERVES

Group	Share premium account £	Other reserves £	Profit and loss account £
At 1 April 2013	1,072,561	111,478	(1,088,996)
Loss for the year			(80,169)
Premium on shares issued during the year	88,231		
	<u>1,160,792</u>	<u>111,478</u>	<u>(1,169,165)</u>
At 31 March 2014	<u>1,160,792</u>	<u>111,478</u>	<u>(1,169,165)</u>
		Share premium account £	Profit and loss account £
Company			
At 1 April 2013		1,072,561	12,984
Loss for the year			(1,119,855)
Premium on shares issued during the year		88,231	
		<u>1,160,792</u>	<u>(1,106,871)</u>
At 31 March 2014		<u>1,160,792</u>	<u>(1,106,871)</u>

22. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Group	2014 £	2013 £
Opening shareholders' funds	234,548	221,968
(Loss)/profit for the financial year	(80,169)	36,580
Shares issued during the year	16,769	-
Share premium on shares issued (net of expenses)	88,231	-
Expenses on shares issued	-	(24,000)
	<u>259,379</u>	<u>234,548</u>
Closing shareholders' funds	<u>259,379</u>	<u>234,548</u>
	2014 £	2013 £
Company		
Opening shareholders' funds	1,225,050	1,214,364
(Loss)/profit for the financial year	(1,119,855)	34,686
Shares issued during the year	16,769	-
Share premium on shares issued (net of expenses)	88,231	-
Expenses on shares issued	-	(24,000)
	<u>210,195</u>	<u>1,225,050</u>
Closing shareholders' funds	<u>210,195</u>	<u>1,225,050</u>

The company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own Profit and Loss Account.

The loss for the year dealt with in the accounts of the company was £1,119,855 (2013 - profit of £34,686).

This loss is after the exceptional items of £1,128,189 in respect of the write off of intercompany balances.

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

23. NET CASH FLOW FROM OPERATING ACTIVITIES

	2014 £	2013 £
Operating (loss)/profit	(56,650)	69,521
Amortisation of intangible fixed assets	23,949	21,376
Depreciation of tangible fixed assets	2,367	4,200
Decrease/(increase) in stocks	60,492	(25,742)
(Increase)/decrease in debtors	(25,681)	73,428
Increase in creditors	17,320	5,583
	21,797	148,366
Net cash inflow from operating activities	21,797	148,366

24. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN CASH FLOW STATEMENT

	2014 £	2013 £
Returns on investments and servicing of finance		
Interest paid	(23,519)	(26,447)
	2014 £	2013 £
Capital expenditure and financial investment		
Purchase of intangible fixed assets	(23,500)	(310)
	2014 £	2013 £
Financing		
Issue of ordinary shares	114,250	-
Expenses paid in connection with share issue	-	(24,000)
Repayment of other loans	(28,193)	(31,875)
Net cash inflow/(outflow) from financing	86,057	(55,875)

25. ANALYSIS OF CHANGES IN NET DEBT

	1 April 2013 £	Cash flow £	Other non-cash changes £	31 March 2014 £
Cash at bank and in hand	137,494	55,125	-	192,619
Debt:				
Debts due within one year	-	-	(199,999)	(199,999)
Debts falling due after more than one year	(244,490)	28,193	199,999	(16,298)
Net debt	(106,996)	83,318	-	(23,678)

SUTHERLAND HEALTH GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

26. PENSION COMMITMENTS

The group operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge represents contributions payable by the group to the fund and amounted to £8,350 (2013 - £9,050). No contributions were payable to the fund at the balance sheet date (2013 - £nil).

No pension costs were incurred by the company during the year (2013 - £nil) and no amounts were payable at the balance sheet date (2013 - £nil).

27. OPERATING LEASE COMMITMENTS

At 31 March 2014 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2014	2013
	£	£
Group		
Expiry date:		
Between 2 and 5 years	26,184	26,184
	<u><u>26,184</u></u>	<u><u>26,184</u></u>

At 31 March 2014 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2014	2013
	£	£
Company		
Expiry date:		
Between 2 and 5 years	26,184	26,184
	<u><u>26,184</u></u>	<u><u>26,184</u></u>

28. PRINCIPAL SUBSIDIARIES

Company name	Country	Percentage Shareholding	Description of activity
Sutherland Health Limited	England	100	The trading of a range of health care products.
Sexual Health Group Ltd	England	100	Holding company
Condomania PLC	England	100	The trading sexual health products.

29. CONTROLLING PARTY

There is no controlling party.

SUTHERLAND HEALTH GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

30. RELATED PARTY TRANSACTIONS

During the year the group incurred consultancy fees of £16,159 (2013: £16,655) from the John French Consultancy in respect of F J French's services. At the year end the group owed £1,720 (2013: £Nil) to the John French Consultancy. F J French is a director and shareholder.

During the year, the group incurred consultancy fees of £6,000 (2013: £6,000) from Summit Office Services Limited. At the year end, the group owed £600 (2013: £600). S Coke is a director and company secretary and is also a director of Summit Office Services Limited.

Included in loan notes is an amount owed to G Sutherland of £16,298 (2013: £42,287). Interest is charged on the loan at 7%. During the year the group incurred interest of £1,761 (2013: £3,602). G Sutherland is a director and shareholder of the company.

Included in loan notes in 2013 was an amount owed to K Sutherland of £2,204 which has been fully settled during the year. Interest is charged on the loan at 7%. During the year the group incurred interest of £8 (2013: £524). K Sutherland is a related party due to their relationship with G Sutherland.

As at 31 March 2014 the group owed £63,168 (2013: £63,168) to G Sutherland in respect of an outstanding director's loan account. No interest is payable on this loan.

As at 31 March 2014 the group owed £28,328 to S Sukumaran, a director (2013: £35,156) in respect of an outstanding director's loan account. No interest is payable on this loan.

In accordance with FRS 8, exemption is taken from disclosure of group transactions during the year as 100% of voting rights are controlled within the group and consolidated financial statements are publically available.

The following options are held by Directors at 31 March 2014

Director	Date granted	Number of Ordinary shares subject to option	Exercise price	Expiry Date
J French	18/10/2005	426,690	16p	18/10/2014
	29/09/2009	500,000	5p	28/10/2014
S J Coke	29/09/2009	500,000	5p	28/10/2014
	18/10/2005	426,690	16p	18/10/2014
S Sukumaran	29/09/2009	500,000	5p	28/10/2014
	18/10/2005	426,690	16p	18/10/2014
G M Sutherland	29/09/2009	500,000	5p	28/10/2014

SUTHERLAND HEALTH GROUP PLC

**CONSOLIDATED DETAILED TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2014**

	Page	2014 £	2013 £
TURNOVER	28	755,955	1,044,413
Cost of sales	28	(376,081)	(583,661)
		<hr/>	<hr/>
GROSS PROFIT		379,874	460,752
Gross profit %		50.3 %	44.1 %
Other operating income	28	10,233	10,716
		<hr/>	<hr/>
		390,107	471,468
 LESS: OVERHEADS			
Selling and distribution expenses	28	(44,354)	(39,670)
Administration expenses	28	(358,937)	(321,693)
Establishment expenses	29	(43,466)	(40,584)
		<hr/>	<hr/>
OPERATING (LOSS)/PROFIT		(56,650)	69,521
Interest payable	29	(23,519)	(26,447)
		<hr/>	<hr/>
(LOSS)/PROFIT FOR THE YEAR		(80,169)	43,074
		<hr/> <hr/>	<hr/> <hr/>

SUTHERLAND HEALTH GROUP PLC

**SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2014**

	2014 £	2013 £
TURNOVER		
Sales	<u>755,955</u>	<u>1,044,413</u>
	2014 £	2013 £
COST OF SALES		
Purchases	<u>376,081</u>	<u>583,661</u>
	2014 £	2013 £
OTHER OPERATING INCOME		
Net rents receivable	<u>10,233</u>	<u>10,716</u>
	2014 £	2013 £
SELLING AND DISTRIBUTION EXPENSES		
Carriage	<u>44,354</u>	<u>39,670</u>
	2014 £	2013 £
ADMINISTRATION EXPENSES		
Directors national insurance	13,006	13,112
Directors salaries	125,846	123,217
Directors pension costs - money purchase schemes	8,350	9,050
Staff salaries	56,211	54,974
Staff national insurance	4,315	3,694
Staff training	3,009	625
Motor running costs	4,359	2,532
Entertainment	240	4
Hotels, travel and subsistence	3,131	2,238
Printing and stationery	5,935	4,399
Telephone and fax	2,841	2,632
Computer costs	3,222	2,779
Advertising and promotion	13,565	7,477
Trade subscriptions	1,045	955
Legal and professional	36,516	17,771
Auditors' remuneration	11,000	10,500
Accountancy fees	5,200	6,089
Sub-total carried forward	<u>297,791</u>	<u>262,048</u>

SUTHERLAND HEALTH GROUP PLC

**SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2014**

	2014 £	2013 £
ADMINISTRATION EXPENSES (continued)		
Sub-total brought forward	297,791	262,048
Bank charges	1,162	1,166
Debt factoring charges	11,380	12,213
Bad debts	-	(3)
Sundry expenses	(263)	1,136
Insurances	7,983	11,379
Repairs and maintenance	8,794	6,837
Depreciation	640	4,201
Amortisation - intangible fixed assets	23,950	21,377
Other professional fees	7,500	1,339
	358,937	321,693
	358,937	321,693
	2014 £	2013 £
ESTABLISHMENT EXPENSES		
Rent	-	(2)
Rent - operating leases	27,579	25,620
Rates	10,276	10,078
Light and heat	3,423	2,599
Cleaning	615	723
Repairs and maintenance	1,573	1,566
	43,466	40,584
	43,466	40,584
	2014 £	2013 £
INTEREST PAYABLE		
Bank overdraft interest payable	-	16
Other loan interest payable	22,769	25,126
Interest on factored debts	750	1,305
	23,519	26,447
	23,519	26,447