

SUTHERLAND HEALTH LIMITED
STRATEGIC REPORT
FOR THE PERIOD ENDED 30 SEPTEMBER 2017

Introduction

The principal activity of the company was that of the sale of healthcare products.

Highlights

Please note that all comparative figures shown are for different accounting periods. The reported figures to 30th September 2016 were for an 18 month period, whereas the period to 30th September 2017 is for a 12 month period. The financials in this report are taken from the unaudited financial statements for the year ended 30 September 2017.

Sales for the 12 month period were £481,257 (18 month period 2016: £636,706).

Gross profit increased by 22.9% to £259,916 (2016: £211,492).

Operating loss of £14,469 (2016: loss of £113,729), after exceptional administrative expenses of £0 (2016: £25,449).

A loss for the period of £18,091 (2016: loss of £113,729), after exceptional administrative expenses of £0 (2016: £25,449).

Gross margin increased to 54.0% (2016: 33.2%).

Overheads decreased by 15.6% to £274,385 (2016: £325,221).

Reduced dependency on NHS business now 17.11% of sales (2016: 48.9%).

Online sales now account for 27.44% of total sales (2016:11.36%).

Export sales to Europe now account for 6.37% of total sales (2016: 3.0%).

Business Review

The Company has continued to follow its strategy of building its sales and a long term business outside of the NHS. This is working very well with our continuous investment in establishing an online presence showing excellent results.

The NHS will always remain an important market to us but continues to present significant challenges to us in terms of pricing and gross profit erosion which we are managing. This has meant in some instances that in a price led environment we have not won tenders for contracts as the Directors have taken the view that they do not wish to pursue sales at any cost.

Our business with Amazon continues to grow with sales to their UK depots growing by 58% versus the previous period delivering 65 products (2016: 75) into 15 (2015: 11) of their UK depots.

In this period we continued to invest in building up our own Ebay online store which is making good progress and began the process of building our own Amazon Marketplace store. Both these new online stores are generating additional sales and gross profit opportunities and broadening our customer base to now include consumers as well as businesses.

Our relationship with key medical and healthcare wholesalers such as Bunzl and Alliance continues to improve and we are seeing additional products being added to their product catalogues as well as a growth in overall sales.

Export sales now accounts for 6.37% of our sales (2016: 3.0%) as we continue to build sales of our products outside the UK supplying our products to Croatia; Ireland and Slovenia via distributors in each country. We have seen a steady growth in sales to the charity Medicins sans Frontiere (MSF) also known as Doctors without Borders, supplying their warehouse in Belgium.

Restructuring Progress

Sutherland Health Group the parent company of Sutherland Health during the previous period delisted from the NEX Market and joined the Asset Match trading platform, whilst also changing from a Public Limited Company (Plc) to a Limited Company. The Condomania Plc trading subsidiary transferred its business and assets and novated its contracts to Sutherland Health Ltd on 30 September 2016.

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STRATEGIC REPORT (CONTINUED)
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From 1 October 2016 it meant that Sutherland Health Ltd became the only trading subsidiary with Condomania Plc and Sutherland Health Group Ltd being non trading companies with effect from that date.

By progressing the financial restructuring it has enabled us to make substantial savings in costs associated with being on NEX and a Plc. The restructure together with our strategy of changing the mix of our customer base means that the future profitability of the Company should continue to improve.

Financial Statements

The financial statements to 30 September 2016 were prepared for a longer period of 18 months due to the financial restructuring. As such, the comparative figures are not entirely comparable as they reflect the performance and position of the Company for a 12 month period in the year to 30 September 2017.

Outlook

It is the opinion of the Directors that having completed the financial restructure of the Company, substantial cost savings have been made for the future. Our current strategy to broaden the customer base is working well and will we believe bring forward the date when we can deliver a more sustainable and profitable future.

Principal risks and uncertainties

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 | Robust Credit Control |
| Loss of orders | Reduction in Sales | Focus on Quality and Service |
| Products | Quality Issues | Registrations and Audits |
| Cash Flow | Funding Gap | Strong reporting, Credit Control |
| Intellectual Property | Loss of business | Market Awareness |
| Market Cycles | Unplanned shift in demand | Strong reporting and market surveillance |
| Loss of reputation | Loss of major business | Focus on Quality |

Financial key performance indicators

During the period to 30 September 2017 the Company achieved a turnover of £481,257 (2016: £636,706) representing a decrease in sales of 24.4% over the previous period, producing a 22.9% increase in gross profit of £259,916 (2015: £211,492). Administrative and distribution expenses, including exceptional expenses, were £274,385 (2016: £325,221) after charging £11,904 (2016: £67) for amortisation and depreciation. The pre-tax loss was £18,091 (2016: £113,729 loss). Cash at the bank on the balance sheet as at 30 September 2017 was £14,398 (2016: £51,972).

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.

This strategic report was approved by the board and signed on its behalf

**G M Sutherland
Executive Chairman**