

SUTHERLAND HEALTH GROUP PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

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

CONTENTS

	Page
Chairman's Statement	1 - 2
Directors' Report	3 - 5
Independent Auditors' Report	6 - 7
Consolidated Profit and Loss Account	8
Consolidated Balance Sheet	9
Company Balance Sheet	10
Consolidated Cash Flow Statement	11
Notes to the Financial Statements	12 - 25
The following pages do not form part of the statutory financial statements:	
Company Detailed Profit and Loss Account and Summaries	26 - 28

SUTHERLAND HEALTH GROUP PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2013

The chairman presents his statement for the period.

Dear Shareholder,

I am delighted to report to you that the group has seen a significant growth in sales and profitability.

Highlights

- Sales increased by 15% to £1,044,413
- Gross profit increased by 1% to £460,752
- Operating profit increased by 42.0% to £69,521 (2012: £48,984)
- Net profit increased by 45.8% to £36,580 (2012: £25,086)
- Gross margin decreased from 50.0% to 44.0%
- Overheads reduced by 4.0% to £401,947
- Reduced dependency on NHS Contracts
- 3 new products launched in personal care
- Amazon increase products stocked from 36 to 39

Following a year where sales grew by 15% and delivered a profit, it is pleasing to report to Shareholders that we have continued that sales growth and achieved the milestone of exceeding a £1 million in sales. Even more important is the increase in net profit which increased by 45.8%. The extension of distribution of sales outside the NHS coupled with an increase in the products now supplied has helped us to continue that growth in both sales and profits.

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. It is very pleasing to see that the management's hard work is starting to bring the benefits in terms of turnover and profitability. 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 39 of our own products now listed and stocked with a further 7 products that we supply on behalf of other companies. Sales growth via this important retailer continues to be strong.

We launched in the second half of the period under review three new products. Sutherland Medicated Shampoo; Sutherland Baby Shampoo; and Sutherland Baby Bath. These products were immediately taken up by Amazon and are making good progress in sales into the NHS Hospitals. The launch of these products now provides the opportunity to extend into other retail outlets and work has already begun on identifying suitable customers.

The group continues to enhance standards of quality assurance and has increased the number of products manufactured in the United Kingdom ensuring that our customers continue to have a sustainable supply of high quality products. The Group continues to successfully maintain ISO 9001:2008; ISO13485:2003 and ISO13485:2012 quality approvals.

The management team continue to keep costs under tight control and this year we have seen a further reduction in overall overheads despite having borne the development costs for the new personal care products.

We continue to broaden the group's product range enabling us to become an even more significant supplier to our existing customers whilst enabling us to open new channels of distribution.

During the period to 31st March 2013 the group achieved a turnover of £1,044,413 (2012: £910,548) representing an increase in sales of 15% over the previous year, producing a gross profit of £460,752 (2012: £455,317). Administrative and distribution expenses were £401,947 (2012: £416,972) after charging £25,576 (2012: £29,221) for amortisation and depreciation, and a foreign exchange gain of £nil (2012: £2,403). The pre tax profit was £43,074 (2012: £16,310) and the profit per ordinary share was 0.05p (2012: 0.04p). Cash at the bank on the balance sheet as at the 31st March 2013 was £137,494 (2012: £71,824).

SUTHERLAND HEALTH GROUP PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 MARCH 2013

Post Balance Sheet Events

Since the end of the period on the 2nd April 2013 the group announced that it had appointed Zeus Capital as its corporate adviser and broker with effect from 1st April 2013, and on 16th May 2013 the Group announced that it had successfully placed 8 million new ordinary shares at a price of 1.25p per share raising £100,000 for working capital and new product development. The Board were very pleased to see that the majority of this money was invested by our existing shareholders including Chief Executive George Sutherland who also participated in the placing.

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 two contract tenders that it will be bidding for in the new financial year which if successful would be both sales and profit enhancing. Whilst the group recognises the opportunity these possible contracts represent, it continues to develop business outside of the NHS to ensure that the dependence on such contracts continues to reduce.

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.

I would like to thank the management and staff for their commitment and determination in achieving a second year of growth in sales and profitability in what is a difficult trading environment. I would also like to take this opportunity to thank the group's advisers and of course our shareholders who have demonstrated in the recent placing their continued support of our plans.

F J French
Chairman

Date

SUTHERLAND HEALTH GROUP PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013

The directors present their report and the financial statements for the year ended 31 March 2013.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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.

Group turnover has increased from £910,548 in the previous year to £1,044,413 in the current period. The gross profit made by the group is £460,752 compared to £455,317 in 2012.

The directors recognise the risk facing the group of the continuing reliance on long-established contracts, notably with the NHS and will mitigate this risk by diversifying its selling base.

The group monitors various financial key performance indicators as part of its monthly accounting and management process.

The directors do not anticipate any material change in the nature of the group's operations in the foreseeable future.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £36,580 (2012 - £25,086).

The directors have not recommended a dividend.

DIRECTORS

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

	Ordinary shares of 0.2p each	
	31 March 2013	31 March 2012
F J French	1,433,225	1,433,225
S Sukumaran	45,000	45,000
G M Sutherland	28,776,220	28,776,220
S Coke	31,250	31,250

The Directors hold 43.4% (2012: 43.4%) of the issued share capital at 31 March 2013.

Mr G M Sutherland holds £42,287 (2012: £62,685) unsecured loan notes.

Options held by directors are disclosed within the notes to the financial statements at note 31.

LOAN NOTES

Full details of the terms of the loan notes are given in note 18 to the accounts.

PRINCIPAL RISKS AND UNCERTAINTIES

On a continuing basis, the directors review strengths, potential threats and any consequent perceived vulnerabilities, that may impact the company's business. This review is conducted regularly in the context of current and planned activity, with a view to assessing potential risks which could impact the company's future trading, capital requirements and financial stability and is carried out to identify and adopt strategies intended to minimise risk exposure.

SUTHERLAND HEALTH GROUP PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013

KEY PERFORMANCE INDICATORS

	2013	2012	2011
Turnover	1,044,413	910,548	734,937
Increase in turnover	15%	24%	(23)%
Gross Profit	460,752	455,317	393,433
Increase in Gross Profit	1%	16%	(19)%
Gross Margin %	44%	50%	54%

The group monitors various financial key performance indicators as part of its monthly accounting and management reporting process.

The directors do not anticipate any material change in the nature of the group's operations in the foreseeable future.

NON-FINANCIAL 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.

FINANCIAL INSTRUMENTS

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

ENVIRONMENTAL MATTERS

The group will seek to minimise adverse impacts on the environment from its activities, whilst continuing to address health, safety and economic issues. The group has complied with all applicable legislation and regulations.

COMPANY'S POLICY FOR PAYMENT OF CREDITORS

The company does not follow any specified code or standard on payment practice. However, it is the company's policy to negotiate terms with its suppliers and to ensure that they are aware of the terms of payment when business is agreed. Every effort is made to adhere to these terms and payment is made when it can be confirmed that goods and / or services have been provided in accordance with the relevant contract conditions.

The creditor payment period of the group for the year was 32 days (2012: 85 days) (2011: 67 days).

SUTHERLAND HEALTH GROUP PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing 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 2013, set out on pages 8 to 25. 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 2013 and of the group's profit 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 Chairman's Statement 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 2013**

	Note	2013 £	2012 £
TURNOVER	1,2	1,044,413	910,548
Cost of sales		(583,661)	(455,231)
		<hr/>	<hr/>
GROSS PROFIT		460,752	455,317
Distribution costs		(39,670)	(51,872)
Administrative expenses		(362,277)	(365,100)
Other operating income	3	10,716	10,639
		<hr/>	<hr/>
OPERATING PROFIT	4	69,521	48,984
Interest payable and similar charges	10	(26,447)	(32,674)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		43,074	16,310
Tax on profit on ordinary activities	11	(6,494)	8,776
		<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR	21	36,580	25,086
		<hr/> <hr/>	<hr/> <hr/>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2013 or 2012 other than those included in the Profit and Loss Account.

The notes on pages 12 to 25 form part of these financial statements.

EARNING PER SHARE IN PENCE	9	0.05p	0.04p
DILUTED EARNING PER SHARE IN PENCE	9	0.05p	0.04p

SUTHERLAND HEALTH GROUP PLC
REGISTERED NUMBER: 05255086

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2013

	Note	2013		2012	
		£	£	£	£
FIXED ASSETS					
Intangible assets	12		247,546		268,922
Tangible assets	15		6,286		10,176
			<u>253,832</u>		<u>279,098</u>
CURRENT ASSETS					
Stocks	14	210,538		184,796	
Debtors	16	149,502		223,714	
Cash at bank and in hand		137,494		71,824	
			<u>497,534</u>		<u>480,334</u>
CREDITORS: amounts falling due within one year	17		<u>(272,328)</u>		<u>(261,099)</u>
NET CURRENT ASSETS			<u>225,206</u>		<u>219,235</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>479,038</u>		<u>498,333</u>
CREDITORS: amounts falling due after more than one year	18		<u>(244,490)</u>		<u>(276,365)</u>
NET ASSETS			<u><u>234,548</u></u>		<u><u>221,968</u></u>
CAPITAL AND RESERVES					
Called up share capital	20		139,505		139,505
Share premium account	21		1,072,561		1,096,561
Other reserves	21		111,478		111,478
Profit and loss account	21		<u>(1,088,996)</u>		<u>(1,125,576)</u>
SHAREHOLDERS' FUNDS	22		<u><u>234,548</u></u>		<u><u>221,968</u></u>

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 25 form part of these financial statements.

SUTHERLAND HEALTH GROUP PLC
REGISTERED NUMBER: 05255086

COMPANY BALANCE SHEET
AS AT 31 MARCH 2013

		2013		2012	
	Note	£	£	£	£
FIXED ASSETS					
Tangible assets	15		4,144		7,538
Investments	13		411,336		411,336
			415,480		418,874
CURRENT ASSETS					
Debtors	16	1,077,133		1,091,782	
Cash at bank		8,089		892	
			1,085,222		1,092,674
CREDITORS: amounts falling due within one year	17		(31,162)		(20,819)
NET CURRENT ASSETS			1,054,060		1,071,855
TOTAL ASSETS LESS CURRENT LIABILITIES			1,469,540		1,490,729
CREDITORS: amounts falling due after more than one year	18		(244,490)		(276,365)
NET ASSETS			1,225,050		1,214,364
CAPITAL AND RESERVES					
Called up share capital	20		139,505		139,505
Share premium account	21		1,072,561		1,096,561
Profit and loss account	21		12,984		(21,702)
SHAREHOLDERS' FUNDS	22		1,225,050		1,214,364

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 25 form part of these financial statements.

SUTHERLAND HEALTH GROUP PLC

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2013**

	Note	2013 £	2012 £
Net cash flow from operating activities	23	148,366	236,894
Returns on investments and servicing of finance	24	(26,447)	(32,675)
Taxation		(64)	(119)
Capital expenditure and financial investment	24	(310)	(1,946)
CASH INFLOW BEFORE FINANCING		121,545	202,154
Financing	24	(55,875)	(143,983)
INCREASE IN CASH IN THE YEAR		65,670	58,171

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/DEBT
FOR THE YEAR ENDED 31 MARCH 2013**

	2013 £	2012 £
Increase in cash in the year	65,670	58,171
Cash outflow from decrease in debt and lease financing	31,875	110,483
MOVEMENT IN NET DEBT IN THE YEAR	97,545	168,654
Net debt at 1 April 2012	(204,541)	(373,195)
NET DEBT AT 31 MARCH 2013	(106,996)	(204,541)

The notes on pages 12 to 25 form part of these financial statements.

SUTHERLAND HEALTH GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

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% 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 Stocks

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 and an appropriate proportion of fixed and variable overheads.

SUTHERLAND HEALTH GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

1. ACCOUNTING POLICIES (continued)

1.8 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.

1.9 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.

1.10 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.

1.11 Going concern

At the balance sheet date the group had net assets of £234,548 (2012: £221,968) including net current assets of £225,206 (2012: £219,325) and cash at bank of £137,494 (2012: £71,824), having made a profit for the year of £36,580 (2012: £25,086). Subsequent to the balance sheet date the group raised a further £100,000 cash from placing new shares.

As noted in the report of the directors, the group has recently tendered for a very significant contract, the outcome of which will have a material bearing on the group's financial performance and prospects in the short and medium term.

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
- likely outcome of the contract tender referred to above
- future trading prospects, both if the contract tender is successful and if it is unsuccessful
- measures that could and would be taken to increase revenue from other sources and/or reduce costs if required in the event that the contract tender is unsuccessful
- 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 2013**

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

	2013	2012
	£	£
Net rents receivable	10,716	10,639

4. OPERATING PROFIT

The operating profit is stated after charging:

	2013	2012
	£	£
Amortisation - intangible fixed assets	21,376	22,768
Depreciation of tangible fixed assets:		
- owned by the group	4,200	6,453
Difference on foreign exchange	-	(2,403)

5. AUDITORS' REMUNERATION

	2013	2012
	£	£
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	8,700	8,700
Fees payable to the company's auditor and its associates in respect of:		
Taxation compliance services	1,800	1,800

Auditors' remuneration in respect of the company was £4,500 (2012: £4,500). This included non-audit services of £800 (2012: £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 2013**

6. STAFF COSTS

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

	2013	2012
	£	£
Wages and salaries	178,190	184,712
Social security costs	16,806	17,448
Other pension costs	9,050	9,050
	<u>204,046</u>	<u>211,210</u>

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

	2013	2012
	No.	No.
Administrative staff	4	3
Management staff	2	2
	<u>6</u>	<u>5</u>

7. DIRECTORS' REMUNERATION

	2013	2012
	£	£
Remuneration	123,217	130,984
Company pension contributions to defined contribution pension schemes	9,050	9,050

During the year retirement benefits were accruing to 2 directors (2012 - 2) in respect of defined contribution pension schemes.

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

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.

9. EARNINGS PER SHARE

	2013	2012
	pence	pence
Earnings per ordinary share	0.05	0.04
Diluted earnings per share	0.05	0.04

All outstanding share options are anti-dilutive for the year ended 31 March 2013 and 2012. 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

	2013	2012
	£	£
Earnings for the purposes of basic earnings per share	36,580	25,086

Number of shares

	2013	2012
	No of shares	No of shares
Basic weighted average number of shares	69,752,345	69,654,537

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

10. INTEREST PAYABLE

	2013 £	2012 £
On bank loans and overdrafts	16	187
On other loans	25,126	30,915
Interest on factored debts	1,305	1,572
	26,447	32,674

11. TAXATION

	2013 £	2012 £
Analysis of tax charge in the year		
Current tax (see note below)		
UK corporation tax charge on profit for the year	5,710	-
Deferred tax (see note 19)		
Origination and reversal of timing differences	784	(8,776)
	6,494	(8,776)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2012 - lower than) the standard rate of corporation tax in the UK of 20% (2012 - 20%). The differences are explained below:

	2013 £	2012 £
Profit on ordinary activities before tax	43,074	16,310
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2012 - 20%)	8,615	3,262
Effects of:		
Non-tax deductible amortisation of goodwill and impairment	3,332	3,389
Capital allowances for year in excess of depreciation	(108)	(43)
Utilisation of tax losses	(5,965)	(4,442)
Other short timing differences	(881)	(2,851)
Depreciation in excess of capital allowances	717	685
	5,710	-

Factors that may affect future tax charges

There were no factors that may affect future tax charges.

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

12. INTANGIBLE FIXED ASSETS

Group	Brands and Trademarks £	Goodwill £	Total £
Cost			
At 1 April 2012 and 31 March 2013	<u>141,384</u>	<u>317,692</u>	<u>459,076</u>
Amortisation			
At 1 April 2012	90,194	99,960	190,154
Charge for the year	6,108	15,268	21,376
At 31 March 2013	<u>96,302</u>	<u>115,228</u>	<u>211,530</u>
Net book value			
At 31 March 2013	<u>45,082</u>	<u>202,464</u>	<u>247,546</u>
At 31 March 2012	<u>51,190</u>	<u>217,732</u>	<u>268,922</u>

13. FIXED ASSET INVESTMENTS

Company	Investments in subsidiary companies £
Cost or valuation	
At 1 April 2012 and 31 March 2013	<u>411,336</u>
Net book value	
At 31 March 2013	<u>411,336</u>
At 31 March 2012	<u>411,336</u>

Details of the principal subsidiaries can be found under note number 29.

14. STOCKS

	Group		Company	
	2013 £	2012 £	2013 £	2012 £
Finished goods and goods for resale	<u>210,538</u>	<u>184,796</u>	<u>-</u>	<u>-</u>

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

15. TANGIBLE FIXED ASSETS

Group	Short term leasehold Property £	Plant & machinery £	Fixtures & fittings £	Office equipment £	Total £
Cost					
At 1 April 2012	2,259	11,702	2,653	25,930	42,544
Additions	-	-	-	310	310
At 31 March 2013	<u>2,259</u>	<u>11,702</u>	<u>2,653</u>	<u>26,240</u>	<u>42,854</u>
Depreciation					
At 1 April 2012	194	9,568	2,653	19,953	32,368
Charge for the year	-	533	-	3,667	4,200
At 31 March 2013	<u>194</u>	<u>10,101</u>	<u>2,653</u>	<u>23,620</u>	<u>36,568</u>
Net book value					
At 31 March 2013	<u>2,065</u>	<u>1,601</u>	<u>-</u>	<u>2,620</u>	<u>6,286</u>
At 31 March 2012	<u>2,065</u>	<u>2,134</u>	<u>-</u>	<u>5,977</u>	<u>10,176</u>
Company					
Cost					
At 1 April 2012 and 31 March 2013			<u>2,259</u>	<u>16,807</u>	<u>19,066</u>
Depreciation					
At 1 April 2012			194	11,334	11,528
Charge for the year			-	3,394	3,394
At 31 March 2013			<u>194</u>	<u>14,728</u>	<u>14,922</u>
Net book value					
At 31 March 2013			<u>2,065</u>	<u>2,079</u>	<u>4,144</u>
At 31 March 2012			<u>2,065</u>	<u>5,473</u>	<u>7,538</u>

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

16. DEBTORS

	<u>Group</u>		<u>Company</u>	
	2013 £	2012 £	2013 £	2012 £
Due after more than one year				
Amounts owed by group undertakings	-	-	1,060,614	1,075,432
Due within one year				
Trade debtors	114,623	196,941	3,986	3,672
Other debtors	17,213	14,593	1,064	1,317
Prepayments and accrued income	9,674	3,404	3,477	2,585
Deferred tax asset (see note 19)	7,992	8,776	7,992	8,776
	<u>149,502</u>	<u>223,714</u>	<u>1,077,133</u>	<u>1,091,782</u>

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

	<u>Group</u>		<u>Company</u>	
	2013 £	2012 £	2013 £	2012 £
Trade creditors	50,407	106,221	4,433	1,923
Corporation tax	5,710	-	5,710	-
Other taxation and social security	10,427	18,241	316	1,926
Other creditors	74,271	2,935	1,455	1,450
Accruals and deferred income	131,513	133,702	19,248	15,520
	<u>272,328</u>	<u>261,099</u>	<u>31,162</u>	<u>20,819</u>

Included within other creditors is an amount of £43,611 (2012: £157) 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.

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

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

	Group		Company	
	2013	2012	2013	2012
	£	£	£	£
Convertible loan notes	200,000	200,000	200,000	200,000
Loan notes	44,490	76,365	44,490	76,365
	244,490	276,365	244,490	276,365

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.

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	
	2013	2012	2013	2012
	£	£	£	£
At beginning of year	8,776	-	8,776	-
Recognised during the year	(784)	8,776	(784)	8,776
At end of year	7,992	8,776	7,992	8,776

The deferred tax asset is made up as follows:

	Group		Company	
	2013	2012	2013	2012
	£	£	£	£
Accelerated capital allowances	7,992	5,989	7,992	5,989
Tax losses brought forward	-	2,787	-	2,787
	7,992	8,776	7,992	8,776

20. SHARE CAPITAL

	2013	2012
	£	£
Allotted, called up and fully paid		
69,752,345 (2012 - 69,752,345) Ordinary shares of £0.002 each	139,505	139,505

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

21. RESERVES

Group	Share premium account £	Other reserves £	Profit and loss account £
At 1 April 2012	1,096,561	111,478	(1,125,576)
Profit for the year			36,580
Expenses on shares issued	(24,000)		
	<u>1,072,561</u>	<u>111,478</u>	<u>(1,088,996)</u>
At 31 March 2013	<u>1,072,561</u>	<u>111,478</u>	<u>(1,088,996)</u>
		Share premium account £	Profit and loss account £
Company			
At 1 April 2012		1,096,561	(21,702)
Profit for the year			34,686
Expenses on shares issued		(24,000)	
		<u>1,072,561</u>	<u>12,984</u>
At 31 March 2013		<u>1,072,561</u>	<u>12,984</u>

22. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Group	2013 £	2012 £
Opening shareholders' funds	221,968	230,382
Profit for the financial year	36,580	25,086
Shares issued during the year	-	700
Expenses on shares issued	(24,000)	(34,200)
	<u>234,548</u>	<u>221,968</u>
Closing shareholders' funds	<u>234,548</u>	<u>221,968</u>
	2013 £	2012 £
Company		
Opening shareholders' funds	1,214,364	1,204,882
Profit for the financial year	34,686	42,982
Shares issued during the year	-	700
Expenses on shares issued	(24,000)	(34,200)
	<u>1,225,050</u>	<u>1,214,364</u>
Closing shareholders' funds	<u>1,225,050</u>	<u>1,214,364</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 profit for the year dealt with in the accounts of the company was £34,686 (2012 - £42,982).

SUTHERLAND HEALTH GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

23. NET CASH FLOW FROM OPERATING ACTIVITIES

	2013 £	2012 £
Operating profit	69,521	48,984
Amortisation of intangible fixed assets	21,376	22,768
Depreciation of tangible fixed assets	4,200	6,453
Increase in stocks	(25,742)	(27,928)
Decrease in debtors	73,428	231,947
Increase/(decrease) in creditors	5,583	(45,330)
	148,366	236,894
Net cash inflow from operating activities	148,366	236,894

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

	2013 £	2012 £
Returns on investments and servicing of finance		
Interest paid	(26,447)	(32,675)
	(26,447)	(32,675)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(310)	(1,946)
	(310)	(1,946)
Financing		
Issue of ordinary shares	-	7,000
Expenses paid in connection with share issue	(24,000)	(40,500)
Repayment of loans	-	(81,000)
Repayment of other loans	(31,875)	(29,483)
Net cash outflow from financing	(55,875)	(143,983)

25. ANALYSIS OF CHANGES IN NET DEBT

	1 April 2012 £	Cash flow £	Other non-cash changes £	31 March 2013 £
Cash at bank and in hand	71,824	65,670	-	137,494
Debt:				
Debts due within one year	-	31,875	(31,875)	-
Debts falling due after more than one year	(276,365)	-	31,875	(244,490)
Net debt	(204,541)	97,545	-	(106,996)

SUTHERLAND HEALTH GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

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 £9,050 (2012 - £9,050). No contributions were payable to the fund at the balance sheet date (2012 - £nil).

27. OPERATING LEASE COMMITMENTS

At 31 March 2013 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2013	2012
	£	£
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 2013 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2013	2012
	£	£
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. POST BALANCE SHEET EVENTS

On 16 May 2013 the group issued 8 million Ordinary shares at a price of 1.25p per share for total cash consideration of £100,000.

29. 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.

30. CONTROLLING PARTY

There is no controlling party.

SUTHERLAND HEALTH GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

31. RELATED PARTY TRANSACTIONS

During the year the group incurred consultancy fees of £16,655 (2012: £18,384) from the John French Consultancy in respect of Mr F J French's services. At the year end the group owed £Nil (2012: £Nil) to the John French Consultancy. Mr F J French is a director and shareholder.

During the year, the group incurred consultancy fees of £6,000 (2012: £6,000) from Summit Office Services Limited. At the year end, the group owed £600 (2012: £600). Mr 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 Mr G Sutherland of £42,287 (2012: £62,685). Interest is charged on the loan at 7%. During the year the group incurred interest of £3,602 (2012: £4,908). Mr G Sutherland is a director and shareholder of the company.

Included in loan notes is an amount owed to K Sutherland of £2,204 (2012: £13,680). Interest is charged on the loan at 7%. During the year the group incurred interest of £524 (2012: £1,298). K Sutherland is a related party due to their relationship with G Sutherland.

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 2013

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	18/10/2005	426,690	16p	18/10/2014
	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 2013**

	Page	2013 £	2012 £
TURNOVER	27	1,044,413	910,548
Cost of sales	27	(583,661)	(455,231)
		<hr/>	<hr/>
GROSS PROFIT		460,752	455,317
Gross profit %		44.1 %	50.0 %
Other operating income	27	10,716	10,639
		<hr/>	<hr/>
		471,468	465,956
 LESS: OVERHEADS			
Selling and distribution expenses	27	(39,670)	(51,872)
Administration expenses	27	(321,693)	(325,002)
Establishment expenses	28	(40,584)	(40,098)
		<hr/>	<hr/>
OPERATING PROFIT		69,521	48,984
Interest payable	28	(26,447)	(32,674)
		<hr/>	<hr/>
PROFIT FOR THE YEAR		43,074	16,310
		<hr/> <hr/>	<hr/> <hr/>

SUTHERLAND HEALTH GROUP PLC

**SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2013**

	2013 £	2012 £
TURNOVER		
Sales	<u>1,044,413</u>	<u>910,548</u>
	2013 £	2012 £
COST OF SALES		
Purchases	<u>583,661</u>	<u>455,231</u>
	2013 £	2012 £
OTHER OPERATING INCOME		
Net rents receivable	<u>10,716</u>	<u>10,639</u>
	2013 £	2012 £
SELLING AND DISTRIBUTION EXPENSES		
Carriage	<u>39,670</u>	<u>51,872</u>
	2013 £	2012 £
ADMINISTRATION EXPENSES		
Directors national insurance	13,112	13,228
Directors salaries	123,217	130,984
Directors pension costs - money purchase schemes	9,050	9,050
Staff salaries	54,974	53,728
Staff national insurance	3,694	4,220
Staff training	625	(795)
Motor running costs	2,532	3,994
Entertainment	4	-
Hotels, travel and subsistence	2,238	2,039
Printing and stationery	4,399	4,572
Telephone and fax	2,632	2,049
Computer costs	2,779	4,135
Advertising and promotion	7,477	7,343
Trade subscriptions	955	585
Legal and professional	17,771	14,553
Auditors' remuneration	10,500	10,500
Accountancy fees	6,089	5,559
Sub-total carried forward	<u>262,048</u>	<u>265,744</u>

SUTHERLAND HEALTH GROUP PLC

**SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2013**

	2013 £	2012 £
ADMINISTRATION EXPENSES (continued)		
Sub-total brought forward	262,048	265,744
Bank charges	1,166	1,303
Debt factoring charges	12,213	11,044
Bad debts	(3)	30
Difference on foreign exchange	-	(2,403)
Sundry expenses	1,136	817
Insurances	11,379	9,875
Repairs and maintenance	6,837	4,015
Depreciation	4,201	6,453
Amortisation - intangible fixed assets	21,377	22,768
Other professional fees	1,339	5,356
	321,693	325,002
	321,693	325,002
	2013 £	2012 £
ESTABLISHMENT EXPENSES		
Rent	25,618	24,647
Rates	10,078	9,728
Light and heat	2,599	3,003
Cleaning	723	697
Repairs and maintenance	1,566	2,023
	40,584	40,098
	40,584	40,098
	2013 £	2012 £
INTEREST PAYABLE		
Bank overdraft interest payable	16	170
Bank loan interest payable	-	17
Other loan interest payable	25,126	30,915
Interest on factored debts	1,305	1,572
	26,447	32,674
	26,447	32,674