

InHealth Group Limited

Directors' Report and Financial Statements for the Year Ended 30 September 2017



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Company Information

Directors:	R J Bradford Sir A D Chessells A S L Cummings
Registered Office:	Beechwood Hall Kingsmead Road High Wycombe Buckinghamshire HP11 1JL
Registered Number:	04620480 (England and Wales)
Auditor:	KPMG LLP Altius House One North Fourth Street Milton Keynes MK9 1NE
Bankers:	Bank of Scotland 4th Floor 25 Gresham Street London EC2V 7HN

Strategic Report

The InHealth Group has for over 20 years been a provider of diagnostic and healthcare services to the NHS and the independent sectors. We provide tests, scans and examinations for more than 2 million patients a year across the UK. We have one goal in mind across all our services, to provide a rapid and accurate assessment of every patient's condition enabling the right treatment to be delivered swiftly and effectively by specialist clinicians.

The productivity requirements, coupled with constantly increasing demands as a result of the ageing and growing population, are an ongoing challenge for the UK. In addition to this, advances in medical insight and technology continue to drive demand from patients and referrers. There is therefore a resulting need for the NHS to increase efficiencies and to introduce new models of care, which require changes in operating systems, leadership, culture, capability and they will also require considerable capital investment.

InHealth's flexible and dynamic approach is helping to meet some of health's most pressing challenges; reducing waiting times, speeding up diagnoses, saving money and improving the overall patient experience. We have access to capital for investment and the ability to design and adapt our solutions to meet changing demands from region to region. We work collaboratively with the NHS and private sector providers and seek to enhance and improve performance continuously.

The pace of change in healthcare also means that tailor-made, flexible solutions often need to be delivered quickly. InHealth can also offer shorter term mobile services delivering operational and financial benefits for the NHS. InHealth demonstrates greater efficiencies by investing in the best, most modern equipment, thus minimising downtime and maximising utilisation of assets.

The InHealth Group now employs over 1,900 people, the majority working with patients every day across more than 300 locations in the UK. We believe that investing in training for all of our people is important for their development so that they can reach their full potential and are then able to deliver excellent care to all of our patients.

Key performance indicators

Management monitors progress by reference to Key Performance Indicators (KPIs), which include patient satisfaction, revenue, profit and EBITDA margin return on sales. Patient satisfaction, measured using the Friends and Family Test, showed that 98% (2016: 98%) of our patients would recommend our services. Group revenue in the year was £151.4 million (2016: £121.3 million), with profit before tax for the year at £3.1 million (2016: £5.7 million). The Group's EBITDA margin this year was 12% (2016: 16%).

The Group's trading activity in 2017 continues to reflect specific price reductions delivering value for money to our customers, a higher volume and growth in several new modalities where mobilisation of such services in the early months delivers a lower level of profitability. The Group added to its services in 2017 community based clinical assessment treatment and diagnostic services, which have been brought into the Group's operations during the year incurring mobilisation and integration costs, which had an impact on the EBITDA margin KPI in the year. Further details of the new services and their impact on revenue and profitability are in note 2 of the Financial Statements.

Progress through the year

During the year, InHealth secured new service contracts across the country, including a major Breast Screening contract, three Child Health Information System contracts, three Diabetic Eye Screening contracts and an Endoscopy contract. The group also retained two major MRI contracts.

In parallel with these services, InHealth continues to broaden its reach across the pre-acute patient pathway and has strengthened its position across the United Kingdom in Cardiac, Endoscopy, Screening Programmes, Mobile Services and Audiology.

Strategic Report *(continued)*

Progress through the year *(continued)*

Significant investment has been made into our Cardiac Interim Solutions, which means we can deliver a fully bespoke staffed or unstaffed interim service of various contract lengths to suit our customers across the United Kingdom and Ireland.

The Group completed an acquisition this year, which supports and strengthens the strategy for growth and expansion across the patient pathway.

On 3 January 2017, InHealth Limited added to its service provision with a community based clinical assessment treatment and diagnostic service in the North West. The service is fully embedded in the local health economy with procedures currently being delivered within community based locations across Greater Manchester. InHealth is very well placed to offer excellent and seamless service delivery in the region. In addition, InHealth can support the service with in-house diagnostic services such as MRI, CT, ultrasound and X-ray services, which will result in further improvements in patient care, outcomes and satisfaction. This was transferred to InHealth CATS Limited, a wholly owned subsidiary incorporated on 18 January 2017, at market value on 21 January 2017. Details of the acquisition are included in note 2 of the Financial Statements.

There has been continued investment in InHealth's services; a number of community clinics at Ipswich, Bristol and Oxford added capacity including new equipment, and the continued expansion of the Diagnostic Clinic network. A new multi-modality site will feature Endoscopy, Mammography and Pathology units, including state of the art equipment, high quality community Breast Screening services, imaging clinical assessment and biopsy, specialist breast care nurses and counselling room and an on-site histopathology laboratory.

During the year, the Group launched InHealth Ventures, a company, which is dedicated to partnering with exceptionally talented entrepreneurs to build technology and services companies that will contribute to solving today's major healthcare challenges.

Health systems across the world are struggling to provide the capacity required to meet rising demand for healthcare services. The ability to harness novel technologies and innovative models of care to reduce costs and improve quality will be a critical factor in successfully tackling this challenge.

InHealth Ventures supports early-stage companies to reach their full potential by bringing our deep industry experience, extensive knowledge of the UK and European regulatory environment, and established network of partners and distribution channels.

During the year InHealth Ventures invested in 4 early stage investments in the United States, which included; Backbone Talent, Clarify Health, Luma Health and Fido for a total consideration of £1.4 million. Details of these investments are included in note 11 of the Financial Statements.

The Group continues to explore wider opportunities for growth where challenges for healthcare meet with our skills and capabilities to offer clinical excellence, efficiency and productivity benefits to our patients and customers.

InHealth Group Limited does not pay dividends and instead chooses to reinvest all profit back into the Group for future growth.

Growing capacity and maintaining equipment to high standards

Throughout the year and since the year end the Group has continued to invest heavily in growing equipment capacity, often ahead of contracted demand. A rigorous policy is followed to keep all assets maintained to a high standard including regular upgrades to keep equipment current with technology developments. Movements in fixed assets during the year are set out in note 8 to the Financial Statements.

Strategic Report (continued)

Principal risks and uncertainties

Financial risk management

During the year the Group's operations exposed it to certain financial risks such as foreign currency risk, credit risk, liquidity risk and interest rate risk as described below.

Foreign currency risk

The Group's transactions are predominantly in Sterling, but some transactions are in other currencies and the Group is therefore exposed to the movement in foreign currency exchange rates. The risk is considered low due to the volume and value of transactions that occur.

Credit risk

The Group's principal financial assets are bank balances and trade debtors, which represent the Group's maximum exposure to credit risk in relation to financial assets. The Group's credit risk is primarily attributable to its trade debtors. The Directors provide robust guidelines to minimise credit risk however, given the nature of its customers, the Group does not have significant exposure in this area.

Liquidity risk

The Group's policy has been to ensure continuity of funding for operations via additional credit facilities to aid short-term flexibility. The Group has a strong cash position and has cash generation ability and maintains overdraft facilities (that have yet to be drawn upon) to ensure that obligations associated with the financial liabilities of any subsidiary can be met. The Directors are satisfied that the Group can meet the obligations associated with its financial liabilities and that no material risk exists of the Group not being able to do so.

Interest rate risk

The interest rates on the Group's borrowings are at market rates. The Group's policy is to keep its borrowings within defined limits such that the risk that could arise from a significant change in interest rates would not have a material impact on cash flows. The Directors monitor the overall level of cash, borrowings and interest cost to limit any adverse effect on financial performance of the Group overall.

Impairment of assets

Assets are regularly reviewed for impairment and where there are indicators of impairment, assessment is made as to whether or not a loss is recognised.

Corporate and social responsibility

The Group is committed to transparency and ethical behaviour in all of its activities, as well as making a positive social, economic and environmental contribution to the community in which it operates. The Group strives to be open and honest in communicating its policies, strategies, targets, performance and governance to its stakeholders. The Group is proud of the way in which its employees demonstrate their commitment and integrity, both in their day to day work, but also through their work with charities, communities and environmental projects every year.

Strategic Report *(continued)*

Corporate and social responsibility *(continued)*

The Group endeavours to continually improve its environmental performance. The Group acknowledges that there are inevitable environmental impacts associated with daily operations, but aims to minimise any harmful effects and strongly encourages the policies of 'reduce, re-use and recycle'. The Group regularly reviews its environmental policy to ensure that it reflects changes in regulations and best practice. The Group aims to continually manage the impact of its operations and develop initiatives to improve its environmental footprint. The approach to Corporate and Social Responsibility is reviewed on an annual basis in a continual commitment to sustainable and responsible development.

The Group is committed to acting with integrity and transparency in all tax matters as part of its corporate responsibility.



R J Bradford
Director
6 February 2018

Directors' Report

The Directors present their report and audited Financial Statements of InHealth Group Limited for the year ended 30 September 2017.

Principal activity

The principal activity of the Company is as a holding company for the InHealth Group. The principal activities of the InHealth Group are set out in the Strategic Report.

Proposed dividend

The Directors do not recommend the payment of a dividend (2016: £nil).

Directors

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

R J Bradford
Sir A D Chessells
A S L Cummings

Political donations

The Group made no political donations (2016: £nil).

Employees

The Group's people are central to its success in both delivering existing business and winning new contracts. Investment in people and in building the right working environment will continue to be a priority. The Group holds gold level accreditation with Investors In People and employs 1,900 highly skilled and trained professionals with many years of experience working within the health sector.

The Board remains grateful for the contributions made by all individuals.

Employee Involvement

The Group's policy is to consult with employees on matters likely to affect the employees' interests. Information on matters of concern to employees is given through information bulletins and reports, which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance.

Employment of disabled people

It is the Group's policy that disabled people are given the same consideration as other applicants for all job vacancies for which they offer themselves as suitable candidates. Similarly, the Group's policy is to continue to employ and train employees who have become disabled wherever possible.

Every effort has been made to ensure that line managers fully understand that disabled people must have the prospects and promotional opportunities that are available to other employees. The Group makes appropriate modification to procedures and equipment where it is practical and safe to do so.

Financial instruments

During the year the Group's operations exposed it to certain financial risks such as foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group has a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of cash and controlling foreign currency transactions. The Group has implemented policies that require appropriate credit checks before a sale is made. The Group hedges its exposure to foreign currency fluctuations by using bank accounts denominated in foreign currencies and forward contracts.

Directors' Report *(continued)*

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and the Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 2.

Events after the Balance Sheet date

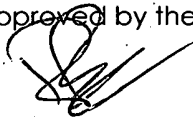
On 5 December 2017 and 7 December 2017 InHealth Ventures Limited purchased further investments in Luma Health and Clarify Health for consideration of £0.2 million and £0.4 million respectively.

On 17 January 2018 InHealth Ventures Limited has acquired minority shareholdings in two companies registered within the United Kingdom for total consideration of £0.4 million.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board and signed on its behalf by:



R J Bradford
Director
6 February 2018

Statement of Directors' Responsibilities in respect of the Strategic Report, Directors' Report and the Financial Statements

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

Company law requires the Directors to prepare Group and parent Company Financial Statements for each financial year. Under that law they have elected to prepare the Group Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company Financial Statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group Financial Statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company Financial Statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INHEALTH GROUP LIMITED

Opinion

We have audited the Financial Statements of InHealth Group Limited ("the Company") for the year ended 30 September 2017 which comprise the Consolidated Statement of Profit and Loss and Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and Company Balance Sheet and related notes, including the accounting policies in note 1.

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 September 2017 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company Financial Statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the Financial Statements. We have nothing to report in these respects.

Strategic Report and Directors' Report

The Directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the Financial Statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the Financial Statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INHEALTH GROUP LIMITED *(continued)*

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the Directors are responsible for: the preparation of the Financial Statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

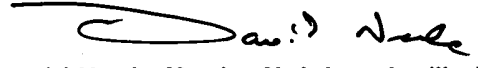

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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


David Neale (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Altius House
One North Fourth Street
Milton Keynes
MK9 1NE
Date: 

Consolidated Statement of Profit and Loss and Comprehensive Income
For the year ended 30 September 2017

	Note	2017 £000	2016 £000
Revenue	3	151,397	121,269
Cost of sales		(99,270)	(77,859)
Gross profit		52,127	43,410
Administrative expenses		(48,632)	(37,486)
Operating profit		3,495	5,924
Financial income	6	93	134
Financial expenses	6	(478)	(311)
Net financing expense		(385)	(177)
Profit before tax		3,110	5,747
Taxation	7	(950)	(1,403)
Profit for the year		2,160	4,344
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit liability		739	(887)
Income tax on items that will not be reclassified to profit or loss		(144)	179
Other comprehensive income/(loss) for the year		595	(708)
Total comprehensive income for the year		2,755	3,636
Comprehensive income attributable to:			
Equity holders of the parent		2,599	3,635
Non-controlling interest		156	1

All activities are classified as continuing.

Consolidated Balance Sheet

At 30 September 2017

	Note	2017 £000	2016 £000
Non-current assets			
Property, plant and equipment	8	75,614	74,119
Intangible assets	9	25,751	24,378
Other financial assets	11	1,424	-
Trade and other receivables	14	1,612	1,612
		104,401	100,109
Current assets			
Inventories	13	873	876
Trade and other receivables	14	40,703	35,662
Cash and cash equivalents	15	10,218	14,450
		51,794	50,988
Total assets		156,195	151,097
Current liabilities			
Trade and other payables	16	(41,700)	(39,331)
Non-current liabilities			
Employee benefits	20	(552)	(1,260)
Deferred tax liabilities	12	(2,267)	(1,995)
Provisions	17	(670)	-
Other financial liabilities	18	(3,814)	(4,378)
		(7,303)	(7,633)
Total liabilities		(49,003)	(46,964)
Net assets		107,192	104,133
Equity attributable to equity holders of the parent			
Share capital	21	29	1,106
Share premium	21	70,303	70,303
Retained earnings		36,401	32,717
Other reserves		296	-
		107,029	104,126
Non-controlling interest		163	7
Total equity		107,192	104,133

These Financial Statements were approved by the Board of Directors on 6 February 2018 and were signed on its behalf by:

R J Bradford Director

Company registered number: 04620480

Consolidated Statement of Changes in Equity

For the year ended 30 September 2017

	Share capital £000	Share premium £000	Retained earnings £000	Other reserves £000	Total parent equity £000	Non- controlling interest £000	Total equity £000
Balance at 1 October 2015	1,012	53,100	29,082	-	83,195	6	83,201
Total comprehensive income for the year							
Profit for the year	-	-	4,343	-	4,343	1	4,344
Other comprehensive loss	-	-	(708)	-	(708)	-	(708)
Total comprehensive income for the year	-	-	3,635	-	3,635	1	3,636
Transactions with owners, recorded in equity							
Issue of shares	94	17,202	-	-	17,296	-	17,296
Total transactions with owners	94	17,202	-	-	17,296	-	17,296
Balance at 30 September 2016 and 1 October 2016	1,106	70,303	32,717	-	104,126	7	104,133
Total comprehensive income for the year							
Profit for the year	-	-	2,038	-	2,038	122	2,160
Other comprehensive income	-	-	561	-	561	34	595
Total comprehensive income for the year	-	-	2,599	-	2,599	156	2,755
Transactions with owners, recorded in equity							
Share capital reduction	(1,085)	-	1,085	-	-	-	-
Issue of shares	8	-	-	-	8	-	8
Capital contribution	-	-	-	296	296	-	296
Total transactions with owners	(1,077)	-	1,085	296	304	-	304
Balance at 30 September 2017	29	70,303	36,401	296	107,029	163	107,192

Consolidated Cash Flow Statement

For year ended 30 September 2017

	2017 £000	2016 £000
Cash flows from operating activities		
Profit for the year	2,160	4,344
Adjustments for:		
Depreciation, amortisation and impairment	15,601	12,893
Financial income	(93)	(134)
Financial expense	478	311
Gain on sale of property, plant and equipment	(101)	(1,214)
Taxation	950	1,403
	18,995	17,603
Increase in trade and other receivables	(4,878)	(3,124)
Decrease/(increase) in inventories	3	(189)
Increase/(decrease) in trade and other payables	640	(1,383)
Increase/(decrease) in provisions and employee benefits	293	(43)
Taxation paid	(985)	(1,669)
Interest paid	(193)	(67)
Net cash from operating activities	13,875	11,128
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	922	1,561
Acquisition of property, plant and equipment	(14,419)	(21,164)
Acquisition of subsidiaries and businesses, net of cash acquired	(488)	(10,047)
Acquisition of other intangible assets	(164)	(16)
Interest received	30	72
Net cash from investing activities	(14,119)	(29,594)
Cash flows from financing activities		
Proceeds from the issue of share capital	8	17,296
Purchase of shares in investments	(1,424)	-
Payment of hire purchase liabilities	(2,384)	(1,683)
Interest elements of hire purchase	(188)	(178)
Net cash from financing activities	(3,988)	15,435
Cash and cash equivalents at 1 October	14,450	17,481
Net decrease in cash and cash equivalents	(4,232)	(3,031)
Cash and cash equivalents at 30 September	10,218	14,450

Notes to the Financial Statements – Group **(forming part of the Financial Statements)**

1 Accounting policies

InHealth Group Limited (the "Company") is a private company incorporated, domiciled and registered in the UK. The registered number is 04620480 and the registered address is Beechwood Hall, Kingsmead Road, High Wycombe, Buckinghamshire, HP11 1JL.

The Group Financial Statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in Joint Arrangements. The parent Company Financial Statements present information about the Company as a separate entity and not about its Group.

The Group Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent Company Financial Statements in accordance with FRS 101 *Reduced Disclosure Framework*; these are presented on pages 47-52.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group Financial Statements.

1.1 Measurement convention

The Financial Statements are prepared in accordance with applicable accounting standards and under the historical cost basis.

1.2 Going concern

The Directors have considered the factors that impact the Group's future development, performance, cash flows and financial position along with the Group's current liquidity in forming their opinion on the going concern basis. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, thus they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements.

1.3 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Change in subsidiary ownership and loss of control

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Notes to the Financial Statements – Group *(continued)*

1 Accounting policies *(continued)*

1.3 Basis of consolidation *(continued)*

Joint Arrangements

A joint arrangement is an arrangement over which the Group and one or more third parties have joint control. These joint arrangements are in turn classified as:

Joint ventures whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities; and

Joint operations whereby the Group has rights to the assets and obligations for the liabilities relating to the arrangement.

Where a Group company is party to a joint operation, which is not an entity that company accounts directly for its share of the income and expenditure, assets, liabilities and cash flows. Such arrangements are reported in the consolidated Financial Statements on the same line-by-line basis.

Application of the equity method to associates and joint ventures

Joint arrangements are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated Financial Statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that joint control commences until the date that joint control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1.4 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Notes to the Financial Statements – Group (continued)

1 Accounting policies (continued)

1.5 Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these Financial Statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.6 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments

Investments in subsidiaries, associates and joint ventures are stated at amortised cost less impairment.

Investments in equity securities

Loans and receivables are stated at amortised cost less impairment. Financial instruments held for trading or designated upon initial recognition are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.7 Derivative financial instruments

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Notes to the Financial Statements – Group (continued)

1 Accounting policies (continued)

1.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Freehold property	50 years straight line
Short term leasehold improvements	Over the term of the lease
Plant and machinery	4 to 10 years straight line
Fixtures and fittings	3 to 6 years straight line
Motor vehicles	2 to 6 years straight line

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Assets under the course of construction have no depreciation charged.

1.9 Business combinations

All business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Notes to the Financial Statements – Group (continued)

1 Accounting policies (continued)

1.9 Business combinations (continued)

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

1.10 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the investment.

Other intangible assets

Other intangible assets acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Licences purchased by the Group are amortised to nil by equal instalments over their useful life.

Existing contracts and relationships are acquired through business combinations.

Expenditure on research activities is recognised in the income statement as an expense as incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends to and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Licences	1 to 3 years straight line
Existing customer contracts	Over the contract term
Development cost	5 to 10 years straight line
Patents and licenses	10 years straight line
Intellectual property	10 years straight line

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition.

Notes to the Financial Statements – Group (continued)

1 Accounting policies (continued)

1.12 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGUs"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Financial Statements – Group (continued)

1 Accounting policies (continued)

1.13 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability or asset.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating to the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets and the effect of the asset ceiling. The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

Share-based payment transactions

Where a member of the Group grants equity settled awards to Group employees, and the Group has no obligation to settle the award, these are accounted for as share based payments as equity settled. In the event of any modification to terms of any share schemes the Group elects to maintain the original treatment of the scheme (i.e. either equity settled or cash settled).

1.14 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, which can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Notes to the Financial Statements – Group (continued)

1 Accounting policies (continued)

1.15 Revenue

Revenue represents the amounts invoiced for the provision of diagnostic services and healthcare solutions (excluding value added tax). Revenue is recognised on the provision of services.

Revenues are recognised once the realisation of the consideration is reasonably assured and the provision of services is substantially complete with respect to the delivery of the specific product or performance of the related service. This will normally be the case when there are no material uncertainties or performance duties outstanding, which could prevent the Group from enforcing the sales transaction and collectability is reasonably assured.

1.16 Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financing income and expenses

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Interest receivable on funds invested and foreign currency gains and losses are reported on a net basis.

Financing expenses comprise interest payable and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement.

1.17 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Notes to the Financial Statements – Group (continued)

1 Accounting policies (continued)

1.18 Significant accounting estimates and judgements

The preparation of the consolidated Financial Statements requires management to make judgements, estimates and assumptions in the application of accounting policies that affect reported amounts of assets, liabilities, revenues and expenses during the year.

Management periodically evaluates its estimates and judgements and bases them on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily available from other resources. Actual results may differ from these estimates.

The estimates and assumptions that have the most significant effect on the amount recognised in the Financial Statements are discussed below.

Impairment of goodwill

The Group annually tests whether goodwill has been impaired. The recoverable amount of the Groups of CGUs to which goodwill has been allocated is determined based on value-in-use calculations. These calculations require assumptions to be made regarding projected cash flows and the choice of appropriate discount rate in order to calculate the value-in-use of those cash flows. These are disclosed in note 9 and actual outcomes could vary from estimates.

Defined pension benefit schemes

The present value of defined benefit pension scheme liabilities are determined on an actuarial basis and depend on a number of actuarial assumptions, which are disclosed in note 20. Any changes in the assumptions could impact the carrying amounts of retirement benefit assets and liabilities.

Business combinations

The Group identifies separate assets and liabilities upon acquisition and recognises those assets at their fair value. The assessment of fair value is undertaken with reference to the current market conditions. Note 2 describes the business combinations in the current and prior periods and provides details of the fair value adjustments made in arriving at the fair value of assets and liabilities acquired.

1.19 Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied by the Group in these Financial Statements:

- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018);
- IFRS 9 Financial Instruments (effective 1 January 2018);
- IFRS 16 Leases (effective date 1 January 2019); and
- Investment entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28 (effective date to be confirmed).

The Group is reviewing the impact that the adoption of the standards listed above will have on the Financial Statements of the Group in future periods.

Notes to the Financial Statements – Group *(continued)*

1 Accounting policies *(continued)*

1.20 Audit exemption

The Company's subsidiaries listed below intend to claim an audit exemption under Section 479A of the Companies Act 2006 in respect of their own Financial Statements for the year ended 30 September 2017. As a condition of the audit exemption that they will claim, InHealth Group Limited intends to guarantee all outstanding liabilities of these companies as at 30 September 2017.

Company	Company registration number
InHealth (London) Limited	05509197
e-Locum Services Limited	04785828
InHealth Community Solutions Limited	08302092
InHealth Facilities Management Limited	03381546
InHealth Molecular Imaging Limited	06135533
InHealth Properties Limited	05233645
InHealth Ventures Limited	10056423
Medical Imaging Audit and Accreditation Limited	05956590

Notes to the Financial Statements – Group (continued)

2 Acquisitions of subsidiaries and businesses

Acquisitions in the current period

On 3 January 2017, the Group through InHealth Limited acquired the trade and assets of a community-based diagnostic and clinical care business through a business combination. This was transferred to InHealth CATS Limited, a wholly owned subsidiary incorporated on 18 January 2017, through an inter-company loan arrangement at fair value on 21 January 2017.

The principal activity of that business is to deliver community-based services to NHS patients providing access to diagnostic imaging and clinical care pathways. The business offers patients access to a range of services across multiple specialties including MSK, ENT and Gastroenterology. In the 9 months to 30 September 2017 the business contributed a net loss of £1.4 million to the consolidated net profit. If the acquisition had occurred on 1 October 2016, Group revenue would have been an estimated £153.6 million and profit before tax £2.6 million.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:	
Intangible asset – existing customer contracts	400
Deferred tax liability	(72)
Tangible assets	409
Prepayments	163
Onerous lease	(1,350)
	<hr/>
Net identifiable liabilities	(450)
	<hr/>
Initial cash price paid	488
Contingent consideration at fair value	250
	<hr/>
Total consideration	738
	<hr/>
Goodwill	1,188
	<hr/>

Goodwill arising from the acquisition is attributable to the expected synergistic benefits and the anticipated growth of the market.

On acquisition an intangible asset of £400,000 has been recognised for customer contracts.

The Group incurred acquisition related costs of £26,500 related to professional services. This cost has been included in administrative expenses in the Group's consolidated statement of comprehensive income.

The Group has agreed to pay the vendors additional consideration based on revenue targets. The Group has included £250,000 as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date.

There were no pre-existing contractual relationships and no contingent liabilities have been acquired.

Notes to the Financial Statements – Group (continued)

2 Acquisitions of subsidiaries and businesses (continued)

Acquisitions in the prior period

On 8 September 2016, the Group through InHealth Limited acquired 76% of ordinary shares in Health Intelligence Limited.

The fair values of the acquired identifiable assets have now been finalised, following the receipt of the final valuations.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:	
Intangible asset – existing customer contracts	1,780
Intangible asset – development costs	856
Intangible asset – other	36
Deferred tax liability on intangible assets	(320)
Property, plant and equipment	603
Trade and other receivables	529
Cash and cash equivalents	683
Trade and other payables due within one year	(1,369)
Trade and other payables due after one year	(134)
Defined benefit pension scheme	(300)
Defined benefit pension scheme provision	(670)
Deferred tax liability	(20)
	<hr/>
Net identifiable assets	1,674
	<hr/>
Initial cash price paid	2,875
Contingent consideration at fair value	430
	<hr/>
Total consideration	3,305
	<hr/>
Goodwill	1,631
	<hr/>

Goodwill arising from the acquisition is attributable to the expected synergistic benefits and the anticipated growth of the market.

On acquisition an intangible asset of £1,780,000 has been recognised for customer contracts.

The Group incurred acquisition related costs of £110,000 related to professional services. This cost has been included in administrative expenses in the Group's consolidated statement of comprehensive income.

Notes to the Financial Statements – Group (continued)

3 Revenue

	2017 £000	2016 £000
Provision of services	151,397	121,269

The Group's revenue is substantially related to activities within the United Kingdom.

4 Expenses and auditor's remuneration

Included in the profit and loss account are the following:

	2017 £000	2016 £000
Depreciation and other amounts written off tangible assets:		
Owned	12,394	10,676
Leased	2,158	1,953
Profit on disposal of property, plant and equipment	(101)	(1,214)
Amortisation of other intangibles	1,049	264
Hire of plant and machinery – operating leases	713	457
Hire of other assets – operating leases	4,464	3,101

Auditor's remuneration:

	2017 £000	2016 £000
Audit of these Financial Statements	29	20
Audit of the Financial Statements for all Group companies	205	192
Other services provided by the audit firm	199	256

The audit firm also provided services relating to current year taxation of £0.1 million (2016: £0.1 million), and services relating to indirect taxes and consultancy services totalling £0.1 million (2016: £0.2 million).

Notes to the Financial Statements – Group (continued)

5 Staff numbers and costs

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

	2017	2016
Sales	11	14
Operations	1,470	1,082
Administrative	216	149
Directors	2	2
	<hr/>	<hr/>
	1,699	1,247
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	58,999	41,654
Social security costs	5,921	4,531
Contributions to defined contribution plans	1,975	1,327
Contributions to defined benefit plans	107	56
	<hr/>	<hr/>
	67,002	47,568
	<hr/>	<hr/>

Directors' remuneration is as follows:

	2017 £000	2016 £000
Directors' remuneration including social security costs	584	821
Company contributions to money purchase pension schemes	10	10
	<hr/>	<hr/>
	594	831
	<hr/>	<hr/>

The aggregate of emoluments of the highest paid Director was £383,000 (2016: £536,000), and Company pension contributions of £nil (2016: £nil) were made to a money purchase scheme on his behalf.

Notes to the Financial Statements – Group *(continued)*

6 Finance income and expense

Recognised in profit or loss

	2017 £000	2016 £000
Interest receivable and similar income		
Total interest receivable on financial assets	27	72
Net interest on defined benefit pension plan assets	66	62
	<hr/>	<hr/>
Total interest receivable and similar income	93	134
	<hr/>	<hr/>
Interest payable and similar charges		
Total interest payable on financial liabilities	381	245
Net interest on defined benefit pension plan obligation	97	66
	<hr/>	<hr/>
Total interest payable and similar charges	478	311
	<hr/>	<hr/>

Notes to the Financial Statements – Group (continued)

7 Taxation

Recognised in the income statement

	2017 £000	2016 £000
<i>Current tax expense</i>		
Current year	1,234	1,179
Adjustments for prior years	(375)	(195)
	<hr/>	<hr/>
Current tax expense	859	984
<i>Deferred tax expense</i>		
Origination and reversal of timing differences	(218)	280
Adjustments in respect of prior years	309	298
Effect of tax rate change on opening balance	-	(159)
	<hr/>	<hr/>
Deferred tax expense	91	419
	<hr/>	<hr/>
Tax expense in income statement (including tax on equity accounted investees)	950	1,403
	<hr/>	<hr/>

Income tax recognised in other comprehensive income

Remeasurement of defined benefit (asset)/liability	(144)	179
	<hr/>	<hr/>

Reconciliation of tax expense

	2017 £000	2016 £000
Profit for the year excluding taxation	3,110	5,747
	<hr/>	<hr/>
Using UK Corporation tax rate of 19.5% (2016: 20%)	606	1,149
Capital allowances for year in excess of depreciation	(8)	16
Group relief claimed	(10)	-
Non-deductible expenses	86	38
Tax exempt revenues	(1)	-
Fixed assets ineligible for depreciation	420	243
Adjustments in respect of prior periods	(66)	103
Other short term timing differences	(57)	(81)
Reduction in tax rate on deferred tax balances	(22)	(123)
Current year losses for which no deferred tax asset was recognised	12	58
Other tax adjustments, reliefs and transfers	(10)	-
	<hr/>	<hr/>
Total tax expense (including tax on equity accounted investees)	950	1,403
	<hr/>	<hr/>

Notes to the Financial Statements – Group (continued)

7 Taxation (continued)

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax liability at the 30 September 2017 has been calculated based on these rates.

8 Property, plant and equipment

	Short term leasehold improvements £000	Freehold property £000	Plant and machinery £000	Fixtures and fittings £000	Assets under construction £000	Motor vehicles £000	Total £000
Cost							
At 1 October 2016	23,404	8,726	100,993	18,846	3,147	3,840	158,956
Additions	1,325	-	5,296	2,523	7,043	272	16,459
Additions through business combinations	-	-	401	8	-	-	409
Disposals	-	-	(605)	(26)	(25)	(1,416)	(2,072)
Reclassifications	198	-	2,317	365	(2,880)	-	-
At 30 September 2017	24,927	8,726	108,402	21,716	7,285	2,696	173,752
Depreciation and impairment							
At 1 October 2016	10,938	2,361	55,683	14,229	-	1,626	84,837
Depreciation for the year	2,056	171	9,567	2,021	-	737	14,552
Disposals	-	-	(343)	(6)	-	(902)	(1,251)
At 30 September 2017	12,994	2,532	64,907	16,244	-	1,461	98,138
Net book value							
At 30 September 2016	12,466	6,365	45,310	4,617	3,147	2,214	74,119
At 30 September 2017	11,933	6,194	43,495	5,472	7,285	1,235	75,614

Leased plant and machinery

At 30 September 2017 the net carrying amount of leased plant and machinery was £9,113,000 (2016: £8,458,000).

Notes to the Financial Statements – Group (continued)

9 Intangible assets

	Goodwill £000	Licence costs £000	Existing contracts £000	Development cost £000	Other intangibles £000	Total £000
Cost						
At 1 October 2016	32,783	558	3,905	-	-	37,246
Additions through business combinations	966	-	400	1,330	136	2,832
Additions	-	-	-	170	-	170
At 30 September 2017	33,749	558	4,305	1,500	136	40,248
Amortisation and impairment						
At 1 October 2016	12,183	515	170	-	-	12,868
Additions through business combinations	-	-	-	470	110	580
Amortisation for the year	-	35	841	171	2	1,049
At 30 September 2017	12,183	550	1,011	641	112	14,497
Net book value						
At 30 September 2016	20,600	43	3,735	-	-	24,378
At 30 September 2017	21,566	8	3,294	859	24	25,751

Amortisation and impairment charge

The amortisation and impairment charge of £1,049,000 (2016: £264,000) is recognised in administrative expenses in the statement of profit and loss and comprehensive income.

Additions to Goodwill through business combinations comprise:

	Goodwill £000
Goodwill arising through acquisition of subsidiaries and businesses – current period	1,188
Movement in goodwill arising through acquisition of subsidiaries and businesses – prior period	(222)
	966

Notes to the Financial Statements – Group (continued)

9 Intangible assets (continued)

Goodwill arising on consolidation represents the excess of the cost of acquisitions over the Group's interest in the fair value of the identifiable assets and liabilities of the business subsidiary or associated undertaking at the date of acquisition. Goodwill has been allocated to the following cash generating units (CGUs):

Goodwill	2017 £000	2016 £000
InHealth diagnostic and healthcare solutions	7,043	7,043
Pain Management	5,523	5,523
Health Intelligence	1,631	1,853
Echocardiography	2,349	2,349
Vista Diagnostics	1,085	1,085
Reporting business	1,113	1,113
Endoscopy business	1,634	1,634
Diagnostic and clinical care pathway business	1,188	-
	21,566	20,600

When indicators of impairment are identified the carrying value is compared to its recoverable amount, which is determined as being the higher of the net realisable value or value in use.

Where a reliable estimate of the net realisable value is available and is higher than the carrying amount of the asset, the asset is not impaired and then no value in use is calculated.

For the purposes of goodwill impairment testing each CGU has been reviewed separately. This represents the lowest level at which goodwill is monitored by the Group and reflects its business model.

Where necessary all of the CGUs have been calculated with reference to their value in use. To determine the present value of the expected cash flows attributable to that CGU, the plan earnings before interest and taxation have been used along with the key assumptions of this calculation as shown below:

InHealth diagnostic and healthcare solutions	2017	2016
Period on which management approved plan is based	4 Years	4 Years
Average growth rate applied over the plan period	2%	7%
Discount rate	10%	7%
Pain Management	2017	2016
Period on which management approved plan is based	4 Years	4 Years
Average growth rate applied over the plan period	11%	15%
Discount rate	10%	7%
Health Intelligence	2017	2016
Period on which management approved plan is based	4 Years	4 Years
Average growth rate applied over the plan period	16%	12%
Discount rate	10%	7%

Notes to the Financial Statements – Group (continued)

9 Intangible assets (continued)

Echocardiography	2017	2016
Period on which management approved plan is based	4 Years	4 Years
Average growth rate applied over the plan period	3%	9%
Discount rate	10%	7%
Vista Diagnostics	2017	2016
Period on which management approved plan is based	4 Years	4 Years
Average growth rate applied over the plan period	5%	7%
Discount rate	10%	7%
Reporting business	2017	2016
Period on which management approved plan is based	4 Years	4 Years
Average growth rate applied over the plan period	9%	20%
Discount rate	10%	10%
Endoscopy business	2017	2016
Period on which management approved plan is based	4 Years	4 Years
Average growth rate applied over the plan period	16%	9%
Discount rate	10%	7%
Diagnostic imaging and clinical care pathway business	2017	2016
Period on which management approved plan is based	4 Years	-
Average growth rate applied over the plan period	42%	-
Discount rate	10%	-

No indicators of impairments were identified for the year ended 30 September 2017 (2016: none).

Management have estimated the discount rate by reference to a weighted average cost of capital as adjusted for appropriate risk factors reflecting current economic conditions and the risk profile of the CGUs.

The Group's estimate of impairments is most sensitive to changes in the discount rate and plan cashflows. Sensitivity analysis has been carried out by reference to both of these assumptions. This demonstrated that neither a 5% reduction in the growth rate, nor a 1.5% increase in the discount rate would lead to an impairment of goodwill.

Based on the above the Group considers that its goodwill impairment calculations are not sensitive to any reasonable change in the key assumptions.

10 Investments

Investments in joint operations

The Group has the following investments in joint operations:

Name of joint operations	Nature of business	2017	2016
		Proportion of joint operations	Proportion of joint operations
London Independent MRI Unit	Provision of MRI services	50%	50%
Lincoln MRI Unit	Provision of MRI services	60%	60%

Joint operations are recognised within these Financial Statements using the equity accounting method.

Notes to the Financial Statements – Group (continued)

11 Other financial assets

	2017 £000	2016 £000
Non-current		
Financial assets designated as fair value through profit or loss	748	-
Financial assets held for trading (including all derivatives)	596	-
Other financial assets measured at amortised cost	80	-
	1,424	-

During the year InHealth Ventures Limited, a direct subsidiary of the Company, made four minority interest investments:

- £202,000 in Luma Health in January 2017, which is developing automated communication between care provider and patient. The initial investment gives InHealth the right to certain shares in the company's share capital in an equity or liquidity event;
- £80,000 in Fido in April 2017, which performs text analytics by applying natural language understanding algorithms. This is a convertible promissory note, which matures 18 months from the issue date;
- £394,000 in Clarify Health in May 2017 for big data analytics for population health management. The initial investment gives InHealth the right to certain shares in the company's share capital in an equity or liquidity event; and
- £748,000 in Backbone Talent in September 2017, developing a deep learning-based employee retention tool for clinical staff. This is a redeemable preference share with conversion rights at a fixed price.

12 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Non-current assets including: Property, plant and equipment and intangible assets timing differences	69	38	(2,459)	(2,312)	(2,390)	(2,274)
Tax losses carried forward	-	22	-	-	-	22
Other assets	67	164	(19)	-	48	164
Provisions	75	93	-	-	75	93
Deferred tax assets/(liabilities)	361	317	(2,478)	(2,312)	(2,267)	(1,995)

Deferred tax assets of £361,000 (2016: £317,000) are only recognised to the extent that the Directors consider it more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Notes to the Financial Statements – Group (continued)

13 Inventories

	2017 £000	2016 £000
Consumables	873	876

The Group recognised £6,299,000 (2016: £6,227,000) of consumables as cost of sales in the year.

14 Trade and other receivables

	2017 £000	2016 £000
Trade receivables	23,794	19,873
Amounts owing from group undertakings	8,131	7,744
Other receivables	356	1,322
Prepayments	8,422	6,723
All amounts due within one year	40,703	35,662
Non-current assets due after more than one year		
Amounts owing from group undertakings	1,612	1,612

15 Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank	10,218	14,450

16 Trade and other payables

	2017 £000	2016 £000
Current		
Hire purchase contracts (note 19)	2,158	1,961
Trade payables	9,664	10,459
Tax payable	3,365	2,534
Contingent consideration due to business combinations	680	430
Non-trade payables and accrued expenses	25,833	23,947
	41,700	39,331

Notes to the Financial Statements – Group (continued)

17 Provisions

	2017 £000	2016 £000
Non-current		
Pension provision	670	-

The fair value of the assets acquired on acquisition of a subsidiary in the prior year has now been finalised (note 2) and a provision is required for the Federated Pension Plan – Health Intelligence Limited defined benefit pension scheme for £670,000 to cover the uncertainties in finalising the fair value of the liability acquired.

18 Other financial liabilities

	2017 £000	2016 £000
Non-current		
Hire purchase contracts (note 19)	3,703	4,244
Other creditors	111	134
	3,814	4,378

19 Hire purchase contracts

This note provides information about the contractual terms of the Group's hire purchase contracts, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 22.

Hire purchase liabilities

Hire purchase liabilities are payable as follows:

	2017 £000	2016 £000
Current liabilities		
Hire purchase liabilities	2,158	1,961
Non-current liabilities		
Hire purchase liabilities	3,703	4,244

	Minimum lease payments 2017 £000	Interest 2017 £000	Principal 2017 £000	Minimum lease payments 2016 £000	Interest 2016 £000	Principal 2016 £000
Less than one year	2,158	149	2,009	1,961	173	1,788
Between one and five years	3,703	159	3,544	4,244	135	4,109
	5,861	308	5,553	6,205	308	5,897

Notes to the Financial Statements – Group (continued)

20 Employee benefits

The pension cost charged to the profit and loss account for the year represents contributions payable by the Group to all pension schemes accounted for as defined contribution schemes and amounts to £1,975,000 (2016: £1,327,000).

Contributions amounting to £236,000 (2016: £251,000) were payable to the defined contribution schemes at the end of the year relating to the final month and are included in creditors.

Defined contribution pension scheme

The Group operates one defined contribution pension scheme.

Multi-employer defined benefit pension scheme

The Group participates in a multi-employer defined benefit pension scheme whose assets are held under one combined scheme. There are 3 current employees and 2 deferred members in this scheme. The scheme uses a weighted approach in relation to its actuarial assumptions and asset allocation strategy. Insufficient information is available for the Group to account for the scheme as a defined benefit scheme. Contributions are set at a level to make good a deficit but the Group is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The contributions from the Group are set at a common level rather than reflecting the characteristics of the workforces of individual employers. On this basis the Group is accounting for this scheme as if it were a defined contribution scheme and its contributions are included above.

Defined benefit pension schemes

The Group operates two pension schemes providing benefits based on final pensionable pay. The latest actuarial valuations were carried out at 1 October 2016 and 5 April 2016 respectively, which have been agreed between the Trustees and the relevant Group companies.

The information disclosed below is in respect of the whole of the Group for the periods shown:

	2017 £000	2016 £000
Defined benefit pension scheme assets		
Scheme 1 – InHealth Defined Benefit Pension Scheme	1,904	1,658
Scheme 2 – The Federated Pension Plan – Health Intelligence Limited	954	824
Total defined benefit assets	2,858	2,482
Defined benefit pension scheme liabilities		
Scheme 1 – InHealth Defined Benefit Pension Scheme	(2,301)	(2,618)
Scheme 2 – The Federated Pension Plan – Health Intelligence Limited	(1,109)	(1,124)
Total defined benefit liabilities	(3,410)	(3,742)
Total defined benefit pension scheme net liability	(552)	(1,260)

Notes to the Financial Statements – Group (continued)

20 Employee benefits (continued)

Defined benefit pension schemes (continued)

Movements in net defined benefit pension liability

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Balance at 1 October	(3,742)	(1,631)	2,482	1,518	(1,260)	(113)
Included in profit or loss						
Current service cost	(168)	(56)	-	-	(168)	(56)
Interest cost	(97)	(66)	66	62	(31)	(4)
	(265)	(122)	66	62	(199)	(60)
Included in OCI						
Actuarial gain/(loss) arising from change in financial assumptions	568	(872)	171	(15)	739	(887)
	568	(872)	171	(15)	739	(887)
Other						
Contributions paid by the employer	(28)	(9)	196	109	168	100
Benefits paid	57	16	(57)	(16)	-	-
Pension scheme acquired on acquisition of subsidiary	-	(1,124)	-	824	-	(300)
	29	(1,117)	139	917	168	(200)
Balance at 30 September	(3,410)	(3,742)	2,858	2,482	(552)	(1,260)

Notes to the Financial Statements – Group (continued)

20 Employee benefits (continued)

Defined benefit pension scheme (continued)

The major categories of scheme assets are as follows:

	Scheme	2017 £000	2016 £000
InHealth Defined Benefit Pension Scheme			
Investment funds	1	1,797	1,554
Other (including cash and cash equivalents)	1	107	104
		<hr/>	<hr/>
		1,904	1,658
The Federated Pension Plan – Health Intelligence Limited			
Equity instruments	2	419	544
Bonds	2	315	272
Diversified growth funds	2	210	-
Other (including cash and cash equivalents)	2	10	8
		<hr/>	<hr/>
		954	824
		<hr/>	<hr/>
Total		2,858	2,482
		<hr/>	<hr/>

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

InHealth Defined Benefit Pension Scheme	2017	2016
Discount rate at 30 September	2.7%	2.4%
Future salary increases	1.8%	2.7%
Inflation (CPI)	2.6%	3.2%
Future pension increases	3.4%	3.2%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

As at 30 September 2017

Retiring today	
Males	21.6 years
Females	23.8 years
Retiring in 20 years	
Males	23.1 years
Females	25.3 years

The Group expects to pay £101,000 in contributions to this defined benefit plan in 2018:

The Federated Pension Plan – Health Intelligence Limited	2017	2016
Discount rate at 30 September	2.8%	2.9%
Future salary increases	3.9%	4.2%
Inflation (RPI)	3.4%	3.7%
Future pension increases	2.4%	2.7%

Notes to the Financial Statements – Group (continued)

20 Employee benefits (continued)

Defined benefit pension scheme (continued)

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

As at 30 September 2017

Retiring today	
Males	22.1 years
Females	23.9 years
Retiring in 20 years	
Males	23.5 years
Females	25.4 years

The Group expects to pay £29,000 in contributions to this defined benefit plan in 2018.

Sensitivity analysis

Analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation is set out below:

InHealth Defined Benefit Pension Scheme	Change in assumptions	Change in liabilities
Discount rate	Decrease by 0.5%	Increase by 13%
Rate of inflation	Increase by 0.5%	Increase by 7%
Rate of salary growth	Increase by 0.5%	Increase by 2%
Life expectancy	Increase by 1 year	Increase by 3%

The Federated Pension Plan – Health Intelligence Limited	Change in assumptions	Change in liabilities
Discount rate	Decrease by 0.3%	Increase by 7%
Rate of inflation	Increase by 0.3%	Increase by 7%
Rate of salary growth	Increase by 0.3%	Increase by 3%
Life expectancy	Increase by 1 year	Increase by 3%

The sensitivities shown above are approximate and each sensitivity considers one change in isolation. The sensitivity of the defined benefit pension obligation to significant actuarial assumptions has been estimated, based on the average age and the normal retirement age of members and the duration of the liabilities of the schemes which, as at 30 September 2017 is approximately 27 years.

Both plans typically expose the Group to actuarial risks such as investment risk, interest rate risk and mortality risk. The discount rate used to calculate the defined benefit pension obligation reflects the yield available on a high quality corporate bond of equivalent currency and term to the liabilities at the date of the valuation. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to both schemes' liabilities, which means movements in the Schemes' assets may well not correspond to changes in the value of the liabilities over time leading to volatility in the results from year to year.

If pensions are not bought out and members live longer than expected, the benefits will be payable for longer than allowed for in the calculation of the liabilities leading to an experience loss on the plan liabilities.

Notes to the Financial Statements – Group (continued)

20 Employee benefits (continued)

Funding

The plans are fully funded by the Group's subsidiaries. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. The funding of the plans are based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above.

Share-based payments

The Group's growth share plan allows certain members of senior management to be invited to purchase shares in InHealth Group Limited. In the year to 30 September 2017 143,124 shares (2016: no shares) were issued as part of this share scheme. The total expense recognised for the year and the total liabilities recognised at the end of the year arising from share based payments was nil (2016: £nil) as the consideration received for these shares was equal to their fair value.

21 Capital and reserves

Called up share capital	Share premium £000	Called up share capital £000
Allotted, called up and fully paid		
In issue at 1 October 2016 (1,095,681 Ordinary shares of £1 each and 102,860 "A" Ordinary Shares of £0.10 each)	70,303	1,106
Share capital reduction (£1 Ordinary shares reduced to £0.01 each)	-	(1,085)
70,503 "B1" Ordinary shares of £0.10 each issued for cash	-	7
72,621 "B2" Ordinary shares of £0.01 each issued for cash	-	1
	<hr/>	<hr/>
In issue at 30 September 2017 (1,095,681 Ordinary shares of £0.01 each, 102,860 "A" Ordinary Shares of £0.10 each, 70,503 "B1" Ordinary shares of £0.10 each and 72,621 "B2" Ordinary shares of £0.01 each)	70,303	29
	<hr/>	<hr/>

On 19 May 2017, the Company reduced its fully paid up share capital from £1,106,000 to £21,000 by reducing the value of its 1,095,681 £1 Ordinary shares to 1,095,681 Ordinary shares of £0.01 each.

On 17 July 2017, the Company issued 70,503 "B1" Ordinary shares for £0.10 each and 54,995 "B2" Ordinary shares for £0.01 each. A further 17,626 "B2" Ordinary shares were issued for £0.01 each on 13 September 2017.

All shares are classified in shareholders' funds.

22 Financial instruments

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by management under policies approved by the Directors. The Directors provide principles for overall risk management, as well as policies covering specific areas, such as, interest rate risk, non-derivative financial instruments and investment of excess liquidity.

Notes to the Financial Statements – Group (continued)

22 Financial instruments (continued)

Capital risk management

The Group's capital structure is comprised entirely of shareholders' equity.

The Group's objective when managing capital is to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term. The capital structure of the Group is managed and adjusted to reflect changes in economic conditions.

Financing decisions are made by the Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Group's commitments and development plans.

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises principally from the Group's cash balances and trade and other receivables. The concentration of the Group's credit risk is considered by counterparty, geography and currency.

The Group gives careful consideration to the organisations it uses for its banking services in order to minimise credit risk. The carrying amount of financial assets recorded in the Financial Statements, net of any allowances for losses, represent the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained. An allowance for impairment is made where there is an identified loss event.

Management considers the above measures to be sufficient to control the credit risk exposure. No collateral is held by the Group as security in relation to its financial assets.

The aging of trade receivables at the balance sheet date, net of the doubtful debt provision is as follows:

	2017 £000	2016 £000
Not past due	16,193	13,821
Past due 0-30 days	2,912	2,705
Past due 31-120 days	3,491	2,795
More than 120 days overdue	1,198	552
	<hr/>	<hr/>
Net trade receivables	23,794	19,873
	<hr/>	<hr/>

The doubtful debt provision included within the table above is £90,000 (2016: £90,000), which is attributable to the debt greater than 120 days.

Liquidity risk management

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Directors who manage liquidity risk by regularly reviewing the Group's cash requirements by reference to short term cash flow forecasts and medium term working capital projections prepared by management.

At 30 September 2017 the Group had £10.2 million (2016: £14.5 million) of cash reserves.

For the contractual maturities of hire purchase liabilities, including estimated interest payments and excluding the effect of netting agreements see note 19. For trade and other payables, which are due within 1 year see note 16.

Notes to the Financial Statements – Group (continued)

22 Financial instruments (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Market risk - Foreign currency risk

The Group exposure is limited as all of its invoicing and the majority of its payments are in sterling and foreign currency fluctuations are mitigated by the Group having cash balances in those currencies. Management have not presented any sensitivity analysis in this area as any movement in foreign exchange rates is deemed unlikely to have a material impact on the Group.

Interest rate risk management

The Group has minimal exposure to interest rate risk. It is exposed to interest rate risk on some of its financial assets being its cash at bank balances, as well as on hire purchase financial liabilities. The interest rates on these balances were at a level that any risk of movements in interest rates would not materially affect the profit and loss of the Group. The Directors currently believe that interest rate risk is at an acceptable level. Due to its minimum exposure to interest rate risk, the Group has not prepared any sensitivity analysis.

The interest rate profile of the Group's interest-bearing financial instruments was as follows:

	2017 £000	2016 £000
Fixed rate instruments		
Current hire purchase liabilities	(2,158)	(1,961)
Non-current hire purchase liabilities	(3,703)	(4,244)
Variable rate instruments		
Cash and cash equivalents	10,218	14,450
	<u>4,357</u>	<u>8,245</u>

Fair values of financial instruments

The table on the next page analyses financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments carried at fair value have been measured by a Level 2 valuation method.

Notes to the Financial Statements – Group (continued)

22 Financial instruments (continued)

Fair values of financial instruments (continued)

	Carrying value	Carrying value	Fair value	Fair value
	2016 £000	2017 £000	2016 £000	2017 £000
Financial assets designated as fair value through profit or loss (note 11)				
Convertible preferred equity	-	748	-	748
Financial assets held for trading (including all derivatives) (note 11)				
Convertible equity	-	596	-	596

To determine the fair value of the instruments management used a valuation technique in which all significant inputs were based on observable market data to indirectly derive a price. There have been no transfers from Level 2 to Level 1 in the year (2016: no transfers in either direction).

It is the Group's policy to recognise all the transfers into the levels and transfers out of the levels at the date of the event or change in circumstances that caused the transfer. Transfers into each level shall be disclosed and discussed separately from transfers out of each level.

At 30 September 2017 the Group did not have any assets classified at Level 3 of the fair value hierarchy (2016: none).

Financial instruments measured at fair value

Valuation technique

Convertible preferred equity and convertible equity

Valuation technique for valuing unlisted securities by indirectly obtaining an indicative price on conversion to equity

Management believe the fair values of all other financial assets and financial liabilities are in line with their carrying amounts shown in the balance sheet. The following assumptions were used to estimate the fair values:

Trade and other receivables: these are carried at amortised cost using effective interest method and fair value is deemed to be the same.

Cash and cash equivalents: this will equal the carrying amounts shown in the balance sheet.

Notes to the Financial Statements – Group (continued)

23 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017 £000	2016 £000
Less than one year	1,706	1,188
Between one and five years	5,778	3,087
More than five years	8,396	3,755
	<hr/> 15,880	<hr/> 8,030

See note 4 for the charge included in the profit and loss account.

24 Commitments

Capital commitments

During the year ended 30 September 2017, the Group entered into contracts to purchase MRI equipment and mobile trailers for £10,718,000 (2016: £2,539,000). These commitments are expected to be settled in the following financial year.

25 Related parties

The amount due from Prime Endoscopy (Bristol) Limited, which the Group holds a 98% (2016: 98%) shareholding in, at the 30 September 2017 was £121,000 (2016: £60,000).

The amount due from Health Intelligence Limited, which the Group holds a 76% (2016: 76%) shareholding in, at the 30 September 2017 was £47,000 (2016: £nil).

26 Events after the Balance Sheet date

On 5 December 2017 and 7 December 2017 InHealth Ventures Limited purchased further investments in Luma Health and Clarify Health for consideration of £0.2 million and £0.4 million respectively.

On 17 January 2018 InHealth Ventures Limited has acquired minority shareholdings in two companies registered within the United Kingdom for total consideration of £0.4 million.

27 Ultimate parent Company and parent Company of larger group

The ultimate parent undertaking and controlling party is The Damask Trust, the Trustees of which are I H Bradbury and The Embleton Trust Corporation Limited.

The largest Group in which the Company will be consolidated is InHealth UK Holdings Limited. The smallest Group in which the Company is consolidated is InHealth Group Holdings PLC. These two Group companies are incorporated in England and Wales. The consolidated financial statements of these Groups are available to the public and may be obtained from Beechwood Hall, Kingsmead Road, High Wycombe, Buckinghamshire, HP11 1JL.

Company Balance Sheet

At 30 September 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Fixed assets					
Intangible assets	2	735		735	
Investments	3	44,801		44,801	
			45,536		45,536
Current assets					
Debtors: amounts falling due within one year	4	22,645		22,587	
Debtors: amounts falling due after more than one year		34,092		34,092	
Cash at bank and in hand		47		142	
		56,784		56,821	
Creditors: amounts falling due within one year	5	(20,033)		(20,050)	
Net current assets			36,751		36,771
Net assets			82,287		82,307
Capital and reserves					
Called up share capital	6		29		1,106
Share premium account	7		70,303		70,303
Profit and loss account	7		11,955		10,898
Shareholders' funds			82,287		82,307

These Financial Statements were approved by the Board of Directors on 6 February 2018 and were signed on its behalf by:



R J Bradford
 Director

Company registration number: 04620480

Notes to the Financial Statements - Company

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Financial Statements, except as noted below.

Basis of preparation

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The amendments to FRS 101 (2014/15 cycle) issued in July 2015 and effective immediately have been applied.

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and intangible assets; and
- Disclosures in respect of transactions with wholly owned subsidiaries.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements.

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.18 in the Group's notes.

1.1 Measurement convention

The Financial Statements are prepared on the historical cost basis.

1.2 Going concern

The Directors have considered the factors that impact the Company's future development, performance, cash flows and financial position along with the Company's current liquidity in forming their opinion on the going concern basis. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future; thus they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements.

Notes to the Financial Statements – Company (continued)

1 Accounting policies (continued)

1.3 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments

Investments in jointly controlled entities, associates and subsidiaries are carried at cost less impairment.

1.4 Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The Directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the Financial Statements of this departure.

2 Intangible fixed assets

	Goodwill £000
Cost	
Balance at 1 October 2016 and 30 September 2017	1,610
	<hr/>
Amortisation and impairment	
Balance at 1 October 2016 and 30 September 2017	875
	<hr/>
Net book value	
At 30 September 2016	735
	<hr/>
At 30 September 2017	735
	<hr/>

Impairment testing is set out in note 9 in the Group accounts.

Notes to the Financial Statements – Company (continued)

3 Fixed asset investments

	Shares in group undertakings £000
Cost	
At 1 October 2016 and 30 September 2017	44,801
Provisions	
At 1 October 2016 and 30 September 2017	-
Net book value	
At 30 September 2016	44,801
At 30 September 2017	44,801

The Company has the following investments in subsidiaries:

	Class of shares held	Ownership	
		2017	2016
Direct Subsidiaries			
InHealth Limited	£1	100%	100%
InHealth Properties Limited	£1	100%	100%
InHealth Facilities Management Limited	£1	100%	100%
InHealth (London) Limited	£1	100%	100%
InHealth Ventures Limited	£1	100%	100%
Subsidiary undertakings of InHealth Limited			
InHealth Molecular Imaging Limited	£1	100%	100%
Vista Diagnostics Limited	£1	100%	100%
Preventicum UK Limited	10p	100%	100%
InHealth Reporting Limited	£1	100%	100%
InHealth Endoscopy Limited	£1	100%	100%
InHealth Echotech Limited	£1	100%	100%
Lister InHealth Limited	£1	100%	100%
Cardinal InHealth Limited	1p	100%	100%
InHealth Diagnostics and Healthcare Solutions Limited	£1	100%	100%
InHealth Community Solutions Limited	£1	100%	100%
InHealth Pathology Limited	1p	88%	88%
Health Intelligence Limited	£1	76%	76%
InHealth CATS Limited	£1	100%	-
Subsidiary undertaking of InHealth Community Solutions Limited			
InHealth Pain Management Solutions Limited	£1	100%	100%
Subsidiary undertaking of Preventicum UK Limited			
Euroclinics (UK) Limited	£1	100%	100%
Subsidiary undertakings of InHealth Reporting Limited			
e-Locum Services Limited	£1	100%	100%
Medical Imaging Audit and Accreditation Limited	£1	100%	100%

Notes to the Financial Statements – Company *(continued)*

3 Fixed asset investments *(continued)*

Subsidiary undertaking of InHealth Endoscopy Limited

Prime Endoscopy (Bristol) Limited	£1	98%	98%
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Subsidiary undertaking of InHealth Properties Limited

InHealth Diagnostic and Imaging Limited	£1	100%	100%
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The registered office address of all subsidiary undertakings is Beechwood Hall, Kingsmead Road, High Wycombe, Buckinghamshire, HP11 1JL, with the exception of InHealth Diagnostics and Healthcare Solutions Limited, which has a registered office address at 1 Stokes Place, St Stephen's Green, Dublin, Republic of Ireland.

4 Debtors

	2017 £000	2016 £000
Trade debtors	2	2
Amounts owed by group undertakings	22,623	22,552
Other debtors	20	33
	<hr/>	<hr/>
All amounts due within one year	22,645	22,587
	<hr/>	<hr/>
Debtors falling due after more than one year		
Amounts owed by group undertakings	34,092	34,092
	<hr/>	<hr/>

This loan is held at fair value.

5 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Amounts owed to group undertakings	19,940	19,938
Accruals and deferred income	77	112
Taxation and social security	16	-
	<hr/>	<hr/>
	20,033	20,050
	<hr/>	<hr/>

Notes to the Financial Statements – Company (continued)

6 Called up share capital

	Share premium £000	Called up share capital £000
Allotted, called up and fully paid		
In issue at 1 October 2016 (1,095,681 Ordinary shares of £1 each and 102,860 "A" Ordinary Shares of £0.10 each)	70,303	1,106
Share capital reduction (£1 Ordinary shares reduced to £0.01 each)	-	(1,085)
70,503 "B1" Ordinary shares of £0.10 each issued for cash	-	7
72,621 "B2" Ordinary shares of £0.01 each issued for cash	-	1
	<hr/>	<hr/>
In issue at 30 September 2017 (1,095,681 Ordinary shares of £0.01 each, 102,860 "A" Ordinary Shares of £0.10 each, 70,503 "B1" Ordinary shares of £0.10 each and 72,621 "B2" Ordinary shares of £0.01 each)	70,303	29
	<hr/>	<hr/>

On 19 May 2017, the Company reduced its fully paid up share capital from £1,106,000 to £21,000 by reducing the value of its 1,095,681 £1 Ordinary shares to 1,095,681 Ordinary shares of £0.01 each.

On 17 July 2017, the Company issued 70,503 "B1" Ordinary shares for £0.10 each and 54,995 "B2" Ordinary shares for £0.01 each. A further 17,626 "B2" Ordinary shares were issued for £0.01 each on 13 September 2017.

All shares are classified in shareholders' funds.

7 Reserves

	Called up share capital £000	Share premium £000	Profit and loss account £000	Total £000
At 1 October 2016	1,106	70,303	10,898	82,307
Share capital reduction (note 6)	(1,085)	-	1,085	-
Shares issued (note 6)	8	-	-	8
Loss for the year	-	-	(28)	(28)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2017	29	70,303	11,955	82,287
	<hr/>	<hr/>	<hr/>	<hr/>