Direct Healthcare Limited

Report and Financial Statements

Year Ended

31 December 2015

Company Number 06349417

BDO

Direct Healthcare Limited

Report and financial statements
for the year ended 31 December 2015

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Directors

M Livingstone
G Dannatt
D Lee

Secretary and registered office

Unit 1A, Junction 2 Industrial Estate, Demuth Way, Oldbury, B69 4LT

Company number

06349417

Banks

Royal Bank of Scotland, St Ann Street, Manchester, United Kingdom, M60 2SS

Legal advisers

Harbottle & Lewis LLP, 14 Hanover Square, London, W1S 1HP

Auditors

BDO LLP, Two Snowhill, Birmingham, United Kingdom, B4 6GA

Direct Healthcare Limited

Strategic report
for the year ended 31 December 2015

The directors present their strategic report for Direct Healthcare Limited ("the company") together with the audited financial statements for year ended 31 December 2015.

Business Review

For the year ended 31 December 2015 the company's revenue fell to £11.2m (2014: £15.8m). This is mainly due to the loss of organic website traffic following the launch of the new website and also a reduction in wholesale trade transactions with the company focusing on the core retail business.

Gross margins on total revenue increased to 23.8% (2014: 21.9%) mainly due to the renewed focus on the negotiation of competitive cost prices across the product range and the continued decrease in participation of wholesale revenue, which has a lower gross margin than core retail trade of total sales, being 0.5% (2014: 0.5%).

Since the end of 2013, the company has actively reduced the wholesale activity to refocus on the core retail business so this trade participation level is expected to remain low. Furthermore, it is expected that the gross margin for the retail area of the business will continue to rise as a result of increased focus on the company's product mix and the forecast growth of higher margin product lines. A rationalisation of the product lines towards the end of 2014 has already shown results in 2015.

Administration expenses decreased to £5.7m for 2015 (2014: £7.4m). The majority of expenses have decreased with revenue with the exception of depreciation, which has increased to £714k (2014: £316k) due to the new website coming into use, resulting in an impairment of the existing website.

Overall the company reported a net loss before tax of £3.2m (2014: loss of £4.0m).

The company's net liabilities increased to £13.3m at 31 December 2015 from £10.1m at 31 December 2014, as a result of the loss for the year.

Future Outlook

Trading in 2015 has declined compared to the prior year, however, the gross product margin and contribution have both improved. Rationalisation of product lines towards the end of 2014 had focused on improving product margin. This combined with renewed focus on the marketing spend contribution, and further reductions of both variable and fixed costs has resulted in the business beginning to see a recovery. The directors expect renewed, and profitable growth from new and existing customers as the internet marketplace for the company's products continues to grow further and improvements are made across the business. The company merged with Pharmacy2U Limited in July 2016 (see further detail in the directors' report), which has facilitated significant cost saving synergies, returning the company to profitability.

Key performance indicators

The company uses a number of performance indicators to measure operational and financial activity in the business. Most of these are studied on a daily, weekly or monthly basis. Various reports are produced and distributed daily or weekly and a management accounts pack including a profit and loss statement as well as key ratios is prepared monthly.

The Key Performance Indicators (KPIs) which are used to monitor progress of the longer-term objectives of the business are as follows:

Key performance indicators - continued

KPI	2015	2014
Core gross margin Margin on core retail sales only, that is excluding trade, measuring the profitability of the product lines.	28.6%	26.5%
Contribution margin Contribution to overheads based on gross margin less marketing expense. Marketing costs can be allocated to sales and so can be included as a cost of sale for measuring profitability	16.5%	10.5%
Traffic The number of unique visitors to the website and analysis by marketing channel is an indicator of the effectiveness of the marketing strategies for increasing visitor numbers.	8.3m visits	12.2m visits
Conversion Conversion of traffic into orders, indicating the effectiveness of the website and marketing strategies employed on the website.	4.2%	3.7%
Order despatches Order despatch volumes can be used to identify effectiveness of strategies, periodic variations and track overall performance.	400,000 despatches	514,000 despatches

Principal risks and uncertainties

The principal risks and uncertainties facing the company are economic and market risk, fraud, stock obsolescence, IT risk, and financial risks of liquidity and credit risk. These items are managed by the company as described below:

Economic and market risk
The company's performance is directly impacted by the economic environment and competitor pricing. Consumer spending is integral to achieving sales growth. The company strives to deliver value to all customers via investment in quality and price and through continually renewing and refreshing its product offering.

Fraud
The company has to be constantly vigilant against fraudulent transactions which are a common occurrence within internet retailing. Processes are in place to monitor and control fraud.

Stock obsolescence
The company bears the risk of perishable stock becoming unusable following expiry of the products. The company monitors its stock levels on a regular basis to ensure that expired stock is provided for.

IT systems and infrastructure risk
The company is dependent on its IT infrastructure to trade and could be impacted by a failure in the IT systems. Regular testing and updates are undertaken by the company to ensure the continued integrity and efficiency of its systems.

Direct Healthcare Limited

Strategic report
for the year ended 31 December 2015

Financial risk management

Liquidity risk
The company manages its cash flow in order to maintain liquidity to ensure that sufficient funds are available for on-going operations and future developments. A detailed cash flow is updated and monitored on a daily basis to manage the day to day spending of the company and to forecast the cash flow on a short term basis. This is used to track and analyse income and spending to assist in forecasting the company's long term cash requirements.

Credit risk
The company's principal financial assets are bank balances and cash and trade receivables. The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event, which based on previous experience, is evidence of a reduction in the recoverability of cash flows. The credit risk on bank balances is limited because the counterparty is a bank with a high credit rating assessed by an external credit rating agency.

The company has no significant concentration of credit risk with exposure spread over a large number of customers.

Approved by the Board and signed on its behalf on 21 March 2017 by:

Gary Dannatt
Director

Date 21/3/17

The directors present their annual report, together with the audited financial statements, for the year ended 31 December 2015.

Principal activities

Direct Healthcare Limited trades as Chemist Direct. Chemist Direct is one of the UK's leading on-line pharmacies. The directors do not expect there to be any significant changes to the principal activities in the year ahead.

Results and dividends

The income statement is set out on page 9 and shows the loss for the year.

A review of business and future developments, principal risks and uncertainties and financial risk management policies are set out within the strategic report.

The directors of the company have not declared a dividend in the current year (2014 - £nil).

Post balance sheet event

On 2 July 2016 the ChemD group combined with Pharmacy2U Limited to form a clear leader in UK online pharmacy, with the Business Growth Fund investing £6m of growth capital in order to accelerate growth of the NHS business. The consideration was paid for by a share for share exchange in which the shareholders of ChemD Holdings Limited assumed a 35% interest in Pharmacy2U Limited, in exchange for the entire trade and assets of ChemD Holdings Limited. Concurrent with this transaction all outstanding convertible loan notes were converted in to A preference shares, and the BMS Finance loan of £1.65m, of which £1.5m was drawn down on 4th November 2015, was repaid in full. The group is extremely well positioned to rapidly grow not only the core NHS prescription business, but also the online doctor consultation service and online retail of a broad range of health and wellbeing products.

Going concern

The Company made a loss for the year of £3.156m, has net current liabilities of £12.4m and net liabilities of £13.3m at 31 December 2015. The liabilities include a £11.2m intercompany loan from its parent company ChemD Holdings Limited.

The Directors have prepared a combined cash flow forecast to March 2018, which includes the expected trading results and cash flows for the enlarged group. After reviewing the financial projections of the group, taking into account all reasonably foreseeable circumstances, and considering financial support available from the ultimate parent, the directors have a reasonable expectation that the company will continue to have adequate resources to continue in operational existence for the 12 months from the date of signing the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and audited financial statements.

Direct Healthcare Limited

Report of the directors
for the year ended 31 December 2015

Directors

The directors of the company during the year and up to the date of approval were:

T Sambrook	(resigned 28 February 2015)
O El-Gohary	(resigned 21 August 2015)
M Ljungman	(resigned 2 July 2016)
R Kaur	(appointed 21 August 2015, resigned 31 July 2016)
M Livingstone	(appointed 18 February 2015)
G Dannatt	(appointed 16 September 2015)
D Lee	(appointed 19 September 2016)

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP were appointed as auditors during the period and have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the board

Gary Dannatt
Director
Date 21/3/17

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

TO THE MEMBERS OF DIRECT HEALTHCARE LIMITED

We have audited the financial statements of Direct Healthcare Limited for the year ended 31 December 2015 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Andrew Mair (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Birmingham
United Kingdom
22 March 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Direct Healthcare Limited

Statement of comprehensive income
for the year ended 31 December 2015

	Note	2015	2014
		£	£
Turnover	3	**11,180,139**	15,773,523
Cost of sales		**(8,515,923)**	(12,313,750)
Gross profit		**2,664,216**	3,459,773
Administrative expenses – exceptional	4	**(398,501)**	-
Administrative expenses - continuing		**(5,342,301)**	(7,359,723)
Total administrative expenses		**(5,740,802)**	(7,359,723)
Operating loss	4	**(3,076,586)**	(3,899,950)
Interest receivable and similar income	7	**32,150**	53,855
Interest payable and similar charges	8	**(112,003)**	(104,492)
Loss on ordinary activities before taxation		**(3,156,439)**	(3,950,587)
Taxation on profit on ordinary activities	9	**-**	-
Loss for the financial year and total comprehensive loss		**(3,156,439)**	(3,950,587)

There are no items of other comprehensive income in either year.

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

Direct Healthcare Limited

Balance sheet
at 31 December 2015

Company number 06349417	Note	2015	2015	As restated (note 14) 2014	2014
		£	£	£	£
Fixed assets					
Tangible assets	11		**72,986**		777,990
			72,986		777,990
Current assets					
Stocks	12	**519,412**		887,507	
Debtors – amounts falling due within one year	13	**440,896**		191,494	
Debtors – amounts falling due after more than one year	13	-		165,503	
Cash at bank and in hand		**647,531**		486,550	
		1,607,839		1,731,054	
Creditors: amounts falling due within one year	14	**(13,964,866)**		(12,158,613)	
Net current liabilities			**(12,357,027)**		(10,427,559)
Total assets less current liabilities			**(12,284,041)**		(9,649,569)
Creditors: amounts falling due after more than one year	14		**(994,176)**		(472,209)
Net liabilities			**(13,278,217)**		(10,121,778)
Capital and reserves					
Called up share capital	16		**594**		594
Share premium account			**3,699,706**		3,699,706
Profit and loss account			**(16,978,517)**		(13,822,078)
Shareholders' deficit			**(13,278,217)**		(10,121,778)

The financial statements were approved by the Board of Directors and authorised for issue on 21|3|17

Gary Dannatt
Director

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

Direct Healthcare Limited

Statement of changes in equity

Year ended 31 December 2015

	Share capital £	Share premium account £	Profit and loss account £	Total equity £
1 January 2015	594	3,699,706	(13,822,078)	(10,121,778)
Loss and total comprehensive loss for the year	-	-	(3,156,439)	(3,156,439)
31 December 2015	**594**	**3,699,706**	**(16,978,517)**	**(13,278,217)**

Year ended 31 December 2014

	Share capital £	Share premium account £	Profit and loss account £	Total equity £
1 January 2014	594	3,699,706	(9,871,491)	(6,171,191)
Loss and total comprehensive loss for the year	-	-	(3,950,587)	(3,950,587)
31 December 2014	594	3,699,706	(13,822,078)	(10,121,778)

Reserves:

Called up share capital represents the nominal value of shares issued.

Share premium account represents the premium on issue of equity shares, net of any issue costs.

The profit and loss account represents cumulative profits or losses, net of dividends paid.

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

1 Accounting policies

Basis of preparation

Direct Healthcare Limited is a company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the contents page and the nature of the company's operations and principal activities are given in the strategic report.

The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland. These financial statements are the first financial statements prepared under FRS 102 and information on the impact of first-time adoption of FRS 102 is given in note 20. The last financial statements prepared under the previous accounting framework were for the year ended 31 December 2014.

The financial statements are presented in Sterling as that is the primary economic environment in which the company operates.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 2).

In preparing the financial statements the company has taken advantage of the following disclosure exemptions, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

- the requirements of Section 4 Statement of Financial Position, paragraph 4.12 (a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation, paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments, paragraph 11.39 to 11.48A;
- the requirements of Section 33 Related Party Disclosures, paragraph 33.7

This information is included in the consolidated financial statements of ChemD Holdings Limited for the year ended 31 December 2015, and these financial statements may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

Going concern

The Company made a loss for the year of £3.156m, has net current liabilities of £12.4m and net liabilities of £13.3m at 31 December 2015. The liabilities include a £11.2m intercompany loan from its parent company ChemD Holdings Limited.

The Directors have prepared a combined cash flow forecast to March 2018, which includes the expected trading results and cash flows for the enlarged group. After reviewing the financial projections of the group, taking into account all reasonably foreseeable circumstances, and considering financial support available from the ultimate parent, the directors have a reasonable expectation that the company will continue to have adequate resources to continue in operational existence for the 12 months from the date of signing the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and audited financial statements.

1 Accounting policies - continued

The principal accounting policies, which have been consistently applied, are as follows:

Revenue

Revenue represents the net amount receivable, excluding value added tax from the sales of goods and services, net of returns and customer rebates. Revenue is recognised when the company has transferred the significant risks and rewards of ownership to the buyer and it is probable that the company will receive the previously agreed upon payment. These criteria are considered to be met when the goods are delivered to the buyer. When payments are received from customers in advance of goods provided, the amounts are recorded as deferred income and are recognised as part of creditors due within one year.

Operating leases

Operating lease rentals are charged to the statement of comprehensive income in equal instalments over the life of the lease; except that provision is made for the expected net cost on vacant leasehold properties.

The group has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard (1 January 2014) to continue to be charged over the shorter period to the first market rent review rather than the term of lease.

For leases entered into on or after 1 January 2014, reverse premiums and similar incentives received to enter into operating lease agreements are released to profit or loss over the term of the lease.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any provisions for impairments. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Repairs and maintenance are charged to the statement of comprehensive income during the period in which they are incurred.

Depreciation is charged on a straight line basis so as to allocate the cost of assets less their residual value over their estimated useful lives, which are considered to be as follows:

Leasehold improvements	-	5 years
Fixtures and fittings	-	5 years
Computer equipment	-	3 years
Website development and domain names	-	3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the statement of comprehensive income.

1 Accounting policies *(continued)*

Website development costs

Design and content development costs are capitalised only to the extent that they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalised. If there is insufficient evidence on which to base reasonable estimates of the economic benefits that will be generated in the period until the design and content are next updated, the costs of developing the design and content are charged to the statement of comprehensive income as incurred.

Costs which are directly attributable to bringing the computer system into working condition for its intended use within the business are considered to be related to the hardware and consequently treated as a tangible fixed asset.

Intangible assets - goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the group's share of the net identifiable assets (including separately identifiable intangible assets) of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill amortisation is calculated by applying the straight-line method to its estimated useful life. If a reliable estimate cannot be made, the useful life of goodwill is presumed to be 10 years. Goodwill is being amortised to 'administrative expenses' over 15 years.

Estimates of the useful economic life of goodwill are based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Impairment of fixed assets

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is the estimated selling price less costs to sell.

At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to sell. The impairment loss is recognised immediately in the statement of comprehensive income.

1 Accounting policies *(continued)*

Foreign currency

Foreign currency transactions are translated into the entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a charge attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Financial assets

Financial assets, which comprise debtors and cash at bank and in hand, are initially measured at transaction price (including transaction costs) and subsequently held at cost less any impairment.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities, which comprise trade creditors, other creditors, accruals, amounts owed to group undertakings and other loans, excluding convertible debt and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at amortised cost.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions. Cash equivalents are highly liquid investments with original maturity of three months or less.

1 Accounting policies *(continued)*

Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other amounts receivable and payable and loans to and from related parties.

Financial assets that are measured at cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income. The impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the balance sheet date.

Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of a past event, either the amount or timing are uncertain, and a reliable estimate can be made of the amount of the obligation. These are measured at management's best estimate of the amount required to settle the obligation at the reporting date.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

Pension costs

Contributions to the company's defined contribution pension scheme are charged to profit or loss in the year in which they become payable.

Exceptional costs

Costs which individually or, if of a similar type, in aggregate, need to be disclosed separately by virtue of their size or incidence if the financial statements are to give a true and fair view are shown as exceptional items and disclosed separately in the statement of comprehensive income, within the relevant cost heading.

2 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have had to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. In preparing these financial statements, the directors have made the following judgements:

- Determining whether leases entered into by the company should be recognised either as an operating or finance lease. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

- Assessing whether there are indicators of impairment of the tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit

The estimates and associated assumptions are based on historic experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities. Actual results may differ from these estimates.

Key areas of estimation uncertainty are:

- Tangible fixed assets, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on the number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account.

  Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- The company has recognised provisions for the impairment of stock. The judgments, estimates and associated assumptions necessary to calculate these provisions are based on historical experience and other reasonable factors, such as ageing, quantities on hand, and usage.

- Reserves for stock returns - the company assesses the known and expected level of stock returns based on historical trading patterns and other empirical evidence and reserves obligations accordingly.

3 Turnover

Turnover is wholly attributable to the principal activity of the company.

Analysis of revenue by destination

	2015	**2014**
	£	**£**
United Kingdom	**9,128,432**	12,882,379
Europe (excluding UK)	**964,450**	1,359,046
Other	**1,087,257**	1,532,098
	11,180,139	15,773,523

4 Operating loss

	2015 £	2014 £
This is arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	**315,723**	316,028
Impairment of tangible fixed assets – exceptional expense	**398,501**	-
Amortisation of goodwill	**-**	10,420
Impairment of goodwill	**-**	91,602
Operating lease rentals	**163,816**	142,932
Fees payable to the company's auditor and its associates for audit of the company's subsidiaries	**17,000**	16,045
Tax compliance services	**4,775**	5,150
Other non-audit services	**1,500**	-
Gain on foreign exchange	**(31,874)**	(49,132)

5 Employees

The average monthly number of employees (including executive directors) was:

	2015 No.	2014 No.
Distribution	**25**	31
Sales	**15**	31
Admin	**30**	33
	70	95

	2015 £	2014 £
Staff costs (including executive directors) consist of:		
Wages and salaries	**1,662,023**	2,479,753
Social security costs	**147,854**	226,743
Pension costs	**6,457**	-
	1,816,334	2,706,496

6 Directors' remuneration

	2015	2014
	£	£
Directors' emoluments	**106,010**	191,100

Certain directors are remunerated through the parent company and receive no remuneration from Direct Healthcare Limited for their services to the company.

There was one director in the company's defined contribution pension scheme (2014 - none).

Contributions paid to the defined contribution pension scheme in respect of directors was £6,000 (2014 - £nil).

7 Other interest receivable and similar income

	2015	2014
	£	£
Foreign exchange gains	**31,874**	49,132
Bank interest receivable	**276**	4,723
	32,150	53,855

8 Other interest payable and similar charges

	2015	2014
	£	£
Other loans	**112,003**	104,492

9 Taxation on loss on ordinary activities

There was no current or deferred tax charge in either period.

The tax assessed for the year is different to the standard rate of corporation tax in the UK applied to the loss before tax. The differences are explained below:

	2015	2014
	£	£
Loss on ordinary activities before tax	**(3,156,439)**	(3,950,587)
Tax on loss on ordinary activities at the standard rate of corporation tax in the UK of 20.25% (2014 – 21.5%)	**(639,071)**	(849,376)
Effects of:		
Expenses not deductible for tax purposes	**25,628**	5,601
Other differences	**-**	(2,900)
Movement in deferred tax asset not recognised	**613,443**	846,675
Total tax charge for the year	**-**	-

9 Taxation on loss on ordinary activities (continued)

The net deferred tax asset of £2,894,690 as at 31 December 2015 (2014 - £2,566,509), consisting of unrelieved tax losses of £2,666,390 (2014 - £2,361,492), accelerated capital allowances of £179,430 (2014 - £98,472) and other short term timing differences of £48,870 (2014 - £54,300) has not been recognised as there is insufficient evidence to support the recognition of this asset.

Deferred tax assets in respect of losses are only recognised to the extent that it is anticipated they will be utilised in the foreseeable future in accordance with the accounting policy. Due to the unpredictability of future profit streams the company has not recognised the deferred tax asset.

In recent years the UK government has steadily reduced the rate of UK corporation tax, with the latest rate substantively enacted on 1 April 2015 now standing at 20%.

The summer budget on 15 July 2015 announced that the rate will reduce to 19% as of 1 April 2017 and 18% as of 1 April 2020. During the budget on 16 March 2016 the Chancellor announced that the rate from 1 April 2020 will instead be 17%. This will reduce the company's potential deferred tax asset accordingly.

10 Intangible fixed assets

Goodwill	**Total**
	£
Cost	
At 1 January 2015 and 31 December 2015	156,300
Amortisation	
At 1 January 2015 and 31 December 2015	156,300
Net book value	
At 31 December 2015	
At 31 December 2014	

Direct Healthcare Limited

Notes forming part of the financial statements
for the year ended 31 December 2015 *(continued)*

11 Tangible fixed assets

	Leasehold Improvements	Fixtures and fittings	Computer equipment	Website and domain names	Website Development	Total
	£	£	£	£	£	£
Cost						
At 1 January 2015	10,563	87,784	191,344	102,000	954,694	1,346,385
Additions		2,160	7,060			9,220
Disposals		(71,432)				(71,432)
At 31 December 2015	**10,563**	**18,512**	**198,404**	**102,000**	**954,694**	**1,284,173**
Depreciation						
At 1 January 2015	10,563	73,624	172,703	28,050	283,455	568,395
Charge for the year		12,010	10,058	73,950	618,206	714,224
Disposals		(71,432)				(71,432)
At 31 December 2015	**10,563**	**14,202**	**182,761**	**102,000**	**901,661**	**1,211,187**
Net book value						
At 31 December 2015		**4,310**	**15,643**		**53,033**	**72,986**
At 31 December 2014		14,160	18,641	73,950	671,239	777,990

Included within depreciation charge for the year is an exceptional impairment charge of £63,750 in respect of website and domain names, and £334,751 in respect of website development.

12 Stocks

	2015	2014
	£	£
Finished goods and goods for resale	**486,503**	847,868
Consumables	**32,909**	39,639
	519,412	887,507

There are no material differences between the replacement cost of stocks and the amounts stated above.

The cost of inventories expensed in the year and included within cost of sales was £7,071,424 (2014 - £10,403,749). Impairment losses relating to damaged or obsolete inventories and included within the income statement amounted to £70,000 (2014 - £18,000).

13 Debtors

	2015	2014
	£	£
Amounts receivable within one year:		
Trade debtors	**137,755**	5,308
Other debtors	**185,483**	67,382
Prepayments and accrued income	**117,658**	118,804
	440,896	191,494
Amounts receivable after more than one year:		
Other debtors	**-**	165,503
Total debtors	**440,896**	356,997

The impairment loss recognised within the income statement for the year in respect of bad and doubtful trade and other debtors was £4,760 (2014 - £nil).

14 Creditors: amounts falling due within one year

	2015	2014 (as restated)
	£	£
Other loans	**435,114**	121,097
Trade creditors	**1,620,540**	1,948,652
Amounts due to parent company	**11,244,000**	9,609,483
Other taxation and social security	**130,851**	138,328
Other creditors	**32,952**	66,050
Accruals and deferred income	**501,409**	275,003
	13,964,866	12,158,613

Creditors: amounts falling due after more than one year

	2015	2014
Other loans, due within 2 to 5 years	**994,176**	472,209
	994,176	472,209

Amounts due to parent company at 31 December 2014 of £9,609,483 previously shown as due after more than one year, have been reclassified to amounts falling due within one year, to reflect the fact that the balance is due on demand.

During the year, other loans were repaid and a new replacement loan taken out, which is secured by a debenture. The loans in place at 31 December 2014 were secured by guarantee given by ChemD Holdings Limited, and debentures given by Direct Healthcare Limited & ChemD Holdings Limited.

Other loans at 31 December 2015 carried an interest rate of 12% and are repayable in monthly instalments to November 2018.

15 Financial instruments

The company's financial instruments may be analysed as follows:

	2015 £	2014 £
Financial assets		
Financial assets measured at amortised cost	**839,458**	657,361
Financial liabilities		
Financial liabilities measured at amortised cost	**14,828,191**	12,492,494

Financial assets measured at amortised cost comprise cash at bank and in hand, trade debtors and other debtors.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors, accruals and amounts owed to group undertakings.

There is no material difference between book value and fair value.

16 Share capital

	2015 £	2014 £
Allotted, called up and fully paid		
3,000,000 ordinary shares of £0.0001 each	**300**	300
2,940,476 preference shares of £0.0001 each	**294**	294
Total equity	**594**	594

Preference shareholders are entitled to receive dividends in respect of their preferred shares when declared by the directors. The ordinary shares and the preference shares will rank pari passu with regards to dividends, on the basis that the preference shareholders will participate on a pro rata as-converted basis in any dividend declared or paid on ordinary shares. The preference shares are not-redeemable.

The preference shares are considered to be equity as they are non-redeemable and the company are not obliged to pay dividends unless declared or paid on the ordinary shares.

17 Commitments under operating leases

The company had minimum lease payments under non-cancellable operating leases as set out below.

	2015 £	2014 £
Amounts falling due:		
Within one year	102,534	163,816
Within two and five years	9,050	111,584
	111,584	275,400

Leases of land and building are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

18 Related party disclosures

Immediate and ultimate controlling parties

The company's immediate parent company is ChemD Holdings Limited, a company registered in England and Wales. Copies of the consolidated financial statements may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ. The largest and smallest group for which consolidated financial statements are prepared is ChemD Holdings Limited.

The company's ultimate parent company until 2 July 2016 was Atomico Ventures II L.P., a company registered in the Cayman Islands.

19 Post balance sheet events

On 2 July 2016 the ChemD group combined with Pharmacy2U Limited to form a clear leader in UK online pharmacy, with the Business Growth Fund investing £6m of growth capital in order to accelerate growth of the NHS business. The consideration was paid for by a share for share exchange in which the shareholders of ChemD Holdings Limited assumed a 35% interest in Pharmacy2U Limited, in exchange for the entire trade and assets of ChemD Holdings Limited. Concurrent with this transaction all outstanding convertible loan notes were converted in to A preference shares, and the BMS Finance loan of £1.65m, of which £1.5m was drawn down on 4th November 2015, was repaid in full. The group is extremely well positioned to rapidly grow not only the core NHS prescription business, but also the online doctor consultation service and online retail of a broad range of health and wellbeing products.

20 First time adoption of FRS 102

	Equity as at 1 January 2014 £	Loss for the year ended 31 December 2014 £	Equity as at 31 December 2014 £
As stated under former UK GAAP	(6,090,776)	(3,964,077)	(10,054,853)
Transitional adjustments			
Accrual for holiday pay	(80,415)	13,490	(66,925)
As stated in accordance with FRS 102	**(6,171,191)**	**(3,950,587)**	**(10,121,778)**

FRS102 requires an accrual to be made for untaken holiday at the end of each year. A retrospective adjustment has been made to restate the opening figures and the profit for the year ended 31 December 2014.