Registered Number 06349417

Direct Healthcare Limited
Annual report and financial statements
for the period ended 31 March 2017

Direct Healthcare Limited

Annual report and financial statements for the period ended 31 March 2017

Contents

Direct Healthcare Limited

Directors and advisers

Directors
M Livingstone
G Dannatt
D Lee (Appointed 19 September 2016)

Company secretary
HAL Management Limited

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds
LS1 4DL

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

Bankers
Barclays Bank PLC
Northern Corp 1
1 Churchill Place
London
E14 5HP

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

Registered Number
06349417

Direct Healthcare Limited

Strategic report for the period ended 31 March 2017

The directors present their strategic report for Direct Healthcare Limited ("the company") together with the audited financial statements for the period ended 31 March 2017.

The company's immediate parent, ChemD Holdings Limited was acquired by Pharmacy2U Limited on 1 July 2016 for share consideration valued at £12.25m. Because of this business combination the company changed its period end from 31 December to 31 March, therefore these financial statements are prepared for the 15-month period ended 31 March 2017.

Business Review

For the 15-month period ended 31 March 2017 the company generated revenue of £13.4m (Year ended 31 December 2015: £11.2m). Over the same period the company made a loss before taxation of £2.1m, significantly lower than the £3.2m loss for the year ended 31 December 2015 as the company focussed on the reduction of operating and overhead costs throughout the period.

Exceptional costs of £411,000 were incurred in the period in relation to the relocation to new premises (£106,000), early repayment of a loan (£180,000) and restructuring costs following the acquisition by Pharmacy2U Limited (£125,000).

The company's net liabilities increased to £15.4m at 31 March 2017 from £13.3m at 31 December 2015, as a result of the loss for the year.

The company is a private company, incorporated and domiciled in the UK.

Future Outlook

The company combined with Pharmacy2U Limited in July 2016 which has facilitated significant cost saving synergies which will help the company returning to profitability in the future. The company is now well positioned to deliver future growth.

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 period ended 31 March 2017 (continued)

Principal risks and uncertainties (continued)

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.

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:

KPI	**15 months ended 31 March 2017**	**Year ended 31 December 2015**
Core gross margin Margin on core retail sales only, that is excluding trade, measuring the profitability of the product lines.	28.5%	28.6%
Order despatches Order despatch volumes can be used to identify effectiveness of strategies, periodic variations and track overall performance.	509,000 despatches	400,000 despatches
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.	12.6m visits	8.3m visits

Direct Healthcare Limited

Strategic report for the period ended 31 March 2017 (continued)

Going concern
The Company made a loss for the year of £2.1m, and has net liabilities of £15.4m at 31 March 2017. The liabilities include £14.2m of intercompany loans from its parent undertakings.

The Directors have prepared a consolidated cash flow forecast to December 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.

Approved by the Board and signed on its behalf on 2 February 2018 by:

Gary Dannatt
Director

Direct Healthcare Limited

Directors' report for the period ended 31 March 2017

The directors present their annual report, together with the audited financial statements, for the period ended 31 March 2017.

Directors

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

M Ljungman	(resigned 2 July 2016)
R Kaur	(resigned 31 July 2016)
M Livingstone	
G Dannatt	
D Lee	(appointed 19 September 2016)

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 statement of comprehensive income is set out on page 9 and shows the loss for the period.

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 (2015 - £nil).

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial 15-month period. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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.

The directors 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.

Direct Healthcare Limited

Directors' report for the period ended 31 March 2017 (continued)

Disclosure of information to auditors

The directors confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware and that each director has taken all reasonable steps to make themselves aware of any relevant audit information, and to establish that the auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers 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

G Dannatt
Director
2 February 2018

Direct Healthcare Limited

Independent auditors' report for the period ended 31 March 2017

Report on the financial statements

Our opinion

In our opinion, Direct Healthcare Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the 15-month period (the "period") 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.

What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the balance sheet as at 31 March 2017;
- the statement of comprehensive income for the period then ended;
- the statement of changes in equity for the period then ended;
- the statement of accounting policies for the period then ended; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Independent auditors' report for the period ended 31 March 2017 (continued)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 5, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
2 February 2018

Direct Healthcare Limited

Statement of comprehensive income for the period ended 31 March 2017

	Note	**15 month period ended 31 March 2017 £'000**	Year ended 31 December 2015 £'000
Revenue	1	**13,442**	11,180
Cost of sales		**(9,336)**	(8,516)
Gross profit		**4,106**	2,664
Administrative expenses - continuing		**(5,671)**	(5,342)
Administrative expenses - exceptional	2	**(411)**	(399)
Operating loss	2	**(1,976)**	(3,077)
Net finance costs	6	**(123)**	(79)
Loss before taxation		**(2,099)**	(3,156)
Taxation	7	**-**	-
Loss and total comprehensive expense for the period/year		**(2,099)**	(3,156)

All items dealt with in arriving at operating loss above relate to continuing operations.

The company has no recognised material gains and losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented.

There are no material differences between the loss before taxation and the loss for the period/year stated above and their historical cost equivalents.

Direct Healthcare Limited

Balance sheet as at 31 March 2017

	Note	31 March 2017 £'000	31 December 2015 £'000
Assets			
Non-current assets			
Intangible assets	8	-	-
Property, plant and equipment	9	**44**	73
Total non-current assets		**44**	73
Current assets			
Inventories	10	**477**	519
Trade and other receivables - amounts falling due within one year	11	**393**	441
Cash and cash equivalents		**580**	648
Total current assets		**1,450**	1,608
Total assets		**1,494**	1,681
Equity and liabilities			
Current liabilities			
Trade and other payables - amounts falling due within one year	12	**16,871**	13,965
Total current liabilities		**16,871**	13,965
Non-current liabilities			
Trade and other payables - amounts falling due after more than one year	12	-	994
Total non-current liabilities		-	994
Total liabilities		**16,871**	14,959
Equity			
Called up share capital	13	**1**	1
Share premium account		**3,700**	3,700
Accumulated losses		**(19,078)**	(16,979)
Total equity		**(15,377)**	(13,278)
Total equity and liabilities		**1,494**	1,681

Direct Healthcare Limited

Balance sheet as at 31 March 2017 (continued)

The financial statements on pages 9 to 25 were approved by the board of directors and authorised for issue on 2 February 2018 and were signed on its behalf by:

Gary Dannatt
Director
Direct Healthcare Limited, registered number: 06349417

Direct Healthcare Limited

Statement of changes in equity for the period ended 31 March 2017

	Share Capital	Share premium account	Accumulated losses	Total Equity
	£'000	£'000	£'000	£'000
At 1 January 2016	1	3,700	(16,979)	(13,278)
Loss for the financial period	-	-	(2,099)	(2,099)
At 31 March 2017	**1**	**3,700**	**(19,078)**	**(15,377)**

Direct Healthcare Limited

Statement of accounting policies for the period ended 31 March 2017

The principal accounting policies applied in the preparation of these consolidated and parent company separate financial statements (the "financial statements") are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

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 period 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 period ended 31 March 2017, 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 £2.1m, and has net liabilities of £15.4m at 31 March 2017. The liabilities include £14.2m of intercompany loans from its parent undertakings.

The Directors have prepared a consolidated cash flow forecast to December 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

Statement of accounting policies for the period ended 31 March 2017 (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, 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.

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.

Direct Healthcare Limited

Statement of accounting policies for the period ended 31 March 2017 (continued)

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.

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.

Direct Healthcare Limited

Statement of accounting policies for the period ended 31 March 2017 (continued)

Current and deferred taxation (continued)
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.

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.

Statement of accounting policies for the period ended 31 March 2017 (continued)

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.

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.

Direct Healthcare Limited

Notes to the financial statements for the period ended 31 March 2017

1 Revenue

Revenue consists of sales originating and derived substantially from the United Kingdom. The directors consider that the group has only one class of business; an online and mail order pharmacy.

2 Operating loss

	15 month period ended 31 March 2017 £'000	Year ended 31 December 2015 £'000
Operating loss is stated after charging/(crediting):		
Depreciation of tangible fixed assets	**69**	316
Exceptional relocation costs	**106**	-
Exceptional loan repayment charges	**180**	-
Exceptional restructuring costs	**125**	-
Impairment of tangible fixed assets - exceptional expense	**-**	399
Operating lease rentals	**122**	164
Loss/(gain) on foreign exchange	**4**	(32)
Services provided by the company's auditors		
Fees payable for the audit	**15**	17
Tax services	**5**	5
Other non-audit services	**-**	2

3 Employee information

The monthly average number of persons (including executive directors) employed by the group during the period/year was:

	15 month period ended 31 March 2017 Number	Year ended 31 December 2015 Number
Selling and distribution	25	40
Administration	31	30
	56	70

4 Employee benefit expense

	15 month period ended 31 March 2017 £'000	Year ended 31 December 2015 £'000
Wages and salaries	2,133	1,662
Social security costs	194	148
Other pension costs	21	6
	2,348	1,816

5 Directors' emoluments

	15 month period ended 31 March 2017 £'000	Year ended 31 December 2015 £'000
Aggregate emoluments	**453**	106
Company contributions to money purchase pension schemes	-	6
	453	112

Highest paid director	**£'000**	£'000
Aggregate emoluments	**234**	106

Retirement benefits are accruing to one (2015: one) director under a defined contribution scheme.

6 Net finance costs

	2017 £'000	2015 £'000
Foreign exchange loss/(gain)	**4**	(32)
Loan interest payable (note 12)	**119**	111
	123	79

7 Taxation

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

The total tax credit is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below.

	15 month period ended 31 March 2017 £'000	Year ended 31 December 2015 £'000
Loss on ordinary activities before taxation	**(2,089)**	(3,156)
Loss on ordinary activities multiplied by standard rate in the UK of 20% (2015: 20%)	**(418)**	(631)
Expenses not deductible	**12**	26
Tax losses not recognised	**406**	605
Total tax credit	**-**	-

The company has an unrecognised deferred tax asset of £3,011,000 (2015: £2,895,000) comprising unrelieved tax losses of £2,868,000 (2015: £2,666,000), fixed asset timing differences of £154,000 (2015: 179,000) less other short term timing differences of £11,000 (2015: 50,000).

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

8 Intangible assets

	Goodwill £'000
Cost	
At 31 March 2017 and 31 December 2015	156
Amortisation	
At 31 March 2017 and 31 December 2015	156
Net book value	
At 31 March 2017 and 31 December 2015	-

9 Property, plant and equipment

	Leasehold Improvements £'000	Fixtures and fittings £'000	Computer Equipment £'000	Website and domain names £'000	Website development £'000	Total £'000
Cost						
At 1 January 2016	11	19	198	102	955	1,285
Additions	37	2	1	-	-	40
Disposals	-	-	-	-	-	-
At 31 March 2017	**48**	**21**	**199**	**102**	**955**	**1,325**
Accumulated depreciation						
At 1 January 2016	(11)	(15)	(183)	(102)	(901)	(1,212)
Charge for the period	(6)	(2)	(7)	-	(54)	(69)
Disposals	-	-	-	-	-	-
At 31 March 2017	**(17)**	**(17)**	**(190)**	**(102)**	**(955)**	**(1,281)**
Net book amount						
At 31 March 2017	**31**	**4**	**9**	**-**	**-**	**44**
At 31 December 2015	-	4	15	-	54	73

Direct Healthcare Limited

Notes to the financial statements for the period ended 31 March 2017 (continued)

10 Inventories

	2017	2015
	£'000	£'000
Goods for resale	**477**	519

The cost of inventories recognised as an expense and included in 'cost of sales' in the period ended 31 March 2017 amounted to £8,747,000 (2015: £7,071,000).

11 Trade and other receivables

	2017	2015
	£'000	£'000
Trade receivables	**103**	138
Other receivables	**146**	185
Prepayments and accrued income	**144**	118
Trade and other receivables: amounts falling due within one year	**393**	441

Trade receivables of the Group and Company are stated after provisions for impairment of £25,000 (2015: £5,000).

12 Trade and other payables

	2017 **£'000**	2015 £'000
Borrowings	-	435
Trade payables	**2,052**	1,621
Other payables	**17**	33
Other taxation and social security	**298**	131
Amounts owed to group undertakings	**14,193**	11,244
Accruals and deferred income	**311**	501
Trade and other payables: amounts falling due within one year	**16,871**	13,965

Trade and other payables: amounts falling due after more than one year	**2017** **£'000**	2015 £'000
Borrowings	-	994

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

On 2 July 2016 borrowings were repaid incurring exceptional cost of £180,000. This loan was replaced by an intercompany loan from the ultimate parent undertaking, Pharmacy2U Limited.

Direct Healthcare Limited

Notes to the financial statements for the period ended 31 March 2017 (continued)

13 Called up share capital

	2017	2015
	£	£
Allotted, called and fully paid		
3,000,000 (2015: 3,000,000) ordinary shares of £0.0001 each	**300**	300
2,940,476 (2015: 2,940,476) preference shares of £0.0001 each	**294**	294
	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.

14 Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases for each of the following periods are as follows:

	31 March 2017	31 December 2015
	£'000	£'000
Payments due:		
No later than 1 year	**32**	103
Later than 1 year and no later than 5 years	**52**	9
Later than 5 years	**-**	-
	84	112

15 Ultimate controlling party

The company's immediate parent company is ChemD Holdings Limited, a company registered in England and Wales.

The company's ultimate parent company and controlling party from 2 July 2016 is Pharmacy2U 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 Pharmacy2U Limited.