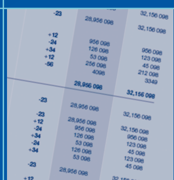
Deltex
medical group plc



Report & Accounts 2014

Contents

Highlights

Key performance measures

- US$ surgical probe sales up 20% before forex; 14% in sterling to £1.0m (2013: £0.9m)
- Mixed performance for International surgical probes
  - France up 17% before forex; 9% sterling to £0.6m
  - £Nil sales to South African and Peruvian distributors (2013: £0.4m)
  - Overall decrease £0.4m to £1.1m
- UK surgical probes decreased £0.6m (20%) to £2.5m on adverse market conditions:
  UK operating costs cut and additional revenue streams added
- Gross profit margin on probes maintained at 76%
- Net monitor income less costs increased to £0.5m (2013: £0.4m)
  - £0.4m (58%) increase in monitor revenues to £1.1m
  - Record £0.3m 60 monitor order from NHS Supply Chain to support current year installed base expansion
- Investments on track following £4.2m net new equity funds raised
  - US expanded from three to seven sales territories
  - US pipeline expanded significantly with its development broadly on track
  - Operational improvement and product development projects on track
- Cash position increased to £2.9m (2013: £1.5m)

Operating Highlights

- Established market leadership for ODM in the more developed surgical enhanced haemodynamic management markets
- Added a second major haemodynamic management technology to its product range: the CardioQ-ODM+.
- Successfully secured its largest ever order for monitors with 60 units from central funds allocated to NHS Supply Chain
- Restructured UK business to maximise ability to generate incremental cash
- Introduced two new third party products to sell to the UK anaesthesia and critical care markets
- Increased our US sales territories from three to seven

Statutory results

- Revenue decreased £0.7m to £6.5m (2013: £7.2m)
- Combined probe and monitor gross margin 70% (2013: 72%)
- Operating loss of £2.99m (2013: operating loss of £2.1m) after US market development costs of £0.4m (2013: £0.6m)

Nigel Keen, Chairman of Deltex Medical, commented:

"'Deltex Medical had a difficult year in 2014 with the UK market affected by NHS cash constraints and the NHS failing to follow through its decision to implement ODM at pace. This was exacerbated by procurement delays in a number of our overseas sales territories. We have restructured our UK business to both reduce costs and increase revenues.

We made satisfactory progress in the USA and are on track to establish a platform for national roll-out towards the middle of 2016. Our market leading businesses in France and Sweden continue to grow well and prior investment is creating opportunities to build additional strong businesses in Spain and Canada.'

'The Company has the financial and other resources required to see through its US market development plans as well as to bring to market a number of exciting and innovative product developments."

Chairman's Statement

Strategy evolving: market development increasingly conducive to corporate alliances

Deltex Medical's goal is to build a major medical technology business that generates substantial returns for its shareholders by providing medical solutions which improve the quality of healthcare delivery for patients while, at the same time, lowering its cost.

Clinical and economic need established

For many years Deltex has focused on establishing the clinical and economic need for our oesophageal Doppler monitoring ('ODM') technology and we believe this has been achieved. ODM is increasingly recognised as a standard of care for patients undergoing major surgery and in critical care. The broader clinical area of haemodynamic management of which ODM is a core constituent is also now becoming widely accepted as an important new medical modality. Deltex is focused on maximising value from the opportunities presented as enhanced haemodynamic management is adopted into routine clinical practice around the world.

Deltex has been the only company in the enhanced haemodynamic space to build a robust and credible evidence base proving the clinical and economic benefits of its core technology. ODM is becoming widely adopted in a number of large market segments, particularly high risk surgery and with high risk surgical patients and Deltex has established market leadership for ODM in the more developed surgical enhanced haemodynamic management markets.

Deltex has added a second major haemodynamic management technology to its product range: the CardioQ-ODM+. This technology offers doctors the two best established technologies, ODM and Pulse Pressure Waveform Analysis ('PPWA'). Deltex intends to launch new parameters and displays that combine the ODM flow signal with the PPWA pressure information. This will allow clinicians unique real time insights into each of the three pillars of haemodynamics, namely; flow, pressure and resistance.

We are currently evaluating a number of further parameters for integration into our monitors, each of which has the potential to add incremental consumable revenue streams within the current financial year. Subject to performance, they will be available with the new monitor platform we are developing for release within the next two years. This new platform will be the first multi-modal haemodynamic 'workstation'.

Our product development strategy will serve the emerging market for enhanced haemodynamic management, allowing doctors to choose the inputs, parameters and workload most appropriate to the individual patient's circumstances.

This strategy creates opportunities for corporate partnerships to run complementary technologies off a Deltex platform and to integrate ODM with other platforms. The Company is actively seeking such opportunities with the intention of Deltex becoming cash flow positive more quickly while also scaling up its operations.

Placing and open offer

In June 2014 we completed a placing and open offer raising £4.2m net of expenses. The funds are being deployed to support expansion in the USA, accelerate product development, implement manufacturing improvements and to introduce e-learning and customer relationship management systems: all projects are progressing well and we expect to see returns starting to come through during 2015.

Export progress offset by adverse UK market performance

Increasing clinical acceptance and traction of our products in the USA, France and some other overseas markets was offset in 2014 by very disappointing failings in the UK NHS's implementation of its decision to roll-out ODM fully at pace and scale. These, together with wide-scale destocking as a result of a financial crisis in the NHS, resulted in our UK revenues of £3.7m being £0.5m down on 2013: a similar fall in revenues reported by our closest competitor indicates that the Company maintained its market leading position in surgery. Against this background Deltex successfully secured its largest ever order for monitors with 60 units from central funds allocated to NHS Supply Chain. An ongoing commitment to the wider adoption of ODM has been evidenced since the year end by its inclusion for the first time on the NHS Innovation Scorecard. Cash generated by our UK operations was approximately £260,000 (17%) down on the prior year at circa £1,300,000 (2013: £1,560,000). A small number of export orders, subject to procurement tenders, which were due to be completed in 2014 did not materialise as the tender processes were delayed by the purchasers. This, combined with adverse currency movements and the disappointing UK performance, resulted in a 9% decrease in group revenues at £6.5m (2013: £7.2m). Operating losses increased by £0.9m to £2.99m (2013: £2.1m). Cash at the end of the year was £2.9m (2013: £1.5m).

UK business repositioned to maximise cash returns

Since January, we have restructured our UK business to maximise its ability to generate incremental cash in line with our long term plans. To achieve this we have introduced two new third party products to sell to the UK anaesthesia and critical care markets and we are evaluating a small number of further products to add to our portfolio. We have also reduced our planned 2015 annualised cost base across the Group by circa £1.0m including £0.8m of existing 2014 costs. A further £0.4m of planned investment costs has been saved through negotiating an extended lease on our existing factory. We have increased our critical care focus where our CardioQ-ODM+ device is the best value, safest and easiest to use PPWA system. We are making promising progress in establishing new, digitally supported, marketing strategies enabling clinicians to comply with their own patient treatment protocols.

US and other overseas programmes on track

Our US expansion programme remains broadly on track. We have increased our US sales territories from three to seven in the last 12 months. We completed successful clinical evaluations in major target accounts on schedule and are now beginning to see these bear fruit with new implementation agreements and additional dedicated trainer accounts. Since the year end we have started a series of further clinical evaluations in which are expected to become dedicated trainer accounts during the course of the current financial year.

Many of the Company's export markets are traditionally more receptive than the UK to innovative medical technologies as well as being more effective at driving through quality improvement programmes. We have made good progress in building substantial businesses in both the USA and France, our two largest export markets, throughout 2014.

Innovation pipeline coming through

We made good progress in 2014 on development projects whose returns are expected to start to come through over the course of 2015. In March 2014 we released the first ODM patient simulator which shortens significantly the training time for new users. This month we launched our first online e-learning module which teaches clinicians the fundamentals of ODM in around twenty minutes. Intermediate and advanced modules are currently in development. In January we started training our production staff on the probe tip assembly process which has been brought in-house to improve margins and we are finalising a series of process improvements aimed at streamlining probe manufacturing to further improve margins.

We have also made good progress with a number of our R&D projects and, subject to satisfactory clinical trials, we expect to release a number of enhanced and new products as the year progresses both to supplement existing revenue streams and provide incremental income. These trials will also determine the modalities we include at the launch of our next generation monitoring platform which we expect to be the first platform designed as a complete workstation for enhanced haemodynamic management. We plan to finalise the specification in the second half of the year and the new platform is expected to be ready for transfer to manufacturing approximately twelve months after that.

Board changes

Paul Mitchell has accepted a role as Finance Director at a privately owned medical technology business which will afford him greater operational responsibility. Paul has spent over 12 years with Deltex Medical including the last five as Finance Director. We thank him for his contribution and wish him well in his new endeavour. Paul will be leaving the Board on 2 April 2015 and is also resigning as Company Secretary. We have appointed Group Financial Controller, Barry Curtis, as Company Secretary with immediate effect and have started a process to appoint a replacement Finance Director.

I am pleased to announce that Sir Duncan Nichol has agreed to stay on as a Non-Executive Director to help the Company steer itself through a period of change in the NHS, our largest customer. Duncan will therefore be offering himself for re-election at the forthcoming Annual General Meeting.

Prospects

Deltex Medical had a difficult year in 2014 with the UK market affected by NHS cash constraints and the NHS failing to follow through its decision to implement ODM at pace. This was exacerbated by procurement delays in a number of our overseas sales territories. We have restructured our UK business to both reduce costs and increase revenues.

We made satisfactory progress in the USA and are on track to establish a platform for national roll-out towards the middle of 2016. Our market leading businesses in France and Sweden continue to grow well and prior investment is creating Opportunities to build additional strong businesses in Spain and Canada.

The Company has the financial and other resources required to see through its US market development plans as well as to bring to market a number of exciting and innovative product developments.

Nigel Keen
Chairman

11 March 2015

Operating Review

Pro-forma results

	Full Year 2014 £'000	Full Year 2013 £'000
Probe revenue		
Surgical probes	**4,558**	5,509
Critical care probes	**713**	788
Total probe revenue	**5,271**	6,297
Cost of sales – probes	**(1,287)**	(1,542)
Gross profit probes	**3,984**	4,755
Monitor and sundry income		
Sundry income	**45**	35
Net monitor income less costs *	**517**	379
	562	414
Cash costs	**(6,223)**	(5,455)
Loss before non-cash and US market development	**(1,677)**	(286)
Non-cash costs	**(872)**	(1,213)
Loss before US market development costs	**(2,549)**	(1,499)
US market development costs	**(441)**	(599)
Operating loss	**(2,990)**	(2,098)

	2014 £'000	2013 £'000
*** Net monitor income less costs comprises:**		
Revenue from monitors sold	**1,055**	668
Maintenance revenue	**78**	87
Cost of sales - monitors	**(401)**	(201)
Amortisation costs of placed monitors	**(215)**	(175)
Total	**517**	379

Probe revenue in 2014 was £1,026,000 (16%) below 2013 leading to a £771,000 decrease in gross profit on probes. Gross margin on probes was maintained at 75.6% despite adverse currency movement impacts on probe export revenues. The main adverse movements in probe sales were the UK (£703,000) and Rest of World (£412,000: including Peru of £201,000 and South Africa of £177,000). Larger positive probe revenue growth, after adverse currency effects, came from the USA (£123,000), France (£46,000) and Canada (£92,000).

Net monitor income less costs was £138,000 higher than in 2013 reflecting a 58% increase in monitor revenue to £1,055,000. In total the Company sold 216 monitors in 2014 and placed a further 195. In the UK we recorded our largest ever monitor sale with 60 monitors sold to NHS Supply Chain for further sale to NHS hospitals. Cash costs were £768,000 (14%) higher at £6,223,000 reflecting mainly increased expenditure on US field team expansion and specific marketing and operations projects.

Loss before non-cash and US market development, a key indicator of the Company's cash consumption from trading, was £1,677,000 (2013: £286,000). This level of cash consumption from trading was approximately £0.7m higher than in the Company's plan, primarily driven by deterioration in the UK market. The Company has implemented a series of measures, both cost cutting and revenue generating, to restructure the UK business in order to maximise its ability to generate cash in the face of the changed local market conditions.

Total cash at 31 December 2014 was £2,934,000.

Statutory results

Revenue as reported in the Consolidated Statement of Comprehensive Income was £6,507,000 (2013: £7,151,000). The £644,000 reduction comprised the net effect of a £1,026,000 (16%) decrease in probe revenue and a £382,000 (45%) increase in monitor and monitor maintenance revenue. Gross margins were slightly lower at 70% (2013: 72%) due to the mix between lower margin monitor sales and placements compared to higher margin probe sales: probe margins were unchanged at 76% and are expected to improve as North American sales grow and the effect of margin improvement initiatives comes through.

Costs were kept under tight control with total charges up just under 4% at £7,536,000 (2013: £7,267,000). Increased spend in the USA and Canada was offset by a £158,000 reduction in spend on the US Market Development project to £441,000; this project is expected to be completed in 2015. Overall the operating loss of £2.99m was £0.9m higher (2013: £2.1m).

UK Market

Deltex Medical has a strong market leading position in UK Intra-Operative Fluid Management ('IOFM') with the largest installed base and the highest number of patients treated. A recent survey suggested 87% of UK consultant anaesthetists have access to one of our monitors, approximately double that of the next most commonly available technology. CardioQ-ODM is the only IOFM technology recommended by the National Institute for Health and Care Excellence ('NICE') and is the only IOFM technology with the evidence base to justify such a recommendation. Patients who are not treated with ODM may be exposed to avoidable harm through post-operative complications which are expensive to treat in the short term and have a long term deleterious effect on patients' life expectancy.

Sales of surgical probes were £628,000 (20%) lower in 2014 than 2013 at £2,466,000 with a further fall in revenue from critical care probes of £75,000 (10%). The Company estimates that all the decline in critical care probes and most or all the decline in surgical probes is as a result of wide-spread de-stocking by NHS hospitals in response to a growing cash crisis. Despite this de-stocking, the Company increased sales of surgical probes to over 70 UK hospitals, approximately one third of our customer base and maintained share in the surgical market.

NHS England recognised the public health and economic benefits of ODM as one of six high impact innovations to be adopted fully at pace and scale in its 2011 Innovation Health & Wealth report. This implementation was not carried through as planned. It was over a year late, dramatically scaled down in ambition and was implemented in a way which alienated the clinicians whose practice needed to change to derive the benefits of ODM. In addition hospitals were allowed to adopt ineffective or inferior technologies as substitutes for ODM. While the threat of severe financial penalties did drive growth in 2013 the penalties were not enforced and then abandoned in 2014 with the NHS failing to enforce the replacement regime. Abandoning this CQUIN pre-qualification mechanism was seen by many hospitals as a signal that they no longer needed to push adoption of ODM or IOFM. The Government has now announced a new review of technology adoption in the NHS. The Board considers it highly unlikely that momentum will be restored by central NHS initiatives in the foreseeable future. The Company is therefore

Operating Review continued

focusing its efforts on clinician led quality improvement programmes to help restore momentum behind adoption of ODM in the UK over the course of 2015. The Board expects this shift back to clinician led adoption to focus attention back onto clinical effectiveness and away from compliance with financial protocols: such a shift plays to ODM's strengths of demonstrably superior outcomes for patients over both alternative technologies and the unmonitored administration of fluids and vaso-active drugs.

Monitor sales in 2014 in the UK were £161,000 ahead of 2013 at £404,000, boosted by a sale to NHS Supply Chain of 60 monitors in December which will be installed in NHS hospitals as they purchase them from NHS Supply Chain. This was the Company's largest ever monitor order and, given that the funding for the deal came from central funds, is encouraging evidence of an ongoing desire to spread the adoption of ODM. Over the course of the year the UK installed base increased by 39 monitors to 1,105 monitors, comprising 775 surgical monitors and 330 critical care monitors.

Our UK sales and clinical support operation generated net cash of £1,300,000 in 2014, circa £260,000 less than in 2013: we achieved this against a background of reduced sales by careful management of resources, efficient use of staff and placing refurbished rather than new monitors wherever possible. The Company reinvests incremental cash generated in the UK into overseas markets and we have taken steps to maximise this going forward by reducing costs, adding in distribution of third party products, realign our marketing to focus on clinical markets and introducing new and enhanced own label products.

US market

Sales of surgical probe increased by 20% in local currency and after the effects of exchange movements by 14% to £1,001,000. Dedicated trainer accounts accounted for more than 100% of this growth.

Our strategy in the USA is to develop a small number of prestigious hospital accounts where our products are embedded broadly and deeply into routine usage across major surgery with the goal of positioning the business for national roll-out of ODM. Our goal is to have thirty or more such accounts established by mid-2016 and we made very good progress towards achieving this is 2014:

- We successfully completed the clinical evaluations and established the necessary depth of clinical support in all 2014 target hospitals by the middle of October to hit our target of ten dedicated trainer accounts by the end of the year. While we had hired and trained clinical support staff for each new target, the budgetary and procurement processes have taken longer than originally advised by the hospitals and we had not secured formal implementation agreements and initial stocking orders by year end.
- We increased the number of fully fledged dedicated trainer accounts from four to six over the year, have added a seventh in January 2015 and expect at least three more in the near term.
- In view of the longer purchasing time frames we have experienced due to the spread of value analysis committees across US hospitals, we are focusing our resources on getting the evaluations in our next ten target accounts finished in the first half of the year with a view to being at 20 or more dedicated trainer accounts by 31 December 2015.
- We are already progressing with sufficient additional hospitals to enable us deliver our mid-2016 target of 30 dedicated trainer accounts.

We have expanded our US presence significantly since the first half of 2014 in response to a substantial step-up in clinical interest in fluid management and enhanced recovery approaches to major surgery. Hospitals looking to implement evidence-based protocols continue to approach us because of the unique strength of our evidence base. The three more established sales territories with which we entered 2014 increased US dollar sales by 36% and each came into 2015 with strong pipelines. We added two more territories in the second half of 2014, a sixth in February 2015 and expect to have established a seventh by the end of this month. Each of the new territories is built around influential pipeline accounts where we have already completed much of the initial development work.

The key findings of our burden of illness study from our research collaboration with Premier Inc. are expected to be published shortly in a high impact journal. These are expected to show that poor intra-operative and poor post-operative fluid management cause poor outcomes and highlight the management of fluids as an important area for quality improvement in the USA. Premier Inc are uniquely positioned to disseminate these findings and have a track record for both highlighting problems and facilitating consequent quality improvement efforts at both hospital and federal level. This strand of our US market development work is therefore on track, concurrent with our account development work, to create an opportunity for national roll-out of ODM in 2016.

International markets

Progress in International markets in 2014 was mixed. Surgical probe sales of £1,091,000 were £446,000 (29%) lower than in 2013 (£1,537,000). We continued to make good progress in France with surgical probe sales up 17% on a constant currency and 9% in sterling: this follows growth of 37% in 2013 and our distributor estimates that the underlying market is growing at between 25% and 30% following national clinical guidelines in 2013. We continued to make good progress in a number of countries including Sweden, where we are market leader and Austria. We did not make any significant sales to our South African distributor this year (2014: £2,000; 2013: £421,000 including £177,000 of surgical probes) as they have experienced tender process delays in potential new sites and delays in approval of probe budgets for monitors installed under 2013 tender wins. In Peru, where we are clear market leader, a series of strikes by clinical staff has reduced surgical volumes substantially meaning our distributor did not need to order any probes (2013: £201,000): they did buy 50 CardioQ-ODM+ monitors so that they could expand the installed base to match new hospital builds and we expect solid future growth in this market.

In the first year of our joint venture in Canada we made satisfactory progress in opening or developing a small number of accounts generating surgical probe sales of £95,000. However, a tender scheduled by a provincial hospital system to be awarded in December has been deferred into 2015 for further evaluation. We set up the first of two further demonstration sites requested last week and are scheduled to set up the second at the end of the month. Doctors at one of Canada's leading teaching hospitals have completed the first randomised controlled trial of the benefits of adding ODM to an established enhanced recovery programme and we expect the results to be published in the first half of the year and to provide an impetus for our business.

Underlying probe growth in Spain was masked by our decision to terminate our relationship with a local distributor who had been supporting sales of CardioQ-ODM in several regions of Spain as a result of which surgical probe sales were £26,000 (2013: £78,000). This gives us the flexibility to put in place the most appropriate means of distribution as the Spanish healthcare system moves towards national roll-out of both enhanced recovery and ODM. We understand that the results of a Government funded multi-centre randomised controlled trial of ODM have been written up and will be submitted to a leading medical journal shortly.

Prospects

The NHS failure to implement effectively its decision to roll-out ODM nationally made 2014 an especially challenging year for Deltex Medical. The NHS's problems coincided with an increased focus on the USA where the market for enhanced haemodynamic management and ODM is developing well. We have therefore restructured our UK business to maximise incremental cash generation from it so that we can concentrate on the opportunities that will generate the fastest growth and greatest value. Our new product pipeline and digital initiatives are already firmly re-establishing ourselves as the most innovative company in the enhanced haemodynamic management market.

Ewan Phillips
Chief Executive

11 March 2015

Financial Review

Statutory results

Consolidated Statement of Comprehensive Income

Revenue as reported in the Consolidated Statement of Comprehensive Income decreased by £644,000, compared to the prior year. Revenue has been split into two columns, probe revenue and other, in order to reflect the key operating segments of the business. Further details of the movement in probe revenue is given below, whilst detailed market information is given in the Operating Review on pages 4 to 7. In addition, a breakdown of revenue and units by geographical market is given in the segmental notes on page 37.

Other income comprises:

	2014 £'000	2013 £'000
Revenue from monitors sold	**1,055**	668
Maintenance revenue	**78**	87
Other	**103**	99
Other revenue	**1,236**	854

In the UK, Monitor revenue increased during the period by £161,000 to £404,000, primarily as a result of a £260,000 central order from NHS Supply Chain to support their 2015 business plan. This offset a decline of £99,000 in the rest of the NHS, as budget constraints continue to affect capital expenditure. In the USA, monitors are generally placed against expected usage. In 2014, the increase in monitor sales to £72,000 (2013: £31,000) was primarily as the result of a US military order. In International markets, monitor sales tend to fluctuate either as a result of distributors purchasing monitors in order to seed new markets, or as their existing business expands. The £187,000 increase in monitors was a reflection of both of these drivers.

Maintenance revenue decreased by £9,000 to £78,000 (2013: £87,000) reflecting the continuing increase in the proportion of the monitor installed base in the UK being owned by the Group.

Gross margin

The overall gross margin for the Group decreased by 2% to 70% (2013: 72%). Margins on probes sales remained flat at 76% (2013: 76%). Probe margins in the direct markets continued to be high, with those in direct markets over 80%. The decrease in overall margin is a reflection of the lower margins earned on monitor sales of 62% (2013: 70%), primarily due to the lower margins earned on the NHS Supply Chain order. As probe revenue becomes a larger part of revenue, particularly with respect to the USA, we would expect gross margins to improve. In addition, towards the end of the year, we brought in-house production processes formerly carried out by suppliers aimed at both having greater control over our supply chain and improving margins further. Other projects are currently underway to re-engineer the probe, both to improve ease of use as well as to make them less costly to manufacture.

Costs

During 2014, costs increased as we invested in developing in the increasing US opportunity, a new customer relationship management system, e-learning systems for user training and other operational improvements. The cost of these programmes resulted in the increase in administrative expenses by £318,000 to £2,463,000 (2013: £2,145,000). Although Sales and Distribution costs remained flat at £3,938,000 (2013: £3,940,000), this was largely due to a decrease in bonuses of £270,000 offsetting the increase in investment in Sales and Distribution during the period.

The movement in Research and Development costs are described within the section "Intangible Assets" within this review.

US market development costs

In 2013, a fundraising was completed to support specific US market development work, aimed at accelerating the market for oesophageal Doppler within this key territory. The costs for this project are therefore monitored and disclosed separately from normal operating expenditure. Total costs in 2014 decreased by £158,000 to £441,000 (2013: £599,000) reflecting differing workstreams between the two periods. Further details of these workstreams are given in the Operating review on pages 4 to 7.

Financial Income and Expenditure

Financial income in the year remained flat at £2,000 (2013: £1,000). Financial expenditure decreased by £13,000 to £107,000 (2013: £120,000) as a result of the repayment at the end of the 2013 of a US$ denominated loan note.

Taxation

As a result of the increase in Research and Development activity during the period, under the UK Government's Research and Development tax credit scheme, the Group will claim approximately £144,000 (2013: £111,000), an increase of £33,000.

Earnings

The reported net loss attributable to owners of the parent for the year was £2,861,000 (2013: £2,114,000). With a weighted average number of shares of 194,514,518 (2013: 164,175,818), the basic loss per share was 1.5p (2013: 1.3p).

Pro-forma results

In 2013, we introduced a new pro-forma results statement which enables the reader of the accounts to have a better understanding of the key performance indicators of the Group; namely probe sales and margins, cash costs, net income from, or cost of increasing the installed base, profit before and after non-cash items as well as specific US market development costs. This means that the results are presented in a format consistent with internal performance measures. In addition, this is also reflected as far as possible in the Consolidated Statement of Comprehensive Income, through splitting our probe revenue from other sources of income. This presentation does not alter the total revenue, costs or results for the period, but is aimed at representing the results in an easier to understand format. For comparative purposes, the results since 2004 were restated in the operating review within the 2013 Annual report, which is available for download from the Group's website.

Probe revenue

Surgical probe growth remains a key performance indicator for the Group. During 2014, surgical probe sales decreased by £951,000 to £4,558,000 (2013: £5,509,000). The majority of this decline was within the UK market decreasing by £628,000 to £2,466,000 (2013: £3,094,000), with a further decline in the international business of £446,000, this was offset by an increase in the US business of £123,000. Further details of the movements within these markets is given within the Operating review on pages 4 to 7.

Financial Review continued

Net monitor income

Net monitor income comprises the net income/costs of increasing our installed base as follows:

	2014 £'000	2013 £'000
Revenue from monitors sold	**1,055**	668
Maintenance revenue	**78**	87
Cost of sales	**(401)**	(201)
Amortisation costs of placed monitors	**(215)**	(175)
Net monitor income	**517**	379

The net monitor income increased during the year, primarily as a result of a central NHS Supply Chain order of £260,000 and an increase in stocking by distributors.

Cash costs

During 2014, as a result of the increasing demand in the US, the Company raised £4.2m (net of expenses) to invest in the US market and other operational improvements, contributing to an increase in the cash costs for the period of £768,000 to £6,223,000 (2013: £5,455,000). Cash costs include items such as movements in provision as well as capitalisation and subsequent amortization of Research and Development costs. Although these costs incur cash expenditure when originally invested in, there is a timing difference between the expenditure and when they are charged to the Consolidated Statement of Comprehensive Income. The Company continues to monitor closely the actual cash expenditure incurred, with actual costs being 5% lower than that budgeted for the year in 2014.

Cash loss before US market development

In 2014, the cash loss (before US market development) increased by £1,391,000 to £1,677,000 (2013: £286,000). This was a result of the increase in cash costs from the additional investments of £768,000 and a reduction in contribution from revenue of £623,000. The cash loss remains a key performance measure for the Group and as a result, steps were taken early in 2015 to address the cash loss position and protect the investment in the USA, whilst continuing to generate cash from the UK and International businesses. Further details of these are given in the Chairman's statement on pages 2 to 3.

Non-cash costs

Non-cash costs decreased by £341,000 to £872,000 (2013: £1,213,000) primarily due to:

(i) a decrease in share based payment charges of £183,000 to £460,000 (2013: £643,000)

(ii) a decrease in net clinical trial charges of £154,000 to £108,000 (2013: £262,000).

(iii) a decrease in equity settled transactions charges of £55,000 to £98,000 (2013: £153,000)

(iv) an increase in depreciation and amortisation charges of £53,000 to £205,000 (2013: £152,000).

Share based payments are charged to the Consolidated Statement of Comprehensive Income in accordance with IFRS2, where the value of the award (as calculated using the Black-Scholes method) is charged over the vesting period of the option (see note 21 for further details.

Share based payments primarily arise under the award of options to employees. The Group uses two types of employee share plans: Deltex Medical Employee Share Option Plans and the Deltex Medical Enterprise Management Incentive Schemes. Bonuses to UK based employees are settled through the award of options under the Group's EMI scheme. This allows the Group to utilise its cash resources effectively, whilst providing for a tax efficient manner for its employees to be rewarded. The fall in share based payment charge, primarily reflects the decrease in sales bonuses in the period. £359,000 of the £460,000 charge relates to discretionary EMI awards for 2013, which were agreed in October 2014.

Clinical trial charges are dependent on the level of progress that the projects have made during the year. During 2014, clinical trials, based primarily on the Groups CardioQ-ODM+ product were completed. At 31 December 2014, there were no charges left to carry forward under barter arrangements.

Balance Sheet

Key movements in the Balance Sheet are described below:

Property, Plant and Equipment

The Group continued to invest in the installed base in its key markets in order to support the growth in its high margin probe business. During 2014, an additional £319,000 (2013: £295,000) was capitalised in accordance with the Group's policies. These units are charged to cost of sales over a period of five years from date of installation in the hospital. In 2014, this charge totalled £215,000 (2012: £175,000).

Intangible assets

The Group continues to invest in Research and Development, which in recent years has included the release in both the UK and USA of the CardioQ-ODM+ monitor that combines pressure and flow as well as a simulator to assist with classroom teaching and hospital implementations. During 2014, a number of new projects was also started which are expected to be completed during 2015, aimed at increasing new modalities to our existing platforms and for incorporation into both the existing installed base and future platforms.

In accordance with International Accounting Standard 38 product development cost is capitalised on the balance sheet and then amortised over the products' lives. The Group's accounting policy is to amortise all products over five years.

A reconciliation between total costs incurred and the amount charged to the Consolidated Statement of Comprehensive Income is given below:

	2014 £'000	2013 £'000
Total cost incurred on research and development	**995**	885
Less: amount capitalised to Balance Sheet	**(465)**	(411)
Add: amortisation on released products	**164**	109
Net amount charged to the Consolidated Statement of Comprehensive Income	**694**	583

Of the £1,679,000 (2013: £1,378,000) of net book value related to capitalised development expenditure, £381,000 (2013: £424,000) relates to previously released products and £1,298,000 (2013: £954,000) to the development of products yet to be released.

In 2013, an amount of £124,000 was provisionally capitalised as goodwill on the acquisition of the Canadian ODM business from the Group's former distributor. Following a review of the assets actually acquired, £58,000 of this goodwill has been reclassified as inventory through a fair value adjustment. Subsequently, the value of the goodwill attributed to the acquisition at 31 December 2014 is £66,000.

Inventories

Inventory levels have increased by £353,000 to £1,273,000 (2013: £920,000). This includes £185,000 (2013: £Nil) of third party product. Excluding third party product, inventory increased by £168,000. It is the Group's policy to hold sufficient inventory to meet increasing demand, inventory was also increased in the second half of 2014 in anticipation of a planned factory relocation. In the event, this relocation has not been necessary and we are expecting to reduce the level of inventory during the first half of 2015.

Trade and other receivables

Trade receivables decreased by £301,000 to £2,429,000 (2013: £2,730,000), reflecting the lower value of sales at the year-end, when compared to the prior period. A full ageing and split of trade receivables is given in note 13 of these Report and Accounts.

Borrowings

Borrowings decreased by £153,000 to £2,159,000 (2013: £2,312,000). The invoice discounting facility decreased by £187,000 to £1,059,000, as a result of the timing of sales, compared to the prior year. This was offset by a small increase in the amount borrowed under finance leases, following investment in equipment, to bring in house some production processes.

Trade and other payables

Trade payables remain broadly flat at £676,000 (2013: £644,000). Tax and social security payable decreased by £157,000 to £224,000 (2013: £381,000), due to a 2013 tax liability on the exercise of EMI shares being payable early in 2014, which was not repeated in 2014. Other payables increased by £160,000. Included within Accruals and deferred income are amounts owing for discretionary bonuses which are settled through the issue of EMI shares. These shares were not awarded during 2013 or 2014 and therefore the accrued balance at 2014, includes two years worth of bonus accruals.

Financial Review continued

Cashflow

The Group has three funding requirements:

(a) funding of operating losses to cash breakeven,

(b) funding working capital

(c) funding investments

(a) Operating costs

During 2013, the Company had a net cash loss of £286,000. In 2014, this increased to £1,677,000, as a result of the cash costs increasing by circa £768,000 and contribution from sales decreasing by approximately £623,000. The additional cash costs, were as a result of specific investments aimed at accelerating our sales in the US, as the opportunity there continues to develop quickly. The reduction from sales was primarily due to the reduction in contributions during the period from the UK and International markets. This is described further in the section "cash loss before US market development" above.

In light of 2014 trading and in order to ensure that the Group moves towards breakeven as soon as possible, cost savings were identified from the cost base at the beginning of 2015, with the result that the cost base entering 2015 was reduced by approximately £1,000,000 per annum. The cost base will continue to be monitored closely with respect to the return from sales activity, with further adjustments made if necessary as we move towards breakeven.

(b) Working capital

The Group continues to monitor working capital closely, with inventory build, sales profile and movements in trade creditors/receivables etc. having significant impact on the Group's resources. A number of plans to improve working capital, including reduction in inventory levels and careful management of our installed base as we move towards release of a new monitor are in progress.

(c) Investments

Where the Group has identified specific investment opportunities that are considered likely to produce positive returns to shareholders, then, unless they can be funded out of current cash flows, the Group may seek further equity funding from investors to fund these opportunities.

In May 2014, following an acceleration of interest in our product in the USA, the Group raised £4,200,000 (net of expenses) to take advantage of this opportunity. Further details of this funding are given in the section "cash costs" above.

A further £319,000 (2013: £295,000) has been invested in the installed base of monitors in the direct markets of the UK and USA and £465,000 (2013: £411,000) in research and development activities for products, which are expected to deliver future commercial benefits.

Key performance indicators

The proforma set of results, focuses on the key performance indicators of the Group of surgical sales growth and cash losses. These are described in detail in the Financial Review above.

Paul Mitchell
Finance Director

11 March 2015

Strategic Report
For the year ended 31 December 2014

Group strategy

Deltex Medical's goal is to make Oesophageal Doppler Monitoring ("ODM") a standard of care in healthcare markets throughout the world. Achieving this will create an international business that generates substantial profits and cash. This is achieved through both engaging healthcare systems at a national level and physicians at the user level. This is an area where the Group has developed considerable expertise and progress is explained further within the Chairman's Statement and Operating Review on pages 2 to 7

Group's business model

Deltex Medical generates revenues from the sale of single patient disposable probes, from the sale of monitors and from providing maintenance and support services. The Group operates a direct sales force in the UK, USA and Spain. In Canada, the Group has entered into an agreement with its previous distributor to accelerate development within this territory of ODM through a jointly owned subsidiary of which the Group owns 51% of the shares. In all other territories, the Group sells to distributors. The Group continues to invest carefully to ensure that it maximises the opportunity from acceleration of the adoption rate of the Group's products, whilst carefully managing its cash resources.

Employee gender

A breakdown of the gender of our Directors, Senior Managers and all other employees as at 31 December 2014, is given below:

	Male No.	Female No.
Directors	7	–
Senior Managers	4	4
All other employees	50	41
Total	**61**	**45**

Human rights issues

The Group is unaware of any significant human rights issues affecting the Group or its employees.

Business review and future developments

The Group is required to set out in this report a fair view of the business of the Group during the financial year ended 31 December 2014, the position of the Group at the end of the financial year, future developments and a description of the principal risks and uncertainties facing the Group. This information, together with the Group's research and development activities and likely future prospects are reviewed in the Chairman's Statement on pages 2 to 3, the Operating Review on pages 4 to 7, the Financial Review on pages 8 to 12 and the Directors Report on page 18.

Principal risks and uncertainties

The Group's strategy has been and continues to be the establishment of ODM-guided fluid management using the CardioQ-ODM as a standard of care firstly in the Group's home market of the UK, then secondly in the USA and other major markets for medical technology both through direct sales and marketing and, where appropriate, through distribution partnerships. The Group regularly reviews its strategic options and financing arrangements to reflect circumstances encountered from time to time.

The directors have, therefore, identified the following as being the principal risks and uncertainties facing the Group:

- Government policy changes and spending plans
- Changes in the rates of adoption of the Group's products in existing key markets.
- Unknown rates of adoption of the Group's products in identified new key markets.
- The availability to the Group of resources, including cash, to pursue its strategy.
- Exposure to political risks in certain territories.

The Group has established internal controls to assess the impact or potential impact of actual developments affecting these risks. The Group has developed internal forecasting and reporting tools that are used to carefully manage cash flow, production scheduling and stock holdings.

Strategic Report continued

A faster, or slower than expected change in the adoption of the Group's products could expose the Group to supply chain and production capacity risks. In addition, supply chain disruptions such as delays or losses of inventory also present a potential risk to the Group's ability to progress its strategic aims. The Group mitigates these risks through effective supplier selection, management and procurement practices.

Government policy changes and spending plans will continue to impact the Group. We have implemented plans to increase the revenues and margin from the UK business with distributor agreements to take advantage of our established clinical sales team.

Financial risk management

The Group's financial instruments comprise some cash and various items, such as trade receivables, trade payables and borrowings that arise directly from its operations. These are constantly under review. The Group has a policy that it does not undertake in any trading of financial instruments. The Board reviews and agrees policies for managing liquidity, interest rate, exchange rate risks, credit risks and capital risks. The policies have remained unchanged throughout the year and are summarised below:

Liquidity risk

The Group is managed to ensure that sufficient cash reserves and credit facilities are available to meet liquidity requirements. The Group has available to it an invoice discounting facility with the Group's bankers to supplement working capital needs. From time to time, additional funding is raised to allow the Group to invest in its strategic projects to develop the business in its chosen markets. Management monitors rolling forecasts of the Group's liquidity reserves which comprises undrawn invoice discounting facilities and cash and cash equivalents on the basis of expected cash flows.

Currency risk

The Group has overseas subsidiaries in the USA, Spain and Canada. As a result the Group's balance sheet can be affected by movements in exchange rates. The Group also has transactional currency exposures. Such exposures arise from sales and purchases by operating units in currencies other than the Group's functional currency. However, given the size of the Group's operations, the Group does not engage in any hedging in respect of currency risks. The directors will revisit the appropriateness of this policy should the Group's operations change in size or nature.

Credit risk

The Group is exposed to credit related losses in the event of non-performance by counterparties in connection with financial instruments. The Group uses international distributors in a number of overseas territories. In order to assist the distributors in developing their markets, these distributors may be given extended trade terms. Extended trade terms, by their nature can increase the credit risk to the Group. Such risks are carefully managed through direct relationships with the distributors and knowledge of their markets. The Group takes actions to mitigate this exposure by ensuring adequate background on credit risk is known about counterparties prior to contracting with them and through selection of counterparties with suitable credit ratings and monitors its exposure to credit risk on an ongoing basis. Extended terms are evaluated to ensure that it is appropriate to recognise revenue given the requirement that collection is reasonably assured, particularly when sales have been made on bill and hold arrangements. The Group is also exposed to credit related losses and territory specific credit risk in the event of non-performance by counterparties in connection with financial instruments. The maximum credit risk exposure at the balance sheet date is represented by the carrying value of financial assets and there are no significant concentrations of credit risk. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. As at the date of signing the financial statements all cash and cash equivalents are held with institutions with an 'A' rating as per Standard & Poor's.

Interest Rate Risk

The Group has both interest-bearing assets and interest-bearing liabilities. The Group's policy is to seek the highest possible return on interest-bearing assets without bearing significant credit risk, and to minimise the rate payable on interest-bearing liabilities. The Group places its cash balances on deposit at floating rates of interest. Surplus cash balances are placed on short-term deposit (less than three months). No interest rate swaps are used. Interest rate risk comprises both the interest rate price risk that results from borrowing at fixed rates of interest and also the interest cash flow risk that results from borrowing at variable rates. At this time, the majority of the Group's borrowings attract floating rates of interest and therefore the Group's principal interest rate risk is a cash flow risk.

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide future returns to shareholders and benefits for other stakeholders and to maintain optimal capital structure. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Paul Mitchell
Company Secretary

11 March 2015

Directors

Non-executive directors

Nigel Keen MA FCA FI ET

Chairman

Nigel has been involved with Deltex Medical since 1988, and Chairman since 1996. He is also the Non-executive Chairman of Bioquell plc and Oxford Instruments plc. Nigel is the Chairman of the Remuneration Committee.

Julian Cazalet MA FCA

Julian joined the Board in April 2008 and is the Chairman of the Audit Committee. He was until 2007 a Managing Director — Corporate Finance of JPMorgan Cazenove. After graduating in Economics from Cambridge, he qualified as a Chartered Accountant before joining Cazenove in 1973. He became a Partner in 1978. From 1989 he worked in Corporate Finance, firstly in Equity Capital Markets and subsequently advising listed companies. He is Chairman of Herald Investment Trust plc, a director of Private Equity Investor plc, The Lindsell Train Investment Trust plc and of a number of charities.

Professor Sir Duncan Nichol

Duncan has been an influential figure in the provision of acute health services in the UK throughout his career. He worked for the NHS for nearly 30 years in a number of senior management roles and was Chief Executive from 1989 to 1994. Duncan was the Deputy Chairman of the Christie NHS Foundation Trust from 2008 to 2012 and is currently Chairman of the Countess of Chester NHS Foundation Trust. Duncan is also currently a Non-executive Chairman of Synergy Health plc, a provider of healthcare support services to the NHS and the first Chairman of the UK Academy for Healthcare Science.

Timothy Irish MA MSc MBA

Tim joined the Board in May 2014 and has almost 30 years' experience in the healthcare industry, both in the UK and internationally. Having been global head of marketing and strategy for Phillips Medical and a Vice President for GE Medical in Europe, he has substantial experience in marketing medical products in a number of Deltex's key existing markets. More recently Tim was Chairman of the Dutch Company, BMEYE BV, which developed signal acquisition modalities and was successfully sold to Edwards Life Sciences in the USA. Edwards is a major player in the Inter Operative Fluid Management market. For the last eight years Tim has held numerous Board roles, primarily for European Venture Capital backed technology businesses.

Mark Wippell

Mark joined the Board in May 2014 and is a Partner with Allen & Overy LLP. Mark has significant experience advising international companies on their strategic transactions, including advising at Board level. His experience includes public and private M&A, business reorganisations, complex joint ventures, demergers and securities offerings. Mark is qualified as a lawyer in both the UK and the US and has worked extensively with North American based businesses.

Dr Edwin Snape

Ed retired from the board on the 7 May 2014. Ed had been connected with Deltex Medical for over ten years and Vice-Chairman since 1999. He has over 30 years' experience investing in medical devices and life sciences businesses in the USA and Europe.

Executive directors

Ewan Phillips MA ACA

Chief Executive

Ewan joined Deltex Medical as Group Finance Director in August 2001 with a background in corporate finance. He took on responsibility for UK sales in October 2002 and was appointed managing director of the UK subsidiary in November 2005 before being appointed Chief Executive in September 2009.

Paul Mitchell BSc FCA

Finance Director

Paul joined Deltex Medical in August 2002 as Financial Controller, after qualifying as a Chartered Accountant with PricewaterhouseCoopers. In November 2004 he was appointed Company Secretary and was appointed Finance Director in September 2009.

Secretary and Advisers

Company secretary and registered office

Paul Mitchell BSc FCA
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PO19 8TX
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Fax: +44 (0) 1243 532534
www.deltexmedical.com
Company registered number: 3902895

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Joint broker

Zeus Capital Limited
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Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
One Reading Central
23 Forbury Road
Reading
Berkshire
RG1 3JH

Solicitors

Laytons
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London
SE1 2AP

Principal bankers

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London
EC2R 8LA

Financial PR advisers

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Sky Light City Tower
50 Basinghall Street
London
EC2V 5DE

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Directors' Report

For the year ended 31 December 2014

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2014. There are a number of items required to be included in the Directors' Report, which are covered elsewhere in the annual report.

The following are covered in the Chairman's statement, operating review, financial review, or the strategic report:

- Principal activities
- Review of the business and future developments
- Key performance indicators
- Principal risks and uncertainties
- Research and development
- The use of financial instruments and financial risk management

The directors who served during the year and up to the date of signing the financial statements are disclosed on page 16.

Dividends

The directors do not propose the payment of a dividend (2013: £nil)

Directors' interests

	31 December 2014 No.	31 December 2013 No.
Nigel Keen	**8,495,254**	6,985,163
Dr Edwin Snape *	**–**	1,430,624
Sir Duncan Nichol	**986,912**	928,916
Ewan Phillips	**2,045,189**	1,609,773
Julian Cazalet	**4,592,809**	4,080,268
Tim Irish **	**1,348,484**	–
Paul Mitchell	**352,831**	352,831
	17,821,479	15,387,575
	8.37%	9.00%

* Dr Edwin Snape retired from the board as Non-Executive Director on 7 May 2014.

** Tim Irish joined the board on 17 June 2014.

Details of the share options of those directors who served during the year are as follows:

	At 1 January 2014 No.	Granted during 2014 No.	Exercised 2014 No.	Expired 2014 No.	At 31 December 2014 No.	Exercise price £	Exercise period from	Exercise period to
Ewan Phillips								
2001 Executive	400,000	–	–	(400,000)	–	0.24	12-Oct-07	11-Oct-14
Share Option Scheme	400,000	–	–	–	400,000	0.2075	28-Mar-09	27-Mar-16
	400,000	–	–	–	400,000	0.295	29-Jun-10	28-Jun-17
	500,000	–	–	–	500,000	0.185	30-Jun-11	29-Jun-18
	500,000	–	–	–	500,000	0.1275	12-Jun-12	12-Jun-19
2011 Executive	1,000,000	–	–	–	1,000,000	0.1725	28-Sep-14	27-Sep-21
Share Option Scheme	500,000	–	–	–	500,000	0.24	10-Oct-15	10-Oct-22

Directors' interests (continued)

	At 1 January 2014 No.	Granted during 2014 No.	Exercised 2014 No.	Expired 2014 No.	At 31 December 2014 No.	Exercise price £	Exercise period from	Exercise period to
Ewan Phillips (continued)								
2003 EMI Scheme*	383,333	–	(383,333)	–	–	0.01	24-Mar-04	27-Oct-14
	52,083	–	(52,083)	–	–	0.01	15-Mar-05	11-Oct-14
	113,881	–	–	–	113,881	0.01	15-Mar-07	19-May-16
	235,962	–	–	–	235,962	0.01	27-Mar-08	28-Jun-17
	342,857	–	–	–	342,857	0.01	07-Apr-08	29-Jun-18
	510,638	–	–	–	510,638	0.01	12-Jun-09	12-Jun-09
	43,478	–	–	–	43,478	0.01	30-Dec-09	30-Dec-09
	31,250	–	–	–	31,250	0.01	24-Mar-10	24-Mar-20
	34,884	–	–	–	34,884	0.01	25-Jun-10	25-Jun-20
	690,104	–	–	–	690,104	0.01	13-Oct-10	13-Oct-20
	20,270	–	–	–	20,270	0.01	23-Dec-10	23-Dec-20
	13,636	–	–	–	13,636	0.01	19-Apr-11	18-Apr-21
	507,692	–	–	–	507,692	0.01	28-Sep-11	27-Sep-21
	277,174	–	–	–	277,174	0.01	10-Oct-12	09-Oct-22
2013 EMI Scheme*	115,385	–	–	–	115,385	0.01	23-Dec-13	22-Dec-23
	7,072,627	–	(435,416)	(400,000)	6,237,211			
Paul Mitchell								
2001 Executive	100,000	–	–	(100,000)	–	0.24	12-Oct-07	11-Oct-14
Share Option Scheme	100,000	–	–	–	100,000	0.2075	28-Mar-09	27-Mar-16
	125,000	–	–	–	125,000	0.295	29-Jun-10	28-Jun-17
	125,000	–	–	–	125,000	0.185	30-Jun-11	29-Jun-18
	125,000	–	–	–	125,000	0.1275	12-Jun-12	12-Jun-19
2011 Executive	300,000	–	–	–	300,000	0.1725	28-Sep-14	27-Sep-21
Share Option Scheme	150,000	–	–	–	150,000	0.24	10-Oct-15	10-Oct-22
	1,025,000	–	–	(100,000)	925,000			

All shares and options at 31 December 2014 and 31 December 2013 related to ordinary 1p shares.

* Enterprise Management Incentive Scheme

Directors' remuneration

The remuneration paid to the directors was:

	Salary and fees					Salary and fees				
	Cash settled £	Equity settled £	Benefits £	Pension £	2014 Total £	Cash settled £	Equity settled £	Benefits	Pension £	2013 Total £
Julian Cazalet	–	24,000	–	–	24,000	–	24,000	–	–	24,000
Nigel Keen	–	33,333	–	–	33,333	–	33,333	–	–	33,333
Paul Mitchell *	125,000	–	7,500	5,000	137,500	86,520	20,000	7,500	4,260	118,280
Duncan Nichol	–	24,000	–	–	24,000	–	24,000	–	–	24,000
Ewan Phillips *	200,000	–	7,500	10,600	218,100	185,000	–	7,500	7,400	199,900
Ed Snape	–	8,000	–	–	8,000	–	24,000	–	–	24,000
Tim Irish	–	13,000	–	–	13,000	–	–	–	–	–
Mark Wippell	–	13,000	–	–	13,000	–	–	–	–	–
	325,000	**115,333**	**15,000**	**15,600**	**470,933**	271,520	125,333	15,000	11,660	423,513

Directors' fees

In accordance with its usual practice, the Board intends to settle these amounts when it is appropriate to do so by issuing equity to the non-executive directors. The share price to be used in calculating the number of shares to be issued, is to be no lower than 11p, the placing price of the most recent fundraising.

Bonuses

Included in accruals at 31 December 2014 are amounts of £144,200 and £68,812 owed to Ewan Phillips and Paul Mitchell respectively under contractual bonus schemes for the years ended 31 December 2012 and 31 December 2013. An estimated accrual for bonuses was made in the 2013 accounts and a further charge made in the 2014 accounts, once the bonuses for both periods had been approved. In accordance with its usual practice, the Board intends to settle these amounts when appropriate to do so by issuing share options under the Company's Enterprise Management Investment scheme. The Board is restricted from making such awards when it deems the Company to be in a closed period.

Directors' Report continued

Service contracts

Ewan Phillips

Commencement date	11 September 2001
Notice period	Six months
Aggregate remuneration	£200,000 salary, car allowance, discretionary bonus, pension contribution of 4% of salary
Compensation on early termination	None
Non-competition	Standard restrictions on soliciting customers or suppliers or working for competing businesses for 12 months

Paul Mitchell

Commencement date	3 September 2009
Notice period	Six months
Aggregate remuneration	£125,000 salary, car allowance, discretionary bonus, pension contribution of 4% of salary
Compensation on early termination	None
Non-competition	Standard restrictions on soliciting customers or suppliers or working for competing businesses for 12 months

Directors' indemnities

As permitted by the Companies Act 2006, the Company has indemnified the directors in respect of proceedings brought by third parties and qualifying third party indemnity insurance was in place throughout the year and up to the date of approval of the financial statements.

Major interests in shares

The following are beneficial interests of 3% or more, of which the directors have been notified in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the Company's ordinary share capital, the only class of voting capital, at 11 March 2015:

	Number of ordinary shares	Percentage of issued share capital
Herald Investment Management Limited	10,709,190	5.03%
J O Hambro Capital Management Limited	25,749,100	12.09%
Legal and General Investment Management Limited	14,283,386	6.71%
Nigel Keen	8,495,254	3.99%

Going concern

The Group meets its day-to-day working capital requirements through a combination of operational cash flows, an invoice discounting facility and the raising of additional finance if required. The directors have examined detailed budgets and forecasts until 31 December 2016. This review indicates that the Group has sufficient liquidity to continue as a going concern.

Further details of Group's cash flows are given in the Financial Review on page 12 and the Basis of preparation note on page 35. The Board has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future and accordingly continues to adopt the going concern basis in preparing the financial statements as detailed in note 1.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the Group and parent 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 prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively;
- prepare the Group and parent Company financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent 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 parent Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and financial statements are made available on a website. Financial statements are published on the Group's website in accordance with AIM rules for companies and legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Disclosure of information to auditors

In the case of each director in office at the date the Directors' Report is approved, that:

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors; PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Annual General Meeting

The notice convening the Annual General Meeting, which will take place on 6 May 2015 at 11.00am at Laytons, 2 More London Riverside, London SE1 2AP, will be sent in due course.

By order of the Board

Paul Mitchell
Company Secretary

11 March 2015

Independent Auditors' Report

to the members of Deltex Medical Group plc

Report on the group financial statements

Our opinion

In our opinion, Deltex Medical Group Plc's group financial statements (the "financial statements":

- give a true and fair view of the state of the group's affairs as at 31 December 2014 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Deltex Medical Group Plc's financial statements comprise:

- the Consolidated Balance Sheet as at 31 December 2014;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

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.

Opinion on other matter 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.

Other matters on which we are required to report by exception

Adequacy of 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. We have no exceptions to report arising from this responsibility.

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 Directors' Responsibilities set out on page 21, 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 group'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 Report and Accounts 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.

Other matter

We have reported separately on the parent company financial statements of Deltex Medical Group Plc for the year ended 31 December 2014.

Miles Saunders (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

11 March 2015

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2014

	Note	2014 Probes £'000	2014 Other £'000	2014 Total £'000	2013 Probes £'000	2013 Other £'000	2013 Total £'000
Probe revenue							
Surgical probes		**4,558**	**–**	**4,558**	5,509	–	5,509
Critical care		**713**	**–**	**713**	788	–	788
Other		**–**	**1,236**	**1,236**	–	854	854
Total revenue	2	**5,271**	**1,236**	**6,507**	6,297	854	7,151
Total cost of sales		**(1,287)**	**(674)**	**(1,961)**	(1,542)	(440)	(1,982)
Gross profit		**3,984**	**562**	**4,546**	4,755	414	5,169
Administrative expenses	4			**(2,463)**			(2,145)
Sales and distribution costs	4			**(3,938)**			(3,940)
Research and development	4			**(694)**			(583)
US market development costs	4			**(441)**			(599)
Total costs				**(7,536)**			(7,267)
Operating loss before US market development				**(2,549)**			(1,499)
US market development costs				**(441)**			(599)
Operating loss*	4			**(2,990)**			(2,098)
Finance income	6			**2**			1
Finance costs	6			**(107)**			(120)
Loss before taxation				**(3,095)**			(2,217)
Tax credit on loss	7			**144**			111
Loss for the year	22			**(2,951)**			(2,106)
Other comprehensive income							
Items that may be subsequently reclassified to profit and loss							
Exchange differences taken to reserves	22			**45**			(31)
Other comprehensive income/(expense) for the year, net of tax				**45**			(31)
Total comprehensive loss for the year				**(2,906)**			(2,137)
Total comprehensive loss for the year attributable to:							
Owners of the Parent				**(2,816)**			(2,145)
Non-controlling interests				**(90)**			8
				(2,906)			(2,137)
Loss per share – basic and diluted	8			**(1.5p)**			(1.3p)

	Note	2014 Total £'000	2013 Total £'000
***Operating loss is split:**			
Cash loss		**(1,677)**	(286)
US market development costs		**(441)**	(599)
Non – cash charges		**(872)**	(1,213)
Operating Loss	4	**(2,990)**	(2,098)

The notes on pages 28 to 57 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet

at 31 December 2014

	Note	2014 £'000	2013 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**737**	585
Intangible assets	10	**1,745**	1,502
Trade and other receivables	13	**5**	10
Total non-current assets		**2,487**	2,097
Current assets			
Inventories	12	**1,273**	920
Trade and other receivables	13	**2,757**	3,081
Current income tax recoverable		**140**	118
Cash and cash equivalents	14	**2,934**	1,459
Total current assets		**7,104**	5,578
Total assets		**9,591**	7,675
Liabilities			
Current liabilities			
Borrowings	15	**(1,109)**	(1,284)
Trade and other payables	17	**(2,444)**	(1,855)
Total current liabilities		**(3,553)**	(3,139)
Non-current liabilities			
Borrowings	15	**(1,050)**	(1,028)
Provisions for other liabilities	18	**(116)**	(135)
Total non-current liabilities		**(1,166)**	(1,163)
Total liabilities		**(4,719)**	(4,302)
Net assets		**4,872**	3,373
Equity			
Share capital	20, 22	**2,130**	1,709
Share premium	22	**30,323**	26,440
Capital redemption reserve	22	**17,476**	17,476
Other reserves	22	**4,318**	4,217
Translation reserve	22	**(6)**	(51)
Retained deficit	22	**(49,287)**	(46,426)
Equity attributable to owners of the Parent		**4,954**	3,365
Non-controlling interests		**(82)**	8
Total equity		**4,872**	3,373

The notes on pages 28 to 57 form an integral part of these consolidated financial statements.

The financial statements on pages 24 to 57 were approved by the Board of Directors on 11 March 2015 and were signed on its behalf by:

N J Keen
Chairman
Deltex Medical Group plc (3902895)

P J Mitchell
Finance Director
Deltex Medical Group plc (3902895)

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

	Note	Attributable to owners of the Parent								
		Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other reserves £'000	Translation reserve £'000	Retained deficit £'000	Total £'000	Non-controlling Interest £'000	Total equity £'000
Balance at 1 January 2013		1,510	23,659	17,476	3,792	(20)	(44,312)	2,105	–	2,105
Comprehensive income										
Loss for the year	22	–	–	–	–	–	(2,114)	(2,114)	8	(2,106)
Other comprehensive income										
Exchange movements taken to reserves	22	–	–	–	–	(31)	–	(31)	–	(31)
Total comprehensive expense for the year		–	–	–	–	(31)	(2,114)	(2,145)	8	(2,137)
Shares issued during the year	20, 22	199	–	–	–	–	–	199	–	199
Premium on shares issued during the year	22	–	2,892	–	–	–	–	2,892	–	2,892
Issue expenses	22	–	(111)	–	–	–	–	(111)	–	(111)
Credit in respect of service costs settled by award of options	22	–	–	–	425	–	–	425	–	425
Balance at 31 December 2013		**1,709**	**26,440**	**17,476**	**4,217**	**(51)**	**(46,426)**	**3,365**	**8**	**3,373**
Comprehensive income										
Loss for the year	22	–	–	–	–	–	(2,861)	(2,861)	(90)	(2,951)
Other comprehensive income										
Exchange movements taken to reserves	22	–	–	–	–	45	–	45	–	45
Total comprehensive expense for the year	–	–	–	–	–	45	(2,861)	(2,816)	(90)	(2,906)
Shares issued during the year	20, 22	421	–	–	–	–	–	421	–	421
Premium on shares issued during the year	22	–	4,145	–	–	–	–	4,145	–	4,145
Issue expenses	22	–	(262)	–	–	–	–	(262)	–	(262)
Credit in respect of service costs settled by award of options	22	–	–	–	101	–	–	101	–	101
Balance at 31 December 2014		**2,130**	**30,323**	**17,476**	**4,318**	**(6)**	**(49,287)**	**4,954**	**(82)**	**4,872**

The notes on pages 28 to 57 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Cash flows used in operating activities			
Net cash used in operations	23	**(1,821)**	(1,427)
Interest paid		**(104)**	(98)
Income taxes received		**122**	107
Net cash used in operating activities		**(1,803)**	(1,418)
Cash flows used in investing activities			
Purchase of property, plant and equipment	9	**(372)**	(364)
Capitalised development expenditure	10	**(465)**	(411)
Acquisition of subsidiary	10	**–**	(174)
Interest received	6	**2**	1
Net cash used in investing activities		**(835)**	(948)
Cash flows generated from financing activities			
Issue of ordinary share capital	22	**4,566**	2,698
Expenses in connection with share issue		**(262)**	(111)
Proceeds from increase in borrowings		**–**	580
Repayment of borrowings		**(187)**	–
Repayment of obligations under finance leases		**(16)**	(13)
Net cash generated from financing activities		**4,101**	3,154
Net increase in cash and cash equivalents		**1,463**	788
Cash and cash equivalents at beginning of the year		**1,459**	667
Exchange gains on cash and cash equivalents		**12**	4
Cash and cash equivalents at end of the year		**2,934**	1,459

The notes on pages 28 to 57 form an integral part of these consolidated financial statements.

Notes to the Financial Statements

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

General information

These financial statements are the consolidated financial statements of Deltex Medical Group plc, a public limited company registered and domiciled in the United Kingdom and its subsidiaries ('the Group'). Deltex Medical Group plc is listed on AIM. The address of the registered office is Deltex Medical Group plc, Terminus Road, Chichester, West Sussex PO19 8TX, registered number 3902895.

Basis of reporting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), with interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, with exception of fair value accounting for share based payments, and on a going concern basis as discussed in more detail under the 'Basis of Preparation' section of this note.

The following standards, amendments to standards and interpretations which have been endorsed by the EU have been adopted with effect from 1 January 2014 or as stated below. No changes to previously published accounting policies or other adjustments were required on their adoption.

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities
- Amendments to IAS 32 and IFRS 7 – Financial instruments on asset and liability offsetting
- Amendment to IAS 36 – 'Impairment of assets' on recoverable amount disclosures
- Amendment to IAS 39 – 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting

Accounting standards not yet effective

Certain new standards and amendments to existing standards have been published that are mandatory for future accounting periods, subject to EU endorsement. Those which the Group has not adopted early and effective date (periods beginning) are as follows:

- IFRS 9, Financial instruments – 1 January 2018
- IAS 19, Employee Benefits – 1 July 2014
- IFRS 15, Revenue from Contracts with Customers – 1 January 2017

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

The Group is assessing the impact of the above accounting standards not yet effective.

Basis of consolidation

The consolidated financial statements include the financial statements of the parent Company and all of its subsidiaries. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Consistent accounting policies have been adopted across the Group. Subsidiaries are all entities over which the group has control. The group controls an entity when the group 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group They are de-consolidated from the date that control ceases.

Notes to the Financial Statements continued

1 **Principal accounting policies** continued

Basis of consolidation continued

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Revenue recognition

Revenue is measured at the fair value of the consideration receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes and excludes intercompany sales.

- Monitor and probe revenue
  Revenue on monitors and probes is recognised at the point when substantially all of the risks and rewards of ownership are transferred to the customer; for UK customers normally this is when the goods are accepted at the customers specified delivery address and for international customers this is normally on dispatch.
- Bill and hold
  A small number of customers request "Bill and hold" arrangements, where the Group holds the goods sold to the customer on their behalf until the customer is ready to receive them. Revenue is only recognised, when the customer has recognised that all the risks and rewards of ownership have passed to the customer, including under these Bill and hold arrangements.
- Clinical trial data
  Where goods are exchanged for trial data, the exchange is treated as revenue under a barter transaction. The revenue is measured at fair value of the trial data or at the fair value of the goods supplied, where the fair value of the trial data cannot be reliably measured. The corresponding asset is recorded as a prepayment (see clinical trials accounting policy).
- Managed care service contracts
  Where contracts exist which provide for a specified number of probes over a period of time for a total contract fee, revenue is recognised on a 'per probe' basis. Variations between this percentage of completion accounting and the monthly contract fee charged is recognised as deferred or accrued income on the balance sheet.
- Other service contracts and maintenance
  In respect of service contracts and other agreements for ongoing support, revenue is recognised in equal monthly instalments over the period of the contract to match the benefits to the customer.

Operating segments

An operating segment is a component of an entity that engages in business activities for which discrete financial information is available. The principal activity of the Group is the sale of probes in all countries, with the geographical split a secondary segment.

The Group has a single group of related products and services, being the supply of probes and other related services. Segment information is provided on the basis of probe revenue and other, which is the basis on which the Group Chief Operating Decision Maker manages its worldwide activities. The Chief Operating Decision Maker is the executive Board.

The segmental operating result is the measure of operating profit generated by probes and other. The Group has also split its net assets and liabilities according to the operating segments of probes and other.

Notes to the Financial Statements continued

1 **Principal accounting policies** continued

Foreign currency translation

The functional and presentational currency for the parent Company is UK pounds sterling. Group companies use their local currency as their functional currency. Transactions denominated in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date, with any gains or losses being included in the net profit or loss of the period. Exchange differences arising on non-monetary assets and liabilities are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are dealt with through the Group's reserves, until such a time as the subsidiary is sold whereupon the cumulative exchange differences relating to the net investment in that foreign subsidiary are recognised as part of the profit or loss on disposal in the Consolidated Statement of Comprehensive Income. However, cumulative exchange differences arising prior to 1 January 2006 remain in equity as permitted by IFRS 1.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities.

Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, or subject to certain conditions at the option of the Group and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Consolidated Statement of Comprehensive Income within 'sales and distribution' costs. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'sales and distribution' costs in the Consolidated Statement of Comprehensive Income.

Notes to the Financial Statements continued

1 **Principal accounting policies** continued

US market development costs

US market development costs consist of targeted expenditure specific to certain of the Group's activities aimed at accelerated development of the market opportunity for its products in the USA. These costs relate primarily to the Group's research collaboration with Premier Inc and include fees paid to Premier and its partners, direct costs of supporting the collaboration including related research projects in hospitals and dissemination of the results of such research as it becomes available. Costs incurred in support of the Group's ongoing US business are excluded and charged in arriving at the profit or loss before non-cash and US market development costs.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation in respect of a past event and it is probable that settlement will be required of an amount that can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A provision for national insurance that may become payable on share option gains is calculated based on the closing share price.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. The cost of purchased assets includes the original purchase price together with any incidental expenses of acquisition.

Depreciation is calculated so as to write down property, plant and equipment to their estimated realisable values, by equal annual instalments over their expected useful economic lives at the following periods:

Leasehold property and improvements	five years or to the end of the lease period if less
Plant and equipment	three to five years
Machines loaned to customers	five years
Fixtures and fittings	three to five years

Estimated residual values and useful lives are reviewed annually and adjusted where necessary.

Machines loaned to customers

In order to support key accounts and increased probe usage, monitors may be placed on long-term loan with customers. Where these monitors are expected to be placed for a period longer than 12 months, the monitors are transferred at book value to property, plant and equipment and depreciated over five years. Where monitors are placed on a short-term loan of less than 12 months and it is expected that the monitors will be sold thereafter, the monitors are included within inventories and a provision for refurbishment cost is charged to the Consolidated Statement of Comprehensive Income.

Intangible assets
Development expenditure — internally generated

Costs for self-initiated research and development activities are assessed as to whether they qualify for recognition as internally generated intangible assets. Apart from complying with the general recognition requirements below and initial measurement of an intangible asset, qualification criteria are met only when technical as well as commercial feasibility can be demonstrated and cost can be measured reliably. It must also be probable that the intangible asset will generate future economic benefits and that it is clearly identifiable and allocatable to a specific product.

Further to meeting these criteria, only such costs that relate solely to the development phase of a self-initiated project are capitalised. Any costs that are classified as part of the research phase of a self-initiated project are expensed as incurred. If the research phase cannot be clearly distinguished from the development phase, the respective project related costs are treated as if they were incurred in the research phase only.

Amortisation is calculated so as to write down the value of the intangible assets by equal annual instalments over their expected useful economic lives of five years.

The costs in respect of trialling for clinical, economic and other purposes is not considered to be research and development expenditure. The accounting policy for this is detailed below.

1 Principal accounting policies continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months after the balance sheet date. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process. Borrowing costs are recognised as an expense when incurred.

Impairment of property, plant and equipment and intangible assets

At each Balance Sheet date the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. The recoverable amount is the higher of the asset's value in use and its fair value less costs to sell. Value in use is calculated using cash flow projections for the asset (or group of assets where cash flows are not identifiable for specific assets) discounted at the Group's cost of capital.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount.

Non-financial assets other than goodwill which have suffered an impairment are reviewed for possible reversal of impairment at each reporting date.

Retirement benefit costs

The Group provides pension arrangements to the majority of full-time UK employees through a money purchase (defined contribution) scheme. Contributions and pension costs are based on pensionable salary and are charged as an expense as they fall due. The Group has no further payment obligations once the contributions have been paid.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis. Work in progress and finished goods are included on a basis appropriate to the state of completion of the various individual items taking account of production materials and components together with an appropriate share of directly attributable labour and overheads. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow-moving or defective items where appropriate.

Finance and operating leases

Costs in respect of operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term. Where property, plant and equipment are financed by finance lease agreements, which transfer to the Group substantially all the benefits and risks of ownership, the assets are treated as if they had been purchased outright and are included in property, plant and equipment. Assets held under finance leases should be depreciated over the lower of the useful lives and the term of the lease. The capital element of the finance lease commitment is shown as obligations under finance leases within borrowings. The finance lease payments are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term.

Notes to the Financial Statements continued

1 Principal accounting policies continued

Clinical and other trials

The cost of trialling for clinical, economic and other purposes to support the Group's sales and promotional activity, or the cost of purchasing the rights to the use of the data arising from such trials, is written off as the trial is delivered. At each Balance Sheet date any asset relating to prepaid clinical and other trials, or prepayments recognised from barter transactions, are assessed for impairment and where necessary an impairment loss is recognised as an expense in the Consolidated Statement of Comprehensive Income. Prepaid clinical and other trials amounts are included within prepayments and accrued income in trade and other receivables in the Consolidated Balance Sheet.

Current and deferred taxation

The tax expense represents the sum of current tax and deferred tax. Tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised in equity in which case it is recognised in equity.

The current tax is based on taxable results for the year calculated using tax rates that have been enacted or substantially enacted by the Balance Sheet date.

Deferred tax is provided using the Balance Sheet date liability method on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets or liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is not probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current liabilities and when the deferred income taxes relate to the same fiscal authority.

Share-based payments

The Group awards directors, employees and certain of the Company's distributors and advisers equity-settled share-based payments, from time to time, on a discretionary basis. In accordance with IFRS 2 'Share-based payments', equity-settled share-based payments are measured at fair value at the time of grant. Fair value is measured by use of a Black–Scholes model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest. The options are subject to vesting conditions of up to six years, and their fair value is recognised as an expense with a corresponding increase in 'other reserves' equity over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

The fair value of the equity-settled share-based payment is recharged by the Group company to the subsidiary operating company at fair value. The expense is, therefore, recognised in the subsidiary operating company, with the equity reserve being recognised in the Group company.

Notes to the Financial Statements continued

1 **Principal accounting policies** continued

Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held with banks with a maturity of less than three months.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowing using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Significant judgements, assumptions and estimates

In the process of applying the Group's accounting policies, the directors have made a number of judgements. In addition, the preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The key assumptions at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- **Clinical trial data**
  The Group exchanges goods for trial data and this exchange is treated as revenue under a barter transaction. These represent non-cash transactions. Where the fair value of the trial data cannot be reliably measured, the clinical trial cost is measured at the fair value of the goods being supplied. The determination of this fair value involves some judgement of what is an appropriate comparable sales value. The timing of completion of the trials is estimated at the start of thetrial, and the prepaid costs split accordingly between non-current and current assets. However, unforeseen future events may adversely impact on the value and timing of the trials which would result in potential impairments or changes in balance sheet classification of the assets.
- **Valuation of share-based payments**
  In order to determine the value of share-based payments, management are required to make an estimation of the effects of non-transferability, exercise restrictions and behavioural considerations. Fair value is measured by use of a Black–Scholes model and the inputs are set out in note 21.
- **Trade receivables recoverability**
  The Group uses international distributors in a number of overseas territories. Judgements have been made in respect of these various overseas territories, in order to assess the recoverability of receivables from these territories, to see whether an impairment provision is required. In addition, in order to assist the distributors in developing their markets, these distributors may be given extended trade terms. Extended trade terms, by their nature can increase the credit risk to the Group. Such risks are carefully managed through direct relationships with the distributors and knowledge of their markets.

Notes to the Financial Statements continued

1 **Principal accounting policies** continued

- **Research and development**
  Costs for research and development activities are only capitalised as intangible assets if the qualification criteria are met. These criteria are met only when the technical as well as commercial feasibility can be demonstrated and cost can be measured reliably. The amounts capitalised represents the Group's estimate of what costs have met this criteria. There is a risk that the intangible asset will not generate the required future economic benefits and therefore could result in potential impairments.

Alternative financial measures

The Group uses a number of alternative (non-Generally Accepted Accounting Practice (non-GAAP)) financial measures, which are not defined by IFRS. The directors use these measures in order to assess the underlying operational performance of the Group and as such these measures are important and should be considered alongside the IFRS measures. The following non-GAAP measures are referred to in these Financial Statements.

(a) *Proforma results – Chairman's statement*
This presents our progress against key performance indicators: probe sales and margins, cash costs, net income from or cost of increasing the installed base, profit before and after non-cash items and profit before investment in the Premier project.

(b) *Adjusted operating loss beneath the Consolidated Statement of Comprehensive Income*
This is defined as operating loss before non-cash charges to the Consolidated Statement of Comprehensive Income. Non-cash costs comprise Share based payments, equity settled costs, clinical trial charges arising from non-cash barter transactions and depreciation and amortisation. A reconciliation of the operating loss to the adjusted operating loss is shown beneath the Consolidated Statement of Comprehensive Income.

Basis of preparation

In common with many companies of its size and which are at its stage of development, the directors manage carefully the Group's limited resources to develop the opportunities open to it without overstretching the funding capabilities of the business.

The funds the Group has available to it are provided both by the results of its commercial activities and through the new funding provided to it by the capital markets and secured lending and the Group drives its development of the market in keeping with this level of funding, having sufficient flexibility in its cost structure to tailor expenditure to accord with income levels.

As noted in the Directors' Report, in preparing these financial statements the directors have reviewed detailed budgets and cash flow forecasts until 31 December 2016.

This review indicates that the Group is expected to continue trading at current levels as a going concern on the basis of increasing net cash inflows from sales over expenditure of the Group.

The directors believe it is appropriate to prepare the financial statements on the going concern basis.

Notes to the Financial Statements continued

2 Operating segments

Segment results include items directly attributable to a segment as well as those, which can be allocated on a reasonable basis.

The reportable segment results for the year ended 31 December 2014 are as follows:

	Probes £'000	Other £'000	Unallocated £'000	Total £'000
Revenue from customers	**5,271**	**1,236**	**–**	**6,507**
Segment profit/(losses)	**3,984**	**562**	**(7,536)**	**(2,990)**
Finance income	**–**	**–**	**–**	**2**
Finance costs	**–**	**–**	**–**	**(107)**
Loss before taxation	**–**	**–**	**–**	**(3,095)**
Tax credit on loss	**–**	**–**	**–**	**144**
Loss for the financial year	**–**	**–**	**–**	**(2,951)**

The reportable segment results for the year ended 31 December 2013 are as follows:

	Probes £'000	Other £'000	Unallocated £'000	Total £'000
Revenue from customers	6,297	854	–	7,151
Segment profit/(losses)	4,755	414	(7,267)	(2,098)
Finance income	–	–	–	1
Finance costs	–	–	–	(120)
Loss before taxation	–	–	–	(2,217)
Tax credit on loss	–	–	–	111
Loss for the financial year	–	–	–	(2,106)

Unallocated costs include those costs that cannot be split between segments, including expenditure on research and development and clinical trials

The reportable segment assets and liabilities at 31 December 2014 and capital expenditure are as follows:

	Probes £'000	Other £'000	Unallocated £'000	Total £'000
Assets	**2,469**	**3,278**	**3,844**	**9,591**
Liabilities	**484**	**37**	**4,198**	**4,719**

	Assets £'000	Liabilities £'000
Segment assets/liabilities		
Unallocated:		
Property, plant and equipment	**145**	**–**
Intangible assets	**–**	**–**
Inventory	**291**	**–**
Trade and other receivables	**334**	**–**
Current income tax	**140**	**–**
Cash	**2,934**	**–**
Borrowings	**–**	**2,159**
Trade and other payables	**–**	**1,927**
Provisions	**–**	**112**
	3,844	**4,198**

Notes to the Financial Statements continued

2 **Operating segments** continued

The reportable segment assets and liabilities at 31 December 2013 and capital expenditure are as follows:

	Probes £'000	Other £'000	Unallocated £'000	Total £'000
Assets	2,791	2,545	2,339	7,675
Liabilities	256	105	3,941	4,302

	Assets £'000	Liabilities £'000
Segment assets/liabilities		
Unallocated:		
Property, plant and equipment	86	–
Intangible assets	191	–
Inventory	124	–
Trade and other receivables	361	–
Current income tax	118	–
Cash	1,459	–
Borrowings	–	2,312
Trade and other payables	–	1,500
Provisions	–	129
	2,339	3,941

These assets/liabilities are allocated based on the operations of the segment.

Segment assets consist primarily of intangible assets, inventories and trade and other receivables. Unallocated assets comprise primarily of trade and other receivables, current income tax and cash.

Segment liabilities primarily comprise of trade payables, accruals and deferred income.

It is not practical to split the assets and liabilities between the different revenue streams.

The following table provides an analysis of the Group's sales by revenue stream and markets.

	2014 Probes units	**2014 Monitors units**	**2014 Probes £'000**	**2014 Monitors £'000**	**2014 Other £'000**	**2014 Total £'000**	2013 Probes Units	2013 Monitors Units	2013 Probes £'000	2013 Monitors £'000	2013 Other £'000	2013 Total £'000
Direct markets												
UK*	**37,640**	**87**	**3,179**	**404**	**149**	**3,732**	47,605	59	3,882	243	151	4,276
USA	**8,850**	**5**	**1,001**	**72**	**2**	**1,075**	7,676	3	878	31	4	913
Spain	**270**	**–**	**26**	**–**	**2**	**28**	725	–	78	–	1	79
Canada	**770**	**2**	**95**	**15**	**–**	**110**	170	1	3	17	–	20
Distributor markets												
Rest of Europe	**15,760**	**34**	**843**	**164**	**15**	**1,022**	16,780	17	917	77	16	1,010
Rest of the World	**2,275**	**88**	**127**	**400**	**13**	**540**	11,120	53	539	300	14	853
	65,565	**216**	**5,271**	**1,055**	**181**	**6,507**	84,076	133	6,297	668	186	7,151

*UK probe sales are split:

	2014 Units	**2014 £'000**	2013 Units	2013 £'000
Surgical	**31,655**	**2,466**	40,690	3,094
Critical care	**5,985**	**713**	6,915	788
	37,640	**3,179**	47,605	3,882

Notes to the Financial Statements continued

3 Auditors' remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below:

	2014 £'000	2013 £'000
Audit services		
– Fees payable to the Company's auditors for the audit of the parent Company and the consolidated financial statements	**24**	24
Other services		
Fees payable to the Company's auditors for other services		
– The audit of the Company's subsidiaries pursuant to legislation	**62**	63
– Other advisory services for presentational changes	**–**	11
	86	98

4 Expenses by nature

	2014 £'000	2013 £'000
Changes in inventories of finished goods and work in progress	**271**	(8)
Raw materials and consumables used	**1,420**	1,454
Employee benefit costs	**4,838**	4,644
Other employee costs	**866**	816
Depreciation and amortisation charges	**420**	326
Net research and development expenditure (excluding employee costs)	**45**	34
Net clinical trial costs	**108**	262
Operating lease charge	**81**	85
Foreign exchange gain	**(63)**	(6)
Charge in respect of service costs	**–**	3
Audit and accountancy	**104**	134
Meeting and other PR costs	**182**	268
Professional and consultancy fees	**407**	461
US market development (excluding employee costs)	**114**	311
Other	**704**	465
	9,497	9,249

Notes to the Financial Statements continued

5 Employees

The average monthly number of persons, including executive directors, by function was as follows:

	2014 Number	2013 Number
By activity		
Sales and marketing	**45**	39
Production	**15**	15
Office and management	**15**	16
Research and development	**6**	6
	81	76

Employee benefit expense	**2014 £'000**	2013 £'000
Wages and salaries	**3,953**	3,644
Social security costs	**345**	284
Other pension costs - defined contribution plans	**80**	73
Share-based payments, including bonus accruals	**460**	643
	4,838	4,644

Directors' emoluments	**2014 £**	2013 £
Aggregate emoluments	**422,000**	378,520
Sums paid to third parties for directors' services	**33,333**	33,333
Contributions to directors' personal pension schemes	**15,600**	11,660
	470,933	423,513

Benefits are accruing to two (2013: two) directors under personal pension plans.

Included in the above figure is an amount paid to the employing company, Imperialise Limited, of a non-executive director for the services of that director of £33,333 (2013: £33,333).

Highest paid director	**2014 £**	2013 £
Aggregate emoluments	**207,500**	192,500
Contributions to directors' personal pension schemes	**10,600**	7,400
	218,100	199,900

There were no director share sales during 2014 or 2013.

Notes to the Financial Statements continued

6 Finance income and costs

	2014 £'000	2013 £'000
Finance income		
Bank interest receivable	**2**	1
	2	1
Finance costs		
Finance lease interest payable	**8**	3
Interest payable	**80**	93
Facility and loan arrangement fees	**19**	24
	107	120

7 Taxation credit on loss

	2014 £'000	2013 £'000
Current tax:		
Research and development tax credit	**(140)**	(118)
Adjustments in respect of prior years	**(4)**	7
Total current tax and tax on loss on ordinary activities	**(144)**	(111)

The taxable receipt for the year is lower (2013: lower) than the effective rate of corporation tax in the UK of 21.5% (2013: 23.25%) applied to the Group's loss on ordinary activities before tax.

The tax differences are explained below:

	2014 £'000	2013 £'000
Loss on ordinary activities before tax	**(3,095)**	(2,217)
Loss on ordinary activities multiplied by the standard rate in the UK 21.5% (2013: 23.25%)	**(665)**	(515)
Effects of:		
Expenses not deductible for tax purposes	**22**	99
Difference between depreciation charges and capital allowance claims	**55**	50
Losses carried forward	**727**	601
Enhanced R&D deduction	**(124)**	(139)
Tax rate on difference surrendered on payable R&D tax credit	**82**	–
Higher rates of overseas losses	**(237)**	(214)
Adjustments in respect of prior years	**(4)**	7
	(144)	(111)

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 21.5% and will be taxed at 21% in the future.

Deferred tax

At 31 December 2014, the Group had an unrecognised potential deferred tax asset of £10,042,000 (2013: £9,897,000) representing accumulated trading losses carried forward which are available against future profits, depreciation in excess of capital allowances of £172,000 (2013: £121,000) and share option charges of £30,000 (2013: £122,000).

During the prior year, as a result of the changes in the UK corporation tax rate to 21% from 1 April 2014 and to 20% from 1 April 2015, which were substantially enacted on 2 July 2013, the closing deferred tax balances have been valued at 20% (2013: 20%) as this is the tax rate that will apply on reversal.

Loss relief is available indefinitely.

Notes to the Financial Statements continued

8 Basic and diluted loss per share

The loss per share calculation is based on the loss of £2,861,000 and weighted average number of shares in issue of 194,514,518. For 2013 the loss per share calculation was based upon the loss of £2,114,000 and weighted average number of shares in issue of 164,175,818. Whilst the Company is loss-making the diluted loss per share and the loss per share are the same.

9 Property, plant and equipment

	Leasehold property and improvements £'000	Plant and equipment £'000	Fixtures and fittings £'000	Machines loaned to customers £'000	Total £'000
Cost					
At 1 January 2013	233	509	54	938	1,734
Exchange	–	–	–	(6)	(6)
Additions	–	69	–	295	364
Disposals	–	–	–	(44)	(44)
At 31 December 2013	233	578	54	1,183	2,048
Exchange	–	1	1	18	20
Additions	3	97	–	319	419
Disposals	–	–	–	(53)	(53)
At 31 December 2014	**236**	**676**	**55**	**1,467**	**2,434**
Accumulated Depreciation					
At 1 January 2013	225	458	54	534	1,271
Exchange	–	–	–	(3)	(3)
Charge for the year	6	36	–	175	217
Disposals	–	–	–	(22)	(22)
At 31 December 2013	231	494	54	684	1,463
Exchange	–	1	1	10	12
Charge for the year	2	39	–	215	256
Disposals	–	–	–	(34)	(34)
At 31 December 2014	**233**	**534**	**55**	**875**	**1,697**
Net book value					
At 1 January 2013	8	51	–	404	463
At 31 December 2013	2	84	–	499	585
At 31 December 2014	**3**	**142**	**–**	**592**	**737**

Depreciation expense of £220,000 (2013: £185,000) has been charged in cost of sales, £5,000 (2013: £10,000) in research and development and £31,000 (2013: £22,000) in administrative expenses.

The net book value of property, plant and equipment includes amounts of £95,000 (2013: £54,000) in respect of assets held under finance leases.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and in the current year within cost of sales in the income statement.

Notes to the Financial Statements continued

10 Intangible assets

	Development Expenditure £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2013	1,379	–	1,379
Additions	411	124	535
At 31 December 2013	1,790	124	1,914
Additions	465	–	465
Fair value adjustments	–	(58)	(58)
At 31 December 2014	**2,255**	**66**	**2,321**
Accumulated amortisation			
At 1 January 2013	303	–	303
Charge for the year	109	–	109
At 31 December 2013	412	–	412
Charge for the year	164	–	164
At 31 December 2014	**576**	**–**	**576**
Net book value			
At 1 January 2013	1,076	–	1,076
At 31 December 2013	1,378	124	1,502
At 31 December 2014	**1,679**	**66**	**1,745**

Amortisation of £164,000 (2013: £109,000) has been included in research and development in the Consolidated Statement of Comprehensive Income. Amortisation is charged on a straight-line basis over five years, and commences when the product related to the development expenditure is available for use.

On 20 December 2013, a 51% holding in Deltex Medical (Canada) Limited was acquired, giving rise to £124,000 of provisional goodwill. The final fair value allocations have been completed. The final goodwill value is £66,000, for further detail please see note 27. The carrying value of goodwill is supported by a value in use calculation of the Canadian business, but due to the immaterial value, the assumptions have not been disclosed.

11 Subsidiary undertakings

Details of the Group's trading subsidiaries are set out below. In all cases the direct holding is 100% of the ordinary shares unless stated otherwise:

- Deltex Medical Limited, incorporated and operating in the United Kingdom (UK), manufactures and markets medical devices.
- Deltex Medical SC Inc, incorporated and operating in the United States of America, markets and sells medical devices in the USA which are manufactured by the Group in the UK.
- Deltex Medical Espana, incorporated and operating in Spain, markets and sells medical devices in Spain which are manufactured by the Group in the UK.
- Deltex Medical (Canada) Limited, incorporated and operating in Canada, markets medical devices in Canada which are manufactured by the Group in the UK. Deltex Medical (Canada) is itself a 51% owned subsidiary of Deltex Medical Group plc, with 49% being held by a non-controlling interest.
- Deltex Medical GmbH, incorporated in Germany, was a 100% owned subsidiary of Deltex Medical Limited. This Company was dormant, and has been liquidated in the year.

Notes to the Financial Statements continued

12 Inventories

	2014 £'000	2013 £'000
Raw materials and consumables	**201**	119
Work in progress	**66**	27
Finished goods	**1,006**	774
	1,273	920

Included within finished goods are third party products for resale of £185,000 (2013: £nil).

Based on inventory holdings and sales history, no specific or general provisions for obsolete or slow-moving inventory (2013: £nil) are considered necessary.

13 Trade and other receivables

	2014 £'000	2013 £'000
Current:		
Trade receivables	**2,689**	2,824
Less: provision for impairment of trade receivables	**(265)**	(104)
	2,424	2,720
Other receivables		
Prepayments and accrued income	**333**	361
	2,757	3,081
Non-current:		
Trade receivables	**5**	10
	2,762	3,091

All non-current receivables are due within two to five years (2013: two to five years) from the Consolidated Balance Sheet date.

Trade receivables that are less than two months past due are considered recoverable. As at 31 December 2014, trade receivables of £254,000 (2013: £142,000) were more than two months past due but not impaired. These related to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2014 £'000	2013 £'000
Two to four months overdue	**168**	40
Four to eight months overdue	**26**	63
More than eight months overdue	**60**	39
At 31 December	**254**	142

Notes to the Financial Statements continued

13 Trade and other receivables continued

As of 31 December 2014, specific trade receivables of £265,000 (2013: £104,000) were impaired and provided for after consideration of cash received to date. The ageing of these receivables was as follows:

	2014 £'000	2013 £'000
Two to four months overdue	**72**	–
Four to eight months overdue	**49**	–
Over six months overdue	**144**	104
At 31 December	**265**	104

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2014 £'000	2013 £'000
Pounds	**1,288**	1,497
Euros	**404**	644
US dollars	**588**	569
Canadian dollars	**149**	20
At 31 December	**2,429**	2,730

Movements on the Group provision for impairment of trade receivables are as follows:

	2014 £'000	2013 £'000
At 1 January	**104**	248
Provision for receivables impairment	**192**	69
Receivables written off during the year as uncollectible	**(31)**	(213)
At 31 December	**265**	104

The creation and release of provision for impaired receivables have been included in administrative expenses in the Consolidated Statement of Comprehensive Income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The directors consider that the carrying amounts of trade and other receivables approximate their fair value.

The maximum exposure for trade and other receivables to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The Group does not hold any collateral as security.

14 Cash and cash equivalents

Cash and cash equivalents comprise solely of cash in hand held by the Group.

Notes to the Financial Statements continued

15 Borrowings

	2014 £'000	2013 £'000
Current borrowings		
Invoice discounting facility	**1,059**	1,246
Other loans	**20**	20
Finance lease	**30**	18
	1,109	1,284
Non-current borrowings		
Other loans	**1,000**	997
Finance lease	**50**	31
	1,050	1,028
	2,159	2,312

Invoice discounting facility

The amount shown represents the cash drawn down under an invoice discounting facility; £nil remained undrawn (2013: £nil). The amount outstanding under this facility is secured by way of a fixed charge over the Group's UK and a proportion of the international trade receivables. Amounts drawn down under the facility are repayable from the end of the month of invoice. This is an ongoing facility and is separated into three accounts being Sterling, US$ and Euro currencies.

The facility is subject to six months' notice on either side and is not subject to annual review.

Other loans

£1,020,000 of the amount shown relates to Loan Notes, of which £1,000,000 are repayable in full on 27 February 2016 being seven years from the date of issue although they may be repaid in whole or in part at the Company's discretion in certain circumstances. If such repayment is made the Company will issue the Loan Notes holder with warrants over 8 million 1p ordinary shares each at a price of 12.5p. The Loan Notes are convertible into 8 million 1p ordinary shares in the Company ('Ordinary Shares') at the effective price of 12.5p, being a premium of 26.6% over the share price at close of business on 26 February 2009. The Company can also enforce conversion if the ordinary share price is equal to or exceeds 37.5p for any period of 90 consecutive days. The Loan Notes are unsecured and interest is payable at 10.5% per annum for the first two years and at 7.5% above LIBOR thereafter.

This loan note represents a compound financial instrument under the disclosure requirements of IAS 32 'Financial Instruments - Presentation'. The directors have assessed the portion which would be classified as equity, rather than debt and have concluded that the amount is not material to cause the instrument to be disclosed separately between its equity and debt components.

The directors consider the carrying value of the fixed rate borrowings approximate to market rate and the floating rate borrowings are at market rate and therefore these borrowings approximate to their fair value.

Borrowings in foreign currencies

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2014 £'000	2013 £'000
Pounds	**1,922**	1,945
US dollars	**83**	70
Euros	**154**	297
	2,159	2,312

Notes to the Financial Statements continued

15 Borrowings continued

The average effective interest rates paid were as follows:

	2014 %	2013 %
Invoice discounting facility		
– Sterling	**3.00**	3.00
– Euro	**2.91**	3.29
– Dollar	**3.63**	3.63
Other loans – US Dollar loan	**–**	4.00
Loan note	**8.00**	8.00
Finance leases	**16.00**	25.00

Borrowings are held under both fixed and floating rates as follows:

	2014 £'000	2013 £'000
Fixed rates		
Finance leases	**80**	49
Floating rates		
Invoice discounting facility	**1,059**	1,246
Other loans	**1,020**	1,017
	2,159	2,312

16 Obligations under finance leases

	2014 £'000	2013 £'000
Within one year	**39**	23
In the second to fifth years inclusive	**56**	38
	95	61
Less future finance charges	**(15)**	(12)
Present value of lease obligations	**80**	49
Less: amounts due for settlement within 12 months (shown under current liabilities)	**(30)**	(18)
Amount due for settlement after 12 months, but less than 5 years	**50**	31

Two finance leases totalling £47,000 were secured during 2014 for purchase of capital equipment (2013: £50,000). £80,000 of finance leases remained owing at 31 December 2014 and are secured on the capital equipment purchased.

Lease obligations are denominated in UK sterling.

17 Trade and other payables

	2014 £'000	2013 £'000
Current liabilities		
Trade payables	**676**	644
Tax and social security payable	**224**	381
Other payables	**236**	76
Accruals and deferred income	**1,308**	754
	2,444	1,855

Trade payables are non-interest bearing and on average have 30 to 60 day settlement terms. The directors consider that the carrying amount of trade payables approximates to their fair value.

18 Provision for other liabilities

	2014 £'000	2013 £'000
At 1 January	**135**	165
Charged to the Consolidated Statement of Comprehensive Income	**40**	39
Unused amounts reversed to the Consolidated Statement of Comprehensive Income	**(51)**	(69)
Amounts utilised in the year	**(8)**	–
At 31 December	**116**	135

The above provision relates partly to national insurance of £19,500 (2013: £77,000) that may become payable on share option gains on share options that are exercisable over the next one to ten years and is therefore included as a non-current liability. Also included above is a dilapidation provision of £92,500 (2013: £52,500) to return the UK property to the landlord at the end of the tenancy in a specified condition.

19 Pension obligations

The Group operates a defined contribution pension scheme for its UK employees. The assets of the scheme are held separately from those of the Group in independently administered funds. The Group also maintains a defined contribution Salary Reduction Simplified Employee Pension Plan ('SARSEP') for US employees. Under the terms of the SARSEP, the Group may make discretionary contributions on behalf of the employees. The pension cost represents the contributions paid and payable by the Group to these schemes and in aggregate amounted to £79,504 (2013: £73,175).

20 Share capital

	2014 £'000	2013 £'000
6,568,546,210 (2013: 6,568,546,210) authorised ordinary shares of 1 pence each	**65,685**	65,685

	2014 £'000	2013 £'000
213,017,689 Called up, allotted and fully paid (2013: 170,929,138)	**2,130**	1,709

The movement in the Company's issued share capital during the year is as follows:

During the year, the Company issued 657,323 1p ordinary shares pursuant to the exercise of options. The Company placed 36,363,636 1p ordinary shares with institutional and other investors, and placed 4,629,399 1p ordinary shares to a general public offering. A total of 438,193 1p ordinary shares at an average price of 11.38p were issued to certain of the Company's advisers who elected to take shares in lieu of cash payment for their services to the Company.

Notes to the Financial Statements continued

20 Share capital continued

Employee options

Current and former employees of the Group hold options to subscribe for shares in the Company. The following table sets out movements in share options during the year:

Employee share options

Summary	Executive Scheme(a) Number	EMI Scheme(b) Number	Total Number
At 1 January 2014	9,859,300	4,631,459	14,490,759
Additions	–	–	–
Exercised	–	(657,323)	(657,323)
Lapsed	(122,000)	(39,046)	(161,046)
Expired	(910,000)	–	(910,000)
At 31 December 2014	**8,827,300**	**3,935,090**	**12,762,390**

All options relate to one 1p ordinary share.

Further details of the above plans are given in note 21.

As at 31 December 2014 the following options to subscribe for ordinary shares of 1p each were outstanding under employee share schemes:

	Number of options	Exercise price £	Exercise period from	Exercise period to
Current employees	930,000	0.2075	28-Mar-09	27-Mar-16
	131,102	0.01	19-May-06	19-May-16
	294,178	0.01	29-Jun-07	29-Jun-17
	1,067,000	0.295	29-Jun-10	28-Jun-17
	1,151,000	0.185	01-Jul-11	30-Jun-18
	392,857	0.01	30-Jun-08	30-Jun-18
	1,129,300	0.1275	12-Jun-12	12-Jun-19
	561,752	0.01	12-Jun-09	11-Jun-19
	24,265	0.01	24-Mar-09	23-Mar-19
	43,478	0.01	30-Dec-09	30-Dec-19
	31,251	0.01	24-Mar-10	24-Mar-20
	34,884	0.01	25-Jun-10	25-Jun-20
	823,436	0.01	13-Oct-10	13-Oct-20
	20,270	0.01	23-Dec-10	23-Dec-20
	13,636	0.01	15-Apr-11	15-Apr-21
	608,782	0.01	27-Sep-11	27-Sep-21
	46,154	0.01	27-Sep-11	29-Sep-21
	2,777,000	0.1725	27-Sep-14	27-Sep-21
	699,976	0.01	10-Oct-12	10-Oct-22
	1,773,000	0.24	10-Oct-15	10-Oct-22
	93,684	0.01	20-Nov-13	20-Nov-23
	115,385	0.01	23-Dec-13	23-Dec-23
	12,762,390			

Notes:

(a) Options exercisable subject to criterion set by the Board that the shares of Deltex Medical Group plc should have outperformed the FTSE Medical Equipment Supplies Sector between the date of grant and the date of exercise of the option.

(b) Enterprise Management Incentive Scheme.

Notes to the Financial Statements continued

20 Share capital continued

Other options

	At 31 December 2014 No.	Exercise price £	Exercise period from	Exercise period to
Company contractor[2]	**252,000**	0.1875	01-Mar-11	28-Feb-18
Company contractor[1]	**250,000**	0.215	01-Nov-10	31-Oct-17
Company contractor[2]	**100,000**	0.235	16-Apr-10	15-Apr-17
Company contractor[2]	**250,000**	0.145	01-May-13	30-Apr-23
	852,000			

(1) Options are exercisable in whole on any one occasion during the exercise period.
(2) Options are exercisable in part or in whole at any time due during the exercise period.

All options relate to one 1p ordinary share.

21 Share-based payments

The Group has four share option schemes; the Deltex Medical Group plc 2000 Approved Share Option Scheme, the Deltex Medical Group plc 2011 Approved Share Option Scheme, the 2003 Deltex Medical Group plc Enterprise Management Incentive plan ('EMI'), and the 2013 Deltex Medical Group plc Enterprise Management Incentive plan ('EMI').

Options granted under the Approved Share Option Schemes are valued at the market price on the date of grant. Options are conditional on the employee completing three years service (the vesting period). The options are exercisable starting three years from the grant date, subject to the Group achieving certain performance conditions; the options have a contractual term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Options granted under the EMI scheme are granted at 1p per option. Options are granted in lieu of cash for bonuses or salary obligations relating to past achievement; therefore there is no vesting period. The options have a contractual term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Details of share options outstanding during the year for the Approved Share Options Schemes are as follows:

	2014 Number of share options No.	2014 Weighted average exercise price (in £)	2013 Number of share options No.	2013 Weighted average exercise price (in £)
Outstanding at beginning of the period	**9,859,300**	**0.21**	10,080,300	0.21
Granted during the period	**–**	**–**	114,000	0.24
Lapsed during the period	**(122,000)**	**0.20**	(51,000)	0.21
Exercised during the period	**–**	**–**	–	–
Expired during the period	**(910,000)**	**0.28**	(284,000)	0.15
Outstanding at the end of the period	**8,827,300**	**0.20**	9,859,300	0.21
Exercisable at end of period	**7,054,300**	**0.19**	5,237,300	0.22

The options outstanding at 31 December 2014 had a weighted average exercise price of 20.0p (2013: 20.8p), and a weighted average remaining contractual life of 53 months (2013: 68 months). In 2013, 114,000 options were granted as a correction to the October 2012 grant with an estimated fair value of 8.54p per share and £9,736 in aggregate.

Notes to the Financial Statements continued

21 Share-based payments continued

The updated inputs into the Black-Scholes model are as follows:

	October 2012
Fair value at measurement date	8.54p
Share price	24.0p
Exercise price	24.0p
Expected volatility	47.80%
Expected option life (expressed as weighted average life used in modelling)	3.62 years
Risk-free interest rate	0.44%

Details of share options outstanding during the year for the EMI Scheme are as follows:

	2014 Number of share options No.	**2014 Weighted average exercise price (in £)**	2013 Number of share options No.	2013 Weighted average exercise price (in £)
Outstanding at beginning of the period	**4,631,459**	**0.01**	5,155,263	0.01
Granted during the period	**–**	**–**	2,213,405	0.01
Lapsed during the period	**(39,046)**	**0.01**	(2,173)	0.01
Exercised during the period	**(657,323)**	**0.01**	(2,735,036)	0.01
Outstanding at the end of the period	**3,935,090**	**0.01**	4,631,459	0.01
Exercisable at end of period	**3,935,090**	**0.01**	4,631,459	0.01

The options outstanding at 31 December 2014 had a weighted average exercise price of 1p (2013: 1p), and a weighted average remaining contractual life of 68 months (2013: 72 months). On 20 November 2013, 2,098,020 options were granted with an estimated fair value of 13.62p per share and £285,750 in aggregate. On 23 December 2013, 115,385 options were granted with an estimated fair value of 13.00p per share and £15,000 in aggregate.

Enterprise Management Incentive Scheme

The inputs into the Black-Scholes model are as follows:

	December 2013	**November 2013**
Fair value at measurement date	13.00p	13.62p
Share price	14.00p	14.62p
Exercise price	1.00p	1.00p
Expected volatility	41.30%	38.60%
Expected option life (expressed as weighted average life used in modelling)	1 year	1 year
Risk-free interest rate	0.39%	0.34%

Where appropriate, for both schemes, the expected volatility has been based on historical volatility over a period of the same length as the expected option life and ending on the grant date. Where the historic period is shorter than the expected option life, volatility has been measured over the maximum amount of time historic information can be obtained.

The fair value of the equity-settled share-based payment is recharged by the Group company to the subsidiary operating company at fair value. The expense is therefore recognised in the subsidiary operating company, with the equity reserve being recognised in the Group company.

Notes to the Financial Statements continued

22 Share capital and other reserves

	Attributable to owners of the Parent						
	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other reserves £'000	Translation reserve £'000	Retained deficit £'000	Non-controlling interest £'000
At 1 January 2013	1,510	23,659	17,476	3,792	(20)	(44,312)	–
Share issued during the year	199	–	–	–	–	–	–
Premium on shares issued during the year	–	2,892	–	–	–	–	–
Issue expenses	–	(111)	–	–	–	–	–
Loss for the financial year	–	–	–	–	–	(2,114)	8
Credit in respect of service cost settled by award of options	–	–	–	425	–	–	–
Exchange movements taken to reserves	–	–	–	–	(31)	–	–
At 31 December 2013	1,709	26,440	17,476	4,217	(51)	(46,426)	8
Share issued during the year	421	–	–	–	–	–	–
Premium on shares issued during the year	–	4,145	–	–	–	–	–
Issue expenses	–	(262)	–	–	–	–	–
Loss for the financial year	–	–	–	–	–	(2,861)	(90)
Credit in respect of service cost settled by award of options	–	–	–	101	–	–	–
Exchange movements taken to reserves	–	–	–	–	45	–	–
At 31 December 2014	**2,130**	**30,323**	**17,476**	**4,318**	**(6)**	**(49,287)**	**(82)**

The Capital redemption reserve represents the nominal value of shares repurchased and then cancelled during the year ended 31 December 2001. The Other reserves represents the reserve for cumulative share-based payment charges since 1 November 2002. The translation reserve comprises all foreign exchange differences arising since 1 January 2006 from the translation of the Group's net investments in foreign subsidiaries into sterling.

The cumulative goodwill relating to acquisitions made prior to 1998, which has been eliminated against reserves, is £6,400,000 (2013: £6,400,000).

Notes to the Financial Statements continued

23 Notes to the Consolidated Statement of Cash Flows

	2014 £'000	2013 £'000
Loss before taxation	**(3,095)**	(2,217)
Adjustments for:		
Net finance costs	**105**	119
Depreciation of property, plant and equipment	**256**	217
Amortisation of intangible assets	**164**	109
Effect of exchange rate fluctuations on borrowings	**(12)**	(22)
Exchange (gain)/loss on property, plant and equipment	**(8)**	3
Loss on disposal of property, plant and equipment	**19**	22
Share-based payments	**101**	425
Operating cash flows before movement in working capital	**(2,470)**	(1,344)
(Increase)/decrease in inventories	**(295)**	93
Decrease/(increase) in trade and other receivables	**329**	(119)
Increase/(decrease) in trade and other payables	**634**	(27)
Decrease in provisions	**(19)**	(30)
Net cash used in operations	**(1,821)**	(1,427)

24 Commitments

Operating lease commitments

The Group leases land and buildings and various plant and machinery under non-cancellable operating lease agreements. The majority of lease agreements are renewable at the end of the lease period at the market rate. The lease expenditure charged to the Consolidated Statement of Comprehensive Income during the year is disclosed in note 4.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2014 £'000	2013 £'000
No later than one year	**9**	58
Later than one year and no later than five years	**17**	24
	26	82

The UK land and building lease expired in September 2014. A new 12 year lease was signed in February 2015 with initial rent of £75,000 per annum, and break clauses at four and eight years.

25 Financial Instruments

The Group's financial instruments comprise some cash and various items, such as trade receivables and trade payables that arise directly from its operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The Board reviews and agrees policies for managing liquidity risk, currency risk, credit risk, interest rate risk and capital risk. The policies have remained unchanged throughout the year and are summarised below:

Liquidity risk

The Group is managed to ensure that sufficient cash reserves and credit facilities are available to meet liquidity requirements. The Group has available to it an invoice discounting facility with the Group's bankers to supplement working capital needs. From time to time, additional funding is raised to allow the Group to invest in its strategic projects to develop the business in its chosen markets.

Management monitors rolling forecasts of the Group's liquidity reserves which comprises undrawn invoice discounting facilities and cash and cash equivalents on the basis of expected cash flows.

Notes to the Financial Statements continued

25 Financial Instruments continued

Currency risk

The Group has overseas subsidiaries in the USA, Spain, and Canada and as a result the Group's sterling balance sheet can be affected by movements in the US dollar, euro and Canadian dollar exchange rates.

The Group also has transactional currency exposures. Such exposures arise from sales and purchases by operating units in currencies other than the unit's functional currency. In general all overseas operating units trade and hold assets and liabilities in their functional currency.

The Group does not engage in any hedging in respect of currency risks.

Credit risk

The Group is exposed to credit related losses in the event of non-performance by counterparties in connection with financial instruments.

The Group takes actions to mitigate this exposure by ensuring adequate background on credit risk is known about counterparties prior to contracting with them and through selection of counterparties with suitable credit ratings and monitors its exposure to credit risk on an ongoing basis.

The Group is also exposed to credit related losses and territory specific credit risk in the event of non-performance by counterparties in connection with financial instruments. The Group uses international distributors in a number of overseas territories. In order to assist the distributors in developing their markets, these distributors may be given extended trade terms. Extended trade terms, by their nature can increase the credit risk to the Group. Such risks are carefully managed through direct relationships with the distributors and knowledge of their markets.

The maximum credit risk exposure at the balance sheet date is represented by the carrying value of financial assets and there are no significant concentrations of credit risk. See note 13 for further details. For banks and financial institutions only independently related parties with a minimum rating of 'A' are accepted. As at the date of signing the financial statements all cash and cash equivalents are held with institutions with an 'A' rating as per Standard & Poors.

Interest Rate Risk

The Group has both interest-bearing assets and interest-bearing liabilities. The Group's policy is to seek the highest possible return on interest-bearing assets without bearing significant credit risk, and to minimise the rate payable on interest-bearing liabilities.

The Group places its cash balances on deposit at floating rates of interest. Surplus cash balances are placed on short-term deposit (less than three months). No interest rate swaps are used.

Interest rate risk comprises both the interest rate price risk that results from borrowing at fixed rates of interest and also the interest cash flow risk that results from borrowing at variable rates. At this time, the majority of the Group's borrowings attract floating rates of interest and therefore the Group's principal interest rate risk is a cash flow risk.

Capital risk

The Group's objectives when managing capital (ordinary shares note 20) are to safeguard the Group's ability to continue as a going concern in order to provide future returns to shareholders and benefits for other stakeholders and to maintain optimal capital structure.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of directors monitors the demographic spread of shareholders.

The Board encourages employees to hold shares in the Company. This has been carried out through the Company's various executive share option plans. Full details of these schemes are given in note 21.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position and discusses these at regular Board meetings. There were no changes to the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the Financial Statements continued

25 **Financial Instruments** continued

Liabilities – by maturity

Financial Instruments principally comprise the Group's borrowings under an invoice discounting facility with the Royal Bank of Scotland, trade and other payables, net obligations under finance leases and long-term loans.

In February 2009, the Group raised £1,001,000 before expenses by the issue of convertible loan notes to Amati Global Investors, a venture capital trust managed by Amati Global Partners LLP.

The Loan Notes are repayable in full on 27 February 2016 being seven years from the date of issue although they may be repaid earlier at the Company's discretion in certain circumstances. If such repayment is made the Company will issue the Loan Notes holder with warrants over 8 million 1p ordinary shares at a price of 12.5p per share.

The Loan Notes are convertible into 8 million ordinary shares in the Company ("Ordinary Shares") at the effective price of 12.5p, being a premium of 26.6% over the share price at close of business on 26 February 2009. The Company can also enforce conversion if the ordinary share price is equal to or exceeds 37.5p for any period of 90 consecutive days.

The Loan Notes are unsecured and interest is payable at 7.5% above LIBOR.

Interest on the invoice discounting facility is payable at a floating rate of 2.5% to 3.25% above LIBOR.

The table below summarises the Group's financial liabilities into the relevant maturity groupings based upon the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed are the undiscounted cash flows.

Year ended 31 December 2014

	Less than 1 year £'000	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Borrowings				
Invoice discounting facility	**1,059**	**–**	**–**	**–**
Other loans	**20**	**1,000**	**–**	**–**
Finance lease liabilities	**30**	**29**	**21**	**–**
Trade and other payables	**2,220**	**–**	**–**	**–**
	3,329	**1,029**	**21**	**–**

Year ended 31 December 2013

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings				
Invoice discounting facility	1,246	–	–	–
Other loans	20	–	997	–
Finance lease liabilities	18	15	16	–
Trade and other payables	1,474	–	–	–
	2,758	15	1,013	–

25 **Financial Instruments** continued

Fair value of financial assets and liabilites

There is a close approximation between the book values and the fair values of the Group's financial assets and liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties, other than a forced or liquidation sale, and excludes accrued interest.

Year ended 31 December 2014	**Loans and receivables £'000**	**Fair value through profit and loss £'000**	**Financial liabilities at amortised cost £'000**	**Total carrying amount £'000**
Financial assets				
Trade and other receivables	**2,429**	**–**	**–**	**2,429**
Cash and cash equivalents	**2,934**	**–**	**–**	**2,934**
	5,363	**–**	**–**	**5,363**
Financial liabilities				
Trade payables	**–**	**–**	**2,252**	**2,252**
Invoice discounting facility	**–**	**–**	**1,059**	**1,059**
Other loans	**–**	**–**	**1,020**	**1,020**
Finance lease liabilities	**–**	**–**	**80**	**80**
	–	**–**	**4,411**	**4,411**

Year ended 31 December 2013	Loans and receivables £'000	Fair value through profit and loss £'000	Financial liabilities at amortised cost £'000	Total carrying amount £'000
Financial assets				
Trade and other receivables	2,730	–	–	2,730
Cash and cash equivalents	1,459	–	–	1,459
	4,189	–	–	4,189
Financial liabilities				
Trade payables	–	–	1,763	1,763
Invoice discounting facility	–	–	1,246	1,246
Other loans	–	–	1,017	1,017
Finance lease liabilities	–	–	49	49
	–	–	4,075	4,075

Notes to the Financial Statements continued

25 Financial Instruments continued

Financial Instruments disclosure

Financial assets and liabilities are measured at fair value according to the following three levels of fair value hierarchy.

The levels of the fair value hierarchy and its application to our financial assets and liabilities are described below:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data.

All financial assets and liabilities are considered to be Level 3. The directors believe that there is no material difference between book value and fair value as at 31 December 2014.

Sensitivities

The following table details the Group's sensitivities to changes in sterling against the respective foreign currencies. The sensitivities represent management's assessment of the effect on monetary assets of the possible changes in foreign exchange rates. The sensitivities analysis of the Group's exposure to foreign currency risk at the year end has been determined based upon the assumption that the increase in Euro, US dollar and CAN dollar exchange rates is effective throughout the financial year and all other variables remain constant.

An increase of 10% has been used as a maximum exposure expectation for exchange rate sensitivities.

	Sensitivity	**2014** Profit £'000	**2014** Equity £'000	2013 Profit £'000	2013 Equity £'000
Euros	10%	**(81)**	**(81)**	(73)	(73)
US dollar	10%	**94**	**94**	101	101
CAN dollar	10%	**(1)**	**(1)**	(3)	(3)

The following table details the Group's sensitivity to changes of 1% in interest rates throughout the year, with all other variables remaining constant. 1% has been used as a maximum exposure expectation for interest rate sensitivities.

	2014 Profit £'000	**2014** Equity £'000	2013 Profit £'000	2013 Equity £'000
Sterling	1	1	–	–
Euros	(1)	(1)	(1)	(1)
US dollar	(1)	(1)	(1)	(1)

Notes to the Financial Statements continued

26 Related party transactions

The following transactions were carried out with related parties:

Key management compensation

Key management personnel comprise members of the management team as defined by IAS 24 'Related Party Disclosures'.

	2014 £'000	2013 £'000
Aggregate emoluments	**863**	723
Sums paid to third parties for directors' services	**33**	33
Contributions to key management's personal pension schemes	**30**	24
	926	780

During the year advances were made to three members of key management. At the year end these balances were still owed to the Group totalling £60,000 (2013: £nil). No amounts were owed from the directors of the holding company.

Equity issue

Dr Edwin Snape, a former director of the Company, is also principal of Nexus Medical Partners II, L.P.

In April 2008, Nexus Medical Partners II, L.P. loaned $518,518 to the Company's US subsidiary by way of an unsecured loan note repayable after five years. Interest on the loan note was charged at 4% per annum with all interest rolling up for settlement on redemption. This loan was repaid through the issue of equity on 31 December 2013.

In addition to the above, there is an amount of £78,000 (2013: £180,000) charged to the Consolidated Statement of Comprehensive Income with respect to IFRS 2 'Share-based payments' for key management.

Further details of directors' interest in the Company are given in the Directors' Report on page 18.

Transactions within the Group are carried out on an arm's length basis and not disclosed as all such transactions have been eliminated on consolidation.

27 Business combinations

On 20 December 2013, the group acquired 51% of the share capital of Deltex Medical (Canada) Limited for CAN$311,425 (including $51 of share capital) and therefore obtained control of Deltex Medical (Canada) Limited, who market medical devices manufactured by Deltex Medical Limited in the UK.

As a result of the acquisition, the group is expected to increase its presence in Canada, to work directly with the Canadian healthcare authorities and it also expects to reduce its costs of trading in Canada through this direct link.

During 2014, following a review of the assets acquired, the final value of goodwill has been calculated at £66,000 (2013: provisional goodwill of £124,000).

The goodwill arising from the acquisition is attributable to acquired customer base and also economies of scale from the direct link to Canada.

The following table summarises the consideration paid for Deltex Medical (Canada) Limited and the fair value of assets acquired, and liabilities assumed at the acquisition date.

Consideration at 20 December 2013	**Provisional £'000**	**Final £'000**
Inventory	50	108
Goodwill	124	66
Total	174	174

Independent Auditors' Report

to the members of Deltex Medical Group plc

Report on the parent company financial statements

Our opinion

In our opinion, Deltex Medical Group Plc's parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the parent company's affairs as at 31 December 2014;
- 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

Deltex Medical Group Plc's financial statements comprise:

- the Parent Company Balance Sheet as at 31 December 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (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.

Opinion on other matter 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.

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 by the parent company, 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.

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 Directors' Responsibilities set out on page 21, 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 parent 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 Report and Accounts 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.

Other matter

We have reported separately on the group financial statements of Deltex Medical Group Plc for the year ended 31 December 2014.

Miles Saunders (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

11 March 2015

Parent Company Balance Sheet

at 31 December 2014

	Note	2014 £'000	2013 £'000
Fixed assets			
Investments	5	**42,091**	38,565
Current assets			
Debtors	6	**4,711**	3,840
Cash at bank and in hand		**1,386**	1,009
		6,097	4,849
Creditors:			
Amounts falling due within one year	7	**(171)**	(156)
Net current assets		**5,926**	4,693
Total assets less current liabilities		**48,017**	43,258
Creditors:			
Amounts falling due after more than one year	10	**(1,000)**	(997)
Net assets		**47,017**	42,261
Capital and reserves			
Called up share capital	8	**2,130**	1,709
Share premium account	11	**30,323**	26,440
Capital redemption reserve	11	**17,476**	17,476
Other reserves	11	**4,318**	4,217
Profit and loss account		**(7,230)**	(7,581)
Total shareholders' funds	12	**47,017**	42,261

The notes on pages 61 to 65 form an integral part of these financial statements.

The financial statements on pages 60 to 65 were approved by the Board of Directors on 11 March 2015 and were signed on its behalf by:

N J Keen

Chairman

Deltex Medical Group plc (3902895)

P J Mitchell

Finance Director

Deltex Medical Group plc (3902895)

Notes to the Financial Statements

1 Principal accounting policies

These financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006, and the accounting policies set out below, all of which have been applied consistently throughout the year and in accordance with applicable United Kingdom accounting standards. For further details on why the directors believe it is appropriate to prepare the financial statements on the going concern basis see Basis of preparation on page 35.

Investments

Investments are stated at cost less any provisions for impairment in value. At each balance sheet date the Company reviews the carrying amount of the investments to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. The recoverable amount is the higher of the investments value in use and its fair value less costs to sell. Value in use is calculated using cash flow projections for the investments discounted at the Company's cost of capital.

If the recoverable amount of the investment is estimated to be less than its carrying amount, the carrying amount of the investment is reduced to its recoverable amount. An impairment loss is recognised as a charge to the profit and loss account, unless the relevant investment is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Foreign currency translation

Foreign currency monetary assets and liabilities are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in overseas currencies are translated at the rate of exchange ruling on the date of the transaction or at a contracted rate if applicable. Any gains or losses arising during the year have been dealt with through the profit and loss account.

Share-based payments

The Company awards directors, employees and certain of the Group's distributors and advisors equity-settled share-based payments, from time to time, on a discretionary basis. In accordance with FRS 20 'Share-based payments', equity-settled share-based payments are measured at fair value at the time of grant. Fair value is measured by use of a Black-Scholes model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will eventually vest. The options are subject to vesting conditions of up to six years, and their fair value is recognised as an expense with a corresponding increase in 'other reserves' equity over the vesting period. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to reserves. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. Provision for National Insurance payable on such gains is recognised in accordance with UITF 25.

The fair value of the equity-settled share-based payment is recharged by the Company to the subsidiary operating company at fair value. The expense is therefore recognised in the subsidiary operating company, with the equity reserve being recognised in the Group company.

Related party transactions

The Company is the ultimate parent undertaking of the Deltex Medical Group and is therefore included in the consolidated financial statements of that Group, which are on page 28 of the consolidated financial statements. The Company has taken advantage of the exemptions under FRS 8 'Related Party Disclosures' relating to the disclosure of transactions with other Group companies.

Notes to the Financial Statements continued

1 **Principal accounting policies** continued

Cash at bank and in hand

Cash at bank and in hand includes cash in hand and deposits held with banks.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Terms of loans to subsidiaries

The Company uses its cash to fund the operations of its subsidiaries until such a time that the subsidiaries are in a position to return the monies to Group. These loans are interest free and have no fixed repayment date, subject to a £3,000,000 10% interest bearing loan.

Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, or subject to certain conditions at the option of the Group and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 **Profit for the year**

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. Deltex Medical Group plc reported a profit for the financial year ended 31 December 2014 of £351,000 (2013: £348,000).

3 **Auditors' remuneration**

During the year the Company obtained the following services from the Group's auditors at costs as detailed below:

	2014 £	2013 £
Audit services		
– Fees payable to Group auditors for the audit of the Company	**23**	24
	23	24

4 **Directors' emoluments**

The remuneration of the Non-executive directors was as follows:

	2014 £	2013 £
Aggregate emoluments	**82,000**	72,000
Sums paid to third parties for directors' services	**33,333**	33,333
	115,333	105,333

There are Nil (2013: Nil) benefits accruing to directors under personal pension plans.

Included in the above figure is an amount paid to the employing company, Imperialise Limited, of a Non-executive director for the services of that director of £33,333 (2013: £33,333). Remuneration, including Executive directors is disclosed on pages 19 and 20 of these Reports and Accounts.

Notes to the Financial Statements continued

4 Directors' emoluments continued

All Executive directors in office at the year end receive their emoluments from Deltex Medical Limited, a subsidiary undertaking of the Group. Except for financing activities, their services to the Company are incidental to their services to the Group as a whole. For further details, see page 23 of the Directors' Report.

The average monthly number of Non-executive directors by function was as follows:

	2014 Number	2013 Number
Administration	**5**	4

The Company had no additional employees other than the directors (2013: None).

5 Investments

	2014 Investments in subsidiary undertakings £'000	**2014 Loans to subsidiary undertakings £'000**	**2014 Total £'000**	2013 Investments in subsidiary undertakings £'000	2013 Loans to subsidiary undertakings £'000	2013 Total £'000
At 1 January	**846**	**37,719**	**38,565**	846	38,462	39,308
Additions	**–**	**3,526**	**3,526**	–	2,257	2,257
Loan reclassification	**–**	**–**	**–**	–	(3,000)	(3,000)
At 31 December	**846**	**41,245**	**42,091**	846	37,719	38,565

There is no difference between cost and net book value of the investments.

Loans to subsidiary undertakings in the amount of £41,245,000 relate to long-term balances with Deltex Medical Limited and Deltex Medical Inc. The directors consider that these balances are intended to be, for all practical purposes, permanent equity and do not expect them to be repayable in the forseeable future. These loans have therefore been treated as part of Deltex Medical Group plc net investment in these subsidiaries, with exchange difference arising on the long-term balance with Deltex Medical Inc. being dealt with as adjustments to reserves. During the year additional long-term debtor balances have been reclassified to long-term investments as this follows the substance of the transactions.

The directors have undertaken an impairment review in the format of a discounted cash flow forecast. The directors believe that the carrying value of the investments is supported by their future cash flows.

Details of the Company's principal trading subsidiary undertakings are set out below. In all cases the holding is a direct holding of 100% of the ordinary shares except for Deltex Medical (Canada) Limited:

- Deltex Medical Limited, incorporated and operating in the United Kingdom (UK), manufactures and markets medical devices.
- Deltex Medical SC, Inc. incorporated and operating in the United States of America (USA), markets and sells medical devices in the USA which are manufactured by the Group in the UK.
- Deltex Medical, Espana, incorporated and operating in Spain, markets and sells medical devices in Spain which are manufactured by the Group in the UK.
- During the year, Deltex Medical GmbH was liquidated as the entity was dormant.
- Deltex Medical (Canada) Limited, incorporated and operating in Canada, markets medical devices in Canada which are manufactured by the Group in the UK. Deltex Medical (Canada) is itself a 51% owned subsidiary of Deltex Medical Limited, with 49% being held by a non-controlling interest.

Notes to the Financial Statements continued

6 Debtors

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Other debtors	**6**	7
Prepayments	**5**	6
	11	13
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertaking	**4,700**	3,827
	4,711	3,840

In 2013, the Group reclassified £3,000,000 of the long term investments by Group in Deltex Medical Limited as long term loans. These loans are being charged interest at a rate of 10% per annum, are secured and payable in more than one year.

The remaining amount relates to group recharges which are unsecured and non interest bearing.

7 Creditors: Amounts falling due within one year

	2014 £'000	2013 £'000
Other creditors	**58**	97
Accruals	**113**	59
	171	156

8 Called up share capital

See note 20 of the Consolidated Financial Statements on pages 47 to 49 for full details of the share capital and share schemes held.

9 Share-based payments

See note 21 of the Consolidated Financial Statements on pages 49 to 50 for full details of the Company's share-based payments.

10 Creditors: Amounts falling due after more than one year

	2014 £'000	2013 £'000
Loan notes	**1,000**	997

The amount of £1,000,000 (2013: £997,000) relates to Loan Notes that are repayable in full on 27 February 2016 being seven years from the date of issue although they may be repaid earlier at the Company's discretion in certain circumstances. If such repayment is made the Company will issue the Loan Notes holder with warrants over 8 million 1p ordinary shares at a price of 12.5p per share.

The Loan Notes are convertible into 8 million 1p ordinary shares in the Company ('Ordinary Shares') at the effective price of 12.5p, being a premium of 26.6% over the share price at close of business on 26 February 2009. The Company can also enforce conversion if the ordinary share price is equal to or exceeds 37.5p for any period of 90 consecutive days.

The Loan Notes are unsecured and interest is payable at 10.5% per annum for the first two years and at 7.5% above LIBOR thereafter.

Notes to the Financial Statements continued

11 Reserves

	Other reserves £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000
At 1 January 2014	4,217	26,440	17,476	(7,581)
Premium on shares issued during the year	–	4,145	–	–
Issue expenses	–	(262)	–	–
Profit for the financial year	–	–	–	351
Credit in respect of service cost settled by award of share options	101	–	–	–
At 31 December 2014	**4,318**	**30,323**	**17,476**	**(7,230)**

12 Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Opening shareholders' funds	**42,261**	38,508
Increase in share capital during the year	**421**	199
Premium on shares issued during the year	**4,145**	2,892
Issue expenses	**(262)**	(111)
Profit/(loss) for the financial year	**351**	348
Credit in respect of service cost settled by award of share options	**101**	425
Closing shareholders' funds	**47,017**	42,261

13 Ultimate controlling party

There are no shareholders with overall control of the Company as at 31 December 2014 or 31 December 2013.

14 Related party transactions

Exemption has been taken under FRS 8 from disclosing related party transactions between the Company and its subsidiary undertakings.

The directors of Deltex Medical Group plc had no other material transaction with the Company during the year, other than as a result of service agreements. Details of the directors' remuneration are disclosed in the Directors' Report in the Consolidated Financial Statements on pages 19 and 20.

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