





# Contents

Highlights.....	2
Business Model.....	3
Chairman’s Statement.....	5
Operating Review.....	8
Financial Review.....	12
Strategic Report.....	15
Directors.....	16
Secretary & Advisers.....	17
Directors’ Report.....	18
Independent Auditors’ Report to the Members of Deltex Medical Group Plc.....	22
Consolidated Statement of Comprehensive Income.....	24
Consolidated Balance Sheet.....	25
Consolidated Statement of Changes in Equity.....	26
Consolidated Statement of Cash Flows.....	27
Notes to the financial statements.....	28
Independent Auditors’ report to the Members of Deltex Medical Group Plc.....	54
Parent Company Balance Sheet.....	56
Parent Company Statement of Changes in Equity.....	57
Notes to the Parent Company financial statements.....	58
Notice of Annual General Meeting.....	62
Shareholder’s letter.....	63
Notice of Annual General Meeting.....	65
Deltex Medical Development.....	68



# Highlights

## Key performance measures

- US probe revenues up 40% to £1.9m (25% growth in local currency)
  - Weaker sterling held back US profitability by £0.1m with reported costs and revenues up £0.3m and £0.2m respectively
  - 28 of 30 target platform accounts at year-end, target of 30 met in January 2017
  - Primary focus now shifted to probe growth in US platform accounts; redeploying resources to support best growth opportunities
  - Continued strong growth in Q1 2017 together with reduced costs, meant that March 2017 was the first month where the contribution from US probe sales covered fixed US sales staff costs.
- International probe revenues up 25% at £1.7m
  - 15% increase in volume with an additional net £0.1m revenue growth from currency movements and sales mix
- UK probe revenues down 26% at £1.9m. Trend improving: H1 down 36%, H2 down 17%
  - Down 10% in Q1 2017 with monitor and third party sales meaning that total UK revenues in Q1 2017 are slightly ahead of Q1 2016
- Monitor income down to £0.4m from £0.6m
- Second half operating loss, before non-cash costs, of £0.2m (2015: £1.0m).

## Operating Highlights

- New, easier to use, TruVue probes introduced globally
- Excellent results presented from largest ever randomised controlled trial of ODM
- EU R&D grant awarded for pilot project with new Velocity Pressure Loop displays
- Successful field trials completed of additional non-invasive haemodynamic monitoring modality; launch pending.

## Statutory results

- Revenue flat at £6.3m (2015: £6.4m)
- Gross margins improved to 68% (2015: 63%)
- Operating loss reduced to £2.4m (2015: £3.5m)
- Cash at 31 December 2016 of £0.6m. An additional £0.4m raised in March 2017.

### Nigel Keen, Chairman of Deltex Medical, commented:

“2016 was a transitional year for Deltex Medical and our progress means we have entered 2017 with considerable confidence. Sales are growing well in the USA and other export markets which resulted in 2016 probe revenues up 40% and 24% respectively. Furthermore, we have seen positive signs of the UK business stabilising.”

“Q1 2017 sales in the USA, including a small number of monitor sales, were over 50% ahead of the equivalent period in 2016 in local currency, those international distributors who order probes monthly are all running ahead of or at the same levels of last year and UK revenues were marginally ahead of 2016. We have continued to make small cost reductions as opportunities present themselves and in addition we have temporarily reduced our US staff costs as we move to deploy our resources closer to the best growth opportunities. Since January 2017, we are now fully benefiting from the full impact of manufacturing improvements with anticipated savings of over £30,000 a month”.

“We have completed a key phase in our US expansion plan with the attainment of a critical mass of 30 platform accounts. We are focusing our resources on driving increased use of our probes in these accounts, whilst continuing to add new platform accounts in the existing territories. March 2017 was the first month where fixed US sales staff costs were covered by the gross margin on that month’s probe sales. We are now fully benefiting from investments already made in margin improvement and, with the pending launch of the first of a range of new products, expect to generate additional revenues from investments made in research and development as we move towards our next generation haemodynamic workstation platform.”

# Business Model

## What we do?

Deltex Medical exploits its proprietary technology to develop, design, manufacture and market medical equipment that deploys low frequency ultrasound to visualise and measure blood flow in the central circulation. Doing this enables doctors to optimise blood flow in patients undergoing surgery and in critical care. Robust clinical evidence shows that, if central blood flow is optimised, the risk of complications is reduced contributing to both more complete, faster recoveries for patients and lower costs of care for the healthcare provider.

The use of the company's technology, Oesophageal Doppler Monitoring (ODM) is the gold standard in the provision of such care. No other intra-operative fluid management (IOFM) technology enables the anaesthetist to manage the patient's haemodynamic status during surgery either as precisely or as rapidly as with ODM and no other technology has been able to generate an equivalent evidence base of either patient or economic benefit. In certain circumstances, the clinician may choose methodologies other than ODM to acquire data to aid IOFM. In such situations, Deltex Medical offers other technologies required to satisfy the clinical need.

## What we sell?

Our ODM technology comprises two main components; the patient monitor and a single use disposable probe which is placed in the oesophagus in a simple, minimally invasive process. Together they provide the clinician with real time information about the flow of blood around the body from deep inside the central circulation. If the flow of blood around the body is compromised, which occurs commonly during surgery, then the amount of oxygen delivered to tissues is reduced, increasing the risk of organ under-perfusion and harm.

Periods of poor blood supply to organs including the gut, kidneys and liver increase the risk of developing a complication which requires additional treatment and often leads to an increase in the time spent in the hospital and eventually to an overall shortened life expectancy. For the healthcare provider, complications arising as a result of surgery lead to additional costs that need to be met both immediately and over the longer term. The use of our technology reduces these risks and the consequential costs associated with them.

## How do we make money?

Our sales proposition to customers comprises both a capital purchase (the monitor) and a revenue purchase (the disposable probe). Due to the often protracted procurement times for capital items, we frequently need to place our monitors in hospitals at no cost to the hospital, which can lead to the faster adoption of our technology into a hospital's practice and, therefore, a quicker use of revenue generating

probes. There are over 3,400 monitors installed worldwide. The more probes that are used, the more revenue we generate. Our ODM is designed and manufactured in the UK giving us good control over both product quality and profit margins. Our gross margin earned in markets where we sell direct, namely the UK, USA, Canada and Spain, is higher than in those markets (over 30 countries) in which we sell through distributors (where we do not incur direct selling costs). Our gross margin earned on probes is typically over 75% in the UK, around 85% in the USA and 55% to 60% in our distributor led business.

The existence of a large installed base of monitors enables the group to introduce complementary technologies without the need to incur the cost of creating a new installed base.

## Who are our customers?

In the UK, our key customers are NHS Foundation Trusts and NHS Trusts (NHS). The Department of Health (DH) decided to adopt our technology "at pace and scale" subsequent to the 2011 National Institute for Health and Care Excellence ("NICE") recommendation of our CardioQ-ODM products for over 800,000 patients a year undergoing higher risk surgery in NHS hospitals. However, the DH is a highly de-centralised organisation and its efforts to implement ODM nationally from 2013 were not successful with the main financial incentive provided by DH withdrawn early in 2014.

Certain hospitals that purchased our equipment with the incentive of receiving additional funding reduced their usage following the withdrawal of the funding programmes. To respond to this, our sales efforts are now focused on those NHS Hospitals that want to support individual anaesthetists or groups of anaesthetists who choose to deliver the clinical benefits to patients of intra-operative fluid management using ODM with the concurrent economic benefits to the hospital.

In the USA, recognition of the importance of modern 'Enhanced Recovery' approaches to surgery is growing at a hospital level as it becomes recognised that improving the quality of care provided to patients leads to better patient outcomes, lower costs of care and higher profits for the hospital care providers. Our focus in the USA has been to identify major hospitals that wish to implement evidence-based intra-operative fluid management, often as part of an enhanced recovery programme, and partner with them to help them to achieve their objectives.

# Business Model

## Continued

We define these hospitals as 'Platform Programme Accounts'. These accounts generally have the potential to consume at least 100 probes per month as the use of ODM spreads across surgical disciplines in that hospital. The programme typically involves one area of surgery which in that hospital adopts ODM into its protocols, measuring the changes in desired outcomes that are defined at the start of the project. This evidence is then used to develop similar protocols for use in other surgical procedures with the goal that the use of ODM becomes the routine in all of the operating rooms in that hospital. Our US market development plan, launched in 2013, was to have 30 such hospitals enrolled. We achieved this target during Q1 2017.

Our main focus, in our distributor led markets is to work with those countries that have recognised the benefits of IOFM and/or enhanced recovery protocols and have a desire to implement these programmes nationally.

This process usually starts with establishing contact with local Key Opinion Leaders in the countries who have the ability to implement at both hospitals and health-care systems' level. This requires support from Deltex Medical, as although we work closely with local distributors, they usually do not have the knowledge or background to drive these change programmes.

### What is our goal?

Our goal is to see the adoption of our products as the standard of care for all patients undergoing high-risk surgery. This we believe will be achieved through doctors understanding the clinical benefits of fluid management.

Eventually, we seek to monitor a patient's haemodynamic status from the time the patient presents to the healthcare system through to the point of discharge.

\*The global market opportunity for haemodynamic monitoring equipment, of which a large proportion relates to disposables, is expected to reach US\$1.1 billion by 2021 at a CAGR of 4.3% during the forecast period.

Deltex Medical with its 'Gold Standard' ODM technology is well placed to grow through wider acceptance of the fact that too much or too little fluid given to patients intra-operatively can cause harm and, therefore, it is important to get the amount of fluid given 'just right' for each and every patient. This can only be achieved through the use of our products.

*\*Market and Markets. Hemodynamic Monitoring System Market – Analysis and Global Forecast to 2021.*

# Chairman's Statement

## Deltex Medical's Vision

Deltex Medical's goal is to build a major business that generates substantial returns for its shareholders, by providing medical technologies which help doctors deliver better outcomes for their patients while lowering the costs of care.

### Clinical and economic need established

Deltex Medical has built a robust evidence base establishing that there is a clinical and economic need for its core oesophageal Doppler monitoring ('ODM') technology. ODM uses ultrasound to measure blood flow in the central circulation of patients and allows clinicians to use fluids and drugs to optimise the patient's haemodynamic status during the trauma of surgery by protecting their tissues and organs. Clinical trials have shown that optimising haemodynamic status in this way reduces the patient's length of stay in the hospital by reducing post-surgical complications. ODM is increasingly being recognised as a standard of care for intra-operative fluid management ('IOFM') in major surgery and critical care. Advanced haemodynamic management is also now becoming widely accepted as an important new medical modality. Deltex Medical is focused on maximising value from the opportunities presented as advanced haemodynamic management is adopted into routine clinical practice around the world.

The emerging market for advanced haemodynamic management is seeking solutions in a broadening range of clinical conditions and settings and Deltex Medical's product development strategy is focused on providing a haemodynamic workstation which will take the form of a multi-modal monitoring platform, allowing clinicians to choose from a single supplier the inputs, parameters and treatment strategies most appropriate to the individual patient's circumstances. Our plan is to add selected new technologies to our existing platform, which will allow us both to enhance clinical utility and to establish revenue streams from the new modalities, while concurrently working to integrate them into the new monitoring platform which we are developing.

All our new monitors incorporate Pulse Pressure Waveform Analysis ('PPWA') as well as ODM. We have recently completed successful field trials of a third, entirely non-invasive, modality based on electrical impedance and expect to release this in the UK and a small number of international distributor markets on the CardioQ-ODM+ platform in the first half of 2017. Adding this technology means we will be offering the three best established modern advanced haemodynamic monitoring technologies on our monitor platform, allowing us to target wider groups of patients and clinicians. In addition, we are testing prototype non-invasive suprasternal Doppler probes and assessing a number of approaches to non-invasive blood pressure monitoring with the intention of adding these new modalities to our platform once they have been verified.

The Board believes that our haemodynamic workstation offers considerable advantages to clinicians. This approach provides high quality versions of all the main technologies currently available together with the Company's proprietary ODM technology. ODM is demonstrably superior to all other technologies for patient outcomes in higher risk clinical situations.

### Export led return to growth in second half

Continuing growth in export markets meant that Group revenues, excluding clinical research based barter sales, returned to growth in the second half of 2016. Consumable revenues in the second half were 14% ahead of the equivalent period in 2015. Probe sales outside the UK of £3.8m in 2016 comprised 66% of total probe revenues, with probe revenues from our key target US market (£1.87m) surpassing those from the UK (£1.86m) for the first time.

Compared to last year, US probe revenues were up £0.5m (40%) and international probe revenues increased by £0.3m (25%) with both benefiting from the weaker pound in the second half of the year. UK probe revenues, by contrast, were £0.6m (26%) lower than in 2015, the third successive year of reductions because of the NHS responding to its financial challenges by concentrating on reducing its spend on variable costs. Following disappointing UK ODM sales in the first half of 2016 which were £0.4m (36%) lower than the first half of 2015, underlying UK probe performance improved in the second half of the year (17% lower than 2015) following the introduction of enhanced TruVue probes in May and the presentation of important new clinical trials in June and July. UK sales have continued to stabilise to date in 2017 (10% lower than 2016).

The Board believes that these trends, combined with the planned introduction of additional revenue streams from new advanced haemodynamic monitoring products, means that there is potential for the UK business to return to growth before the end of 2017.

France remains our largest export market by volume and we saw continued growth in sales to our French distributor who purchased 13,450 probes (2015: 12,300), around 45% (2015: 48%) of the total International probe sales. Markets such as France, Peru, Scandinavia and South Korea, where the use of our products is the most developed, contributed the largest growth in our international distributor business. In addition, we continue to develop other markets. Our progress in Canada and Spain, where we sell direct, has been slower than we had hoped due to both elongated procurement pathways and local clinical barriers.

# Chairman's Statement

## Continued

However, both retain the potential to develop into substantial markets over time. Until this happens, we are focusing our resources on markets likely to generate more rapid returns.

Revenues from the sale of monitors remain under pressure due to severe restrictions on capital budgets in many healthcare systems and our policy is to place monitors on loan to hospitals where the investment is justified by potential returns from high margin probe sales. Monitor revenues, including clinical research based barter income of £0.2m in 2015, were £0.2m lower than in 2015 at £0.4m. A small number of monitor orders originally expected in 2016 have been received in the first quarter of 2017 with the result that the 2017 year to date monitor revenues by the end of March 2017 were already approaching 60% of the 2016 full year total.

Overall Group revenues were broadly flat at £6.3m (2015: £6.4m including £0.2m of clinical research based barter sales).

### US expansion programme continues to drive forward

The USA is our key focus market and in January 2017, we passed a key milestone in our expansion plan when we achieved our target of opening our 30th platform programme account, up from 17 in January 2016 and 6 in January 2015. Having achieved this milestone, we are now focusing our resources on supporting the increased use of our probes in these accounts with the goal of replicating our success in the ten largest such accounts which together accounted for over 75% of the underlying US probe run-rate coming into 2017. To expedite this, we are redeploying our resources geographically to best match the current growth potential. We intend to manage and expand our new account pipeline within our established sales territories, primarily in major hospitals but also in smaller hospitals which are members of healthcare systems where we already have a presence.

### Reduced losses

Consumable gross margin improved from 70% to 74% over the year as we started to see the benefit of bringing probe tip assembly in-house in the second half of the year as well as the shift in probe revenues from the UK to the higher average selling price in the US market. The H2 2016 consumable gross margin was 78% compared to 68% in H2 2015 and also reflected the impact of exchange rate movements on US Dollar and Euro sales. Since January 2017, all new probe tip manufacture is in-house and this together with the impact of substantial manufacturing process improvements will, we expect contribute to continued increases in probe margins in 2017.

Cash costs at £6.2m were £0.5m (7%) lower than in 2015. The full year effect of annualised cost reductions came through in the second half before being partially offset by exchange movements affecting primarily our US operating costs. Operating losses for the year reduced by £1.1m (32%) to £2.4m (2015: £3.5m).

### Improving operating cash performance

The Group's primary short-term priority remains to get the business past the operating cash breakeven point and we have made considerable progress towards achieving this in 2016 through increased traction in export markets, progress towards stabilising the UK business and significant cost reductions. In the second half, the loss before non-cash costs reduced by over 70% to £0.4m (H2 2015: £1.4m) and total cash consumption in the second half reduced to £0.4m.

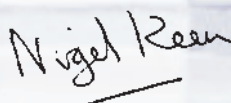
Cash at the end of the year was £0.6m (2015: £0.6m). Since the year-end, we have raised an additional £0.4m to give us greater flexibility in managing our working capital balances.

### Prospects

2016 was a transitional year for Deltex Medical and our progress means we have entered 2017 with considerable confidence. Sales are growing well in the USA and other export markets which resulted in 2016 probe revenues up 40% and 25% respectively. Furthermore, we have seen positive signs of the UK business stabilising.

Q1 2017 sales in the USA, including a small number of monitor sales, were over 50% ahead of the equivalent period in 2016 in local currency, those international distributors who order probes monthly are all running ahead of or at the same levels of last year and UK revenues were marginally ahead of 2016. We have continued to make small cost reductions as opportunities present themselves and in addition we have temporarily reduced our US staff costs as we move to deploy our resources closer to the best growth opportunities. Since January 2017, we are now fully benefiting from the full impact of manufacturing improvements with anticipated savings of over £30,000 a month.

We have completed a key phase in our US expansion plan with the attainment of a critical mass of 30 platform accounts. We are focusing our resources on driving increased use of our probes in these accounts, whilst continuing to add new platform accounts in the existing territories. March 2017 was the first month where fixed US sales staff costs were covered by the gross margin on that month's probe sales. We are now fully benefiting from investments already made in margin improvement and, with the pending launch of the first of a range of new products, expect to generate additional revenues from investments made in research and development as we move towards our next generation haemodynamic workstation platform.



**Nigel Keen** *Chairman*  
26 April 2017





# Operating Review

## Pro-forma results

	2016 £'000	2015 £'000
Consumable revenues		
Probes	5,458	5,230
Other	331	259
<b>Total consumable revenue</b>	<b>5,789</b>	<b>5,489</b>
Cost of sales- consumable	(1,483)	(1,634)
<b>Gross profit consumables</b>	<b>4,306</b>	<b>3,855</b>
<b>Monitor and sundry income</b>		
Sundry income/(expense) *	(5)	(6)
Net monitor income less costs **	28	(15)
	23	(21)
Cash costs	(6,176)	(6,716)
Loss before non-cash and US market development and exceptional items	(1,847)	(2,882)
Net non- cash costs ***	(522)	(253)
<b>Loss before US market development costs</b>	<b>(2,369)</b>	<b>(3,135)</b>
US market development costs	-	(351)
<b>Operating loss</b>	<b>(2,369)</b>	<b>(3,486)</b>

\*Included in Sundry income/(expense) are 3rd party revenues of £44k (2015: £86k).

\*\*Net monitor income less costs comprises:

	2016 £'000	2015 £'000
Revenue from monitors sold	360	400
Maintenance revenue	74	70
Cost of sales – monitors	(181)	(284)
Depreciation of loan monitors	(225)	(201)
<b>Total</b>	<b>28</b>	<b>(15)</b>

\*\*\*Net non-cash costs in 2015 included £0.2m of clinical research based income.

# Operating Review

## Continued

### Pro-forma results

The Group publishes a pro-forma results statement which enables the reader to better understand the key performance indicators of the Group. This pro-forma presentation does not alter the total revenue, costs or results for the year. Its objective is to communicate the results of the Group in an easier to understand format.

Consumables revenue in 2016 was £300,000 (5%) ahead of 2015 at £5,789,000 with the second half £366,000 (14%) ahead. Gross profit on consumables was £451,000 (12%) higher than 2015 at £4,306,000. Gross margin on consumables was 74% (2015: 70%). The improvement in gross margin reflects higher average selling prices for probes with a higher proportion of sales in the USA, favourable exchange movements in the second half of 2016 and early returns on bringing probe tip assembly in-house as part of manufacturing process improvements.

The Group made satisfactory progress with export probe sales which totalled £3,593,000, an increase of £877,000 (32%) over 2015 (£2,716,000). The USA contributed £536,000, 61%, of the total increase in export probe revenues.

Export probe revenue gains exceeded by £228,000 a £649,000 (26%) decline in UK probe sales and thus enabled the Group's probe revenues to return to growth in the second half. Third party revenues, primarily sales of the CASMED cerebral oximetry system in the UK, grew by £40,000 (13%) with reduced second half margins following the rise in US Dollar import prices in the second half. Monitor and other income was £302,000 lower than 2015 reflecting a £218,000 fall in monitor revenue to £360,000. In total, the Group sold 122 monitors in 2016 and placed a further 98 units.

Cash costs were £540,000 (8%) lower at £6,176,000 reflecting the net effect of increased expenditure on US field team expansion and reductions in other costs of over £100,000 a month. The annualised net savings of c£1m a year were realised in the second half before being offset by the adverse exchange impact on non-sterling costs-notably US operating costs which continued to exceed US revenues.

The operating loss was £2,369,000 (2015: £3,486,000), a reduction of £1,117,000 (32%). The second half operating loss of £646,000 which was less than half that in the second half of 2015 (£1,340,000) and included £469,000 of non-cash costs. Total cash at 31 December 2016 was £582,000 (2015: £575,000) after £2,473,000 of net new finance in the year. Cash consumption in the second half was significantly reduced and totalled £386,000. This reduced cash consumption is consistent with the Group's key priority to get the business past the cash break-even point at the operating level. The Group made substantial progress towards achieving this in 2016 and estimates the underlying monthly cash burn at the end of 2016 to have been around

£90,000 compared to over £200,000 at the start of the year. Since the year-end, the underlying cash burn has been further reduced by the full effect of the manufacturing process improvements (expected to save over £30,000 a month), certain reductions to the cost base and continuing growth of sales in the USA and major international markets. In addition, the process of redeploying US resources to support the areas with highest potential growth has reduced costs and going forward the Group plans broadly to match new hires to increases in the monthly probe revenue run-rate. The Group going forward expects further progress on reducing the cash burn to come from new product releases starting in the first half of 2017.

### Statutory results

Revenue as reported in the Consolidated Statement of Comprehensive Income was broadly flat at £6,331,000 (2015: £6,405,000 including £178,000 of clinical research based barter sales). Increases in revenue from export sales of £795,000 and UK third party sales of £40,000 were largely offset by a £731,000 reduction in revenues from ODM products in the UK. Gross margins were higher at 68% (2015: 63%) with the benefit of higher margin sales in the USA replacing UK probe sales and improved manufacturing efficiency.

Probe margins were higher at 77% (2015: 72%) and are expected to continue 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 reduced by 11% at £6,698,000 (2015: £7,496,000). Increased spending on US staff was offset by savings made in overheads. Overall, the operating loss of £2,369,000 was £1,117,000 lower (2015: £3,486,000).

### US market

US probe revenues increased by 25% in local currency and 40% in sterling to £1,869,000. The reported volume increase of 1,595 probes (15%) to 12,025 probes is distorted by a few sales incentives in 2015 to accelerate transition to the enhanced performance TruVue probes where additional probes were sold at minimal or no marginal revenue.

Since 2012, our strategy in the USA has been to build a platform for future national roll-out of ODM by developing a small number of prestigious hospital accounts where our products are being embedded broadly and deeply into routine usage across a number of major surgical procedures. Our goal has been to establish a core platform of 30 such accounts and we passed this key milestone in January 2017.

# Operating Review

## Continued

In addition, we have built a pipeline of additional accounts and expect to continue to open these going forward but with less resource being absorbed on pipeline development than over the last three years. Around 80% of underlying probe consumption in 2016 came from the ten best established platform accounts.

### 2017

Since January 2017, we have been focusing on expanding probe consumption in the key platform accounts. To facilitate this, we have redeployed our field staff resources to best reflect the growth opportunities open to us now that the core platform has been established. In the short term, this has reduced our fixed monthly US field staff costs to close to the gross margin on regular monthly probe sales with March 2017 being the first month in which the gross margin on probe revenues has exceeded fixed monthly field staff costs. Our plan is to phase recruitment from now on to broadly match US staff costs to revenues and, therefore, bring to an end the heavy investment we have made in building our US team since 2012, which peaked at approximately \$150,000 a month.

### UK Market

Deltex Medical had a third consecutive disappointing year of declining ODM sales in the UK. Probe sales of £1,865,000 were £649,000 (26%) lower than in 2015. Monitor sales were £15,000 lower than in 2015. Maintenance revenues were £4,000 higher than 2015 at £74,000. Third party revenues from lower margin distributed products were £40,000 ahead of 2015.

Following a review of our UK business in the second half of 2015, we refocused our efforts in the UK market on to the considerable number of doctors who are both committed to making ODM a standard of care and who work in those NHS hospitals with C-suite support for implementing cost-saving quality improvement programmes. Our marketing efforts focused on highlighting the enhanced performance of the TruVue probes which we launched in May, the impressive results presented in June from a major multi-centre randomised controlled trial of ODM use during surgery in Spain and the results presented from a major UK NHS hospital of the first trial comparing ODM to a competing IOFM technology during surgery which confirmed the superior patient outcomes expected from ODM, based on previous trials.

Following disappointing ODM sales in the first half, the second half of 2016 showed a marked improvement in trend in the UK with third quarter probe revenues ahead of the second quarter and the fourth quarter ahead of the third. The 17% decline in probe revenues in H2 compared to 2015 compares to a 36% H1 decline and did not reflect underlying trends because there were no orders in the second half from two of our largest UK customers as they worked their way through probe stocks. Both have ordered probes since the year-end.

Encouragingly, UK sales in the first quarter of 2017 have continued the more positive trends and total UK revenue for the quarter was marginally ahead of 2016. First quarter sales benefited from the largest monitor order since 2014 worth just over £80,000, which we announced on 23 February 2017.

### International markets

Our international business comprising all export markets, excluding the USA, made good progress in a number of areas in 2016. Probe revenues increased by 25% on a volume increase of 14%; second half sales benefited from weaker sterling against both the Euro and US Dollar. We sold 13,450 probes to our French distributor, an increase of 9% over 2015, maintaining France as our largest export market by volume. In our other more developed markets, we sold 2,600 probes to Scandinavia (up 55%) and 4,500 probes to Peru (broadly flat with 2015). Other significant volumes were achieved in less developed markets for our products including South Korea where we sold 4,800 probes (up 586%). In these earlier stage markets, there is inherent uncertainty over the time between stocking orders and regular repeat orders pulled by traction in the market. However, we are encouraged by the South Korean government's decision since the year-end to broaden significantly its reimbursement coverage for ODM.

Progress with our Canadian operation has remained slower than we would have liked due to the often protracted time delays between clinical evaluations and purchase for both monitors and probes. There is a good potential business pipeline which, once it starts converting into revenues, is expected to be sufficient to support organic growth from locally generated cash. In the meantime, we are minimising the resource we allocate to Canada in favour of supporting markets with greater prospects of more rapid returns.

In Spain, we have invested over several years in supporting clinical leaders to introduce enhanced recovery surgery programmes which are driving growth in several markets. Clinical guidelines for 10 surgical disciplines were published in 2015 and are now supported by the key professional bodies and regional and national health administrators. Our strategy is to focus on a small number of hospitals at first to build recurring revenue and to review additional investment in the context of cash returns generated from these. Progress to date has been slow and we continue to review our ongoing level of investment in this market. We expect the opportunity in Spain to be boosted after publication of the results of the successful multi-centre trial of ODM and understand that the draft paper has been submitted to a peer reviewed medical journal.

### Prospects

Deltex Medical made considerable progress in 2016 in reshaping its business for the next stage of its development. We grew well in our export markets and started to see some stability return to the challenging UK market. We reduced costs, launched a significantly improved Doppler probe and

# Operating Review

## Continued

increased gross margins. Since the end of the year, we have started to deliver substantial further manufacturing cost savings, passed the key milestone in the USA of opening our 30<sup>th</sup> platform account and have field tested a major new advanced haemodynamic monitoring modality on our existing monitor platform. These developments, together with a refocusing of our US resources to match the platform account growth opportunities mean that we have made further substantial progress towards our key short-term priority of getting the business past the operating cash break-even point.



**Ewan Phillips** *Chief Executive*

26 April 2017

# Financial Review

## Statutory results

### Consolidated Statement of Comprehensive Income (SOCl)

Revenue as reported in the SOCl of £6,331,000 was £74,000 lower than the prior year. Consistent with prior years, revenue has been categorised between probes and other revenues which is reflective of the Group's operating segments.

More information concerning probes revenue is given later in this report. Detailed market information can be found in the Operating Review on pages 8 to 11.

### Other income comprised:

	2016 £'000	2015 £'000
Monitors sold	360	400
Clinical research income	-	178
Distributed product sales	355	345
Maintenance revenue	74	70
Other	84	182
	873	1,175

Monitor sold income fell by £40,000 during the year reflecting the continuing difficulty to make capital sales, particularly within the UK to the NHS. However, the reduction in the number of units sold of 54 was to some extent offset by higher revenues per monitor sold.

In the UK, this was achieved through slightly better sales prices and in the USA and our international markets predominantly through the benefit of the weakness of sterling compared to both the Euro and the US Dollar following the result of the EU referendum in June 2016.

### Gross Margin

The Group's overall gross margin for the year was 68% compared to 63% last year. The main changes in the margin are shown in the table below:

	Product margin 2016				Product margin - 2015			
	Probes %	Monitors %	Other %	Total %	Probes %	Monitors %	Other %	Total %
Product contribution	82	50	55	77	79	60	39	73
Depreciation of placed monitors	-	(67)	-	(5)	-	(33)	-	(3)
Shipping costs	-	-	(10)	(1)	-	-	(12)	(1)
Production variances	(5)	(5)	(6)	(3)	(7)	(7)	(5)	(6)
	77	(22)	39	68	72	20	22	63

The product contribution from probes has improved during the year reflecting the move to becoming more reliant on crystal assemblies built internally rather than sourced from a more expensive third party as well as the benefit that will have flowed through from both increases in selling prices and the benefit from the change in foreign exchange rates.

The monitor product contribution has fallen due to the weakening of sterling against both the US Dollar and the Euro leading to an increase in the cost of production of a monitor of c.8% as well as a slight increase in the labour and overhead absorption rate. This increase in unit cost was partially offset by slightly higher sales revenues. The increase in the depreciation cost of placed monitors reflects the increase in the size of the installed base. Production variances decreased compared to last year as the new manufacturing processes were embedded.

### Foreign exchange

Following the significant falls in both the US Dollar and Euro exchange rates in the second half of the year because of the results of the EU referendum, the re-translation of costs and revenues of our overseas operations increased by £329,000 and £230,000 respectively. International sales that are usually denominated in either US Dollars or Euros also benefitted from a more favourable rate of exchange compared to 2015 which contributed £0.3m. This benefit would have been to some extent offset by travel and subsistence costs incurred by the International Sales team.

### Costs

Administration expenses were £412,000 lower than last year. This reduction reflects the focus that the Group has had on reducing expenditure across all areas of the business.

Sales and marketing expenses were broadly flat compared to the prior year. The full benefit in 2016 of the significant cost reductions made in the UK during 2015 have been offset principally by both the increased investment in the size of the US sales team as well as the impact of the weakness of Sterling compared to the US Dollar following the EU referendum in June. The effect has been to reduce the average rate of exchange used to translate US Dollar denominated income and expenses from 1.5296 to 1.3525, a fall of 12% for the year.

# Financial Review

## Continued

### US Market development costs

As reported last year, the specific US market development activities were completed during 2015. All marketing related expenses incurred in 2016 have been categorised as sales and marketing expenses. US marketing costs categorised within sales and marketing expenditure incurred in 2016 were £173,000 (2015: £207,000).

### Exceptional costs

The exceptional costs reported in 2015 related to the steps taken to respond to the declining UK market. Similar action was not undertaken during 2016.

### Taxation

The Group expected to receive approximately £125,000 relating to the surrender of current year tax losses under the Government's Research and Development Tax Credit Scheme. However, following finalisation of the 2015 claim the Group received £160,000 (2015: £150,000) during the year. The Group expects to be able to claim approximately £107,000 relating to its 2016 activity.

### Probe revenue

Probe revenue continues to be a key performance indicator for the Group. Probe revenues were £228,000 higher than last year. (2015: £41,000 lower). Further information on key developments can be found in the Operating Review on pages 8 to 11.

Net monitor income	2016 £'000	2015 £'000
Monitors sold	360	400
Maintenance revenue	74	70
Cost of monitor production	(181)	(284)
Depreciation of placed monitors	(225)	(201)
	28	(15)

Net monitor income increased compared to the prior year principally to the beneficial effect on reported revenue from the foreign exchange rate movements during the year.

### Cash costs

Cash costs decreased by £540,000 during the year which reflects the activity taken during the year to reduce cash expenditure across all operations. The full benefit of the changes implemented in 2016 will flow through into 2017.

### Non-cash costs

	2016 £'000	2015 £'000
Equity settled share based payment expense	120	127
Accrued holiday pay	73	-
Equity settled transaction costs	129	85
Net clinical research income	-	(162)
Depreciation and amortisation expense	425	404
	747	454

The net increase in non-cash costs is principally due to the fact that there was no net clinical research income received in 2016 and the recognition of an accrual for holiday pay.

### Balance Sheet

#### Property, plant and equipment (PPE)

The decrease in the carrying value of PPE is as a result of the depreciation charge for the year exceeding the cost of the placed monitors added to the installed base during the year.

#### Intangible assets

The Group continues to invest in research and development activity as it continues with its objective to develop a new monitor that will give the clinician a choice as to which fluid monitoring technology to use. It is expected that a small number of additional products that will seamlessly integrate with the existing ODM monitor will be released during 2017.

As noted earlier, the activity related to the re-design of the probe tip and the manufacturing technique was completed during the year and the full benefits from the manufacturing change is expected to be seen in 2017.

# Financial Review

## Continued

### Inventory

The carrying value of inventory fell slightly compared to the previous year due to a combination of factors, of these the most significant was the continued focus on working capital management to ensure that inventory builds were more closely matched to sales forecasts. This focus will continue and will be helped in 2017 by the planned reduction in the range of probes that will be manufactured.

### Borrowings

The movement in borrowings is largely due to a decrease in the amount that has been drawn down under the Group's invoice discounting facility of £88k and the continued reduction in the amounts owed under finance lease obligations offset by the increase in the amount outstanding under the new convertible loan that was arranged in February 2016.

### Trade and other payables

Trade payables and other payables were reduced compared to the previous year albeit slightly higher than planned as the Group managed its cash flow in the light of sales activity towards the end of the year. Social security and other taxes were lower as the amount of VAT payable at the end of the year was lower largely due to the sales mix in December. PAYE outstanding remained at similar levels due to the timing of payments of payroll taxes in the UK.

Accrued expenses remain at similar levels from the prior year. Included in this balance are amounts owing in relation to staff bonuses earned over a number of years that have not yet been settled. These amounted to approximately £705k (2015: £610k).

### Cash flow

The Group's main funding requirements continue to be:

- Funding of operating losses to cash break-even;
- Funding working capital requirements; and
- Funding investments.

### Operating costs

The cash loss in 2015 of £2,651,000 before US market development costs and exceptional items has reduced by £1,029,000 during the year. The main contributors being the benefit of full year cost reductions made in 2015, the cost reductions that were also made in February 2016 and the continuing relentless focus on controlling cash expenditure across all of the Group's activities.

As noted earlier in this report, the full benefit of the cost savings made in the probe manufacturing process should be seen during 2017.



**Jonathan D Shaw** *Group Finance Director*

26 April 2017



# Strategic Report

For the year ended 31 December 2016

The Directors have pleasure in presenting their Strategic Report for the year ended 31 December 2016. The report provides a review of the Group's business and describes the principal risks and uncertainties that it faces. The report includes an analysis of the performance of the Group during the financial year and its position at the year-end including how this is assessed using key performance indicators (KPI). The Chairman's Statement, Operating Review and Financial Review form part of this Strategic Report.

## Principal risks and uncertainties

The Group's strategy has been and continues to be the establishment of guided fluid management using the CardioQ-ODM as a standard of care firstly in the Group's home market of the UK, and secondly in the USA and other major markets for medical technology, both through direct sales and marketing and, where appropriate, 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.
- Lower than anticipated rates of adoption of the Group's products in existing key markets.
- Not yet established 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 reporting processes that are used to carefully manage cash flow, production scheduling and stock holdings.

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 for the sale of third party products to take advantage of our established clinical sales team.

## Key performance indicators

The key performance indicators that are used to monitor performance of the Group are set out in the table below and are discussed in more detail in both the Operating Review, on pages 8 to 11 and the Financial Review, on pages 12 to 14.

Key performance indicator	2016	2015
Probe revenues (£'000)	5,458	5,230
Monitor revenues (£'000)	360	578
Third party revenues (£'000)	355	345
Gross profit percentage	68%	63%
UK probe volumes sold (units)	20,385	28,770
US probe volumes sold (units)	12,025	10,430
Cash at bank	582	575

## Going concern

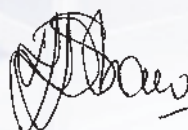
The Group meets its day-to-day working capital requirements through a combination of operational cash flows, an invoice discounting facility and the raising of additional finance if required. The directors have examined detailed budgets and forecasts until 30 June 2018 which incorporate the post balance sheet fundraising detailed in the Directors' Report. This review indicates that the Group has sufficient liquidity to continue as a going concern.

Further details of the Group's cash flows are given in the Financial Review on pages 12 to 14 and the Basis of preparation note on page 31.

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.

The Strategic Report on pages 5 and 15 has been approved by the Directors and signed:

By order of the Board.



**Jonathan D Shaw**

Company Secretary

26 April 2017

# 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 Chairman of the following companies; Syncona Investment Management Limited (SIML), a company which manages Syncona Ltd, an evergreen investment company developing advanced medical products; he is also a non-executive director of SIML's parent company, Syncona Ltd, a company that is listed on the London Stock Exchange; Oxford University Innovation Ltd, the technology transfer group for Oxford University; and Oxford Academic Health Science Network, established by the National Health Service in England to align the interests of patients in its region with academia, industry and the healthcare system. His career has encompassed venture capital, industry and banking. He has a degree in engineering from Cambridge University, is a Fellow of the Institute of Chartered Accountants, a Fellow of the Institute of Engineering and Technology and has been involved in the formation and development of high technology businesses for more than thirty years. Nigel is 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 its 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.

### **Mark Wippell**

Mark, formerly a Partner with Allen & Overy LLP, has significant experience advising international companies on their strategic transactions. 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. Mark is Chairman of American European Business Association.

### **Christopher Jones**

Chris Jones joined the board in June 2015 and brings over 25 years of experience in Fortune 500 and VC funded healthcare companies in both the UK and importantly throughout the US. Executive Chairman of Mologic Ltd, Executive Chairman of Elasmogen Ltd, and Non-executive Director of MediSieve and Health Enterprise East, Mr Jones is a US national who came to the UK in 2008 to become CEO of GlySure. Prior to joining GlySure he was CEO of Tensys Medical developing and commercialising a novel continuous, non-invasive blood pressure monitor resulting in the sale of the company in 2008. Mr Jones also spent nine years with Nellcor Inc, a division of Tyco Healthcare, most recently as VP of Marketing responsible for the \$700M WW pulse oximetry and critical care businesses. Mr Jones is a graduate of Yale University with a Bachelor of Science Degree in Molecular Biophysics and Biochemistry.

## 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.

### **Jonathan D Shaw** *ACIB FCCA*

Group Finance Director

Jonathan Shaw joined the board in September 2015. He has spent the majority of his career working at either director or senior manager level in professional accounting and auditing firms most recently with Grant Thornton UK LLP in London and including PricewaterhouseCoopers LLP in Southampton where he was Deltex Medical's senior audit manager for nearly four years. During his career, Jonathan has undertaken a number of secondments to industry or government and spent almost three years at the Financial Reporting Council, the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.



# Secretary & Advisers

## Company Secretary & Registered office

Jonathan D Shaw ACIB FCCA  
Terminus Road  
Chichester  
West Sussex  
PO19 8TX

## Nominated adviser

Arden Partners plc  
125 Old Broad Street  
London  
EC2N 1AR

## Independent Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Savannah House  
3 Ocean Way  
Ocean Village  
Southampton  
SO14 3TJ

## Solicitors

Laytons Solicitors LLP  
2 More London Riverside  
London  
SE1 2AP

## Principal bankers

The Royal Bank of Scotland plc  
62 – 63 Threadneedle Street  
PO Box 412  
London  
EC2R 8LA

## Financial PR advisers

IFC Advisory Limited  
73 Watling Street  
London  
EC4M 9BJ

## Registrars

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



# Directors' Report

For the year ended 31 December 2016

## Registered No. 03902895

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2016.

## Future developments

The Group's business activities, together with the factors likely to affect its future developments, performance and position are set out in the Chairman's Statement on pages 5 and 6 and the Operating Review on pages 8 to 11.

## Financial risk management

The Financial Risk Management objectives and policies of the Group, including the exposure to interest rate risk, liquidity risk and currency risk are set out in note 25 to the financial statements on pages 50 to 53.

## Dividends

The directors cannot propose the payment of a dividend (2015: £nil) for 2016.

## Directors' remuneration

The following information has been disclosed to satisfy the disclosure requirement set out in rule 19 of the AiM Rules for Companies:

### Salary & Fees

	Cash settled £	Equity settled £	Benefits £	Pension £	2016 Total £	2015 Total £
Nigel Keen	-	33,333	-	-	33,333	33,333
Ewan Phillips	200,000	-	7,500	8,000	215,500	215,500
Jonathan D Shaw	123,333	-	7,500	5,949	136,782	42,366*
Julian Cazalet	-	24,000	-	-	24,000	24,000
Chris Jones	18,000	-	-	-	18,000	10,500**
Sir Duncan Nichol	-	24,000	-	-	24,000	24,000
Mark Wippell	-	24,000	-	-	24,000	24,000
	<b>341,333</b>	<b>105,333</b>	<b>15,000</b>	<b>13,949</b>	<b>475,615</b>	<b>373,699</b>
Tim Irish (resigned 31 March 2015)	-	-	-	-	-	6,000
Paul J Mitchell (resigned 2 April 2015)	-	-	-	-	-	42,279
Notes	<b>341,333</b>	<b>105,333</b>	<b>15,000</b>	<b>13,949</b>	<b>475,615</b>	<b>421,978</b>

\*from 1 September 2015 \*\* from 1 June 2015

1. Non-executive Directors do not have a permanent place of work specified in their service contracts. Therefore, all reasonable and properly incurred expenses incurred in performance of duties as Board Members are reimbursed by the Company.

## Directors

The directors of the Group who served during the year are shown below. Biographical details are given on page 16 of the annual report and accounts.

Nigel Keen	Non-executive Chairman
Ewan Phillips	Chief Executive
Jonathan D Shaw	Group Finance Director
Julian Cazalet	Non-executive Director
Chris Jones	Non-executive Director
Sir Duncan Nichol	Non-executive Director
Mark Wippell	Non-executive Director

## Company Secretary

On 30 December 2016, Jonathan D Shaw was appointed company secretary following the resignation of the previous office holder.

## Bonuses

Included in accruals at 31 December 2016, is an amount of £144,200 owed to Ewan Phillips relating to contractual bonuses that had been earned in the three years ended 31 December 2014. No bonuses have been accrued in respect of the years ended 31 December 2015 and 31 December 2016. In accordance with its usual practice, the Board intends to settle this outstanding amount when appropriate to do so under the Company's Enterprise Management Incentive Scheme.

# Directors' Report

For the year ended 31 December 2016 – Continued

## Interests in share schemes

Ewan Phillips' interests in share options is detailed below.

At 1 January 2016	Granted.	Exercised	Expired	At 31 December 2016	Exercise price	Exercise period	
Number	Number	Number	Number	Number	£	from	to
<b>2001 Executive share option scheme</b>							
400,000	-	-	(400,000)	-	0.2075	28th Mar-09	27th Mar-16
400,000	-	-	-	400,000	0.295	29th Jun-10	28th Jun-17
500,000	-	-	-	500,000	0.185	30th Jun-11	29th Jun-18
500,000	-	-	-	500,000	0.1275	12th Jun-12	11th Jun-19
<b>2011 Executive Share Option Scheme</b>							
1,000,000	-	-	-	1,000,000	0.1725	28th Sep-14	27th Sep-21
500,000	-	-	-	500,000	0.24	10th Oct-15	9th Oct-22
1,250,000	-	-	-	1,250,000	0.11	10th Jun-18	9th Jun-25
<b>2003 Enterprise Management Incentive Scheme</b>							
92,700	-	-	-	92,700	0.01	30th Jun-08	29th Jun-18
510,638	-	-	-	510,638	0.01	12th Jun-09	11th Jun-19
43,478	-	-	-	43,478	0.01	30th Dec-09	29th Dec-19
31,250	-	-	-	31,250	0.01	24th Mar-10	23rd Mar-20
34,884	-	-	-	34,884	0.01	25th Jun-10	24th Jun-20
690,104	-	-	-	690,104	0.01	13th Oct-10	12th Oct-20
20,270	-	-	-	20,270	0.01	23rd Dec-10	23rd Dec-20
13,636	-	-	-	13,636	0.01	19th Apr-11	18th Apr-21
507,692	-	-	-	507,692	0.01	27th Sep-11	26th Sep-21
277,174	-	-	-	277,174	0.01	10th Oct-12	9th Oct-22
115,385	-	-	-	115,385	0.01	23rd Dec-13	22nd Dec-23
<b>6,887,211</b>	-	-	<b>(400,000)</b>	<b>6,487,211</b>			

Jonathan D Shaw did not have an interest in share options during either 2016 or 2015.

# Directors' Report

For the year ended 31 December 2016 – Continued

## 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.

## Research & development activities

Deltex Medical Limited, a subsidiary, undertakes research and development work in support of its principal manufacturing activities. Further information on the Group's research and development activities can be found throughout the strategic report.

## Events after the balance sheet date

On 22 March 2017, the company raised £400,000 through subscriptions for 11,034,482 new ordinary shares at 3.625p per share.

## Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial 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 parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 group and parent company and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and parent company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in directors report confirm that, to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the group; and
- the Pro-forma results includes a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that it faces.

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

- so far as the director is aware, there is no relevant audit information of which the group and parent company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and parent company's auditors are aware of that information.

# Directors' Report

For the year ended 31 December 2016 – Continued

## 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.

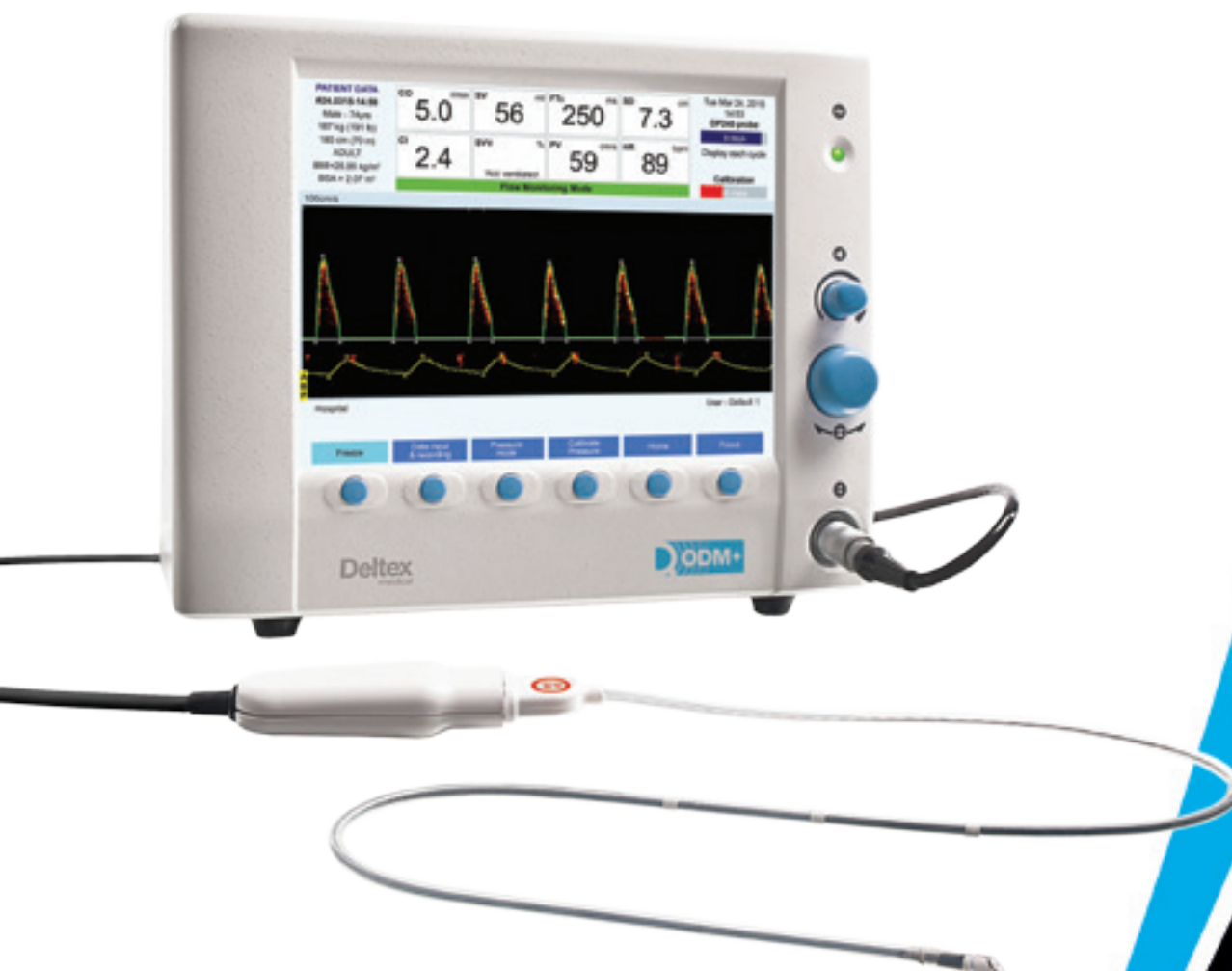
## Annual General Meeting

The notice convening the Annual General Meeting, which will take place on 9 June 2017 at 11.00am at Laytons Solicitors LLP, 2 More London Riverside, London SE1 2AP, can be found at the back of this publication.

By order of the Board



**Jonathan D Shaw** *Company Secretary*  
26 April 2017



# 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 2016 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

The financial statements, included within the Report & Accounts (the "Annual Report"), comprise:

- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Balance Sheet as at 31 December 2016;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Consolidated Statement of Cash Flows 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 IFRSs as adopted by the European Union, and applicable law.

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

### Opinions on other matters prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course

of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

### Other matters on which we are required to report by exception

#### Adequacy of 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 Statement of directors' responsibilities set out on page 20, 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 parent 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.



# Independent Auditors' Report to the Members of Deltex Medical Group plc – Continued

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

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

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

## **Other matter**

We have reported separately on the parent company financial statements of Deltex Medical Group plc for the year ended 31 December 2016.



**Matthew Hall** (*Senior Statutory Auditor*)  
for and on behalf of  
PricewaterhouseCoopers LLP  
Chartered Accountants  
and Statutory Auditors  
Southampton

26 April 2017

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

				2016		2015	
	Notes	Probes £'000	Other £'000	Total £'000	Probes £'000	Other £'000	Total £'000
<b>Total revenue</b>	3.2	5,458	873	6,331	5,230	1,175	6,405
<b>Total cost of sales</b>		(1,250)	(752)	(2,002)	(1,470)	(925)	(2,395)
<b>Gross profit</b>		4,208	121	4,329	3,760	250	4,010
Administrative expenses	4			(2,197)			(2,500)
Sales & distribution costs	4			(4,037)			(4,036)
Research, Development, Quality & Regulatory	4			(464)			(609)
US market development costs	4			-			(198)
Exceptional costs	4			-			(153)
<b>Total costs</b>				(6,698)			(7,496)
<b>Operating loss before US market development costs and exceptional items</b>				(2,369)			(3,135)
US market development costs				-			(198)
Exceptional costs				-			(153)
<b>Operating loss*</b>	4			(2,369)			(3,486)
Finance income	6			1			1
Finance costs	6			(150)			(110)
Loss before taxation				(2,518)			(3,595)
Tax credit on loss	7			142			135
<b>Loss for the year</b>				(2,376)			(3,460)
<b>Other comprehensive income</b>							
Items that may be subsequently reclassified to profit or loss:							
<b>Net translation differences on overseas subsidiaries</b>				234			32
<b>Other comprehensive income for the year, net of tax</b>				234			32
<b>Total comprehensive loss for the year</b>				(2,142)			(3,428)
<b>Total comprehensive loss for the period attributable to:</b>							
Owners of the Parent				(2,137)			(3,347)
Non-controlling interests				(5)			(81)
				(2,142)			(3,428)
<b>Loss per share basic and diluted</b>	9			(0.9p)			(1.6p)
<b>*Operating loss comprises:</b>							
Cash loss				(1,622)			(2,681)
US market development costs				-			(198)
Exceptional items				-			(153)
Non – cash charges (net)				(747)			(454)
<b>Operating loss</b>	4			(2,369)			(3,486)

The notes on pages 28 to 53 form an integral part of these consolidated financial statements.

# Consolidated Balance Sheet

as at 31 December 2016

	Notes	2016 £'000	2015 £'000
<b>Assets</b>			
<b>Non – current assets</b>			
Property, plant and equipment	10	431	573
Intangible assets	11	2,396	2,006
<b>Total non-current assets</b>		<b>2,827</b>	<b>2,579</b>
<b>Current assets</b>			
Inventories	13	760	805
Trade and other receivables	14	2,499	2,621
Current income tax recoverable		107	125
Cash and cash equivalents	15	582	575
<b>Total current assets</b>		<b>3,948</b>	<b>4,126</b>
<b>Total assets</b>		<b>6,775</b>	<b>6,705</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	16	(858)	(1,864)
Trade and other payables	18	(2,414)	(2,766)
<b>Total current liabilities</b>		<b>(3,272)</b>	<b>(4,630)</b>
<b>Non-current liabilities</b>			
Borrowings	16	(967)	(34)
Provision for liabilities	19	(119)	(117)
<b>Total non-current liabilities</b>		<b>(1,086)</b>	<b>(151)</b>
<b>Total liabilities</b>		<b>(4,358)</b>	<b>(4,781)</b>
<b>Net assets</b>		<b>2,417</b>	<b>1,924</b>
<b>Equity</b>			
Share capital	21	2,849	2,196
Share premium account	21	32,268	30,394
Capital redemption reserve	27	17,476	17,476
Other reserves	27	4,685	4,661
Translation reserve	27	260	26
Convertible loan note reserve	27	84	-
Accumulated losses		(55,037)	(52,666)
<b>Equity attributable to owners of the Parent</b>		<b>2,585</b>	<b>2,087</b>
Non-controlling interests		(168)	(163)
<b>Total equity</b>		<b>2,417</b>	<b>1,924</b>

The notes on pages 28 to 53 form an integral part of these consolidated financial statements. The financial statements on pages 24 to 53 were approved by the Board of Directors and authorised for issue on 26 April 2017 and were signed on its behalf by:

**Nigel Keen**  
Chairman



**Jonathan D Shaw**  
Group Finance Director



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

Group	Equity attributable to owners of the Parent							Total £'000	Non- controlling interest £'000	Total equity £'000
	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Convertible loan note reserve £'000	Translation reserve £'000	Accumulated losses £'000			
<b>Balance at 1st January 2015</b>	2,130	30,323	17,476	4,318	-	(6)	(49,287)	4,954	(82)	4,872
<b>Comprehensive income</b>										
Loss for the year	-	-	-	-	-	-	(3,379)	(3,379)	(81)	(3,460)
<b>Other comprehensive income</b>										
Exchange movements taken to reserves	-	-	-	-	-	32	-	32	-	32
<b>Total comprehensive income for the year</b>	-	-	-	-	-	32	(3,379)	(3,347)	(81)	(3,428)
Shares issued during the year	66	-	-	-	-	-	-	66	-	66
Premium on shares issued during the year	-	71	-	-	-	-	-	71	-	71
Credit in respect of service cost settled by award of options	-	-	-	343	-	-	-	343	-	343
<b>Balance at 31 December 2015</b>	2,196	30,394	17,476	4,661	-	26	(52,666)	2,087	(163)	1,924
<b>Comprehensive income</b>										
Loss for the year	-	-	-	-	-	-	(2,371)	(2,371)	(5)	(2,376)
<b>Other comprehensive income</b>										
Exchange movements taken to reserves	-	-	-	-	-	234	-	234	-	234
<b>Total comprehensive income for the year</b>	-	-	-	-	-	234	(2,371)	(2,137)	(5)	(2,142)
Shares issued during the year	653	-	-	-	-	-	-	653	-	653
Premium on shares issued during the year	-	1,992	-	-	-	-	-	1,992	-	1,992
Issue expenses	-	(118)	-	-	-	-	-	(118)	-	(118)
Equity element of convertible loan note	-	-	-	-	84	-	-	84	-	84
Credit in respect of service cost settled by award of options	-	-	-	24	-	-	-	24	-	24
<b>Balance at 31 December 2016</b>	2,849	32,268	17,476	4,685	84	260	(55,037)	2,585	(168)	2,417

The notes on pages 28 to 53 form an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
<b>Cash flows from operating activities</b>			
Net cash used in operations	23	(1,880)	(1,708)
Interest paid		(96)	(130)
Income taxes received		160	150
<b>Net cash used in operating activities</b>		<b>(1,816)</b>	<b>(1,688)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(26)	(68)
Capitalised development expenditure	11	(533)	(408)
Interest received		1	1
<b>Net cash used in investing activities</b>		<b>(558)</b>	<b>(475)</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary share capital	21	2,508	59
Expenses in connection with share issue	21	(118)	-
Proceeds from (decrease)/increase in invoice discounting facility		(109)	(226)
Repayment of borrowings	16	(1,000)	-
Proceeds from borrowings	16	1,125	-
Expenses in connection with new borrowings	16	(42)	-
Repayment of obligations under finance leases	17	(37)	(34)
<b>Net cash generated from/(used in) financing activities</b>		<b>2,327</b>	<b>(201)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(47)</b>	<b>(2,364)</b>
Cash and cash equivalents at beginning of the year		575	2,934
Exchange gain on cash and cash equivalents		54	5
<b>Cash and cash equivalents at end of the period</b>	15	<b>582</b>	<b>575</b>

The notes on pages 28 to 53 form an integral part of these consolidated financial statements.

# Notes to the financial statements

For the year ended 31 December 2016

## 1. Principal accounting policies

Presented below are those accounting policies that relate to the financial statements as a whole and includes details of new accounting standards that are or will be effective for 2016 or later years. To facilitate the understanding of each note to the financial statements those accounting policies that are relevant to a particular category are presented within the relevant notes.

These policies have been consistently applied to all the years presented, unless otherwise stated.

### 1.1. General information

These financial statements are the consolidated financial statements of Deltex Medical Group plc, a public company limited by shares registered in England and Wales, 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, PO19 8TX, registered number 03902895.

### 1.2. 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 (IFRS IC) 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 the 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.

No new accounting standards have become effective during the year. However, the following standards, amendments to standards and interpretations which have been endorsed by the EU have been adopted with effect from 1 January 2016 or as stated below. No changes to previously published accounting policies or other adjustments were required on their adoption.

- Annual improvements 2010-2012 (effective 1 July 2014) (endorsed for 1 Feb 2015)
- Annual improvements 2012-2014 (effective 1 January 2016)
- Amendment to IAS 19, 'Employee benefits', on defined benefit plans (effective 1 July 2014) (endorsed for 1 Feb 2015)
- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation', (effective 1 January 2016)
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation (effective 1 January 2016)

- Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' on bearer plants (effective 1 January 2016)
- Amendments to IAS 27, 'Separate financial statements' on equity accounting (effective 1 January 2016)
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on applying the consolidation exemption (effective 1 January 2016)
- Amendments to IAS 1, 'Presentation of financial statements' disclosure initiative (effective 1 January 2016) (subject to EU endorsement)

### 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:

### New accounting standards

- IFRS 9, 'Financial instruments' (effective 1 January 2018)
- IFRS 14, 'Regulatory deferral accounts' (effective 1 January 2016)\*
- IFRS 15, 'Revenue from contracts with customers' (effective 1 January 2018)
- IFRS 16, 'Leases' (effective 1 January 2019 or when apply IFRS 15)

\* The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

### Amendments

- Amendments to IFRS 4 - Amendments regarding implementation of IFRS 9 (effective 1 January 2018) (subject to EU endorsement)
- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a 'joint operation', (effective 1 January 2016)
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation (effective 1 January 2016)
- Amendment to IAS 19, 'Employee benefits', on defined benefit plans (effective 1 July 2014) (endorsed for 1 Feb 2015)
- Amendment to IFRS 9, 'Financial instruments', on general hedge accounting (effective date 1 Jan 2018)
- Annual improvements 2010-2012 (effective 1 July 2014) (endorsed for 1 Feb 2015)

# Notes to the financial statements

For the year ended 31 December 2016 – Continued

- Annual improvements 2011-2013 (effective 1 July 2014) (endorsed for 1 Jan 2015)
- Annual improvements 2012-2014 cycle (effective 1 January 2016)
- Annual improvements 2014-2016 cycle (effective 1 January 2018) (subject to EU endorsement)
- Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' on bearer plants (effective 1 January 2016)
- Amendments to IAS 27, 'Separate financial statements' on equity accounting (effective 1 January 2016)
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on applying the consolidation exemption (effective 1 January 2016)
- Amendments to IAS 1, 'Presentation of financial statements' disclosure initiative (effective 1 January 2016)
- Amendments to IAS 12, 'Income taxes' on Recognition of deferred tax assets for unrealised losses (effective 1 January 2017)
- Amendments to IAS 7, 'Statement of cash flows' (effective 1 January 2017)
- Amendments to IFRS 15, 'Revenue from contracts with customers' - Clarifications (effective 1 January 2018)
- Amendments to IFRS 2, 'Share-based payments' - Classification and measurement (effective 1 January 2018) (subject to EU endorsement)
- Amendments to IAS 40, 'Investment property' transfer of property (effective 1 January 2018) (subject to EU endorsement)

## New IFRICs

- IFRIC 22, 'Foreign currency transactions and advance consideration' (effective 1 January 2018)

The Group is assessing the impact of the above accounting standards and amendments not yet effective. With the exception of IFRS 16, 'Leases' which will lead to the recognition of a lease obligation on the balance sheet in respect of the current operating lease over the Chichester factory, the adoption of the above standards are not expected to have a material effect on the Group's financial statements.

## 1.3. 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.

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.

## 1.4. 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 re-translated 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

# Notes to the financial statements

For the year ended 31 December 2016 – Continued

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.

The following are the principal foreign exchange rates that have been used in the preparation of the financial statements:

	2016	
	Average Rate	Closing rate
GBP / US Dollar	1.3545	1.2333
GBP / Euro	1.2255	1.1720
GBP / Canadian Dollar	1.8067	1.6579

	2015	
	Average Rate	Closing rate
GBP / US Dollar	1.5296	1.4745
GBP / Euro	1.3791	1.3569
GBP / Canadian Dollar	1.9557	2.0398

## 1.5. 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 de-recognised or impaired, as well as through the amortisation process.

## 1.6. 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 de-recognised as well as through the amortisation process. Borrowing costs are recognised as an expense when incurred.

## 1.7. 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.

## 1.8. 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.

## 1.9. 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 the trial, 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.



# Notes to the financial statements

For the year ended 31 December 2016 – Continued

## 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 22.

## 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.

## 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.

## 1.10. 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.

### Pro-forma 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 US Market development activities.

### 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.

## 1.11. 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 over stretching the funding capabilities of the business. The funds the Group has available to it are impacted by the results of its commercial activities and through the new funding provided to it by the capital markets and secured lending. The Group invests in 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 30 June 2018.

This review indicates that the Group is expected to continue trading at current levels as a going concern based on 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.

## 2. Revenue recognition

### 2.1. Accounting policy

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 on a bill and hold basis when a formal contract is in place, the goods are on hand and ready for delivery, the customer has acknowledged formal acceptance of the bill and hold transaction and normal payment terms apply.

# Notes to the financial statements

## For the year ended 31 December 2016 – Continued

### **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.

## **3. Operating segments**

### **3.1. Accounting policy**

An operating segment is a component of the Group 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 Group's Chief Executive Officer.

### **Note**

The segmental operating result is the measure of operating revenue generated by probes and other products.





Deltex  
medical

ODM+

# Notes to the financial statements

## For the year ended 31 December 2016 – Continued

### 3.2. Segment results

The reportable segment results for the year ended 31 December 2016 are:

	Probes £'000	Other £'000	Total £'000
Revenue from customers	5,458	873	6,331
Reconciliation to result for the year:			
Cost of goods sold			(2,002)
<b>Total costs</b>			<b>(6,698)</b>
Operating loss			(2,369)
Finance income			1
Finance costs			(150)
Loss before taxation			(2,518)
Tax credit on loss			142
<b>Loss for the year</b>			<b>(2,376)</b>

The reportable segment results for the year ended 31 December 2015 are:

	Probes £'000	Other £'000	Total £'000
Revenue from customers	5,230	1,175	6,405
Reconciliation to result for the year:			
Cost of goods sold			(2,395)
<b>Total costs</b>			<b>(7,496)</b>
Operating loss			(3,486)
Finance income			1
Finance costs			(110)
Loss before taxation			(3,595)
Tax credit on loss			135
<b>Loss for the year</b>			<b>(3,460)</b>



# Notes to the financial statements

## For the year ended 31 December 2016 – Continued

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

	2016 Probes Units†	2016 Monitors Units†	2016 Probes £'000	2016 Monitors £'000	2016 Other £'000*	2016 Total £'000	2015 Probes Units†	2015 Monitors Units†	2015 Probes £'000	2015 Monitors £'000	2015 Other £'000*	2015 Total £'000
<b>Direct markets</b>												
UK	20,385	9	1,865	69	470	2,404	28,770	21	2,514	84	497	3,095
USA	12,025	3	1,869	45	7	1,921	10,430	9	1,333	141	44	1,518
Spain	420	-	44	-	-	44	700	-	65	-	-	65
Canada	445	-	55	-	8	63	575	4	71	57	3	131
	<b>33,275</b>	<b>12</b>	<b>3,833</b>	<b>114</b>	<b>485</b>	<b>4,432</b>	<b>40,475</b>	<b>34</b>	<b>3,983</b>	<b>282</b>	<b>544</b>	<b>4,809</b>
<b>Distributor markets</b>												
Rest of Europe	19,425	28	1,082	91	14	1,187	18,080	22	893	95	11	999
Rest of the World	10,615	82	543	155	14	712	7,720	120	354	201	42	597
	<b>30,040</b>	<b>110</b>	<b>1,625</b>	<b>246</b>	<b>28</b>	<b>1,899</b>	<b>25,800</b>	<b>142</b>	<b>1,247</b>	<b>296</b>	<b>53</b>	<b>1,596</b>
	<b>63,315</b>	<b>122</b>	<b>5,458</b>	<b>360</b>	<b>513</b>	<b>6,331</b>	<b>66,275</b>	<b>176</b>	<b>5,230</b>	<b>578</b>	<b>597</b>	<b>6,405</b>

† Unaudited

\* Included in other revenue for the UK and Rest of the World are 3rd party revenues of £355,000 (2015: £315,000) and £nil (2015: £30,000) respectively.

The following table provides an analysis of the Group's non-current assets by its country of domicile and other foreign countries

Non-current assets	2016 UK £'000	2016 Other £'000	2016 Total £'000	2015 UK £'000	2015 Other £'000	2015 Total £'000
Property, plant and equipment	225	206	431	366	207	573
Intangible assets	2,396	-	2,396	2,006	-	2,006
	<b>2,621</b>	<b>206</b>	<b>2,827</b>	<b>2,372</b>	<b>207</b>	<b>2,579</b>

## 4. Expenses

### 4.1. Expenses by nature

	2016 £'000	2015 £'000
Changes in inventories and work in progress	20	(432)
Raw materials and consumables used	1,468	1,862
Employee benefit costs	4,545	4,611
Other employee costs	714	861
Non executive directors fees	123	122
Exceptional items – redundancy and reorganisation costs	-	153
Depreciation and amortisation charges (notes 10 and 11)	425	404
Net research and development expenditure	144	101
Net clinical trial costs	-	15
Operating lease rentals	103	109
Net foreign exchange (gain) / loss	(69)	32
Audit and accountancy costs	140	111
Meeting and other PR costs	150	246
Professional and consultancy fees	309	498
US market development costs (excluding employee costs)	-	37
Other	628	1,161
	<b>8,700</b>	<b>9,891</b>

# Notes to the financial statements

## For the year ended 31 December 2016 – Continued

### 4.2. Auditors' remuneration

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

#### Group

	2016 £'000	2015 £'000
Fees payable to company's auditors for the audit of the parent company and consolidated financial statements	31	30
Under-accrual in respect of prior years	9	-
	40	30
Fees payable to the company's auditors for other services:		
The audit of the company's subsidiaries	68	69
	108	99

## 5. Employees

### 5.1. Employee benefit expense

	2016 £'000	2015 £'000
Wages and salaries	4,286	4,193
Social security costs	434	426
Pension costs – defined contribution plans	96	89
Share-based payment expense, including bonus accruals	120	343
	4,936	5,051
Less amounts capitalised as research and development costs	(391)	(287)
	4,545	4,764

### 5.2. Average monthly number of people employed

	2016 No	2015 No
Number of employees	83	84
Average monthly number of people (including executive directors) employed:		
Sales and marketing	40	45
Production	16	14
Office and management	16	18
Quality and regulatory	5	3
Research and development	6	4
<b>Total average headcount</b>	<b>83</b>	<b>84</b>

### 5.3. Directors' emoluments

	2016 £'000	2015 £'000
Aggregate emoluments	411	364
Sums paid to third parties for directors' services	51	44
Contributions to directors' personal pension schemes	14	14
	476	422

Benefits are accruing to two (2015: two) directors under personal pension plans.

# Notes to the financial statements

For the year ended 31 December 2016 – Continued

Sums paid to third parties for the services of a director comprise:

Third party payee	Director	2016 £'000	2015 £'000
Imperialise Limited	Nigel Keen	33	33
Rockridge Medical Limited	Chris Jones	18	11
		51	44

## 5.4. Highest paid director

Third party payee	2016 £'000	2015 £'000
Aggregate emoluments	208	208
Contributions to director's personal pension scheme	8	8
	216	216

There were no director share sales or the exercise of share options during 2016 or 2015.

## 6. Finance income and costs

Third party payee	2016 £'000	2015 £'000
<b>Finance income</b> - Bank interest receivable	(1)	(1)
Invoice discount facility	20	12
Convertible loan note 2007	16	85
Loan note 2019	107	-
Finanance lease liability	7	13
<b>Finance costs</b>	150	110

## 7. Tax credit on loss

### 7.1. Accounting policy

The tax credit represents the sum of current tax and deferred tax. Tax is recognised in profit or loss in the Consolidated SOCI except to the extent that it relates to items recognised in equity in which case it is recognised in other comprehensive income in the Consolidated SOCI.

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

### 7.2. Income Tax Credit

Current tax	2016 £'000	2015 £'000
Research and development tax credit	(107)	(125)
Adjustment in respect of prior years	(35)	(10)
<b>Total Current Tax</b>	<b>(142)</b>	<b>(135)</b>
<b>Total Deferred Tax</b>	<b>-</b>	<b>-</b>
<b>Total Tax Credit on Loss</b>	<b>(142)</b>	<b>(135)</b>

The taxable credit on the loss for the year is lower (2015: lower) than the effective rate of corporation tax in the UK of 20% (2015: 20.25%) applied to the Group's loss on ordinary activities before tax. The differences are explained in the next table:

	2016 £'000	2015 £'000
Loss on ordinary activities before tax	(2,518)	(3,595)
Loss on ordinary activities multiplied by the standard rate in the UK of 20% (2015: 20.25%)	(504)	(728)
Effects of:		
Expenses not deductible for tax purposes	47	69
Losses carried forward for which no deferred tax asset has been recognised	444	530
Other movements in unrecognised deferred tax	(53)	52
Tax rate on difference on receivable research and development tax credit	(81)	(98)
Difference on tax rate on payable research and development tax credit	40	50
Adjustment in respect of prior years	(35)	(10)
<b>Total Tax Credit on Loss</b>	<b>(142)</b>	<b>(135)</b>

# Notes to the financial statements

For the year ended 31 December 2016 – Continued

## 8. Deferred tax

### 8.1. Accounting policy

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.

### 8.2. Note

At 31 December 2016, the Group had tax losses of £29,866,000 (2015: £29,118,000) and an unrecognised potential deferred tax asset of £7,354,000 (2015: £7,377,000) representing accumulated trading losses carried forward which are available against future profits and share option charges of £94,000 (2015: £97,000) with an unrecognised deferred tax asset of £16,000 (2015: £18,000).

Changes to UK Corporation tax rates were substantively enacted as part of the Finance Act 2015 (on 26 October 2015) and Finance Act 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements. Loss relief is available indefinitely in the UK and for 20 years in the USA. Trading losses in the USA do not begin to expire until 2028.

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction is set out below:

	2016 £'000	2015 £'000
<b>Deferred tax liabilities</b>		
Development costs	396	369
Accelerated capital allowances	61	92
	457	461
At 1 January	461	485
Effect of tax rate change	(49)	(46)
Charged to profit or loss	45	22
<b>At 31 December</b>	<b>457</b>	<b>461</b>
		<b>Tax losses</b>
<b>Deferred tax asset</b>	<b>2016 £'000</b>	<b>2015 £'000</b>
At 1 January	(461)	(485)
Effect of tax rate change	49	46
Credited to profit and loss	(45)	(22)
<b>At 31 December</b>	<b>(457)</b>	<b>(461)</b>

## 9. Basic and diluted loss per share

The loss per share calculation is based on the loss of £2,371,000 and the weighted average number of shares in issue of 270,435,477. For 2015, the loss per share calculation was based upon the loss of £3,379,000 and weighted average number of shares in issue of 216,742,606. Whilst the Company is loss-making the diluted loss per share and the loss per share are the same.

## 10. Property, plant and equipment

### 10.1. Accounting policy

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 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 term, if shorter
- Plant and equipment three to five years
- Machines loaned to customers five years



# Notes to the financial statements

For the year ended 31 December 2016 – Continued

- 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.

	Leasehold property and improvements £'000	Plant and equipment £'000	Fixtures and fittings £'000	Machines loaned to customers £'000	Total £'000
<b>Cost</b>					
At 1 January 2015	236	676	55	1,467	2,434
Exchange difference	-	2	1	34	37
Additions	-	45	-	48	93
Disposals	-	-	-	(65)	(65)
At 31 December 2015	236	723	56	1,484	2,499
Exchange difference	-	6	5	97	108
Additions	-	19	7	-	26
Transferred from inventory	-	-	-	121	121
Disposals	-	-	-	(79)	(79)
<b>At 31 December 2016</b>	<b>236</b>	<b>748</b>	<b>68</b>	<b>1,623</b>	<b>2,675</b>
<b>Accumulated depreciation</b>					
At 1 January 2015	233	534	55	875	1,697
Exchange differences	-	1	1	14	16
Depreciation charge	1	55	-	201	257
Disposals	-	-	-	(44)	(44)
At 31 December 2015	234	590	56	1,046	1,926
Exchange differences	-	5	5	81	91
Depreciation charge	1	56	-	225	282
Disposals	-	-	-	(55)	(55)
<b>At 31 December 2016</b>	<b>235</b>	<b>651</b>	<b>61</b>	<b>1,297</b>	<b>2,244</b>
<b>Net book value</b>					
At 1 January 2015	3	142	-	592	737
At 31 December 2015	2	133	-	438	573
<b>At 31 December 2016</b>	<b>1</b>	<b>97</b>	<b>7</b>	<b>326</b>	<b>431</b>

# Notes to the financial statements

## For the year ended 31 December 2016 – Continued

Depreciation charges have been included in the following expenses in profit or loss in the Consolidated SOCI:

	2016 £'000	2015 £'000
Cost of sales	250	216
Administration expenses	19	31
Research and development expenses	13	10
	282	257

The net book value of property, plant and equipment includes amounts of £46,000 (2015: £71,000) in respect of assets held under finance lease arrangements.

## 11. Intangible assets

### 11.1. Accounting policy

#### 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 allocable 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 in Note 1.

### 11.2. Note

	Development expenditure £'000	Goodwill £'000	Total £'000
<b>Cost</b>			
At 1 January 2015	2,255	66	2,321
Additions	408	-	408
At 31 December 2015	2,663	66	2,729
Amounts written off	(25)	-	(25)
Additions	533	-	533
<b>At 31 December 2016</b>	<b>3,171</b>	<b>66</b>	<b>3,237</b>
<b>Accumulated amortisation</b>			
At 1 January 2015	576	-	576
Amortisation expense	147	-	147
At 31 December 2015	723	-	723
Amounts written off	(25)	-	(25)
Amortisation expense	143	-	143
<b>At 31 December 2016</b>	<b>841</b>	<b>-</b>	<b>841</b>
<b>Net book value</b>			
At 1 January 2015	1,679	66	1,745
At 31 December 2015	1,940	66	2,006
At 31 December 2016	2,330	66	2,396

Amortisation of £143,000 (2015: £147,000) has been categorised as research and development expenditure in profit or loss in the Consolidated SOCI.

# Notes to the financial statements

For the year ended 31 December 2016 – Continued

## 12. Subsidiary undertakings

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

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares held directly by the parent %	Proportion of shares held by non-controlling interests %
Deltex Medical Limited	UK	Manufacture and marketing of medical devices	100	-
Deltex Medical, SC, Inc	USA	Marketing and sales of medical devices in the USA	100	-
Deltex Medical Espana SL	Spain	Marketing and sales of medical devices in Spain	100	-
Deltex Medical Canada Limited	Canada	Marketing and sales of medical devices in Canada	51	49
Deltex Medical Holdings Inc	USA	Dormant	100	
Deltex Inc	USA	Dormant	100	
Digital QI Limited	UK	Dormant	100	
Deltex Medical Inc	USA	Dormant	100	

## 13. Inventories

### 13.1. Accounting policy

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 their stage 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 in the normal course of business, less all estimated costs of completion and applicable variable selling expenses. Provision is made for obsolete, slow-moving or defective items where appropriate.

### 13.2. Note

Included within finished goods are third party products for resale of £151,000 (2015: £149,000). Based on inventory holdings and sales history, there are specific provisions for slow-moving inventory of £40,000 (2015: £40,000), which have been categorised as third party goods held for resale.

	2016 £'000	2015 £'000
Raw materials and consumables	140	165
Work in progress	52	28
Finished goods	568	612
	760	805



The registered address of the UK incorporated subsidiaries is:  
Terminus Road, Chichester,  
West Sussex PO19 8TX.



The registered address of the US incorporated subsidiary is:  
330 East Coffee St., Greenville,  
South Carolina.



The registered address of the Spanish incorporated subsidiary is C/ del Mirador,  
3A, 17250 Playa de Aro, Girona, Spain.



The registered address of the Canadian incorporated subsidiary is:  
Baine Johnston Centre,  
10 Fort William Place,  
St. John's NL A1C 5W4

# Notes to the financial statements

For the year ended 31 December 2016 – Continued

## 14. Trade and other receivables

### 14.1. Accounting policy

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 SOCI. Trade and other receivables are classified as 'loans and receivables'.

### 14.2. Note

Current	2016 £'000	2015 £'000
Trade receivables	2,207	2,247
Less: provision for impairment of trade receivables	(330)	(329)
	1,877	1,918
Other receivables	352	260
Other receivables - Prepayments	270	443
	2,499	2,621

Trade receivables that are less than two months past due are considered to be recoverable. At 31 December 2016, trade receivables of £190,000 (2015: £26,000) 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 of these balances is set out below:

Current	2016 £'000	2015 £'000
Three to six months overdue	10	8
Six to twelve months overdue	157	9
More than twelve months overdue	23	9
	190	26

At 31 December 2016, specific trade receivables of £330,000 (2015: £329,000) had been identified as impaired and were fully provided for. The ageing of these receivables was as follows:

	2016 £'000	2015 £'000
More than twelve months overdue	330	329

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

Current	2016 £'000	2015 £'000
Sterling	575	701
Euros	383	379
US dollars	893	806
Canadian dollars	26	32
	1,877	1,918

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

Current	2016 £'000	2015 £'000
At 1 January	329	265
Foreign exchange	5	-
Impairment losses recognised	-	64
Amounts recovered	(4)	-
At 31 December	330	329

Impairment losses recognised and amounts written off during the year as uncollectible have been categorised as administrative expenses in profit or loss in the Consolidated SOCI.

The other financial assets categorised as trade and receivables do not contain impaired assets. The directors consider that the carrying amounts of trade and other receivables approximate to their fair values. The maximum exposure for trade and other receivables to credit risk is the carrying value of each class of financial asset shown above. The Group does not hold any collateral as security.

# Notes to the financial statements

For the year ended 31 December 2016 – Continued

## 15. Cash and cash equivalents

### 15.1. Accounting policy

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

### 15.2. Note

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

## 16. Borrowings

### 16.1. Accounting policy

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 profit or loss in the Consolidated SOCI 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.

Compound financial instruments issued by the Group comprise convertible loan notes that can be converted to share capital at the option of the holder, 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 financial liability that does not have an equity conversion feature. 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 financial liability component. Any directly attributable finance costs are allocated to the financial liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the financial liability component 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.

### 16.2. Note

	2016 £'000	2015 £'000
<b>Current borrowings</b>		
Invoice discounting facility	739	827
Convertible loan note	90	1,000
Finance lease liabilities	29	37
	<b>858</b>	<b>1,864</b>
<b>Non-current borrowings</b>		
Convertible loan note	963	-
Obligations under finance lease liabilities	4	34
	<b>967</b>	<b>34</b>
	<b>1,825</b>	<b>1,898</b>

### 16.3. Invoice discounting facility

The amount shown represents the cash drawn down under an invoice discounting facility; £16,000 remained undrawn (2015: £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.

### 16.4. Convertible loan note

On 26 February 2016, the 2007 convertible loan notes were repaid in full. On the same day, the company issued £1,125,000 unsecured convertible loan notes 2019 (loan notes 2019) which carry a coupon of 8% per annum payable quarterly in arrears. The loan notes are repayable in full on 25 February 2019 or may, at the option of the holder, be converted at any time into ordinary shares of the Company at a conversion price of £0.04 per share. The value of both the liability component and the equity conversion element was determined when the loan notes 2019 were issued.

# Notes to the financial statements

For the year ended 31 December 2016 – Continued

The convertible loan note recognised in the balance sheet is calculated as:

	Liability £'000	Equity £'000	Total £'000
Face value of unsecured convertible loan notes 2019 issued on 26 February 2016	1,037	88	1,125
Less issue costs	(38)	(4)	(42)
Value of liability and equity component on initial recognition at 26 February 2016	999	84	1,083
Interest expense (note 6)	107	-	107
Interest payable	(53)	-	(53)
<b>Carrying amounts at 31 December 2016</b>	<b>1,053</b>	<b>84</b>	<b>1,137</b>

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.

## 16.5. Borrowings in foreign currencies

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

	2016 £'000	2015 £'000
Pounds	1,485	1,549
US dollars	134	118
Euros	206	231
	<b>1,825</b>	<b>1,898</b>

The average effective interest rates paid were as follows:

	2016 %	2015 %
Invoice discount facility		
- Sterling	2.92	3.00
- Euro	2.76	2.80
- US Dollar	3.87	3.63
Convertible loan note	8.0	8.54

Finance leases	15.00	15.00
----------------	-------	-------

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

	2016 £'000	2015 £'000
<b>Fixed rates</b>		
Finance leases	33	71
Convertible loan notes	1,053	-
	<b>1,086</b>	<b>71</b>
<b>Floating rates</b>		
Invoice discounting facility	739	827
Convertible loan notes	-	1,000
	<b>739</b>	<b>1,827</b>

## 17. Obligations under finance lease arrangements

### 17.1. Accounting policy

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 are 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 profit or loss in the Consolidated SOCI on a straight-line basis over the lease term.

### 17.2. Note

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	2016 £'000	2015 £'000
Gross finance lease liabilities – minimum lease payments		
No later than one year	31	45
Later than one year and no later than five years	5	36
	<b>36</b>	<b>81</b>
Less future finance charges on finance lease liabilities	(3)	(10)
	<b>33</b>	<b>71</b>

The present value of finance lease liabilities is as follows:

	2016 £'000	2015 £'000
No later than one year	29	37
Later than one year and no later than five years	4	34
	<b>33</b>	<b>71</b>

# Notes to the financial statements

For the year ended 31 December 2016 – Continued

## 18. Trade and other payables

### 18.1. Accounting policy

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

### 18.2. Note

	2016 £'000	2015 £'000
Current liabilities		
Trade payables	1,007	1,265
Social security and other taxes	205	261
Other payables	46	74
Deferred income	100	133
Accrued expenses	1,056	1,033
	2,414	2,766

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

## 19 Provision for Liabilities

### 19.1. Accounting policy

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 an interest expense in profit or loss in the consolidated SOCI.

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

### 19.2. Note

	National Insurance £'000	Dilapidation provision £'000	Total £'000
At 1 January 2016	17	100	117
Charged to profit or loss in the Consolidated SOCI	-	2	2
Amounts utilised in the year	-	-	-
At 31 December 2016	17	102	119

### National insurance

The provision for Employer's National Insurance may become payable on gains on share options that are exercisable over the next one to ten years and is, therefore, classified as a non-current liability.

### Dilapidation provision

Under the terms of the operating leases over land and buildings, predominantly in the UK, the Group has an obligation to return the property in a specified condition at the end of the lease. As the unexpired lease term is more than one year, the provision has been classified as a non-current liability. It is expected that the provision will be utilised within the next 10 years.

# Notes to the financial statements

For the year ended 31 December 2016 – Continued

## 20. Retirement benefits

### 20.1. Accounting policy

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.

### 20.2. Note

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 £96,000 (2015: £89,000).

## 21. Share capital and share premium

### 21.1. Accounting policy

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.

### 21.2. Note

At 1 January 2016 and 31 December 2016, the authorised share capital of the Company comprised 6,568,546,210 ordinary shares with a nominal value of £0.01 each. The movement in the Company's issued share capital is set out below:

	Number of shares (thousands)	Ordinary shares £'000	Share premium £'000	Total £'000
At 1 January 2015	213,018	2,130	30,323	32,453
Shares issued to Non-Executive Directors in lieu of fees	706	7	71	78
Employee share option Schemes				
Enterprise Management Incentive scheme	5,861	59	-	59
At 31 December 2015	219,585	2,196	30,394	32,590
Shares issued to Non-Executive Directors in lieu of fees	1,851	18	56	74
Shares issued to third parties as payment for services rendered	1,566	16	47	63
Share issues				
- 25 February 2016	38,568	385	1,157	1,542
- 10 March 2016	12,900	129	387	516
- 1 July 2016	10,465	105	345	450
Share issue expenses				
- 25 February 2016	-	-	(118)	(118)
<b>At 31 December 2016</b>	<b>284,935</b>	<b>2,849</b>	<b>32,268</b>	<b>35,117</b>

*Net proceeds from share issues, after expenses of £118k, were £2,390,000*

## 22. Share-based payments

### 22.1. Accounting policy

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

For the year ended 31 December 2016 – Continued

## 22.2. Note

The Group has three share option schemes:

- Deltex Medical Group plc 2001 Executive Share Option Scheme (ESOS) (HMRC Approved Scheme);
- Deltex Medical Group 2011 Executive Share Option Scheme (HMRC Approved Scheme); and
- Deltex Medical 2003 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 Group's share option schemes are as follows:

	Number of options No.	2001 ESOS Weighted average exercise price £	Number of options No.	2011 ESOS Weighted average exercise price £	Number of options No	2003 EMI Weighted average exercise price £	Total No
Options outstanding at 1 January 2015	4,277,300	0.20	4,550,000	0.20	3,935,045	0.01	12,762,345
Granted during the year	-	-	4,892,500	0.11	5,268,382	0.01	10,160,882
Lapsed during the year	(59,000)	0.17	(294,750)	0.16	(232,976)	0.01	(586,726)
Exercised during the year	-	-	-	-	(5,861,053)	0.01	(5,861,053)
Options outstanding at 31 December 2015	4,218,300	0.20	9,147,750	0.15	3,109,398	0.01	16,475,448
Granted during the year	-	-	-	-	207,560	0.01	207,560
Lapsed during the year	(52,800)	0.21	(135,000)	0.21	(42,064)	0.01	(229,864)
Expired during the year	(908,000)	0.21	-	-	(17,222)	0.01	(925,222)
<b>Options outstanding at 31 December 2016</b>	<b>3,257,500</b>	<b>0.20</b>	<b>9,012,750</b>	<b>0.15</b>	<b>3,257,672</b>	<b>0.01</b>	<b>15,527,922</b>
Options exercisable at 1 January 2015	4,277,300	0.20	2,777,000	0.20	3,935,045	0.01	10,989,345
Options exercisable at 31 December 2015	4,218,300	0.20	4,379,000	0.20	3,109,398	0.01	11,706,698
<b>Options exercisable at 31 December 2016</b>	<b>3,257,500</b>	<b>0.20</b>	<b>4,244,000</b>	<b>0.20</b>	<b>3,257,672</b>	<b>0.01</b>	<b>10,759,172</b>

The weighted average market price of the Group's shares at the date of exercise for options under the 2003 EMI scheme was £0.06 in 2015. No share options were exercised during 2016. The middle-market closing price of the Company's shares was £0.0388 (2015: £0.0425).

# Notes to the financial statements

For the year ended 31 December 2016 – Continued

## 22.3. Information for share options awards granted during the year

No share options were granted under the 2011 ESOS during 2016. Those granted in 2015 had an estimated fair value of £0.0122 per share £59,689 in aggregate. Share options granted under the 2003 EMI had an estimated weighted average fair value of £0.035 (2015: £0.0563) and £7,209 in

aggregate (2015: £275,960). The fair value of share option awards made under both schemes is determined using a Black-Scholes option pricing model. The key assumptions used in determining the fair value of the options granted under the 2003 EMI scheme were:

	December 2016	September 2016	June 2015	December 2013	November 2013
Share price	3.9p	5.1p	6.63p	14.00p	14.62p
Exercise price	1.0p	1.0p	1.0p	1.0p	1.0p
Expected volatility	60.00%	55.00%	55.00%	41.30%	38.60%
Expected option life (expressed as weighted average life used in modelling)	1 year	1 year	1 year	1 year	1 year
Risk free interest rate	0.55%	0.46%	0.46%	0.39%	0.34%
<b>Fair value at measurement date</b>	<b>2.9p</b>	<b>4.1p</b>	<b>5.63p</b>	<b>13.00p</b>	<b>13.62p</b>

For both schemes, the expected volatility has been based on the historical volatility over a period of the same length as the expected option length and ending on the grant date.

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, therefore, is recognised in the subsidiary operating company with the equity reserve recognised in the parent company.



# Notes to the financial statements

## For the year ended 31 December 2016 – Continued

### 22.4. Share options outstanding

Share options outstanding at the end of the year have the following expiry date and exercise prices:

#### Current and past employees

Exercise period from	Exercise period to	Exercise price £	Number 2016	Number 2015
28-Mar-09	27-Mar-16	0.2075	-	917,000
19-May-06	19-May-16	0.01	-	17,222
29-Jun-07	29-Jun-17	0.01	34,908	34,908
29-Jun-10	28-Jun-17	0.2950	1,042,000	1,048,000
01-Jul-11	30-Jun-18	0.1850	1,116,000	1,138,000
30-Jun-08	30-Jun-18	0.01	114,128	128,414
12-Jun-12	12-Jun-19	0.1275	1,099,500	1,115,300
12-Jun-09	11-Jun-19	0.01	531,915	531,915
30-Dec-09	30-Dec-19	0.01	43,478	43,478
24-Mar-10	24-Mar-20	0.01	31,250	31,250
25-Jun-10	25-Jun-20	0.01	34,884	34,884
13-Oct-10	13-Oct-20	0.01	740,105	767,883
23-Dec-10	23-Dec-20	0.01	20,270	20,270
15-Apr-11	15-Apr-21	0.01	13,636	13,636
27-Sep-11	27-Sep-21	0.01	538,163	538,163
27-Sep-11	29-Sep-21	0.01	46,154	46,154
27-Sep-14	27-Sep-21	0.1725	2,591,000	2,678,000
10-Oct-12	10-Oct-22	0.01	549,801	549,801
10-Oct-15	10-Oct-22	0.2400	1,653,000	1,701,000
20-Nov-13	20-Nov-23	0.01	36,035	36,035
23-Dec-13	23-Dec-23	0.01	115,385	115,385
23-Jun-15	22-June-25	0.01	200,000	200,000
10-Jun-15	10-Jun-25	0.1100	4,768,750	4,768,750
30-Sep-16	29-Sep-26	0.01	97,560	-
30-Dec-16	29-Dec-17	0.01	110,000	-
			<b>15,527,922</b>	<b>16,475,448</b>

#### Contractors

Exercise period from	Exercise period to	Exercise price £	Number of Options 2016	2015
01-Mar-11	28-Feb-18	0.1875	252,000**	252,000
01-Nov-10	31-Oct-17	0.215	250,000*	250,000
16-Apr-10	15-Apr-17	0.235	100,000**	100,000
1-May-14	30-Apr-23	0.145	250,000**	250,000
			<b>852,000</b>	<b>852,000</b>

\*Options are exercisable in whole on any one occasion during the exercise period

\*\*Options are exercisable in part or in whole at any time during the exercise period

# Notes to the financial statements

## For the year ended 31 December 2016 – Continued

### 23. Notes to the Consolidated Statement of Cash Flows

	2016 £'000	2015 £'000
Loss before taxation	(2,518)	(3,595)
Adjustments for:		
Net finance costs	149	109
Depreciation of property, plant and equipment	282	257
Amortisation of intangible assets	143	147
Effect of exchange rate fluctuations	(30)	-
Loss on disposal of property, plant and equipment	23	21
Share-based payment expense	25	343
Operating cash flow before movements in working capital balances	(1,926)	(2,718)
Decrease in inventories	53	476
Decrease in trade and other receivables	447	141
(Decrease)/Increase in trade and other payables	(455)	392
Increase in provisions	1	1
<b>Net cash used in operations</b>	<b>(1,880)</b>	<b>(1,708)</b>

### 24. Commitments – operating lease

The Group leases land and buildings and various items of plant and machinery under non-cancellable operating lease agreements. The majority of the lease agreements are renewable at the end of the lease term at a prevailing market rent.

The lease expenditure charged to profit or loss in the Consolidated SOCI is disclosed in note 4. The future aggregate minimum lease payments under non-cancellable leases are as follows:

	2016 £'000	2015 £'000
No later than one year	96	85
Later than one year and no later than five years	304	311
Later than five years	357	431
	<b>757</b>	<b>827</b>

The lease over UK land and buildings has a break clause at four and eight years. The annual rent is subject to upward only rent reviews, every four years, based on open market rents at that time.

### 25. Financial Instruments

#### 25.1. Accounting policy

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.

# Notes to the financial statements

For the year ended 31 December 2016 – Continued

## 25.2. Note

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.

### 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 counter parties 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 & Pools.

### 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) 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.

# Notes to the financial statements

For the year ended 31 December 2016 – Continued

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.

## 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.

Interest on the invoice discounting facility is payable at 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.

	2016			2015		
	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Invoice discounting facility	739	-	-	827	-	-
Convertible loan note	90	90	1,139	1,016	-	-
Finance lease liabilities	31	5	-	44	31	5
Trade and other payables	2,105	-	-	2,372	-	-
	2,965	95	1,139	4,259	31	5

## Fair value of financial assets and liabilities

There is a close approximation between book and fair value of all the Group's financial assets and liabilities. All such fair value measures would be categorised as level 3 fair values in the fair value hierarchy.

The Group's financial assets and liabilities are categorised as follows:

	2016			2015		
	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total carrying amount £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total carrying amount £'000
<b>Financial assets</b>						
Trade receivables	1,877	-	1,877	1,918	-	1,918
Other receivables	352	-	352	-	-	-
Cash and cash equivalents	582	-	582	575	-	575
	2,811	-	2,811	2,493	-	2,493
<b>Financial liabilities</b>						
Trade and other payables	-	2,109	2,109	-	2,372	2,372
Invoice discounting facility	-	739	739	-	827	827
Convertible loan note	-	1,053	1,053	-	1,000	1,000
Finance lease liabilities	-	33	33	-	71	71
	-	3,934	3,934	-	4,270	4,270

# Notes to the financial statements

For the year ended 31 December 2016 – Continued

## 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 Canadian 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.

	2016			2015	
	Sensitivity %	Profit £'000	Equity £'000	Profit £'000	Equity £'000
Euros	10	(127)	(127)	(93)	(93)
US Dollar	10	78	78	113	113
Canadian Dollar	10	(9)	(9)	(4)	(4)

The following table shows the Group's sensitivity to a reasonably possible change in interest rates throughout the year, with all other variables remaining constant.

	2016			2015	
	Sensitivity %	Profit £'000	Equity £'000	Profit £'000	Equity £'000
Euros	1	(2)	(2)	(9)	(9)
US Dollar	1	(2)	(2)	(1)	(1)
Canadian Dollar	1	(2)	(2)	(1)	(1)

## 26. Related party transactions

### 26.1. Key management compensation

	2016 £'000	2015 £'000
Short-term employee benefits	461	401
Short term benefits paid to third parties	51	44
Post-employment benefits	14	14
Share-based payments	5	17
	531	476

## 26.2. Other transactions

Leading on from the strategic review of the UK sales operation that was completed in October 2015, Rockridge Medical Limited, a company partly owned by CM Jones, a non-executive director, was engaged by the Group to provide sales and marketing related consultancy support to the UK sales team. This work approximated to around 2 days per month. The total amount due for these consultancy services was £15,343.53 (2015: £16,392.48) excluding VAT, of this £8,815.61 was outstanding at the year-end (2015: £16,392.48). In addition, an amount of £4,300 (2015: £nil) was included within accruals at the year-end.

## 27. Capital and reserves

The Capital reserve represents the nominal value of shares that were re-purchased and subsequently cancelled during the year ending 31 December 2001.

The other reserve represents the reserve for cumulative share-based payment charges since 1 November 2002.

The translation reserve comprises of all foreign exchange differences arising since 1 January 2006, from the translation of the Group's net investments in foreign subsidiaries into sterling.

The convertible loan note reserve relates to the residual value attributed to the equity conversion right at the time of issue of the 2019 loan notes.

## 28. Events after the balance sheet date

On 22 March 2017, the company raised £400,000, before expenses, through subscriptions for 11,034,482 new ordinary shares at 3.625p per share.

# 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 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

The financial statements, included within the Report & Accounts (the "Annual Report"), comprise:

- the Parent Company Balance Sheet as at 31 December 2016;
- the Parent Company 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 United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

## Opinions on other matters prescribed by the Companies Act 2006

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

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

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

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept 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 Statement of directors' responsibilities set out on page 20, 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 parent 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:



# Independent auditors' report to the Members of Deltex Medical Group plc – Continued

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

## Other matter

We have reported separately on the group financial statements of Deltex Medical Group plc for the year ended 31 December 2016.



**Matthew Hall** (*Senior Statutory Auditor*)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors Southampton

26 April 2017

# Parent Company Balance Sheet

as at 31 December 2016

	Note	2016 £'000	2015 £'000
<b>Fixed assets</b>			
Intangible assets – Goodwill	5	66	-
Investments	6	27,583	25,667
Trade and other receivables	7	6,342	5,505
		<b>33,991</b>	<b>31,172</b>
<b>Current assets</b>			
Trade and other receivables	7	10	27
Cash and cash equivalents		236	156
		<b>246</b>	<b>183</b>
Creditors – amounts falling due within one year	8	(303)	(1,285)
<b>Net current liabilities</b>		<b>(57)</b>	<b>(1,102)</b>
<b>Total assets less current liabilities</b>		<b>33,934</b>	<b>30,070</b>
Creditors – amounts falling due after more than one year	9	(963)	-
<b>Net assets</b>		<b>32,971</b>	<b>30,070</b>
<b>Equity</b>			
Share capital	10	2,849	2,196
Share premium account		32,268	30,394
Capital redemption reserve		17,476	17,476
Other reserve		4,685	4,661
Convertible loan note reserve		84	-
Accumulated losses			
At 1 January		(24,657)	(25,380)
Profit for the year		266	723
Accumulated losses		<b>(24,391)</b>	<b>(24,657)</b>
<b>Total shareholders' funds</b>		<b>32,971</b>	<b>30,070</b>

The notes on pages 58 to 61 form an integral part of these financial statements.

The financial statements on pages 56 to 61 were approved by the Board of Directors and authorised for issue on 26 April 2017 and were signed on its behalf by:



**Nigel Keen**  
Chairman



**Jonathan D Shaw**  
Group Finance Director

# Parent Company Statement of Changes in Equity

for the year ended 31 December 2016

Group	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Convertible loan note reserve £'000	Accumulated losses £'000	Total equity £'000
<b>Balance at 1 January 2015</b>	2,130	30,323	17,476	4,318	-	(25,380)	28,867
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	723	723
<b>Total comprehensive income for the year</b>	-	-	-	-	-	723	723
Shares issued during the year	66	-	-	-	-	-	66
Premium on shares issued during the year	-	71	-	-	-	-	71
Credit in respect of service cost settled by award of options	-	-	-	343	-	-	343
<b>Balance at 31 December 2015</b>	2,196	30,394	17,476	4,661	-	(24,657)	30,070
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	266	266
<b>Total comprehensive income for the year</b>	-	-	-	-	-	266	266
Shares issued during the year	653	-	-	-	-	-	653
Premium on shares issued during the year	-	1,992	-	-	-	-	1,992
Issue expenses	-	(118)	-	-	-	-	(118)
Equity element of convertible loan note	-	-	-	-	84	-	84
Credit in respect of service cost settled by award of options	-	-	-	24	-	-	24
<b>Balance at 31 December 2016</b>	<b>2,849</b>	<b>32,268</b>	<b>17,476</b>	<b>4,685</b>	<b>84</b>	<b>(24,391)</b>	<b>32,971</b>

The notes on pages 58 to 61 form an integral part of these parent company financial statements.



# Notes to the Parent Company financial statements

## 1. Principal accounting policies

### 1.1. Basis of preparation

These financial statements are the financial statements for Deltex Medical Group plc, the parent of the Deltex Medical Group, which operates as a group holding company. It is a public company, limited by shares and is incorporated in England and Wales. It is listed on the Alternative Investment Market. The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). They have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

No income statement is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q) (ii), B66 and B67 of IFRS 3, 'Business Combinations';
- The requirements of IFRS 7 'Financial Instruments: Disclosures';
- The requirements of paragraphs 91-99 of IFRS 13, 'Fair Value Measurement';
- The requirement in paragraph 38 of IAS 1, 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16, 'Property, Plant and Equipment';
  - Paragraph 118(e) of IAS 38, 'Intangible Assets';
- The requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1;
- The requirements of IAS 7, 'Statement of Cash Flows';
- The requirements of paragraphs 30 and 31 of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors';
- The requirements of paragraph 17 of IAS 24, 'Related Party Disclosures'; and
- The requirements in IAS 24 to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

### 1.2. Judgements and key sources of estimation uncertainty

The company has funded the trading activities of its principal subsidiaries by way of inter-company loans. The amounts advanced did not have any specific terms relating to their repayment, were unsecured and were interest free. In the light of the above, management have had to determine whether such loan balances should be accounted for as loans and receivables in accordance with IAS39, 'Financial Instruments: Measurement', or whether, in fact, it represents an interest in a subsidiary which is outside the scope of IAS39 and accounted for in accordance with IAS27, 'Separate Financial Statements'.

Management have concluded that, in substance, the loans represent an interest in a subsidiary as the funding provided is considered to provide the subsidiary with a long term source of capital. Therefore the loans are accounted for in accordance with IAS27 and are carried at their historical cost less provision for impairment, if any.

The carrying amount of these loans are tested for impairment if events occur which may indicate that these assets are impaired. The carrying value of these loans are compared to the value in use of the relevant subsidiary which is also the cash generating unit (CGU). The estimation of the value in use of a CGU requires the Group to make an estimate of the expected future cash flows from the CGU and also the selection of a suitable pre-tax discount rate to calculate the present value of those cash flows.

### 1.3. Significant accounting policies.

The accounting policies set out below have been consistently applied in both 2016 and 2015.

#### Investments

Investments which comprise investments in share capital and inter-company loan balances 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 in profit and loss in the Statement of Comprehensive Income (SOC), unless the relevant investment is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

# Notes to the Parent Company financial statements

## Continued

### Deferred taxation

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

### 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 in profit or loss in the SOCI.

### 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 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 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 income statement, 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 plc and is therefore included in the consolidated financial statements of that Group, which are on pages 24 to 53 of the Annual Report & Accounts 2016.

### Cash and cash equivalents

Cash and cash equivalents 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, apart from a £3,000,000 10% fixed 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

# Notes to the Parent Company financial statements

## Continued

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. Operating profit

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own SOCI for the year. Deltex Medical Group plc reported a profit for the financial year ended 31 December 2016 of £266,000 (2015: £723,000).

## 3. Auditors remuneration

The audit fee in respect of the Parent Company's financial statements was £31,000 (2015: £30,000)

## 4. Directors' remuneration

	2016 £'000	2015 £'000
Aggregate emoluments	72	78
Short term benefits paid to third parties	51	44
	123	122

## 6. Investments

The directors consider that the carrying value of the investments is supported by their future cash flows.

Loans to subsidiary undertakings in the amount of £27,146,000 relate to long-term balances with Deltex Medical Limited and Deltex Medical SC Inc. The directors consider that these balances are intended to be, for all practical purposes, permanent as equity and do not expect them to be repayable in the foreseeable future.

There are no (2015: Nil) benefits accruing to directors under personal pension plans.

Included in the above figure are amounts payable to the employing company, Imperialise Limited, of £33,332 (2015: £33,332), and Rockridge Medical Limited of £18,000 (2015: £10,500), for the services of those directors.

Remuneration, including Executive directors, is disclosed on page 36 of this Reports & Accounts.

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. The average number of Non-executive directors by function was categorised as administrative for both years was 5 (2015: 5).

## 5. Intangible fixed assets – Goodwill

This amount represents the goodwill that arose in 2013 on the acquisition of the trade and assets of Deltex Medical Canada Limited which had been incorrectly accounted for in the accounting records of Deltex Medical Limited. This error came to light during the preparation of the statutory accounts of Deltex Medical Limited for the year ended 31 December 2015 and was corrected in those accounts. As the amount involved is considered by the directors to be immaterial in the context of the company's accounts they have chosen not to restate the prior year's balance sheet.

These loans have, therefore, been treated as part of Deltex Medical Group plc net investment in these subsidiaries.

During the year, additional long-term debtor balances have been reclassified as long-term investments as this follows the substance of the underlying transactions. Details of the Company's subsidiary undertakings are set out on page 41 of this Report & Accounts.

	2016			2015		
	Investments in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000	Investments in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
At 1 January	437	25,230	25,667	437	23,504	23,941
Additions	-	1,916	1,916	-	1,726	1,726
At 31 December	437	27,146	27,583	437	25,230	25,667

# Notes to the Parent Company financial statements

## Continued

### 7. Trade and other receivables

	2016 £'000	2015 £'000
<b>Amounts falling due within one year</b>		
Other receivables	10	27
<b>Amounts falling due after more than one year</b>		
Amounts owed by subsidiary undertaking	6,342	5,505
	<b>6,352</b>	<b>5,532</b>

In 2013, the Group reclassified £3,000,000 of the long-term investments by Group in Deltex Medical Limited as a long-term loans. This loan is being charged interest at a rate of 10% per annum, is unsecured and falls due for repayment on 1 January 2018. The remaining amount relates to group recharges and accrued interest which are unsecured and non-interest bearing.

### 8. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade payables	117	186
Accruals	96	99
Convertible loan notes	90	1,000
	<b>303</b>	<b>1,285</b>

### 9. Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Convertible loan notes	963	-

Information relating to the convertible loan note is in note 16.4 of the Consolidated Financial Statements.

### 10. Share capital

See notes 21 and 22 of the Consolidated Financial Statements on pages 46 to 49 for full details of the share capital and share option schemes operated by the Company.

### 11. Deferred tax

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Foreign exchange £'000	Total £'000
<b>Deferred tax liabilities</b>		
At 1 January 2015	79	79
Charged to profit or loss in the SOCI	(12)	(12)
At 31 December 2015	67	67
Charged to profit or loss in the SOCI	(12)	(12)
<b>At 31 December 2016</b>	<b>55</b>	<b>55</b>

	Tax losses £'000	Total £'000
<b>Deferred tax asset</b>		
At 1 January 2015	(79)	(79)
Credited to profit or loss in the SOCI	12	12
<b>At 31 December 2015</b>	<b>(67)</b>	<b>(67)</b>
Credited to profit or loss in the SOCI	12	12
<b>At 31 December 2016</b>	<b>(55)</b>	<b>(55)</b>

### 12. Ultimate controlling party

There are no shareholders with overall control of the Company as at 31 December 2016 or 31 December 2015.

### 13. Related party transactions

Exemption has been taken under FRS 101 paragraph 8(k) from disclosing related party transactions between the Company and its subsidiary undertakings and from paragraph 8(j) from disclosing key management compensation.

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 is disclosed in the Directors' Report in the Consolidated Financial Statements on page 18.

# Notice of Annual General Meeting

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the action you should take, you are recommended immediately to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all of your shares in Deltex Medical Group plc, you should pass this document, the accompanying form of proxy and the annual report and accounts of Deltex Medical Group plc for the financial year ended 31 December 2016 without delay to the stockbroker, bank or other person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares. This document should be read in conjunction with the accompanying Form of Proxy.

---

## **DELTEX MEDICAL GROUP plc** (Incorporated in England, registered number 3902895) **NOTICE OF ANNUAL GENERAL MEETING**

---

Notice of an annual general meeting of Deltex Medical Group plc (the "Company") to be held at Laytons Solicitors, 2 More London Riverside, London SE1 2AP at 11:00am on 9 June 2017 (the "AGM") is set out on pages 65 and 66 (inclusive) of this document. To be valid as a proxy in respect of the AGM, the form of proxy accompanying this document must be completed and returned in accordance with the instructions thereon so as to be received by the Company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 48 hours before the time of the meeting.



Directors

**Nigel Keen (Chairman)**

**Ewan Phillips**

**Jonathan D Shaw**

**Julian Cazalet**

**Christopher Jones**

**Sir Duncan Nichol**

**Mark Wippell**

**Deltex Medical Group plc**

Terminus Road, Chichester

West Sussex, PO19 8TX

United Kingdom

**Head Office:** +44 (0)1243 774 837

**Facsimile:** +44 (0)1243 532 534

**Customer Service:** 0845 085 001

**26 April 2017**

To holders of ordinary shares of 1p each ("Ordinary Shares") in the capital of Deltex Medical Group plc (the "Company")

**Dear Shareholder,**

**Notice of Annual General Meeting of the Company and annual accounts for the year ended 31 December 2016**

I am pleased to send you details of arrangements for our annual general meeting, together with the annual accounts of the Company, which contain the reports of the directors and the auditors, for the year ended 31 December 2016.

The formal notice of the annual general meeting of the Company, which will take place at Laytons Solicitors, 2 More London Riverside, London SE1 2AP at 11:00am on 9 June 2017 (the "AGM"), is set out on pages 65 and 66 (inclusive) of this document. The purpose of this letter is to explain certain aspects of the business of the AGM to you.

**Resolution 1 - Receipt of audited financial statements**

Resolution 1 deals with the receipt of the directors' and auditors' reports and the accounts of the group for the financial year ended 31 December 2016.

**Resolutions 2, 3 and 4 - Re-election of directors**

Resolution 2 proposes the re-election of Sir Duncan Nichol as a director, Resolution 3 proposes the re-election of Mark Wippell and Resolution 4 proposes the re-election of Ewan Phillips as a director. The Company's articles of association require that at each annual general meeting one third of the directors (excluding directors being elected for the first time) must retire by rotation; accordingly, Sir Duncan Nichol, Mark Wippell and Ewan Phillips offer themselves for re-election as proposed by resolutions 2, 3 and 4.

Biographical details of Sir Duncan Nichol, Mark Wippell and Ewan Phillips are set out on page 16 of the Report and Accounts 2016. The Board considers that the experience of these directors will continue to be beneficial to the Company.

**Resolution 5 – Re-appointment of auditors**

PricewaterhouseCoopers LLP have expressed their willingness to continue as the Company's auditors. Resolution 5 proposes their Re-appointment and authorises the directors to determine their remuneration.

**Resolution 6 – Power to allot and issue shares**

The directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by the shareholders of the Company. At the annual general meeting of the Company held on 12 May 2016 (the "2015 AGM"), the directors were given authority to allot relevant securities up to a maximum nominal amount of £908,732 (being one-third of the then issued ordinary share capital of the Company) and to allot a further one-third pursuant to a rights issue. This authority expires at the conclusion of the 2016 Annual General Meeting and the directors are seeking a fresh shareholder authority to allot relevant securities.

Accordingly, it is proposed that the directors are given general authority to allot relevant securities up to an aggregate nominal amount of £989,129 (being one-third of the issued ordinary share capital as at 21 April 2017) and in addition to allot relevant securities only in connection with a Rights Issue (as defined in the resolution) up to a further nominal value of £989,129.

Accordingly if this resolution is passed the Directors will have the authority in certain circumstances to allot new shares and other relevant securities up to a total nominal value of £1,978,258, representing a total amount equal to two-thirds of the Company's issued share capital as at 21 April 2017. Although the directors have no present intention of exercising this authority, the general authority to allot shares will provide flexibility for the Company to allot shares and to grant rights to subscribe for or to convert into shares when they consider it to be in the Company's interests to do so.

The authority will expire on the conclusion of the Annual General Meeting of the Company to be held in 2018 or on 17 August 2018, whichever is earlier, but it is the intention of the directors to seek renewal of this authority annually.



### **Resolution 7 – Disapplication of the statutory rights of pre-emption**

Section 561 of the Companies Act 2006 gives holders of equity securities (within the meaning of that Act) certain rights of preemption on the issue for cash of new equity securities (other than in connection with an employees' share scheme). The directors believe that it is in the best interests of the shareholders that the directors should have limited authority to allot Ordinary Shares (or rights to convert into or subscribe for Ordinary Shares, or sell any Ordinary Shares which the Company elects to hold in treasury) for cash without first having to offer such shares to existing shareholders in proportion to their existing holdings.

Resolution 7 proposes, in substitution for the power that was granted to the directors at the 2016 AGM, that power be granted to allot securities for cash on a non-pre-emptive basis up to a maximum nominal amount equal to £296,742 (representing approximately ten per cent. of the nominal issued share capital of the Company as at 21 April 2017). The resolution also disapplies the pre-emption rights to the extent necessary to facilitate rights issues, open offers and similar transactions without having to follow the specific statutory procedures that would otherwise apply to such issues.

The authority will expire on the conclusion of the Annual General Meeting of the Company to be held in 2018 or on 17 August 2018, whichever is earlier, but it is the intention of the directors to seek renewal of this authority annually. Resolution 7 will be proposed as a special resolution.

### **ACTION TO BE TAKEN**

It is important to the Company that shareholders have the opportunity to vote even if they are unable to attend the AGM. You will receive, by post, a form of proxy for use at the AGM. Whether or not you propose to attend the AGM in person, you are requested to complete the form of proxy and return it to the Company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU so as to arrive no later than 11.00am on 7 June 2017 or 48 hours before any adjournment of the meeting. The completion and return of the form of proxy will not affect your right to attend and vote in person at the AGM if you so wish. Your attention is drawn to the notes endorsed on the enclosed form of proxy.

### **RECOMMENDATION**

Your directors believe that all the proposals to be considered at the AGM are in the best interests of the Company and its shareholders as a whole and recommend that shareholders vote in favour of the resolutions, as they intend to do in respect of their own beneficial shareholdings of 39,662,000 Ordinary Shares in aggregate, representing approximately 13.37 per cent of the Ordinary Shares currently in issue.

**Yours sincerely**

**Nigel J Keen** *Chairman*

# Deltex Medical Group plc

## Notice Of Annual General Meeting

**NOTICE** is hereby given that the **ANNUAL GENERAL MEETING** of Deltex Medical Group plc will be held at Laytons Solicitors, 2 More London Riverside, London SE1 2AP at 11:00am on 9 June 2017 to transact the following business:

### Ordinary Business

As ordinary business, to consider and if thought fit pass the following resolutions, which will be proposed as ordinary resolutions:

1. To receive the Company's audited financial statements for the year ended 31 December 2016, together with the reports of the directors and of the auditors thereon.
2. To re-elect as a director Sir Duncan Nichol
3. To re-elect as a director Mark Wippell
4. To re-elect as a director Ewan Phillips
5. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the directors.

To transact any other ordinary business of the Company.

### Special Business

As special business, to consider and if thought fit pass the following resolutions, of which resolution 6 will be proposed as an ordinary resolution and resolution 7 as a special resolution:

6. THAT the directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") (in substitution for any existing such authority save to the extent of the allotment of shares pursuant to an offer or agreement made before expiry of such existing authority) to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for, or convert any security into, shares in the Company:
  - a. comprising equity securities (as defined by section 560 of the Act) up to an aggregate nominal amount of £1,978,258 (such amount to be reduced by the nominal amount of any relevant securities allotted under paragraph (b) below) in connection with an offer of such securities by way of a Rights Issue (as defined below); and
  - b. in any other case, up to an aggregate nominal amount of £989,129 (such amount to be reduced by the nominal amount of any equity securities allotted under paragraph (a) above in excess of £989,129). Provided that, unless previously revoked, varied or extended by the Company in general meeting, this authority shall expire on the earlier of the conclusion of the next annual general meeting of the Company and 17 August 2018 save that the Company may, before such expiry, make offers or agreements which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be

granted after the authority ends and the Directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such offer or agreement as if the authority had not ended. In this resolution "Rights Issue" means an offer of equity securities by way of rights, open offer or otherwise to holders of ordinary shares in the capital of the Company on the register on a record date fixed by the directors in proportion as nearly as may be to the respective numbers of Ordinary Shares held by them, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with any treasury shares, fractional entitlements or legal or practical issues arising under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory.

7. THAT, subject to the passing of resolution 6 set out in the Notice of the Annual General Meeting dated 26 April 2017 ("Resolution 6"), the directors be empowered pursuant to section 570(1) of the Act to allot equity securities (as defined in section 560 of the Act and including the sale of treasury shares) for cash pursuant to the general authority conferred by Resolution 6 as if section 561 of the Act did not apply to such allotment, such power to expire on the earlier of the conclusion of the next annual general meeting of the Company and 17 August 2018 unless previously revoked, varied or extended by the Company in general meeting, but so that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted or treasury shares to be sold after such expiry, and the directors may allot equity securities and sell treasury shares in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired, provided that this power shall be limited to:
  - a. the allotment of equity securities in connection with an offer of, or invitation to apply for, equity securities (but in the case of an allotment or sale permitted by the authority granted under paragraph (a) of Resolution 6, only by way of a Rights Issue as defined in Resolution 6);
  - b. in the case of the authority granted under paragraph (b) of Resolution 6 and/or in the case of any transfer of treasury shares which is treated as an allotment of equity securities under section 560(3) of the Act, the allotment (otherwise than under paragraph (a) of this resolution) of equity securities up to an aggregate nominal amount of £296,742.

# Deltex Medical Group plc

## Notice Of Annual General Meeting

### By order of the Board



**Jonathan D Shaw** *Company Secretary*

26 April 2017

Registered office  
Terminus Road  
Chichester  
West Sussex  
PO19 8TX

#### Notes:

1. Any member entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies (who need not be a member of the Company) to attend and, on a poll, to vote instead of the member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so.
2. In order to be valid, any form of proxy and power of attorney or other authority under which it is signed, or a notorially certified or office copy of such power or authority, must reach the Company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time of the meeting or of any adjournment of the meeting.
3. To be entitled to attend and vote at the annual general meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the register of members of the Company at 6pm on 7 June 2017 (or in the case of any adjournment, on the date which is forty-eight hours before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the annual general meeting.
4. A copy of this notice, within the Annual Report & Accounts 2016, can be found on the Company's website **[www.deltexmedical.com](http://www.deltexmedical.com)**.
5. Shareholders can, at no cost, obtain copies of the audited financial statements of the Company for the year ended 31 December 2016 and the directors' and auditors' reports on those financial statements by application to the Company Secretary at the registered office of the Company.
6. Biographical details of each Director who is being proposed for re-election or election by shareholders are set out in the Company's annual report and accounts for the year ended 31 December 2016.
7. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 not later than 11.00am on 7 June 2017 or, in the case of any adjournment, on the date which is forty-eight hours before the time of the adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message.  
  
After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual.
8. As at 21 April 2017 the Company's issued share capital consists of 296,741,733 ordinary shares of 1 pence each, carrying one vote each. No shares are held in treasury.



# Deltex Medical Wins EU Grant to Develop TruVue

Deltex Medical has won a Horizon2020 grant for the development and promotion of TruVue. TruVue is the first system to display in real time the relationship of blood flow velocity and blood pressure throughout every heartbeat.

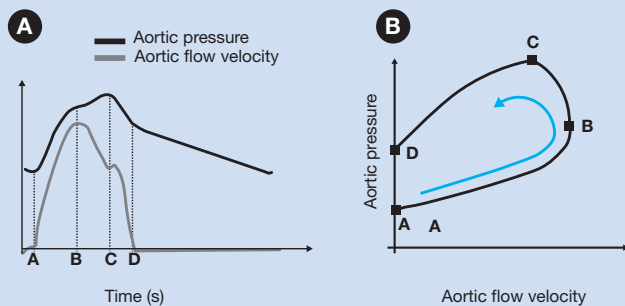
In the EU Horizon2020 submittal, Deltex Medical described how worldwide 234 million patients undergo major surgery and 1 million die within 30 days from perioperative complications. A further 42 million simply die up to 13 years sooner than they would have done had they not suffered complications post operatively. 51% of these deaths turn out to be due to suboptimal haemodynamic management.

The TruVue system is a result of research with a network of interested clinicians in 19 centres in Europe, the USA and the Far East.

The most original piece of work emanating from the group was the concept of plotting aortic blood flow velocity directly and simultaneously against aortic blood pressure, to create a Velocity-Pressure Loop (VP Loop). The methodology was invented by clinicians at Lariboisière Hospital in Paris. The system we now call TruVue is the first haemodynamic system to show simultaneously true flow and true pressure in the patient's aorta. TruVue has significant potential as a simple visual guide to fluid and drug management in surgery and intensive care medicine.



The VP Loops work was first presented in 2015 in Brussels at the International Society of Intensive Care and Emergency Medicine (ISICEM).



To construct the VP Loop the system plots the aortic flow velocity simultaneously with the aortic pressure.

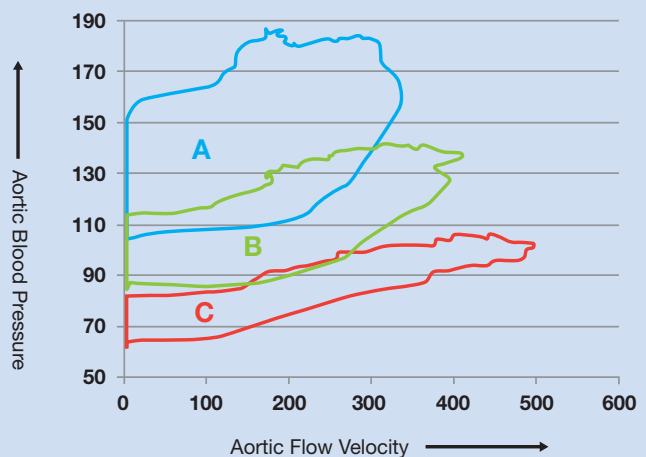
The basic waves are shown to the left in A;

- **Point A** is the pressure prior to heart contraction;
- **Point B** is the plot of flow and pressure at the point of maximum flow velocity;
- **Point C** is the plot at maximum pressure;
- and **Point D** is the end of the ejection.

A VP loop can have various visual aspects depending on vascular resistance and patient characteristics.

**The three loops on the right show visually three blood flow and pressure states.**

- **Loop A** is a high blood pressure state here there is risk of stroke or heart failure
- **Loop B** is a more normal state with optimal flow and optimal pressure
- **Loop C** is a low blood pressure state, here there is risk of kidney injury or heart attack.



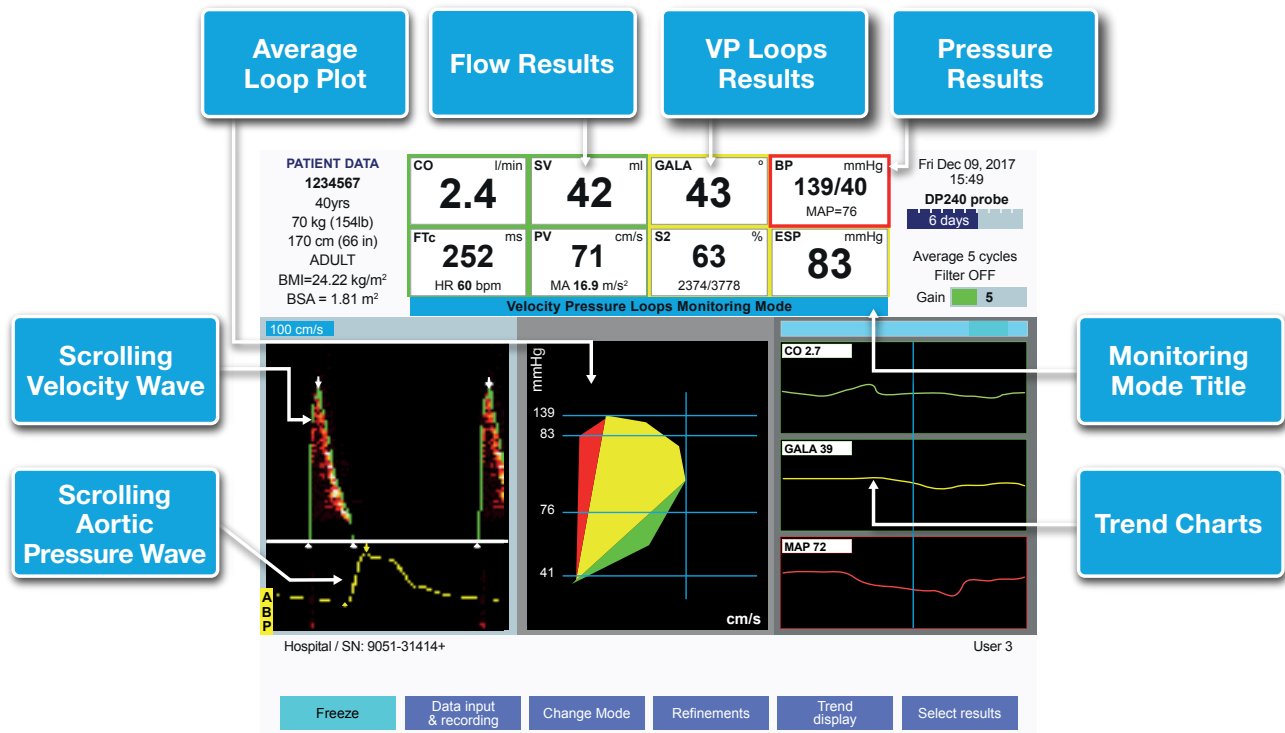
# Deltex Medical Wins EU Grant to Develop TruVue Continued

## Basic research complete

The basic research is now complete and monitors are in use at Lariboisiere Hospital, Paris. Leading customers will be engaged in the Horizon 2020 Phase 1 project. During Phase 1 we will work with users to define a world-class user interface, design the study protocol and recruit the centres necessary for a large multicentre study.

This will lay the ground for a Phase 2 submittal in which we will request further funding to study the clinical benefits in over 20 centres of excellence in Europe and the USA. The work will generate publications, finalise a customer driven user interface design and build clinical momentum.

## Deltex VP Loops display on ODM+ monitor\*

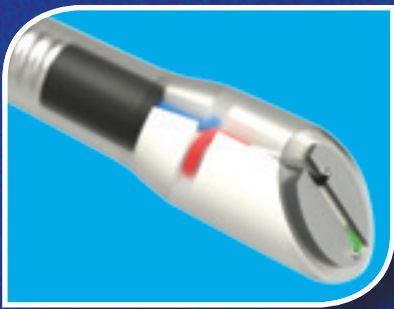


\* Screens currently at a development stage

## How does the TruVue VP Loops system differ from currently available devices?

The TruVue VP Loops system provides immediate visual information on patient haemodynamics as well as important numerical values in real time. No other system currently available is capable of displaying aortic blood

flow velocity and aortic blood pressure simultaneously throughout every heartbeat. The system is truly novel and is protected by an Intellectual Property filing.



# Deltex

medical group plc

Terminus Road  
Chichester PO19 8TX  
United Kingdom

Tel.....+44 (0)1243 774837  
Fax.....+44 (0)1243 532534

[www.deltexmedical.com](http://www.deltexmedical.com)

Job Number 002-DM2017

