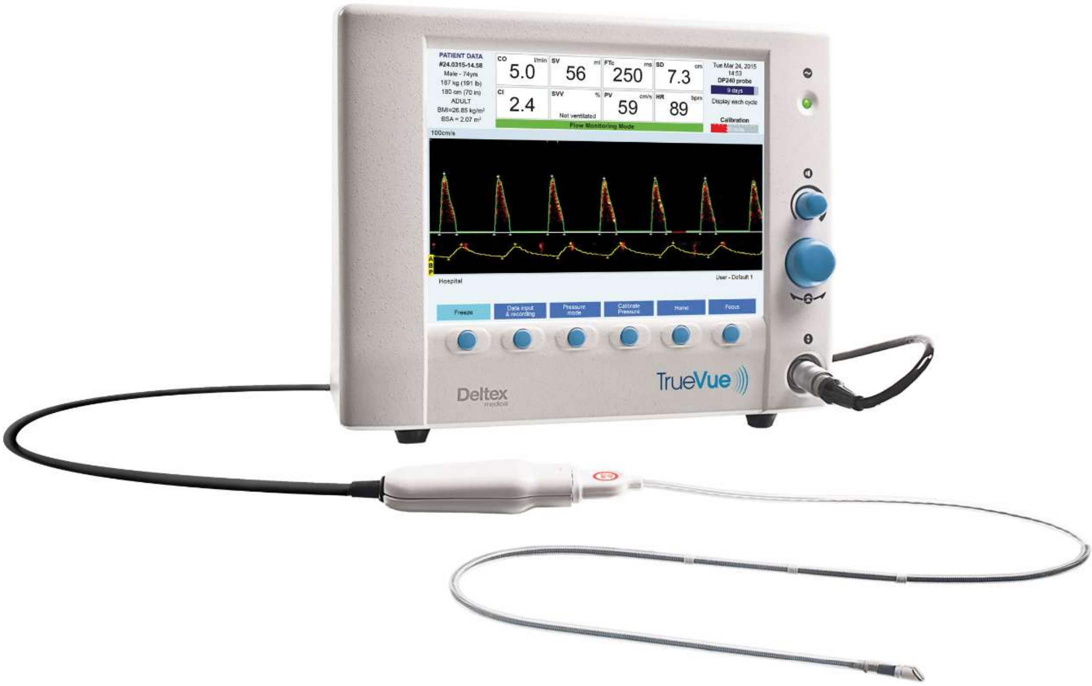
Deltex
medical group plc



Annual Report & Accounts 2018

Navigating Haemodynamics
See your way to safety

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Highlights

Key financial information

- 2018 full year revenues: £5.0m (2017: £5.9m)
- 2018 operating loss (pre-exceptional costs and other gain): £(0.9)m (2017: £(1.9)m)
- H2 2018 operating profit (pre-exceptional costs): £0.1m (H2 2017: loss £(0.9)m)
- Q4 2018 operating profit (pre-exceptional costs): £0.4m (Q4 2017: loss £(0.2)m)
- Q4 2018 cash generation: £0.2m (Q4 2017: cash used: £(0.3)m)
- cash at 31 December 2018: £0.6m (2017: £0.2m)

Key operating information

- increasing interest in haemodynamic monitoring from the market, due to heightened focus on patient safety
- implementation of new strategy started in June 2018:
    - targeting profit and cash generation, over top-line revenue growth
    - lower operating costs associated with re-sized business, including substantially smaller US and UK direct sales teams
    - currently establishing a sustainable platform allowing growth to be targeted from the re-sized business
    - once a robust platform is in place, the business will start to strategically target growth
- lower year-on-year revenues attributable, in large part, to substantially reduced expenditure on sales and marketing in H2 2018

"*I am delighted to see the profitability and cash generation in the fourth quarter of 2018, which helps to validate Deltex Medical's new strategy.*

"The Group continued to generate cash in the first quarter of 2019."

"The focus on patient safety, from both regulators and patient advocacy groups, is increasing which is helping to create interest in Deltex Medical's TrueVue System."

Nigel Keen

Nigel Keen
Chairman

Business model

What do we do?
Deltex Medical designed its TrueVue System to accurately measure a patient's haemodynamics which comprises the visualisation and measurement of blood flow in the central circulation.

The TrueVue System incorporates three best-in-class technologies to enable doctors to monitor blood flow in patients undergoing surgery and in critical care; and then, as appropriate, intervening safely by administering either fluids or drugs to maintain optimal patient blood flow.

A large body of published clinical evidence demonstrates that if central blood flow is optimised, the risk of complications are significantly reduced which has been shown to contribute to faster recoveries for patients and lower costs of care for the healthcare provider.

The use of Deltex Medical's core technology - the TrueVue Doppler - is widely acknowledged to be the global gold standard in the provision of optimised haemodynamics. No other device enables the anaesthetist to manage the patient's haemodynamic status during surgery either as precisely or as rapidly as with Doppler, and no other technology has been able to generate an equivalent evidence base of either patient or economic benefits. In certain clinical scenarios, a doctor may choose methodologies other than Doppler to acquire data to aid in the haemodynamic management of the patient. In such situations, Deltex Medical's TrueVue Impedance or TrueVue PressureWave technologies are available to satisfy such a clinical need.

What do we sell?
Deltex Medical's TrueVue System incorporates three best-in-class technologies namely TrueVue Doppler, TrueVue Impedance and TrueVue PressureWave.

Our TrueVue Doppler utilises a single-use disposable ultrasound probe which is placed into the patient's oesophagus via the nose or mouth. The TrueVue Doppler provides the clinician with beat-to-beat real-time information on the patient's circulating blood volume.

Deltex Medical's TrueVue Impedance technology uses state-of-the-art impedance cardiography to enable non-invasive continuous monitoring of awake patients. It comprises single-use electrodes that are placed on the patient's neck and chest.

TrueVue PressureWave utilises the most stable and extensively researched Pulse Pressure Wave Algorithm (PPWA) currently available, and is used in combination with the TrueVue Doppler to provide continous, highly accurate haemodynamic status data to clinicians.The TrueVue system is the only haemodynamic monitoring technology that can independently measure both blood flow and blood pressure across each and every heartbeat. The combination of these two technologies can be displayed as a Velocity Pressure Loop (VP Loop) which enables the display of novel and unique clincial parameters that are only available on the TrueVue System.

Deltex Medical's proposition to a hospital is the use of the TrueVue System to improve patient safety and reduce avoidable complications. If the flow of blood around the body is compromised, which commonly occurs during surgery, then the amount of oxygen delivered to tissues is reduced which, in turn, increases the risk of organ under-perfusion and harm. Periods of inadequate blood supply to organs, including the gut, kidneys and liver, increase the risk of complications. Such complications require additional clincial interventions which can lead to an increase in the time spent in hospital and ultimately reduced life expectancy. For healthcare providers there are clear financial, reputational and commercial benefits in reducing complications associated with poor haemodynamic monitoring during, and immediately post, surgery. These include the additional treatment costs needed to resolve haemodynamic-related complications both immediately and over the longer term. In short, the use of the TrueVue System technology reduces the risk to the patient and the consequential costs associated with avoidable complications.

How do we make money?
Our sales proposition comprises both a capital purchase (the monitor) and a revenue purchase (the TrueVue consumables). Due to the often-protracted procurement times for capital items by hospitals, from time to time we elect to loan our monitors to hospitals in order to encourage faster adoption of our technology into a hospital's practice. Once the TrueVue Doppler technology has been adopted by a hospital department/unit, then TrueVue consumables start to be used which results in the generation by the Group of high-margin revenues.

Business model (continued)

Our TrueVue Doppler is designed and manufactured in the UK which gives us good control over product quality, profit margins and incremental improvements. Our gross margins earned in markets where we sell directly, namely the UK and the USA, are higher than in those markets (over 40 countries) in which we sell using distributors where we do not incur direct selling costs.

Our gross margin earned on TrueVue Doppler is typically around 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 further complementary technologies without the need to incur the cost of creating a new installed base

Who are our customers?
Our main customers are anaesthetists, working within the operating room, and intensivists working in intensive care.

In the UK, we sell directly to NHS Foundation Trusts and NHS Trusts (NHS) and we are on contract with the NHS Supply Chain.

Our sales efforts are 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 haemodynamic monitoring using the TrueVue System (with the associated economic benefits to the hospital).

In the USA, recognition of the importance of modern 'Enhanced Recovery' approaches to surgery, via the implementation of a patient pathway based on evidence-based medicine, is growing at a hospital system level. This approach recognises 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 haemodynamic management as part of an enhanced recovery programme and partner with them to help achieve their clinical and financial objectives.

Since opening our US subsidiary, Deltex Medical, SC, Inc, we have established more than 30 accounts in US hospitals that utilise our TrueVue Doppler technology. We are now concentrating on growing our US business by focussing on these accounts, whilst also identifying potential new accounts that, due to clinical and financial factors, are inclined to implement haemodynamic monitoring either as part of an enhanced recovery programme or in Quality Improvement (QI) plans.

Our main focus in our distributor led markets is to work with those countries that have recognised the benefits of haemodynamic monitoring 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 change at both hospitals and the healthcare system 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. There are now multiple countries that have produced guidance or associated reimbursement programmes around the proven clinical benefits shown by TrueVue Doppler.

What is our goal?
Our goal is to see the adoption of our TrueVue System as the standard of care for all patients: new-born to adult; awake or anaesthetised; across all hospital settings.

This, we believe, will be achieved through clinicians understanding the clinical benefits of optimised haemodynamic management as well as hospital systems looking to improve patient safety and reducing avoidable complications. Deltex Medical, with its TrueVue System, is well placed to grow through wider acceptance that post-operative complications caused by sub-optimal haemodynamic management of the patient in surgery or intensive care should be a 'Never Event'.

Chairman's statement

Group overview
Clinicians and healthcare systems throughout the world are increasingly recognising the benefits of monitoring and optimising a patient's haemodynamic status when anesthetised during surgery or when sedated in the intensive care unit.

Deltex Medical developed the 'global gold standard' for haemodynamic monitoring with its oesophageal Doppler technology, which is marketed as TrueVue Doppler and often generically referred to by clinicians as 'ODM'. This technology has been shown to improve patient outcomes by enhancing patient safety, reducing avoidable complications and lowering attributable healthcare costs. This is important as there is substantial pressure on healthcare systems around the world, and particularly in the USA, to improve patient outcomes and patient safety, whilst reducing the costs of care.

Deltex Medical's multi-modal TrueVue System, which comprises two complementary haemodynamic monitoring technologies alongside the oesophageal Doppler, gives clinicians a single platform which allows them to choose the monitoring modality most appropriate for a patient's condition or procedure.

The Group's ongoing product development programme will expand and augment the TrueVue System, adding further modalities onto this platform.

Changes during 2018
There were major changes at Deltex Medical in 2018.

In February 2018, the Group successfully raised approximately £2m. This fund-raising strengthened the Group's financial position and enabled the Board to consider new ways to develop the business.

In April 2018, the results from the FEDORA study were published in the British Journal of Anaesthesia. This study showed that the use of the Group's TrueVue Doppler technology significantly reduces postoperative complications and length of hospital stay, adding to an already extensive evidence base for the Company's ODM technology.

In June 2018, the Board adopted a new strategy.

The new strategy
There are a number of elements to the new strategy which include:

- targeting profit and cash generation, rather than pursuing top-line revenue growth;
- focussing on selling the TrueVue System principally to existing customers, thereby allowing the size of the sales teams in the USA and the UK to be substantially slimmed down;
- adjusting the operating costs of the Group taking into account the smaller sales teams and the focus on profit and cash generation;
- stabilising the business, following the major changes to the Group, to establish a strong and sustainable commercial platform; and
- using the more robust platform to create growth through more focussed selling and leveraging the complete suite of TrueVue technologies.

The first stage of the implementation of the new strategy has been completed. Andy Mears was appointed Chief Executive; the business has been re-sized to a more appropriate level and there has been a substantial reduction in Deltex Medical's operating costs. There are encouraging signs, that can be seen in the Q4 year-on-year financial data below, that the first stage of the new strategy has been successful.

This has allowed us to establish a strengthening platform for the Group with a focus on ongoing cash generation and profitability.

Having re-based the business we can begin to drive growth once more in the business from this new baseline.

Financial results
Revenues for the year were £5.0m (2017: £5.9m) with the 15% reduction in revenues reflecting, in large part, the 41% (£1.5m) reduction in expenditure on sales and marketing across the year.

There were a number of exceptional costs, totalling some £0.3m (2017: £nil), associated with the implementation of the new strategy and the resultant reduction in operating costs. The operating loss for the year excluding exceptional costs and other gain was £0.9m (2017: £1.9m).

Chairman's statement (continued)

Q4 comparative financial information
The Board believes that the financial impact of the change in strategy can be seen in the year-on-year comparison of the Q4 results which are summarised in the table below:

	Unaudited management information		
	Quarter 4 2018 £'000	**Quarter 4 2017 £'000**	**Difference £'000**
Revenues	1,603	1,924	(321)
Adjusted gross margin[1]	1,244	1,555	(311)
Adjusted gross margin %	*78%*	*81%*	
Overheads (excluding exceptional costs[2])	(822)	(1,711)	889
Operating profit/(loss)	**422**	**(156)**	**578**
Cash generated/(used)	**178**	**(267)**	**445**

1. Excludes depreciation of £41,000 (Q4 2017: £100,000)
2. Q4 2018 exceptional costs were £22,000 (Q4 2017: £Nil)

The Q4 2018 operating profit (excluding exceptional costs) was c.£0.4m compared with a Q4 2017 operating loss of £0.2m, representing a £0.6m improvement in the period.

In Q4 2018, the Group generated c. £0.2m of cash compared with c. £0.3m of cash usage in Q4 2017.

Historically, December has always been the month with the highest revenues in the year so the Q4 results are not representative of the underlying full-year trading performance of the Group per se. However, the Board believes that the significant year-on-year improvement in the Q4 financial performance shows that the new strategy is beginning to work. The financial performance of the Group so far in 2019 is in line with market expectations and the Group continued to generate cash in the first quarter.

Employees
As part of the implementation of the new strategy we made the decision to reduce employee numbers substantially, a process which is always unpleasant and unsettling. However, the Group continues to employ a significant number of talented individuals across a range of disciplines in the UK and overseas, who are working hard to make Deltex Medical successful. I would like to thank all the Group's employees for their hard work throughout this year of change.

Prospects
The new strategy is being successfully implemented. The Group has a significantly lower cost-base, has cash on the balance sheet, is showing improving profitability and is starting to generate cash.

The next stage requires the Group to secure and make sustainable this strong base for the business which allows us to target growth from the re-sized business without substantially increasing the cost base.

The trends in the provision of global healthcare are increasingly to focus on patient safety and the reduction of avoidable complications leading to improved outcomes and lower costs. Advanced haemodynamic monitoring is an important element in meeting these requirements and the Board believes that Deltex Medical is well positioned to capitalise on these trends.

Nigel Keen
Chairman
24 April 2019

Operating review

Financial results

A number of major structural changes were made to the Group midway through 2018 as part of the implementation of Deltex Medical's new strategy.

Although the improvement in the financial performance of the Group is particularly marked in Q4, (the Group's busiest quarter), the effect of the change in strategy and the substantially lower operating costs, can also be seen in the second half of 2018. Summary financial information, analysed by H1 and H2, is set out in the table below:

	Unaudited management information					
	H1 2018 £'000	**H1 2017 £'000**	**H2 2018 £'000**	**H2 2017 £'000**	**FY 2018 £'000**	**FY 2017 £'000**
Probe revenues	**2,003**	2,355	**2,032**	2,581	**4,035**	4,936
Other revenues	**372**	499	**548**	435	**920**	934
Total revenues	**2,375**	2,854	**2,580**	3,016	**4,955**	5,870
Adjusted gross profit[1]	**1,700**	2,240	**1,996**	2,380	**3,696**	4,620
Adjusted gross margin %	***72%***	*78%*	***77%***	*79%*	***75%***	*79%*
Administrative expenses[2]	**(942)**	(923)	**(672)**	(988)	**(1,614)**	(1,911)
Sales & distribution costs[2]	**(1,407)**	(1,903)	**(767)**	(1,747)	**(2,174)**	(3,650)
Research, Development, Quality & Regulatory[2]	**(152)**	(136)	**(187)**	(217)	**(339)**	(353)
	(2,501)	(2,962)	**(1,626)**	(2,952)	**(4,127)**	(5,914)
Adjusted EBITDA[3]	**(801)**	(722)	**370**	(572)	**(431)**	(1,294)
Operating profit/(loss)[4]	**(1,066)**	(1,085)	**123**	(853)	**(943)**	(1,938)
				-		
Exceptional costs	**(142)**	-	**(145)**	-	**(287)**	-
Other gain	**80**	-	**-**	-	**80**	-

1. Gross profit excluding the depreciation charge relating to machines loaned to customers and production equipment
2. Excluding exceptional costs and non-cash costs namely depreciation, amortisation, share-based payments, non-executive directors' fees and accumulated absence costs
3. Earnings before interest, depreciation and amortisation, share-based payments and non-executive directors' fees and also excluding exceptional costs
4. Excluding exceptional costs and other gain

The reduction in revenues in H2, as compared to the prior year, reflects the effect of having smaller direct sales teams and associated reduced market coverage. However, the Group had also encountered some loss in revenue momentum in H1 in part due to challenging comparators as well as reductions in investment in sales & marketing.

The improvement in the financial performance of the Group in the second half of 2018 stands out. In particular, sales & distribution costs more than halved from £1.7m (H2 2017) to £0.8m (H2 2018). In addition, the table above shows that in H2 2018 the Group was adjusted EBITDA positive as well as recording an operating profit (excluding exceptional costs) of £0.1m.

The reduction in operating costs is also mirrored by the reduction in employee numbers. At 31 March 2019, the Group employed 50 people whereas at 31 March 2018 the Group employed 77 people, reflecting a 35% reduction in headcount.

The combination of the Q4 performance set out in the Chairman's statement and the H2 data shown in the table above helps give the Board comfort that the Group has taken important steps to develop a more robust platform for the future.

All costs will be kept under close scrutiny in 2019, although as the year progresses we intend to start to invest selectively in sales & marketing in order to help support future growth in revenues and exploit increased interest in the marketplace for our products.

Operating review (continued)

Commercial dynamics

Leveraging the Group's unique TrueVue Doppler
Deltex Medical has built its business model around the use of high-margin disposable probes, which are used in its unique TrueVue System.
There are other companies which provide haemodynamic monitoring solutions. However, only Deltex Medical provides the oesophageal Doppler monitoring technology, which is generally accepted to be the 'global gold standard' for haemodynamic monitoring. Its use is supported by a significant number of scientific studies and Health Technology Assessments. No other company selling haemodynamic monitoring technology has an equivalent body of scientific literature supporting the use of its technology.

Healthcare providers around the world, and particularly in the USA, are under increasing financial and regulatory pressure to ensure that patient safety and outcomes improve, whilst at the same time ensuring that healthcare costs decline. The Group's TrueVue Doppler technology has been shown in a number of clinical trials, including the FEDORA study, to significantly improve patient outcomes and patient safety as well as lowering the length of hospital stay which, in turn, reduces the total costs of treating the patient.

The FEDORA large multi-centre study was a significant publication for Deltex Medical. The previous 20 Randomised Clinical Trials (RCTs) involving the TrueVue Doppler technology were completed on high-risk surgical patients. The Spanish group that conducted the FEDORA study selected low-risk surgical patients to see if the same substantial reduction in complications seen with the earlier RCTs could be reproduced. (In the past clinicians believed that lower-risk patients did not need haemodynamic monitoring - as the patients were typically younger and fitter - and recovered more quickly after surgery.) Importantly, the results of the FEDORA study showed a 75% reduction in complications for these lower-risk patients, including major complications such as Acute Kidney Injury (AKI) and Surgical Site Infections (SSI). It is notable that many hospitals in North America and Europe incur financial penalties for AKIs and SSIs. The FEDORA study builds on the substantial body of evidence in the academic literature which supports the use of Deltex Medical's oesophageal Doppler haemodynamic monitoring to improve patient safety and reduce treatment costs.

The Board believes that, in time, the growing focus on patient safety and the need to reduce avoidable complications will increase demand for Deltex Medical's TrueVue Doppler technology. Moreover, once introduced into a hospital department, there are opportunities to cross-sell other of the Group's haemodynamic monitoring technologies on the TrueVue System into the same hospital.

New product development
The Group's initial and principal technology is a Doppler-based ultrasound oesophageal haemodynamic monitoring. This technology generates highly accurate, real-time data on descending aortic blood flow velocity on anesthetised or sedated patients. However, TrueVue Doppler does not provide a hospital with a complete solution for haemodynamic monitoring as it can be challenging to use on an awake patient where completely non-invasive technologies are preferred.

In 2018, Deltex Medical launched its TrueVue System monitoring platform which comprises three haemodynamic monitoring technologies: (i) its existing oesophageal Doppler ultrasound (TrueVue Doppler); (ii) high-definition Impedance Cardiography (TrueVue Impedance); and (iii) Pulse Pressure Waveform Analysis (TrueVue PressureWave).

The TrueVue System enables the Group to sell its haemodynamic monitoring technologies into a larger addressable market within a given hospital. Deltex Medical is also working on developing a number of new and complementary products designed to augment the TrueVue System platform, as well as designing a next-generation monitor for use with all the Group's haemodynamic monitoring modalities. The Board believes that, once launched, the new monitor will help the sale of the complete suite of TrueVue products and associated technologies.

The TrueVue System is currently available in the UK, continental Europe and a number of other international markets. 510(k) regulatory clearance has now been obtained from the US Food & Drug Administration (FDA) to market the TrueVue System in the USA.

In general, there is a trade-off between the ease-of-use and the precision of the data generated from each monitoring technology. The TrueVue platform enables clinicians to match the appropriate technology to the risk profile of their patients as they move through the hospital. For example, anaesthetised patients undergoing surgery can be treated under the guidance of the extremely precise TrueVue Doppler, whereas lower-risk, awake patients can be monitored using non-invasive TrueVue Impedance or TrueVue PressureWave.

Operating review (continued)

Notwithstanding the importance of updating and extending the Group's technology-based products, as part of its new strategy the Board intends to fund the development of new products using the cash it generates from its trading operations and grants.

Three principal divisions: the USA, the UK and international
The Group sells directly via its own sales-teams in the USA and the UK; and by using a network of distributors in other overseas markets.
The US market is strategically important to the Group due to its size, higher price-points and the underlying regulatory pressure associated with improving patient safety and reducing avoidable complications.

The UK NHS market remains a challenging customer due, in large part, to the acute financial pressures faced by all NHS hospitals along with the competitive environment. There is little sign of the UK market becoming easier in the short term, although the Board believes that the Group's market share in the UK has stabilised and certain UK-based initiatives are expected to be successful in increasing revenues.

The Group also sells some complementary products manufactured by third-party companies in the UK. One of these companies has recently been purchased by a competitor of Deltex Medical and this may result in the Group refocussing its UK sales resources solely onto its own product range.

Over recent years the Group has built a successful international division via a network of overseas distributors selling into some 40 countries. Although the gross margin associated with these international sales is lower than for direct sales, the associated selling costs are also materially lower. This division has been a steady contributor of cash and profit over recent years. Important international markets for the Group include France, Scandinavia, South Korea and Peru.

Importance of the US healthcare market
In recent years the Group has invested substantially in building a direct sales and marketing subsidiary in the USA. This has been an expensive undertaking and has required significant levels of investment and associated funding.

Hospitals in the US are under significant regulatory pressure to improve patient safety. They are also under commercial pressure from a range of public and private payers to reduce the costs of treating patients.

Deltex Medical's TrueVue Doppler technology has been shown in scientific studies to improve patient outcomes and improve patient safety. The data in the scientific literature clearly show that the use of the TrueVue Doppler technology reduces patients' post-operative complications and consequently their length of stay in hospital, leading to substantially lower treatment costs. In the light of the above, the US healthcare market continues to be of high importance to the Group.

Part of Deltex Medical's new strategy was to reduce the costs of the Group's US operation to ensure that it started to contribute profit and cash. This plan has been successfully implemented and over recent months the US subsidiary has contributed positively to the Group's financial results.

Competition: other companies, 'doing nothing' or inaccurate claims of equivalence
Deltex Medical faces competition in a number of areas. For example, the Group has competitors, some of which are substantially larger and have greater financial resources, which market and sell haemodynamic monitoring equipment, although none use oesophageal Doppler as their principal mode of monitoring.

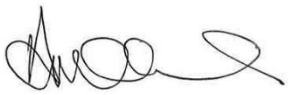
Deltex Medical also faces commercial challenges from hospitals which: (i) do no haemodynamic monitoring as they have not yet been convinced of its benefits, whether clinical or cost-saving; or (ii) have been misinformed that competitors' equipment is "*comparable to ODM, but cheaper and easier to use*". Both of these issues represent selling challenges that the Group is currently working on addressing. The Board is confident that they can be overcome, primarily with the introduction of the TrueVue System which has leading modalities across the range.

Conclusion
The first stage of Deltex Medical's new strategy has been successfully implemented. The Group now has a substantially lower cost-base which enables it to generate, rather than use, cash. Moreover, its direct sales teams are more focussed on driving revenues from existing customers - and it is well advanced in building a strong and sustainable business platform.

Operating review (continued)

The Group's commercial position is also being helped by market trends evolving around the need to reduce avoidable complications for patients, in part driven by regulatory pressures, that should support higher adoption rates of Deltex Medical's TrueVue Doppler technology in the future.

Deltex Medical is also working hard at developing the full range of haemodynamic monitoring modalities on its TrueVue System financed by cash generated from its ongoing operations and grants.



Andy Mears
Chief Executive
24 April 2019

Financial review

Consolidated Statement of Comprehensive Income (SOCI)
Revenue as reported in the SOCI was lower than 2017 by £915,000 at £4,955,000.

Detailed market information including a review of the Group's trading performance can be found on pages 9 to 12 of the Operating review.

Gross margin
The Group's overall gross margin was 71% for the year which compared to 75% in 2017. The main changes in the margin are shown in the table below:

	Product margin 2018			
	Probes %	**Monitors %**	**Other %**	**Total %**
Product contribution	**86**	**49**	**50**	**80**
Depreciation of placed monitors	**-**	**(46)**	**-**	**(3)**
Shipping costs	**-**	**-**	**(6)**	**(1)**
Production variances	**(5)**	**(6)**	**(3)**	**(5)**
	81	**(3)**	**41**	**71**

	Product margin 2017			
	Probes %	Monitors %	Other %	Total %
Product contribution	86	65	45	81
Depreciation of placed monitors	-	(62)	-	(4)
Shipping costs	-	-	(9)	(1)
Production variances	(2)	(2)	(1)	(1)
	84	1	35	75

The overall product contribution has remained at a consistent level with prior years. The overall probe margin slightly fell in the year due to the under-recovery of both labour and overheads during the first half of 2018.

The overall loss incurred on monitors reflects the change in sales mix with a larger number of monitors sold in our International distributor led business which has much lower margins than our direct markets.

Costs
Total costs including exceptional expenditure of £287,000 (2017: £nil) were £1,559,000 lower than 2017 at £4,761,000 reflecting the effect of the cost reductions following the change in strategy in the second half of 2018.

The operating loss before exceptional items was £943,000 (2017: £1,938,000).

The other gain of £80,000 (2017: £nil) was recognised in profit or loss in the SOCI following the extension of the maturity date of the convertible loan notes from February 2019 to February 2021 that took place in February 2018.

Taxation
The Group anticipates being able to submit a claim for £63,000 relating to its 2018 research and development activities.

Property, plant and equipment (PPE)
PPE has increased in the year by £313,000. However, ignoring the effect of adopting the new leasing standard, IFRS 16, PPE has fallen in value by £142,000 compared to 2017. The primary reason being the low levels of capital expenditure offset by annual depreciation charges. This is most notable in the estate of placed monitors, that has remained static for the last few years and has continued to be depreciated, which decreased in value by £174,000.

Borrowings
Total borrowings reduced by £225,000 to £1,588,000 (2017: £1,813,000). The main change being a reduction in the amount outstanding on the invoice discounting facility of £166,000 which is reflective in the lower level of sales achieved in December 2018.

Trade payables and other payables
Trade payables and other payables have reduced from £2,649,000 to £2,335,000 at the end of the financial year.

However, before the effect of the adoption of IFRS 16, they have reduced by £698,000 which is largely due to the fact that there was substantially less strain on working capital balances following both the fundraising in February 2018 and the cost reductions made in the second half of the year.

The reduction in the amount outstanding for social security and other taxes is largely due to the settlement of outstanding VAT and PAYE liabilities as well as a reduction in the month-end liabilities due to lower sales for VAT and reduced headcount for PAYE.

The movement in accrued expenses is principally the release of sales bonuses that were settled through the grant of EMI options. The largest amount being £142,000 following the resignation of Ewan Phillips in June 2018.

Financial review (continued)

Cash flow
The Group's main funding requirements continue to be funding of working capital requirements and the funding of investments.

Jonathan Shaw
Group Finance Director
24 April 2019

Corporate governance statement

Chairman's introduction
Our purpose is to provide returns for our shareholders by enabling improvements in outcomes by creating, validating and delivering innovative healthcare solutions. We aim to achieve this by:

- Investing in our products, services and people;
- Partnering with clinicians to adopt the TrueVue System;
- Communicating openly and honestly with our customers and with each other;
- Providing excellent levels of support, education and training;
- Continuing to be thought-leaders to drive innovation; and
- Supporting evidence-based medicine to create sustainable health benefits.

It is the Board's role to ensure that Deltex Medical Group plc ("Deltex Medical" or the "Group") is managed for the long-term benefit of all Deltex Medical's stakeholders with effective, efficient and timely decision making. Corporate Governance is an important element of that task, which reduces risk and adds value to Deltex Medical.

As your Chairman, I am committed that the Group should uphold the highest standards of governance commensurate to its size and the complexity of its business.

Nigel Keen

Nigel Keen
Chairman
24 April 2019

Corporate Governance regime
Following the changes made by the London Stock Exchange to the AIM Rules for Companies (AIM Rules) in March 2018, the Board of Deltex Medical have chosen to adopt the QCA Corporate Governance Code (the QCA Code) that was published by the Quoted Companies Alliance in April 2018.

This report sets out how the Group applies the QCA code. The QCA code is constructed around ten broad principles. The QCA code requires certain information to be disclosed either within the Annual Report & Accounts or on the Group's website.

Set out below, is the Board's explanation of how the Group applies these principles:

1. **Establish a strategy and business model which promote long-term value for shareholders**
The Group designs, develops and markets advanced haemodynamic monitoring technologies which, based on the clinical studies to date, are proven to significantly improve patient outcomes compared to other technologies that are described as haemodynamic and/or cardiac output monitors. Our long term goal remains to encourage healthcare systems around the world to adopt our technology as part of routine standard of care across the entire hospital path way.

However, whilst we have had past success in persuading the UK NHS to commit to adopt our technology at pace and scale, the commercial benefits have not followed as that organisation has struggled to embrace innovative technologies. We have been influential in raising the importance of haemodynamic monitoring in the US healthcare market where we compete against competitor technologies which have limited clinical evidence supporting its efficacy.

Our response, is to focus on those customers that have understood the clinical benefits of our technology who are committed to implement our technology in their chosen clinical fields.

Our business model is explained on pages 5 and 6 of the Annual Report & Accounts 2018.

2. **Seek to understand and meet shareholder needs and expectations**
The way in which the Board seeks to understand and meet the shareholder needs and expectations is set out in the Corporate Governance section of the Group's website.

3. **Take into account wider stakeholder and social responsibilities and their implications for long-term success.**
Information about the Board process can be found in the Corporate Governance section of the Group's website.

4. **Embed effective risk management, considering both opportunities and threats, throughout the organisation**.

Financial controls
The Group has a well-established framework of internal financial controls that is regularly reviewed by the Group Finance Director and by the Audit Committee on an annual basis.

The Board is responsible for reviewing and approving the overall strategy of the Group. It also approves the supporting revenue budgets and plans. Monthly results and variances to plans are reported to the Board. For the first six months of 2018, this was predominantly focussed on sales performance whereas for the second six months, consistent with the change in operational focus, the Board receives detailed profit and loss information on both adjusted earnings before interest, taxation, depreciation and amortisation and adjusted earnings before interest and taxation.

The Board is assisted by the Audit Committee in the discharge of its duties in relation to the Annual Report & Accounts and the Group's accounting policies.

Non-financial controls
The Board is cognisant of the need for a robust system of internal controls which is critical to the management of its overall strategy.

The Group has a robust Quality Management System (QMS) that is maintained on the Entropy document control system that is hosted by BSI. The Group's QMS is periodically reviewed by its European notified body, BSI, and other regulatory bodies such the USA's Food & Drug Administration (FDA). Both BSI and the US FDA reviewed the QMS during 2018 and neither body raised any matters of significant concern.

The directors have overall responsibility for the system of internal control throughout the Group and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, as it can only provide reasonable, but not absolute, assurance against material misstatement or loss. The Board is satisfied with the effectiveness of its system of internal controls for the financial period under review.

5. **Maintain the board as a well-functioning, balanced team led by the Chair**
The Board considers that with the exception the Chairman all the non-executive directors are independent notwithstanding their varying lengths of tenure in office. In this context, Sir Duncan Nichol and Julian Cazalet have served on the Board for around 15 years and 11 years respectively. However, the Board has concluded that their length of service has not impaired the independence of judgement they bear. All of the non-executive directors receive a fixed fee for their services which is usually settled by the issue of new ordinary shares in the Group. None of the non-executive directors have an interest in any of the Group's share option schemes.

The executive directors are employed on a full-time basis and they are expected to spend the time required to fulfil their executive responsibilities which may well be in excess of the 37.5 hours per week that is set out in their respective service agreements. This has been the case for both executive directors during the year under review.

The Chairman is expected to devote as much of his time, attention, ability and skills as are reasonably required to perform his duties. His letter of appointment, dated 19 April 2009, states that the minimum time commitment is expected to be 12 days per annum which is consistent with the minimum expected by the other non-executive directors.

Directors' attendance record at the AGM, scheduled Board meetings and Board committee meetings, for the year ended 30 June 2018 was as set out in the table overleaf. For Board and Board committee meetings, attendance is expressed as the number of meetings attended out of the number that each Director was eligible to attend.

Director	AGM 2018	Board	Audit Committee (Maximum 2)	Remuneration Committee	EGM
Nigel Keen	✓	8/8	2/2	3/3	0/1
Ewan Phillips*	✓	3/3	1/1	3/3	1/1
Andy Mears**	N/A	5/5	1/1	1/3	N/A
Jonathan Shaw	✓	8/8	2/2	0/3	1/1
Julian Cazalet	✓	7/8	2/2	3/3	1/1
Chris Jones	✓	7/8	2/2	3/3	1/1
Sir Duncan Nichol	✓	8/8	2/2	3/3	0/1
Mark Wippell	✓	8/8	2/2	3/3	0/1

*Ewan Phillips resigned from the Board on 12 June 2018
** Andy Mears joined the Board on 13 June 2018

6. **Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities**
   Biographical details of each director can be found on page 33 of the Annual Report & Accounts 2018.

   Following Ewan Phillips' decision to resign from the Board, the Chair sought legal advice from DAC Beachcroft LLP on the most appropriate way to structure the agreement between Ewan and the Company.

   To help the Board with its strategy review, the Chair engaged business consultancy services from Assuage Limited. Following the resignation of Ewan Phillips on 12 June 2018, Assuage Limited has provided ad-hoc support to Andy Mears, Chief Executive Officer, on various matters including the cost reduction programme that was implemented in July 2018. The Group has been invoiced £45,000 for such services during the year.

   The Board is aware of the QCA guidance concerning the separation of the role of the Company Secretary from that of an executive director. However, given the size of the Group and resources available to it, the Board is satisfied with the existing arrangements and will consider separating the role of Company Secretary at the appropriate time.

   The Company Secretary also provides support to both the Remuneration Committee and the Audit Committee as requested. The Board will, as noted above, consider separating the role of Company Secretary at the appropriate time from that of an executive director.

7. **Evaluate board performance based on clear and relevant objectives, seeking continuous improvement**
   The Board has chosen not to undertake formal reviews of board performance. Instead, the Chair periodically discusses the input of each director with the individual concerned to be satisfied that their contribution to the Board is and remains both effective and relevant and that they remain committed to the success of the Group.

8. **Promote a corporate culture that is based on ethical values and behaviours**
   As a provider of regulated healthcare products to patients across the world ethical behaviour is key to everything that the Group does. Our products are designed and manufactured by our well-trained employees in Chichester who comply with our established Quality System. Our sales teams promote our products to the clinicians and healthcare systems using them in an open way and we provide extensive training to users to allow them to gain the maximum advantage for the use of our products in the clinical setting.

Audit committee report

Introduction from Julian Cazalet MA FCA, Chairman of the Audit Committee
I am pleased to present this report on behalf of the Audit Committee. I have been Chair of the Audit Committee since 2015 and consider that I have recent and relevant financial experience.

The Audit Committee has had a busy year which culminated in the audit tender process which saw the appointment of new independent auditors for the 2018 audit. In addition, the Audit Committee has kept under review the Group's Brexit scenario planning.
During the year, I have met with a number of shareholders to discuss various matters and I look forward to continuing to do so in the coming year.

Julian Cazalet MA FCA
Audit Committee Chairman
24 April 2019

Key responsibilities
The primary responsibility of the Audit Committee is to assist the Board fulfil its oversight responsibilities. Accordingly, the Audit Committee is required to:

- Monitor the integrity of both the Group's interim and annual report and accounts;
- Review any significant financial reporting matters that may arise and agree on the reasonableness of the judgements they may contain;
- Advise on the clarity of disclosure of information provided in the report with the objective of ensuring that the Annual Report & Accounts, as a whole, is fair and balanced.
- Ensure that the both the Group's interim and annual accounts have been prepared in accordance with applicable accounting standards and that any significant estimates made are considered to be reasonable;
- Review the adequacy and effectiveness of the Group's system of internal control and risk management; and
- Oversee the relationship with the Group's independent auditors, reviewing the effectiveness of the external audit and advising the Board on their appointment and remuneration.

Audit Committee governance
The Audit Committee comprises all the non-executive directors and was chaired during the year under review by Julian Cazalet who is a chartered accountant with recent and relevant financial experience.

The other non-executive directors who served during the year under review are all considered to have the ability and experience necessary to understand both interim and annual reports and accounts.

The Audit Committee usually meets twice a year along with the executive directors, by invitation. A private meeting is also held with the Group's independent auditors without the executive directors in attendance.

Activities of the Audit Committee during the year

Internal controls and risk management
The Board has collective responsibility for the effectiveness of the Group's system of internal control. The Audit Committee has assisted the board with its review of the effectiveness of the internal controls and risk management during the year principally through discussion with the executive directors and other senior managers within the Group. In addition, the Audit Committee receives reports from its external auditors that contain control findings that are relevant to its work.

Information relating to the Group's principal risks and uncertainties can be found on page 32 of the Strategic report.

Financial reporting matters and judgements
The Audit Committee received updates on the key judgemental financial reporting areas in the Annual Report & Accounts from the Group Finance Director and considered the findings from the external auditors on these matters. The significant reporting matters that were considered by the Audit Committee during the year were:

- The recognition of revenue for the sale of monitors on a bill and hold basis to one of the Group's distributors. The Audit Committee reviewed the terms and conditions of the sales contract and considered that the accounting requirements of IFRS 15, 'Revenue from Contracts with Customers', had been met and, therefore, the recognition of the revenue was appropriate.

- The carrying value of investments in subsidiaries in the Parent Company's Individual Financial Statements. The Committee reviewed the key assumptions used in the underlying cash flow forecast that was used as basis for the value in use calculation required by accounting standards. The key assumptions reviewed in the cash flow forecast were the sales growth rates, gross margins and overheads. In the context of the value in use calculation, the Committee satisfied itself that the pre-tax discount rate was appropriate to use.

- The incremental borrowing rate used for lease accounting purposes. The Group early adopted IFRS 16, Leases' from 1 January 2018 using the modified retrospective approach. The Committee reviewed the basis upon which the Group's incremental borrowing rate was determined and concluded that the rate used was appropriate.

External audit
The Audit Committee oversaw a competitive tender process for the provision of audit services for the year ending 31 December 2018. The incumbent auditors, PricewaterhouseCoopers LLP, who were appointed in 1999, did not tender. The Audit Committee reviewed proposals for audit services from three mid-tier firms and received formal presentations from two of those firms.

Following these meetings, the Audit Committee recommended to the Board that Nexia Smith & Williamson should be appointed as external auditors for the year ending 31 December 2018.

The Audit Committee has received an audit planning document from the auditors that sets out the auditor's perceived audit risks and the scope of the work to be performed. The Audit Committee was satisfied that the risks identified were aligned with its own assessment and that the proposed approach was sufficient for a high-quality audit to be performed.

Following the completion of the audit, the Audit Committee received from the auditors a post-audit management letter that set out the key findings from the audit. The auditor's also confirmed their independence and how they comply with their professional and regulatory requirements.

The Audit Committee has confirmed that it is satisfied with the independence, objectivity and the effectiveness of Nexia Smith & Williamson's audit and has recommended to the Board that they are reappointed.

A resolution to this effect will be proposed at the forthcoming Annual General Meeting.

Directors' remuneration report

Dear Shareholder

The Directors' remuneration policy sets out our remuneration policy for 2018 and beyond and the Annual report on remuneration sets out the remuneration paid to the executive and non-executive directors in respect of 2018 and how our policy will be implemented in 2019.

As a company listed on the Alternative Investment Market (AIM), the Company is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the "Regulations"), nor is it required to comply with the principles relating to directors' remuneration in the UK Corporate Governance Code 2016 (the "Code"). This report has not been audited.

Summary of main remuneration policy decisions during the year

The Committee considered during the year whether the current policy remains appropriate for 2019 and concluded that it has a remuneration policy which is a good balance between competitive pay, incentives to develop and grow the Company in line with the strategy and effectively rewards for success and does not reward where targets are not met.

Corporate performance and remuneration for 2018

As explained in the Chairman's statement and the Operating review, on pages 7 to 12, 2018 has been a year of significant change for Deltex Medical. In June, the Board concluded that its strategy of investing heavily to drive growth in the US market was moving too slowly and it conducted a review, which prompted a change in strategy. A number of measures where put in place to improve the Group's financial results by reducing the costs of the operation, so that the Group would generate rather than use cash, giving it a stable platform from which to expand. To implement these changes Andy Mears was appointed CEO when Ewan Phillips left the Group.

As in previous years, the Committee had set stretching performance targets for the annual bonus which were clearly linked to the strategy and financial performance of the Group. The financial targets were not met and no part of the bonus was paid out. The Committee carefully reviewed performance against the strategic objectives set for the annual bonus and although the Committee determined that management had performed well in putting in hand the revised strategy, in the light of the disappointing financial performance it was determined that no bonus should be paid for 2018.

Implementation of policy in 2019

- The executive directors base salary will be reviewed on 1st July.

- Annual bonus awards are at the same level as 2018 being 75% of salary for each executive director. Targets for the 2019 annual bonus are considered by the Committee to be commercially sensitive and will be disclosed retrospectively in next year's Annual Report (to the extent they are not commercially sensitive at that time)

- Awards under the Deltex Medical Share Option Scheme for each executive director will be made at a maximum of 100% of salary. Vesting of the awards after three years will be determined by EPS performance.

Summary

The Committee believes that the remuneration policy continues to both support and motivate our senior team to achieve the Company's strategic objectives and long-term growth for our shareholders.

I will be pleased to engage with you either at the AGM or beforehand should any shareholder require more information about our remuneration policies.

Yours sincerely

Nigel Keen

Nigel Keen
Chairman of the Remuneration Committee
24 April 2019

Directors' remuneration policy

This part of the remuneration report sets out the Group's remuneration policy for its directors.

Policy overview

The remuneration policy promotes the delivery of the Group's strategy and seeks to align the interests of directors and shareholders. The Committee regularly reviews the link between incentive structure and strategy to ensure that remuneration packages are appropriate to attract, motivate and retain the high calibre executives who are needed to deliver the Group's strategy.

Directors' remuneration report (continued)

The Group has an incentive driven policy that seeks to reward executives fairly and responsibly based on Group performance and their individual contribution. The Group has a strategy aimed at delivering profitable growth and it is important for motivation and retention that the remuneration of the executives reflects its sustainable, profitable growth and the increasing complexity of the business.

The Committee considers carefully the motivational effects of the incentive structure in order to ensure that it is effective and does not have any unintentionally negative impact on matters such as governance, environmental or social issues. More generally, the Committee ensures that the overall remuneration policy does not encourage inappropriate risk taking.

Other matters taken into consideration in determining policy

The Committee reviews the executive directors' packages annually taking account of the level of remuneration paid for comparable positions in similar companies. In determining the remuneration of the Group's directors, the Committee also takes into account the general trends in pay and conditions across the Group as a whole.

The Committee seeks to ensure that the underlying principles which form the basis for decisions on directors' pay are consistent with those on which pay decisions for the rest of the workforce are taken.

Remuneration policy table

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity
Base salary	▪ To provide a competitive and appropriate level of basic fixed pay to recruit and retain superior talent and avoid excessive risk taking that might otherwise result from an over-reliance on variable remuneration. ▪ Reflects the experience, performance and responsibilities of the individual.	▪ Reviewed annually with any increase usually effective 1st July ▪ Takes account of experience, performance and responsibilities as well as the performance of the Group, the complexity of the role within the Group and salary increases for employees generally. ▪ Set with regard to market data for comparable positions in similar companies in terms of size, internationality, business model, structure and complexity, including within the industry.	▪ No maximum or minimum annual increase. ▪ Higher increases than the average percentage for the workforce may be appropriate, for example, where an individual changes role, where the complexity of the Group changes, where an individual is materially below market comparators or is appointed on a below market salary with the expectation that his/her salary will increase with experience and performance.

Benefits	▪ Provided on a market-competitive basis, aids retention and follows reward structure for all employees.	▪ Currently include but are not limited to:
		  ▪ Death in service cover
		  ▪ Permanent health insurance
		  ▪ Car allowance.
		▪ The benefits provided may be subject to amendment from time to time by the Committee within this policy.
		▪ Relocation costs may be provided as necessary and reasonable.
		▪ Benefits are not part of pensionable earnings.
			▪ The value of benefits varies from year to year depending on the cost to the Group and is not subject to a specific cap. Benefit costs are monitored and controlled and represent a small element of total remuneration costs.

Pension	▪ To provide a market-competitive benefit for retirement.	▪ Group contributions to a money purchase pension scheme; or ▪ Salary supplement where HMRC annual or lifetime allowances exceeded.	▪ 4% of base salary.

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity
Annual bonus	▪ Drives and rewards the successful achievement of short-term targets set at the start of the year.	▪ Paid annually in May. ▪ Performance targets based on the key performance indicators and strategic objectives of the business. ▪ At least 70% of the bonus based on financial metrics and the balance on non-financial strategic metrics.	▪ 75% of salary at year-end payable for maximum performance. ▪ Bonuses start to be earned from 0% of salary for achieving threshold performance.
Long term incentives	▪ To incentivise the executives and reward them for meeting stretching targets in the long term which accrue substantial value to and align the directors' interests with shareholders. ▪ Facilitates share ownership to provide further alignment with shareholders. ▪ Annual awards aid retention.	▪ Annual awards under the Share Option Scheme (ESOS) with vesting subject to achievement of performance targets. Both the vesting and performance period will be over a minimum of three years. ▪ The Committee will set targets each year based on long-term financial performance and/or a stock market-based metric..	▪ The maximum limit under the plan rules is 100% of salary (value of shares at date of grant).
All-employee share schemes	▪ To encourage employee share participation.	▪ The Group may from time to time operate tax-approved and unapproved share schemes for which executive directors could be eligible.	▪ Approved schemes are subject to the limits set by tax authorities.
Non-executive director fees	▪ To remunerate the Chairman and non-executive directors.	▪ Reviewed annually. ▪ For the non-executive directors agreed by the executive directors and Chairman. ▪ For the Chairman agreed by the Remuneration Committee ▪ Determined and reviewed taking into account time commitment, experience, knowledge and responsibilities of the role as well as market data for similar roles in other companies of a similar size and/or business.	▪ There is no prescribed maximum or minimum annual increase.

Differences in the remuneration policy of the executive directors and the general employees

There are no material differences in the structure of remuneration arrangements for the executive directors and senior management, aside from quantum and participation levels in incentive schemes, which reflect the fact that a greater emphasis is placed on performance-related pay for executive directors and the most senior individuals in the management team. Outside the senior management team, the Group aims to provide remuneration structures for employees which reflect market norms.

Choice of performance measures and approach to setting targets

The Committee selects financial and strategic measures (such as sales, profit, cash generation) for the annual bonus that are key performance indicators for the business over the short term. For the long-term incentives, the Committee will select a combination of measures that provide a good focus on the outcomes of the Group strategy together with sustainable improvements in long term profitability.

The Committee sets appropriate and demanding targets for variable pay in the context of the Group's trading environment and strategic objectives. The targets for the annual bonus plan will be set each year with reference to the Group's budget and business and strategic plan. The Committee will review the performance conditions and targets for awards under the ESOS each year prior to awards being made taking account of the Group's internal financial planning, market forecasts and the business environment.

The metrics for awards granted under this policy are set out in the Annual Report on Remuneration.

Discretions retained by the Committee in operating its incentive plans

The Committee operates the Group's various incentive plans according to their respective rules and in accordance with HMRC rules where relevant. To ensure the efficient administration of these plans, the Committee may apply certain operational discretions.

These include the following:

- select the participants in the plans;
- determine the timing of grants and/or payments;
- determine the quantum of grants and/or payments (within the limits set out in the policy table above);
- determine the extent of vesting based on the assessment of performance;
- determine "good leaver" status and where relevant extent of vesting in the case of the share-based plans;
- where relevant determine the extent of vesting in the case of share-based plans in the event of a change of control;
- making the appropriate adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, variation of capital and special dividends); and
- the annual review of weighting of performance measures, setting targets for the annual bonus plan and discretionary share plans from year to year.

The Committee may adjust the targets and/or set different measures and alter weightings for the annual bonus plan and share-based awards only if an event occurs which causes the Committee to reasonably consider that the performance conditions would not without alteration achieve its original purpose and the varied conditions are no less difficult to satisfy than the original conditions. Any changes and the rationale for those changes will be set out clearly in the Annual report on remuneration in respect of the year in which they are made.

Legacy arrangements

The Committee may honour any commitments entered into with current or former directors (such as the payment of a pension or the vesting or exercise of past share awards) that have been disclosed to and approved by shareholders in previous remuneration reports. Details of any payments to former directors will be set out in the Annual Report on Remuneration as they arise. This will include all subsisting awards granted under the Executive Share Option Scheme (ESOS) details of which are disclosed in the Annual Report on Remuneration.

Recruitment and promotion policy for executive directors

In setting total remuneration levels and in considering quantum for each element of the package for a new executive director, the Committee would take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

The Group would seek to align the remuneration package with this remuneration policy, including the maximum plan limit for the long-term incentives and an annual bonus entitlement in line with that of the other executive directors.

Currently, this would facilitate annual bonus and ESOS awards of no more than 100% of base salary respectively (not including any arrangements to replace forfeited deferred pay). Salary would be provided at such a level as required to attract the most appropriate candidate. For new appointments base salary and total remuneration may be set initially at below normal market rates on the basis that it may be increased once expertise and performance has been proven and sustained.

Specific variable remuneration performance targets could be introduced for an individual where necessary for the first year of appointment if it is appropriate to do so to reflect the individual's responsibilities and the point in the year in which they joined the Board.

Flexibility is retained to offer additional cash and/or share-based payments on appointment in respect of deferred remuneration or benefit arrangements forfeited on leaving a previous employer. The Committee would look to replicate the arrangements being forfeited as closely as possible and in doing so, will take account of relevant factors including the nature of the deferred remuneration, performance conditions, attributed expected value and the time over which they would have vested or been paid. Such awards may be made under the terms of the ESOS or as permitted under the AIM Rules.

For an internal executive director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

For external and internal appointments, the Committee may agree that the Group will meet certain relocation, legal and any other incidental expenses as appropriate.

Executive directors' service contracts and policy on cessation

Details of the service contracts of the executive directors, available for inspection at the Group's registered office and at the Company's AGM, are as follows:

Executive director	Contract date	Unexpired term of contract
Andy Mears	6 November 2018	Rolling contract
Jonathan Shaw	6 November 2018	Rolling contract

Details of contractual terms and the policy on cessation of employment are summarised in the table below:

Contractual provision	Detailed terms
Notice period	6 months by the Group or by the Director.
Termination payment	A Director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, in the event of gross misconduct. If the Group terminates the employment of an executive Director in other circumstances, compensation is limited to base salary due for any unexpired notice period together with any statutory entitlements in connection with the termination. The Group has a right to pay 6 months' salary in lieu of notice if it so determines.
Remuneration entitlements	Pro-rata bonus may also become payable for the period of active service along with vesting for outstanding share awards (in certain circumstances – see below).
Change of control	No executive director's contract contains additional provisions in respect of a change of control.

Any share-based entitlements granted to an executive director under the Group's share plans will be determined based on the relevant plan rules. The default treatment for existing awards is that any unvested awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, injury, ill health, disability, retirement or other circumstances at the discretion of the Committee, "good leaver" status may be applied. For good leavers, under the ESOS awards will vest at cessation to the extent the performance condition is satisfied, but with the Committee having discretion to vest on the normal vesting date if appropriate and to waive the performance condition. The Committee has discretion in exceptional circumstances to disapply time pro-rating and/or to measure performance to and vest awards at the date of cessation. Vesting at cessation would be the default position where a participant dies.

In certain circumstances, the Committee may choose to grant options as part of arrangements agreed with directors who leave the Group's employment.

External appointments

The Board encourages executive directors to accept appropriate external non-executive appointments provided the aggregate commitment is compatible with their duties as executive directors. The executive director concerned may retain fees paid for these services, which will be subject to approval by the Board.

Directors' remuneration report (continued)

Non-executive directors

For the appointment of a new Chairman or non-executive director, the fee arrangement would be in accordance with the approved remuneration policy in place at the time.

Non-executive directors do not have service contracts but are appointed under letters of appointment. Their appointment can be terminated without notice and with no compensation payable on termination, other than accrued fees and expenses.

Chairman

Under an arrangement between the Group and Imperialise Limited, Nigel Keen is retained to act as Chairman of the Group. His current term of appointment commenced on 19 April 2009. This arrangement can be terminated by either party at any time by the giving of six months' notice.

Annual report on remuneration

The Remuneration Committee

The Remuneration Committee (the "Committee") is responsible for recommending to the Board the remuneration packages for executive directors and has oversight of the bonus and share incentive strategy for the Group's executive management. The Chairman and the executive directors are responsible for determining the remuneration of the non-executive directors, and the Remuneration Committee is responsible for determining the remuneration of the Chairman.

The role of the Committee includes:

- considering and determining the remuneration policy for the executive directors;
- within this agreed policy, considering and determining the total remuneration packages of each executive director of the Group;
- approving the design and performance targets for all performance-related plans for executives as well as the overall total annual payments made under such plans;
- reviewing and noting remuneration trends across the Group; and
- determining the policy for pension arrangements, service agreements and termination payments to executive directors.

The members of the Committee are appointed by the Board and comprise all the independent non-executive directors: Julian Cazalet, Chris Jones, Sir Duncan Nichol and Mark Wippell; and the Chairman of the Board, Nigel Keen. Nigel Keen is the Chairman of the Committee. The Board considers that Nigel, with his experience of working at senior levels in global companies, including high technology companies, has the most appropriate blend of skills and experience to make a successful Chairman of the Remuneration Committee.

All members served throughout the year.

The Chief Executive is invited to attend Committee meetings as deemed appropriate. For example, the Chief Executive is able to make a significant contribution when considering the performance of the Group Finance Director and to discuss the wider Group remuneration policy and structure and terms and conditions affecting other employees. However, no executive director is present when the Committee is determining his or her remuneration.

The Committee acts within its agreed written terms of reference.

The performance of the Committee is reviewed as part of the wider Board evaluation process.

During the year the Committee fulfilled its duties, as laid down in the Committee's terms of reference.

Directors' remuneration

The remuneration paid to the directors during the year under review and the previous year is summarised in the tables below:

Executive Director	Year	Salary		Benefits[3]	Pension[4]	Annual bonus[5]	Long term incentive awards[6]	Total
		Cash settled	Equity settled					
		£	£	£	£	£	£	£
Andy Mears[1]	**2018**	**77,000**	**-**	**4,120**	**3,080**	**-**	**-**	**84,200**
Ewan Phillips[2]	**2018**	**89,487**	**-**	**3,372**	**3,579**	**-**	**-**	**96,438**
	2017	183,333	17,292	6,875	8,000	-	-	215,500
Jonathan Shaw	**2018**	**120,000**	**-**	**7,500**	**10,000**	**-**	**-**	**137,500**
	2017	110,000	10,825	6,875	10,000	-	-	137,500
Total	**2018**	**286,487**	**-**	**14,992**	**16,659**	**-**	**-**	**318,138**
	2017	293,333	28,117	13,750	18,000	-	-	353,000

1 Andy Mears was appointed to the Board as an executive director on 13 June 2018. Only his remuneration as an Executive Director is reported in the table above.

2 Ewan Phillips resigned from the Board as an executive director on 12 June 2018.

3 'Benefits' comprise the provision of a car allowance paid in cash.

4 Contractually, each executive director is entitled to receive a matched contribution to a money purchase pension scheme worth up to 4% of salary. Where the contractual pension contribution exceeds the annual allowance, any balancing payment would be made by the Group as a cash allowance.

5 'Annual bonus' represents the full annual bonus, payable in cash and share options.

6 'Long term incentive awards' are those awards where the vesting is determined by performance periods ending in the year under report under the ESOS and therefore reports the value of the ESOS option granted on 10 June 2015.

Directors' remuneration report (continued)

Non- executive director	Year	Directors' fees		Benefits	Pension	Annual bonus	Long term incentive awards	Total
		Cash settled	Equity settled					
		£	£	£	£	£	£	£
Nigel Keen[1]	**2018**	**-**	**33,333**	**-**	**-**	**-**	**-**	**33,333**
	2017	-	33,333	-	-	-	-	33,333
Julian Cazalet	**2018**	**-**	**24,000**	**-**	**-**	**-**	**-**	**24,000**
	2017	-	24,000	-	-	-	-	24,000
Chris Jones	**2018**	**9,000**	**12,000**	**-**	**-**	**-**	**-**	**21,000**
	2017	18,000	-	-	-	-	-	18,000
Sir Duncan Nichol	**2018**	**-**	**24,000**	**-**	**-**	**-**	**-**	**24,000**
	2017	-	24,000	-	-	-	-	24,000
Mark Wippell	**2018**	**-**	**24,000**	**-**	**-**	**-**	**-**	**24,000**
	2017	-	24,000	-	-	-	-	24,000
Total	**2018**	**9,000**	**117,333**	**-**	**-**	**-**	**-**	**126,333**
	2017	18,000	105,333	-	-	-	-	123,333

1 Under an arrangement between the Group and Imperialise Limited, Nigel Keen is retained to act as Chairman of the Group and he must account to Imperialise Limited for his services. Imperialise Limited is paid fees for Nigel Keen's services. For the year to 31 December 2018, Nigel Keen's fees as Chairman were £33,000 (2017: £33,000).

External appointments
Neither of the executive directors held any such appointment during the year.

Details of variable pay earned in year

Bonus
No bonus was awarded for the year ended 31 December 2018.

The strategic objectives set by the Committee for each of the executive directors at the beginning of the year included objectives in the areas of the development of the Group's strategic plan and implementation of new product development.

The on-target and maximum bonus potentials for the executive directors as well as the amount actually payable for the year ended 31 December 2018 are set out below.

Executive director	On-target bonus (% of salary)	Maximum bonus (% of salary)	Actual bonus payable for 2018 (% of salary[1])	Actual bonus payable for 2018 (£)
Andy Mears	50%	75%	0%	-
Jonathan Shaw	50%	75%	0%	-
Ewan Phillips[2]	N/A	N/A	N/A	N/A

1 Bonus is calculated on salary as at 31 December 2018
2 Ewan Phillips resigned on 12 June 2018

Directors’ remuneration report (continued)

Interests in share Schemes
Andy Mears’ interests in share options are detailed below:

At 1 January 2018	Granted	Exercised	Lapsed	Expired	At 31 December 2018	Exercise Price	Exercise period	
Number	Number	Number	Number	Number	Number	Pence	From	To
				2001 Executive share option scheme				
125,000	-	-	-	(125,000)	-	18.50	30 June 2011	29 June 2018
125,000	-	-	-	-	125,000	12.75	12 June 2012	11 June 2019
				2011 Executive share option scheme				
300,000	-	-	-	-	300,000	17.25	28 September 2014	27 September 2021
150,000	-	-	-	-	150,000	24.00	10 October 2015	9 October 2022
375,000	-	-	-	-	375,000	11.00	10 June 2018	9 June 2025
1,562,500	-	-	-	-	1,562,500	4.00	22 September 2020	21 September 2027
				2003 Enterprise Management Incentive Scheme				
-	10,000,000	-	-	-	10,000,000	1.00	1 April 2020	5 August 2028
2,637,500	**10,000,000**	**-**	**-**	**(125,000)**	**12,512,500**			

Andy Mears had an interest in 2,637,500 share options at the date of his appointment to the Board.

Jonathan Shaw’s interests in share options are detailed below:

At 1 January 2018	Granted	Exercised	Lapsed	Expired	At 31 December 2018	Exercise Price	Exercise period	
Number	Number	Number	Number	Number	Number	Pence	From	To
				2011 Executive share option scheme				
1,562,500	-	-	-	-	1,562,500	4.00	22 September 2020	21 September 2027
				2003 Enterprise Management Incentive Scheme				
404,762	-	-	-	-	404,762	1.00	22 March 2017	21 March 2027
1,967,262	**-**	**-**	**-**	**-**	**1,967,262**			

Directors' remuneration report (continued)

Ewan Phillips, who resigned from the Board on 12 June 2018, had the following interests in share options:

At 1 January 2018	Granted	Exercised	Lapsed	Expired	At 31 December 2018	Exercise Price	Exercise period	
Number	**Number**	**Number**	**Number**	**Number**	**Number**	**Pence**	**From**	**To**
				2001 Executive share option scheme				
500,000	-	-	-	-	500,000	18.50	30 June 2011	12 June 2019
500,000	-	-	-	-	500,000	12.75	12 June 2012	12 June 2019
				2011 Executive share option scheme				
1,000,000	-	-	-	-	1,000,000	17.25	28 September 2014	12 June 2019
500,000	-	-	-	-	500,000	24.00	10 October 2015	12 June 2019
1,250,000	-	-	-	-	1,250,000	11.00	10 June 2018	12 June 2019
2,500,000	-	-	(833,334)	-	1,666,666	4.00	22 September 2020	12 June 2019
				2003 Enterprise Management Incentive Scheme				
92,700	-	(92,700)	-	-	-	1.00	30 June 2008	30 June 2018
510,638	-	(510,638)	-	-	-	1.00	12 June 2009	11 June 2019
43,478	-	(43,478)	-	-	-	1.00	30 December 2009	29 December 2019
31,250	-	(31,250)	-	-	-	1.00	24 March 2010	23 March 2020
34,884	-	(34,884)	-	-	-	1.00	25 June 2010	24 June 2020
690,105	-	(87,050)	-	-	603,055	1.00	13 October 2010	12 December 2019
20,270	-	-	-	-	20,270	1.00	23 December 2010	12 December 2019
13,636	-	-	-	-	13,636	1.00	19 April 2011	12 December 2019
507,692	-	-	-	-	507,692	1.00	27 September 2011	12 December 2019
277,174	-	-	-	-	277,174	1.00	10 October 2012	12 December 2019
115,385	-	-	-	-	115,385	1.00	23 December 2013	12 December 2019
658,743	-	-	-	-	658,743	1.00	22 March 2017	12 December 2019
-	10,000,000*	-	-	-	10,000,000	1.00	19 June 2018	12 December 2019
9,245,955	**10,000,000**	**(800,000)**	**(833,334)**	**-**	**17,612,621**			

*These share options were granted on 19 June 2018 pursuant to a legal agreement between the Group and Ewan Phillips in full and final satisfaction of contractual bonus awards in respect of the 2012 and 2013 financial years totalling £144,200.

Ewan Phillips made a gain of £2,000 on the exercise of share options on 9 February 2018 when the closing share price was 1.25 pence per share.

Directors' remuneration report (continued)

Dilution limits

The ESOS provides that overall dilution through the issuance of new shares for employee share schemes should not exceed an amount equivalent to 10% of the Group's issued share capital over a ten-year period.

The Committee monitors the position prior to the making of any award under these share option schemes to ensure that the Group remains within this limit. As at the date of this Report, the Group's headroom position remains within the 10% limit.

Directors' shareholdings

Directors' shareholdings as at 31 December 2018 are shown in the table below.

	Legally owned	Unexercised EMI Options	Unvested options subject to performance conditions under the EMI scheme	Unvested options subject to performance conditions under the ESOS
Andy Mears[1]	2,781,808	-	10,000,000	2,512,500
Jonathan Shaw		404,762	-	1,562,500
Nigel Keen	54,223,410	-	-	-
Julian Cazalet	8,505,070	-	-	-
Chris Jones	525,862	-	-	-
Sir Duncan Nichol	2,307,707	-	-	-
Mark Wippell	1,588,974	-	-	-

1. Andy Mears was appointed to the Board on 13 June 2018.

Pension arrangements

Executive Director Pension Arrangements

Under the terms of their service contracts executive directors can ask the Group to contribute to a pension plan of their choice. The Group contributes a maximum of 4% of base salary if matched by a contribution of 4% by the director or, if lower, a contribution by the director which brings the total pension contribution to the annual allowance (the maximum tax relieved pension contribution allowable per tax year). Only base salary is pensionable, and contributions are not included in the calculation of bonus and share award entitlements. Where the Group's pension contribution exceeds the annual allowance, a balancing payment is paid by the Group to the director which is taxed as income.

From the date of Andy Mears' appointment to the Board, contributions of £2,613 (2017: £nil) were paid into a personal defined contribution pension.

Contributions totalling £10,000 (2017: £10,000) were paid into a personal defined contribution plan in respect of Jonathan Shaw under a salary sacrifice arrangement.

Payments for loss of office

On 12 June 2018, Ewan Phillips left the Group. He received the following payments:

- base salary, benefits and pension to the date of cessation.
- payment in lieu of six months' notice and car allowance in respect of contractual notice period
- payment in lieu of untaken holiday
- compensation payment of £75,500; and the
- Grant of unapproved options over 10,000,000 shares under the EMI share scheme in respect of unpaid bonuses for the 2012 and 2013 financial years.

Directors' remuneration report (continued)

The total remuneration of the holder of the office of CEO over the last six years is shown in the table below. The annual bonus pay-out as a percentage of the maximum opportunity is also shown.

	Year ending 31 December					
	2013	**2014**	**2015**	**2016**	**2017**	**2018[1]**
	£	**£**	**£**	**£**	**£**	**£**
Total remuneration	207,500	207,500	207,500	207,500	207,500	**161,687**
Annual bonus outcome (%)	45%	0%	0%	0%	0%	**0%**

2. The total remuneration comprises the aggregate of salaries and benefits for the office of CEO.

How the policy will be applied in 2019

Base salaries
Andy Mears was appointed as Chief Executive and to the Board in June 2018. Andy's base salary on appointment to the Board was £140,000. The salaries of the two executive directors will be reviewed at 1st July 2019.

Benefits and pension
These will be made in accordance with the approved policy.

Annual bonus
The maximum opportunity under the annual bonus plan for 2019 will be 75% of base salary for both the CEO and GFD.

A combination of financial and non-financial strategic metrics will be used to determine the level of payment under the annual bonus.

Non-executive directors' (NED) fees

	2018 £	2017 £	**% increase[1]**
Board Chairman [2]	**33,333**	33,333	**0%**
Basic fee	**24,000**	24,000	**0%**

1 Fees for non-executive directors were last increased in 2009.
2 All NED fees are planned to be settled by the issue of equity instruments in the Group. Fees planned to be settled by shares remain outstanding from 1 April 2016 and in aggregate total £301,666. Of this amount, £210,000 is included within accrued liabilities and £91,666 within trade payables in the balance sheet.

Approval
This report was adopted by the Committee on 24 April 2019 and has been approved subsequently by the Board.

Nigel Keen

Nigel Keen
Chairman of the Remuneration Committee
24 April 2019

Strategic report

The directors have pleasure in presenting their Strategic Report for the year ended 31 December 2018.

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 goal directed haemodynamic management using the TrueVue System and specifically TrueVue Doppler as a standard of care in those countries globally where we see the highest possible return on investment, 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.

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 9 to 12 and the Financial review, on pages 13 and 14.

	2018	2017
Probe revenues (£'000)	**4,035**	4,936
Monitor revenues (£'000)	**301**	358
Third party product revenues (£'000)	**448**	378
Gross profit percentage	**71%**	75%
Adjusted EBITDA (£'000)	**(718)**	(1,294)
UK probe volumes	**11,750**	15,295
International probe volumes	**25,320**	26,690
US probe volumes	**8,820**	10,725
Cash at bank (£'000)	**580**	219

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.

More information concerning the Group's cash flows are given on page 8 of the Annual Report & Accounts 2018.

The directors have reviewed detailed budgets and forecasts until 30 June 2020. Following on from this review, 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 prepare the Group's financial statements on the going concern basis.

The Strategic report on pages 7 to 14 and page 32 has been approved by the directors and signed:

By order of the Board

Jonathan Shaw
Company Secretary
24 April 2019

Directors

Non-executive directors

Nigel Keen Chairman, MA FCA FIET
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; and MedAccess Guarantee Limited, a UK based social finance company with the pioneering mission to make global healthcare markets work for everyone.
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 The Lindsell Train Investment Trust plc and of a number of charities.

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, who joined the board in 2014, has broad international commercial experience gained through working extensively with UK, North American and other overseas based companies. He is Chairman of the American European Business Association, an Association Member of BUPA and mentors, and invests in, technology businesses. He is also a trustee of various charities. He was formerly a senior corporate partner of Allen & Overy LLP and is a past member of three advisory committees at Oxford University. Mark is qualified as a lawyer in the UK and the US.

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, Causeway Therapeutics 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

Andy Mears Chief Executive
Andy joined Deltex Medical in 1989 as an Electronics Engineer. Throughout his career with Deltex Medical, he has held a number of roles, including Product Manager; Production Manager and Operations Director. Andy was appointed as Group Sales Director in 2010, Managing Director in 2015 and Chief Executive in 2018.

Jonathan Shaw Group Finance Director, ACIB, FCCA
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.

Company Secretary and Advisers

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BN99 6DA

Directors' report
Registered no. 03902895

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2018.

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 7 and 8 and the Operating review on pages 9 to 12.

Financial risk management
The financial risk management objectives and policies of the Group, including exposure to currency risk, interest rate risk and liquidity risk are set out in note 23 to the financial statements on pages 76 to 79.

Dividends
The directors cannot propose the payment of a dividend (2017: £nil) for 2018.

Directors
The directors of the Group who served during the year are shown below. Biographical details are given on page 33.

Nigel Keen	Non-executive Chairman
Ewan Phillips*	Chief Executive
Andy Mears**	Chief Executive
Jonathan 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

* Ewan Phillips resigned from the Board on 12 June 2018

** Andy Mears was appointed to the Board on 13 June 2018

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 and Fees

Director	Cash settled £	Equity settled £	Benefits £	Pension £	2018 Total £	2017 Total £
Nigel Keen	-	33,333	-	-	33,333	33,333
Ewan Phillips[2]	89,487	-	3,372	3,579	96,438	215,500
Andy Mears[1]	77,000	-	4,120	3,080	84,200	-
Jonathan Shaw	120,000	-	7,500	10,000	137,500	137,500
Julian Cazalet	-	24,000	-	-	24,000	24,000
Chris Jones	9,000	12,000	-	-	21,000	18,000
Sir Duncan Nichol	-	24,000	-	-	24,000	24,000
Mark Wippell	-	24,000	-	-	24,000	24,000
	295,487	**117,333**	**14,992**	**16,659**	**444,471**	476,333

1 For the period from 13 June 2018 to 31 December 2018.

2 Ewan Phillips resigned as a Director on 12 June 2018. He was paid £103,750 in lieu of his six months' notice and received £75,500 as compensation for loss of office. On 19 June 2018, he was granted 10,000,000 options under the Group's 2003 Enterprise Management Incentive (EMI) Share Scheme with an exercise price of 1p and an exercise period of 18 months from the date of grant in full and final satisfaction of contractual bonus awards in respect of the 2012 and 2013 financial years totalling £144,200.

Directors' report (continued)

Of the 2,500,000 options granted in September 2017 to Ewan Phillips under the Group's 2011 Executive Share Option Scheme, 1,666,667 were permitted to vest early and are exercisable at 4p per option within 12 months from the date of resignation. In addition, the exercise periods for shares options that had vested under the 2001 Executive Share Option Scheme and the 2003 Enterprise Management Incentive Scheme were extended to 12 and 18 months from the date of resignation respectively. The aggregate share-based payment charge for the share options referred to above was £81,354.

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.

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. 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;

Statement of directors’ responsibilities in respect of the financial statements (continued)

- 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 Strategic Report 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.

Independent auditors
The independent auditors, Nexia Smith & Williamson, who were appointed by the Board to fill the casual vacancy following the resignation of PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the forthcoming Annual General Meeting.

Events after the balance sheet date

On 5 February 2019, the Company issued 8,695,652 new ordinary shares pursuant to the exercise of share options under the Group’s EMI share scheme with an exercise price of 1 penny per share. The proceeds received on exercise was £87,000.

On 9 April 2019, the Board resolved to waive the non-interest-bearing intra-group loan owing to the Company from its wholly owned subsidiary undertaking, Deltex Medical Limited. The gross balance owed to the Company at 31 December 2018 was £45,164,000. This will be accounted for as a capital contribution in the Annual Report & Accounts 2019.

Annual General Meeting
The notice convening the Annual General Meeting, which will take place on 22 May 2019 at 11.00am at the offices of DAC Beachcroft LLP, 25 Walbrook, London EC4N 8AF can be found at the back of this publication.

By order of the Board.

Jonathan Shaw
Company Secretary
24 April 2019

Independent auditors' report
to the members of Deltex Medical Group plc

Nexia Smith & Williamson

Opinion
We have audited the financial statements of Deltex Medical Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Parent Company Balance Sheet, Parent Company Statement of Changes in Equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters
We identified the key audit matters described below as that which were most significant in the audit of the financial statements of the current period. Key audit matters include the most significant assessed risks of material misstatement, including those risks that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team.

In addressing these matters, we have performed the procedures below which were designed to address each matter in the context of the financial statements as a whole and in forming our opinion thereon.

<table>
<tr><th>Key audit matter</th><th>Description of risk</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>The cash flow projections which support going concern for group and parent and parent company investment and intercompany balances with subsidiaries</td><td>The Group is loss-making and has relied on equity funding to provide working capital over the last few years.

Management have prepared a budget and cash flow forecast indicating that the group and parent company can operate as a going concern for at least 12 months from the date the financial statements are approved.

Cash flow projections are inherently judgemental and subject to fluctuation with expenditure requirements. As a result, the ability of the group and parent company to operate as a going concern for 12 months from the date of approval of the financial statements was a key area of audit focus.

Furthermore, the parent company has significant balances relating to investments in subsidiaries and receivables due from group companies.

The group's assessment of carrying value requires significant judgement in particular regarding cash flows, growth rates, discount rates and sensitivity assumptions to derive a value in use.</td><td>We challenged the assumptions used in the cash flow forecasts. The main procedures performed on the forecasts and areas where we challenged management were as follows:
• testing the quality of management forecasting by comparing cash flow forecasts for prior periods to actual outcomes;
• discussion with Management over the basis and appropriateness of key assumptions used in the cashflow forecasts;
• verifying the consistency of forecasts used in the impairment calculations with those used for going concern assessment;
• performing sensitivity calculations to understand the impact of changing the key assumptions and the effect on cashflows and value in use; and
• reviewing the disclosures around going concern in the financial statements to ensure they are consistent with the work performed.

In performing our procedures, we used our internal valuation specialists to assess the appropriateness of the model and the discount rate and long-term growth rates applied.

Based on our procedures we have concluded that the going concern basis for the financial statements and the carrying value of investments in subsidiaries and receivables due from group companies is appropriate.</td></tr>
</table>

Independent auditor's report to the members of Deltex Medical Group plc (continued)

Key audit matter	Description of risk	How the matter was addressed in the audit
Revenue recognition including deferred income	Revenue growth continues to be a key focus for the group to meet market expectations. Furthermore IFRS 15 has been adopted this year, which has required consideration to ensure all types of sales are recorded in the appropriate period	As part of our procedures we: • traced a sample of sales from customer order to the nominal ledger, ensuring deferred income postings were complete for these transactions; • reviewed transactions around the year end and traced to supporting documentation to determine if the sale was recorded in the correct period, in particular ensuring that bill and hold arrangements have been correctly treated; • performed testing of deferred income balances to ensure that revenue was being correctly deferred; and • reviewed the revenue recognition policies disclosed in the financial statements to determine if these policies were in accordance with IFRS15 and in line with the accounting treatment adopted. Based on the procedures performed we concluded that revenue was appropriately recognised in the Consolidated Statement of Comprehensive Income.
Capitalisation of development costs and impairment of development costs	The group has significant intangible assets arising from the capitalisation of the costs relating to products in development. For products in development the main risk is assessing the ability to successfully commercialise the individual product concerned to the extent that future revenues from the products will generate sufficient returns to cover the development costs over its useful economic life. This can be a highly judgemental area.	A sample of project development costs capitalised in the year were traced to supporting documentation ensuring they were valid capital expenditure and the relevant capitalisation criteria under IAS 38 were met. A sample of development projects in progress and completed at the year-end were discussed with management and individuals overseeing the projects to understand the future prospects of the projects and consider whether any impairment was required. Based on the procedures performed we concluded that the capitalisation of development costs was appropriate and that no material impairment was required.

Independent auditor's report to the members of Deltex Medical Group plc (continued)

Key audit matter	Description of risk	How the matter was addressed in the audit
The value of share options and calculation of the charge in the Consolidated Statement of Comprehensive Income	The Group issued new share options during the year as well as having options granted in the prior year which vest in the current year. The valuation of these options requires estimates, in particular regarding the maturity period, expected volatility and risk-free rate.	As part of our procedures we: • reviewed the documentation for the share options granted in the year and agreed the relevant inputs to the model; • used our internal valuations team to review the inputs used in the valuation model; and • ensured the correct share-based payment charge has been recognised in the P&L for the year. Based on our procedures we have concluded that the share-based payment expense in the Consolidated Statement of Comprehensive Income was appropriately recorded.

Our application of materiality
The materiality for the financial statements of the group as a whole was set at £99,000. This has been determined with reference to the benchmark of the group's turnover, which we consider to be one of the principal considerations in assessing the performance of the group. Materiality represents 2% of turnover.

The materiality for the financial statements of the parent as a whole was set at £79,200. This has been capped at the group's performance materiality.

An overview of the scope of our audit
Of the group's five reporting components, we subjected two to a full scope audit in their own right and the other three reporting components were subjected to specific audit procedures where the extent of our audit work was based on our assessment of the risk of material misstatement and audited to group performance materiality.

The components within the scope of our work covered 100 per cent of group revenue, 100 per cent of group profit before tax and 100 per cent of group net assets.

Other information
The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion 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.

Independent auditor's report to the members of Deltex Medical Group plc (continued)

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on pages 36 and 37, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Julie Mutton

Julie Mutton
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants
15-17 Cumberland Place
Southampton
Hampshire
SO15 2BG

24 April 2019

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Total revenue	**3**	**4,955**	5,870
Total cost of sales	**4**	**(1,424)**	(1,488)
Gross profit		**3,531**	4,382
Administrative expenses		**(1,721)**	(2,064)
Sales and distribution expenses		**(2,189)**	(3,692)
Research and Development, Quality and Regulatory		**(526)**	(558)
Impairment loss on trade receivables	**23**	**(38)**	(6)
Exceptional costs	**9**	**(287)**	-
Total costs	**4**	**(4,761)**	(6,320)
Operating loss before exceptional costs and other gain		**(943)**	(1,938)
Exceptional costs	**9**	**(287)**	-
Other gain	**26**	**80**	-
Operating loss		**(1,150)**	(1,938)
Finance income	**6**	**-**	-
Finance costs	**6**	**(188)**	(163)
Loss before taxation		**(1,338)**	(2,101)
Tax credit on loss	**7**	**74**	100
Loss for the year		**(1,264)**	(2,001)
Other comprehensive income/(expense)			
Items that may be reclassified to profit or loss:			
Net translation differences on overseas subsidiaries		**2**	(113)
Other comprehensive income/(expense) for the year, net of tax		**2**	(113)
Total comprehensive loss for the period/year		**(1,262)**	(2,114)
Total comprehensive loss for the period/year attributable to:			
Owners of the Parent		**(1,268)**	(2,135)
Non-controlling interests		**6**	21
		(1,262)	(2,114)
Loss per share – basic and diluted	**10**	**(0.3p)**	(0.7p)

The Group has initially applied IFRS 9, IFRS 15 and IFRS 16 at 1 January 2018. Under the transition methods chosen, comparative information has not been restated except for the separate presentation of impairment losses on trade receivables in the Consolidated statement of comprehensive income.

The notes on pages 48 to 82 form an integral part of these consolidated financial statements.

Consolidated balance sheet
As at 31 December 2018

	Note	2018 £'000	(As restated) 2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	**11**	**587**	274
Intangible assets	**12**	**2,528**	2,486
Financial assets at amortised cost	**15**	**155**	-
Total non-current assets		**3,270**	2,760
Current assets			
Inventories	**14**	**680**	754
Trade receivables	**15**	**1,410**	1,618
Financial assets at amortised cost	**15**	**245**	378
Other current assets	**15**	**190**	54
Current income tax recoverable		**74**	94
Cash and cash equivalents		**580**	219
Total current assets		**3,179**	3,117
Total assets		**6,449**	5,877
Liabilities			
Current liabilities			
Borrowings	**17**	**(553)**	(809)
Trade and other payables	**17**	**(1,983)**	(2,649)
Total current liabilities		**(2,536)**	(3,458)
Non-current liabilities			
Borrowings	**17**	**(1,035)**	(1,004)
Trade and other payables	**17**	**(352)**	-
Provisions	**19**	**(114)**	(115)
Total non-current liabilities		**(1,501)**	(1,119)
Total liabilities		**(4,037)**	(4,577)
Net assets		**2,412**	1,300
Equity			
Share capital	**20**	**4,927**	3,132
Share premium	**25**	**33,230**	32,915
Capital redemption reserve	**25**	**17,476**	17,476
Other reserve	**25**	**953**	4,752
Translation reserve	**25**	**149**	147
Convertible loan note reserve	**25**	**82**	84
Accumulated losses	**25**	**(54,264)**	(57,059)
Equity attributable to owners of the Parent		**2,553**	1,447
Non-controlling interests		**(141)**	(147)
Total equity		**2,412**	1,300

The notes on pages 48 to 82 form an integral part of these consolidated financial statements. The financial statements on pages 43 to 82 were approved by the Board of Directors and authorised for issue on 24 April 2019 and were signed on its behalf by:

Nigel Keen

Nigel Keen
Chairman

Jonathan Shaw
Group Finance Director

Consolidated statement of changes in equity for the year ended 31 December 2018

	Share capital	Share premium	Capital redemption reserve	Other reserve	Convertible loan note reserve	Translation reserve	Accumulated losses	Total	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2018, as previously reported	**3,132**	**32,915**	**17,476**	**4,752**	**84**	**147**	**(57,059)**	**1,447**	**(147)**	**1,300**
Effect of new standards	**-**	**-**	**-**	**-**	**-**	**-**	**98**	**98**	**-**	**98**
Balance at 1 January 2018, as restated	**3,132**	**32,915**	**17,476**	**4,752**	**84**	**147**	**(56,961)**	**1,545**	**(147)**	**1,398**
Comprehensive income										
Loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(1,270)**	**(1,270)**	**6**	**(1,264)**
Other comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**	**-**	**2**
Total comprehensive income for year	**-**	**-**	**-**	**-**	**-**	**2**	**(1,270)**	**(1,268)**	**6**	**(1,262)**
Transactions with owners of the Group										
Shares issued during the year	**1,787**	**447**	**-**	**-**	**-**	**-**	**-**	**2,234**	**-**	**2,234**
Issue expenses	**-**	**(132)**	**-**	**-**	**-**	**-**	**-**	**(132)**	**-**	**(132)**
Equity-settled share-based payment	**-**	**-**	**-**	**166**	**-**	**-**	**-**	**166**	**-**	**166**
Transfers	**-**	**-**	**-**	**(3,965)**	**(2)**	**-**	**3,967**	**-**	**-**	**-**
Share options exercised	**8**	**-**	**-**	**-**	**-**	**-**	**-**	**8**	**-**	**8**
Balance at 31 December 2018	**4,927**	**33,230**	**17,476**	**953**	**82**	**149**	**(54,264)**	**2,553**	**(141)**	**2,412**

The notes on pages 78 to 82 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2017

	Share capital	Share premium	Capital redemption reserve	Other reserve	Convertible loan note reserve	Translation reserve	Accumulated losses	Total	Non-controlling interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2017	2,849	32,268	17,476	4,685	84	260	(55,037)	2,585	(168)	2,417
Comprehensive income										
Loss for the year	-	-	-	-	-	-	(2,022)	(2,022)	21	(2,001)
Other comprehensive income for the year	-	-	-	-	-	(113)	-	(113)	-	(113)
Total comprehensive income for the year	-	-	-	-	-	(113)	(2,022)	(2,135)	21	(2,114)
Transactions with owners of the Group										
Shares issued during the year	283	-	-	-	-	-	-	283	-	283
Premium on shares issued during the year	-	694	-	-	-	-	-	694	-	694
Issue expenses	-	(47)	-	-	-	-	-	(47)	-	(47)
Equity-settled share-based payment	-	-	-	67	-	-	-	67	-	67
Balance at 31 December 2017	3,132	32,915	17,476	4,752	84	147	(57,059)	1,447	(147)	1,300

The notes on pages 48 to 82 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2018

	2018 £'000	2017 £'000
Cash flows from operating activities		
Loss before taxation	**(1,338)**	(2,101)
Adjustments for:		
Net finance costs	**188**	163
Depreciation of property, plant and equipment	**246**	265
Profit on disposal of loan monitors	**(12)**	-
Amortisation of intangible assets	**173**	195
Modification gain on convertible loan note	**(80)**	-
Share-based payment expense	**166**	91
Effect of exchange rate fluctuations	**(9)**	7
	(666)	(1,380)
Decrease/(increase) in inventories	**38**	(203)
Decrease in trade and other receivables	**52**	404
(Decrease)/increase in trade and other payables	**(694)**	251
(Decrease)/increase in provisions	**(1)**	8
Net cash used in operations	**(1,271)**	(920)
Interest paid	**(141)**	(123)
Income taxes received	**94**	115
Net cash used from operating activities	**(1,318)**	(928)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(18)**	(6)
Proceeds from the sale of loan monitors	**18**	-
Capitalised development expenditure	**(214)**	(286)
Net cash used in investing activities	**(214)**	(292)
Cash flows from financing activities		
Issue of ordinary share capital	**2,216**	952
Expenses in connection with share issue	**(132)**	(47)
Net movement in invoice discount facility	**(171)**	(7)
Repayment of obligations under finance leases	**(36)**	(28)
Net cash generated from financing activities	**1,877**	870
Net increase/(decrease) in cash and cash equivalents	**345**	(350)
Cash and cash equivalents at beginning of the period	**219**	582
Exchange gain/(loss) on cash and cash equivalents	**16**	(13)
Cash and cash equivalents at end of the period	**580**	219

The notes on pages 48 to 82 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2018

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 2018 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 the Alternative Investment Market of the London Stock Exchange. The address of the registered office is Deltex Medical Group plc, Terminus Road, Chichester, PO19 8TX, registered number 03902895. The Group is principally involved with the manufacture and sale of advanced haemodynamic monitoring technologies.

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.

These financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective from 1 January 2018 and the early adoption of IFRS 16 'Leases'. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time:

- IFRS 9 'Financial Instruments';
- IFRS 15 'Revenue from Contracts with Customers'; and
- IFRS 16 'Leases'.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group.

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 it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 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:

	2018		2017	
	Average Rate	**Closing rate**	**Average rate**	**Closing rate**
Sterling/US Dollar	**1.33**	**1.27**	1.29	1.35
Sterling/Euro	**1.13**	**1.11**	1.14	1.13
Sterling/Canadian Dollar	**1.73**	**1.73**	1.68	1.69

1.5 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 (or 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.

1.6 Use of judgements and estimates

In preparing these consolidated financial statements, management has had to make judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. However, actual results may differ from these results.

Judgements

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 these criteria. There is a risk that the intangible asset will not generate the required future economic benefits and therefore could result in potential impairments.

Revenue recognition – managed care contracts
The Group has a small number of managed care contracts with customers which require the Group to provide customers with sufficient monitors to treat the number of patients agreed with the customer over the contracted period. The contracts typically require product support to be provided on a regular basis to support the customers staff. The judgement made is whether there are multiple performance obligations and whether they are satisfied at a point in time or over time.

Management have concluded that there is one performance obligation that is satisfied over a period of time as the customer's ability to treat patients is not constrained under the managed care contract. If the contract is terminated, the Group is unconditionally entitled to payment for the monthly contracted amounts from the contract inception to the date of termination.

Revenue recognition – bill and hold sales
Bill and hold sales occasionally feature in the Group's sales profiles both in the UK and international markets served by third party distributors around both the half-year and the year-end date. In determining when the transaction may be recognised as revenue, management must be satisfied that:

- the request to hold stock on the customer's behalf reflects a substantive arrangement;
- the customer acknowledges the deferred delivery instructions, confirms that it has accepted title and accepts the invoice which is payable in accordance with usual payment terms; and
- the products ordered by the customer are on hand, identified and ready for delivery at the time the sale is recognised.

Revenue recognised under bill and hold arrangements for the year ended 31 December 2018 amounted to £142,300 (2017: £10,300).

Estimates
Information about estimation uncertainties at 31 December 2018 that have a significant risk of adjustment to the carrying amount of assets in the next financial year is contained in the following note:

Trade receivables
Note 23 provides information on the measurement of expected credit losses in respect of trade receivables, staff advances and other receivables.

1.7 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 2020. 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 arises predominantly from the sale of advanced haemodynamic monitoring equipment which comprise monitors and consumable items such as single use probes and other ancillary items such as cables, roll stands etc. Revenue is also earned from after sales maintenance contracts.

In determining whether to recognise revenue, the Group applies the following 5-step process:

1. Identifying the contract with the customer;
2. Identifying the performance obligations set out in the contract;
3. Determining the overall transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognising revenue either when or as performance obligation(s) are satisfied.

The Group recognises contract liabilities for consideration received in advance of unsatisfied performance obligations and reports these amounts as other liabilities in the Consolidated Balance Sheet. Typically, these amounts relate to consideration received in advance for after-sales maintenance contracts or, occasionally, consideration received from new customers in settlement of pro-forma sales invoices.

Monitor and consumable revenues
Revenue on monitors and consumables is recognised when the Group transfers the control of the assets to the customer. For customers in both the UK and the USA, this is when the goods are accepted for delivery at the customer's specified delivery address. For our network of independent distributors which form our 'International' business stream, the transfer of control occurs on despatch of the goods in accordance with the Group's distributor agreements.

Preventative planned maintenance (PPM) agreements
The Group enters into PPM agreements with customers for the provision of an annual service for their monitors. These agreements can range in length from 1 to 3 years and provide for an annual service for each monitor specified by the serial number on the PPM agreement. Revenue is recognised when the service has been completed and the monitor is ready for use by the customer. As noted above, consideration received from customers in advance of completing the service of their monitors is recognised as other liabilities in the Consolidated balance sheet.

Managed care contracts
The Group occasionally enters into managed care contracts with customers in both the UK and USA. These contracts typically provide for a specified number of patients to be treated over a period of one year. The contracts specify the maximum number of patients that can be treated under the contract. In the USA, the annual contract amount is invoiced to the customer in equal monthly instalments irrespective of the fact that the hospital may not have ordered sufficient consumable probes in any particular month. The contracts provide the customer with the ability to treat patients at any time during the contract period. Accordingly, revenue is recognised on a straight-line basis over the life of the contract

In the event that a customer wished to treat more patients than specified in the contract, the customer can choose to either pay in full the invoiced amount outstanding under the contract and enter into a new agreement or continue to pay the monthly amounts due under the contract along with a specified amount charged for each additional consumable probe ordered. In the event of this occurring, any revenue that had not been recognised under the contract would be recognised in full when the contracted number of probes had been delivered.

In the UK, the annual contract amount is invoiced at the start of the contract. Revenue is recognised on a straight-line basis over the life of the contract. Payments received in advance are recognised as contract liabilities in the balance sheet. In the event that a customer wishes to order more consumable probes than that set out in the contract, a fixed price per probe is specified in the contract. In such circumstances, any revenue that had not been recognised under the contract would be recognised in full when the contracted number of probes had been delivered and revenue for any additional consumable probes ordered would be recognised at the time of delivery to the customer.

At the end of the contract term, the customer has neither the right to a refund nor to the delivery of consumable probes that may not have been ordered under the contract.

3. Segmental analysis

3.1. Accounting policy

During the year ended 31 December 2018, the management information that was regularly provided for the Group's Chief Operating Decision Maker was revised to provide a profit measure.

Performance and the allocation resources is made on the basis of results derived from the sale of probes, monitors and third-party products for which revenues and gross margins are regularly reported to the Group's Chief Executive Officer who has been identified as the Chief Operating Decision Maker (CODM). The CODM also monitors a profit measure described internally as 'adjusted earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA). However, this measure is reported at a Group level rather than an operating segment which is based on the nature of the goods provided rather than the geographical market in which they are sold.

In the light of the above, the segment results for 2018 are set out below. The comparative information for 2017 has been accordingly restated:

3.2. Note

The segment results for 2018 are:

	Probes[1]	**Monitors**	**Third party products**	**Other**	**Unallocated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Revenues	**4,035**	**301**	**448**	**171**	**-**	**4,955**
Adjusted gross profit[2]	**3,240**	**154**	**216**	**86**	**-**	**3,696**
Sales and marketing costs	-	-	-	-	(2,324)	**(2,324)**
Administration costs	-	-	-	-	(1,751)	**(1,751)**
R&D costs	-	-	-	-	(139)	**(139)**
Quality and regulation costs	-	-	-	-	(200)	**(200)**
Adjusted EBITDA	**-**	**-**	**-**	**-**	**-**	**(718)**

1. Managed care service revenue is categorised as probe revenue
2. Gross profit excluding the depreciation charge relating to machines loaned to customers and production equipment

The restated operating segment results for 2017 were:

	Probes[1]	Monitors	Third party products	Other	Unallocated	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenues	4,936	358	378	198	-	5,870
Adjusted gross profit[2]	4,086	317	130	87	-	4,620
Sales and marketing costs	-	-	-	-	(3,650)	(3,650)
Administration costs	-	-	-	-	(1,911)	(1,911)
R&D costs	-	-	-	-	(126)	(126)
Quality and regulation costs	-	-	-	-	(227)	(227)
Adjusted EBITDA	-	-	-	-	-	(1,294)

1. Managed care service revenue is categorised as probe revenue.
2. Gross profit excluding the depreciation charge relating to machines loaned to customers and production equipment.

Notes to the consolidated financial statements for the year ended 31 December 2018 (continued)

The reconciliation of the profit measure used by the Group's CODM to the result reported in the Group's consolidated SOCI is set out below:

	2018 £'000	2017 £'000
Adjusted EBITDA	**(718)**	(1,294)
Non-cash items:		
Depreciation of property, plant and equipment	**(246)**	(265)
Amortisation of development costs	**(173)**	(195)
Non-executive directors' fees and employer's NIC	**(140)**	(108)
Share-based payment expenses	**(166)**	(67)
Change in accumulated absence cost liability	**24**	(9)
Bonus accrual releases	**189**	-
Gain on convertible loan note	**80**	-
	(432)	(644)
Operating loss	**(1,150)**	(1,938)
Finance costs	**(188)**	(163)
Loss before tax	**(1,338)**	(2,101)
Tax credit on loss	**74**	100
Loss for the year	**(1,264)**	(2,001)

The following table provides an analysis of the Group's sales by revenue stream and markets. This information is regularly provided to the Group's CODM:

For the year ended 31 December 2018

	Direct markets				**Indirect markets**			
	Probes £'000	**Monitors £'000**	**Third Party £'000**	**Other £'000**	**Probes £'000**	**Monitors £'000**	**Other £'000**	**Total £'000**
UK	**1,051**	**5**	**448**	**108**	**-**	**-**	**-**	**1,612**
USA	**1,534**	**17**	**-**	**17**	**-**	**-**	**-**	**1,568**
France	**-**	**-**	**-**	**-**	**799**	**66**	**35**	**900**
Scandinavia	**-**	**-**	**-**		**62**	**-**	**-**	**62**
South Korea	**-**	**-**	**-**	**-**	**258**	**-**	**1**	**259**
Peru	**-**	**-**	**-**	**-**	**116**	**165**	**-**	**281**
Other countries	**49**	**14**	**-**	**-**	**166**	**34**	**10**	**273**
	2,634	**36**	**448**	**125**	**1,401**	**265**	**46**	**4,955**

For the year ended 31 December 2017

	Direct markets				Indirect markets			
	Probes £'000	Monitors £'000	Third Party £'000	Other £'000	Probes £'000	Monitors £'000	Other £'000	Total £'000
UK	1,354	92	378	118	-	-	-	1,942
USA	1,872	117	-	21	-	-	-	2,010
France	-	-	-	-	854	75	17	946
Scandinavia	-	-	-	-	101	-	8	109
South Korea	-	-	-	-	200	-	9	209
Peru	-	-	-	-	254	-	1	255
Other countries	89	15	-	6	212	59	18	399
	3,315	224	378	145	1,621	134	53	5,870

The Group's revenue disaggregated between the sale of goods and the provision of services is set out below. All revenues are recognised at a point in time.

	2018	2017*
	£'000	£'000
Sale of goods	**4,882**	5,792
Maintenance income	**73**	78
	4,955	5,870

* As noted, the Group has initially applied IFRS 15 at 1 January 2018. Under the transition provisions selected comparative information has not been restated.

The following table provides information about trade receivables and contract liabilities from contracts with customers. There were no contract assets at either 31 December 2018 or 1 January 2018.

	31 December 2018	1 January 2018*
	£'000	£'000
Trade receivables which are in 'Trade and other receivables'	**1,410**	1,620
Contract liabilities (Note 17.4)	**(151)**	(116)

The following aggregated amounts of transaction prices relate to the performance obligations from existing contracts that are unsatisfied or partially unsatisfied as at 31 December 2018:

	2019	2020	2021	Total
	£'000	£'000	£'000	£'000
Revenue expected to be recognised	145	3	3	**151**

4. Expenses

4.1. Expenses by nature

	2018 £'000	2017 £'000
Changes in inventories and work in progress	**(62)**	(86)
Raw materials and consumables used	**888**	910
Employee benefit costs	**3,498**	4,412
Other employee costs	**562**	889
Non-executive directors' fees	**124**	116
Depreciation of property, plant and equipment	**246**	265
Amortisation of development costs	**173**	195
Net research and development expenditure	**70**	67
Operating lease rentals	**29**	104
Net foreign exchange (gain)/loss	**(4)**	40
Audit and accountancy costs	**57**	120
Meeting and other public relations costs	**103**	106
Professional and consultancy costs	**213**	196
Barter prepayment release	**-**	192
Gain on convertible loan note	**(80)**	-
Other	**288**	282
	6,105	7,808

4.2. Auditors' remuneration

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

Nexia Smith & Williamson

	2018 £'000	2017 £'000
Fees payable to the Group's auditors for the audit of Parent Company and consolidated financial statements	**10**	-
Fees payable to the Group's auditors for other services:		
The audit of the Group's subsidiaries	**28**	-
Tax compliance services	**6**	-
Tax advisory services	**3**	-
	47	-

The table below provides information on fees paid to the Group's auditors who resigned during the year:

PricewaterhouseCoopers LLP

	2018 £'000	2017 £'000
Fees payable to the Company's auditors for the audit of Parent Company and consolidated financial statements	**-**	25
Under-accrual in respect of prior years	**2**	-
	2	25
Fees payable to the Group's auditors for other services:		
The audit of the Group's subsidiaries	**-**	76
	2	101

5. Employees

5.1. Accounting policy

Short-term obligations
Liabilities for wages and salaries, including annual leave, that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognised in respect of employees services up to the end of the financial reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are categorised as current liabilities within trade and other payables in the Consolidated Balance Sheet.

Post-employment obligations
The Group operates two defined contribution schemes for its employees. One scheme is for UK based employees and the other is for US-based employees. In addition, contributions are also paid into private personal pension schemes that belong to certain employees.

For defined contribution schemes, the Group pays contributions to privately administered pension schemes on a mandatory, contractual or discretionary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

5.2. Employee benefit expense

	2018 £'000	2017 £'000
Wages and salaries	**3,369**	4,029
Social security costs	**333**	404
Pension costs – defined contribution plans	**85**	101
	3,787	4,534
Less amounts capitalised as research and development expenses	**(220)**	(252)
	3,567	4,282
Accumulated absence liability movement	**(25)**	9
Accrued bonuses for the year	**37**	54
Accrued bonuses from prior periods released	**(247)**	-
Share-based payment expense	**166**	67
	3,498	4,412

The pensions cost expense of £85,000 (2017: £101,000) represents the aggregate amount paid and payable into defined contribution pension schemes on behalf of employees.

5.3. Average monthly number of people employed

	2018 Number	2017 Number
Number of employees	**71**	85
Average monthly number of people (including executive directors) employed:		
Sales and marketing	**28**	40
Production	**21**	23
Office and management	**13**	12
Quality and regulatory	**3**	5
Research and development	**6**	5
Total monthly average headcount	**71**	85

5.4. Directors' emoluments

	2018 £'000	2017 £'000
Aggregate emoluments	**373**	379
Payment in lieu of notice	**119**	-
Compensation for loss of office	**76**	-
Sums paid to third parties for directors' services	**54**	51
Contributions to directors' personal pension schemes	**14**	18
Contributions to the Group's defined contribution scheme	**3**	-
	639	448

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

Third party payee	Director	2018 £'000	2017 £'000
Imperialise Limited	Nigel Keen	**33**	33
Rockridge Medical Limited	Chris Jones	**21**	18
		54	51

5.5. Highest paid director

	2018 £'000	2017 £'000
Aggregate emoluments	**128**	190
Contributions to director's personal pension scheme	**10**	8
	138	198

During the year, one director exercised 800,000 share options with an exercise price of 1 penny per share. The market price per share at the date of exercise was 1.25 pence leading to a gain of £2,000 on that day. There were no director share sales or the exercise of share options during 2017.

6. Finance income and costs

	2018 £'000	2017 £'000
Finance income – bank interest receivable	**-**	-
Invoice discount facility	**9**	16
Convertible loan note	**135**	131
Finance lease obligations	**-**	4
Lease liability finance expense	**42**	-
Other interest payable	**2**	12
	188	163

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 Statement of Comprehensive Income (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. Note

Current tax	2018 £'000	2017 £'000
Research and development tax credit	**(63)**	(92)
Adjustment in respect of prior years	**(11)**	(8)
Total current tax	**(74)**	(100)
Total deferred tax	**-**	-
Total tax credit on loss	**(74)**	(100)

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017. The taxable credit on the loss for the year is lower (2017: lower) than the effective rate of corporation tax in the UK of 19% (2017: 19.25%) applied to the Group's loss on ordinary activities before tax. The differences are explained below:

	2018 £'000	2017 £'000
Loss on ordinary activities before tax	**(1,338)**	(2,101)
Loss on ordinary activities multiplied by the standard rate in the UK of 19% (2017: 19.25%)	**(254)**	(404)
Effects of:		
(Non-taxable income)/items disallowed for tax purposes	**(138)**	12
Losses carried forward for which no deferred tax asset has been recognised	**365**	347
Other movements in unrecognised deferred tax	**10**	(9)
Tax rate of difference on receivable research and development tax credit	**(65)**	(68)
Difference on tax rate on payable research and development tax credit	**19**	30
Adjustment in respect of prior years	**(11)**	(8)
Total tax credit on loss	**(74)**	(100)

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 2018, the Group had accumulated trading losses carried forward which are available to offset against future profits of £32,779,000 (2017: £30,575,000) resulting in an unrecognised potential deferred tax asset of £6,201,000 (2017: £5,669,000) and share option charges of £Nil (2017: £48,000) with an unrecognised deferred tax asset of £Nil (2017: £8,000).

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:

Deferred tax liabilities	**2018 £'000**	2017 £'000
Development costs	**430**	411
Accelerated capital allowances	**93**	37
	523	448

	2018 £'000	2017 £'000
At 1 January	**448**	457
Charged/(credited) to profit or loss in the Consolidated SOCI	**75**	(9)
At 31 December	**523**	448

Deferred tax asset on losses	**2018 £'000**	2017 £'000
At 1 January	**(448)**	(457)
(Credited)/charged to profit or loss in the Consolidated SOCI	**(75)**	9
At 31 December	**(523)**	(448)

9. Exceptional items

9.1. Accounting policy

As permitted by IAS1, 'Presentation of Financial Statements', certain items are presented separately in the Consolidated SOCI as exceptional items where, in the judgement of the directors, they need to be presented separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance.

9.2. Note

Exceptional items comprised:

	2018 £'000	2017 £'000
Payments in lieu of notice	**119**	-
Compensation for loss of office	**76**	-
Share-based payment expense relating to settlement of contractual bonuses owed	**123**	-
Redundancy costs	**142**	-
Legal and professional costs relating to redundancies	**29**	-
Bonus accrual release	**(202)**	-
	287	-

10. Basic and diluted loss per share

The loss per share calculation is based on the loss of £1,270,000 and the weighted average number of shares in issue of 471,460,901. For 2017, the loss per share calculation is based on the loss of £2,022,000 and the weighted average number of shares in issue of 301,117,957. While the Group is loss-making, the diluted loss per share and the loss per share are the same.

11. Property, plant and equipment

11.1. 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

- Right of use asset: over the period of the lease term
- Plant and equipment: three to five years
- Machines loaned to customers: five years
- Fixtures and fittings: three to five years

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

Machines loaned to customers

In order to support key accounts and increased probe usage, monitors may be placed on long-term loan with customers. Where these monitors are expected to be placed for a period longer than six 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 six months and it is expected that the monitors will be sold thereafter, the monitors are included within inventories.

Other than managed care contracts, the Group has no contractual obligation to provide loan monitors for a specified period of time. The Group monitors probe usage by customers that have loan monitors and where, for various reasons, probe volumes do not support the loaned monitor estate the under-utilised monitors are removed and held ready to meet future demand for monitors by other customers.

11.2. Note

	Leasehold property and improvements	Right of use asset	Plant and equipment	Fixtures and fittings	Machines loaned to customers	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2017	236	-	748	68	1,623	2,675
Exchange difference	-	-	(3)	(3)	(110)	(116)
Transfers	7	-	-	(7)	-	-
Additions	-	-	6	-	-	6
Transferred from inventory	-	-	-	-	181	181
Disposals	-	-	-	(28)	(98)	(126)
At 31 December 2017, as previously stated	243	-	751	30	1,596	2,620
Recognition of right of use asset	-	514	-	-	-	514
At 31 December 2017, as restated	243	514	751	30	1,596	3,134
Exchange difference	-	-	4	2	30	36
Additions	-	-	18	-	-	18
Transferred from inventory	-	-	-	-	64	64
Disposals	(68)	-	(300)	(29)	(26)	(423)
At 31 December 2018	**175**	**514**	**473**	**3**	**1,664**	**2,829**
Accumulated depreciation						
At 1 January 2017	235	-	651	61	1,297	2,244
Exchange differences	-	-	(3)	(3)	(32)	(38)
Depreciation charge	4	-	40	-	221	265
Disposals	-	-	-	(28)	(97)	(125)
At 31 December 2017	239	-	688	30	1,389	2,346
Exchange differences	-	-	2	2	54	58
Depreciation charge	3	59	45	-	139	246
Disposals	(68)	-	(297)	(29)	(14)	(408)
At 31 December 2018	**174**	**59**	**438**	**3**	**1,568**	**2,242**
Net book value						
At 1 January 2017	1	-	97	7	326	431
At 31 December 2017	4	-	63	-	207	274
At 31 December 2018	**1**	**455**	**35**	**-**	**96**	**587**

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

	2018 £'000	2017 £'000
Cost of sales	**168**	221
Administration expenses	**65**	30
Research and development expenses	**13**	14
	246	265

The net book value of property, plant and equipment includes amounts of £455,000 (2017: £13,000) in respect of assets held under leasing arrangements.

12. Intangible assets

12.1. Accounting policy

Expenditure on research and development is charged to profit or loss in the Consolidated SOCI in the year in which it is incurred with the exception of expenditure incurred in respect of the development of new products where the outcome of those projects is assessed as being reasonably certain as regards viability and technical feasibility and the costs incurred can be reliably measured. Such expenditure is capitalised and amortised over the estimated period of sale for each product, commencing in the year that sales of the product are first made. Amortisation is charged on a straight-line basis over their useful economic lives of five years.

12.2. Note

	Development costs £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2017	3,171	66	3,237
Amounts written off	(3)	-	(3)
Additions	286	-	286
At 31 December 2017	3,454	66	3,520
Amounts written off	(38)	-	(38)
Additions	253	-	253
At 31 December 2018	**3,669**	**66**	**3,736**
Accumulated amortisation			
At 1 January 2017	841	-	841
Amounts written off	(2)	-	(2)
Amortisation expense	195	-	195
At 31 December 2017	1,034	-	1,034
Amounts written off	-	-	-
Amortisation expense	173	-	173
At 31 December 2018	**1,207**	**-**	**1,207**
Net book value			
At 1 January 2017	2,330	66	2,396
At 31 December 2017	2,420	66	2,486
At 31 December 2018	**2,462**	**66**	**2,528**

Amortisation expense of £173,000 (2017: £195,000) has been categorised as research and development expenditure in profit or loss in the Consolidated SOCI.

Included within development costs are costs amounting to £1,424,000 (2017: £1,331,000) relating to the Group's new monitor development project. This amount has not been amortised as the project has not yet been completed. The Group also has costs of £224,000 (2017: £335,000) relating to the development of its new high definition impedance cardiography product which became available for sale in May 2017 and has been amortised from that date. Other individually material projects are:

Project description	**2018 £'000**	2017 £'000
Suprasternal Doppler Probe	**220**	111
TrueVue Velocity Pressure Loops	**207**	184
UK Enhanced Recovery App	**181**	152
Spanish Enhanced Recovery App	**65**	92

13. Subsidiary undertakings

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

Name	Country of incorporation and place of business	Nature of trading activities	Proportion of ordinary shares directly held 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	-
Deltex Medical Inc	USA	Dormant	100	-

The registered addresses of the Group's subsidiary undertakings are:

Subsidiary undertaking	Registered Address
Deltex Medical Limited	Terminus Road, Chichester, United Kingdom PO19 8TX
Deltex Medical, SC, Inc	330 East Coffee St., Greenville, South Carolina, USA
Deltex Medical Holdings Inc	330 East Coffee St., Greenville, South Carolina, USA
Deltex Inc	330 East Coffee St., Greenville, South Carolina, USA
Deltex Medical Inc	330 East Coffee St., Greenville, South Carolina, USA
Deltex Medical Espana SL	C/ del Mirador, 3A, 17250 Playa De Aro, Girona, Spain
Deltex Medical Canada Limited	Baine Johnston Centre, 10 Fort William Place, St John's NL A1C 5W4, Canada

14. Inventories

14.1. 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. The latter being allocated on the basis of normal operating capacity. Cost is assigned to individual items based on the sum of the actual cost of raw materials used and the allocation of labour and overheads costs using standard rates. The standard labour and overhead rate are kept under review throughout the year.

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.

14.2. Note

	2018 **£'000**	2017 £'000
Raw materials and consumables	**223**	220
Work in progress	**28**	53
Finished goods	**429**	481
	680	754

Based on inventory holdings and sales history, there are specific provisions for slow-moving inventory of £36,000 (2017: £28,000), which have been categorised as finished goods.

15. Trade and other receivables

15.1. 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. For the year ended 31 December 2017, a provision for impairment of trade receivables was established when there was 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) were considered indicators that the trade receivable may be impaired.

The amount of the provision was 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 was reduced through the use of an allowance account, and the amount of the loss was recognised in the Consolidated Statement of Comprehensive Income within 'sales and distribution' costs. When a trade receivable was uncollectable, it was written off against the allowance account for trade receivables.

Subsequent recoveries of amounts previously written off were credited against 'sales and distribution' costs in the Consolidated SOCI. Trade and other receivables were classified as 'loans and receivables'.

Following the adoption of IFRS9, with effect from 1 January 2018, amounts classified as trade receivables are amounts due from customers for good sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days for sales made in the UK and the USA and within 60 days for sales made to other overseas customers and, therefore, are all classified as current. Trade receivables are initially recognised at the amount of the consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group recognises the trade receivables with the objective of collecting the contractual cash flows and, therefore, measures them subsequently at amortised cost using the effective interest method.

The carrying amount of trade receivables includes receivables which are subject to a secured invoice discounting arrangement. Under this arrangement, the Group has transferred the relevant receivables to the invoice discounting organisation in exchange for cash and is prohibited from selling or pledging the receivables. However, the Group has retained late payment and credit risk. In the light of this, the Group continues to recognise the transferred assets in their entirety in its balance sheet.

The Group classifies its other financial assets as at amortised cost only if the asset is held within a business model whose objective is to collect the contractual cash flows and the contractual cash flows give rise to cash that are solely repayments of principal and interest.

As permitted by IFRS 9, the Group applies the simplified approach to measuring impairment losses which uses lifetime expected loss allowance for all trade receivables and contract assets.

15.2. Note

Trade receivables

	2018 £'000	2017 £'000
Trade receivables	**1,466**	1,647
Less loss allowance	**(56)**	(27)
	1,410	1,620

Due to the short-term nature of the trade receivable balances, their carrying amount is considered to be the same as fair value.

Financial assets at amortised cost

	2018		2017	
	Current	**Non-current**	Current	Non-current
	£'000	**£'000**	£'000	£'000
Staff advances	**245**	**-**	207	-
Other receivables	**-**	**155**	171	-
	245	**155**	378	-

Staff advances relate to cash advances given to staff as on account payments for contractual performance bonuses earned between 2013 and 2017. At the time these bonuses were awarded, it was and remains the Group's intention, in accordance with its usual practice, to settle these contractual amounts due when appropriate to do so under the Group's Enterprise Management Incentive Scheme at which time the amounts advanced to staff will be recovered in full. Other receivables generally arise from transactions outside the normal operating activities of the Group. The amount outstanding relates to a trade receivable due from the non-controlling interest in the Group's Canadian subsidiary which is now repayable on demand. However, the amount outstanding is expected to be recovered within the next five to ten years depending on the amount of cash generated from sales made in the Canadian market and has, therefore, been classified as a non-current asset.

Other current assets

	2018 £'000	2017 £'000
Sundry debtors	**141**	-
Prepayments	**49**	54
	190	54

Included in sundry debtors is an amount of £138,000 (2017: £nil) relating to an advance payment made to secure key components required to manufacture the Group's monitor. It is expected that the goods will be received during the first half of 2019 at which time the debtor balance will be derecognised and the cost of the inventory received.

16. Cash and cash equivalents

16.1. Accounting policy

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions.

16.2. Note

	2018 £'000	2017 £'000
Cash at bank	**580**	219

17. Financial liabilities

17.1. Accounting policy

In the light of the fact that the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities were not affected by the adoption of IFRS 9 at the transition date.

The Group's financial liabilities include borrowings and trade payables and other payables.

Borrowings

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

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.

Where a non-substantial modification of a financial liability occurs, and the financial liability is not derecognised, the Group recalculates the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate and recognises any gain or loss in other income or other costs in profit or loss in the Consolidated SOCI.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs in the Consolidated SOCI.

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.

Trade payables and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within the agreed credit terms of the relevant party concerned. Trade payables and other payables are presented as current liabilities unless payment is not due within 12 months after the end of the reporting period. They are recognised initially at their fair value and subsequently at amortised cost using the effective interest method.

17.2. Note

Borrowings

	2018		2017	
	Current	**Non-current**	Current	Non-current
	£'000	**£'000**	£'000	£'000
Invoice discounting facility	**553**	**-**	719	-
Convertible loan note	**-**	**1,035**	90	1,004
	553	**1,035**	809	1,004

Invoice discounting facility
The amount shown represents the cash drawn down under an invoice discounting facility; There were no undrawn amounts at the end of the year (2017: £1,000). 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 a month's (2017: six months' notice) on either side and is not subject to an annual review.

Convertible loan note
In February 2018, the terms of the convertible loan note were modified as part of the share placing and open offer that completed on 12 February 2018. The maturity date was extended to February 2021 (2017: February 2019) and the conversion price was reduced from 6p per share to 4p share to fairly reflect the dilutive effect of the share issue that was undertaken. At the same time, the convertible loan note holders agreed that a holding of £25,000 nominal amount of convertible loan notes could also be redeemed.

A gain of £80,000 was recognised in profit or loss in the Consolidated SOCI following the extension of the maturity date by two years. The settlement cost on redemption of the loan was immaterial and, therefore, not recognised in profit or loss in the Consolidated SOCI. The conversion right amount of £2,000 relating to the convertible loan notes redeemed has been transferred to Accumulated losses in Equity in the Consolidated Balance Sheet.

The convertible loan note recognised in the Consolidated Balance Sheet is calculated as:

	Financial liability	**Equity component**	**Total**
	£'000	**£'000**	**£'000**
Carrying amount at 1 January 2018	1,094	84	**1,178**
Loan note redemption	(25)	(2)	**(27)**
Modification gain	(80)	-	**(80)**
Interest expense	135	-	**135**
Interest paid	(89)	-	**(89)**
Carrying amount at 31 December 2018	**1,035**	**82**	**1,117**

The directors consider that the coupon payable of 8% on the convertible loan note continues to be at a market rate of interest and, therefore, the carrying amount approximates to its fair value. The effective rate of interest is 12.77% (2017: 13.14%).

17.3. Borrowings in foreign currencies

The carrying amounts of the Group invoice discount facility borrowings are denominated in different currencies and are subject to differing average effective interest rates.

	2018		2017	
	Rate %	**Amount £'000**	Rate %	Amount £'000
Sterling	**3.10**	**221**	2.79	298
Euro	**2.75**	**212**	2.75	272
US Dollar	**5.18**	**120**	4.44	149
		553		719

All of the Group's borrowings are at variable rates of interest other than the convertible loan note which has a fixed coupon of 8% per annum. The effective rate of interest charged was 12.77% which was lower than 13.14% charged in 2017 which was as a consequence of extending the term of the convertible loan note by two years in February 2019. There were no outstanding borrowings relating to lease agreements that would have been categorised as finance leases under IAS 17, 'Leases' (2017: £4,000).

17.4. Trade and other payables

	2018		2017 (as restated)	
	Current	**Non-current**	Current	Non-current
	£'000	**£'000**	£'000	£'000
Trade payables	**346**	**-**	613	-
Other payables	**333**	**-**	298	-
Social security and other taxes	**146**	**-**	380	-
Lease obligations	**33**	**352**	4	-
Contract liabilities	**151**	**-**	116	-
Employee short-term benefits	**57**	**-**	81	-
Accrued expenses	**917**	**-**	1,157	-
	1,983	**352**	2,649	-

Included within other payables is an amount of £278,000 (2017: £298,000) which is payable to the non-controlling interest in the Group's Canadian Subsidiary. This amount is expected to be settled in full over the next 5 – 10 years depending on the amount of cash generated from sales made in the Canadian market. However, as the amount is repayable on demand it has been categorised as a current liability.

The directors consider that the carrying amount of trade payables and other payables approximates to their fair value.

18. Leases

18.1. Accounting policy

At the inception of a contract, the Group assesses whether the contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including short-term office space. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease.

18.2. Note

Included within Property, plant and equipment is the net book amount of £455,000 relating to the right-of-use asset arising from the lease over the Group's head office and factory in Chichester. Included within administration expenses in profit or loss in the Consolidated SOCI is an amount of £59,000 relating to the depreciation expense of this asset and included within finance costs is an amount of £43,000 relating to the finance charge on the related lease obligation. In addition, included within administration expenses in profit or loss in the Consolidated SOCI is an amount of £29,000 relating to short term leases.

Included within trade and other payables in the Consolidated Balance sheet are current lease obligations amounting to £33,000 and non-current lease obligations amounting to £352,000. Previously, under IAS 17, obligations under finance leases were classified as borrowings. The amount outstanding at the end of 2017 was a current liability of £4,000 which was repaid during the year.

The total cash outflow for leases in the period was £104,000.

As noted previously, the Group has elected to apply IFRS 16 Leases. In accordance with the transition provisions in IFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 January 2018. Therefore, comparatives for the 2017 financial year have not been restated.

The table below shows the maturity analysis of the lease obligation using contractual undiscounted cash flows:

	2018 **£'000**
Within 1 year	**75**
Within 2 to 4 years	**300**
More than 5 years	**206**
	581

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 2018 and 31 December 2018	**16**	**98**	**114**

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.

20. Share capital and share premium

20.1. Accounting policy

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

20.2. Note

At 1 January 2018 and 31 December 2018, the authorised share capital of the Company comprised 6,568,546,210 ordinary shares with a nominal value of 1 penny 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 2017	284,935	2,849	32,268	35,117
Shares issued to third parties as payment for services rendered	663	7	17	24
Exercise of share options	285	3	-	3
Share issues:				
27 March 2017	11,035	110	290	400
27 July 2017	16,296	163	387	550
Share issue expenses				
27 March 2017		-	(5)	(5)
27 July 2017		-	(42)	(42)
At 31 December 2017	313,214	3,132	32,915	36,047
Exercise of share options	800	8	-	8
Share issues				
12 February 2018	176,650	1,767	442	2,209
18 May 2018	2,000	20	5	25
Share issue expenses				
12 February 2018		-	(132)	(132)
At 31 December 2018	**492,664**	**4,927**	**33,230**	**38,157**

Net proceeds from share issues, after expenses of £132,000 (2017: £47,000), were £2,085,000 (2017: £903,000).

21. Share-based payments

21.1. Accounting policy

The Group awards directors, employees and certain of the Group'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 the use of a Black–Scholes option pricing 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 seven 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 profit or loss in the Consolidated SOCI, with a corresponding adjustment to equity. 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 Company.

The expected volatility of the Company's share price is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

21.2. 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:

	2001 Executive Share Option Scheme		2011 Executive Share Option Scheme		2003 Enterprise Management Incentive Scheme		
	Number of options No.	Weighted average exercise price p	Number of options No.	Weighted average exercise price p	Number of options No.	Weighted average exercise price p	Total No.
Options outstanding at 1 January 2017	3,257,500	20	9,012,750	15	3,257,672	1	15,527,922
Granted during the year	-	-	10,405,000	4	1,474,616	1	11,879,616
Lapsed during the year	(6,000)	(16)	(513,250)	(13)	(166,640)	1	(685,710)
Expired during the year	(1,042,000)	(29)	-	-	(34,908)	1	(1,076,908)
Exercised during the year	-	-	-	-	(285,338)	1	(285,338)
Options outstanding at 31 December 2017	2,209,500	16	18,904,500	9	4,245,582	1	25,359,582
Granted during the year	-		-	-	24,605,488	1	24,605,488
Lapsed during the year	(8,000)	(13)	(1,976,168)	(5)	(41,371)	1	(2,025,539)
Expired during the year	(488,000)	(19)	-	-	(4,626,917)	1	(5,114,917)
Exercised during the year	-	-	-	-	(800,000)	1	(800,000)
Options outstanding at 31 December 2018	**1,713,500**	**15**	**16,928,332**	**11**	**23,382,782**	**1**	**42,024,614**

Share options exercisable at the end of the year were:

	2001 Executive Share Option Scheme		2011 Executive Share Option Scheme		2003 Enterprise Management Incentive Scheme		
	Number of options No.	Weighted average exercise price p	Number of options No.	Weighted average exercise price p	Number of options No.	Weighted average exercise price p	Total No.
Options exercisable at 1 January 2017	3,257,500	20	4,244,000	20	3,257,672	1	10,759,172
Options exercisable at 31 December 2017	2,209,500	16	4,177,000	20	4,245,582	1	10,632,082
Options exercisable at 31 December 2018	**1,713,500**	**15**	**6,853,332**	**10**	**13,382,782**	**1**	**21,949,614**

The market price of the Company’s shares at the date of exercise of the EMI options was 1.25 pence (2017: (weighted average market price) 4 pence). The mid-market closing price of the Company’s shares at the end of the year was 0.95 pence (2017: 2.13 pence).

Details of the remaining contractual life of share options outstanding for each of the share option schemes is shown in the table below:

	2001 Executive Share Option Scheme		2011 Executive Share Option Scheme		2003 Enterprise Management Incentive Scheme	
	2018 Years	2017 Years	2018 Years	2017 Years	2018 Years	2017 Years
Weighted average remaining contractual life of options outstanding at the end of the financial year	0.42	0.95	6.42	7.98	4.98	5.73

Fair value of options granted

Share options granted under the 2003 EMI scheme had an estimated weighted average fair value of 0.57 pence (2017: 2.90 pence) and £151,071 (2017: £39,719) in aggregate. The fair value of a share option at grant date is determined using a Black Scholes option pricing model which takes into account the share price at date of grant and the expected price volatility of the underlying share, the exercise price of the option, the expected term of the option and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 31 December 2018 were:

	2018			2017	
	August	**June**	**March**	March	February
Share price at grant date	**0.9p**	**1.3p**	**1.4p**	3.8p	3.9p
Exercise price	**1.0p**	**1.0p**	**1.0p**	1.0p	1.0p
Expected price volatility of the Company’s shares	**75%**	**75%**	**75%**	60%	60%
Expected option life (expressed as weighted average life used in modelling)	**10 years**	**1.5 years**	**1 year**	1 year	1 Year
Risk-free interest rate	**1.41%**	**0.64%**	**0.63%**	0.55%	0.55%
Fair value at measurement date	**0.7p**	**0.6p**	**0.6p**	2.8p	2.9p

No share options were granted under either the 2001 or the 2011 Executive Share Option Schemes during the year ended 31 December 2018 (2017: 10,405,000).

Contractor options
On 9 October 2018, 250,000 share options held by a contractor with an exercise price of 21.5 pence per share and 250,000 share options with an exercise price of 14.5p were cancelled and replaced with a share option over 500,000 shares with an exercise price of 1.22p. The share option was exercisable from the grant date of 9 October 2018 and may be exercised in part or in whole at any time during the exercise period. The option has an exercise period of 10 years from grant date. These are the only outstanding options held by contractors. An option over 252,000 shares with an exercise price of 18.75p expired on 28 February 2018.

The share-based payment expense relating to the cancellation and replacement of the contractor options referred to above was immaterial and, therefore, no expense was recognised in profit or loss in the Consolidated SOCI.

22. Change in liabilities arising from financing activities

This note sets out the reconciliation of liabilities arising from financing activities for each of the financial years presented:

	Convertible loan note	Invoice discount facility			Finance lease	Lease liability	Total
		Sterling denominated	Euro denominated	US Dollar denominated			
	£'000	£000	£'000	£'000	£'000	£'000	£'000
At 1 January 2017	1,053	399	206	134	33	-	1,825
Cash flows:							
Drawdowns	-	2,236	1,205	1,560	-	-	5,001
Repayments[1]	-	(2,337)	(1,149)	(1,533)	(28)	-	(5,047)
Cash flow from financing activities	-	(101)	(56)	27	(28)	-	(46)
Interest paid[1]	(90)	(5)	(4)	(7)	(5)	-	(111)
Net cash outflow	(90)	(106)	(60)	(20)	(33)	-	(157)
Non cash flows							
Interest charged at the effective rate	131	5	4	7	4	-	151
Foreign exchange movements[1]	-	-	8	(10)	-	-	(2)
At 31 December 2017	1,094	298	272	149	4	-	1,817
Restatement on adoption of IFRS 16 (Note 26)	-	-	-	-	-	416	416
At 1 January 2018	1,094	298	272	149	4	416	2,233
Cash flows:							
Drawdowns	-	1,922	1,070	1,234	-	-	4,226
Repayments	-	(1,999)	(1,148)	(1,270)	(4)	(32)	(4,607)
Cash flow from financing activities	-	(77)	(58)	(36)	(4)	(32)	(207)
Interest paid	(89)	(2)	(3)	(4)	-	(43)	(141)
Net cash outflow	(89)	(79)	(61)	(40)	(4)	(75)	(348)
Non cash flows							
Interest charged at the effective rate	135	2	3	4	-	44	188
Redemption of convertible loan note	(25)	-	-	-	-	-	(25)
Gain on convertible loan note	(80)	-	-	-	-	-	(80)
Foreign exchange movements	-	-	(2)	7	-	-	23
At 31 December 2018	**1,035**	**221**	**212**	**120**	**-**	**385**	**1,973**

1. The comparative figures have been restated to reflect the analysis provided of the change in liabilities given for 2018

23. Financial risk management

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.

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.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2018				2017		
	Less than 1 year £'000	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Between 5 and 10 years £'000**	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Invoice discounting facility	**553**	**-**	**-**	**-**	719	-	-
Convertible loan note	**88**	**88**	**1,136**	**-**	90	1,139	-
Finance lease liabilities	**-**	**-**	**-**	**-**	4	-	-
Lease obligations	**75**	**75**	**225**	**206**	-	-	-
Trade and other payables	**1,319**	**-**	**-**	**278**	2,148	-	-
	2,035	**163**	**1,361**	**484**	2,961	1,139	-

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.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Sterling, was as follows:

	2018		2017	
	US Dollars £'000	**Euro £'000**	US Dollars £'000	Euro £'000
Cash at bank	**51**	**235**	15	31
Trade receivables	**395**	**434**	458	451
Trade payables	**(37)**	**(11)**	(70)	(21)
Invoice discount facility	**-**	**(212)**	-	(272)

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 reasonably 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.

However, these potential changes are hypothetical and actual foreign exchange rates may differ significantly depending on developments occurring in global financial markets.

The information disclosed for 2017 has been restated due to an error identified in the underlying calculations. IFRS7, 'Financial Instruments: Disclosures' requires information about the sensitivity of financial instruments recognised in the consolidated balance sheet to reasonably possible changes in foreign exchange rates and the effect that such changes could have on both profit or loss in the Consolidated SOCI and Equity. The information disclosed in 2017 was based on the effect of exchange rate changes on income and expenses that were incurred in Euros, US Dollars and Canadian Dollars.

	2018			2017 (restated)		
	Sensitivity %	**Profit £'000**	**Equity £'000**	Sensitivity %	Profit £'000	Equity £'000
Euros	**5.0**	**22**	**22**	3.5	10	10
US Dollar	**5.0**	**26**	**26**	3.5	19	19

If the Euro strengthened against Sterling by 5% (2017: 3.5%) an aggregate foreign exchange gain of £22,000 (2017: 10,000) would be recognised in both profit or loss in the Consolidated SOCI and equity comprising of gains on the trade payables and invoice discount facility offset by exchange losses on cash at bank balances and trade receivables. The opposite movement would occur if the Euro weakened.

A similar fact pattern applies to the strengthening of the US dollar against Sterling.

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.

Following the adoption of IFRS 9, with effect from 1 January 2018, the Group was required to revise its impairment methodology for trade receivables arising from the sale of medical devices and from the provision of preventative planned maintenance contracts. Following this, there was no change to the loss allowance recognised at 1 January 2018 that had been recognised under IAS 39, the previous accounting standard.

The Group's financial assets that are subject to the credit loss model are namely trade receivables from the sale of inventory and the provision of preventative planned maintenance contracts, staff advances and other receivables.

The level of expected credit losses on trade receivables is considered to be immaterial given the nature of the Group's customer base. In the UK, its customers are predominantly UK NHS hospitals. There have not been any bad debts experienced in the UK at all. The same is true for our business in the USA and Canada where customers are generally large hospitals. In the context of our Spanish business, the last bad debt was experienced in 2014 and since that time no other credit losses have been incurred.

Occasionally bad debts have been experienced in our International distributor-led market from time to time. However, as this market has been developed over the years our network of independent distributors has remained relatively stable and consequently the expectation of incurring a credit loss is considered to be immaterial. The credit loss provision of £38,000 (2017:27,000) represents 2.6% of the Group trade receivables at 31 December 2018 (2017: 1.6%).

The movement in the Group's credit loss allowance for trade receivables is shown below:

	2018 £'000	2017 £'000
At 1 January	**27**	330
Foreign exchange	**-**	1
Amounts written off as uncollectible during the year	**(9)**	(304)
Increase in loss allowance recognised in profit or loss in the Consolidated SOCI	**38**	-
At 31 December	**56**	27

No expected credit loss has been recognised in respect of staff advances as the full recovery of this amount will be achieved through the grant of share options and subsequent receipt of proceeds from their exercise.

Other receivables relates to a historic trade receivable balance owed by the non-controlling interest in Deltex Medical Canada Limited. Based on expectations of future trading, the expected credit loss calculated was not material and, therefore, has not been recognised in profit or loss in the Consolidated SOCI.

While cash is subject to the impairment requirements of IFRS 9, no such impairment loss was identified either at 1 January 2018 or 31 December 2018.

For banks and financial institutions only independently related parties with a minimum rating of 'A' are accepted. As at the date of signing the financial statements all cash and cash equivalents are held with institutions with an 'A' rating as per Standard & Poors.

The maximum credit risk exposure at the balance sheet date is represented by the carrying value of the financial assets and there are no significant concentrations of credit risk.

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.

The Group has borrowings at both fixed and floating rates as shown below:

	2018 £'000	2017 £'000
Fixed rates:		
Finance leases	**-**	4
Lease obligations	**352**	-
Convertible loan note	**1,035**	1,094
	1,387	1,098
Floating rates		
Invoice discounting facility	**553**	719
	1,940	1,817

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:

	2018			2017		
	Sensitivity %	**Profit £'000**	**Equity £'000**	Sensitivity %	Profit £'000	Equity £'000
Euros	**0.5**	**-**	**-**	1.0	(1)	(1)
US Dollar	**1.0**	**(1)**	**(1)**	1.0	(2)	(2)
Sterling	**0.5**	**-**	**-**	1.0	(1)	(1)

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.

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.

24. Related party transactions

24.1. Key management compensation

The Group has defined its key management personnel to be the Board of Directors.

	2018 £'000	2017 £'000
Short-term employee benefits	**423**	424
Short term benefits paid to third parties	**54**	51
Post-employment benefits	**17**	18
Termination benefits	**210**	-
Share-based payments	**107**	38
	811	531

Prior to his appointment as CEO on 13 June 2018, the Group had made advances and settled PAYE obligations against bonuses to be settled by the grant of EMI share options to Andy Mears as set out below:

	Maximum amount 2018 £	**Year-end balance 2018 £**	Maximum amount 2017 £	Year-end balances 2017 £
Advance outstanding	**13,730**	**13,730**	13,730	13,730

No advances were made during 2018 or 2017 and no interest is charged on the outstanding balance.

24.2. Other transactions

During the year, £40,000 (2017: £40,000) was paid to Imperialise Limited, a company controlled by N J Keen Esq, non-executive Chairman, that was due on its £500,000 nominal amount holding of the Convertible Loan Notes 2021. At 31 December 2018, £10,082 (2017: £10,082) was owing in respect of interest for the quarter ended 31 December 2018 (2017: Quarter ended 31 December 2017).

The son of the Group's non-executive Chairman has been employed on part-time basis since January 2015 by Deltex Medical Limited. He has been working exclusively on the development and commercialisation of the Enhanced Recovery App software. He received aggregate short-term employee benefits of £44,366 (2017: £41,139) and post-employment benefits of £1,600 (2017: £1,600).

25. Capital and reserves

The nature and purpose of other reserves is explained in the table below:

Name of reserve	Nature and purpose
Capital reserve	This reserve represents the nominal value of ordinary shares that were repurchased and subsequently cancelled in December 2001. This reserve is non-distributable and represents paid up share capital.
Other reserve	This reserve represents the reserve that is used to recognise the grant date fair value of options issued to employees but not yet exercised. On exercise, the amount relating to the options exercised is transferred to Accumulated Losses.
Translation reserve	Exchange differences arising on the translation of the foreign controlled entity are recognised in other comprehensive income in the Consolidated SOCI and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss in the Consolidated SOCI when the net investment is disposed of.
Convertible loan note reserve	This reserve represents the residual value attributed to the equity conversion component at the time of issue of the Convertible loan notes. On conversion or redemption, the amount relating to the principal amount either converted or redeemed is transferred to Accumulated Losses.

26. Changes in accounting policies

This note explains the impact of the adoption of the following accounting standards:

- IFRS 9, 'Financial Instruments';
- IFRS 15, 'Revenue from Contracts with Customers'; and
- IFRS 16, 'Leases'.

IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39, 'Financial Instruments: Recognition and Measurement'. It makes substantial changes to the previous accounting guidance on the classification and measurement of financial instruments and introduces an 'expected credit loss' model for the impairment of financial assets. The new standard also requires the recognition of a modification gain or loss in profit or loss in the Statement of Comprehensive Income (SOCI) when the contractual cash flows of a financial liability are either modified or renegotiated and such action does not lead to its derecognition.

The Group has applied transitional relief and opted not to restate prior periods. There were no differences identified arising from the adoption of IFRS 9 in relation to classification, measurement and impairment that required recognition at the date of initial application, namely 1 January 2018.

The application of IFRS 9 has had an impact in the following areas:

- The application of the expected credit loss impairment model to financial assets. This affects the Group's trade receivable balances, staff advances and other receivables. The Group has applied a simplified model in recognising expected lifetime credit losses for trade receivables as these items do not have a significant financing component. However, given the nature of the Group's customer base the directors do not expect to suffer credit losses from its trade receivables over and above those identified at the end of 2017. Consequently, the Group's estimate of expected credit losses is the same under IFRS 9 as that previously recognised under IAS 39. The application of the expected credit loss model to staff advances and other receivables did not result in a measurement difference at the date of transition.

- The recognition of modification gains or losses. This impacts the Group's convertible loan note that had its maturity date extended by two years in February 2018. A gain of £80,000 was recognised in the operating loss for the year ended 31 December 2018. If the Group had applied its previous accounting policy, this gain would have been recognised over the remaining term of the convertible loan note through an adjustment to the effective interest rate because the terms and conditions of the loan remained broadly unchanged. The loss after tax was reduced by £80,000 following the recognition of this gain. No retrospective adjustments were required in relation to this change in accounting policy as none of the borrowings outstanding at 1 January 2018 had been modified in prior periods.

- Presentation of impairment losses on trade receivables. As a result of adopting IFRS 9, the Group has adopted the consequential amendments that were made to IAS 1, 'Presentation of Financial Statements', which require the presentation of impairment of financial assets to be presented in a separate line item in profit or loss in the Consolidated SOCI. Consequently, the Group has reclassified impairment losses of £6,000, recognised under IAS 39, from administrative expenses to impairment losses on trade receivables in the Consolidated SOCI for the year ended 31 December 2017.

The Group has also adopted the consequential amendments to IFRS 7, 'Financial Instruments: Disclosures', that are applied to disclosures about 2018 but have not been generally applied to 2017.

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15, 'Revenue from Contracts with Customers,' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18, 'Revenue', IAS 11, 'Construction Contracts', and several revenue-related Interpretations.

The new standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018.

In accordance with the transition guidance, IFRS 15 has only been applied to contracts that were incomplete at 1 January 2018.

The adoption of IFRS 15 has mainly affected the accounting for revenue relating to maintenance contracts. Under IFRS 15, revenue for the provision of an annual service of a monitor is recognised in the period that the monitor service is completed. Payment received from a customer in advance of completing the monitor service, which typically takes 1 – 2 days per monitor, is recognised as a contract liability and is reported as an other liability in the Condensed Consolidated Balance Sheet. Previously, under IAS 18, such revenue was recognised in equal monthly instalments over the period of the contract to match the benefits to the customer.

At 1 January 2018, the adjustment required under IFRS 15 to recognise a contract liability relating to consideration received in advance of carrying out the service of a monitor was not materially different to the amount of deferred income recognised under the Group's previous accounting policy. Consequently, no adjustment to opening reserves has been recognised. The contract liability recognised at 31 December 2018 was £154,000 which was higher by £8,000 compared to the amount of deferred revenue that would have been recognised under the Group's previous accounting policy.

IFRS 16 'Leases'
IFRS 16 'Leases' replaces IAS 17, Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'. IFRS 16 becomes effective from 1 January 2019, however, the Group has chosen to adopt the standard early. The adoption of the new standard has fundamentally changed the way in which the Group has accounted for the lease of its building in Chichester. Previously this lease was accounted for under IAS 17 as an operating lease and was off-balance sheet. However, the adoption of IFRS 16 has required the recognition of both a right of use asset and a lease liability. The consequence of this means that the lease rental that used to be an operating expense is now represented by a depreciation charge on the right-of-use asset and a finance cost relating to the lease liability.

In addition, the application of IFRIC 1, ‘Changes in Existing Decommissioning, Restoration and Similar Liabilities’, has required the Group to recognise the dilapidation provision as a component of the cost of the right-of-use asset. Any subsequent changes to this estimate will be accounted for as a change in the cost of the right-of-use asset and its related depreciation charge. It is noted that when this provision was initially recognised it should have been recognised in property, plant and equipment as a leasehold improvement and depreciated over its useful economic life. However, on initial recognition of the provision an expense was recognised in profit or loss in the Consolidated SOCI which has been corrected by the adjustment of £98,000 recognised in equity. The dilapidation provision is being depreciated over the remaining useful economic life. The amount of the provision that should have been depreciated from the date of initial recognition is not material and, therefore, has not been adjusted in the carrying amount of the right of use asset.

The Group leases its head office building in Terminus Road, Chichester. The non-cancellable period at 1 January 2018 was eight years and nine months with the next, and final, break clause in September 2022. The lease payments are next due to be reviewed in October 2022 with the new annual rent payable being the higher of an open market rental determined by an independent chartered surveyor or the current rental charge. The lease payment also includes reimbursement of the landlord’s insurance premium which are adjusted annually.

The Group has applied the modified retrospective approach to its property lease. In doing so, the Group has elected to:

- measure the right-of-use asset at an amount equal to the lease liability at the date of initial application;
- applied the exemption not to recognise right-of-use and liabilities for leases with less than 12 months of lease term remaining; and
- apply the practical expedient to exclude initial direct costs from the right-of-use asset.

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 January 2018 were determined at the carrying amount of the leased assets and lease liabilities at that date.

On transition to IFRS 16, the Group recognised an additional £514,000 right-of-use asset and an additional £416,000 lease liability, recognising the difference of £98,000 in retained earnings. This being the dilapidation provision that had previously been charged to profit or loss in the Consolidated SOCI in accordance with IAS 37, ‘Provisions, Contingent Liabilities and Contingent Assets’. When measuring the lease liability, the Group discounted future lease payments using management’s estimate of an incremental borrowing rate of 12%.

The table below summarises the financial effect of adopting the new lease accounting standard:

	£’000
Operating lease commitment at 31 December 2017 as disclosed in the Group’s Annual Report & Accounts 2017 (Note 24)	674
Discounted at the Group’s incremental borrowing rate at 1 January 2018	(245)
	429
Finance lease liabilities recognised at 31 December 2017	4
Recognition exemption for short-term leases	(17)
Lease liabilities recognised at 1 January 2018	**416**

27. Events after the balance sheet date

On 5 February 2019, the Company issued 8,695,652 new ordinary shares pursuant to the exercise of share options under the Group’s EMI share scheme with an exercise price of 1 penny per share. The proceeds received on exercise was £87,000.

Parent company balance sheet
As at 31 December 2018

	Note	2018 £'000	2017 £'000
Fixed Assets			
Intangible assets - Goodwill	4	**66**	66
Investments	5	**140**	12,218
Trade and other receivables	6	**9,012**	3,000
		9,218	15,284
Current assets			
Trade and other receivables	6	**9**	18
Cash and cash equivalents		**-**	-
		9	18
Creditors – amounts falling due within one year	7	**(422)**	(438)
Net current liabilities		**(413)**	(420)
Total assets less current liabilities		**8,805**	14,864
Creditors – amounts falling due after more than one year	8	**(1,035)**	(1,004)
Net assets		**7,770**	13,860
Equity			
Share capital		**4,927**	3,132
Share premium		**33,230**	32,915
Capital redemption reserve		**17,476**	17,476
Other reserve		**953**	4,752
Convertible loan note reserve		**82**	84
Accumulated losses:			
At 1 January, as previously reported		**(44,499)**	(24,391)
Effect of transition to IFRS 9	13	**(3,003)**	-
At 1 January, as restated		**(47,502)**	(24,391)
Loss for the year		**(5,363)**	(20,108)
Transfers		**3,967**	-
Accumulated losses		**(48,898)**	(44,499)
Total shareholders' funds		**7,770**	13,860

The notes on pages 85 to 92 form an integral part of these financial statements. The financial statements on pages 83 to 92 were approved by the Board of Directors and authorised for issue on 24 April 2019 and were signed on its behalf by:

Nigel Keen

Nigel Keen
Chairman

J Shaw

Jonathan Shaw
Group Finance Director

Parent company statement of changes in equity
For the year ended 31 December 2018

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Convertible loan note reserve £'000	Accumulated losses £'000	Total £'000
Balance at 1 January 2017	2,849	32,268	17,476	4,685	84	(24,391)	32,971
Comprehensive expense							
Loss for the year						(20,108)	(20,108)
Total comprehensive expense for the year	-	-	-	-	-	(20,108)	(20,108)
Shares issued during the year	283	-	-	-	-	-	283
Premium on shares issued during the year	-	694	-	-	-	-	694
Issue expenses	-	(47)	-	-	-	-	(47)
Credit is respect of service cost settled by award of options	-	-	-	67	-	-	67
Balance at 31 December 2017, as previously reported	3,132	32,915	17,476	4,752	84	(44,499)	13,860
Effect of new standards	-	-	-	-	-	(3,003)	(3,003)
Balance at 31 December 2017, as restated	3,132	32,915	17,476	4,752	84	(47,502)	10,857
Comprehensive expense							
Loss for the year	**-**	**-**	**-**	**-**	**-**	**(5,363)**	**(5,363)**
Total comprehensive expense for the year	**-**	**-**	**-**	**-**	**-**	**(5,363)**	**(5,363)**
Shares issued during the year	**1,787**	**-**	**-**	**-**	**-**	**-**	**1,787**
Premium on shares issued during the year	**-**	**447**	**-**	**-**	**-**	**-**	**447**
Issue expenses	**-**	**(132)**	**-**	**-**	**-**	**-**	**(132)**
Credit is respect of service cost settled by award of options	**-**	**-**	**-**	**166**	**-**	**-**	**166**
Transfers	**-**	**-**	**-**	**(3,965)**	**(2)**	**3,967**	**-**
Share options exercised	**8**	**-**	**-**	**-**	**-**	**-**	**8**
	4,927	**33,230**	**17,476**	**953**	**82**	**(48,898)**	**7,770**

The notes on pages 85 to 92 form an integral part of these financial statements.

Notes to the parent company financial statements
For the year ended 31 December 2018

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 of the London Stock Exchange. The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) published in March 2018.

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'; and
  - 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 intra-group 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 IFRS 9, 'Financial Instruments', or whether, in fact, it represents an interest in a subsidiary which is outside the scope of IFRS 9 and accounted for in accordance with IAS 27, ‘Separate Financial Statements’.

Management have concluded that, whilst 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, in legal form, the loans are financial liabilities of the subsidiaries concerned. Therefore, the loans are accounted for in accordance with IFRS 9 and are carried at their amortised cost less any credit loss allowances, if any. This represented a change from the year ended 31 December 2017 when management concluded that the loans were outside of the scope of the extant accounting standard IAS 39, ‘Financial Instruments: Recognition and Measurement’. As explained in note 13, the Company has applied the transitional relief and opted not to restate prior periods. The change in the measurement of intra-group loans on the adoption of IFRS 9 has been dealt with in equity.

Following the adoption of IFRS 9, the carrying amount of the loans are assessed for credit impairment and if considered to be credit impaired a credit loss provision is recognised. In determining whether a credit loss provision is required, management must determine whether there has been a significant change in the credit risk of the respective subsidiary. If there has, then management are required to recognise a lifetime credit loss. The key estimate is the determination of the probability of default and the loss given default under a range of scenarios and the likelihood of each scenario and the relevant credit loss occurring.

Prior to the adoption of IFRS 9, the carrying amount of the loans were tested for impairment if events occurred which indicated that the assets were impaired. The carrying value of the loans were compared to the value in use of the relevant subsidiary which was also the cash generating unit (CGU). The estimation of the value in use of a CGU required 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.

The key assumptions in the value in use calculation were revenue growth rates used in the management approved budgets and forecasts which underpinned the ability of the Group to generate positive cash flows and the pre-tax discount rate used to discount the cash flows.

1.3. Significant accounting policies

Investments

Investments which comprise investments in share capital 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 investment’s 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 (SOCI), unless the relevant investment is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Deferred taxation

Deferred 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 exception of 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 enforcement 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 profit or loss in the Statement of Comprehensive Income 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.

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 43 to 82 of the Report & Accounts 2018.

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 which is repayable on demand. Interest income is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

In calculating interest income, the effective interest rate is applied to the gross carrying amount of the financial asset when the asset is not judged to be credit impaired. If subsequent to initial recognition a financial asset becomes credit impaired, interest income is calculated by applying the effective interest rate to the financial asset's amortised cost. If the financial asset is no longer credit impaired, then the interest calculation reverts to the gross basis.

Compound financial instruments

Compound financial instruments issued by the Company 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 Company 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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2. Auditors' remuneration

The statutory audit fee in respect of the Parent Company's financial statements payable to Nexia Smith & Williamson was £10,000. The amount paid to PricewaterhouseCoopers LLP for the statutory audit of the Report & Accounts 2017 was £25,000.

Fees paid to the Company's auditors, Nexia Smith & Williamson, for services other than the statutory audit are not disclosed in these financial statements because the consolidated group financial statements of the ultimate parent undertaking, Deltex Medical Group plc, disclose the non-audit fees on a consolidated basis. There were no non-audit fees paid to PricewaterhouseCoopers LLP in 2017.

3. Directors' emoluments

	2018 £'000	2017 £'000
Aggregate emoluments	**72**	72
Short term benefits paid to third parties	**54**	51
	126	123

There are no (2017: Nil) benefits accruing to directors under personal pension plans.

Included in the above figure are amounts payable to the employing company, Imperialise Limited, of £33,333 (2017: £33,333), and Rockridge Medical Limited of £21,000 (2017: £18,000), for the services of those directors.

Remuneration, including Executive directors, is disclosed on page 56 of this Report & Accounts. Additional information is provided in the Directors' remuneration report on pages 20 to 31.

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 (2017: 5). None of the directors had contracts for service so the monthly average number of employees was nil (2017: nil).

4. 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. As the amount is considered by the directors to be immaterial in the context of the Company's accounts the balance has not been tested for impairment as the directors consider the balance to be recoverable. Deltex Medical Canada Limited reported a profit of £11,000 (2017: profit of £42,000).

5. Investments

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

Details of the Company's subsidiary undertakings are set out on page 63 of this Report & Accounts.

	Investments in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
Cost			
At 1 January 2018, as originally reported	437	31,863	32,300
Effect of adoption of IFRS 9	-	(31,863)	(31,863)
At 1 January 2018, as restated and 31 December 2018	**437**	**-**	**437**
Accumulated impairment			
At 1 January 2018, as originally reported	272	19,810	20,082
Effect of adoption of IFRS 9	-	(19,810)	(19,810)
At 1 January 2018, as restated	272	-	272
Impairment charge	25	-	25
At 31 December 2018	**297**	**-**	**297**
Net book amount			
At 31 December 2017	165	12,053	12,218
At 31 December 2018	**140**	**-**	**140**

As the carrying amount of the Company's net assets at the balance sheet date exceeded its market capitalisation by £12.0m (2017: £21.5m), the carrying value of investments in subsidiaries were compared to their recoverable amounts based on valuation in use calculations derived from management approved budgets and forecasts covering the three-year period ending 31 December 2021 (2017: four-year period ending 31 December 2021). A terminal value was calculated using the forecast cash flows for the year ended 31 December 2021 using a long-term growth rate of 2.25% (2017: 2.25%). Forecast cash flows were discounted using a pre-tax discount rate of 20% (2017:15%). This impairment calculation resulted in an impairment charge of £25,000 (2017: £20,082,000) to be recognised in profit or loss in the Parent Company's Statement of Comprehensive Income (SOCI).

6. Trade and other receivables

In 2013, the Group reclassified £3,000,000 of the long-term investments by Group in Deltex Medical Limited as a long-term loan. This loan is being charged interest at a rate of 10% per annum, is unsecured and fell due for repayment on 1 January 2018. Since that time, the Parent Company has effectively rolled the loan forward on the existing terms except for the fact that the amount is now repayable on demand. However, the Company has no current intention of making a demand for payment for either this or any of the other intra-group loans that are outstanding. As a consequence, the amounts falling due are classified as non-current assets.

	2018 £'000	2017 £'000
Amounts falling due within one year		
Other receivables	**5**	14
Prepayments	**4**	4
	9	18
Amounts falling due after more than one year		
Amount owed by subsidiary undertaking	**9,012**	3,000

On transition to IFRS 9, the Company determined that the historical intra-group loans that had previously been accounted for as part of the cost of investment in subsidiaries were credit impaired. However, it concluded that the term loan owed by Deltex Medical Limited was not. However, it was concluded that that there had been a significant change in credit risk of that loan and, consequently, an expected life credit loss was recognised.

The expected credit losses were determined based on different recovery options and credit loss scenarios. Three recovery options were considered which included full repayment of the balances outstanding, the possibility of a trade sale and the recovery through continued trading. The likelihood of each occurring was assessed together with the expected credit loss under each scenario. The expected credit loss recognised represents the weighted average of the lifetime credit losses. The expected credit loss at 31 December 2018 was £47,362,000, an increase of £6,121,000 in the year which has been recognised in profit or loss in the Parent Company's SOCI. The gross balances outstanding, on transition to IFRS 9 on 1 January 2018, were £52,999,000. The gross balances outstanding at 31 December 2018 were £56,372,000.

7. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade payables	**146**	173
Accruals	**276**	175
Borrowings	**-**	90
	422	438

8. Creditors: amounts falling due after more than one year

	2018 £'000	2017 £'000
Convertible loan note	**1,035**	1,004

9. Share capital

See notes 20 and 21, on pages 70 to 74 of the Consolidated Financial Statements, for full details of the Company's share capital and its share option schemes.

10. 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**
Deferred tax liabilities		
At 1 January 2017	55	55
Credited to profit or loss in the Consolidated SOCI	(12)	(12)
At 31 December 2017	43	43
Credited to profit or loss in the Consolidated SOCI	(12)	(12)
At 31 December 2018	**31**	**31**

	Tax losses £'000	**Total £'000**
Deferred tax assets		
At 1 January 2017	(55)	(55)
Charged to profit or loss in the Consolidated SOCI	12	12
At 31 December 2017	43	43
Charged to profit or loss in the Consolidated SOCI	12	12
At 31 December 2018	**31**	**31**

Notes to the parent company financial statements
for the year ended 31 December 2018 (continued)

11. Ultimate controlling party

There are no shareholders with overall control of the Company as at 31 December 2018 or 31 December 2017.

12. 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 transactions, other than those disclosed in note 24, with the Company during the year, other than as a result of service agreements. Details of directors' remuneration is disclosed in the Directors' report, on page 35, and in the Directors' remuneration report on pages 20 to 31.

13. Changes in accounting policies

This note explains the impact of the adoption of the following standards:

- IFRS9, 'Financial Instruments'
- IFRS 15, 'Revenue from contracts with customers'; and
- IFRS 16, 'Leases'

IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39, 'Financial Instruments: Recognition and Measurement'. It makes substantial changes to the previous accounting guidance on the classification and measurement of financial instruments and introduces an 'expected credit loss' model for the impairment of financial assets. The new standard also requires the recognition of a modification gain or loss in profit or loss in the Statement of Comprehensive Income (SOCI) when the contractual cash flows of a financial liability are either modified or renegotiated and such action does not lead to its derecognition.

The Group has applied transitional relief and opted not to restate prior periods. There were differences identified arising from the adoption of IFRS 9 in relation to classification, measurement and impairment that required recognition at the date of initial application, namely 1 January 2018.

The application of IFRS 9 has had an impact in the following areas:

- The categorisation of intra-group loans. Prior to the adoption of IFRS 9, Management had concluded that intra-group loans were probably as permanent as equity and, therefore, were accounted for under IAS 27, 'Separate Financial Statements', rather than IAS 39. However, following the adoption of IFRS 9 which has clarified that if the debt instrument is not considered to be an equity instrument by the borrower then it cannot be considered to be in the scope of IAS 27 by the lender. As the loans are undocumented and carry no interest, they are considered to be financial liabilities by the subsidiary entities that have received the intra- Group loans. In the light of this, the intra-group loans have been categorised as financial assets from 1 January 2018.

- The application of the expected credit loss impairment model to financial assets. This affects the Company's financial assets namely intra-group loans. The Company has applied the 'expected credit loss' model to financial assets recognised at amortised cost. The application of IFRS 9 leads to the earlier recognition of impairment losses compared to IAS 39. The Company has determined that the application of the impairment requirements of IFRS 9 results in an allowance for impairment of £41,241,000, which includes an additional impairment of £2,334,000 relating to the intra-group term loan of £3,000,000, which has been recognised in Accumulated losses in equity in the balance sheet. As noted above, prior to the adoption of IFRS 9, other than the 5 year-term intra-group loan to Deltex Medical Limited, the balances outstanding were not measured for impairment under IAS 39. Accordingly, aggregate adjustments of £38,238,000 relating to impairment losses measured in accordance with IAS 36, 'Impairment of Assets', have been reversed on transition to IFRS 9 and are recognised in Accumulated losses in equity in the balance sheet.

- The recognition of modification gains or losses. This impacts the Company's convertible loan note that had its maturity date extended by two years in February 2018. A gain of £80,000 was recognised in the operating loss for the year ended 31 December 2018. If the Company had applied its previous accounting policy, this gain would have been recognised over the remaining term of the convertible loan note through an adjustment to the effective interest rate because the terms and conditions of the loan remained broadly unchanged. The loss after tax was reduced by £80,000 following the recognition of this gain. No retrospective adjustments were required in relation to this change in accounting policy as none of the borrowings outstanding at 1 January 2018 had been modified in prior periods.

IFRS 15, 'Revenue from contracts with customers' and IFRS 16, 'Leases'.
Whilst the Company has adopted both of these standards with effect from 1 January 2018, they did not have any effect on the Company's financial statements.

14. Events after the balance sheet date

On 5 February 2019, the company issued 8,695,652 new ordinary shares pursuant to the exercise of share options under the Group's EMI share scheme with an exercise price of 1 penny per share. The proceeds received on exercise was £87,000.

On 9 April 2019, the Board resolved to waive the non-interest-bearing intra-group loan owing to the company from its wholly owed subsidiary undertaking Deltex Medical Limited. The gross balance owed to the company at 31 December 2018 was £45,164,000. This will be accounted for as a capital contribution in the Annual Report & Accounts 2019.

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 2018 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 03902895)

NOTICE OF ANNUAL GENERAL MEETING

Notice of an annual general meeting of Deltex Medical Group plc (the "**Company**") to be held at the offices of DAC Beachcroft LLP, 25 Walbrook, London EC4N 8AF at 11:00am on 22 May 2019 (the "**AGM**") is set out on pages 97 and 98 (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, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, not later than 48 hours before the time of the meeting.

Directors:

Nigel Keen (Chairman)
Andrew Mears
Jonathan Shaw
Julian Cazalet
Christopher Jones
Sir Duncan Nichol
Mark Wippell

Deltex

Deltex Medical Group plc
Terminus Road,
Chichester,
PO19 8TX
United Kingdom

Enquiries: +44 **(0)1243 774837**

24 April 2019

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 2018

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 2018.

The formal notice of the annual general meeting of the Company, which will take place at the offices of DAC Beachcroft LLP, 25 Walbrook, London EC4N 8AF at 11:00am on 22 May 2019 (the "**AGM**"), is set out on pages 97 and 98 (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 2018 (the "**Annual Report & Accounts 2018**").

Resolutions 2, 3, and 4 - Re-election and election of directors
Resolution 2 proposes the re-election of Nigel Keen as a director and Resolution 3 proposes the re-election of Mark Wippell as a director. The Company's articles of association (The **"Articles"**) 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, Nigel Keen and Mark Wippell offer themselves for re-election as proposed by resolutions 2 and 3.

Resolution 4 proposes the reappointment of Andy Mears, who was appointed as a director on 13 June 2018. In accordance with the Articles, having been appointed since the last annual general meeting, Andy Mears ceases to be a director at the conclusion of the AGM unless reappointed at the meeting; accordingly, being eligible, Andy Mears offers himself for re-appointment as proposed by resolution 4.

Biographical details of Nigel Keen, Mark Wippell and Andy Mears are set out on page 33 of the Annual Report & Accounts 2018. The Board considers that the considerable experience that each of these directors bring will continue to be beneficial to the Company.

Resolution 5 – Re-appointment of auditors
Nexia Smith & Williamson have expressed their willingness to continue as the Company's auditors. Resolution 6 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 20 June 2018 (the "**2018 AGM**"), the directors were given authority to allot relevant securities up to a maximum aggregate nominal value of £1,635,544 (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 AGM 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 value of £1,671,197 (being one-third of the issued ordinary share capital as at 31 March 2019) and in addition to allot relevant securities only in connection with a rights issue up to a further aggregate nominal value of £1,671,197.

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 aggregate nominal value of £3,342,394 representing an amount equal to two-thirds of the Company's issued share capital as at 31 March 2019. 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, if granted, will expire on the earlier of the conclusion of the Company's next annual general meeting after the passing of this resolution and 15 months from the date of passing this resolution. The Board intends to seek its renewal at subsequent annual general meetings of the Company.

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 pre-emption on the issue for cash of new equity securities (other than in connection with an employee 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 powers that were granted to the directors at the 2018 AGM, that power be granted to allot securities for cash on a non-pre-emptive basis up to a maximum aggregate nominal value equal to £501,359 (representing approximately ten per cent. of the nominal issued share capital of the Company as at 31 March 2019).

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, if granted, will expire on the earlier of the conclusion of the Company's next annual general meeting after the passing of this resolution and 15 months from the date of passing this resolution. The Board intends to seek its renewal at subsequent annual general meetings of the Company.

Resolution 7 will be proposed as a special resolution.

Action to be taken
Your participation at the AGM is important to us. The AGM is a great opportunity for shareholders to communicate directly with us, express their views and to ask questions and we welcome your attendance. Whether or not you propose coming to the AGM and you want to vote on any of the resolutions you can do this in one of two ways:

- Register your vote electronically by logging on to www.sharevote.co.uk: or
- Complete and return the enclosed proxy form

Proxy appointments, whether submitted electronically or by post, must be received by Equiniti by no later than 11.00am on 20 May 2019. 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 79,131,679 ordinary shares in aggregate, representing approximately 16 per cent. of the ordinary shares currently in issue.

Yours sincerely

Nigel 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 the offices of DAC Beachcroft LLP, 25 Walbrook, London EC4N 8AF at 11:00am on 22 May 2019 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 2018, together with the reports of the directors and of the auditors thereon.
2. To re-elect as a director Nigel Keen.
3. To re-elect as a director Mark Wippell.
4. To elect as a director Andy Mears.
5. To re-appoint Nexia Smith & Williamson as auditors of the Company to hold office until the conclusion of the next annual 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, in accordance with section 551 of the Companies Act 2006 (the "**Act**"), the directors be generally and unconditionally authorised to allot Relevant Securities (as defined below):

6.1. comprising equity securities (as defined by section 560 of the Act) up to an aggregate nominal amount of £3,342,394 in connection with an offer of such securities by way of a rights issue

(a) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and

(b) to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

6.2. in any other case, up to an aggregate nominal amount of £1,671,197,

provided that this authority shall, unless renewed, varied or revoked by the Company, expire 15 months after the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the Company after the passing of this resolution, save that the Company may, before such expiry, make offers or agreements which would or might require Relevant Securities to be allotted and the directors may allot Relevant Securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This resolution revokes and replaces all unexercised authorities previously granted to the directors to allot Relevant Securities but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

In this resolution, "**Relevant Securities**" means:

(a) shares in the Company, other than shares allotted pursuant to:

(i) an employee share scheme (as defined in section 1166 of the Act);

(ii) a right to subscribe for shares in the Company where the grant of the right itself constitutes a Relevant Security; or

(iii) a right to convert securities into shares in the Company where the grant of the right itself constitutes a Relevant Security; and

(b) any right to subscribe for or to convert any security into shares in the Company other than rights to subscribe for or convert any security into shares allotted pursuant to an employee share scheme (as defined in section 1166 of the Act).

References to the allotment of Relevant Securities in this resolution include the grant of such rights.

7. THAT, subject to the passing of resolution 6, the directors be authorised to allot equity securities (as defined in section 560 of the Act) for cash under the authority conferred by that resolution and/or to sell ordinary shares held by the Company as treasury shares as if section 561 of the Act did not apply to any such allotment or sale, provided that such authority shall be limited to:

(a) the allotment of equity securities in connection with an offer of equity securities (but, in the case of the authority granted under 6.1, by way of a rights issue only)

(i) to the holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

(b) the allotment of equity securities or sale of treasury shares (otherwise than pursuant to clause 7(a) of this resolution) to any person up to an aggregate nominal amount of £501,359.

The authority granted by this resolution will expire 15 months after the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the Company after the passing of this resolution, save 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 the authority expires and the directors may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement as if the authority had not expired. This resolution revokes and replaces all unexercised powers previously granted to the directors to allot equity securities or sell treasury shares as if section 561 of the Act did not apply but without prejudice to any allotment of equity securities or sale of treasury shares already made or agreed to be made pursuant to such authorities.

By order of the Board

Jonathan Shaw
Company Secretary
24 April 2019

Registered office:
Terminus Road
Chichester
PO19 8TX

Notes:

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 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 or she subsequently decide to do so. In order to be valid, any form of proxy and power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, must reach the Company's registrars, to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, not less than 48 hours before the time of the meeting or of any adjournment of the meeting.

Shareholders wishing to appoint a proxy and register their proxy votes electronically should visit the website, www.sharevote.co.uk. The on-screen instructions will give details on how to appoint a proxy and submit proxy voting instructions. Electronic proxy appointments and voting instructions must be received by no later than 11.00 am on 20 May 2019 (or 48 hours excluding non-working days before an adjourned meeting) in order to be valid. Shareholders may not use any other electronic address or telephone number, whether found in this circular and Notice of Meeting, or in the Annual Report & Accounts 2018 or on any form of proxy or the Company's website, for the purposes of submitting voting instructions or appointing proxies. The only electronic address accepted for this stated purpose is the one at the website, www.sharevote.co.uk.

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 6:30 pm on 20 May 2019 (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. A copy of this notice, within the Annual Report & Accounts 2018, can be found on the Company's website, www.deltexmedical.com.

Shareholders can, at no cost, obtain copies of the audited financial statements of the Company for the year ended 31 December 2018 and the directors' and auditors' reports on those financial statements by application to the Company Secretary at the registered office of the Company. 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 2018. 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, Equiniti (ID RA19), not later than 11.00 am on 20 May 2019 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.

We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertified Securities Regulations 2001. In any case your proxy form must be received by the Company's registrars no later than 48 hours before the time of the meeting or of any adjourned meeting excluding any part of day that is not a working day. As at 31 March 2019, the Company's issued share capital consists of 501,359,019 ordinary shares of 1p each, carrying one vote each. No shares are held in treasury.