Deltex medical group plc

# 2021 Annual Report & Accounts


## Deltex Medical

A UK-headquartered international medical device company which develops, manufactures and distributes a clinically-proven haemodynamic monitoring technology that has been shown to:

- improve outcomes for patients; and
- reduce patient length-of-stay,

thereby increasing throughput and capacity for hospitals whilst lowering healthcare costs.

***Real-time oesophageal Doppler haemodynamic monitoring:***
*improves patient outcomes; increases hospital throughput*

# Deltex Medical at a glance

**Our technology**

Deltex Medical's TrueVue System uses proprietary haemodynamic monitoring technology to assist clinicians to improve outcomes for patients as well as increase throughput and capacity for hospitals.

Deltex Medical has invested over the long term to build a unique body of peer-reviewed, published evidence from a substantial number of trials carried out around the world. These studies demonstrate statistically significant improvements in clinical outcomes providing benefits both to patients and to the hospital systems by increasing patient throughput and expanding hospital capacity.

The Group's flagship, world-leading, ultrasound-based oesophageal Doppler monitoring ("ODM") is supported by 24 randomised controlled trials conducted on anaesthetised patients. As a result, the primary application for ODM is focussed on guiding therapy for patients undergoing elective surgery.

During 2021, Deltex Medical's engineers and scientists carried out successful research in conjunction with the UK's National Physical Laboratory ("NPL"), which has enabled the Group's 'gold standard' ODM technology to be extended and developed so that it can be used completely non-invasively. This will significantly expand the application of Deltex Medical's technology to non-sedated patients. This new technological enhancement will substantially increase the addressable market for the Group's haemodynamic monitoring technologies and is complementary to the long-established ODM evidence base.

Our new non-invasive technology has potential applications for use in a number of healthcare settings, including:

- Accident & Emergency for the rapid triage of patients, including the detection and diagnosis of sepsis, an important capability for patients presenting with COVID-19 symptoms;
- in general wards to help facilitate a real-time, data-driven treatment regime for patients whose condition might deteriorate rapidly; and
- in critical care units to allow regular monitoring of patients post-surgery who are no longer sedated or intubated.

One of the key opportunities for the Group in 2022 is positioning this new, non-invasive technology for use throughout the hospital. Our haemodynamic monitoring technologies provide clinicians with beat-to-beat real-time information on a patient's circulating blood volume and heart function. This information is critical to enable clinicians to optimise both fluid and drug delivery to patients.

Our business model is to drive the recurring revenues associated with the sale of single-use disposable ODM probes which are used in the TrueVue System and to complement these revenues with a new incremental revenue stream to be derived from our new non-invasive technology.

Both the existing single-use ODM probe and the new, non-invasive device connect to the same, next generation monitor which is due for launch in 2022. Monitors are sold or, due to hospitals' often protracted procurement times for capital items, loaned in order to encourage faster adoption of our technology.

**Our customers**

The principal users of our products are currently anaesthetists working in a hospital's operating theatre and intensivists working in ICUs. This customer profile will change as our new non-invasive technology is adopted by the market. In the UK we sell directly to the NHS. In the USA we sell directly to more than 30 major hospitals that appreciate the value of our evidence-based approach to haemodynamic management. We also sell through distributors in more than 40 countries in the European Union, Asia and the Americas.

**Our objective**

To see the adoption of our next generation TrueVue System, comprising both minimally invasive and non-invasive technologies, as the standard of care in haemodynamic monitoring for all patients from new-born to adult, awake or anaesthetised, across all hospital settings globally.

Visit us online for further information at www.deltexmedical.com

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# HIGHLIGHTS

**Financial**

- revenues: £2.3 million (2020: £2.4 million)
- International division performed well in 2021 with growth of 40% to £0.9 million (2020: £0.7 million)
- gross margin up slightly to 70% (2020: 68%)
- overheads flat at £2.7 million (2020: £2.7 million, excluding exceptional items)
- adjusted EBITDA: £(0.5) million (2020: £(0.2) million)
- loss for the year: £(1.0) million (2020: £(0.8) million)
- cash at hand (31 December, 2021): £0.4 million (2020: £0.9 million), before £1.4 million (gross) fund raising announced on 8 February 2022

**Business**

- during 2021 many of Deltex Medical's principal markets were effectively closed as elective surgical procedures were cancelled around the world due to the pandemic. Elective surgery is now starting to resume globally
- many hospitals barred access to salespersons and clinical educators for a large proportion of the year, which compounded the sales challenges facing the Group
- post pandemic, there is now a substantial backlog in elective surgical procedures around the world which represents a significant commercial opportunity for Deltex Medical as its TrueVue Doppler technology has been shown to reduce patient length-of-stay and hence increase hospital throughput / capacity
- there are now encouraging signs of hospital access improving for our sales teams
- excellent progress was made in research and product development during 2021, both in the development of our new, next generation monitor which will be launched in 2022 and our new non-invasive Doppler-based haemodynamic monitoring technology which has broader applications within the hospital setting
- trading in 2022 has started positively including the announcement in January 2022 of a US$0.2 million order from the Americas

**Commenting on the results, Nigel Keen, Chairman of Deltex Medical, said:**

*"2021 was a challenging year for Deltex Medical; however, as the pandemic subsides the prospects for the Group in 2022 are encouraging."*

*"The size of the backlog in elective surgery around the world creates an opportunity to leverage the benefits of Deltex Medical's technology, particularly in relation to increasing patient throughput and improved outcomes."*

*"The expected return to normal levels of elective surgery represents a significant commercial opportunity for the Group."*

*"The launch of our next generation state-of-the-art monitor coupled with our new, easy-to-use non-invasive monitoring device, with its broader applicability throughout the hospital, provides opportunities for the Group to expand its addressable markets."*

# Chairman's Statement

***Real-time oesophageal Doppler haemodynamic monitoring:***
*improves patient outcomes; increases hospital throughput*

**Introduction**

As expected, 2021 turned out to be a challenging year for Deltex Medical, although I can report that we are encouraged by the way that 2022 has started.

Our technology is principally used during elective surgery. Unfortunately, elective surgery was effectively closed for much of the year as health systems across the world continued to grapple with the impact of the COVID-19 ("Covid") pandemic whilst deciding how best to restart elective surgery. Intensive Care Units ("ICUs") once again filled up with mainly unvaccinated, extremely sick patients. Staff shortages compounded the provision-of-care challenges facing hospitals.

Although at the beginning of the pandemic, starting in late March 2020, there was an uptick in sales of the Group's haemodynamic monitoring technology into ICUs, this rapidly became dwarfed by the drop-off in the use of our products associated with the cessation of elective surgery in almost all hospitals in the world.

In all our markets there is now a large backlog of patients requiring elective surgical procedures. This represents a clinical and, increasingly, a political problem, particularly for government-funded healthcare systems. An NHS publication "**Delivery plan for tackling the COVID-19 backlog of elective care**" published on 8 February 2022 states that "*Six million people are now on the waiting list, up from 4.4 million before the pandemic.*"

On 1 December 2021 the UK's National Audit Office published a report entitled: "**NHS Backlog and waiting times in England**". This report states that "*Under two plausible scenarios, the elective care waiting list will be longer in 2025 than it is today.*" Further, this report suggests that under one of these scenarios the waiting list in March 2025 will contain 12.0 million patient pathways, compared to 5.8 million in September 2021.

The size and scale of the backlog means that hospitals and health systems should be looking to use our technology to help them rapidly reduce the elective surgery backlog and this represents a significant commercial opportunity for the Group. Conversely, the sheer size and scale of the backlog may also make it challenging to sell new technology into a stressed operating theatre environment, as clinicians are under acute pressure to work rapidly through operating lists. In addition, many hospitals have been slow at reopening access in the operating theatre to people not directly involved in the surgical process. This makes it more difficult for our clinical educators to provide clinical support to new clinicians who have been significantly less active in respect of elective surgery for the last two years.

While the environment starts to normalise, we will focus our commercial activities on hospital accounts that had previously adopted and used the Group's TrueVue Doppler technology in the operating theatre. In addition to driving back up usage rates from existing users, we will separately introduce a number of different initiatives to drive adoption of our new, non-invasive haemodynamic monitoring technology which we will be launching later this year. We believe that this new, broad application, non-invasive technology will, as well as being adopted by new users, help drive interest in, and usage of, our long-standing minimally invasive ODM technology. This is due to the new device allowing anaesthetists to quickly assess which of their patients will benefit from having the use of the advanced ODM technology.

The evidence showing that the use of our Doppler-based haemodynamic monitoring technology improves patient outcomes and increases hospital capacity (as a result of shorter patient length-of-stay) is strong. We believe that the next generation monitor which we will launch in 2022 and the new

completely non-invasive device, which will also be available on this monitor, will represent a compelling solution for clinicians and hospital systems needing to handle their patient throughput more effectively.

**Financial results**

Group revenues for the year ended 31 December 2021 were £2.3 million (2020: £2.4 million) and reflect the impact of Covid on elective surgery. In 2021 the entire year's results were affected by the pandemic whereas in 2020 we had reasonable activity levels in the first quarter. Probe revenues declined by 9.6% to £1.9 million (2020: £2.1 million). Monitor revenues increased by 25% to £202,000 (2020: £161,000) reflecting improved trading in our International division in the year.

The consolidated gross margin in 2021 was 70% (2020: 68%). The slight increase in gross margin reflects a number of manufacturing efficiency savings that we were able to capture during the year.

Overheads were flat in the year totalling some £2.7 million (2020: £2.7 million, excluding exceptional costs of £232,000).

In the year the total value of UK and US government salary support schemes was £0.3 million (2020: £0.4 million).

Adjusted EBITDA for the year (comprising earnings before interest, tax, depreciation and amortisation, share-based payments, non-executive directors' fees, as well as any exceptional items) was a loss of £(0.5) million (2020: £(0.2) million).

Loss for the year was £(1.0) million (2020: £(0.8) million).

Cash at hand at 31 December 2021 was £0.4 million (2020: £0.9 million). This cash resource has since been supplemented by a fund raising of £1.4 million (gross) which was announced on 8 February 2022.

**Business activities**

Whilst our direct sales operations in the UK and the USA struggled to gain access to customers during the year as the majority of hospitals had put in place bans on visits by salespeople or clinical educators, our International division saw revenues grow by 40% to £926,000 (2020: £661,000). This growth helps to demonstrate the potential of, and associated opportunity with, our international network of some 40 distributors across the world.

During 2021 the Group's research and development team focussed on completing the development of our next generation monitor for launch in 2022. Launch of this monitor will provide us with immediate access to new potential revenue streams through sales of this updated device to existing users, as well as providing a platform for the introduction of our new non-invasive haemodynamic monitoring technology later this year.

**Employees**

On behalf of the Board, I would like to thank Deltex Medical's highly trained and dedicated employees, most of whom are based in the UK and the USA, for their continuing efforts and dedication in the very taxing environment which we saw throughout 2021. In these very difficult circumstances, our employees displayed great flexibility and fortitude, and remained responsive to our customers' wishes throughout the year.

**Current trading and prospects**

As access to hospitals improves for our direct sales forces in the UK and the USA then we expect our business to begin to normalise.

We also anticipate that our international business will continue to grow in 2022 and we have already announced a US$0.2 million order from a territory in the Americas which we expect will generate significant contracted single-use probe revenues this year.

Following the £1.4 million (gross) fund raising announced in February 2022, Deltex Medical, with the benefit of its grant awards, will have sufficient financial resources to complete the development of its next generation monitor and its new, broad application, non-invasive haemodynamic monitoring technology

Our initial focus is to drive activity levels back up to those achieved by the Group prior to the pandemic. Once attained, we believe that there is clear scope to grow the business, both in the UK, USA and in other international territories.

**Nigel Keen**
*Chairman*
6 April 2022

# Business Review

**Overview**

Deltex Medical is the world leader in highly accurate oesophageal Doppler monitoring ("ODM"), via its TrueVue platform, which allows real-time monitoring of a patient's haemodynamic status.

A substantial number of peer-reviewed, randomised controlled trials have shown that an ODM-driven haemodynamic protocol can result in statistically significant reductions in post-operative complications, resulting in lower costs for hospitals due to shorter patient length-of-stay. This is not only good for patients but also increases throughput and capacity for hospitals, which will be a key factor in the near term for reducing the backlog in elective surgery.

Deltex Medical's technology was originally developed in an ICU in London to assist with the treatment of acutely unwell critical care patients. Over time demand for the Group's high fidelity oesophageal Doppler-based haemodynamic monitoring technology has migrated from the ICU to the operating theatre, and particularly for elective surgery. Before the pandemic, approximately 80% of the Group's revenues were associated with elective surgical procedures in operating theatres. Accordingly, the cessation of elective surgery for much of 2021 was highly disruptive to Deltex Medical's commercial activities.

During 2021, our research and development team made impressive and substantial progress both in completing the development of our new, next generation TrueVue monitor and also in developing a complementary, non-invasive haemodynamic monitoring technology which leverages the extensive evidence base supporting the use of our existing ODM technology. The new device allows instantaneous non-invasive deployment anywhere in the hospital. This substantially broadens the potential applications, and hence addressable market size, for the Group's technology.

Our key challenge for 2022 is to ensure that, as hospitals open up and the volume of elective surgery increases, the Group is able to capitalise on these increased activity levels in operating theatres as well as capturing all the upside associated with our new non-invasive Doppler-based technology.

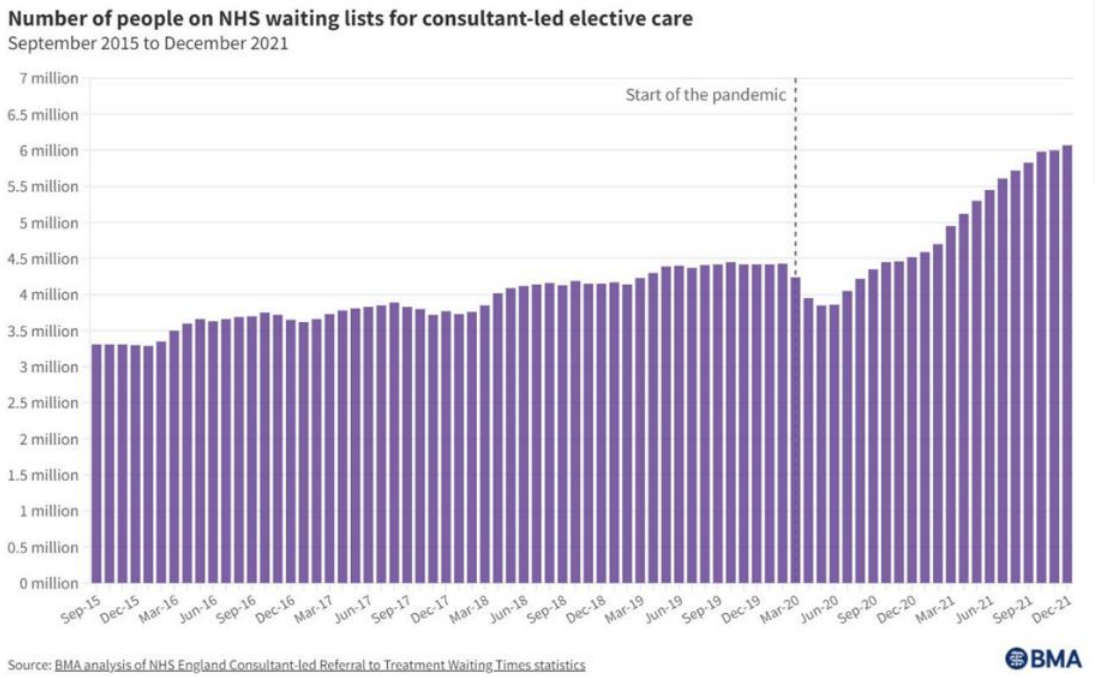
**COVID-19**

When Covid first emerged in 2020, the Group initially experienced increased demand for its TrueVue Doppler technology in ICUs, as clinicians worked to establish the optimal treatment protocols for severely sick Covid patients.

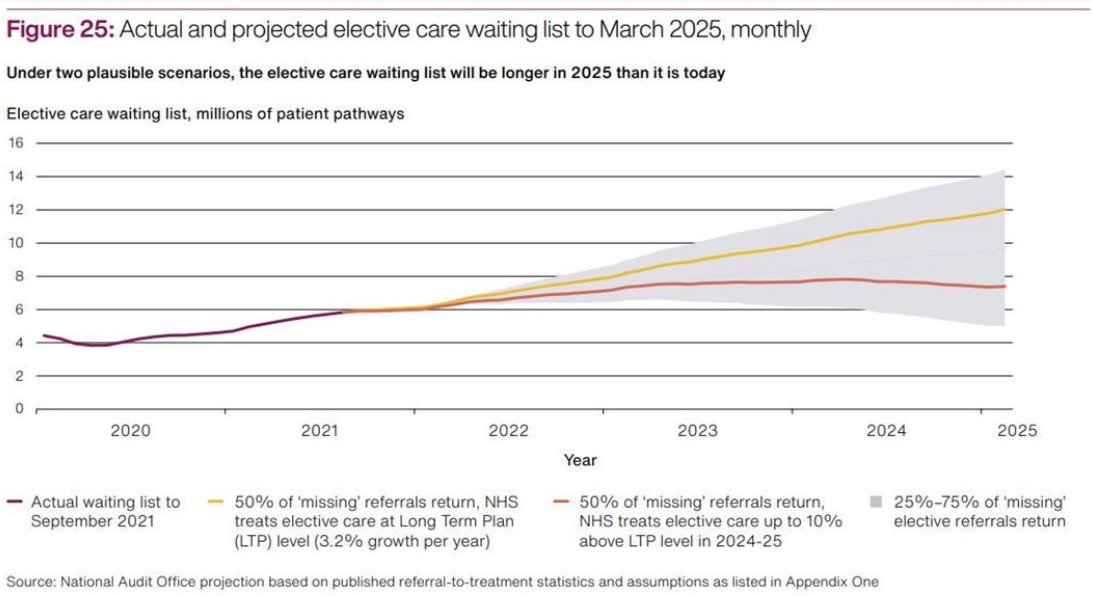
Over the last two years Covid treatment protocols have improved and the importance of haemodynamic monitoring as a part of optimal Covid treatment is now better understood. However, in developed countries the number of patients in ICUs has declined, in large part as vaccination rates have increased substantially, resulting in a decline in demand for the Group's oesophageal Doppler technology in ICUs for the treatment of ventilated Covid patients.

Around the world there is now a substantial backlog in elective surgical procedures as a result of the closure of operating theatres during the pandemic.

The chart below from the British Medical Association shows the increase in the NHS backlog of elective care from 4.4 million people at the start of the pandemic to 6.1 million in December 2021.




The second chart ('Figure 25') from the National Audit office shows that under two plausible scenarios, the NHS backlog in March 2025 could be substantially higher than today, with one estimate putting the backlog as high as 12.0 million.




This backlog in elective care, which is a global phenomenon, represents a significant commercial opportunity for Deltex Medical as use of its TrueVue Doppler technology should result in greater patient throughput in respect of elective surgery, and hence increased hospital capacity.

One of the largest challenges that the Group, in common with most medical device companies, currently faces is that many hospitals around the world have restricted access to salespersons and clinical educators to help reduce the risk of the spread of Covid within hospitals.

Visits by Deltex Medical salespersons and clinical educators within the operating room environment results in appropriate levels of operating theatre staff trained in the use of ODM. The Group has internal studies which show that higher probe usage in these units is associated with recent visits by Deltex Medical employees. Conversely, it also has data which show that hospitals which have not been visited by a Deltex Medical employee for some time typically display reduced probe usage. As a result, one of

the key challenges which the Group is focussing on this year is improving access for its direct sales force to hospitals in the UK and the USA.

The Group is considering a number of strategies to improve customer access, including possibly collaborating with larger groups which, as a result of their size and financial resources, have better reach and penetration into the operating theatre market.

Covid has also had a significant adverse effect on global supply chains, particularly in respect of semiconductors and raw materials. This has created issues for the Group's product development activities, and, in particular, contributed materially to the slippage of the launch of our next generation monitor from 2021 into 2022.

During 2021 the Group adopted a number of work-from-home protocols. Whilst working from home has had some advantages for some of our employees, it has also created challenges as the Group's research & development ("R&D") teams were forced to carry out complex development work remotely and without full access to Deltex Medical's research laboratories located in our headquarters in Chichester.

These Covid challenges should be seen in the context of the Group's pre-pandemic results when the Group had positive adjusted EBITDA of £0.4 million in 2019 and revenues nearly twice the 2021 level. (2021 revenues: £2.3 million; 2019: £4.3 million). Our primary focus is to return the business to these previously achieved activity levels, and then start to build profitable growth thereafter.

**Product development and innovation**

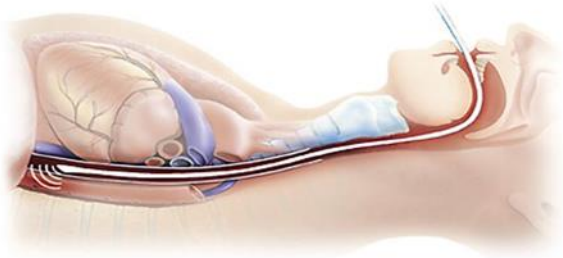
The ability to innovate and drive haemodynamic monitoring technology forward remains a key component of the Group's strategy.

The need for the new, next generation monitor has been apparent for some time. In 2021 a substantial proportion of our R&D activities were focussed on bringing this monitor to market. We anticipate launching the new, next generation monitor later this year.

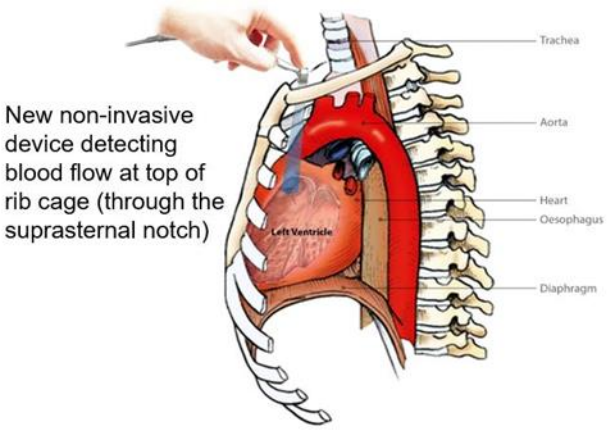
Much of our product development work has been assisted by a number of competitively-won grant awards. For example, in 2021 the Group was notified of grant awards worth approximately £0.6 million (gross) (2020: nil), including a prestigious Smart Award from Innovate UK. Work eligible for the latest grant starts in April 2022.

One notable grant award related to collaborative work between Deltex Medical and the UK's National Physical Laboratory ("NPL") based in Teddington. This collaborative research work has enabled the Group to extend the application and utility of its oesophageal Doppler monitoring, including the development of a non-invasive device with broad utility.

Deltex Medical's oesophageal Doppler is classified as a minimally-invasive device; however, it still requires the insertion of a probe down the oesophagus of a sedated or anaesthetised patient. The requirement for the patient to be sedated has historically limited the application of our ODM technology. However, development work carried out in 2021 with NPL has enabled Deltex Medical to develop a new, non-invasive haemodynamic monitoring device which can be placed at the base of the patient's neck (the suprasternal notch) to generate real-time, highly accurate data on the haemodynamic status of the patient. This non-invasive device, which can provide clinicians with an instant measurement of a patient's haemodynamic status, will significantly expand the possible applications and size of the addressable market for the Group. In addition to adoption by new users, this non-invasive device should help drive interest in, and usage of, our long-standing minimally invasive ODM technology as the use of the new device will allow anaesthetists to assess which of their patients will benefit from the more intense monitoring available through the use of the TrueVue system.



ODM probe inserted down the oesophagus of a sedated patient (e.g., elective surgery) to generate extremely high-quality data, which is used to provide rapid, optimised treatment




**Market developments**

The majority of the Group's activities are currently centred around the treatment of human patients within the hospital setting. However, we have also been developing our haemodynamic monitoring platform for use in veterinary applications in the treatment of small animals in a number of different sites around the world. Although the size of this market is currently quite small, we believe that it has the potential to grow. Accordingly, we are working closely with, and supporting technologically, a number of key opinion leading veterinarians who are interested in the application of the Group's TrueVue Doppler technology in the treatment of sick animals.

**Regulatory**

Deltex Medical designs and manufactures Class II medical devices which it sells around the world. As a result, its business activities can be significantly affected by changes to regulations. At any time there are typically a number of regulatory changes under consideration from the regulatory bodies governing such devices.

Fortunately, to date the effect on the Group from Brexit has been relatively limited, although we have been forced to register our products in Spain, despite having sold into the Spanish market for more than 15 years. The post-Brexit regulatory regime is still evolving and we keep actual or prospective changes in regulations under close review.

In Europe we are currently in the process of transitioning from the Medical Device Directive to the Medical Device Regulation ("MDR"). The European MDR comprises a new set of regulations that govern the production and distribution of medical devices in Europe. Compliance with this new regulation is mandatory for medical device companies that want to sell their products into the European marketplace.

There are certain provisions within the MDR which, if enforced in a timely manner, could help Deltex Medical. For example, there is an increasing requirement for manufacturers of medical devices to generate their own body of efficacy data, and not to rely on third party data in regulatory submissions. Deltex Medical benefits from a substantial body of published literature relating to the use of its technology which shows statistically significant effects associated with improving patient outcomes and reducing patient length-of-stay. As the MDR comes into effect we anticipate that the value and utility of the Group's own scientific evidence base should continue to increase.

**Three principal divisions: UK, USA and International**

Deltex Medical structures its commercial activities around three divisions: the UK; the USA and International.

Although in 2021 access to customer accounts was extremely limited, we have had some notable successes with long-standing customers in both the UK and the USA. For example, at some institutions

we have been able to stay in close contact remotely with anaesthetists, which has resulted in a steady stream of probe usage, albeit at much lower levels than before the pandemic started. However, it is clear that where our sales personnel are unable to obtain meaningful access to anaesthetists, or other appropriate operating theatre staff, then probe usage typically declines.

Over recent months there have been encouraging signs where we have been able to start to re-engage with operating theatre personnel in a number of hospitals. As hospitals open up again, we plan to expand the size of our sales team in the USA and focus on our existing accounts, which should help us to start to drive up high margin single-use probe revenues.

The International division performed well in 2021 with growth of 40% to £0.9 million (2020: £0.7 million). The Group's distributor in France achieved strong activity levels, partly as a result of a long-term contract with the Association of Public Hospitals in Paris. In January 2022 one of the Group's distributors in the Americas won contracts worth some US$0.2 million which combined the sale of monitors with predetermined and contracted probe sales to a number of public hospitals.

Not all of the Group's international distributors performed strongly during the pandemic. Many of these distributors comprise businesses focussed on selling equipment and consumables into operating theatres which, similar to Deltex Medical, have seen much lower activity levels in 2021.

**Conclusion**

The Covid pandemic is transitioning to becoming endemic in the community and the elevated vaccination rates around the world mean that hospitals are now starting to open up access to suppliers, and their sales teams, once again. They are also starting to work hard to reduce their respective backlogs in elective surgery.

We made a number of important steps forward with our product development programmes in 2021 and look forward to the launch this year of the next generation monitor as well as the finalisation of the new, non-invasive device with substantially larger addressable market size.

In February 2022 we announced a £1.4 million (gross) fund raising which will, among other things, enable us to take advantage of the substantial grant finance that totalled £0.6 million (gross) that we were awarded last year.

Our key challenge for 2022 is to release the next generation TrueVue monitor, along with our new non-invasive ultrasound device, and see elective surgery activity levels return to the levels that were being achieved before the Covid pandemic became evident.

**Andy Mears**
*Chief Executive*
6 April 2022

# Directors

NON-EXECUTIVE DIRECTORS

**Nigel Keen** Chairman, MA FCA FIET

Nigel has been involved with Deltex Medical since 1988 and has been Chairman since 1996. He is also Chairman of the following companies: 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 Chairman of the Audit Committee. Julian is considered as an Independent Non-Executive Director by the Board because of the quality of his judgment derived from his extensive experience of corporate boards gained throughout his career. 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 a Trustee of two charities.

**Tim Irish**

Tim has worked in the life sciences industry for 35 years. His career has spanned global health technology companies across Europe and North America, including GSK, GE and Philips. Tim is a Professor of Practice at King's College London (KCL) and Chairman, KHP MedTech Innovations Ltd, a joint venture between KCL and two of London's leading NHS Trusts, Guy's & St Thomas' and King's College Hospital. Tim joined the Board of the National Institute for Health and Care Excellence ("NICE") in April 2015 and was promoted to Vice-Chair. He left the Board of NICE in November 2021 but is still a consultant to the organisation. Tim currently holds four other non-executive director positions in health and technology related entities based in the UK, EU and USA. Tim joined the Board on 20 January 2021.

**Christopher Jones**

Chris Jones joined the Board in June 2015 and brings over 30 years of experience in Fortune 500 and VC funded healthcare companies in both the UK and the USA. He is Executive Chairman of: Mologic Ltd, Global Access Diagnostics Ltd, Elasmogen Ltd and OR Productivity Ltd; and non-executive Director of MediSieve, Causeway Therapeutics and Health Enterprise East. Chris 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. Chris also spent nine years with Nellcor Inc, a division of Tyco Healthcare, most recently as VP of Marketing responsiblefor the $700M WW pulse oximetry and critical care businesses. He has a Bachelor of Science Degree in Molecular Biophysics and Biochemistry from Yale University.

**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 an Association Member of BUPA and a member of the CW Innovation Advisory Group supported by CW+, the official charity of the Chelsea & Westminster NHS Foundation Trust. He mentors, and invests in, technology businesses and is a mentor on fintech accelerator programmes powered by Techstars. He was formerly a senior corporate partner of Allen & Overy LLP, is past Chairman of the American European Business Association and was previously a member of advisory committees at Oxford University. Mark is qualified as a lawyer in the UK and the US.

EXECUTIVE DIRECTORS

**Andy Mears**, Chief Executive

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

Andy regularly advises Departments within the UK government on their strategies to encourage UK healthcare companies to trade internationally. Within these roles he has been an active member of the All-Party Parliamentary Group (APPG) for Trade & Investment as well as more recently a member of the UK Life Science Export Trade Advisory Group (ETAG) helping to define post-BREXIT trade agreements.

**Natalie Wettler**, Group Finance Director, FCA

Natalie commenced her Deltex Medical career in 2011 and has held a number of senior roles in the Group's finance department between 2011 and 2016. Natalie re-joined the Group in January 2020 as Group Financial Controller and was appointed Group Finance Director in May 2021.She has a Bachelor of Science Degree in Cognitive Science from the University of Sheffield and qualified as a Chartered Accountant with Grant Thornton in the UK and continued her Grant Thornton career in New Zealand. Natalie's experience in the medical sector also includes head of Finance for Peak Primary Limited in New Zealand in the Primary Healthcare sector.

# Directors' Responsibility Statement

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 UK-adopted international accounting standards 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 for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether international accounting standards 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 a 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. In addition, the directors are responsible for ensuring that they meet their responsibilities under the AIM rules. The Directors are responsible for the maintenance and integrity of the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Company Secretary and Advisers

**Company Secretary and Registered Office**

Natalie Wettler FCA

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Chichester

West Sussex PO19 8TX

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**Joint Broker**

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**Independent auditors**

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15 – 17 Cumberland Place

Southampton SO15 2BG

**Principal bankers**

Santander Corporate and Commercial

1 Dorset Street

Southampton SO15 2DP

**Registrars**

Equiniti Limited

Aspect House

Spencer Road

Lancing

West Sussex BN99 6DA

# Corporate Governance Statement

**Chairman's introduction**

Our purpose is to provide returns to our shareholders by enabling improvements in outcomes for patients around the world by creating, validating and delivering innovative healthcare solutions associated with haemodynamic monitoring. We aim to achieve this by:

- supporting evidence-based medicine to create sustainable health benefits in the communities which we serve;
- investing in our products, services and people;
- partnering with clinicians to adopt the technologies within our TrueVue System;
- communicating openly and honestly with our customers and with each other;
- providing excellent levels of support, education and training, taking into account any restrictions imposed directly or indirectly as a result of Covid;
- continuing to be thought-leaders to drive innovation; and
- establishing appropriate committees of the Board and related governance structures, including those required under section 172 of the Companies Act 2006, to help monitor and guide the aims summarised above.

The Board of Deltex Medical has chosen to adopt the QCA Corporate Governance Code (the QCA Code) that was published by the Quoted Companies Alliance in April 2018. The Code is structured around a number of broad principles which the Board seeks to apply and which are summarised below. Further information in relation to how the Board applies the Code is set out in the Corporate Governance section of the Group's website. https://www.deltexmedical.com/investor-relations/aim-rule-26/corporate-governance/

**1) Establish a strategy and business model which promote long-term value for shareholders**

Deltex Medical's strategy and business model are described within this document and, in particular, within the Chairman's Statement and the Business Review. These sections also describe the strategy the Group has adopted to navigate the specific challenges created by Covid.

The Board keeps the Group's strategy and business model under close and continuing review.

**2) Seek to understand and meet shareholder needs and expectations**

The Board's primary contact with both institutional and private shareholders is through the Chairman, the Chief Executive ("CEO") and the Group Finance Director ("FD"). The CEO and FD typically meet with the Group's institutional and large private shareholders, who wish to meet with them, twice a year around the publication of the annual accounts and interim results. In 2021 as a result of Covid the majority of these meetings were held via telephone or on-line video systems.

**3) Take into account wider stakeholder and social responsibilities, and their implications for long-term success**

Engaging with our stakeholders strengthens the Group's relationships and helps it to make better business decisions which, in turn, helps it deliver on its commitments.

The Board is regularly updated on wider stakeholder engagement and feedback in order to help it stay abreast of relevant insights into the issues, including social responsibilities, that matter most to the Group's stakeholders.

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

The Board is responsible for the systems of risk management and internal control, and for reviewing their effectiveness.

The internal controls are designed to manage rather than eliminate risk and provide reasonable, but not absolute, assurance against material misstatement or loss. Through the activities of the Audit Committee, the effectiveness of these internal controls is formally reviewed annually – although

specific internal controls or risk management issues may be discussed with the Audit Committee on an *ad hoc* basis throughout the year.

In 2021 considerable time was spent by the Board reviewing actual or potential risks associated with Covid and their possible mitigation. This included carefully considering how best to address access restrictions imposed by hospitals on Deltex Medical's salespersons and clinical educators.

A summary of the Board's assessment of the principal risks and uncertainties facing the Group are set out on pages 23 to 25 of this document.

**5) Maintain the Board as a well-functioning, balanced team led by the Chairman**

The Group is led by the Board of Directors which comprises the Non-Executive Chairman, two executive Directors and four non-executive Directors. Nigel Keen, the Non-Executive Chairman, is responsible for the running of the Board and Andy Mears, the Chief Executive, has executive responsibility for managing the Group's business activities and implementing the Group's strategy.

To allow the Board to discharge its duties effectively, all Directors are provided with relevant information on a timely basis. In this regard, management reports and appropriate supporting documentation are provided to all Directors in advance of all Board and Committee meetings.

**6) Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities**

The Board comprises individuals with wide ranging commercial and business management experience in the healthcare market, supported by other Directors with careers in investment banking and the law. Each Director brings experience of other relevant businesses which helps the Board, as a whole, benchmark and appraise the Group's progress and strategy.

**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 Chairman periodically discusses the input of each Director with the individual concerned to ensure 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 medical devices to patients across the world, ethical behaviour by its Directors and employees is critically important to the Group. Our products are designed and manufactured by our well-trained employees in Chichester (UK) who comply with our established Quality System. Our sales teams and clinical educators promote our products, and their benefits, to clinicians and healthcare systems in an open way. Further, we provide extensive training to customers, or potential customers, to allow them to gain the maximum advantage from Deltex Medical's products and their use in the clinical setting.

**9) Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board**

The Board has established a regular programme of Board Meetings at which the Executive Directors report on the progress of the business, and their assessment of the actual or prospective risks and opportunities.

There are a minimum of ten Board meetings scheduled per year. The Non-Executive Directors spend approximately a day a month working on Deltex Medical related matters, including reviewing the Board papers. The Chairman maintains contact both with the Board, the Executive Directors and employees between Board Meetings, and typically spends approximately three days a month working on Group-related matters.

In 2021 all the Non-Executive Directors attended all the Board meetings in the year save for: (i) the June Board meeting when two directors were unable to attend; (ii) July Board: one director; (iii) October Board: one director; and (iv) December Board: one director. As a result, Board decisions are made in the light of up-to-date and relevant information.

The Group's Quality System, which is regularly audited by outside regulatory bodies, also helps augment the governance regime of the Group.

**10) Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**

Extensive dialogue is maintained with shareholders and other stakeholders to discuss the opportunities for and challenges facing the Group.

Although this shareholder and stakeholder dialogue is primarily built around the Group's annual and interim results, shareholders are informed of significant developments relating to the business through periodic stock exchange RNS announcements or news updates uploaded to the Group's website.

It is the Board's role to ensure that Deltex Medical Group plc 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**

*Chairman*

6 April 2022

# Strategic Report

The Directors have set out below their Strategic Report for the year ended 31 December 2021.

The Strategic Report incorporates, and should be read in conjunction with, the rest of this document and in particular the following sections:

1. Chairman's Statement (page 5)
2. Business Review (page 8)
3. Corporate Governance (page 17)
4. Principal Risks of the Group (page 23)
5. Directors' Report (page 26)

**Key performance indicators**

The key performance indicators that are used to monitor the performance of the Group are set out in the table below and are discussed in more detail in the Chairman's Statement and the Business Review.

| | 2021 | 2020 |
|---|---|---|
| Adjusted EBITDA (£000) | (504) | (208) |
| Operating loss (£000) | (805) | (622) |
| Gross profit margin | 70% | 68% |
| Cash and cash equivalents (£000) | 413 | 853 |
| Probe revenues (£000) | 1,911 | 2,113 |
| Monitor revenues (£000) | 202 | 161 |

**Going concern**

The Group meets its day-to-day working capital requirements through a combination of operational cash flows, an invoice discounting facility and, if required, the raising of additional finance. During the Covid pandemic the Group also made use of Salary Support Schemes provided by the UK and US governments.

In February 2022, the Group raised £1.4 million (gross) through a share subscription which provided additional cash resources to the Group. In addition, the Group agreed a 12 month extension to the standby loan facility which is now repayable on or before 31 December 2023.

The Directors have reviewed detailed budgets and forecasts until 30 June 2023, which take into account, among other things, the possible continued effects of Covid on the Group's business. This review indicates that the Group is expected to continue trading as a going concern based on projected net cash flows derived from sales of the Group.

The Directors consider that they have reasonable grounds to believe that the Group will have adequate resources to continue in operational existence for the foreseeable future and it is therefore appropriate to prepare the financial statements on the going concern basis.

**Section 172 statement**

The Directors of the Company must act in accordance with a set of general duties which are described in section 172 of the UK Companies Act 2006 and which are summarised as follows:

A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as whole and, in doing so, have regard (amongst other matters) to:

- the likely consequences of any decisions in the long-term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;

- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between shareholders of the company.

Within Deltex Medical the Directors fulfil their duties, as summarised above, through a corporate governance structure that delegates day-to-day decision making to the Executive Directors and the management of the Company and which is described on pages 17 to 19 within this document. In addition, the following paragraphs summarise how the Directors fulfil other aspects of their duties:

**Risk management**

We provide highly regulated medical devices to our customers who currently operate principally in hospital intensive care units and operating theatres / rooms. Accordingly, it is important that we identify, evaluate, manage and mitigate the risks we face effectively, and that we continue to develop our approach to risk management proactively. For further information see the section entitled 'Principal Risks of the Group' on page 23.

**Our employees**

The Company is committed to being a responsible business.

Our behaviour is aligned with the expectations of our employees, customers, shareholders, communities and society as whole. We are a medical device company and improving outcomes for patients is at the heart of what we do. For our business to succeed we need to manage our employees' performance and develop talent whilst ensuring that we operate as efficiently as possible.

As part of our response to Covid, we decided not to make any redundancies as we value our highly trained and flexible workforce, and wanted to support them as much as possible during the pandemic. Further, we have allowed employees to work from home wherever practicable.

For further information on our employees see the Chairman's Statement, the Business Review and the report of the Remuneration Committee.

**Business relationships**

Our strategy prioritises organic growth in the UK and internationally, driven by cross-selling our sophisticated medical device products to existing customers and distributors, and securing new customers for the Group. To do this we need to develop and maintain strong customer and distributor relationships, although this has been made substantially more challenging as a result of the pandemic and the effective cessation of "face-to-face" meetings in our main territories. We have tried to compensate for this, to the extent possible, by the judicious use of on-line video meetings.

We also need to develop and maintain close relationships with our suppliers, many of whom we have worked with for a number of years. For more information see the Chairman's Statement and Business Review.

Anti-bribery and corruption legislation, including the UK Bribery Act and the US Foreign Corrupt Practices Act, also apply to Deltex Medical's business. There is a strong global focus on compliance in both established and developing markets. For more information on our approach to compliance see the corporate governance section in our website: https://www.deltexmedical.com/investor-relations/aim-rule-26/corporate-governance/

**Community and environment**

The Company's approach is to use its position, as far as it can and on a proportionate and responsible basis, as an employer and medical device vendor to hospitals to create positive change for the people and communities with which we interact.

**Shareholders**

The Board is committed to engaging openly with our shareholders, as we recognise the importance of a continuing effective dialogue, whether with large institutional investors, private or employee shareholders.

For more information on our approach to interacting with shareholders please see the Corporate Governance Statement on page 17.

The Strategic Report comprising pages 20 to 22 has been approved by the Directors and signed

By order of the Board

**Natalie Wettler**

*Company Secretary*

6 April 2022

# Principal Risks of the Group

The Directors have summarised below what they believe to be the principal risks and uncertainties currently facing the Group. This summary of the principal risks and uncertainties facing the Group should be read in conjunction with the rest of this document including, in particular, the Chairman's Statement and the Business Review. Note that this summary represents the Board's best assessment and judgement as at the date of this document and, given the nature of business risk and associated uncertainties, there can be no assurances that specific risks or uncertainties could arise in the future that are not summarised below.

*Personnel*

In normal years Deltex Medical undertakes continuous reviews of its staff with a focus on encouraging excellence and increasing relevant skills among its employees. As a result of the pandemic, it has been harder to carry out systematic staff reviews and implement targeted training programmes to expand employee skills. Accordingly, in 2021 we have sought to carry out staff reviews on an *ad hoc* and pragmatic basis. We anticipate that as pandemic-associated disruption to our business declines, we will be able to return to a more systematic system of appraisals and reviews. Nonetheless being able to carry out timely appraisals and reviews of Group employees, including in our US subsidiary, even as the pandemic declines is not without risk.

The successful selling of the Group's technology depends on a number of factors, including: (i) the skill, motivation and experience of our sales personnel in appraising clinicians of the effective use of Deltex Medical's products; (ii) the manufacturing of its products to the highest specification, including engineering precision and sterility; (iii) the experience and innovation of its research and development personnel developing novel products; and (iv) the skill and thoroughness of its quality assurance team in ensuring that all products leaving the factory in Chichester conform to the highest standards and prevailing regulatory requirements. Together these factors, including our ability to recruit and retain appropriately skilled individuals in each role, represent risk in as much that they comprise a complex and demanding series of skill-sets and activities that the Group needs to maintain and manage.

*Regulatory environment*

The Group operates in a number of highly regulated environments which inherently represents a risk. It has a robust Quality Management System which is maintained on the Entropy document control system hosted by the British Standards Institute ("BSI"). This quality system is reviewed regularly by the European Union regulatory body, BSI and the USA's Food and Drug Administration (FDA). To date the main impact of Brexit has been the requirement to register our products in Spain although we anticipate that future Brexit-related legislation could have an impact on the Group's procedures in respect of the export of both monitors and probes, and this represents a potential increase in risk for the Group. At the current time it is too early to assess the longer-term impact of Brexit associated challenges on our EU exports. In Europe we are currently in the process of transitioning from the Medical Device Directive to the Medical Device Regulation ("MDR"). The European MDR is a new set of regulations that governs the production and distribution of medical devices in Europe, and compliance with the regulation is mandatory for medical device companies that want to sell their products in the European marketplace The Group maintains a continuous watch on new regulatory requirements and has plans in place to mitigate in the short term any likelihood of stock shortages associated with changes in the regulatory framework.

The Group operates across the world and is subject to extensive legislation and regulation, including with respect to anti-bribery and corruption, in each country in which the Group operates. Our international operations are governed by the UK Bribery Act and the US Foreign Corrupt Practices Act which prohibit us or our representatives from making or offering improper payments to government officials and other persons or accepting payments for the purpose of obtaining or maintaining business. Our international operations in the developing markets which operate through distributors increase our Group exposure to these risks.

*Hospitals and the clinical environment*

The Group operates in an environment where, by their very nature, surgical procedures are being undertaken on sick, and sometimes extremely sick, patients. Hospitals are, from time to time, the subject

of litigation by disaffected patients or their relatives; and there is a risk that the Group could be co-joined in such litigation. However, it should be noted that the Group's haemodynamic monitoring technology is designed to minimise certain risks for patients and to aid their speedy recovery. It is also the case that to date no such litigation has occurred against the Group or its products.

A number of hospitals have put in place restrictions which effectively stop or severely curtail the ability for Deltex Medical's salespersons or clinical educators from meeting with relevant decision-makers within the hospital. The Group has summary information which suggests that Deltex Medical's sales are greatly enhanced by regular face-to-face meetings with users and, conversely, a lack of such face-to-face meetings tends to result in, over time, a decline in sales. Accordingly, how quickly hospitals "open up" is likely to be a key determinant of Group revenues in the short to medium term and as such this represents a significant risk to Deltex Medical.

There is a substantial backlog associated with elective surgery which had to be cancelled during the pandemic. Although this backlog represents a significant opportunity for increased sales by the Group and its distributors, there is an element of risk, and uncertainty associated, with how hospitals and/or health systems will seek to reduce this backlog.

*COVID-19*

The Group's commercial activities, and in particular the demand for its products, are exposed to the risks created by the continued global spread of Covid, including new strains of the disease, and the extent to which vaccination programmes, lock-downs and other actions by governments, healthcare systems and relevant authorities are successful to curtail the effect of the pandemic. Although in many countries it appears that Covid is being brought under control and the pandemic is migrating to become a lower acuity endemic problem, this is still significant uncertainty on a country-by-country basis as to the ongoing short-term and long-term effect of Covid on the markets in which the Group operates.

There are other risks posed by Covid, including the impact on our employees and the suppliers of components necessary for the manufacture of our high technology equipment and single use consumables. Disruption to supply chains with substantially extended lead times represents a significant risk. As part of its risk mitigation planning, the Group currently has a relatively high level of stocks, both of components and finished goods, so that this supply risk can be minimised, at least in the near future. However, as Deltex Medical develops new products then the risk from disrupted or extended supply chains on such innovation could be more acute.

Further information on the potential effect of Covid on the Group is set out elsewhere in this document, including in the Chairman's Statement and the Business Review.

*Competition*

A number of competitors sell products to the same group of clinicians as Deltex Medical with the same objective: to measure a patient's haemodynamic status. Some of these competitors are significantly larger and have substantially greater financial resources which represents a key risk factor for the Group. At a certain level all these competitors use different technologies to the oesophageal Doppler-based technology used by the Group. Moreover, the Board believes that none of these competitors have a clinical evidence base which is equivalent to that supporting the use of the Group's technology.

There is also a risk that as the technology around "wearables" develops, a competitor could develop small "wearable" products which also provide high fidelity haemodynamic monitoring which is broadly equivalent, at least in part, to the Group's oesophageal Doppler TrueVue technology.

*Financial*

The Group is exposed to currency fluctuations. Its principal cost base is in pounds sterling. However, it receives a significant proportion of its revenue in US dollars and euros. As a result, movements in the exchange rates between sterling and other currencies have a direct impact on Group revenue and profits, and as such represents a form of risk.

It is clear that inflation is increasing in a number of the territories in which the Group operates. It is not yet clear whether this inflation will be transitory or long-term. Prolonged high rates of inflation would represent a risk to the Group and its activities.

The Group sells to a network of distributors around the world. The majority of these distributors are heavily focussed on the elective surgery sector. The volume of elective surgical procedures has

significantly reduced in all territories as a result of the Covid pandemic. Accordingly, it is likely that Deltex Medical faces heightened risk in respect of its financial exposure to these distributors.

*Other risks and uncertainties*

There are a number of other risks and uncertainties which affect, or could affect, the Group including:

- changes in government policies and spending plans, particularly in respect of healthcare systems;
- lower than anticipated rates of adoption of the Group's products in existing key markets;
- the availability to the Group of resources, including cash, to pursue its strategy and other opportunities that it comes across;
- technological difficulties and/or supply chain challenges, including the availability of raw materials at reasonable prices, required for: (i) the timely development and launch of new products; and (ii) the ability to continue to be able to manufacture equipment and consumables on a cost-effective basis; and
- the consequences of the war in Ukraine and associated geopolitical stresses which could adversely affect the global economy and make it harder for Deltex Medical to export successfully.

# Directors' Report

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2021.

**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 page 5, the Business Review on page 8 and the Principal Risks of the Group on page 23.

**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 24 to the financial statements on pages 75 to 78.

**Dividends**

The Directors cannot propose the payment of a dividend (2020: £nil) for 2021.

**Directors**

The Directors of the Group who served during the year are shown below. Biographical details are given on pages 13 and 14.

| | |
|---|---|
| Nigel Keen | Non-executive Chairman |
| Andy Mears | Chief Executive |
| Natalie Wettler* | Group Finance Director |
| Julian Cazalet | Non-executive Director |
| Chris Jones | Non-executive Director |
| Mark Wippell | Non-executive Director |
| Tim Irish** | Non-executive Director |
| David Moorhouse*** | Group Finance Director |

* Natalie Wettler was appointed to the Board and became Group Finance Director on 27 May 2021

** Tim Irish was appointed to the Board on 20 January 2021

*** David Moorhouse retired as Group Finance Director and from the Board on 27 May 2021

In the case of each Director in office at the date the Directors' report is approved:

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

**Directors' 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 the Group's principal manufacturing activities. Further information on the Group's research and development activities can be found earlier in this document.

**Independent auditors**

The independent auditors, Nexia Smith & Williamson, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the forthcoming Annual General Meeting.

**Annual General Meeting**

The notice convening the Annual General Meeting, which will take place on 18 May 2022 at 11.00 a.m. at the London offices of DAC Beachcroft at 25 Walbrook, London EC4N 8AF, can be found at the back of this Report.

By order of the Board.

**Natalie Wettler**

*Company Secretary*

6 April 2022

# Directors' Remuneration Report

**Introduction from Nigel Keen, Chairman of the Remuneration Committee**

I am pleased to present this report on behalf of the Remuneration Committee.

Deltex Medical has appointed all the Non-Executive Directors to the Remuneration Committee and the Committee meets regularly during the year to discuss matters concerning the Executive Directors of the Group and more broadly on other topics concerning the Group's employees and their remuneration.

The Board considers that this supervision by the Remuneration Committee is an important component of good corporate governance for the Group as a whole.

During the year the Committee has been involved in reviewing the remuneration of all the Group's employees and in particular for the Executive Directors and senior managers.

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 would be pleased to respond to any queries should any shareholder require more information about our remuneration policies.

Yours sincerely

**Nigel Keen**

*Chairman of the Remuneration Committee*

6 April 2022

*The Remuneration Committee*

The Remuneration Committee (the "Committee") is responsible for recommending to the Board the remuneration packages for the Executive Directors and has supervision 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, excluding Mr. Keen, 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 of the Executive Directors 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 during the year comprised all the independent non-executive Directors: Julian Cazalet, Chris Jones, Mark Wippell and Tim Irish as well as the Chairman of the Board, Nigel Keen. Mr Keen is the Chairman of the Committee. The Board considers that Nigel, with his experience of working at senior levels in global companies, including technology companies, has the most appropriate blend of skills and experience to be Chairman of the Remuneration Committee.

All members served throughout the year, save Tim Irish who joined the Board on 20 January, 2021.

This report sets out the Directors' remuneration policy for 2021 and beyond. As a company listed on 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. It should be read in conjunction with details of the Directors' remuneration in notes 5.4 and 5.5 which forms part of the audited financial statements.

The remuneration policy promotes the delivery of the Group's strategy and seeks to align the interests of the Directors and Deltex Medical's shareholders. The Committee reviews the link between incentive structure and strategy regularly 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.

The Group has an incentive driven policy which 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 the motivation, particularly mindful of the additional stress and responsibilities imposed by the Covid pandemic, and retention that the remuneration of the executives takes into account the Group's plans for 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.

During the year the Committee considered whether the current policy remained appropriate for 2021 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 its strategy and effectively rewards for success, and does not reward where targets are not met. 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. Salary increases were last implemented across the Group on 1 July 2019.

The Executive Directors' base salary will be reviewed on 1 July 2022. 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.

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.

*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 are as follows:

| **Executive director** | **Contract date** | **Unexpired term of contract** |
|---|---|---|
| Andy Mears | 6 November 2018 | Rolling contract; 6 months' notice |
| Natalie Wettler | 28 May 2021 | Rolling contract; 6 months' notice |

*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.

*Directors' remuneration*

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

EXECUTIVE DIRECTORS

| Executive Director | Year | Cash settled salary | Benefits | Pension | Annual bonus | Total |
|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ |
| Andy Mears | 2021 | 200,000 | 7,500 | 8,000 | - | 215,500 |
| | 2020 | 200,000 | 7,500 | 11,710 | - | 219,210 |
| Natalie Wettler* | 2021 | 65,589 | 4,456 | 1,735 | - | 71,780 |
| David Moorhouse** | 2021 | 30,875 | - | - | - | 30,875 |
| | 2020 | 65,825 | - | - | | 65,825 |
| **Total** | 2021 | **296,464** | **11,956** | **9,735** | - | **318,155** |
| | 2020 | **265,825** | **7,500** | **11,710** | - | **285,035** |

* Natalie Wettler was appointed to the Board on 27 May 2021.

** David Moorhouse retired from the Board on 27 May 2021.

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

Andy Mears has an interest in share options over Deltex Medical ordinary shares as per the table below. Certain of these options cannot be exercised without first fulfilling performance criteria.

| | Exercise from date | Exercise to date | Exercise price (£) | Number |
|---|---|---|---|---|
| **2011 Executive share option scheme** | 10 October 2015 | 10 October 2022 | 0.2400 | 150,000 |
| | 10 June 2018 | 10 June 2025 | 0.1100 | 375,000 |
| | 20 September 2020 | 20 September 2027 | 0.0400 | 1,562,500 |
| | 22 July 2023 | 22 July 2030 | 0.0133 | 4,000,000 |
| **Total** | | | | **6,087,500** |
| **2003 Enterprise Management Incentive Scheme** | 6 August 2021 | 5 August 2028 | 0.01 | 10,000,000 |
| | 27 April 2024 | 26 April 2031 | 0.018 | 5,000,000 |
| **Total** | | | | **15,000,000** |

Natalie Wettler has an interest in share options over Deltex Medical ordinary shares as per the table below. Certain of these options cannot be exercised without first fulfilling performance criteria.

| | Exercise from date | Exercise to date | Exercise price (£) | Number |
|---|---|---|---|---|
| **2003 Enterprise Management Incentive Scheme** | 1 December 2023 | 30 November 2030 | 0.01 | 225,000 |
| | 27 April 2024 | 26 April 2031 | 0.01 | 2,500,000 |
| **Total** | | | | **2,725,000** |

NON-EXECUTIVE DIRECTORS

| Non-executive Directors | Year | Cash settled Directors' fees | Equity settled Directors' fees | Benefits | Pension | Annual bonus | Long term incentive awards | Total |
|---|---|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ | £ | £ |
| Nigel Keen | 2021 | - | 33,333 | - | - | - | - | 33,333 |
| | 2020 | - | 33,333 | - | - | - | - | 33,333 |
| Julian Cazalet | 2021 | - | 24,000 | - | - | - | - | 24,000 |
| | 2020 | - | 24,000 | - | - | - | - | 24,000 |
| Chris Jones | 2021 | - | 24,000 | - | - | - | - | 24,000 |
| | 2020 | - | 24,000 | - | - | - | - | 24,000 |
| Mark Wippell | 2021 | - | 24,000 | - | - | - | - | 24,000 |
| | 2020 | - | 24,000 | - | - | - | - | 24,000 |
| Tim Irish* | 2021 | 17,123 | - | - | - | - | - | 17,123 |
| Sir Duncan Nichol** | 2020 | - | 24,000 | - | - | - | - | 24,000 |
| **Total** | **2021** | **17,123** | **105,333** | **-** | **-** | **-** | **-** | **122,456** |
| | **2020** | **-** | **129,333** | **-** | **-** | **-** | **-** | **129,333** |

* Tim Irish was appointed to the Board on 20 January 2021. He was Vice Chair of NICE until November 2021, as described in the biographical details of the Directors on page 13. The rules of NICE mean that he can only accept cash remuneration for his role as a non-executive director and accordingly is not eligible for equity settled Directors' fees.

** Sir Duncan Nichol retired from the Board on 31 December 2020.

Director fees are either settled in cash or by the issue of equity. At the current time non-executive Director fees are intended to be settled by the issue of equity instruments in the Group in order to help Deltex Medical conserve its cash resources and apply them to innovative product development as well the expansion of the Group's commercial activities. It is currently intended that such non-executive Director fees in respect of 2021 will be settled by the issue of Deltex Medical ordinary shares during the course of 2022.

*Dilution limits*

The rules governing the Employee Share Option Scheme ("ESOS") provide that overall dilution through the issuance of new shares via 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. At the date of this Report, the Group's headroom position remains within this 10% limit.

*Directors' shareholdings*

Directors' shareholdings as at 31 December 2021 are shown in the table below.

| | Legally owned | Unexercised options | Unvested options subject to performance under the EMI scheme | Unvested options subject to performance under the ESOS |
|---|---|---|---|---|
| Andy Mears | 5,858,731 | - | 15,000,000 | 6,087,500 |
| Natalie Wettler | - | - | 2,725,000 | - |
| Nigel Keen | 79,852,821 | - | - | - |
| Julian Cazalet | 17,153,971 | - | - | - |
| Chris Jones | 4,297,291 | - | - | - |
| Mark Wippell | 10,237,875 | - | - | - |
| Tim Irish | 3,021,211 | - | - | - |

Directors' shareholdings at 6 April 2022 which incorporate the changes in the share register as a result of the February 2022 fund raising are shown in the table below.

| | Legally owned |
|---|---|
| Andy Mears | 6,658,731 |
| Natalie Wettler | 1,010,400 |
| Nigel Keen | 99,852,821 |
| Julian Cazalet | 27,153,971 |
| Chris Jones | 4,297,291 |
| Mark Wippell | 11,037,875 |
| Tim Irish | 3,021,211 |

**Approval**

This report was adopted by the Committee on 6 April 2022 and has been approved subsequently by the Board.

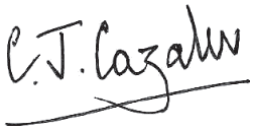
Nigel Keen
*Chairman of the Remuneration Committee*
6 April 2022

# Report of the Audit Committee

**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.

During the year, I have spoken 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*
6 April 2022

**Key responsibilities**

The primary responsibility of the Audit Committee is to assist the Board fulfil its oversight responsibilities in respect of the Group's financial reporting, accounting systems, risk management and associated public disclosure. 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 that they may contain;
- advise on the clarity of disclosure of information provided in the report with the objective of ensuring that the annual report and accounts, as a whole, is fair and balanced;
- ensure that the both the Group's interim and annual report and 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 systems 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 these 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 which contain, among other things, control findings that are relevant to its work.

Information relating to the Principal Risks of the Group can be found on pages 23 to 25.

*Financial reporting matters and judgements*

The Audit Committee has received updates on the key judgemental financial reporting areas in the Annual Report and 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 are summarised below and comprised:

i. the carrying value of investments in subsidiaries and group balances in the Parent Company's individual financial statements as well as detailed analyses prepared to examine and consider the disclosure required in respect of going concern. The Committee reviewed the key assumptions used in the underlying cashflow forecasts which were used as the basis for the value-in-use calculation required by the relevant accounting standards. The key assumptions reviewed in the cash flow forecasts were the sales growth rates, gross margins and likely progression of the overheads. In the context of the value-in-use calculation, the Committee satisfied itself that the pre-tax discount rate was appropriate to use.

**External audit**

Prior to the commencement of the audit, the Audit Committee received an audit planning document from the auditors which set 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 appropriate 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 which set out the key findings from the audit. The auditors 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.

Nexia Smith & Williamson

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DELTEX MEDICAL GROUP PLC

### 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 2021 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company Balance Sheet, the Parent Company Statement of Changes in Equity and the notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and, as regards the parent company financial statements, applicable law and United Kingdom Accounting Standards, 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 2021 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 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.

### Our approach to the audit

Of the group's five reporting components, we subjected two to audits for group reporting purposes and three to specific audit procedures where the extent of our audit work was based on our assessment of the risk of material misstatement and of the materiality of that component. The latter were not individually significant enough to require an audit for group reporting purposes but were still material to the group.

For each of the group's three reporting components that were subject to specific audit procedures as outlined above, all financial records are held in the UK and were subject to audit work by the group engagement team. A component auditor was engaged to perform a stock take in the United States and the results of this stock take were reviewed by the group engagement team.

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

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest

effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | Description of risk | How the matter was addressed in the audit |
|---|---|---|
| The cash flow projections which support going concern and development costs not yet available for use for group and parent and parent company investment, goodwill and intercompany balances with subsidiaries | The Group is loss-making and has relied on equity funding to provide working capital in previous years.<br><br>Management have prepared a budget and cash flow forecast indicating that in their view the group and parent company can continue to operate as a going concern for at least 12 months from the date the financial statements are approved. These forecasts were also used to assess whether the value of development costs not yet available for use were impaired.<br><br>Cash flow projections are inherently judgemental and subject to fluctuation with expenditure requirements. As a result, these projections were a key area of audit focus.<br><br>Furthermore, the parent company has significant balances relating to investments in subsidiaries and receivables due from group companies.<br><br>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. | We challenged the assumptions used in the cash flow forecasts for going concern as described in note 1.7 of the group financial statements and in respect of the impairment reviews as described in notes 5 and 6 of the parent company financial statements.<br><br>The main procedures performed on the forecasts and areas where we challenged management were as follows:<br>• testing the quality of management forecasting by comparing cash flow forecasts for prior periods to actual outcomes and investigating any material variances to assess the reliability of management forecasting;<br>• testing the quality of management forecasting by comparing cash flow forecasts for the current period to post year end actual outcomes;<br>• discussion with management over the basis and appropriateness of key assumptions used in the cashflow forecasts;<br>• verifying the consistency of forecasts used in the impairment calculations with those used for going concern assessment where appropriate;<br>• reviewing management's sensitivity calculations to understand the impact of changing the key assumptions on cashflows and value in use;<br>• performing our own further sensitivity calculations to understand the impact of changing the key assumptions and the effect on cashflows and value in use;<br>• considering the value in use derived from forecasts alongside valuation using market capitalisation approach where appropriate in assessing impairment; and<br>• reviewing the disclosures around going concern and impairments in the financial statements to ensure they are consistent with the work performed.<br><br>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. |
| Revenue recognition including contract liabilities | Revenue recognition continues to be a key focus for the group to meet market expectations. | As part of our procedures relating to revenue recognition as described in note 2 of the group financial statements the key procedures performed were:<br>• reviewing transactions around the year end and traced to supporting documentation to |

| | | |
|---|---|---|
| | | determine if the sale was recorded in the correct period;<br>• tracing a sample of sales from customer order to the nominal ledger, ensuring contract liability postings were complete for these transactions;<br>• performing testing of contract liability balances to ensure that revenue was being correctly deferred; and<br>• reviewing 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. |
| 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.<br><br>For products in development the main risk is assessing the ability to successfully commercialise the individual product concerned to generate revenues and returns from the products over its useful economic life. This can be a highly judgemental area.<br><br>Forecasts were also produced by Management as part of an impairment review of the recoverable amount of development projects which are not yet available for use. | As part of our procedures regarding the development costs as described in note 13 of the group financial statements, the key procedures performed were:<br>• tracing a sample of project development costs capitalised in the year to supporting documentation ensuring they were valid capital expenditure and the relevant capitalisation criteria under IAS 38 were met;<br>• discussing a sample of development projects in progress and completed at the year end with management and individuals within the development team where appropriate to understand the future prospects of the projects and considered whether any impairment was required. Explanations received were checked for consistency with our understanding of the business and the wider market as well as considering forecasts of future revenues and returns for the individual projects and impairment reviews for development costs not yet available for use; and<br>• reviewing the useful economic life of a sample projects to determine if the useful economic life is appropriate. |

**Our application of materiality**

The materiality for the group financial statements as a whole ("group FS materiality") was set at £45,100. This has been determined with reference to the benchmark of the group's revenue, which we consider to be one of the principal considerations for members of the company in assessing the group's performance. Group FS materiality represents 2% of the group's revenue as presented on the face of the Consolidated Statement of Comprehensive Income.

The materiality for the parent company financial statements as a whole ("parent FS materiality") was set at £36,080. This has been determined with reference to the benchmark of the parent company's net assets as it exists only as a holding company for the group and carries on no trade in its own right. Parent FS materiality represents approximately 1% of the parent company's net assets as presented on the face of the parent company balance sheet.

Performance materiality for the group financial statements was set at £36,080, being 80% of group FS materiality, for purposes of assessing the risks of material misstatement and determining the nature,

timing and extent of further audit procedures. We have set it at this amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds group FS materiality. We judged this level to be appropriate based on our understanding of the group and its financial statements, as updated by our risk assessment procedures and our expectation regarding current period misstatements including considering experience from previous audits. It was set at 80% to reflect the fact that few misstatements were expected in the current period and there is little estimation in the financial statements.

Performance materiality for the parent company financial statements was set at £28,864, being 80% of parent FS materiality. It was set at 80% to reflect the fact that few misstatements were expected in the current period and there is little judgement or estimation in the parent company financial statements other than the recoverability of the carrying value of investments in subsidiaries and intercompany balances with subsidiaries as referred to in our key audit matters above.

**Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- challenging the assumptions used in the detailed budgets and forecasts prepared by management for the financial period ending 30 June 2023;
- considering historical trading performance both prior to and during the Covid-19 pandemic;
- comparing the forecast results to those actually achieved in the 2021 financial year and investigating any material variances as required in order to assess the reliability of management forecasting;
- comparing the forecast results to those actually achieved in the 2022 financial period so far;
- reviewing bank statements to monitor the cash position of the group post year end, and obtaining an understanding of significant expected cash outflows (such as capital expenditure) in the forthcoming 12-month period;
- considering the cash proceeds and financial headroom following the share subscription of £1.4m post year end;
- considering the group's funding position and requirements; and
- considering the sensitivity of the assumptions and re-assessing headroom after sensitivity.

As part of our evaluation of going concern, we have requested management to perform additional work concerning sensitivity on their assumptions to assess the financial headroom in their models.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**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 contained within Annual Report and Accounts. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

**Opinions on other matters prescribed by the Companies Act 2006**
In our opinion, based on the work undertaken in the course of the audit:

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

**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 in relation to which 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 page 15, 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.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We obtained a general understanding of the group's legal and regulatory framework through enquiry of management concerning: their understanding of relevant laws and regulations; the entity's policies and procedures regarding compliance; and how they identify, evaluate and account for litigation claims. We also drew on our existing understanding of the group's industry and regulation.

We understand that the group complies with the framework through:

- Outsourcing tax compliance to external experts.
- Outsourcing foreign payroll to external experts.
- Subscribing to relevant updates from external experts and making changes to internal procedures and controls as necessary.
- Ensuring certification under ISO 13485 (Quality Management System) and compliance with local regulators for their products which is essential to be able to sell their products in the UK and overseas.

In the context of the audit, we considered those laws and regulations: which determine the form and content of the financial statements; which are central to the group's ability to conduct its business; and where failure to comply could result in material penalties. We identified the following laws and regulations as being of significance in the context of the group:

- The Companies Act 2006, UK-adopted international accounting standards in respect of the preparation and presentation of the group financial statements and FRS 101 in respect of the preparation and presentation of the parent company financial statements.
- Compliance with ISO 13485 and regulators such as British Standards Institution "BSI" & U.S. Food and Drug Administration "FDA".

We performed the following specific procedures to gain evidence about compliance with the significant laws and regulations identified above:

- Examined the results of any regulatory compliance audits and performed online searches of key regulators to ensure adequate compliance certificates were held.

The senior statutory auditor led a discussion with senior members of the engagement team regarding the susceptibility of the group's financial statements to material misstatement, including how fraud might occur. The areas identified in this discussion were:

- Manipulation of the financial statements, especially revenue, via fraudulent journal entries in particular those affecting revenue recognition around the year end.
- Provisions including stock and trade debtor provisions as these are estimates by management.
- Estimates made by management regarding the useful economic life of capitalised development costs and associated judgement regarding the viability and long-term recoverability of the carrying value of these projects.
- Group's status as AIM listed entity which creates an incentive for fraudulent financial reporting to show favourable results to the market.

These areas were communicated to the other members of the engagement team not present at the discussion.

The procedures we carried out to gain evidence in the above areas included:

- Challenging management regarding the assumptions used in the estimates and judgements identified above and comparison to historical data and post-year-end data as appropriate;
- Substantive testing around whether revenue was recorded in the correct period;
- Substantive work on material areas affecting profits; and
- Testing journal entries, focusing particularly on postings to unexpected or unusual accounts and journals outside the normal scope of the client business as well as journal entries affecting the recognition of revenue around the year end.

A further description of our responsibilities is available on the FRC'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.

Nexia Smith & Williamson

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

Date: 6 April,2022

## Consolidated statement of comprehensive income
**For the year ended 31 December 2021**

| | Note | 2021 £'000 | 2020 £'000 |
|---|---|---|---|
| **Revenue** | **3** | **2,259** | 2,398 |
| Cost of sales | **4** | **(684)** | (757) |
| Gross profit | | **1,575** | 1,641 |
| Administrative expenses | | **(1,585)** | (1,472) |
| Sales and distribution expenses | | **(957)** | (964) |
| Research and Development, Quality and Regulatory | | **(207)** | (246) |
| Impairment reversal on trade receivables | **24** | **-** | 11 |
| Exceptional costs | **9** | **-** | (232) |
| **Total costs** | **4** | **(2,749)** | (2,903) |
| Other operating income | **10** | **312** | 469 |
| Other gain | **7** | **57** | 171 |
| **Operating loss** | | **(805)** | (622) |
| Finance costs | **6** | **(173)** | (172) |
| **Loss before taxation** | | **(978)** | (794) |
| Tax credit on loss | **7** | **12** | 9 |
| **Loss for the year** | | **(966)** | (785) |
| **Other comprehensive expense** | | | |
| Items that may be reclassified to profit or loss: | | | |
| Net translation differences on overseas subsidiaries | | **(2)** | (6) |
| Other comprehensive expense for the year, net of tax | | **(2)** | (6) |
| **Total comprehensive loss for the year** | | **(968)** | (791) |
| | | | |
| **Total comprehensive loss for the year attributable to:** | | | |
| Owners of the Parent | | **(969)** | (804) |
| Non-controlling interests | | **1** | 13 |
| | | **(968)** | (791) |
| | | | |
| **Loss per share –** basic and diluted | **11** | **(0.17p)** | (0.15p) |

The notes on pages 47 to 80 form an integral part of these consolidated financial statements.

## Consolidated balance sheet
**As at 31 December 2021**

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | **£'000** | £'000 |
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | **12** | **264** | 305 |
| Intangible assets | **13** | **3,135** | 2,554 |
| Financial assets at amortised cost | **16** | **157** | 153 |
| **Total non-current assets** | | **3,556** | 3,012 |
| **Current assets** | | | |
| Inventories | **15** | **796** | 895 |
| Trade receivables | **16** | **455** | 576 |
| Financial assets at amortised cost | **16** | **15** | 15 |
| Other current assets | **16** | **91** | 122 |
| Current income tax recoverable | | **69** | 61 |
| Cash and cash equivalents | | **413** | 853 |
| **Total current assets** | | **1,839** | 2,522 |
| **Total assets** | | **5,395** | 5,534 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Borrowings | **18** | **(702)** | (159) |
| Trade and other payables | **18** | **(1,478)** | (1,416) |
| **Total current liabilities** | | **(2,180)** | (1,575) |
| **Non-current liabilities** | | | |
| Borrowings | **18** | **(1,028)** | (993) |
| Trade and other payables | **18** | **(228)** | (274) |
| Provisions | **20** | **(57)** | (51) |
| **Total non-current liabilities** | | **(1,313)** | (1,318) |
| **Total liabilities** | | **(3,493)** | (2,893) |
| **Net assets** | | **1,902** | 2,641 |
| | | | |
| **Equity** | | | |
| Share capital | **21** | **5,849** | 5,773 |
| Share premium | **26** | **33,502** | 33,444 |
| Capital redemption reserve | **26** | **17,476** | 17,476 |
| Other reserve | **26** | **573** | 505 |
| Translation reserve | **26** | **133** | 135 |
| Convertible loan note reserve | **26** | **82** | 82 |
| Accumulated losses | **26** | **(55,588)** | (54,648) |
| Equity attributable to owners of the Parent | | **2,027** | 2,767 |
| Non-controlling interests | | **(125)** | (126) |
| **Total equity** | | **1,902** | 2,641 |

The notes on pages 47 to 80 form an integral part of these consolidated financial statements. The financial statements on pages 42 to 46 were approved by the Board of Directors and authorised for issue on 6 April 2022 and were signed on its behalf by:

**Nigel Keen**
*Chairman*

**Natalie Wettler**
*Group Finance Director*

## Consolidated statement of changes in equity for the year ended 31 December 2021

| | 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 2021 | **5,773** | **33,444** | **17,476** | **505** | **82** | **135** | **(54,648)** | **2,767** | **(126)** | **2,641** |
| **Comprehensive income** | | | | | | | | | | |
| Loss for the period | **-** | **-** | **-** | **-** | **-** | **-** | **(967)** | **(967)** | **1** | **(966)** |
| Other comprehensive income for the period | **-** | **-** | **-** | **-** | **-** | **(2)** | **-** | **(2)** | **-** | **(2)** |
| **Total comprehensive income for year** | **-** | **-** | **-** | **-** | **-** | **(2)** | **(967)** | **(969)** | **1** | **(968)** |
| **Transactions with owners of the Group** | | | | | | | | | | |
| Shares issued during the year | **76** | **58** | **-** | **-** | **-** | **-** | **-** | **134** | **-** | **134** |
| Equity-settled share-based payment | **-** | **-** | **-** | **95** | **-** | **-** | **-** | **95** | **-** | **95** |
| Transfers | **-** | **-** | **-** | **(27)** | **-** | **-** | **27** | **-** | **-** | **-** |
| **Balance at 31 December 2021** | **5,849** | **33,502** | **17,476** | **573** | **82** | **133** | **(55,588)** | **2,027** | **(125)** | **1,902** |

The notes on pages 47 to 80 form an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity for the year ended 31 December 2020

| | 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 2020 | **5,249** | **33,230** | **17,476** | **439** | **82** | **141** | **(53,823)** | **2,794** | **(139)** | **2,655** |
| **Comprehensive income** | | | | | | | | | | |
| Loss for the period | **-** | **-** | **-** | **-** | **-** | **-** | **(798)** | **(798)** | **13** | **(785)** |
| Other comprehensive income for the period | **-** | **-** | **-** | **-** | **-** | **(6)** | **-** | **(6)** | **-** | **(6)** |
| **Total comprehensive income for year** | **-** | **-** | **-** | **-** | **-** | **(6)** | **(798)** | **(804)** | **13** | **(791)** |
| **Transactions with owners of the Group** | | | | | | | | | | |
| Shares issued during the year | **524** | **217** | **-** | **-** | **-** | **-** | **-** | **741** | **-** | **741** |
| Issue expenses | **-** | **(3)** | **-** | **-** | **-** | **-** | **-** | **(3)** | **-** | **(3)** |
| Equity-settled share-based payment | **-** | **-** | **-** | **39** | **-** | **-** | **-** | **39** | **-** | **39** |
| Transfers | **-** | **-** | **-** | **27** | **-** | **-** | **(27)** | **-** | **-** | **-** |
| **Balance at 31 December 2020** | **5,773** | **33,444** | **17,476** | **505** | **82** | **135** | **(54,648)** | **2,767** | **(126)** | **2,641** |

The notes on pages 47 to 80 form an integral part of these consolidated financial statements.

## Consolidated statement of cash flows
**for the year ended 31 December 2021**

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss before taxation | **(978)** | (794) |
| Adjustments for: | | |
| Net finance costs | **173** | 172 |
| Depreciation of property, plant and equipment | **74** | 103 |
| Amortisation of intangible assets | **40** | 40 |
| Write off of research and development projects not taken forward | **-** | 222 |
| Modification gain on convertible loan note | **-** | (119) |
| Share-based payment expense | **95** | 39 |
| Other tax income | **(57)** | (52) |
| Effect of exchange rate fluctuations | **(2)** | (6) |
| | **(655)** | (395) |
| Decrease in inventories | **89** | 13 |
| Decrease in trade and other receivables | **148** | 680 |
| Increase/(decrease) in trade and other payables | **191** | (303) |
| Increase/(decrease) in provisions | **6** | (11) |
| **Net cash used in operations** | **(221)** | (16) |
| Interest paid | **(131)** | (132) |
| Income taxes received | **61** | 80 |
| **Net cash used in operating activities** | **(291)** | (68) |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(23)** | (6) |
| Capitalised development expenditure (net of grants) | **(621)** | (165) |
| **Net cash used in investing activities** | **(644)** | (171) |
| **Cash flows from / (used in) financing activities** | | |
| Issue of ordinary share capital | **-** | 253 |
| Expenses in connection with share issue | **-** | (3) |
| Net movement in invoice discount facility | **43** | (23) |
| Standby loan facility drawdown | **500** | - |
| Principal lease payments | **(41)** | (37) |
| **Net cash generated from financing activities** | **502** | 190 |
| **Net decrease in cash and cash equivalents** | **(433)** | (49) |
| Cash and cash equivalents at beginning of the period | **853** | 908 |
| Exchange loss on cash and cash equivalents | **(7)** | (6) |
| **Cash and cash equivalents at end of the period** | **413** | 853 |

The notes on pages 47 to 80 form an integral part of these consolidated financial statements.

## 1. Principal accounting policies

Presented below are those accounting policies that relate to the financial statements as a whole and include details of new accounting standards that are, or will be effective for 2022 or later years. To facilitate the understanding of each note to the financial statements, those accounting policies that are relevant to a particular category are presented within the relevant notes. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 1.1. General information

These financial statements are the consolidated financial statements of Deltex Medical Group plc, a public company limited by shares registered in England and Wales, and its subsidiaries ('the Group'). Deltex Medical Group plc is listed on AIM 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 UK-adopted International Accounting Standards. The consolidated financial statements have been prepared under the historical cost convention 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 2020.

There are no new and amended Standards and Interpretations adopted by the Group for the year ended 31 December 2021.

New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 January 2021 include:

Amendment to IAS 1: 'Classification of Liabilities as Current or Non-current'
Amendment to IAS 12 'Deferred tax related to assets and liabilities arising from a single transaction'
IAS 8: Definition of accounting estimates
IAS 1: Disclosure initiative – accounting policies
IAS 16: PPE: Proceeds before intended use

### 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 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 for 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.

Costs related to acquisition, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. If the contingent consideration is classified as equity, it is not remeasured, and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

### 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.

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:

| | **2021** | | **2020** | |
|---|---|---|---|---|
| | **Average Rate** | **Closing rate** | **Average rate** | **Closing rate** |
| Sterling/US Dollar | **1.38** | **1.35** | 1.29 | 1.37 |
| Sterling/Euro | **1.16** | **1.19** | 1.13 | 1.12 |
| Sterling/Canadian Dollar | **1.72** | **1.71** | 1.73 | 1.74 |

### 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 represent the Group's judgement of which 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.

*Estimates*
Information about estimation uncertainties at 31 December 2021 that could have a risk of adjustment to the carrying amount of assets in the next financial year is considered in the following note:

*Trade receivables*
Notes 16 and 24 provide information on the measurement of expected credit losses in respect of trade receivables, staff advances and other receivables.

### 1.7 Going concern

The Group meets its day-to-day working capital requirements through a combination of operational cash flows, an invoice discounting facility and, if required, the raising of additional finance. During the Covid pandemic the Group also made use of Salary Support Schemes provided by the UK and US governments.

The Directors have reviewed detailed budgets and forecasts until 30 June 2023, which take into account, among other things, the possible continued effects of Covid on the Group's business. This review indicates that the Group is expected to continue trading as a going concern based on projected net cash flows derived from sales of the Group. In February 2022, the Group raised £1.4 million (gross) through a share subscription which provided additional cash resources to the Group. In addition, the Group agreed a 12 month extension to the standby loan facility which is now repayable on or before 31 December 2023.

The Directors consider that they have reasonable grounds to believe that the Group will have adequate resources to continue in operational existence for the foreseeable future and it is therefore 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 10 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.

## 3. Segmental analysis

### 3.1 Accounting policy
Assessment of performance and the allocation of resources are made on the basis of results derived from the sale of probes, monitors and other products analysed by territory, of 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, share-based payments, non-executive directors' fees, as well as any exceptional items' (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.

### 3.2 Note
The operating segment results for 2021 are:

| | **Probes[1]** | **Monitors** | **Other** | **Unallocated** | **Total** |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Revenues | **1,911** | **202** | **146** | **-** | **2,259** |
| Adjusted gross profit[2 3] | **1,448** | **171** | **102** | **-** | **1,721** |
| Sales and marketing costs[3] | - | - | - | (889) | **(889)** |
| Administration costs[3] | - | - | - | (1,180) | **(1,180)** |
| R&D costs[3] | - | - | - | (8) | **(8)** |
| Quality and regulation costs[3] | - | - | - | (148) | **(148)** |
| Adjusted EBITDA | **-** | **-** | **-** | **-** | **(504)** |

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
3. Other operating income is allocated within the corresponding expense categories

The operating segment results for 2020 were:

| | Probes[1] | Monitors | Other | Unallocated | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Revenues | **2,113** | **161** | **124** | **-** | **2,398** |
| Adjusted gross profit[2 3] | **1,585** | **136** | **106** | **-** | **1,827** |
| Sales and marketing costs[3] | - | - | - | (942) | **(942)** |
| Administration costs[3] | - | - | - | (903) | **(903)** |
| R&D costs[3] | - | - | - | (23) | **(23)** |
| Quality and regulation costs[3] | - | - | - | (167) | **(167)** |
| Adjusted EBITDA | **-** | **-** | **-** | **-** | **(208)** |

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
3. Other operating income is allocated within the corresponding expense categories

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:

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Adjusted EBITDA | **(504)** | (208) |
| Non-cash items: | | |
| Depreciation of property, plant and equipment | **(74)** | (103) |
| Amortisation of development costs | **(40)** | (40) |
| Write off of research and development projects not taken forward | **-** | (222) |
| Non-executive directors' fees and employer's NIC | **(138)** | (172) |
| Share-based payment expenses | **(95)** | (39) |
| Change in accumulated absence cost liability | **(11)** | 1 |
| Net bonus accrual and staff advances movement | **-** | (10) |
| Gain on convertible loan note | **-** | 119 |
| Cash item: | | |
| Other tax income | **57** | 52 |
| | **(301)** | (414) |
| **Operating loss** | **(805)** | (622) |
| Finance costs | **(173)** | (172) |
| **Loss before tax** | **(978)** | (794) |
| Tax credit on loss | **12** | 9 |
| **Loss for the year** | **(966)** | (785) |

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 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Direct market | | | Indirect markets | | | |
| | **Probes** | **Monitors** | **Other** | **Probes** | **Monitors** | **Other** | **Total** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **UK** | **524** | **60** | **86** | **-** | **-** | **-** | **670** |
| **USA** | **561** | **55** | **47** | **-** | **-** | **-** | **663** |
| **France** | **-** | **-** | **-** | **489** | **29** | **8** | **526** |
| **Scandinavia** | **-** | **-** | **-** | **105** | **-** | **2** | **107** |
| **South Korea** | **-** | **-** | **-** | **134** | **-** | **2** | **136** |
| **Portugal** | **-** | **-** | **-** | **35** | **-** | **-** | **35** |
| **Other countries** | **10** | **-** | **-** | **53** | **58** | **1** | **122** |
| | **1,095** | **115** | **133** | **816** | **87** | **13** | **2,259** |

| | For the year ended 31 December 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Direct markets | | | Indirect markets | | | |
| | Probes | Monitors | Other | Probes | Monitors | Other | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| UK | 652 | 102 | 83 | - | - | - | 837 |
| USA | 858 | 16 | 26 | - | - | - | 900 |
| France | - | - | - | 170 | - | 10 | 180 |
| Scandinavia | - | - | - | 95 | - | 2 | 97 |
| South Korea | - | - | - | 159 | - | 1 | 160 |
| Portugal | - | - | - | 86 | - | - | 86 |
| Other countries | 15 | 32 | - | 78 | 11 | 2 | 138 |
| | 1,525 | 150 | 109 | 588 | 11 | 15 | 2,398 |

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

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Sale of goods | **2,192** | 2,338 |
| Maintenance income | **67** | 60 |
| | **2,259** | 2,398 |

The following table provides information about trade receivables and contract liabilities from contracts with customers. There were no contract assets at either 31 December 2021 or 31 December 2020.

| | **31 December 2021** | 31 December 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Trade receivables which are in 'Trade and other receivables' | **455** | 576 |
| Contract liabilities (Note 18.3) | **(57)** | (58) |

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 2021:

| | 2022 | 2023 | 2024 | **Total** |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | **£'000** |
| Revenue expected to be recognised | 36 | 7 | 14 | **57** |

Revenue recognised in 2021 which was included in contract liabilities at 31 December 2020 amounted to £54,000. Revenue recognised in 2020 included in contract liabilities at 31 December 2019 amounted to £46,000.

## 4. Expenses

### 4.1 Expenses by nature

| | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Changes in inventories and work in progress | **(99)** | (20) |
| Raw materials and consumables used | **548** | 380 |
| Employee benefit costs | **2,145** | 2,289 |
| Other employee costs | **153** | 159 |
| Non-executive directors' fees | **138** | 172 |
| Depreciation of property, plant and equipment | **74** | 103 |
| Amortisation of development costs | **40** | 40 |
| Write off of research and development projects not taken forward | **-** | 222 |
| Short-term leases | **18** | 20 |
| Net foreign exchange loss/(gain) | **14** | (10) |
| Audit and accountancy costs | **61** | 70 |
| Meeting and other public relations costs | **23** | (54) |
| Professional and consultancy costs | **312** | 199 |
| Gain on convertible loan note | **-** | (119) |
| Other income | **(57)** | (52) |
| Other | **6** | 90 |
| | **3,376** | 3,489 |

### 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 detailed below.

*Nexia Smith & Williamson*

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Fees payable to the Group's auditors for the audit of Parent Company and consolidated financial statements | **10** | 10 |
| Fees payable to the Group's auditors for other services: | | |
| The audit of the Group's subsidiaries | **35** | 33 |
| Tax compliance services | **-** | 7 |
| | **45** | 50 |

## 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 employee services up to the end of the financial reporting period. They 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.

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

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Wages and salaries | **2,051** | 2,162 |
| Social security costs | **230** | 256 |
| Pension costs – defined contribution plans | **58** | 62 |
| | **2,339** | 2,480 |
| Less amounts capitalised as research and development expenses | **(317)** | (309) |
| | **2,022** | 2,171 |
| Accumulated absence liability movement | **11** | (1) |
| Accrued bonuses for the year | **17** | 20 |
| Accrued bonuses and staff advances from prior periods released | **-** | 60 |
| Share-based payment expense | **95** | 39 |
| | **2,145** | 2,289 |

The pensions cost expense of £58,000 (2020: £62,000) represents the aggregate amount paid and payable into defined contribution pension schemes on behalf of employees.

### 5.3 Average monthly number of people employed

| | **2021 Number** | 2020 Number |
|---|---|---|
| Number of employees | **46** | 50 |
| Average monthly number of people (including executive directors) employed: | | |
| Sales and marketing | **11** | 12 |
| Production | **16** | 17 |
| Office and management | **10** | 11 |
| Quality and regulatory | **3** | 4 |
| Research and development | **6** | 6 |
| Total monthly average headcount | **46** | 50 |

### 5.4 Directors' emoluments

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Aggregate emoluments | **398** | 369 |
| Sums paid to third parties for directors' services | **33** | 33 |
| Contributions to directors' personal pension schemes | **-** | 1 |
| Contributions to the Group's defined contribution scheme | **10** | 12 |
| | **441** | 415 |

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

| **Third party payee** | **Director** | **2021 £'000** | 2020 £'000 |
|---|---|---|---|
| Imperialise Limited | Nigel Keen | **33** | 33 |

### 5.5 Highest paid director

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Aggregate emoluments | **207** | 207 |
| Contributions to director's personal pension scheme | **8** | 12 |
| | **215** | 219 |

## 6. Finance costs

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Invoice discount facility | **2** | 1 |
| Convertible loan note | **124** | 128 |
| Standby loan facility | **4** | - |
| Lease liability finance expense | **34** | 43 |
| Other interest | **9** | - |
| | **173** | 172 |

## 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** | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Research and development tax credit | **(12)** | (9) |
| Adjustment in respect of prior years | **-** | - |
| Total current tax | **(12)** | (9) |
| Total deferred tax | **-** | - |
| **Total tax credit on loss** | **(12)** | (9) |

In 2021, the other gain includes an amount of £57,000 (2020: £52,000) comprising tax income arising from the Research and Development Expenditure Credit scheme which is accounted for as a government grant.

The taxable credit on the loss for the year is lower (2020: lower) than the effective rate of corporation tax in the UK of 19% (2020: 19%) applied to the Group's loss on ordinary activities before tax. The differences are explained below:

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Loss on ordinary activities before tax | **(978)** | (794) |
| Loss on ordinary activities multiplied by the standard rate in the UK of 19% (2020: 19%) | **(186)** | (151) |
| Effects of: | | |
| Non-taxable income | **(121)** | (101) |
| Losses carried forward for which no deferred tax asset has been recognised | **269** | 240 |
| Tax rate of difference on receivable research and development tax credit | **5** | (7) |
| Difference on tax rate on payable research and development tax credit | **3** | 3 |
| Rate change adjustment | **-** | - |
| Non-deductible expenses | **18** | 7 |
| Total tax credit on loss | **(12)** | (9) |

## 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 2021, the Group had accumulated trading losses carried forward which are available to offset against future profits of £39,333,000 (2020: £34,286,000) resulting in an unrecognised potential deferred tax asset of £9,397,000 (2020: £6,854,000).

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** | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Development costs | **938** | 588 |
| Accelerated capital allowances | **65** | 56 |
| | **1,003** | 644 |

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| At 1 January | **644** | 404 |
| Charged to profit or loss in the Consolidated SOCI | **359** | 240 |
| At 31 December | **1,003** | 644 |

| **Deferred tax asset on losses** | **2021 £'000** | 2020 £'000 |
|---|---|---|
| At 1 January | **(644)** | (404) |
| Credited to profit or loss in the Consolidated SOCI | **(359)** | (240) |
| At 31 December | **(1,003)** | (644) |

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Act 2021. These include increases to the UK corporation tax rate from 19% to 25% effective 1 April 2023. Deferred taxes at the balance sheet date have been measured using this substantively enacted rate.

## 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:

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Net bonus accrual and staff advances movement | **-** | 10 |
| Write off of research and development projects not taken forward | **-** | 222 |
| | **-** | 232 |

## 10. Other operating income

### 10.1 Accounting policy

Government grants are accounted for under the accruals model as permitted by IAS 20, 'Accounting for Government Grants and Disclosure of Government Assistance'. Grants related to income are recognised in the Statement of Comprehensive Income under other operating income in the same period as the related expenditure.

### 10.2 Note

Other operating income comprised:

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| UK Job Retention Scheme | **206** | 214 |
| US Payment Protection Plan | **106** | 138 |
| Other operating income – 3rd party termination agreement | **-** | 117 |
| | **312** | 469 |

## 11 Basic and diluted loss per share

The loss per share calculation is based on the loss of £967,000 and the weighted average number of shares in issue of 580,712,339. For 2020, the loss per share calculation is based on the loss of £798,000 and the weighted average number of shares in issue of 526,448,659. While the Group is loss-making, the diluted loss per share and the loss per share are the same.

## 12 Property, plant and equipment

### 12.1 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.

## 12.2 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 2020 | 180 | 427 | 478 | 2 | 1,570 | 2,657 |
| Exchange difference | - | - | (2) | - | (51) | (53) |
| Additions | - | - | 3 | - | 3 | 6 |
| Transferred from inventory | - | - | - | - | 7 | 7 |
| At 31 December 2020 | 180 | 427 | 479 | 2 | 1,529 | 2,617 |
| Exchange difference | - | - | - | - | 10 | 10 |
| Additions | - | - | 23 | - | - | 23 |
| Transferred from inventory | - | - | - | - | 10 | 10 |
| **At 31 December 2021** | **180** | **427** | **502** | **2** | **1,549** | **2,660** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2020 | 176 | 107 | 465 | 2 | 1,512 | 2,262 |
| Exchange difference | - | - | (2) | - | (51) | (53) |
| Depreciation charge | 2 | 48 | 13 | - | 40 | 103 |
| At 31 December 2020 | 178 | 155 | 476 | 2 | 1,501 | 2,312 |
| Exchange difference | - | - | - | - | 10 | 10 |
| Depreciation charge | 2 | 48 | 7 | - | 17 | 74 |
| **At 31 December 2021** | **180** | **203** | **483** | **2** | **1,528** | **2,396** |
| **Net book value** | | | | | | |
| At 1 January 2020 | 4 | 320 | 13 | - | 58 | 395 |
| At 31 December 2020 | 2 | 272 | 3 | - | 28 | 305 |
| **At 31 December 2021** | **-** | **224** | **19** | **-** | **21** | **264** |

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

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Cost of sales | **22** | 49 |
| Administration expenses | **52** | 51 |
| Research and development expenses | **-** | 3 |
| | **74** | 103 |

## 13 Intangible assets

### 13.1 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. The exception to this being expenditure incurred in respect of the development of new products where the outcome of those projects is assessed as being reasonably certain for 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. The Useful Economic Life (UEL) is assessed annually by the directors to reflect the pattern of benefits expected to flow from the intangible asset. As such, the amortisation period relates to a specific period to reflect the benefits, being between 6 and 10 years. The carrying amounts of intangible assets have been reviewed at the balance sheet date and the directors consider that there is no indication that those assets have suffered an impairment loss.

Government grants are received for innovative research and development projects. The grants are recognised when there is reasonable assurance that the conditions of the grant will be complied with and that the grants will be received. Government grants are offset against the development costs to which they relate to. During the year to 31 December 2021, £77,000 (2020: £464,000) was recognised from government grants.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Goodwill represents the goodwill that arose in 2013 on the acquisition of the trade and assets of Deltex Medical Canada Limited. The directors have tested goodwill for impairment based on the profitability and value in use, and consider the balance to be recoverable.

### 13.2 Note

| | Development costs £'000 | Goodwill £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2020 | 3,770 | 66 | 3,836 |
| Amounts written off | (222) | - | (222) |
| Additions | 165 | - | 165 |
| At 31 December 2020 | 3,713 | 66 | 3,779 |
| Additions | 621 | - | 621 |
| **At 31 December 2021** | **4,334** | **66** | **4,400** |
| **Accumulated amortisation** | | | |
| At 1 January 2020 | 1,185 | - | 1,185 |
| Amounts written off | - | - | - |
| Amortisation expense | 40 | - | 40 |
| At 31 December 2020 | 1,225 | - | 1,225 |
| Amounts written off | - | - | - |
| Amortisation expense | 40 | - | 40 |
| **At 31 December 2021** | **1,265** | **-** | **1,265** |
| **Net book value** | | | |
| At 1 January 2020 | 2,585 | 66 | 2,651 |
| At 31 December 2020 | 2,488 | 66 | 2,554 |
| **At 31 December 2021** | **3,069** | **66** | **3,135** |

Amortisation expense of £40,000 (2020: £40,000) has been categorised as research and development expenditure in profit or loss in the Consolidated SOCI.

Included within development costs are costs amounting to £2,273,000 (2020: £1,707,000) 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 an amount of £124,000 net book value (2020: £155,000) relating to the development of its high-definition impedance cardiography product which became available for sale in May 2017 and has been amortised from that date.

Other individually material projects, all of which have not been amortised as the projects are still in progress, are:

| Project description | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Suprasternal Doppler Probe | **333** | 308 |
| TrueVue Velocity Pressure Loops | **216** | 215 |

The directors have carried out impairment reviews on the development projects which are still in progress as required by IAS 36 in respect of recoverable amounts and no impairment has been noted.

## 14 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 unless 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 |

Deltex Medical Canada Limited reported revenue of £7,000 (2020: £45,000), a profit of £1,000 (2020: £27,000) and net liabilities of £291,000 (2020: £287,000).

## 15 Inventories

### 15.1 Accounting policy

Inventories, including work in progress and finished goods, are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Labour and overheads are allocated on the basis of normal operating capacity using standard rates. The standard labour and overhead rate are reviewed at each year end. Cost is calculated using the first in, first out basis.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Provision is made for obsolete, slow-moving or defective items where appropriate.

### 15.2 Note

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Raw materials and consumables | **217** | 289 |
| Work in progress | **24** | - |
| Finished goods | **555** | 606 |
| | **796** | 895 |

There is a specific provision for slow-moving inventory of £21,000 (2020: £nil), which have been categorised as finished goods.

## 16 Trade and other receivables

### 16.1 Accounting policy

Trade receivables, which are the only financial assets at amortised cost, are non-interest bearing and generally have a 30 day term for sales made in the UK and the USA, and a 60 day term for sales made to other overseas customers. Due to their short maturities, the carrying amount of trade and other receivables is a reasonable approximation of their fair value.

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 at amortised cost. Based on prior experience and an assessment of the current economic environment, the Group do not consider an impairment provision is required against the financial assets at amortised cost and consider that the carrying amount of these is a reasonable approximation of their fair value.

As required 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.

### 16.2. Note

**Trade receivables**

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Trade receivables | **455** | 576 |
| Less loss allowance | **-** | - |
| | **455** | 576 |

**Financial assets at amortised cost**

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| | £'000 | £'000 | £'000 | £'000 |
| Staff advances | **15** | **-** | 15 | - |
| Other receivables | **-** | **157** | - | 153 |
| | **15** | **157** | 15 | 153 |

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 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**

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Sundry debtors | **3** | 85 |
| Prepayments | **88** | 37 |
| | **91** | 122 |

## 17 Cash and cash equivalents

### 17.1 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.

### 17.2 Note

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Cash at bank | **413** | 853 |

## 18 Financial liabilities

### 18.1 Accounting policy

The Group's financial liabilities include borrowings, 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 transaction 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 gain 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.

### 18.2 Note

**Borrowings**

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Current** | **Non-current** | Current | Non-current |
| | **£'000** | **£'000** | £'000 | £'000 |
| Invoice discounting facility | **202** | **-** | 159 | - |
| Standby loan facility | **500** | **-** | - | - |
| Convertible loan note | **-** | **1,028** | - | 993 |
| | **702** | **1,028** | 159 | 993 |

**Invoice discounting facility**
The amount shown represents the cash drawn down under an invoice discounting facility; There was £nil undrawn amounts at the end of the year (2020: £nil). The amount outstanding under this facility is secured by way of a fixed charge over the Group's UK, USA 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 one month's notice (2020: one month's notice) on either side and is not subject to an annual review.

**Convertible loan note**
The maturity date of the convertible loan notes is February 2024, at a conversion price of 4p per share.

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

| | **Financial liability £'000** | **Equity component £'000** | **Total £'000** |
|---|---|---|---|
| Carrying amount at 1 January 2021 | 993 | 82 | **1,075** |
| Interest expense | 123 | - | **123** |
| Interest paid | (88) | - | **(88)** |
| Carrying amount at 31 December 2021 | **1,028** | **82** | **1,110** |

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 13.14% (2020: 13.14%).

**Standby loan facility**
In September 2021, a standby loan facility provided by Imperialise Limited, a company controlled by Nigel Keen, was put in place for £500,000. The interest rate on the facility is 8% per annum, and the facility is unsecured. In February 2022, the standby loan facility maturity was extended by 12 months to 31 December 2023.

**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.

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Rate %** | **Amount £'000** | Rate % | Amount £'000 |
| Sterling | **2.91** | **60** | 3.17 | 47 |
| Euro | **2.75** | **104** | 2.75 | 80 |
| US Dollar | **4.30** | **38** | 4.93 | 32 |
| | | **202** | | 159 |

All other of the Group's borrowings are at variable rates of interest other than the convertible loan note and standby loan facility as disclosed above.

### 18.3. Trade and other payables

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Current** | **Non-current** | Current | Non-current |
| | **£'000** | **£'000** | £'000 | £'000 |
| Trade payables | **298** | **-** | 201 | - |
| Other payables | **259** | **-** | 249 | - |
| Social security and other taxes | **169** | **-** | 141 | - |
| Lease obligations | **46** | **228** | 41 | 274 |
| Contract liabilities | **57** | **-** | 58 | - |
| Employee short-term benefits | **41** | **-** | 30 | - |
| Accrued expenses | **608** | **-** | 696 | - |
| | **1,478** | **228** | 1,416 | 274 |

Included within other payables is an amount of £253,000 (2020: £249,000) 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.

## 19 Leases

### 19.1 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.

**Short-term leases**
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 (being less than £5,000), 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 term.

### 19.2 Note

Included within Property, plant and equipment is the net book amount of £224,000 (2020: £272,000) 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 £48,000 (2020: £48,000) relating to the depreciation expense of this asset and included within finance costs is an amount of £34,000 (2020: £43,000) relating to the finance charge on the related lease obligation. Included within administration expenses in profit or loss in the Consolidated SOCI is an amount of £18,000 (2020: £20,000) relating to short term leases.

Included within trade and other payables in the Consolidated Balance sheet are current lease obligations amounting to £46,000 (2020: £41,000) and non-current lease obligations amounting to £228,000 (2020: £274,000). The non-current lease obligations are all due in 2 to 5 years.

The total cash outflow for leases in the period was £75,000 (2020: £95,000).

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

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Within 1 year | **75** | 75 |
| Within 2 to 4 years | **281** | 300 |
| More than 5 years | **-** | 56 |
| | **356** | 431 |

## 20 Provision for liabilities

### 20.1 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.

### 20.2 Note

| | Dilapidation provision £'000 |
|---|---|
| At 1 January 2020 | 46 |
| Unwinding of discounting | 5 |
| At 1 January 2021 | 51 |
| Unwinding of discounting | 6 |
| At 31 December 2021 | **57** |

*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. The dilapidation provision has been discounted and the unwinding of the discounting is on an annual basis.

## 21 Share capital and share premium

### 21.1 Accounting policy

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

### 21.2 Note

At 1 January 2021 and 31 December 2021, 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 2020 | 524,869 | 5,249 | 33,230 | 38,479 |
| Share issues: | | | | |
| 21 December 2020 | 52,422 | 524 | 217 | 741 |
| Share issue expenses | | | | |
| 21 December 2020 | - | - | (3) | (3) |
| At 31 December 2020 | 577,291 | 5,773 | 33,444 | 39,217 |
| Share issues: | | | | |
| 15 July 2021 | 6,282 | 63 | 47 | 110 |
| 22 July 2021 | 1,371 | 13 | 11 | 24 |
| **At 31 December 2021** | **584,944** | **5,849** | **33,502** | **39,351** |

Net proceeds from the issue of shares totalled £134,000 (2020: £738,000), after expenses of £nil (2020: £3,000). Non-cash proceeds from the issue of shares to clear historical equity settled director fees totalled £134,000 (2020: £485,000).

## 22 Share-based payments

### 22.1 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. Due to the specialist nature of the work performed by contractors, the Group is unable to reliably measure the fair value and therefore the fair value is measured using an 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' in 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.

### 22.2 Note

The Group has two current share option schemes:

- 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 Scheme 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 either granted at 1p per option or at market price on the date of grant and are conditional on the employee completing three years' service. Options granted in lieu of cash for bonuses or salary obligations relating to past achievement have no vesting period.

Options that are conditional on the employee completing three years' service have a three year 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:

| | 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** | **Total No.** |
| Options outstanding at 1 January 2020 | 10,384,000 | 10 | 10,760,788 | 1 | 21,144,788 |
| Granted during the year | 5,000,000 | 1 | 6,487,500 | 1 | 11,487,500 |
| Lapsed during theyear | (1,342,250) | 4 | - | - | (1,342,250) |
| Expired during the year | - | - | (50,000) | 1 | (50,000) |
| Options outstanding at 31 December 2020 | 14,041,750 | 7 | 17,198,288 | 1 | 31,240,038 |
| Granted during the year | - | - | 14,500,000 | 1 | 14,500,000 |
| Lapsed during the year | (36,500) | 9 | (162,676) | 1 | (199,176) |
| Expired during the year | (1,498,000) | 17 | (70,471) | 1 | (1,568,471) |
| **Options outstanding at 31 December 2021** | **12,507,250** | **6** | **31,465,141** | **1** | **43,972,391** |

Share options exercisable at the end of the year were:

| | 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** | **Total No.** |
| Options exercisable at 1 January 2020 | 4,929,000 | 7 | 10,760,788 | 1 | 15,689,788 |
| Options exercisable at 31 December 2020 | 9,041,750 | 7 | 10,710,788 | 1 | 19,752,538 |
| **Options outstanding at 31 December 2021** | **7,507,250** | **12** | **10,627,641** | **1** | **18,134,891** |

There were no share options exercised during the year ended 31 December 2021 or the year ended 31 December 2020. The mid-market closing price of the Company's shares at the end of the year was 1.3 pence (2020: 1.45 pence).

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

| | 2011 Executive Share Option Scheme | | 2003 Enterprise Management Incentive Scheme | |
|---|---|---|---|---|
| | **2021 Years** | **2020 Years** | **2021 Years** | **2020 Years** |
| Weighted average remaining contractual life of options outstanding at the end of the financial year | 6.04 | 6.36 | 8.25 | 8.25 |

*Fair value of options granted*

Share options granted under the 2003 EMI scheme had an estimated weighted average fair value of 1.3 pence (2020: 1.3 pence) and £42,057 (2020: £1,655) 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 the 2003 EMI scheme options granted during the year ended 31 December 2021 were:

| | **April 2021** | **April 2021** | December 2020 |
|---|---|---|---|
| Share price at grant date | **1.8p** | **1.8p** | 1.3p |
| Exercise price | **1.0p** | **1.8p** | 1.3p |
| Expected price volatility of the Company's shares | **65%** | **65%** | 66% |
| Expected option life (expressed as weighted average life used in modelling) | **3 years** | **3 years** | 3 years |
| Risk-free interest rate | **0.86%** | **0.86%** | 0.41% |
| Fair value at measurement date | **1.4p** | **1.3p** | 0.9p |

No share options were granted under the 2011 ESOS scheme during the year ended 31 December 2021. Share options granted during the year ended 31 December 2020 had a fair value of 0.6 pence and £3,990 in aggregate.

The model inputs for the 2011 ESOS scheme options granted during the year ended 31 December 2020 were:

| | July 2020 |
|---|---|
| Share price at grant date | 1.3p |
| Exercise price | 1.3p |
| Expected price volatility of the Company's shares | 66% |
| Expected option life (expressed as weighted average life used in modelling) | 3 years |
| Risk-free interest rate | 0.15% |
| Fair value at measurement date | 0.6p |

*Contractor options*
On 6 December 2021, 2,000,000 share options were granted to a contractor under the 2003 EMI scheme with an exercise price of 1.3 pence per share. The share options are exercisable from the grant date 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. The vesting period has been recognised during the year in line with the contract of work being performed.

On 15 July 2020, 4,000,000 share options were granted to two contractors under the 2003 EMI scheme with an exercise price of 1.3 pence per share. The share options are exercisable from the grant date and may be exercised in part or in whole at any time during the exercise period. The options have an exercise period of 10 years from grant date. The vesting period has been recognised over 3 years in line with the contract of work to be performed.

A further option over 500,000 shares with an exercise price of 1.22 pence per share, exercisable from the date of grant of 9 October 2018 also remain outstanding at 31 December 2021. The option has an exercise period of 10 years from grant date.

These are the only outstanding options held by contractors.

The share-based payment expense relating to the share options granted during the year had a fair value of 0.7 pence per share and £14,679 in aggregate.

## 23 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:

| | Standby loan facility | Convertible loan note | Invoice discount facility | | | Lease liability | **Total** |
|---|---|---|---|---|---|---|---|
| | | | **Sterling denominated** | **Euro denominated** | **US Dollar denominated** | | |
| | **£'000** | **£'000** | **£000** | **£'000** | **£'000** | **£'000** | **£'000** |
| At 1 January 2020 | - | 1,072 | 103 | 27 | 58 | 352 | 1,612 |
| *Cash flows:* | | | | | | | |
| Drawdowns | - | - | 1,001 | 558 | 588 | - | 2,147 |
| Repayments | - | - | (1,057) | (507) | (606) | (37) | (2,207) |
| Cash flow from financing activities | - | - | (56) | 51 | (18) | (37) | (60) |
| Interest paid | - | (88) | - | - | (1) | (43) | (132) |
| Net cash outflow | - | (88) | (56) | 51 | (19) | (80) | (192) |
| *Non cash flows* | | | | | | | |
| Interest charged at the effective rate | - | 128 | - | - | 1 | 43 | 172 |
| Gain on convertible loan note | - | (119) | - | - | - | - | (119) |
| Foreign exchange movements | - | - | - | 2 | (8) | - | (6) |
| At 31 December 2020 | - | 993 | 47 | 80 | 32 | 315 | 1,467 |
| At 1 January 2021 | - | 993 | 47 | 80 | 32 | 315 | 1,467 |
| *Cash flows*: | | | | | | | |
| Drawdowns | 500 | - | 799 | 662 | 486 | - | 2,447 |
| Repayments | - | - | (786) | (634) | (491) | (41) | (1,952) |
| Cash flow from financing activities | 500 | - | 13 | 28 | (5) | (41) | 495 |
| Interest paid | - | (89) | - | (1) | (1) | (34) | (125) |
| Net cash outflow | 500 | (89) | 13 | 27 | (6) | (75) | 370 |
| *Non cash flows* | | | | | | | |
| Interest charged at the effective rate | 4 | 124 | - | 1 | 1 | 34 | 164 |
| Foreign exchange movements | - | - | - | (4) | 11 | - | 7 |
| **At 31 December 2021** | **504** | **1,028** | **60** | **104** | **38** | **274** | **2,008** |

## 24 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 and a standby loan facility 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 comprise undrawn invoice discounting facilities, undrawn standby loan 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.

| | **2021** | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | Between 5 and 10 years £'000 |
| Invoice discounting facility | **202** | **-** | **-** | **-** | 159 | - | - | - |
| Convertible loan note | **88** | **88** | **1,136** | **-** | 88 | 88 | 1,224 | - |
| Lease obligations | **75** | **75** | **206** | **-** | 75 | 75 | 225 | 56 |
| Trade and other payables | **909** | **-** | **-** | **253** | 897 | - | - | 249 |
| Standby loan facility | **500** | **-** | **-** | **-** | - | - | - | - |
| | **1,774** | **163** | **1,342** | **253** | 1,219 | 163 | 1,449 | 305 |

*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:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **US Dollars £'000** | **Euro £'000** | US Dollars £'000 | Euro £'000 |
| Cash at bank | **69** | **120** | 158 | 108 |
| Trade receivables | **101** | **176** | 267 | 160 |
| Trade payables | **(43)** | **(13)** | (2) | - |
| Invoice discount facility | **-** | **(104)** | - | (80) |

The table below 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 analyses 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.

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Sensitivity %** | **Profit £'000** | **Equity £'000** | Sensitivity % | Profit £'000 | Equity £'000 |
| Euros | **5.0** | **11** | **11** | 5.0 | 11 | 1 |
| US Dollar | **5.0** | **9** | **9** | 5.0 | 29 | 29 |

If the Euro strengthened against Sterling by 5% (2020: 5%), an aggregate foreign exchange gain of £11,000 (2020: £11,000) 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. The Group 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.

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 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, USA and Canada, its customers are predominantly large hospitals. There have not been any bad debts experienced during the year.

Occasionally bad debts have been experienced in our International distributor-led market. However, as this market has been developed over many years, our network of independent distributors has remained relatively stable and consequently the expectation of incurring a credit loss is considered to be immaterial.

There is no current credit loss provision as at 31 December 2021 (2020: £nil).

Other receivables relate to a historic trade receivable balance owed by the non-controlling interest in Deltex Medical Canada Limited. Based on expectations of future trading, the expectation of incurring a credit loss is considered to be immaterial.

While cash is subject to the impairment requirements of IFRS 9, no such impairment loss was identified either at 1 January 2021 or 31 December 2021.

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

| | **2021** **£'000** | 2020 £'000 |
|---|---|---|
| Fixed rates: | | |
| Lease obligations | **274** | 315 |
| Convertible loan note | **1,028** | 993 |
| Standby loan facility | **500** | - |
| | **1,802** | 1,308 |
| Floating rates | | |
| Invoice discounting facility | **202** | 159 |
| | **2,004** | **1,467** |

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

| | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Sensitivity %** | **Profit £'000** | **Equity £'000** | Sensitivity % | Profit £'000 | Equity £'000 |
| Euros | **0.5** | **-** | **-** | 0.5 | - | - |
| US Dollar | **1.0** | **-** | **-** | 1.0 | - | - |
| Sterling | **0.5** | **-** | **-** | 0.5 | - | - |

*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 an optimal capital structure to reduce the cost of capital.

Ordinary shares are classified as equity. 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 encourages employees to hold shares in the Company. This has been carried out through the Company's various executive share option plans.

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.

The Group is not subject to any externally imposed capital requirements.

## 25 Related party transactions

### 25.1 Key management compensation

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

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Short-term employee benefits | **445** | 413 |
| Short term benefits paid to third parties | **38** | 38 |
| Post-employment benefits | **10** | 13 |
| Share-based payments | **32** | 32 |
| | **525** | 496 |

### 25.2 Other transactions

During the year, £40,000 (2020: £40,000) was paid to Imperialise Limited, a company controlled by Nigel Keen, non-executive Chairman of the Group, that was due on its £500,000 nominal amount holding of the Convertible Loan Notes 2024. At 31 December 2021, £10,082 (2020: £10,055) was owing in respect of interest for the quarter ended 31 December 2021 (2020: Quarter ended 31 December 2020).

At 31 December 2021, a further £4,252 (2020: £nil) was owing in respect of interest for the quarter ended 31 December 2021 to Imperialise Limited, on its standby loan facility, which was set up in September 2021. At 31 December 2021, the balance of the standby loan facility to Imperialise Limited was £500,000.

## 26 Capital and reserves

Details of the movement in reserves are set out in the Statement of Changes in Equity. A description of each reserve is set out below:

| Name of reserve | Nature and purpose |
|---|---|
| Capital redemption 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, lapse or expiry, 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. |

## 27 Subsequent events

On 8 February 2022, the Group raised £1,396,000, before expenses, through subscription for 111,720,000 new Deltex Medical ordinary shares at a price of 1.25 pence per share.

Also on 8 February 2022, the standby loan facility which was set up on 20 September 2021, was extended for an additional year, and is repayable in full on or before 31 December 2023. As already noted, the facility is provided by Imperialise Limited, a company controlled by Nigel Keen. The interest rate remains unchanged on the facility at 8% per annum, and is unsecured.

## Parent company balance sheet
**As at 31 December 2021**

| | Note | 2021 £'000 | 2020 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets - Goodwill | **4** | **66** | 66 |
| Investments | **5** | **4,200** | 4,107 |
| Trade and other receivables | **6** | **1,596** | 1,431 |
| **Total non-current assets** | | **5,862** | 5,604 |
| **Current assets** | | | |
| Trade and other receivables | **6** | **6** | 46 |
| Cash and cash equivalents | | **-** | 253 |
| **Total current assets** | | **6** | 299 |
| **Current liabilities** | | | |
| Trade and other payables | **7** | **(739)** | (250) |
| **Net current (liabilities)/assets** | | **(733)** | 49 |
| **Total assets less current liabilities** | | **5,129** | 5,653 |
| **Non-current liabilities** | | | |
| Trade and other payables | **8** | **(1,028)** | (993) |
| **Net assets** | | **4,101** | 4,660 |
| | | | |
| **Equity** | | | |
| Share capital | | **5,849** | 5,773 |
| Share premium | | **33,502** | 33,444 |
| Capital redemption reserve | | **17,476** | 17,476 |
| Other reserve | | **573** | 505 |
| Convertible loan note reserve | | **82** | 82 |
| Accumulated losses: | | | |
| At 1 January | | **(52,620)** | (50,078) |
| Loss for the year | | **(788)** | (2,515) |
| Transfers | | **27** | (27) |
| Accumulated losses | | **(53,381)** | (52,620) |
| **Total equity** | | **4,101** | 4,660 |

The notes on pages 83 to 89 form an integral part of these financial statements. The financial statements on pages 81 to 82 were approved by the Board of Directors and authorised for issue on 6 April 2022 and were signed on its behalf by:

**Nigel Keen**

*Chairman*

**Natalie Wettler**

*Group Finance Director*

## Parent company statement of changes in equity
**For the year ended 31 December 2021**

| | Share capital | Share premium account | Capital redemption reserve | Other reserve | Convertible loan note reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 January 2020 | 5,249 | 33,230 | 17,476 | 439 | 82 | (50,078) | 6,398 |
| Comprehensive expense | | | | | | | |
| Loss for the year | - | - | - | - | - | (2,515) | (2,515) |
| Total comprehensive expense for the year | - | - | - | - | - | (2,515) | (2,515) |
| Shares issued during the year | 524 | 217 | - | - | - | - | 741 |
| Issue expenses | - | (3) | - | - | - | - | (3) |
| Equity-settled share-based payment | - | - | - | 39 | - | - | 39 |
| Transfer | - | - | - | 27 | - | (27) | - |
| Balance at 31 December 2020 | 5,773 | 33,444 | 17,476 | 505 | 82 | (52,620) | 4,660 |
| Comprehensive expense | | | | | | | |
| Loss for the year | - | - | - | - | - | **(788)** | **(788)** |
| Total comprehensive expense for the year | - | - | - | - | - | **(788)** | **(788)** |
| Shares issued during the year | **76** | **58** | - | - | - | - | **134** |
| Issue expenses | - | - | - | - | - | - | - |
| Equity-settled share-based payment | - | - | - | **95** | - | - | **95** |
| Transfers | - | - | - | **(27)** | - | **27** | - |
| **Balance at 31 December 2021** | **5,849** | **33,502** | **17,476** | **573** | **82** | **(53,381)** | **4,101** |

The notes on pages 83 to 89 form an integral part of these financial statements.

## Notes to the parent company financial statements
**For the year ended 31 December 2021**

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

They have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

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

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

- The requirements of 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 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.

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.

### 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 enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single

net payment.

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

### 1.4 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 SOCI 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 42 to 46 of the Report & Accounts 2021.

*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 (2020: £10,000).

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.

## 3 Directors' emoluments

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Aggregate emoluments | **89** | 96 |
| Short term benefits paid to third parties | **33** | 33 |
| | **122** | 129 |

There are no (2020: 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 (2020: £33,333), for the services of a director.

Remuneration, including Executive directors, is provided in the Directors' remuneration report on pages 28 to 32.

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, categorised as administrative for both years, was 5 (2020: 5). None of the directors had contracts for service so the monthly average number of employees was nil (2020: 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. The directors have tested goodwill for impairment based on the profitability and value in use, and consider the balance to be recoverable. Deltex Medical Canada Limited reported a loss of £1,000 (2020: profit of £27,000).

## 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 62 of this Annual Report & Accounts.

| | Investments in subsidiary undertakings £'000 |
|---|---|
| **Cost** | |
| At 1 January 2021 | 45,601 |
| **At 31 December 2021** | **45,601** |
| **Accumulated impairment** | |
| At 1 January 2021 | 41,494 |
| Impairment (credit)/charge | (93) |
| **At 31 December 2021** | **41,401** |
| **Net book amount** | |
| At 31 December 2020 | 4,107 |
| **At 31 December 2021** | **4,200** |

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 2024 (2020: three-year period ending 31 December 2023). A terminal value was calculated using the forecast cash flows for the year ended 31 December 2023 using a long-term growth rate of 2.25% (2020: 2.25%). Forecast cash flows were discounted using a pre-tax discount rate of 20% (2020: 20%) which reflects the current market assessments of the time value of money and the risks specific to the Company. This impairment calculation resulted in an impairment credit of £93,000 (2020: impairment charge of £1,971,000) 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.

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Current | | |
| Other receivables | **6** | 46 |
| | **6** | 46 |
| Non-current | | |
| Amount owed by subsidiary undertaking | **1,596** | 1,431 |

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. It concluded that the term loan owed by Deltex Medical Limited was not. However, it was further 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 2021 was £11,875,000 (31 December 2020: £10,572,000), an increase of £1,303,000 in the year, which has been recognised in profit or loss in the Parent Company's SOCI. The gross balances outstanding at 31 December 2021 were £13,471,000 (31 December 2020: £12,003,000).

## 7 Creditors: amounts falling due within one year

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Trade payables | **80** | 43 |
| Accruals | **159** | 207 |
| Standby loan facility | **500** | - |
| | **739** | 250 |

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

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Convertible loan note | **1,028** | 993 |

## 9 Share capital

See notes 21 and 22 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 |
|---|---|
| **Deferred tax liabilities** | |
| At 1 January 2020 | 34 |
| Credited to profit or loss in the SOCI | (4) |
| At 31 December 2020 | 30 |
| Credited to profit or loss in the SOCI | (133) |
| **At 31 December 2021** | **(103)** |

| | Tax losses £'000 |
|---|---|
| **Deferred tax assets** | |
| At 1 January 2020 | (34) |
| Charged to profit or loss in the SOCI | 4 |
| At 31 December 2020 | (30) |
| Charged to profit or loss in the SOCI | 133 |
| **At 31 December 2021** | **103** |

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Act 2021. These include increases to the UK corporation tax rate from 19% to 25% effective 1 April 2023. Deferred taxes at the balance sheet date have been measured using this substantively enacted rate.

## 11 Ultimate controlling party

There are no shareholders with overall control of the Company as at 31 December 2021 or 31 December 2020.

## 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 25, with the Company during the year, other than as a result of service agreements. Details of directors' remuneration is disclosed in the Directors' Remuneration Report.

## 13 Subsequent events

On 8 February 2022, the Group raised £1,396,000, before expenses, through subscription for 111,720,000 new Deltex Medical ordinary shares at a price of 1.25 pence per share.

Also on 8 February 2022, the standby loan facility which was set up on 20 September 2021, was extended for an additional year, and is repayable in full on or before 31 December 2023. As already noted, the facility is provided by Imperialise Limited, a company controlled by Nigel Keen. The interest rate remains unchanged on the facility at 8% per annum, and is unsecured.

**This Document is Important and requires your Immediate Attention.** If you are in 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 2021 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 03902905)

## 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 11.00 am on 18 May 2022 (the "AGM") is set out on pages 94 to 96 (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 less than 48 hours before the time of the meeting or of any adjournment of the meeting.

Directors:

Nigel Keen (Chairman)
Andrew Mears
Natalie Wettler
Julian Cazalet
Tim Irish
Christopher Jones
Mark Wippell

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

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

6 April 2022

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 ("AGM") and annual accounts for the year ended 31 December 2021**

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 2021.

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 18 May 2022 (the "**AGM**"), is set out on pages 94 to 96 (inclusive) of this document.

Immediately following the AGM, Andy Mears, CEO, will provide a presentation related to a Company Update. This will take place in the same location as the AGM.

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 2021 (the "**Annual Report & Accounts 2021**").

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

Resolution 2 proposes the re-election of Julian Cazalet as a director; Resolution 3 proposes the re-election of Christopher Jones as a director; and Resolution 4 proposes the re-election of Natalie Wettler 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, Julian Cazalet, Christopher Jones and Natalie Wettler offer themselves for re-election as proposed by resolutions 2, 3 and 4.

Biographical details of Julian Cazalet, Christopher Jones and Natalie Wettler are set out on pages 13 and 14 of the Annual Report & Accounts 2021. 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 5 proposes their re-appointment and authorises the directors to determine their remuneration.

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

The directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by the shareholders of the Company. At the annual general meeting of the Company held on 27 May 2021 (the "**2021 AGM**"), the directors were given authority to allot relevant securities up to a maximum aggregate nominal value of £3,848,602 (being two thirds of the then issued ordinary share capital of the Company). 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 £2,330,212 (being one-third of the issued ordinary share capital as at 31 March 2022) and in addition to allot relevant securities only in connection with a rights issue or open offer up to a further aggregate nominal value of £2,330,212.

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 £4,660,424 representing an amount equal to two-thirds of the Company's issued share capital as at 31 March 2022. 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 2021 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 £2,330,212 (representing approximately thirty-three per cent. of the nominal issued share capital of the Company as at 31 March 2022).

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:

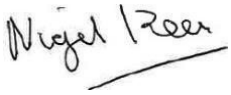
- Register your vote electronically by logging on to www.sharevote.co.uk: or
- Complete and return the enclosed proxy form

Proxy appointments, whether submitted electronically or by post, must be received by Equiniti by no later than 11.00 am on 16 May 2022. Your attention is drawn to the notes 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 153,032,300 ordinary shares in aggregate, representing approximately 22 percent 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 11:00 am on 18 May 2022 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 2021, together with the reports of the directors and of the auditors thereon.

2. To re-elect as a director Julian Cazalet.

3. To re-elect as a director Christopher Jones.

4. To re-elect as a director Natalie Wettler.

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 £2,330,212 in connection with an offer of such securities by way of a rights issue or open offer

(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 £2,330,212,

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 or open offer 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 paragraph 7(a) of this resolution) to any person up to an aggregate nominal amount of £2,330,212.

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**

**Natalie Wettler**

Company Secretary

6 April 2022

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 16 May 2022 (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 2021 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 16 May 2022 (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 2021, 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 2021 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 by shareholders are set out in the Company's annual report and accounts for the year ended 31 December 2021. 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 16 May 2022 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.

If you are an institutional investor you may be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 11:00 am on 16 May 2022 in order to be considered valid. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy.

As at 31 March 2022, the Company's issued share capital consists of 699,063,796 ordinary shares of 1p each, carrying one vote each. No shares are held in treasury.