3702895

Deltex Medical Group plc

Annual report and accounts 2000

DEL
TEX

Contents

Deltex Medical Group plc

Deltex Medical, listed on the EASDAQ exchange (now Nasdaq Europe) in April 2000, develops, assembles and markets a cardiac function monitor, the CardioQ. By using Doppler ultrasound technology, the CardioQ provides clinicians with an early warning on the haemodynamic condition of critically ill patients. This continuous, real-time monitoring facilitates the administration of fluids or drugs in a timely fashion and provides an immediate assessment of their impact.

Clinical studies have repeatedly shown that Deltex Medical's technology provides significant health and economic benefits by helping to reduce post-operative complications and length of hospital stays by more than 35%, on average, for a wide range of patients.

Deltex Medical intends to establish its technology as common practice in operating theatres, intensive care units and accident and emergency departments worldwide. Deltex Medical is also currently developing a paediatric version of the CardioQ, and the NeuroQ, a similarly non-invasive device to assess blood circulation in the brain.

Deltex Medical Group plc

Chairman's statement

The year ended 31 December 2000 has been a year of change for the Company. Sales and placements of monitors increased by 65% to 274 units and sales of probes by 38% to 18,300. In revenue terms, sales amounted to £959,000, which compares to £801,000 for the previous year. Sales growth has been particularly strong in Europe, where the use of the CardioQ, the cardiac output monitor which is the Company's main product, is becoming increasingly accepted as one of the most efficient and safe methods of assessing cardiac function and improving patient care by guiding treatment.

The net loss for the year amounted to £3.9 million which, after taking into account an exceptional charge of £698,000 relating to the share options of employees and former employees in the United States, is in line with expectations and compares to the previous year's loss of £2.9 million.

During the year, the Company has refined its sales strategy in the United States to focus its efforts on teaching hospitals in large metropolitan areas. The objective is to place multiple units in as many departments of the hospital as possible, while at the same time expanding the use of the monitors by training doctors and nurses as widely as possible. The effect is to ensure that there is a broad population at each hospital adept at using the monitor, with a resulting increase in probe consumption. An additional benefit is that the Company's resources are deployed in a more targeted and cost-effective way. The Company's sales strategy in Europe and Asia is unchanged: to widen coverage geographically through expansion of the network of distributors and to expand use of the CardioQ by means of clinical training.

Listing on EASDAQ

The year's most significant event was the listing of Deltex Medical's shares on EASDAQ (now Nasdaq Europe) which raised net proceeds of US$13 million through an underwriting syndicate led by Beeson Gregory Limited and also comprising ICE Securities Limited and MedioSim S.p.A. In order to effect the Initial Public Offering ("IPO") in April 2000, the Company acquired all the issued share capital and other financial instruments of Deltex Medical Holdings Limited, the predecessor company of the Company.

The IPO has enabled Deltex Medical to move towards its objective of making its technology common practice in operating theatres, intensive care units and casualty departments in hospitals throughout the world. The Company has begun this process by investing in four main areas: clinical education, clinical studies, the expansion of the distribution network, and a number of research and development projects to facilitate the use of the CardioQ and to work towards the next generation of the technology.

Clinical education

The Company's main goal is to make the use of its technology common practice among healthcare practitioners. The applicability and benefits to patients of using the CardioQ or its predecessor products have been demonstrated in 76 clinical publications. This now constitutes a highly substantial body of clinical proof. Significantly, several of these studies not only show the clinical benefits of using the technology, but also the evidence of the economic benefits that can result for its users.

Use of the technology will be promoted not only by academic studies in clinical journals, but also by educating clinicians, whether surgeons, anaesthetists, or nurses, to use the CardioQ on a regular basis. This is why the Company's single largest investment since the IPO has been in the recruitment of clinical trainers. It now has a team of nine clinical trainers based in the United States and Europe. These are medically qualified individuals, often former nurses, who receive further specialist training from the Company to enable them to show clinicians how to make the best use of the CardioQ.

The clinical trainers support the Company's salespeople and distributors, working in close conjunction with them, and remaining in a hospital for a week or more once the initial placement of a monitor has been made. Their role continues afterwards. Follow up visits to the hospital are made to ensure that existing and new medical staff are competent in the use of the CardioQ. Further courses are arranged to widen the use of the monitor within one department or to expand the use from one hospital department to another.

As a corollary to the activity of the clinical trainers, the Company has established a number of training centres. The first of these was started in November at the Middlesex Hospital, London. Monthly courses in the importance of haemodynamic monitoring in general and use of the CardioQ in particular are given by senior clinicians at the hospital. The courses are advertised in hospitals throughout the UK and doctors and nurses are invited to attend upon payment of a fee. Similar courses have been set up at hospitals in Brighton and Paris and the intention is to expand the courses across Europe and the United States. Attendees often receive official accreditation which is counted towards their continuing education. An advanced course in the use of the CardioQ will be started in 2001.

Clinical studies

In accordance with its policy of expanding the clinical proof supporting the use of the CardioQ, the Company has continued to fund research studies. The following are the most significant studies completed during the year:

- A clinical trial was completed at St Paul's Hospital in Dallas, Texas, on 128 patients undergoing cardiac bypass surgery. The reduction in length of stay shown by the study correlates closely to the 30% to 40% reduction shown in studies already published in Europe. The results were presented to the American Society of Anesthesiology's annual meeting in October.

- A study undertaken at the University of Texas Southwestern Medical Centre in Dallas, Texas was published in the *Annals of Thoracic Surgery*. It showed that the results using Deltex Medical's technology from 34 patients undergoing coronary artery bypass surgery were as good as or better than the established pulmonary artery catheter ("PAC") methodology.

- The first phase of a nurse-led study was completed by London's Bloomsbury Institute of Intensive Care Medicine in October, showing a significant reduction in ICU stay from 2.6 days to 1.9 days and a 19% reduction in hospital stay.

Chairman's statement *continued*

Equally important was the proof of the ease of use of the CardioQ with minimal intervention from doctors. The study will be completed in 2001.

- A study undertaken at the Department of Paediatric Medicine at Guy's Hospital, London validated the accuracy of a paediatric version of the CardioQ when used for monitoring critically ill children. This is important because, at present, cardiac output and bloodflow are not routinely measured in critically ill children because traditional, invasive measurement methods can cause undue stress. The study was published in August.

In addition, the Company held a symposium at the American Society of Anesthesiology's annual meeting in San Francisco on the subject of haemodynamic monitoring and fluid optimisation. A monograph on this subject which was prepared for this meeting by University College London Hospitals is available to clinicians and other interested parties.

New distribution agreements

The Company markets and sells its products through a network of independent distributors specialising in medical devices. Each entry into a country requires considerable resources: software has to be modified to provide instructions and information in the language of the country, handbooks and manuals are translated, and regulatory approval may have to be obtained, which is often a lengthy process.

The Company signed new distribution agreements during 2000 in the following 13 countries: Germany, Italy, Switzerland, the Czech Republic, Japan, Taiwan, Australia, New Zealand, Egypt, Tunisia, Algeria, Morocco and French speaking Africa. A new sales agency agreement was also signed with Primesource Surgical in the United States. The distributors have received specialist training in the use of the CardioQ at the medical training centres or direct from the Company's clinical trainers.

Research and development

One of the Company's strengths has been its expertise in research and development, both in-house and in terms of its relationship with academic consultants working in such diverse institutions as Cambridge University; Addenbrookes Hospital, Cambridge; University College London Hospitals, London; the Bloomsbury Institute of Intensive Care, London; the University of Aberdeen and the University of Southampton.

Progress has been made during the year on a number of projects: software upgrades on the CardioQ, probe redesign, the linguistic and software translations involved in the entry into new countries and the submission of technical data for regulatory purposes in the expanding distribution network, particularly in Japan.

Two projects deserve particular mention. The first is the adaptation of the CardioQ to high end monitors via an interface. One of the longer term objectives of the Company is to integrate its technology into such high end monitors which are beside most critical care beds in hospitals throughout the world. During the year, the Company signed product development agreements with Agilent/Hewlett Packard, Spacelabs Medical Inc. and Datex Ohmeda. If the technology is adopted by these manufacturers, the Company would gain access to more than 70% of this market worldwide. Work was completed on the prototypes which act as interfaces. The eventual goal is to produce a small module which will fit directly into the high end monitors.

The second development project on which the Company is working is the NeuroQ, a non-invasive ultrasound-based device which measures blood perfusion in the mid cerebral artery: in other words, the NeuroQ monitors how well blood is able to circulate through the brain. This is critical to know following a head injury or a stroke. Researchers from the Neurosciences Critical Care Unit at Addenbrookes Hospital, Cambridge examined 25 patients suffering from head injury and found that the readings taken by the NeuroQ correlated well with those obtained from the traditional invasive method which involves inserting a transducer directly into the skull. The study was completed during the year and appeared in the *Journal of Neurology, Neurosurgery and Psychiatry*. An announcement about this was made to shareholders in February 2001.

Outlook

All the indications are that the solid work the Company has done in 2000 has resulted in the Company's technology becoming increasingly recognised as a significant step forward in the care of critically ill patients and accepted as such by medical practitioners worldwide. We do not expect to change medical practice overnight. This is a long term strategy and we believe it will deliver results.

Nigel Keen
Chairman
27 March 2001

Financial review

Profit and loss account

Revenues for the 2000 financial year amounted to £959,000 which compares to £801,000 for 1999, an increase of 20%. This underestimates, however, the progress made in sales during the year: in unit terms, sales and placements of monitors rose by 65% from 166 to 274 monitors, and probe sales rose by 38% from 13,250 to 18,300. As has been foreshadowed in the quarterly statements, the monitor placements have not been reflected in revenues because the Company has loaned monitors to hospitals under probe consumption agreements. This is particularly the case in the United States. The monitor placements do, however, give rise to future revenues from probe sales. The Company has entered into agreements with leasing companies in order to generate a higher level of revenues in the future. While hospitals have been slower to accept these leasing agreements than expected due to their own budgetary constraints, we anticipate that this will have a positive impact on revenues and cash flow in the course of 2001.

The gross profit margin has risen to 52% for the year as compared to 31% in 1999, generating a gross profit of £499,000. The increase is due to higher production volumes in 2000, which spread production overheads over a larger number of units, and to the sales mix: greater volumes of high-margin probes have been sold and the average selling price of probes has risen, particularly outside the United States.

Expenditure across all categories has risen, as had been expected, in order to reflect the higher volume of investment following the IPO. Thus, Research and Development expenditure rose by 51% as a result of increased activity in the department relating to the projects discussed in the Chairman's statement. Sales and Marketing expenditure showed the largest increase of 93% to £2.1 million as a result of recruitment of clinical trainers in the United States and Europe, a higher profile in terms of the Company's presence at medical congresses and exhibitions and a range of marketing initiatives such as training CDs, a number of other training aids, and improved CardioQ brochures and manuals. Administration and Finance expenditure declined by 14% to £1.1 million due mainly to fluctuations in the exchange rate between the US$ and £ sterling. This had a favourable influence on reported earnings because many of the Company's liquid assets are held in US$ which has appreciated over the year against the £ sterling.

An exceptional item of £698,000 is recorded in the profit and loss account resulting from share options issued to employees and former employees in the United States. The options had been granted to a number of salespeople in 1996 in order to help start the Company's business in the United States from scratch. Although not all of these options have been exercised, a full provision has been made in this year's accounts to cover the remaining charges to the profit and loss account now likely to arise from this plan.

After taking account of interest received on the Company's cash deposits following the IPO, amounting to £217,000, the resulting net loss amounts to £3.9 million, compared to a loss of £2.9 million in the previous year and £2.7 million in 1998.

Balance sheet

The changes in the balance sheet for the three years ended 31 December 1998, 1999 and 2000 have been considerable. Fixed assets amounted to £457,000 at the end of 2000, an increase of 44% over the previous year. This is due to the number of

CardioQs lent under probe consumption agreements to hospitals in the United States. The CardioQs remain the property of the Company and are depreciated over three years.

Current assets rose even more significantly, to £4.9 million, mainly as a result of the cash balances held following the IPO; cash at the year end amounted to £3.7 million, much of which is held in US$ deposits in order to meet future liabilities of the US subsidiaries. The other large increase is in stocks of finished goods and raw materials to £893,000, up by nearly 150%. This reflects the need to carry large stocks in anticipation of a significant increase in demand during the initial period of 2001.

Shareholders' equity has similarly shown significant changes as a result of the IPO, resulting in a balance of £4.8 million at the end of 2000 as opposed to negative shareholders' equity of £1.1 million and £201,000 in the preceding two years respectively. Total liabilities also show a healthier position; a total of £539,000 at 31 December 2000, which compares with £2.4 million and £1.4 million in 1999 and 1998 respectively. The Company has no significant long or short term borrowings following conversion of debt at flotation – see note 17 to the financial statements.

David Moorhouse

Chief Financial Officer

Deltex Medical Group plc

Directors and management

Directors

Nigel Keen MA FCA
Chairman, aged 54*
Mr Keen joined the Board as Chairman in 1996. He is Chairman of The Laird Group plc, Axis-Shield plc, and Oxford Instruments plc. He is also chairman of Cygnus Ventures which he founded in 1984.

Kempton Coady BSc MBA
Chief Executive Officer, aged 53
Mr Coady joined Deltex Medical as a director in 1998 and was appointed Chief Executive Officer later the same year. He was previously Head of Worldwide Marketing and Business Development for Datascope's Patient Monitoring Division. He is a director of Memry Corporation.

Dr George Flouty MD, aged 56*
Dr Flouty joined the Board in July 2000. He is a Medical Director at Pfizer's Global Pharmaceutical Group and has 23 years' experience in the pharmaceutical and medical industries.

David Moorhouse MA ACA
Chief Financial Officer and Company Secretary, aged 48
Mr Moorhouse joined the Group in 1996. Following a career in investment banking, he was previously a partner of European executive search firm Tasa A.G. and a Managing Director of Russell Reynolds Associates. He qualified as a chartered accountant with Price Waterhouse.

*Non-executive and independent director

Dr Edwin Snape MSc PhD
Vice-Chairman, aged 61*
Dr Snape was appointed Vice-Chairman in 1999 and is the senior independent director. He has extensive experience in the medical device industry, has pioneered a number of technical innovations and holds several patents in advanced materials. He is a director of CDC Technologies Inc. and Synergy Pharmaceuticals Inc.

Peter Smedvig BA MBA, aged 54*
Mr Smedvig joined the Board in 1996. He is Chairman of Smedvig ASA, which is listed on the Oslo and New York Stock Exchanges, of Scana Industrier ASA, which is also listed on the Oslo Exchange.

Dr Jeffrey Vender MD MBA, aged 52*
Dr Vender joined the Board in 1997. He is a practising anaesthetist/critical care physician, a Professor of Anaesthesia at Northwestern University, Chicago, and Chief of Anaesthesia at Evanston Northwestern Healthcare, Evanston, Illinois. He is a director of Metasensors Inc.

Senior management

Michael Ard BSc
Head of Marketing, aged 43
Mr Ard joined the Group's US operation in early 1996. He was previously Director of Corporate Communications and Director of Marketing Communications for a medical device company, Somanetics Corporation.

Cri Hilmer BA MBA
Vice President of Sales and Marketing, aged 52
Mr Hilmer joined the Group in early 1999. He was previously Director of International Sales and Marketing at Imatron Inc.

Gordon Pendelton ONC HNC
Head of Operations, aged 46
Mr Pendelton joined the Group in May 2000. He was previously with Phoenix Medical Limited where he organised and managed a new venture, Phoenix Cardiovascular.

Dr Tim Spencer MSc PhD
Head of Research, aged 40
Dr Spencer joined the Group in April 2000. His background is in medical physics and he has ten years experience in medical devices and healthcare technology.

Registered office

Deltex Medical Group plc
Deltex House
Terminus Road
Chichester
West Sussex PO19 2TX
United Kingdom
Tel +44 (0) 1243 774837
Fax +44 (0) 1243 532534
www.deltex.com

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2000. On 2 March 2000 the Company was formed and on 6 April 2000 it acquired the entire share capital of Deltex Medical Holdings Limited together with its subsidiaries. The Company floated on EASDAQ (now Nasdaq Europe) on 14 April 2000.

Principal activity

The principal activity of the Group during the year was the development, manufacture and marketing of medical equipment.

Review of business and future developments

The Group made considerable progress in the 2000 financial year. The most significant event was the completion of an Initial Public Offering on the Easdaq (now Nasdaq Europe) exchange which raised US$13 million net of expenses.

During the year sales and placements of CardioQ monitors increased by 65% and sales of probes by 38%. In Europe, the Middle East, Africa and Australasia 13 new distribution agreements were signed, broadening the Group's sales coverage significantly. In the United States a significant investment was made in the recruitment of clinical trainers, which the Group believes is the most efficient way of promoting the use of its technology among medical practitioners.

Three new clinical studies were published, two in the United States and one in the United Kingdom, showing the benefits of the use of the CardioQ and further corroborating the results of existing studies. Seventy-six clinical publications illustrating the benefits to patients of using the CardioQ now exist. A further study was published by Guy's Hospital, London, validating the use of the CardioQ in paediatric care.

Agreements were signed with three of the major manufacturers of high-end monitors, which stand beside most critical care beds worldwide, to produce interfaces. A study was published on the NeuroQ, the Group's cerebral monitor which is in development, showing comparable results to existing, invasive methods.

A full review of the business and future developments is given in the Chairman's report on pages 2 to 5.

Dividends

No interim dividend was declared and the directors do not recommend payment of a final dividend.

Research and development

A description of the Group's research and development activities is given on pages 4 and 5.

Directors

Directors who held office during the year were:

Non-executive

Nigel Keen (Chairman)

Dr Edwin Snape (Vice-Chairman)

Dr George Flouty (appointed 11 July 2000)

Peter Smedvig

Dr Jeffrey Vender

Executive

Kempton Coady

David Moorhouse

Biographical details of the directors are given on page 8.

Directors' report *continued*

Directors' interests

The following directors have interests in the share capital of the Company.

N Keen owns 19,687 ordinary shares (1 January 2000: nil) and is a trustee of the Pauline Thomas Charity Will Trust which owns 589,700 ordinary shares (1 January 2000: 700 "A" ordinary shares in Deltex Medical Holdings Limited ("DMHL"), the predecessor company of the Company) and related warrants. At 31 December 2000 Mr Keen was a director of Cygnus Venture Partners Limited, a company which advised certain shareholders who owned 1,064,599 ordinary shares (1 January 2000: 700 issued "A" ordinary shares, 100% of the issued "B" ordinary shares, 125 issued "C" ordinary shares and related warrants and 1,315 Convertible shares of DMHL – see note 17).

Dr Snape is a director of New England Partners which, with associated companies, owns 594,211 ordinary shares and related warrants (1 January 2000: New England Partners and associated companies owned promissory notes amounting to US$2 million in DMHL which were converted into 594,211 ordinary shares on 5 May 2000).

P Smedvig is a director of Peder Smedvig Capital AS which owns 478,478 ordinary shares and related warrants (1 January 2000: 250 issued "C" ordinary shares and related warrants and 228 Convertible shares of DMHL).

D Moorhouse owns 2,800 ordinary shares (1 January 2000: nil).

The interests of directors in options of the Company are given on page 14. None of the directors had a material interest at any time during the year in any contract of significance, other than a service contract with the Company or any of its subsidiaries.

Major interests in shares

The directors are aware of the following persons who had a beneficial interest in 3% or more of the issued ordinary share capital of the Company as at 27 March 2001:

	Number of ordinary shares	% of issued share capital
Travelers Group	801,801	5.1
Close Finsbury Life Sciences Investment Trust	750,000	4.8
Vendome UK Limited	634,854	4.1
Stanlife Nominees Limited	634,832	4.1
Selmeston Limited	596,206	3.8
Gerald Kerkut Charitable Trust	595,706	3.8
New England Partners	594,211	3.8
The Pauline Thomas Charity Will Trust	589,700	3.8
Peder Smedvig Capital AS	478,478	3.1

Charitable and political donations

No donations were made by the Company or Group during the period for political or charitable purposes.

Creditor payment policy

The Company and the Group seek to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The average time taken to pay purchase invoices by the Group is 48 days.

Annual General Meeting

The Notice convening the Annual General Meeting, which will take place at 11am on Wednesday 2 May 2001 at the offices of Beeson Gregory, The Registry, Royal Mint Court, London EC3N 4LB, accompanies this report. Details and explanations of the business to be transacted at the AGM can be found in the Notice of Meeting.

By order of the Board
Kempton Coady Chief Executive Officer
4 April 2001
Company registered number: 3902895

Corporate governance

Although the Company is bound by EASDAQ (now Nasdaq Europe) rules rather than the Combined Code of the London Stock Exchange, the Board believes that the Combined Code constitutes a good basis for corporate governance policy and intends to institute a formal review procedure for compliance during 2001.

The workings of the Board and its Committee

The Board The non-executive directors comprise the majority of the Board and are kept fully informed of all areas of the Company's activities so that they are able to participate fully in all aspects of the Company's strategy and control.

All the non-executive directors are independent. Non-executive directors are appointed for two-year terms.

The biographies of the members of the Board appear on page 8. These demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct that are vital to the success of the Company. The Board is responsible to shareholders for the proper management of the Company. A statement of the directors' responsibilities in respect of the accounts is set out on page 14.

The Board meets at least every two months to review financial performance, ensure adequate funding, set and monitor strategy, examine acquisition and disposal possibilities and report to shareholders. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. To enable the Board to discharge its duties, all directors receive appropriate and timely information. Briefing papers are distributed by the Company Secretary to all directors in advance of Board meetings. The directors may take independent professional advice as required.

The following committees deal with specific aspects of the Company's affairs:

The Audit Committee comprises Nigel Keen, Dr Edwin Snape, Peter Smedvig, Dr Jeffrey Vender and Dr George Flouty. It is chaired by Nigel Keen. It has met once since flotation and plans to meet at least twice a year. It is responsible for, inter alia, ensuring that the financial performance of the Company is properly reported and monitored, focusing particularly on compliance with legal requirements and accounting standards and the requirements of EASDAQ (now Nasdaq Europe) and for meeting the auditors and reviewing the reports from the auditors relating to accounts and internal control systems. It meets once a year with the auditors without executive board members present, who attend from time to time at the request of the Committee.

The Remuneration Committee comprises Nigel Keen, Dr Edwin Snape, Peter Smedvig, Dr Jeffrey Vender and Dr George Flouty. It is chaired by Nigel Keen. It has met twice since flotation and plans to meet twice a year. This Committee reviews with due regard to the interest of shareholders the performance of executive directors and within agreed terms of reference sets the scale and structure of their remuneration including pension rights. It also determines the allocation of share options to employees. It is a rule of the Remuneration Committee that no director shall participate in discussions or decisions concerning that Director's own remuneration.

Relations with shareholders

Communications with shareholders are given high priority. The Chairman's Statement and Financial Review on pages 2 to 7 include a detailed review of the business and future developments. There is regular dialogue with shareholders including presentations after the Company's preliminary announcement of the year end and quarterly results. Annual results and the quarterly results will be published on the Company's web site.

Corporate governance *continued*

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Chairman of each of the Audit and Remuneration Committees is available at the Annual General Meeting to answer questions. Details of the resolutions to be proposed at the Annual General Meeting on 2 May 2001 can be found in the Notice of the Meeting. It is intended to indicate the level of proxies lodged on each resolution and the balance for and against the resolution after it has been dealt with on a show of hands.

Remuneration report

The Remuneration Committee (the "Committee") is responsible for recommending to the Board the remuneration and other benefits of the executive directors and the Company's senior executives. The Committee is chaired by Nigel Keen, Non-executive Chairman.

The following directors' service contracts exist at April 2001:

Kempton Coady

Commencement date: 12 April 2000

Notice period: fixed to 13 October 2001 and thereafter six months by either party.

Aggregate remuneration: US$180,000, payment for a company car, incentive compensation of up to 25% of salary, and share options.

Compensation on early termination: 12 months' salary other than in the case of termination due to voluntary resignation, malfeasance, failure of a medical examination and various other matters.

Non-competition: standard restrictions on the solicitation of former clients, customers, suppliers and participation in a competing business within 12 months of termination.

David Moorhouse

Commencement date: 12 April 2000

Notice period: six months by either party.

Aggregate remuneration: £100,000, allowance in lieu of a company car and personal pension, incentive compensation at the discretion of the Board, and share options.

Compensation on early termination: not applicable.

Non-competition: standard restrictions on the solicitation of former clients, customers, suppliers and participation in a competing business within 12 months of termination.

The remuneration paid to the directors of Deltex Medical Group plc was:

	1998			1999			**2000**		
	Salary/fees £	Bonus £	Total £	Salary/fees £	Bonus £	Total £	**Salary/fees £**	**Bonus £**	**Total £**
K J Coady (appointed 14.10.98)	19,578	–	19,578	98,130	–	98,130	**120,740**	**33,370**	**154,110**
A V Hacker (resigned 31.12.98)	78,000	–	78,000	–	–	–	**–**	**–**	**–**
D P Moorhouse	80,979	15,000	95,979	88,416	5,000	93,416	**103,692**	**40,000**	**143,692**
P T Smedvig	7,500	–	7,500	7,500	–	7,500	**15,375**	**–**	**15,375**
Dr E Snape (appointed 9.9.99)				2,500	–	2,500	**15,375**	**–**	**15,375**
Dr J S Vender	7,500	–	7,500	7,500	–	7,500	**15,375**	**–**	**15,375**
Dr G Flouty (appointed 11.7.00)	–	–	–	–	–	–	**9,000**	**–**	**9,000**
	193,557	**15,000**	**208,557**	**204,046**	**5,000**	**209,046**	**279,557**	**73,370**	**352,927**
Sums paid to third parties in respect of N J Keen (see below)	**7,500**	**–**	**7,500**	**13,750**	**–**	**13,750**	**25,417**	**–**	**25,417**

Remuneration report *continued*

Until 30 June 1999, the amounts shown above for N J Keen represent amounts paid to Imperialise Limited, a company of which he is the sole director and the majority shareholder. From 1 July 1999, fees were paid to Cygnus Ventures II Limited for the services of N J Keen. Mr Keen is a director and a minority shareholder of this company. From April 2000, the amounts shown for Mr Keen were paid to Imperialise Limited. No pension contributions are made, or are accruing, to any director.

Under the terms of the UK share option schemes (see note 17), the directors have an interest in options over ordinary shares at 31 December 2000 as follows:

	1 January 2000	Bonus issue 6 April 2000	Awarded during the year	**31 December 2000**	Exercise price	Exercise period
D P Moorhouse	120	120,000		**120,120**	£1.07	06/2001 – 06/2008
D P Moorhouse	30	30,000		**30,030**	£1.07	12/2001 – 12/2008
D P Moorhouse	20	20,000		**20,020**	£1.07	05/2002 – 05/2009
D P Moorhouse			40,040	**40,040**	£2.20	01/2003 – 01/2010
D P Moorhouse			50,000	**50,000**	£2.20	03/2003 – 03/2010
K J Coady	600	600,000		**600,600**	£1.07	10/1999 – 10/2007
K J Coady			100,000	**100,000**	£2.20	03/2003 – 01/2010
Dr J S Vender	74	74,000		**74,074**	£0.048	10/1999 – 02/2007

The options held by directors at 1 January 2000 related to shares in Deltex Medical Holdings Limited ("DMHL"), the predecessor holding company which was acquired by Deltex Medical Group plc on 6 April 2000. On that date DMHL effected a 1,000-for-one bonus issue to all shareholders and optionholders funded out of its share premium account.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for the period. In preparing those accounts the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going-concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that the financial statements on pages 16 to 44 comply with the above requirements.

Going concern

After making suitable enquiries, the directors confirm that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt a going-concern basis for the preparation of the financial statements. Deltex Medical Group is currently in its product development and preliminary marketing phase. It expects to incur further losses as it continues to develop its products and sales channels, and may require additional financing for the future operation of its business, including further equity financing as appropriate, before it reaches sustained profitability.

Report of the auditors to the members of Deltex Medical Group PLC

We have audited the financial statements on pages 16 to 44 and the disclosures relating to directors' emoluments on pages 13 to 14.

The directors are responsible for preparing the Annual Report. As described on page 14, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2000 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Southampton
5 April 2001

Consolidated profit and loss account

for the years ended 31 December 1998, 1999 and 2000

	Notes	Restated 31 December 1998 £	Restated 31 December 1999 £	31 December 2000 £
Turnover	2	378,286	801,040	**958,651**
Cost of sales		(401,888)	(554,830)	**(459,276)**
Gross (loss)/profit		(23,602)	246,210	**499,375**
Net operating expenses – normal	3	(2,081,038)	(3,090,524)	**(3,831,800)**
– exceptional	4	(601,150)	–	**(697,897)**
Net operating expenses – total		(2,682,188)	(3,090,524)	**(4,529,697)**
Operating loss before exceptional costs		(2,104,640)	(2,844,314)	**(3,332,425)**
Exceptional costs		(601,150)	–	**(697,897)**
Operating loss		(2,705,790)	(2,844,314)	**(4,030,322)**
Interest receivable and similar income		88,485	17,214	**217,048**
Interest payable and similar charges	6	(78,995)	(55,084)	**(112,897)**
Loss on ordinary activities before taxation	7	(2,696,300)	(2,882,184)	**(3,926,171)**
Tax on loss on ordinary activities	8	–	–	–
Loss for the year	19, 20	(2,696,300)	(2,882,184)	**(3,926,171)**
Loss per share	9	(0.248)	(0.244)	**(0.272)**
Diluted loss per share	9	(0.248)	(0.244)	**(0.272)**

The above results all relate to continuing operations.

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above, and their historical cost equivalents.

Statement of Group total recognised gains and losses

for the years ended 31 December 1998, 1999 and 2000

	Notes	1998 £	1999 £	2000 £
Loss for the year		(2,696,300)	(2,882,184)	**(3,926,171)**
Exchange rate gain/(loss) on translation of foreign subsidiaries' accounts	20	30,706	(99,390)	**(328,460)**
		(2,665,594)	(2,981,574)	**(4,254,631)**

Consolidated balance sheets

at 31 December 1998, 1999 and 2000

	Notes	1998 £	1999 £	2000 £
Assets				
Fixed assets				
Tangible assets (net book value)	11	246,907	318,310	**457,214**
Current assets				
Stocks	12	276,602	359,082	**893,119**
Debtors: due within one year	13	123,269	424,978	**308,506**
Cash and bank balances		557,665	198,805	**3,708,720**
		957,536	982,865	**4,910,345**
Creditors: amounts falling due within one year	14	(1,056,106)	(1,763,059)	**(529,483)**
Net current assets/(liabilities)		(98,570)	(780,194)	**4,380,862**
Total assets less current liabilities		148,337	(461,884)	**4,838,076**
Creditors: amounts falling due after more than one year	15	(349,707)	(632,995)	**(9,752)**
Net assets/(liabilities)		(201,370)	(1,094,879)	**4,828,324**
Capital and reserves				
Called-up share capital	17	11,407	12,226	**15,569,787**
Share premium	18	12,345,295	14,002,426	**8,298,174**
Other reserves	19	–	484,144	**-**
Profit and loss account	20	(12,558,072)	(15,593,675)	**(19,039,637)**
Equity shareholders' funds/(deficit)	21	(201,370)	(1,094,879)	**4,828,324**

Approved on 4 April 2001

K J Coady

D P Moorhouse

Deltex Medical Group plc

Company balance sheet

at 31 December 2000

	Notes	2000 £
Fixed assets		
Investments	10	12,238,226
Current assets		
Debtors	13	10,044,552
Called-up share capital not paid	13	557,505
Creditors: amounts falling due within one year	14	(658,734)
		22,181,549
Capital and reserves		
Share capital	17	15,569,787
Share premium	18	6,521,748
Profit for the year	20	90,014
Equity shareholders' funds		22,181,549

Deltex Medical Group plc was formed on 2 March 2000 and therefore there are no comparatives.

Approved on 4 April 2001

K J Coady

D P Moorhouse

Consolidated cash flow statement

for the years ended 31 December 1998, 1999 and 2000

	Notes	31 December 1998 £	31 December 1999 £	31 December 2000 £
Net cash outflow from operating activities	22	(2,506,419)	(2,425,749)	**(4,234,214)**
Returns on investments and servicing of finance				
Interest received		88,485	17,214	**217,048**
Interest paid		(39,781)	(24,956)	**(31,401)**
Interest element of finance lease payments		(780)	(1,347)	**(1,979)**
Net cash inflow/(outflow) from returns on investments and servicing of finance		47,924	(9,089)	**183,668**
Capital expenditure				
Purchase of tangible fixed assets		(131,878)	(303,344)	**(481,025)**
Sale of tangible fixed assets		1,120	-	**-**
Net cash outflow for capital expenditure		(130,758)	(303,344)	**(481,025)**
Net cash outflow before financing		(2,589,253)	(2,738,182)	**(4,531,571)**
Financing				
Issue of ordinary share capital		3,263,203	1,619,800	**9,552,121**
Expenses paid in connection with share issue		(184,667)	(71,850)	**(1,470,365)**
Net proceeds of other loans		265,781	365,790	**-**
Capital element of finance lease payments		(3,556)	(4,726)	**(10,033)**
Net cash inflow from financing		3,340,761	1,909,014	**8,071,723**
Increase/(decrease) in net cash in the year	23	751,508	(829,168)	**3,540,152**

Notes to the financial statements

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting The financial statements are prepared in accordance with the historical cost convention.

Basis of preparation – going concern The financial statements have been prepared on the going-concern basis which assumes that the Group will continue in operational existence for the foreseeable future.

Basis of preparation – comparatives Deltex Medical Group plc was formed on 2 March 2000. The comparative figures for the Consolidated Profit and Loss Account for the years ended 31 December 1998 and 1999, for the Consolidated Balance Sheets at 31 December 1998 and 1999 and the Consolidated Cash Flow Statements for the years ended 31 December 1998 and 1999 relate to Deltex Medical Holdings Limited, the predecessor company of Deltex Medical Group plc. Deltex Medical Group plc acquired all the equity and financial instruments of Deltex Medical Holdings Limited on 6 April 2000.

The presentation of the profit and loss account for the years ended 31 December 1998 and 1999 has been amended to show production overheads as part of cost of sales in order to be comparable with the presentation for the year ended 31 December 2000.

Basis of consolidation The consolidated profit and loss account and balance sheet include the financial statements of the parent company and all its subsidiaries. Inter-group sales are eliminated on consolidation and all turnover and profit figures relate to external transactions only.

The amalgamation on 6 April 2000 of Deltex Medical Group plc and the Deltex Medical Holdings Limited Group has been accounted for using merger accounting principles.

Turnover Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods supplied.

Research and development expenditure Research and development expenditure is written off as it is incurred, unless it relates to fixed assets which are capitalised in accordance with the policy below.

Tangible fixed assets and other intangible assets Tangible fixed assets and other intangible assets are capitalised at their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets and intangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Leasehold property and improvements	20
Plant and machinery	20-33
Motor vehicles	25
Fixtures, fittings and equipment	20
Research and development equipment	50
Assets loaned to customers	33

In addition a provision for impairment is made if the directors believe that the resulting net book value is overstated. An assessment for impairment is made on an annual basis.

1 Principal accounting policies *continued*

Stocks and work in progress Stocks and work in progress are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis. Work in progress and finished goods are included on a basis appropriate to the state of completion of the various individual items taking account of production materials and components together with an appropriate share of labour and overheads.

Hire purchase and operating leases Costs in respect of operating leases are charged on a straight-line basis over the lease term. Where fixed assets are financed by hire purchase agreements, which transfer to the Company substantially all the benefits and risks of ownership, the assets are treated as if they had been purchased outright and are included in tangible fixed assets. The capital element of the hire purchase commitment is shown as obligations under hire purchase contracts. The hire purchase payments are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding.

Deferred taxation Deferred taxation is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Pension costs Contributions to the UK company's defined contribution scheme are charged against profits in the year in which they are payable to the scheme.

Deltex Medical Inc. maintains a Salary Reduction Simplified Employee Pension Plan ("SARSEP") which allows eligible employees to have a percentage of their before-tax compensation contributed to an Individual Retirement Account. Under the terms of SARSEP, the Company may make discretionary contributions on behalf of the employees that are charged against profits in the year in which they are payable.

Foreign currency translation Foreign currency assets and liabilities are translated into sterling at the rate of exchange ruling at the balance sheet date except in those instances where forward contracts have been taken out to match against cash flows, in which case such rates are used. Transactions in overseas currencies are translated at the rate of exchange ruling on the date of the transaction or at a contracted rate if applicable. Any gains or losses arising during the year have been dealt with through the profit and loss account. The exchange difference arising on the retranslation of the opening net assets of the overseas subsidiaries is taken directly to reserves.

Employee share schemes The underlying value of options and other share-related benefits granted to employees is assessed on the basis of information available at the date of the award and any difference between the fair market value of the shares at the date of the award and the option price is charged to the profit and loss account over the period in which the options vest, provided that the award is not solely in respect of past performance. The associated credit is taken to profit and loss reserves in accordance with UITF 17.

Investments Investments in subsidiaries are stated at cost less any provisions for permanent diminution in value.

Notes to the financial statements *continued*

2 Segmental analysis

The Group's revenue now comprises only one class of business which has been analysed by category as follows:

The Group ceased to supply pumps, an obsolete product, in 1996 but continued to supply spare parts for the pumps until stocks ran out.

	1998 £	1999 £	2000 £
Monitors and probes	368,758	801,040	**958,651**
Pump spare parts	9,528	–	–
	378,286	801,040	**958,651**

Turnover by origin All products are supplied from the UK.

Turnover by destination

	1998 £	1999 £	2000 £
United Kingdom	42,576	251,205	**284,109**
United States	220,081	324,058	**395,272**
Rest of Europe	66,177	197,777	**249,205**
Rest of World	49,452	28,000	**30,065**
	378,286	801,040	**958,651**

Net loss before taxation by destination

	1998 £	1999 £	2000 £
United Kingdom	(1,655,340)	(1,213,947)	**(1,482,162)**
United States	(1,040,960)	(1,668,237)	**(2,444,009)**
	(2,696,300)	(2,882,184)	**(3,926,171)**

Turnover in the Rest of Europe and the Rest of the World is accounted for in the UK and US subsidiaries. It is not possible to identify separately the profits or losses from these territories.

Net assets/(liabilities)

	1998 £	1999 £	2000 £
United Kingdom	2,421,091	3,338,132	**4,101,574**
United States	(2,622,461)	(4,433,011)	**726,750**
Rest of Europe	–	–	–
Rest of World	–	–	–
	(201,370)	(1,094,879)	**4,828,324**

3 Net operating expenses – normal

	1998 £	1999 £	2000 £
Administrative expenses	1,053,003	1,269,147	**1,092,018**
Marketing overheads	729,253	1,085,877	**2,099,513**
Research and development	298,782	302,000	**456,136**
Costs associated with grant of share options, including National Insurance	–	433,500	**184,133**
	2,081,038	3,090,524	**3,831,800**

4 Exceptional costs

	1998 £	1999 £	2000 £
Re-acquisition of distribution rights	601,150	–	–
Costs associated with grant of share options under the Company's US share option plan	–	–	**697,897**

One of the Group's share option plans gave employees and former employees of Deltex Medical Inc., the Group's main trading subsidiary in the United States, the right to buy shares of the Company at less than nominal value. In order to redress this, Deltex Medical Inc. has agreed to bear the cost of the shortfall between option price and nominal value on all the options involved.

5 Employee information

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

	1998 Number	1999 Number	2000 Number
By activity			
Office and management	4	8	**8**
Production	9	11	**12**
Research and development	3	3	**4**
Sales and marketing	10	7	**21**
	26	29	**45**

	1998 £	1999 £	2000 £
Staff costs (for the above persons)			
Wages and salaries	1,000,827	1,226,439	**1,863,391**
Social security costs	79,499	96,017	**154,510**
Pension costs	17,833	18,695	**30,082**
	1,098,159	1,341,151	**2,047,983**

Deltex Medical Group plc

Notes to the financial statements *continued*

6 Interest payable and similar charges

	1998 £	1999 £	2000 £
Bank overdrafts repayable within five years	20,501	7,137	**8,381**
Promissory note	26,355	27,344	**79,517**
Interest payable on other loans	20,665	18,476	**23,020**
Finance lease and hire purchase contracts	780	1,348	**1,979**
Interest on $2,000,000 Redeemable Loan Stock	10,694	–	–
Other	–	779	–
	78,995	55,084	**112,897**

7 Loss on ordinary activities before taxation

	1998 £	1999 £	2000 £
Loss on ordinary activities is stated after charging/(crediting):			
Auditors' remuneration for:			
Audit (Group)	31,000	33,125	**36,500**
Other services	18,481	21,948	**37,844**
Depreciation charge for the year:			
Tangible owned fixed assets	59,073	235,204	**234,009**
Fixed asset impairment adjustment	–	–	**123,687**
Tangible fixed assets held under hire purchase contracts	1,338	4,666	**3,216**
Loss/(profit) on disposal of fixed assets	2,080	–	–
Operating leases – land and buildings	36,000	36,000	**36,000**
Research and development expenditure	298,792	302,000	**456,136**
Exchange gains on conversion of loan stock and share subscription	(41,184)	(2,240)	–
Costs associated with grant of share options including National Insurance (including amounts referred to in note 4)	–	433,500	**882,030**

Auditors' remuneration for the Company and its predecessor is included in the Group data above and amounts to £1,000 in 1998, £2,500 in 1999 and £3,500 in 2000.

8 Tax on loss on ordinary activities

The Group has taxable losses available to carry forward against future taxable trading profits.

9 Loss per share

The loss per share calculation is based on the loss of £3,926,171 and weighted average number of shares in issue of 14,436,384. For comparative purposes, the loss per share calculations relating to Deltex Medical Holdings Limited (the predecessor holding company) ("DMHL") have been shown and are based on losses of £2,882,184 for 1999 and £2,696,300 for 1998. The weighted average number of shares in issue in these periods were 11,834 for 1999 and 10,869 for 1998. In connection with the flotation of Deltex Medical Group plc in April 2000, DMHL made a bonus issue at a rate of 1,000 new shares for each existing share. The loss per share has been restated for 1998 and 1999 for comparative purposes as if this share structure had been in place during the whole of these two years.

The Group had no dilutive potential ordinary shares in any year which would serve to increase the loss per ordinary share. Therefore there is no difference between the loss per ordinary share and the diluted loss per ordinary share.

10 Investments

Company	**2000 £**
Shares at cost in Group undertakings	**12,238,226**

Details of the Company's principal subsidiaries are as shown below.

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value issued shares held by Group %	Company %
Deltex Medical Holdings Limited	Great Britain	Ordinary £1 shares	100	100
Deltex Medical Limited	Great Britain	Ordinary £1 shares	100	100
Deltex (Guernsey) Limited	Guernsey	Ordinary £1 shares	100	100
Deltex Holdings Inc	USA	Common stock US$1	100	100

The principal business activities of these subsidiaries are:

a) Deltex Medical Holdings Limited – holding company. The previous Group holding company and the predecessor company to Deltex Medical Group plc before its acquisition by the latter on 6 April 2000 (see note 17);
b) Deltex Medical Limited – development, manufacture and marketing of medical equipment;
c) Deltex (Guernsey) Limited – holding company for Group industrial property rights;
d) Deltex Holdings Inc – marketing and selling of medical equipment in the USA (manufactured by the Group in the UK), through its own wholly owned trading subsidiary, Deltex Medical Inc.

Notes to the financial statements *continued*

11 Tangible fixed assets

Group	Leasehold property and improvements £	Fixtures and fittings £	Plant and machinery £	Motor vehicles £	Machines loaned to customers £	Total £
Cost						
At 1 January 1998	36,099	50,625	274,926	8,859	136,261	506,770
Reclassification	–	–	(14,788)	–	14,788	–
Exchange rate adjustment	(48)	(378)	–	–	(728)	(1,154)
Additions	–	749	27,683	14,110	105,060	147,602
Disposals	–	(6,271)	–	–	–	(6,271)
At 31 December 1998	**36,051**	**44,725**	**287,821**	**22,969**	**255,381**	**646,947**
Depreciation						
At 1 January 1998	32,299	33,371	257,770	4,800	14,792	343,032
Reclassification	–	–	(14,182)	–	14,182	–
Exchange rate adjustment	(2)	(150)	–	–	(180)	(332)
Charge for year	215	6,040	12,820	3,389	37,947	60,411
Disposals	–	(3,071)	–	–	–	(3,071)
At 31 December 1998	**32,512**	**36,190**	**256,408**	**8,189**	**66,741**	**400,040**
Net book value						
At 31 December 1998	**3,539**	**8,535**	**31,413**	**14,780**	**188,640**	**246,907**

The net book value of tangible fixed assets includes an amount of £14,235 in respect of assets held under hire purchase contracts.

Group	Leasehold property and improvements £	Fixtures and fittings £	Plant and machinery £	Motor vehicles £	Machines loaned to customers £	Total £
Cost						
At 1 January 1999	36,051	44,725	287,821	22,969	255,381	646,947
Exchange rate adjustment	287	2,066	–	–	3,540	5,893
Additions	–	2,009	55,574	–	249,716	307,299
At 31 December 1999	**36,338**	**48,800**	**343,395**	**22,969**	**508,637**	**960,139**
Depreciation						
At 1 January 1999	32,512	36,190	256,408	8,189	66,741	400,040
Exchange rate adjustment	27	527	–	–	1,365	1,919
Charge for year	1,354	4,302	19,688	5,373	209,153	239,870
At 31 December 1999	**33,893**	**41,019**	**276,096**	**13,562**	**277,259**	**641,829**
Net book value						
At 31 December 1999	**2,445**	**7,781**	**67,299**	**9,407**	**231,378**	**318,310**

The net book value of tangible fixed assets includes an amount of £13,474 in respect of assets held under hire purchase contracts.

Notes to the financial statements

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting The financial statements are prepared in accordance with the historical cost convention.

Basis of preparation – going concern The financial statements have been prepared on the going-concern basis which assumes that the Group will continue in operational existence for the foreseeable future.

Basis of preparation – comparatives Deltex Medical Group plc was formed on 2 March 2000. The comparative figures for the Consolidated Profit and Loss Account for the years ended 31 December 1998 and 1999, for the Consolidated Balance Sheets at 31 December 1998 and 1999 and the Consolidated Cash Flow Statements for the years ended 31 December 1998 and 1999 relate to Deltex Medical Holdings Limited, the predecessor company of Deltex Medical Group plc. Deltex Medical Group plc acquired all the equity and financial instruments of Deltex Medical Holdings Limited on 6 April 2000.

The presentation of the profit and loss account for the years ended 31 December 1998 and 1999 has been amended to show production overheads as part of cost of sales in order to be comparable with the presentation for the year ended 31 December 2000.

Basis of consolidation The consolidated profit and loss account and balance sheet include the financial statements of the parent company and all its subsidiaries. Inter-group sales are eliminated on consolidation and all turnover and profit figures relate to external transactions only.

The amalgamation on 6 April 2000 of Deltex Medical Group plc and the Deltex Medical Holdings Limited Group has been accounted for using merger accounting principles.

Turnover Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods supplied.

Research and development expenditure Research and development expenditure is written off as it is incurred, unless it relates to fixed assets which are capitalised in accordance with the policy below.

Tangible fixed assets and other intangible assets Tangible fixed assets and other intangible assets are capitalised at their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets and intangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Leasehold property and improvements	20
Plant and machinery	20-33
Motor vehicles	25
Fixtures, fittings and equipment	20
Research and development equipment	50
Assets loaned to customers	33

In addition a provision for impairment is made if the directors believe that the resulting net book value is overstated. An assessment for impairment is made on an annual basis.

3 Net operating expenses – normal

	1998 £	1999 £	2000 £
Administrative expenses	1,053,003	1,269,147	**1,092,018**
Marketing overheads	729,253	1,085,877	**2,099,513**
Research and development	298,782	302,000	**456,136**
Costs associated with grant of share options, including National Insurance	–	433,500	**184,133**
	2,081,038	3,090,524	**3,831,800**

4 Exceptional costs

	1998 £	1999 £	2000 £
Re-acquisition of distribution rights	601,150	–	–
Costs associated with grant of share options under the Company's US share option plan	–	–	**697,897**

One of the Group's share option plans gave employees and former employees of Deltex Medical Inc., the Group's main trading subsidiary in the United States, the right to buy shares of the Company at less than nominal value. In order to redress this, Deltex Medical Inc. has agreed to bear the cost of the shortfall between option price and nominal value on all the options involved.

5 Employee information

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

	1998 Number	1999 Number	2000 Number
By activity			
Office and management	4	8	**8**
Production	9	11	**12**
Research and development	3	3	**4**
Sales and marketing	10	7	**21**
	26	29	**45**

	1998 £	1999 £	2000 £
Staff costs (for the above persons)			
Wages and salaries	1,000,827	1,226,439	**1,863,391**
Social security costs	79,499	96,017	**154,510**
Pension costs	17,833	18,695	**30,082**
	1,098,159	1,341,151	**2,047,983**

Notes to the financial statements *continued*

2 Segmental analysis

The Group's revenue now comprises only one class of business which has been analysed by category as follows:

The Group ceased to supply pumps, an obsolete product, in 1996 but continued to supply spare parts for the pumps until stocks ran out.

	1998 £	1999 £	**2000 £**
Monitors and probes	368,758	801,040	**958,651**
Pump spare parts	9,528	–	–
	378,286	801,040	**958,651**

Turnover by origin All products are supplied from the UK.

Turnover by destination

	1998 £	1999 £	**2000 £**
United Kingdom	42,576	251,205	**284,109**
United States	220,081	324,058	**395,272**
Rest of Europe	66,177	197,777	**249,205**
Rest of World	49,452	28,000	**30,065**
	378,286	801,040	**958,651**

Net loss before taxation by destination

	1998 £	1999 £	**2000 £**
United Kingdom	(1,655,340)	(1,213,947)	**(1,482,162)**
United States	(1,040,960)	(1,668,237)	**(2,444,009)**
	(2,696,300)	(2,882,184)	**(3,926,171)**

Turnover in the Rest of Europe and the Rest of the World is accounted for in the UK and US subsidiaries. It is not possible to identify separately the profits or losses from these territories.

Net assets/(liabilities)

	1998 £	1999 £	**2000 £**
United Kingdom	2,421,091	3,338,132	**4,101,574**
United States	(2,622,461)	(4,433,011)	**726,750**
Rest of Europe	–	–	–
Rest of World	–	–	–
	(201,370)	(1,094,879)	**4,828,324**

1 Principal accounting policies *continued*

Stocks and work in progress Stocks and work in progress are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis. Work in progress and finished goods are included on a basis appropriate to the state of completion of the various individual items taking account of production materials and components together with an appropriate share of labour and overheads.

Hire purchase and operating leases Costs in respect of operating leases are charged on a straight-line basis over the lease term. Where fixed assets are financed by hire purchase agreements, which transfer to the Company substantially all the benefits and risks of ownership, the assets are treated as if they had been purchased outright and are included in tangible fixed assets. The capital element of the hire purchase commitment is shown as obligations under hire purchase contracts. The hire purchase payments are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding.

Deferred taxation Deferred taxation is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Pension costs Contributions to the UK company's defined contribution scheme are charged against profits in the year in which they are payable to the scheme.

Deltex Medical Inc. maintains a Salary Reduction Simplified Employee Pension Plan ("SARSEP") which allows eligible employees to have a percentage of their before-tax compensation contributed to an Individual Retirement Account. Under the terms of SARSEP, the Company may make discretionary contributions on behalf of the employees that are charged against profits in the year in which they are payable.

Foreign currency translation Foreign currency assets and liabilities are translated into sterling at the rate of exchange ruling at the balance sheet date except in those instances where forward contracts have been taken out to match against cash flows, in which case such rates are used. Transactions in overseas currencies are translated at the rate of exchange ruling on the date of the transaction or at a contracted rate if applicable. Any gains or losses arising during the year have been dealt with through the profit and loss account. The exchange difference arising on the retranslation of the opening net assets of the overseas subsidiaries is taken directly to reserves.

Employee share schemes The underlying value of options and other share-related benefits granted to employees is assessed on the basis of information available at the date of the award and any difference between the fair market value of the shares at the date of the award and the option price is charged to the profit and loss account over the period in which the options vest, provided that the award is not solely in respect of past performance. The associated credit is taken to profit and loss reserves in accordance with UITF 17.

Investments Investments in subsidiaries are stated at cost less any provisions for permanent diminution in value.

Notes to the financial statements *continued*

6 Interest payable and similar charges

	1998 £	1999 £	2000 £
Bank overdrafts repayable within five years	20,501	7,137	**8,381**
Promissory note	26,355	27,344	**79,517**
Interest payable on other loans	20,665	18,476	**23,020**
Finance lease and hire purchase contracts	780	1,348	**1,979**
Interest on $2,000,000 Redeemable Loan Stock	10,694	–	**–**
Other	–	779	**–**
	78,995	55,084	**112,897**

7 Loss on ordinary activities before taxation

	1998 £	1999 £	2000 £
Loss on ordinary activities is stated after charging/(crediting):			
Auditors' remuneration for:			
Audit (Group)	31,000	33,125	**36,500**
Other services	18,481	21,948	**37,844**
Depreciation charge for the year:			
Tangible owned fixed assets	59,073	235,204	**234,009**
Fixed asset impairment adjustment	–	–	**123,687**
Tangible fixed assets held under hire purchase contracts	1,338	4,666	**3,216**
Loss/(profit) on disposal of fixed assets	2,080	–	**–**
Operating leases – land and buildings	36,000	36,000	**36,000**
Research and development expenditure	298,792	302,000	**456,136**
Exchange gains on conversion of loan stock and share subscription	(41,184)	(2,240)	**–**
Costs associated with grant of share options including National Insurance (including amounts referred to in note 4)	–	433,500	**882,030**

Auditors' remuneration for the Company and its predecessor is included in the Group data above and amounts to £1,000 in 1998, £2,500 in 1999 and £3,500 in 2000.

8 Tax on loss on ordinary activities

The Group has taxable losses available to carry forward against future taxable trading profits.

9 Loss per share

The loss per share calculation is based on the loss of £3,926,171 and weighted average number of shares in issue of 14,436,384. For comparative purposes, the loss per share calculations relating to Deltex Medical Holdings Limited (the predecessor holding company) ("DMHL") have been shown and are based on losses of £2,882,184 for 1999 and £2,696,300 for 1998. The weighted average number of shares in issue in these periods were 11,834 for 1999 and 10,869 for 1998. In connection with the flotation of Deltex Medical Group plc in April 2000, DMHL made a bonus issue at a rate of 1,000 new shares for each existing share. The loss per share has been restated for 1998 and 1999 for comparative purposes as if this share structure had been in place during the whole of these two years.

The Group had no dilutive potential ordinary shares in any year which would serve to increase the loss per ordinary share. Therefore there is no difference between the loss per ordinary share and the diluted loss per ordinary share.

10 Investments

Company	**2000 £**
Shares at cost in Group undertakings	**12,238,226**

Details of the Company's principal subsidiaries are as shown below.

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value issued shares held by Group %	Company %
Deltex Medical Holdings Limited	Great Britain	Ordinary £1 shares	100	100
Deltex Medical Limited	Great Britain	Ordinary £1 shares	100	100
Deltex (Guernsey) Limited	Guernsey	Ordinary £1 shares	100	100
Deltex Holdings Inc	USA	Common stock US$1	100	100

The principal business activities of these subsidiaries are:

a) Deltex Medical Holdings Limited – holding company. The previous Group holding company and the predecessor company to Deltex Medical Group plc before its acquisition by the latter on 6 April 2000 (see note 17);
b) Deltex Medical Limited – development, manufacture and marketing of medical equipment;
c) Deltex (Guernsey) Limited – holding company for Group industrial property rights;
d) Deltex Holdings Inc – marketing and selling of medical equipment in the USA (manufactured by the Group in the UK), through its own wholly owned trading subsidiary, Deltex Medical Inc.

Notes to the financial statements *continued*

11 Tangible fixed assets

Group	Leasehold property and improvements £	Fixtures and fittings £	Plant and machinery £	Motor vehicles £	Machines loaned to customers £	Total £
Cost						
At 1 January 1998	36,099	50,625	274,926	8,859	136,261	506,770
Reclassification	–	–	(14,788)	–	14,788	–
Exchange rate adjustment	(48)	(378)	–	–	(728)	(1,154)
Additions	–	749	27,683	14,110	105,060	147,602
Disposals	–	(6,271)	–	–	–	(6,271)
At 31 December 1998	**36,051**	**44,725**	**287,821**	**22,969**	**255,381**	**646,947**
Depreciation						
At 1 January 1998	32,299	33,371	257,770	4,800	14,792	343,032
Reclassification	–	–	(14,182)	–	14,182	–
Exchange rate adjustment	(2)	(150)	–	–	(180)	(332)
Charge for year	215	6,040	12,820	3,389	37,947	60,411
Disposals	–	(3,071)	–	–	–	(3,071)
At 31 December 1998	**32,512**	**36,190**	**256,408**	**8,189**	**66,741**	**400,040**
Net book value						
At 31 December 1998	**3,539**	**8,535**	**31,413**	**14,780**	**188,640**	**246,907**

The net book value of tangible fixed assets includes an amount of £14,235 in respect of assets held under hire purchase contracts.

Group	Leasehold property and improvements £	Fixtures and fittings £	Plant and machinery £	Motor vehicles £	Machines loaned to customers £	Total £
Cost						
At 1 January 1999	36,051	44,725	287,821	22,969	255,381	646,947
Exchange rate adjustment	287	2,066	–	–	3,540	5,893
Additions	–	2,009	55,574	–	249,716	307,299
At 31 December 1999	**36,338**	**48,800**	**343,395**	**22,969**	**508,637**	**960,139**
Depreciation						
At 1 January 1999	32,512	36,190	256,408	8,189	66,741	400,040
Exchange rate adjustment	27	527	–	–	1,365	1,919
Charge for year	1,354	4,302	19,688	5,373	209,153	239,870
At 31 December 1999	**33,893**	**41,019**	**276,096**	**13,562**	**277,259**	**641,829**
Net book value						
At 31 December 1999	**2,445**	**7,781**	**67,299**	**9,407**	**231,378**	**318,310**

The net book value of tangible fixed assets includes an amount of £13,474 in respect of assets held under hire purchase contracts.

11 Tangible fixed assets *continued*

Group	Leasehold property and improvements £	Fixtures and fittings £	Plant and machinery £	Motor vehicles £	Machines loaned to customers £	Total £
Cost						
At 1 January 2000	36,338	48,800	343,395	22,969	508,637	960,139
Exchange rate adjustment	300	2,078	–	–	52,967	55,345
Additions	–	54,590	28,723	–	397,712	481,025
At 31 December 2000	36,638	105,468	372,118	22,969	959,316	1,496,509
Depreciation						
At 1 January 2000	33,893	41,019	276,096	13,562	277,259	641,829
Exchange rate adjustment	120	1,571	–	–	34,863	36,554
Charge for year	2,625	7,845	43,036	3,531	180,188	237,225
Impairment adjustment	–	–	–	–	123,687	123,687
At 31 December 2000	36,638	50,435	319,132	17,093	615,997	1,039,295
Net book value						
At 31 December 2000	–	55,033	52,986	5,876	343,319	457,214

The net book value of tangible fixed assets includes an amount of £17,351 in respect of assets held under hire purchase contracts.

An impairment provision has been made in 2000 against certain CardioQ machines loaned to customers which have become damaged or lost.

12 Stocks

Group	1998 £	1999 £	2000 £
Raw materials and consumables	42,653	51,290	225,009
Work in progress	4,542	12,600	218,812
Finished goods	229,407	295,192	449,298
	276,602	359,082	893,119

Notes to the financial statements *continued*

13 Debtors

	Group 1998 £	Group 1999 £	Group 2000 £	Company 2000 £
Amounts falling due within one year				
Trade debtors	111,496	277,770	**282,590**	–
Called-up share capital not paid	–	110,000	–	**557,505**
Other debtors	3,303	22,373	**20,294**	–
Prepayments	8,470	14,835	**5,622**	–
Amounts due from subsidiary undertakings				**10,044,552**
	123,269	424,978	**308,506**	**10,602,057**

Payment in respect of the called-up share capital not paid at 31 December 1999 of Deltex Medical Holdings Limited was received during January 2000.

14 Creditors: amounts falling due within one year

	Group 1998 £	Group 1999 £	Group 2000 £	Company 2000 £
\$500,000 nil interest promissory note	301,205	312,500	–	–
\$500,000 8.75% promissory note	–	312,500	–	–
Other loans	259,210	–	–	–
Bank overdraft	16	470,324	–	–
Trade creditors	98,552	233,165	**214,694**	–
Obligations under hire purchase contracts	3,849	5,151	**13,427**	–
Other taxation and social security	13,376	14,157	**19,526**	–
Other creditors	272,106	18,173	**17,970**	–
Accruals and deferred income	107,792	397,089	**263,866**	–
Amounts due to subsidiary undertakings				**658,734**
	1,056,106	1,763,059	**529,483**	**658,734**

The bank overdraft in 1998 and 1999 was secured by a debenture over the assets of Deltex Medical Limited. The debenture was guaranteed by Deltex Medical Holdings Limited and Deltex (Guernsey) Limited. In addition, in 1999 a guarantee was given by certain shareholders of the Company. The debenture and the guarantees were extinguished in 2000.

Hire purchase creditors are secured on the assets concerned.

On 16 July 1997 Deltex Holdings Inc. issued a promissory note in the amount of US\$500,000 bearing interest at 8.75% per annum; on 13 March 1998 a further note was issued in the amount of US\$500,000 bearing no interest; and on 2 August 1999 a further note was issued in the amount of US\$1,000,000 bearing no interest – see note 15. The promissory notes were converted into 594,211 ordinary shares on 13 April 2000.

Other loans of £259,210 in 1998 represented a US subsidiary's loan of US\$430,289, the subsidiary being Deltex, Inc. Interest was charged at 2% over the US Federal Reserve ten-year bond rate. The loan was secured on the assets of Deltex, Inc and by a guarantee given by Deltex Medical Holdings Limited. The lender could convert at any time the unpaid principal into common stock shares of Deltex, Inc up to a maximum of 5% of the then issued common stock. The repayment terms of the loan were renegotiated and accordingly at the end of the 1998 the full balance was included within current liabilities. The loan was repaid in full during 1999. The lender retains warrants (see note 17).

15 Creditors: amounts falling due after more than one year

	1998 £	1999 £	**2000 £**
$500,000 8.75% promissory note (note 14)	301,205	–	**–**
$1,000,000 nil interest promissory note (note 14)	–	625,000	**–**
Obligations under hire purchase contracts	10,068	7,995	**9,752**
Accruals	38,434	–	**–**
	349,707	632,995	**9,752**

Hire purchase creditors are secured on the assets concerned.

Maturity of financial liabilities – 1998

	Debt £	Finance leases £	Total £
One year or less	560,431	3,849	564,280
Between one and two years	301,205	3,848	305,053
Between two and five years	–	6,220	6,220
	861,636	13,917	875,553

Maturity of financial liabilities – 1999

	Debt £	Finance leases £	Total £
One year or less	1,095,324	5,151	1,100,475
Between one and two years	–	7,236	7,236
Between two and five years	625,000	759	625,759
	1,720,324	13,146	1,733,470

Maturity of financial liabilities – 2000

	Debt £	**Finance leases £**	**Total £**
One year or less	**–**	**13,427**	**13,427**
Between one and two years	**–**	**9,752**	**9,752**
Between two and five years	**–**	**–**	**–**
	–	**23,179**	**23,179**

Notes to the financial statements *continued*

16 Pension obligations

The UK company operates a defined contribution pension scheme. The assets of the scheme are held in separate trustee-administered funds. The US company operates a Salary Reduction Simplified Employee Pension Plan ("SARSEP"). The total pension cost for the Group was:

	£
1998	17,833
1999	18,695
2000	30,082

17 Called-up share capital

	2000 £
Authorised	
50,000 ordinary shares of £1 each	**50,000**
6,000,000 "A" ordinary shares of £1 each	**6,000,000**
13,000,000 "B" ordinary shares of £1 each	**13,000,000**
5,000,000 "C" ordinary shares of £1 each	**5,000,000**
8,950,000 convertible shares of £1 each	**8,950,000**
47,000,000 ordinary shares of £1 each	**47,000,000**
14 April 2000 conversion of all shares to ordinary shares of £1 each	
80,000,000 ordinary shares of £1 each	**80,000,000**

	Ordinary £	"A" £	"B" £	"C" £	Convertible £
Allotted, called-up and fully paid					
On incorporation two ordinary subscriber shares of £1 each	2				
2 March 2000 Issue of 49,998 ordinary shares of £1 each	49,998				
2 March 2000 Conversion to convertible shares	(50,000)				50,000
10 March 2000 Issue of 2,402,400 "A" ordinary shares of £1 each		2,402,400			
10 March 2000 Issue of 5,605,600 "B" ordinary shares of £1 each			5,605,600		
10 March 2000 Issue of 1,059,058 "C" ordinary shares of £1 each				1,059,058	
10 March 2000 Issue of 3,121,168 convertible shares of £1 each					3,121,168
5 May 2000 Conversion of promissory notes into convertible shares of £1 each					594,211
5 May 2000 Conversion of all shares in issue into ordinary shares	12,832,437	(2,402,400)	(5,605,600)	(1,059,058)	(3,765,379)
5 May 2000 Issue of 2,081,785 ordinary shares of £1 each	2,081,785				
18 May 2000 Issue of 70,000 ordinary shares of £1 each	70,000				
Allotted, called-up and partly paid					
18 May 2000 Issue of 220,000 ordinary shares of £1 each	220,000				
15 September 2000 Issue of 5,005 ordinary shares of £1 each	5,005				
29 September 2000 Issue of 223,443 ordinary shares of £1 each	223,443				
29 December 2000 Issue of 137,117 ordinary shares of £1 each	137,117				
	15,569,787	–	–	–	–

17 Called-up share capital *continued*

All the ordinary shares rank equally in respect of dividend, voting and capital rights.

The Company was incorporated with an authorised share capital of £50,000 divided into 50,000 ordinary shares of £1 each, of which two shares were issued fully paid as subscribers' shares.

On 2 March 2000, the two subscriber shares and a total of a further 49,998 ordinary shares were issued to The Royal Bank of Scotland Trust Company (Guernsey) Limited (Re G132) and The Royal Bank of Scotland Trust Company (Guernsey) Limited (Re G574), in each case fully paid up in consideration for their undertaking to pay cash for such shares at a price of £1 each. All of these shares in the Company were converted to convertible shares on 2 March 2000.

By an ordinary resolution passed on 8 March 2000, the authorised share capital was increased to £80,000,000 by the creation of a further 6,000,000 "A" ordinary shares, 13,000,000 "B" ordinary shares, 5,000,000 "C" ordinary shares, 8,950,000 convertible shares and 47,000,000 ordinary shares of £1 each. The directors were authorised to issue 80,000,000 shares without regard to rights of pre-emption under Section 89 of the Act, such authorities to expire five years from the date of the authority.

On 10 March 2000, the Company made an offer to all shareholders, optionholders, warrantholders and promissory note holders of Deltex Medical Holdings Limited ("DMHL") (the "DMHL Offer") to acquire the entire issued share capital of DMHL, all existing options and warrants over shares and to vary the promissory notes held by NEGF II L.P. and New England Partners Capital L.P. in exchange for the issue by the Company of an aggregate 12,238,226 shares credited as fully paid to the shareholders of DMHL, options over 1,808,807 shares under the Deltex Employee Share Option Scheme, warrants over 1,950,949 shares and conversion rights to holders of promissory notes in the Company such issue being in proportion to the holdings of such shareholders, optionholders, warrantholders and the conversion rights of note holders in DMHL. A further 594,211 shares were reserved for the promissory note holders. The DMHL Offer was declared unconditional on 6 April 2000.

Following the DMHL Offer the issued share capital of the Company was as follows:

	£
"A" ordinary shares of £1 each	2,402,400
"B" ordinary shares of £1 each	5,605,600
"C" ordinary shares of £1 each	1,059,058
Convertible shares of £1 each	3,171,168
	12,238,226

Subsequent to the DMHL Offer being completed NEGF II L.P. exercised their option to convert US$500,000 plus interest outstanding on a promissory note held by them in Deltex Medical Holdings Inc. into convertible shares in the Company in accordance with the terms of that promissory note. A further US$1,500,000 of promissory notes held by NEGF II L.P. and New England Partners Capital L.P. in Deltex Holdings Inc. automatically converted into convertible shares in the Company. A total of 594,211 shares were issued to NEGF II L.P. and New England Partners Capital L.P. pursuant to the conversion of these promissory notes.

The entire authorised and issued share capital in the Company (including shares issued to NEGF II L.P. and New England Partners L.P. pursuant to the conversion of its promissory notes in Deltex Holdings Inc.) automatically converted into ordinary shares on a one-for-one basis in accordance with the Company's Articles of Association.

The Company's ordinary shares were admitted to trading on EASDAQ on 14 April 2000 at a price of US$7 per share. 2,151,785 ordinary shares of £1 each were issued in connection with the flotation in May 2000 which resulted in a premium of £7,992,113 net of broking commissions being credited to the share premium account (see note 18). 585,565 ordinary shares of £1 each were issued and partly paid during the year under the Company's Employee Share Option Scheme at an exercise price of US$0.07 per share.

Notes to the financial statements *continued*

17 Called-up share capital *continued*

Warrants Warrants to subscribe for ordinary shares of £1 each are outstanding at 31 December 2000 and are set out in the following table:

Exercise period	Exercise price	Number of warrants
Before 14 October 2001	£2	1,059,058
Before 14 April 2003	£2.20	597,597
Before 8 October 2006	US$4.96	151,151
14 October 2000 to 14 April 2002	£4.30	143,143
At 31 December		1,950,949

The warrants were issued to certain shareholders of DMHL pursuant to the DMHL Offer. None have been exercised at 31 December 2000.

Options Certain employees in the Group hold options to subscribe for shares in the Company. The following table sets out movements in share options:

	1998 Number	1999 Number	**2000 Number**
At 1 January	748,748	1,625,624	**1,683,682**
Additions	876,876	58,058	**522,134**
Exercised	–	–	**(585,565)**
At 31 December	1,625,624	1,683,682	**1,620,251**

Options granted to employees before 6 April 2000 relate to options over shares in DMHL or its subsidiaries. The number of options outstanding or issued before such date has been restated for comparative purposes to account for a 1,000-for-one bonus offer effected on 6 April 2000 to all shareholders, warrantholders and optionholders.

17 Called-up share capital *continued*

As at 31 December 2000 the following options to subscribe for ordinary shares of £1 each were outstanding:

Number of shares	Exercise price £	Exercise period	
74,074	0.048	21 Feb 96/ 01 Oct 99	21 Feb 03
59,079	0.048	21 Feb 99	21 Feb 06
39,039	0.048	06 May 99	06 May 06
200,200	1.07	12 Oct 99	01 Oct 07
200,200	1.07	12 Oct 00	01 Oct 07
15,000	2.20	22 Mar 01	22 Mar 10
152,152	1.07	18 Jun 01	18 Jun 08
200,200	1.07	12 Oct 01	12 Oct 07
124,124	1.07	04 Dec 01	04 Dec 08
32,032	1.07	12 May 02	12 May 09
26,026	0.048	01 Nov 02	01 Nov 09
119,119	2.20	12 Jan 03	12 Jan 10
6,006	2.20	07 Feb 03	07 Feb 10
258,000	2.20	22 Mar 03	22 Mar 10
10,000	4.70	02 May 03	02 May 10
30,000	2.01	12 Jul 03	12 Jul 10
75,000	2.01	15 Nov 03	15 Nov 10
1,620,251			

18 Share premium account

	Group 1998 £	Group 1999 £	Group **2000 £**	**Company 2000 £**
At 1 January	8,076,290	12,345,295	**14,002,426**	**–**
Capitalised on 6 April 2000 (see note 17)	–	–	**(12,226,000)**	**–**
Premium on shares issued during the year	4,695,651	1,728,981	**7,992,113**	**7,992,113**
Issue expenses	(426,646)	(71,850)	**(1,470,365)**	**(1,470,365)**
At 31 December	12,345,295	14,002,426	**8,298,174**	**6,521,748**

On 6 April 2000 DMHL made a bonus issue of 1,000 £1 shares for every £1 ordinary share held at that date. This resulted in a charge to the share premium account of DMHL of £12,226,000.

Notes to the financial statements *continued*

19 Other reserves

	1998 £	1999 £	2000 £
At 1 January	(6,376,929)	–	**484,144**
Transferred to/(from) profit and loss account (note 20)	6,376,929	54,029	**(484,144)**
Costs associated with share options not exercised by the year end		430,115	**–**
At 31 December	–	484,114	**–**

20 Profit and loss account

	Group			Company
	1998 £	1999 £	2000 £	2000 £
At 1 January	(3,515,549)	(12,558,072)	**(15,593,675)**	**–**
Profit/(loss) for the financial year	(2,696,300)	(2,882,184)	**(3,926,171)**	**90,014**
Costs associated with share options not exercised by the year end	–	–	**324,525**	**–**
Exchange difference	30,706	(99,390)	**(328,460)**	**–**
Transferred (from)/to other reserves	(6,376,929)	(54,029)	**484,144**	**–**
At 31 December	(12,558,072)	(15,593,675)	**(19,039,637)**	**90,014**

In accordance with the transitional provisions of FRS 10 "Goodwill and intangible assets", the goodwill written off to reserves in the past, previously shown separately within other reserves, was transferred to the profit and loss account in 1998. The cumulative amount of goodwill resulting from acquisitions, which has been written off to reserves, is £6,421,929.

In accordance with the provisions of Section 230 of the Companies Act 1985, a separate profit and loss account for Deltex Medical Group plc has not been published. The loss attributable to the shareholders includes a profit of £90,014 in respect of the Company which is included in the Group's financial statements.

21 Reconciliation of movements in shareholders' funds

	1998 £	1999 £	2000 £
Opening shareholders' funds/(deficit)	(1,807,130)	(201,370)	**(1,094,879)**
Increase in share capital during the year excluding bonus issue	2,349	819	**3,331,561**
Premium on shares issued, net of costs	4,269,005	1,657,131	**6,521,748**
Loss for the year	(2,696,300)	(2,882,184)	**(3,926,171)**
Costs associated with share options	–	430,115	**324,525**
Exchange difference taken to reserves	30,706	(99,390)	**(328,460)**
Closing shareholders' funds/(deficit)	(201,370)	(1,094,879)	**4,828,324**

22 Reconciliation of operating loss to net cash outflow from operating activities

	1998 £	1999 £	**2000 £**
Operating loss	(2,705,790)	(2,844,314)	**(4,030,322)**
Depreciation of tangible fixed assets	60,411	239,870	**237,225**
Impairment adjustment	–	–	**123,687**
Provision for costs associated with share options (including 2000 exceptional item)	–	433,500	**882,030**
Exchange differences	(1,020)	(80,774)	**(772,741)**
Loss/(profit) on sale of fixed assets	2,080	–	**–**
Decrease/(increase) in stocks	131,122	(82,480)	**(534,037)**
Decrease/(increase) in debtors	34,909	(191,709)	**6,472**
(Decrease)/increase in creditors	(28,131)	100,158	**(146,528)**
Net cash outflow from operating activities	(2,506,419)	(2,425,749)	**(4,234,214)**

23 Reconciliation of movement in net debt

	1 January 1998 £	Cash flow £	Other non-cash changes £	Exchange movement £	31 December 1998 £
Net cash					
Cash at bank and in hand	49,569	508,096	–	–	557,665
Bank overdrafts	(243,428)	243,412	–	–	(16)
	(193,859)	751,508	–	–	557,649
Debt					
Debts falling due within one year	(1,225,997)	(265,781)	904,669	26,694	(560,415)
Debts falling due after one year	(595,208)	–	288,149	5,854	(301,205)
Hire purchase contracts due within one year	(1,749)	3,556	(5,656)	–	(3,849)
Hire purchase contracts due after one year	–	–	(10,068)	–	(10,068)
	(1,822,954)	(262,225)	1,177,094	32,548	(875,537)
Net debt	(2,016,813)	489,283	1,177,094	32,548	(317,888)

The net non-cash change of £904,669 on debts falling due within one year is part of a conversion of $2 million loan stock into shares.

Notes to the financial statements *continued*

23 Reconciliation of movement in net debt *continued*

	1 January 1999 £	Cash flow £	Other non-cash changes £	Exchange movement £	31 December 1999 £
Net cash					
Cash at bank and in hand	557,665	(358,860)	–	–	198,805
Bank overdrafts	(16)	(470,308)	–	–	(470,324)
	557,649	(829,168)	–	–	(271,519)
Debt					
Debts falling due within one year	(560,415)	259,210	(301,205)	(22,590)	(625,000)
Debts falling due after one year	(301,205)	(625,000)	301,205	–	(625,000)
Hire purchase contracts due within one year	(3,849)	3,849	(5,151)	–	(5,151)
Hire purchase contracts due after one year	(10,068)	877	1,196	–	(7,995)
	(875,537)	(361,064)	(3,955)	(22,590)	(1,263,146)
Net debt	(317,888)	(1,190,232)	(3,955)	(22,590)	(1,534,665)

	1 January 2000 £	Cash flow £	Other non-cash changes £	Exchange movement £	31 December 2000 £
Net cash					
Cash at bank and in hand	**198,805**	**3,069,828**	–	**440,087**	**3,708,720**
Bank overdrafts	**(470,324)**	**470,324**	–	–	–
	(271,519)	**3,540,152**	–	**440,087**	**3,708,720**
Debt					
Debts falling due within one year	**(625,000)**	–	**625,000**	–	–
Debts falling due after one year	**(625,000)**	–	**625,000**	–	–
Hire purchase contracts due within one year	**(5,151)**	**5,151**	**(13,427)**	–	**(13,427)**
Hire purchase contracts due after one year	**(7,995)**	**7,995**	**(9,752)**	–	**(9,752)**
	(1,263,146)	**13,146**	**1,226,821**	–	**(23,179)**
Net debt	**(1,534,665)**	**3,553,298**	**1,226,821**	**440,087**	**3,685,541**

The non-cash charges on debt falling due within one year and after one year relate to a conversion of debt into shares (see note 14).

24 Cash flow from exceptional items

Operating cash flows in 1998 include £350,000 relating to the re-acquisition of distribution rights. The balance of £251,150 was paid during 1999.

25 Financial commitments

At 31 December the Group had annual commitments for land and buildings, under non-cancellable operating leases as follows:

	1998 £	1999 £	**2000** **£**
Expiring within two to five years	36,000	36,000	**36,000**

At 31 December the Group had placed contracts for future capital expenditure not provided in the financial statements amounting to:

	£
1998	30,942
1999	–
2000	–

There was no authorised, but not committed expenditure at 31 December 2000.

26 Other related party transactions

Transactions between companies within the Group are not disclosed as all such transactions have been eliminated on consolidation.

Directors' interests in the share capital of the Company are disclosed in the Remuneration report on pages 13-14.

27 Derivatives and other financial instruments

Set out below are the narrative and numerical disclosures relating to financial instruments. The Group has taken advantage of the exemption available under Financial Reporting Standard 13 "Derivatives and other financial instruments" not to provide numerical disclosures in relation to short-term trade debtors and creditors, other than as regards currency risk.

Narrative disclosures

Financial instruments The Group's financial instruments comprise borrowing, including convertible debt and a small amount of finance leases, some cash and various items such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

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

Interest rate risk The Group finances its operations through a mixture of equity and borrowings. There is also a small amount of finance lease commitment. The Group places its cash balances on deposit at floating rates of interest and borrows in sterling and US dollars at both fixed and floating rates of interest. No interest rate swaps are used.

Notes to the financial statements *continued*

27 Derivatives and other financial instruments *continued*

The ratio of fixed (including convertible debt) to floating rate liabilities at each year end was as follows:

	Fixed	Floating
1998	55%	45%
1999	41%	59%
2000	–	–

There were no interest rate bearing liabilities at the year end.

Liquidity risk The Group seeks to achieve a balance between certainty of funding even at difficult times for the markets or the Group and a flexible, cost-effective borrowings structure. The policy therefore seeks to ensure that at a minimum all projected net borrowing needs are covered by committed facilities.

Currency risk The Group has subsidiaries in the USA and as a result the Group's sterling balance sheet can be affected by movements in the US dollar/sterling 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. From time to time the Group holds cash in US Dollars in advance of settlement of trading liabilities in US Dollars.

Interest rate and currency profile of financial liabilities

	Floating rate financial liabilities £	Fixed rate financial liabilities £	Financial liabilities on which no interest is paid £	Total £
Sterling	16	13,917	–	13,933
US dollar (convertible debt)	259,210	301,205	301,205	861,620
At 31 December 1998	259,226	315,122	301,205	875,553
Sterling	470,324	13,146	–	483,470
US dollar (convertible debt)	–	312,500	937,500	1,250,000
At 31 December 1999	470,324	325,646	937,500	1,733,470
Sterling	–	23,179	–	23,179
At 31 December 2000	**–**	**23,179**	**–**	**23,179**

27 Derivatives and other financial instruments *continued*

The floating rate financial liabilities comprise a US dollar-denominated loan from the CDA (see note 14)

	Weighted average interest rate %	Fixed rate financial liabilities. Weighted average period for which rate is fixed Years	Financial liabilities on which no interest is paid. Weighted average period until maturity Years
1998			
Sterling	13.9	1.9	–
US dollar (convertible debt)	8.75	1.5	–
1999			
Sterling	13.9	1.1	–
US dollar (convertible debt)	8.75	0.5	3.0
2000			
Sterling	14.2	2.7	–

Interest rate and currency profile of financial assets

	£
Sterling	510,085
US dollar	47,580
At 31 December 1998	557,665
Sterling	84,145
US dollar	114,660
At 31 December 1999	198,805
Sterling	57,566
US dollar	3,651,154
At 31 December 2000	3,708,720

The financial assets are cash balances which were all held at floating rates of interest based on LIBOR for short and medium term deposits in US$. £481,000 of the 1998 sterling balance was held on short-term deposit, maturing on 8 January 1999 and earning interest at a rate equivalent to 5% per annum.

Notes to the financial statements *continued*

27 Derivatives and other financial instruments *continued*

Borrowing facilities The Group has the following undrawn committed borrowing facilities available at each year end:

	1998 £	1999 £	2000 £
Floating rate and expiring within one year	–	29,676	–

Fair value of financial assets and liabilities The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties, other than a forced or liquidation sale, and excludes accrued interest. Since market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. Set out below the table is a summary of the methods and assumptions used for each category of financial instrument.

Primary financial instruments held or issued to finance the Group's operations:

	Book value £	Fair value £
1998		
Short-term borrowings		
Bank overdraft	16	16
Obligations under hire purchase contracts	3,849	3,849
US dollar debt	560,415	560,415
Long-term borrowings		
US dollar debt	301,205	265,594
Obligations under hire purchase contracts	10,068	10,896
Cash at bank and in hand	557,665	557,665
1999		
Short-term borrowings		
Bank overdraft	470,324	470,324
Obligations under hire purchase contracts	5,151	5,151
US dollar debt	625,000	625,000
Long-term borrowings		
US dollar debt	625,000	422,549
Obligations under hire purchase contracts	7,995	8,495
Cash at bank and in hand	198,805	198,805
2000		
Short-term borrowings		
Bank overdraft	–	–
Obligations under hire purchase contracts	13,427	13,427
US dollar debt	–	–
Long-term borrowings		
US dollar debt	–	–
Obligations under hire purchase contracts	9,752	9,752
Cash at bank and in hand	3,708,720	3,708,720

27 Derivatives and other financial instruments *continued*

Summary of methods and assumptions

Short-term borrowings and cash balances

Fair value approximates to the carrying amount because of the short maturity of these instruments.

Long-term borrowings

The fair values of fixed rate liabilities have been calculated by discounting cash flows at prevailing interest rates. For floating rate loans, fair values approximate to book value.

Currency exposures on monetary assets The tables below show the extent to which members of the Group have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on re-translation of these assets and liabilities are taken to the profit and loss account of the members of the Group and the Group.

	Net foreign currency monetary assets (liabilities)			
	Sterling £	US dollars £	EU currencies £	Total £
1998 – functional currency				
Sterling	105,695	2,202,361	7,903	2,315,959
US dollars	–	(2,418,558)	–	(2,418,558)
Total	105,695	(216,197)	7,903	(102,599)
1999 – functional currency				
Sterling	312,313	2,872,889	59,409	3,244,611
US dollars	–	(4,902,155)	–	(4,902,155)
Total	312,313	(2,029,266)	59,409	(1,657,544)
2000 – functional currency				
Sterling	–	–	96,860	96,860
US dollars	–	3,607,260	–	3,607,260
Total	–	3,607,260	96,860	3,704,120

Notes to the financial statements *continued*

28 Summary of significant differences between UK GAAP and US GAAP primary financial statements

The Group's financial information has been prepared in accordance with accounting principles generally accepted in the United Kingdom ("UK GAAP") which differ in certain respects from principles generally accepted in the United States of America ("US GAAP"). The principal differences insofar as they are significant to the Group are outlined below.

a) Consolidated cash flow statement The consolidated cash flow statements above have been prepared in accordance with UK GAAP, which differ in certain presentational respects from the format required under SFAS 95. Under UK GAAP, a reconciliation of profit from operations to cash flows from operating activities is presented in a note, and cash paid for interest and income taxes are presented separately from cash flow and operating activities. Under SFAS 95, cash flows from operating activities are based on net profit, include interest and income taxes, and are presented on the face of the statement. UK GAAP required cash and cash equivalents to be presented net of overdrafts; SFAS 95 treats overdrafts within financing activities.

The following table summarises the differences in the cash flow statements for the Group as if they had been presented in accordance with US GAAP.

	1998 £000	1999 £000	**2000** **£000**
Operating activities			
Net cash outflow from operating activities (UK GAAP)	(2,506)	(2,426)	**(4,234)**
Interest received	88	17	**217**
Interest paid	(41)	(26)	**(33)**
Net cash used by operating activities (US GAAP)	(2,459)	(2,435)	**(4,050)**
Financing activities			
Net cash inflow from financing (UK GAAP)	3,341	1,909	**8,072**
Increase/(decrease) in bank overdraft	(243)	470	**(470)**
Net cash provided by financing activities (US GAAP)	3,098	2,379	**7,602**
(Decrease)/increase in net cash in the year			
(UK GAAP)	751	(829)	**3,540**
Increase/(decrease) in bank overdraft	(243)	470	**(470)**
Net (decrease)/increase in unrestricted cash and cash equivalents (US GAAP)	508	(359)	**3,070**

b) Goodwill Under UK GAAP, the reconstruction in 1996 was accounted for using acquisition accounting and goodwill of £6,421,929 arose. This has been written off to reserves in the UK statutory accounts.

Under US GAAP, the reconstruction would not have led to a change of basis of accounting. Purchase accounting would not have been adopted, and there would have been no goodwill arising.

As the goodwill was written off to reserves and no fair value adjustments were made to the net assets during the reconstruction, there would therefore be no overall difference in the net assets of the Group as at 1 January 1997 and in subsequent years.

28 Summary of significant differences between UK GAAP and US GAAP primary financial statements *continued*

c) Deferred taxation Under UK GAAP deferred tax is provided using the liability method for all timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. US GAAP requires deferred taxation to be provided in full, using the liability method on all temporary differences between the tax and book basis of assets and liabilities.

Under US GAAP, deferred tax assets and liabilities are recognised for all temporary timing differences and income tax losses, in accordance with FAS 109 "Accounting for income taxes". Valuation allowances are provided when it is considered more likely than not that all, or a portion, of the deferred tax assets will not be realised. A valuation allowance has been provided for the entire deferred tax asset balance for all years presented.

d) Unpaid share capital Under UK GAAP, the Company has 50 shares within equity that were issued and called up, but unpaid as at 31 December 1999. Under US GAAP these shares would have been treated as an issue in 2000 when the cash was received. This has been adjusted for in the reconciliation below.

e) Promissory notes The Company had two promissory notes totalling $2,000,000 that, under UK GAAP, fell within creditors. Under US GAAP these notes would have been classified as equity. In 1998 and 1999 the instruments could only be settled in convertible shares of the Company, except in the event of default. The effect is to increase the Company's stockholders' equity and has been adjusted for below. These promissory notes were settled on 13 April 2000 and therefore adjustments are only required in respect of prior years.

f) Warrants In May 1999 the Company repaid a loan that had been taken out in 1996. The loan was repaid prior to its maturity date, and it was agreed that as a consequence the Company would issue warrants to the lender allowing them to purchase up to 1.67% of the Group at a fixed price (in US dollars) at any time in the period from the time of the grant to October 2006.

Under US GAAP the issue of the warrants has been treated as an equity transaction under APB 14 which results in an increase to the paid-in capital of the Company for the fair value of the warrants at the time of grant. The same fair value is accounted for as an extraordinary charge for early extinguishment of debt in the year. This has been adjusted for in the reconciliation below.

g) Summary of retained profits and net assets The following table summarises the retained losses and total net assets and liabilities of the Group as if they had been presented under US GAAP incorporating the adjustments noted above.

	1998 £000	1999 £000	**2000 £000**
Retained loss for year per UK GAAP	(2,696)	(2,882)	**(3,926)**
Extraordinary charge on early extinguishment of debt	–	(186)	**(186)**
Retained loss for year per US GAAP	(2,696)	(3,068)	**(4,112)**
Total equity shareholders' (deficit)/funds per UK GAAP	(201)	(1,095)	**4,828**
Less: unpaid share capital	–	(110)	**–**
Add: equity adjustments in respect of promissory notes and warrants	299	916	**186**
Total stockholders' equity per US GAAP	98	(289)	**5,014**

Notes to the financial statements *continued*

28 Summary of significant differences between UK GAAP and US GAAP primary financial statements *continued*

h) Earnings per share

Under US GAAP the basic earnings per share, computed based on the weighted average shares outstanding during the years presented, would have been as follows:

	1998 £	1999 £	**2000 £**
Net loss per share (note 9)	0.245	0.254	**0.281**