Deltex Medical Group plc

Helping patients get better, quicker

Annual report and accounts 2001

Company registration no 3902895

Contents

Deltex Medical Group plc

Deltex Medical has developed and proven the CardioQ™ haemodynamic monitor system, which it produces in the UK and markets around the world.

The CardioQ™ is used on critically ill patients to monitor the heart's performance. By identifying and monitoring any problems early, the CardioQ™ allows doctors to optimise the patient's haemodynamic status. Treating patients using the CardioQ™ technology has been proven to help patients recover more fully and more quickly than ever before. Clinical studies show average reductions in the length of hospital stay of 30 to 40%.

Patients are benefiting from the enormous medical and economic benefits of Deltex Medical's technology – CardioQ™s have already been sold into over 30 countries.

With the positive support of many of the world's leading medical experts in critical care, Deltex Medical expects that haemodynamic optimisation will become a global standard medical practice. Deltex Medical intends to maintain and develop its market leading position and to build a substantial business as the wider medical community embraces the principles of haemodynamic optimisation.

Deltex Medical is listed in London on the Alternative Investment Market.

Chairman's statement

Group overview

The human body provides oxygen to all its principal organs through the circulation of blood around the system. In critically ill patients or when individuals are involved in a traumatic event it is vital that the clinician is given information to ensure that this blood circulation is continuing properly (the "haemodynamic condition"). If the oxygen supply is not maintained for any extended period the patient either takes longer to recover, does not recover completely or does not recover at all.

Deltex Medical has developed and proven a cardiac function monitor, the CardioQ™, which it manufactures and markets. The CardioQ™ monitor uses Doppler ultrasound technology to provide clinicians with an early warning on the haemodynamic condition of critically ill patients, the data being provided through a disposable probe which is inserted into the patient's oesophagus through the mouth or nose. This real time monitoring system 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 an average of 30 to 40% for a wide range of patients.

Deltex Medical's goal is to establish its technology as common practice in operating theatres, intensive care units and accident and emergency departments worldwide, thereby giving doctors information that will enable them to guide therapy which will help them make their patients better, quicker. Whilst the CardioQ™ is today used principally on sedated patients, Deltex Medical is currently developing devices which will extend the use of the technology to patients that are not sedated. This will allow the clinician to assess the patient's haemodynamic status from the time that the patient arrives in the healthcare system, be that at the site of an accident or on admission to hospital, through to the discharge of the patient from the hospital.

I can report progress in many directions during 2001. Momentum is growing in the acceptance of the Group's technology throughout medical communities in many different countries as awareness grows amongst clinicians of the benefit of optimising the haemodynamic condition of their patients.

The year ended 31 December 2001 saw sales of monitors increase by over 80% to 164 units and revenue producing probes by over 30% to 17,865. Overall, sales amounted to £1.3 million, an increase of £0.3 million on 2000. Sales growth has been particularly strong in the UK and the Far East.

The net loss for the year amounted to £3.3 million which is in line with expectations and compares with a loss after exceptionals of £3.9 million in the previous year.

AIM listing

The Group moved its listing from Nasdaq Europe to AIM on 8 November 2001, raising £4.2 million net in an institutional placing at a price of 25 pence per share. This low price reflected the conditions in the financial markets since the Nasdaq Europe listing in April 2000. We were pleased to be able to complete this new capital raising despite the very difficult markets for new issues which have prevailed since the events of 11 September in New York. We anticipate that the capital that was raised is sufficient to allow the business to complete its next stage of development and thereby become self-financing.

Changes in distribution strategy

In order to respond to the growing demand for its products, the Group is increasing its focus on its sales and marketing activities. Currently the Group's products are taken to market by distributors in more than 30 different countries throughout the world and it is the Group's intention to maintain its network of distributor partners in markets outside the UK. In the UK, however, as announced today, we have agreed with Actamed, our UK distributor, that, after nearly four years of partnership, we will sell the Group's products direct from 1 July 2002. This will increase our ability to develop our sales and marketing programmes for roll-out through our distribution partners in other markets and coincides with the planned commercial launch of our new multi-use theatre probe.

Although the Group has a substantial installed base of monitors in the USA the cost of introducing the technology to new users in the USA has been higher than in other countries where the Group's products are being sold. We have therefore realigned our sales and marketing organisation in the USA to focus more carefully on those market sectors which provide the best opportunities for increasing the use of our devices. We maintain a specialised field sales force of experienced clinical trainers in the USA and, in order to increase the margin on sales in the USA, we have brought back in-house the distribution of our products. This refocusing has allowed us to apply additional resource to those markets in the world where the take-up of our products is faster and where we can therefore earn greater margins on the products which we sell. We anticipate that, as awareness of the benefits of monitoring haemodynamic condition become more accepted in the USA as is happening in the rest of the world, we will be able to accelerate the introduction of our products in the USA.

Opening new markets

The Group has made significant progress in increasing the number of markets where patients can benefit from the use of our technology. During 2001, highlights included: being awarded both regulatory and reimbursement approval in Japan; appointing new distributors in countries such as Korea, Brazil, India and South Africa; gaining regulatory approval in Korea; obtaining the European CE mark for the new multi-use theatre probe; and seeing a considerable increase in demand from our distributor partners to participate in our training programmes. In a separate announcement made today, 10 April 2002, Deltex Medical has confirmed that reimbursement approval has been published in Korea for use of its products in the treatment of cardiac and cardiothoracic patients. We regard Korea as a market with considerable potential and have received considerable interest to date from the medical community there.

Clinical studies

The Group has a substantial body of clinical papers from pre-eminent doctors around the world supporting the use of Deltex Medical's technology. These papers variously demonstrate that the CardioQ™ is safe, accurate, easy to use and that it helps patients to get better, quicker. The focus of the Group's support for clinical trials is moving towards local trials in local markets. Doctors in most countries tend to be most aware of, and therefore most influenced by, clinical studies undertaken and published in their own country and language. Important trials are being undertaken in Japan, Korea and Brazil as well as the ongoing stream of trials taking place in markets where Deltex Medical has been established longer, such as France, Belgium, Switzerland, the UK and the USA.

Chairman's statement

The results of clinical trials consistently show that Deltex Medical's technology helps patients recover more quickly. As a result of new trials and new patient care protocols emanating from them, the number of situations where the Group's products can be used beneficially continues to expand.

Research and development

One of the Group's strengths lies in its expertise in research and development, both in-house and in terms of its relationships with academic consultants working in a variety of different hospitals and universities.

Progress during the year has been made on a number of different projects: software upgrades on the CardioQ™, including new paediatric applications; probe redesign and the completion of the new multi-use theatre probe; 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 networks. This has lead to regulatory approval being granted for the Group's products in a number of new countries, notably Japan and Korea.

In addition, new prototypes of the SupraQ™ have been prepared for clinical testing in the current year. The SupraQ™ is an updated version of an earlier product which measures cardiac output using a completely non-invasive probe and which is therefore suitable for use on non-sedated patients.

Work has continued with our partners on interfacing the CardioQ™ to the high-end monitors in place beside the majority of critical care beds throughout the world. It is important to develop these interfaces to be ready for the time when acceptance of the CardioQ™ and its benefits is such that the technology needs to be made available to all critical care patients.

The NeuroQ™, the Group's product which is being developed for use in monitoring how well the blood is circulating in the brain, has also advanced during the year. New prototypes of the device have been produced for use in clinical trials in Addenbrookes Hospital in Cambridge and these trials are expected to take place during the current year.

Board changes

Following the refocusing of the Group's business towards those international markets where our products are being well received and with the increasing emphasis on our sales activity in the UK, Kemp Coady is to stand down as Chief Executive Officer to allow us to appoint a new CEO with more direct experience in those markets where our products are most readily accepted. In the interim, I will become executive Chairman and Chief Executive. I am delighted that Kemp has agreed to stay on the Board as a non-executive director giving us continued access to his knowledge and experience and contacts in the medical device markets in the USA.

In September 2001, David Moorhouse and Jeffrey Vender resigned as directors. They were valued colleagues for a number of years and we thank them for their contributions to the Group as it moved from an early stage start-up to a company listed on the London Stock Exchange.

Ewan Phillips joined the Board as Finance Director in September; his appointment, the changes made in the US and the appointment of Tim Gresham as head of marketing are key steps in building the right management team for the next stage of Deltex Medical's growth.

Prospects

2001 and the first few months of 2002 have been an exciting time for the Group. We have made enormous progress in opening up new markets around the world, in developing the right sales and marketing approaches and strategies that match the quality and potential of our technology. At the same time, we are enhancing the strength and depth of the management team to ensure that Deltex Medical will complete its transition from a research and development led business to an effective international sales and marketing organisation.

Health services and medical communities worldwide are striving to deliver best practice, *whilst often operating under strict budget restraints. In these circumstances, we believe that* health practitioners throughout the world will continue to regard the CardioQ™ with growing enthusiasm owing to its independently proven ability to guide treatments that will optimise patient care, get patients out of hospital quicker and thereby significantly reduce costs.

Significant advances in medical practice take a long time. The Board believes that, with a current installed base of over 600 CardioQ™ monitors, Deltex Medical is now well established as one of the best positioned suppliers of minimally and non-invasive cardiac monitoring solutions which can take advantage of the growing acceptance of the benefits of optimising patients' haemodynamic condition. The Board is confident that Deltex Medical will deliver long-term value to its shareholders.

Nigel Keen
Chairman

10 April 2002

Operating and financial review

Sales

Sales of CardioQ™s and probes by market are shown in Table 1, together with the installed base of CardioQ™s in hospitals at 31 December 2001. The installed base includes machines on loan to customers, the majority of which are in the USA, but excludes the number of predecessor versions of the CardioQ™ still in use.

Table 1

Country/region	CardioQ™ sales 2001 units	CardioQ™ sales 2000 units	CardioQ™ installed base 2001 units	Probe sales 2001 '000 units	Probe sales 2000 '000 units	Probe sales Increase/ (decrease) '000 units
UK	38	18	122	7.6	4.5	3.1
Rest of Europe and Middle East	60	62	149	4.7	3.7	1.0
USA	6	9	224	4.0	5.3	(1.3)
Rest of World	60	–	110	1.6	–	1.6
	164	89	605	17.9	13.5	4.4

The cost of introducing the technology to new users in the USA has been higher than in other countries where the Group's products are being sold. During the year our sales and marketing organisation in the USA has been realigned to focus more carefully on those market sectors which provide the best opportunities for increasing use of our products.

In addition to the sales shown in the table, 91 CardioQ™s were placed during the year in the USA mostly in the first seven months of the year prior to the realignment of the US operations. These monitors are placed free of charge and the price per probe is correspondingly increased. The installed base in the USA includes these placed monitors. Sales of probes in the USA were 25% down on 2000 arising as a result of one-off changes to the distribution channel in advance of the termination of the distribution arrangements which we announced in January 2002.

Deltex Medical achieved record sales in the UK, France and Italy as well as entering the *Japanese and Korean markets strongly. These good performances came from implementing,* through our distributor partners, the sales and marketing strategies developed in the UK.

Sales and marketing strategy

The key elements of our sales and marketing approach are:

- **Doctor-to-doctor training** – leading doctors who are familiar with using the CardioQ™ run courses aimed at other doctors in relevant disciplines. In the UK, over 250 doctors have already attended courses run by the Middlesex Hospital in London. Deltex Medical has set up similar training programmes in France, Italy, Japan, Korea, Germany and Egypt and has organised visiting lectures by globally recognised medical thought-leaders in places such as Korea, Japan, Brazil and the UAE. Doctor-to-doctor education initiatives are primarily aimed at increasing monitor penetration.

- **Nurse-led training** – nurse-led training, either by Deltex Medical's staff or by its distributors, takes place in hospitals and is aimed at increasing the rate of probe usage *on installed monitors. These programmes were developed in the UK where they have* contributed significantly to the growth achieved in probe consumption. Nurse-led training is particularly appropriate to the CardioQ™ as one of the device's key practical benefits when compared to alternative cardiac monitoring solutions is that it can be set up and used by nurses unsupervised by doctors.

These training and education programmes give significant exposure to Deltex Medical's products in the medical community and they provide users and potential users with information on the medical, scientific and practical aspects of the devices from a peer group of medical colleagues.

Distribution

Deltex Medical has started implementation of its sales and marketing approach in over 30 countries. Its progress to date in some of the more significant markets is set out in Table 2, over.

Operating and financial review

Table 2

Country/region	Thought leader supporters	Distributor appointed	Initial thought leader trials	Regulatory approval	Reimbursement approval/ funding history	Distributor sales force training	Clinical education resource	Clinician training centre(s)	MPP market planned
Argentina	Yes	Yes	Ongoing	Yes	No	Yes	Yes	–	Yes
Australia	Yes	Yes	Ongoing	Yes	No	Yes	Yes	–	Yes
Belgium	Yes	Yes	Satisfactory	Yes	No	Yes	Yes	–	Yes
Brazil	Yes	Yes	Ongoing	Applied for	Applied for	Yes	Yes	–	Yes
Egypt	Yes	Yes	Satisfactory	Yes	No	Yes	Yes	Yes	Yes
Finland	Yes	Yes	Satisfactory	Yes	No	Yes	Yes	–	Yes
France	Yes	Yes	Satisfactory	Yes	Yes	Yes	Yes	Yes	No
Germany	Yes	–	Ongoing	Yes	No	N/A	N/A	Yes	Yes
Greece	Yes	Yes (ODM)	Satisfactory	Yes	Yes	No	No	–	Yes
India	Yes	Yes	Ongoing	N/A	No	Yes	Yes	–	Yes
Ireland	Yes	Yes	Satisfactory	Yes	No	Yes	Yes	–	Yes
Israel	Yes	Yes	Ongoing	N/A	No	Yes	Yes	–	Yes
Italy	Yes	Yes	Satisfactory	Yes	Yes	Yes	Yes	Yes	No
Japan	Yes	Yes	Ongoing	Yes	Initial	Yes	Yes	Yes	Yes
Korea	Yes	Yes	Satisfactory	Yes	Yes	Yes	Yes	Yes	No
Netherlands	Yes	Yes	Satisfactory	Yes	No	Yes	Yes	–	Yes
Poland	Ongoing	Yes	Ongoing	Yes	No	Ongoing	No	–	Yes
South Africa	Yes	Yes	Ongoing	N/A	Yes	Initial	Yes	–	Yes
Spain	Yes	Yes (ODM)	Satisfactory	Yes	Yes	No	No	–	Yes
Sweden	Yes	Yes	Satisfactory	Yes	No	Yes	Yes	Planned	Yes
Switzerland	Yes	Yes	Ongoing	Yes	No	Initial	No	–	Yes
Taiwan	Yes	Yes	Ongoing	No	Planned	Yes	No	Planned	Yes
UAE	Yes	Yes	Ongoing	FDA/CE	No	Yes	No	–	Yes
UK	Yes	Yes/direct	Satisfactory	Yes	Yes	Yes	Yes	Yes	Yes
USA	Yes	Direct	Satisfactory	Yes	Planned	N/A	Yes	–	No

Key
ODM – predecessor version of CardioQ™; FDA/CE – USA/Europe regulatory bodies; N/A – not applicable

Support from clinical papers

Deltex Medical has a large body of clinical papers supporting its technology in the non-invasive or minimally invasive cardiac output monitoring field. Table 3 analyses the 77 papers known to have been published to date.

Table 3

Type of clinical study	Number of papers
Outcome – ie measuring improvement in patients treated using Deltex Medical's technology	36
Correlation – ie measuring the data generated by Deltex Medical's devices against that produced by the invasive pulmonary artery catheter	17
Other – ie showing ease of use, concerning the validity of Doppler ultrasound and the scientific rationale behind the machinery	12
Editorials and monographs – summarising the body of proof	12
	77

The major outcome studies which have been published in peer review journals show that, on average, patient stay in hospital is reduced by 30 to 40% using the Deltex Medical technology. This reduction is shown regardless of whether a pulmonary artery catheter is used or not.

Margins

Gross margins of 46% were achieved for the year compared to 50% in 2000. The change reflects fluctuations due to the mix of business geographically and the balance between monitor and probe sales.

Sales and distribution costs

Sales and distribution costs reduced by £0.3 million compared to 2000, mostly as a result of the measures taken to reduce the sales and marketing operation in the USA. The decision to reduce headcount in the USA was driven by Deltex Medical increasing its focus on those markets in the world which generate the highest returns.

North America does, however, remain a major target market for the Group. Recent changes in the medical/legal environment there have led to Deltex Medical deciding to apply for a reimbursement code which relates specifically to the use of the CardioQ™. While this time-consuming process is going on, the Group intends to improve and develop its sales and marketing models in the USA whilst seeking to continue to align more closely its revenues and costs.

Administrative expenses

Administrative expenses were £2.2 million compared to £1.7 million before exceptional items in 2000. The figure for 2000 was after a credit of £0.8 million as a result of foreign exchange gains on funds held in dollar deposits to finance the US operations.

Balance sheet and cash flow

The key event in the year affecting the cash position was the Placing on AIM which raised £4.2 million net of expenses. Trade creditors at 31 December 2001 were £0.5 million higher than at 31 December 2000 primarily as a result of amounts of £0.6 million relating to these expenses which were settled early in 2002.

The net cash outflow from operating activities was £2.4 million before payment of the £0.6 million outstanding Placing expenses. The net cash outflow from operating activities in 2000 was £4.2 million.

Directors and senior management

Non-executive directors

Dr Edwin Snape MSc PhD *Vice-Chairman, aged 62*
Ed has been connected with Deltex Medical for over ten years and Vice-Chairman since 1999. He is also a director of CDC Technologies Inc and Synergy Pharmaceuticals Inc and has extensive experience in medical devices businesses in the USA and Europe.

Kempton J Coady III BSc MBA *Aged 54*
Kemp was Chief Executive of Deltex Medical from 1998 until April 2002. He has over 20 years' experience in medical devices businesses including senior roles with Philips and Datascope.

Dr George Flouty MD *Aged 57*
George joined the Deltex Medical Board in July 2000. He has 24 years' experience in the pharmaceutical and medical devices industries and was a medical director at Pfizer's Global Pharmaceutical Group until retiring in 2001.

Peter Smedvig BA MBA *Aged 55*
Peter has been a director of Deltex Medical since 1996. He is also a director of Smedvig ASA, Scana Industrier ASA and Peter Smedvig Capital AS.

Executive directors

Nigel Keen MA ACA *Chairman, aged 55*
Nigel has been involved with Deltex Medical since 1988, Chairman since 1996 and executive Chairman since April 2002. He is also non-executive Chairman of Axis-Shield plc, The Laird Group plc and Oxford Instruments plc.

Ewan Phillips MA ACA *Finance Director, aged 37*
Ewan joined the Board in September 2001. He has a background in corporate finance and prior to joining Deltex Medical, was Finance and Strategic Development Director of an internet company supplying tailored solutions to the UK public sector.

Senior managers

Daniel Bretonneau *Head of Sales, aged 53*
Daniel has 25 years' experience in selling medical equipment in the critical care sector. He joined Deltex Medical in June 1999 and is the main point of contact for all Deltex Medical's distributor partners worldwide.

Tim Gresham BSc MBA *Head of Marketing, aged 32*
Tim joined Deltex Medical in January 2002 shortly after completing his MBA at Trinity College, Dublin. Previously he had eight years' experience in a variety of sales then marketing roles with Abbott's Diagnostic Division in Australia.

Gordon Pendleton BA GRAD CIPS IP *Head of Operations, aged 47*
Gordon joined Deltex Medical in May 2000 after more than 20 years' experience in medical equipment, latterly with Phoenix Medical Limited. Gordon is responsible for all regulatory, technical and production matters.

Dr Tim Spencer MSc PhD *Head of Research, aged 39*
Tim joined Deltex Medical in April 2000 after ten years' experience in medical devices and healthcare technology businesses. Tim is an expert in Doppler ultrasound in medical applications.

Secretary and advisers

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Directors' report

for the year ended 31 December 2001

The directors present their report and the audited financial statements for the year ended 31 December 2001.

Principal activity

The Group's principal activity during the year was the manufacture and marketing of cardiac flow monitoring devices.

Review of business and future developments

The Group made progress during the year through:

- sales of its CardioQ™ monitors leading to an increase in the number of hospitals around the world using the Group's technology in the treatment of patients;
- focused clinical education programmes in selected markets leading to increased sales of probes as the CardioQ™s installed in hospitals became more frequently used;
- continuing to expand and improve its network of distributors and its ways of working in partnership with distributors to increase acceptance of the CardioQ™; and
- augmenting the existing single-use probe by the successful development and clinical testing of a multiple-use probe for introduction to selected geographical and clinical markets in 2002.

The Company cancelled its listing on the Nasdaq Europe stock exchange on 7 November 2001 and listed its shares on the Alternative Investment Market of the London Stock Exchange on 8 November 2001; at the same time the Company successfully completed a placing of shares which raised £4.2 million after expenses.

Further details of the Group's performance and prospects are given in the Chairman's statement on pages 2 to 5 and in the operating and financial review on pages 6 to 9.

Results and dividends

The Group's loss for the financial year is £3.3 million (2000: loss of £3.9 million). The directors do not recommend the payment of a dividend (2000: £nil).

Research and development

The Group has an active research and development programme aimed at regularly updating and further improving existing products and, in the longer term, broadening the range of the Group's products.

Directors

Biographical details of the directors are given on page 10.

The directors who served during the year were:

Non-executive		**Executive**	
Dr Ed Snape	(Vice-Chairman)	Nigel Keen	(Chairman)
Kemp Coady		David Moorhouse	(resigned 11 September 2001)
Dr George Flouty		Ewan Phillips	(appointed 11 September 2001)
Peter Smedvig			
Dr Jeffrey Vender	(resigned 6 September 2001)		

Nigel Keen became an executive director and Kemp Coady a non-executive director on 9 April 2002.

Directors' report

Directors' interests

Kemp Coady owns 40,000 10 pence ordinary shares (2000: nil £1 ordinary shares).

George Flouty owns 70,000 10 pence ordinary shares (2000: nil £1 ordinary shares).

Nigel Keen owns 419,687 10 pence ordinary shares (2000: 19,687 £1 ordinary shares) and is a trustee and executor of the Pauline Thomas Charity Will Trust which owns 589,700 10 pence ordinary shares (2000: 589,700 £1 ordinary shares); Mr Keen has no beneficial interest in the shareholding of the trust.

At 31 December 2001 Mr Keen was a director of Cygnus Venture Partners Limited, a company which advised certain shareholders who owned 1,064,599 10 pence ordinary shares (2000: 1,064,599 £1 ordinary shares) and warrants over 392,392 10 pence ordinary shares of which 259,259 are at an exercise price of £2.20 per share and 133,133 at an exercise price of £4.30 per share (2000: 259,259 £1 ordinary shares at £2.20 per share, 133,133 £1 ordinary shares at £4.30 per share and 125,125 £1 ordinary shares at £2.00 per share).

Ewan Phillips owns 80,000 10 pence ordinary shares (at date of appointment: nil £1 ordinary shares).

Ed Snape is a director of New England Partners which, with associated companies, owns 594,211 10 pence ordinary shares (2000: 594,211 £1 ordinary shares) and warrants over 10,010 10 pence ordinary shares at an exercise price of £4.30 per share (2000: 10,010 £1 ordinary shares at £4.30 per share).

Peter Smedvig is a director of Peder Smedvig Capital AS which owns 478,478 10 pence ordinary shares (2000: 478,478 £1 ordinary shares) and warrants over 15,015 10 pence ordinary shares at an exercise price of £2.20 per share (2000: 15,015 £1 ordinary shares at £2.20 per share and 250,250 £1 ordinary shares at £2.00 per share).

At the date of his resignation David Moorhouse owned 2,800 £1 ordinary shares (2000: 2,800 £1 ordinary shares).

The interests of directors in options of the Company are shown on page 16. 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 share capital of the Company as at 8 April 2002:

	Number of ordinary shares	% of issued share capital
Close Finsbury Life Sciences Investment Trust	1,750,000	4.9%
Legg Mason Investors AIM Venture Capital Trust	1,997,000	5.6%
Framlington Investment Management	3,400,000	10.1%
Sitka Health Fund VCT	1,600,000	4.5%

Charitable and political donations

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

Creditor payment policy

The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions. The average time taken to pay purchase invoices by the Group during the year cannot be calculated as all invoices received relating to the Company's activities as a holding company were settled on its behalf by subsidiaries.

Auditors

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

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently throughout the year. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2001 and that applicable accounting standards have been followed.

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

The maintenance and integrity of the Deltex Medical Group plc website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Annual General Meeting

The Notice convening the Annual General Meeting, which will take place at 12 noon on 29 May 2002 at the offices of Beeson Gregory, The Registry, Royal Mint Court, London EC3N 4LB, accompanies this report.

By order of the Board

Ewan Phillips Secretary
23 April 2002

Corporate governance

As the Company's shares are listed on the Alternative Investment Market, the Company is not required to report under the Combined Code of the London Stock Exchange; however, the Board believes that the Combined Code constitutes a good basis for corporate governance policy and intends that the Group should seek to comply with elements of the Combined Code as appropriate to the Group's size and stage of development.

The workings of the Board and its committees

The Board is responsible to the shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the financial statements is given on page 13.

Nigel Keen was non-executive Chairman until his appointment as executive Chairman effective from 9 April 2002. Kemp Coady became a non-executive director on 9 April 2002 having previously served as Chief Executive Officer. All the other non-executive directors are independent. Non-executive directors are appointed for two-year terms and comprise the majority of the Board. The non-executive directors are kept informed of the Group's activities so that they are able to participate in all aspects of the Group's strategy.

The Board meets at least every two months to review financial performance, ensure adequate funding, set and monitor strategy and examine acquisition and disposal possibilities. 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 to all directors in advance of Board meetings. The directors may take independent professional advice as required.

Short biographies of the directors appear on page 10. The Board believes that these demonstrate a calibre and range of experience sufficient to bring independent judgement on issues of strategy, performance, resources and standards of conduct that are vital to the success of the Group.

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

The Audit Committee comprises George Flouty, Nigel Keen, Peter Smedvig and Ed Snape. It was chaired by Nigel Keen until 9 April 2002 since when it has been chaired by Ed Snape. The Committee intends to meet twice a year and is responsible for, inter alia, ensuring that the financial performance of the Group is properly reported and monitored, focusing particularly on compliance with legal requirements and accounting standards and the requirements of the Alternative Investment Market and for meeting the auditors and reviewing the reports from the auditors relating to accounts. It meets with the auditors without executive Board members present once a year.

The Remuneration Committee comprises George Flouty, Nigel Keen, Peter Smedvig and Ed Snape and is chaired by Nigel Keen. It meets at least twice a year to review 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 the operating and financial review on pages 2 to 9 include a detailed review of the business and future developments. There is regular dialogue with shareholders including presentations after the Group's preliminary announcements of full-year and interim results. Published results and all press releases are published on the Group's website. 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 29 May 2002 can be found in the Notice of 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

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. The remuneration paid to the directors was:

	Year to 31 December 2001				Year to 31 December 2000			
	Salary/fees £	**Bonus £**	**Pension £**	**Total £**	Salary/fees £	Bonus £	Pension £	Total £
Kemp Coady	**135,623**	**86,206**	**–**	**221,829**	120,740	33,370	–	154,110
George Flouty (appointed 11 July 2000)	**18,000**	**–**	**–**	**18,000**	9,000	–	–	9,000
Nigel Keen	**24,375**	**–**	**–**	**24,375**	25,417	–	–	25,417
David Moorhouse (resigned 11 September 2001)	**77,890**	**–**	**–**	**77,890**	103,692	40,000	–	143,692
Ewan Phillips (appointed 11 September 2001)	**27,688**	**–**	**1,048**	**28,736**	–	–	–	–
Peter Smedvig	**18,000**	**–**	**–**	**18,000**	15,375	–	–	15,375
Ed Snape	**18,000**	**–**	**–**	**18,000**	15,375	–	–	15,375
Jeffrey Vender (resigned 6 September 2001)	**10,500**	**–**	**–**	**10,500**	15,375	–	–	15,375
	330,076	**86,206**	**1,048**	**417,330**	304,974	73,370	–	387,344

Throughout the year ended 31 December 2001, all amounts in respect of fees payable in respect of Nigel Keen's services were made to Imperialise Limited, a company of which Mr Keen is the sole director and the majority shareholder.

Details of the service contracts of the executive directors at 31 December 2001 are set out in the table below.

	Kemp Coady	Ewan Phillips
Commencement date	23 August 2001	11 September 2001
Notice period	Fixed period to 22 August 2003 or 12 months' notice	Six months
Aggregate remuneration	US$180,000 salary, car allowance, discretionary bonus	£85,000 salary, car allowance, discretionary bonus, pension of 4% of salary
Compensation on early termination	Salary to be paid for up to 12 months from date of termination after deduction of any amounts earned in alternative employment	None
Non-competition	Standard restrictions on soliciting customers or suppliers or working for competing businesses for 12 months	Standard restrictions on soliciting customers or suppliers or working for competing businesses for 12 months

Remuneration report

The share price at 31 December 2001 was 20.5 pence per share.

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

	1 January 2001 or appointment	Awarded during the period	Exercised during the period	**31 December 2001**	Exercise price £	Exercise period
Kemp Coady	**600,600**	–	–	**600,600**	1.07	Oct 1999 – Oct 2007
	100,000	–	–	**100,000**	2.20	Mar 2003 – Jan 2010
	–	50,000	–	**50,000**	0.25	Nov 2004 – Nov 2011
	700,600	50,000	–	**750,600**		
Ewan Phillips	–	100,000	–	**100,000**	0.25	Nov 2004 – Nov 2011

At the date of his resignation Jeffrey Vender held options over 74,074 ordinary shares at an exercise price of 4.8 pence per share and has maintained the right to exercise these before 30 June 2002. At the date of his resignation David Moorhouse held options over 170,170 ordinary shares at an exercise price of £1.07 per share and options over a further 90,040 ordinary shares at an exercise price of £2.20 per share. All options lapsed on resignation, other than that Mr Moorhouse continues to hold options over 75,000 ordinary shares at an exercise price of £1.07 per share so long as they are exercised prior to the date of the announcement of the Group results for the year ending 31 December 2002.

Independent auditors' report

to the members of Deltex Medical Group plc

We have audited the financial statements on pages 18 to 36 and the disclosures relating to directors' remuneration on pages 15 and 16.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 13.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 Companies Act 1985. 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 2001 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
23 April 2002

Consolidated profit and loss account

for the year ended 31 December 2001

	Notes	**2001 £m**	2000 £m
Turnover	2	**1.3**	1.0
Cost of sales		**(0.7)**	(0.5)
Gross profit		**0.6**	0.5
Net operating expenses – before exceptional costs	3	**(4.0)**	(3.8)
– exceptional costs	4	**–**	(0.7)
Net operating expenses – total		**(4.0)**	(4.5)
Operating loss		**(3.4)**	(4.0)
Interest receivable and similar income		**0.1**	0.2
Interest payable and similar charges	6	**–**	(0.1)
Loss on ordinary activities before taxation	7	**(3.3)**	(3.9)
Tax on loss on ordinary activities	8	**–**	–
Loss for the financial year	18	**(3.3)**	(3.9)
Loss per share – basic and diluted	9	**£(0.174)**	£(0.273)

The above results all relate to continuing operations.

The loss on ordinary activities before taxation and the loss for the financial year has been computed on the historical cost basis.

Statement of Group total recognised gains and losses

for the year ended 31 December 2001

	Notes	**2001 £m**	2000 £m
Loss for the financial year		**(3.3)**	(3.9)
Currency translation differences in foreign currency net investment	18	**0.1**	(0.3)
Total recognised losses for the financial year		**(3.2)**	(4.2)

Consolidated balance sheet

at 31 December 2001

	Notes	**2001** **£m**	2000 Restated £m
Fixed assets			
Tangible assets	11	**0.4**	0.5
Current assets			
Stocks	12	**0.7**	0.9
Debtors	13	**0.4**	0.3
Cash at bank and in hand		**5.6**	3.7
		6.7	4.9
Creditors: amounts falling due within one year	14	**(1.2)**	(0.5)
Net current assets		**5.5**	4.4
Net assets		**5.9**	4.9
Capital and reserves			
Called-up share capital	17	**3.7**	15.6
Share premium account	18	**8.6**	6.5
Merger reserve		**1.8**	1.8
Profit and loss account	18	**(22.3)**	(19.0)
Capital redemption reserve	*18*	***14.1***	–
Equity shareholders' funds	19	**5.9**	4.9

The financial statements on pages 18 to 36 were approved by the Board of Directors on 23 April 2002. Signed on behalf of the Board of Directors:

N J Keen
E A Phillips

Company balance sheet

at 31 December 2001

	Notes	2001 £m	2000 £m
Fixed assets			
Investments	10	**6.9**	12.2
Current assets			
Debtors: amounts falling due within one year	13	**0.7**	10.7
amounts falling due after more than one year	13	**14.7**	–
		14.7	10.7
Creditors: amounts falling due within one year	14	**(0.8)**	(0.7)
Net current assets		**13.9**	10.0
Net assets		**20.8**	22.2
Capital and reserves			
Called-up share capital	17	**3.7**	15.6
Share premium account	18	**8.6**	6.5
Profit and loss account	18	**(5.6)**	0.1
Capital redemption reserve	18	**14.1**	–
Equity shareholders' funds		**20.8**	22.2

The financial statements on pages 18 to 36 were approved by the Board of Directors on 23 April 2002. Signed on behalf of the Board of Directors:

N J Keen
E A Phillips

Consolidated cash flow statement

for the year ended 31 December 2001

	Notes	2001 £m	2000 £m
Net cash outflow from operating activities	20	**(2.4)**	(4.2)
Returns on investments and servicing of finance			
Interest received		**0.1**	0.2
Net cash inflow from returns on investments and servicing of finance		**0.1**	0.2
Capital expenditure			
Purchase of tangible fixed assets		**(0.3)**	(0.5)
Net cash outflow for capital expenditure		**(0.3)**	(0.5)
Net cash outflow before financing		**(2.6)**	(4.5)
Financing			
Issue of ordinary share capital		**5.3**	9.6
Expenses in connection with share issue		**(1.1)**	(1.5)
Net cash inflow from financing		**4.2**	8.1
Increase in net cash in the year	21	**1.6**	3.6

Notes to the financial statements

1 Principal accounting policies

These financial statements have been prepared under the historical cost convention, the accounting policies set out below and in accordance with applicable accounting standards.

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.

Deltex Medical Group plc was formed on 2 March 2000. Deltex Medical Group plc acquired all the equity and financial instruments of Deltex Medical Holdings Limited on 6 April 2000. A group reconstruction took place on 6 April 2000 of Deltex Medical Group plc and Deltex Medical Holdings Limited which has been accounted for using merger accounting principles.

Turnover

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

Turnover comprises sales of medical devices and related support services. Turnover is recognised at the point when substantially all of the risks and rewards of ownership are transferred to the customer; normally this is on despatch. In respect of service contracts and other agreements for ongoing support, turnover is recognised in equal monthly instalments over the period of the contract to match the benefits to the customer.

Research and development expenditure

Research and development expenditure is written off as it is incurred.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. The cost of purchased assets includes any incidental expenses of acquisition. The cost of assets produced by the Group includes an appropriate element of production overhead costs.

Depreciation is calculated so as to write down tangible fixed assets to their estimated realisable values, by equal annual instalments over their expected useful economic lives at the following rates:

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

Investments

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

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.

1 Principal accounting policies *continued*

Finance 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 finance lease agreements, which transfer to the Group substantially all the benefits and risks of ownership, the assets are treated as if they had been purchased outright and are included in tangible fixed assets. Such amounts are written off in accordance with the depreciation policy. The capital element of the finance lease commitment is shown as obligations under finance leases. The finance lease payments are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged 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 defined contribution scheme operated by the Group for UK employees are charged against profits in the year in which they are payable to the scheme.

The Group maintains a deferred contribution Salary Reduction Simplified Employee Pension Plan ("SARSEP") for US employees 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 Group may make discretionary contributions on behalf of the employees that are charged against profits in the year in which they are payable. There are no post retirement obligations in respect of this scheme payable by the Group.

Foreign currency translation

Foreign currency assets and liabilities are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in overseas currencies are translated at the rate of exchange ruling on the date of the transaction or at a contracted rate if applicable. Any gains or losses arising during the year have been dealt with through the profit and loss account. The exchange difference arising on the retranslation of the opening net assets of overseas subsidiaries is taken directly to reserves. Monetary assets and liabilities denoted in foreign currencies are retranslated at the exchange rate on the balance sheet date and differences arising are taken to the profit and loss account.

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 reserve in accordance with UITF 17. In accordance with UITF 25, the tax charge arising on the future potential exercise of Inland Revenue unapproved options is amortised to the profit and loss account over the period from the date the options unconditionally vest with the employee. The charge is based upon the difference between the option exercise price and the closing fair value/market price at the balance sheet date.

Goodwill

Goodwill, arising from the purchase of subsidiary undertakings, represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired. Prior to 31 December 1998 goodwill was eliminated against reserves.

As permitted under the transitional arrangements set out in FRS 10, goodwill previously eliminated against reserves has not been reinstated, but will be charged to the profit and loss account on any subsequent disposal of the business to which it relates.

Notes to the financial statements

2 Segmental analysis

The Group's activities consist solely of the manufacture and marketing of medical devices. By origin, all sales are United Kingdom sales.

Analysis of turnover by destination

	2001 £m	2000 £m
United Kingdom	**0.5**	0.3
United States of America	**0.3**	0.4
Rest of Europe	**0.3**	0.3
Rest of the World	**0.2**	–
	1.3	1.0

Turnover in the Rest of Europe and the Rest of the World is accounted for in the United Kingdom and United States of America subsidiaries.

Analysis of net loss before taxation by destination

	2001 £m	2000 £m
United Kingdom	**(1.5)**	(1.5)
United States of America	**(1.8)**	(2.4)
	(3.3)	(3.9)

Analysis of net assets

	2001 £m	2000 £m
United Kingdom	**5.5**	4.2
United States	**0.4**	0.7
	5.9	4.9

3 Net operating expenses

	2001 £m	2000 £m
General administrative expenses	**2.2**	1.5
Expense associated with grant of share options	**–**	0.2
Exceptional costs (see note 4)	**–**	0.7
Total administrative expenses	**2.2**	2.4
Sales and distribution costs	**1.8**	2.1
	4.0	4.5

4 Exceptional costs

	2001 £m	2000 £m
Grant of share options under the US share option plan	–	0.7
	–	0.7

One of the Group's share option plans gave employees of Deltex Medical Inc., the Group's main trading subsidiary in the United States of America, the right to buy shares of Deltex Medical Group plc at less than nominal value. To rectify the situation a charge was made in the year ended 31 December 2000 for the shortfall of £0.7 million between the option price and the nominal value on all such options.

In relation to this shortfall, the amounts relating to share options exercised during the year have been taken to share capital, amounts relating to unexercised share options are included in reserves as follows:

	£m
Initial reserve	0.7
Utilised in the year ended 31 December 2000	(0.6)
Balance of reserve at 31 December 2000	0.1
Utilised in the year ended 31 December 2001	(0.1)
Balance of reserve at 31 December 2001	–

The reserve is included within the profit and loss account reserve.

5 Employee information

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

By activity

	2001 Number	2000 Number
Office and management	**7**	8
Production	**11**	12
Research and development	**3**	4
Sales and marketing	**12**	21
	33	45

Staff costs (for the above persons)

	2001 £m	2000 £m
Wages and salaries	**1.5**	1.9
Social security and other pension costs	**0.2**	0.2
	1.7	2.1

Details of directors' remuneration are given on pages 15 and 16.

Notes to the financial statements

6 Interest payable and similar charges

	2001 £m	2000 £m
Promissory note	–	0.1

7 Loss on ordinary activities before taxation

	2001 £m	2000 £m
Loss on ordinary activities is stated after charging:		
Auditors' remuneration (see note below)	**0.2**	0.1
Depreciation charge for the year:		
Tangible owned fixed assets	**0.4**	0.2
Fixed asset impairment	–	0.1
Research and development expenditure	**0.2**	0.4
Movements on provisions associated with grant of share options (including UITF 17 charges)	–	0.9

Note

In addition to the amounts shown above in respect of auditors' remuneration, further amounts payable to the auditors of £242,000 (2000: £177,000) incurred as expenses of issuing shares have been charged against the share premium account. Auditors' remuneration in respect of audit services included above was £60,000 (2000: £37,000). Amounts included above as auditors' remuneration in respect of other services were £126,000 (2000: £38,000); in 2001 these amounts included £101,000 in respect of accounting services relating to the books and records of 2000 carried out during the early part of 2001. The Company's audit fee was £10,000 (2000: £3,500).

The provision associated with the grant of share options includes those options granted with an exercise price below nominal value at the time of the award (see note 4).

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 for 2001 is based on the loss of £3.3 million and weighted average number of shares in issue of 18.7 million. For 2000 the loss per share calculation was based upon the loss of £3.9 million and weighted average number of shares in issue of 14.4 million.

The Group had no dilutive potential ordinary shares in either 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 and subsidiary undertakings

Company

	2001 £m	2000 £m
Shares in subsidiary undertakings	**6.9**	12.2

Due to Deltex (Guernsey) Limited deciding to adopt the Group accounting policy this year in its own financial statements and so to no longer recognise book value for internally generated intellectual property rights previously classified as intangible assets, the Company (Deltex Medical Group plc) has reduced its investment in subsidiary undertakings by £5.3 million to reflect that change. This change has no effect on the consolidated accounts of Deltex Medical Group plc.

Details of the Company's principal subsidiary undertakings are set out below:

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

The principal business activities of these subsidiaries are:

a) Deltex Medical Holdings Limited – intermediate holding company;
b) Deltex Medical Limited – manufactures and markets medical devices;
c) Deltex (Guernsey) Limited – holding company for intellectual property rights;
d) Deltex Medical Inc. – markets and sells medical devices in the USA which are manufactured by the Group in the UK.

11 Tangible fixed assets

Group	Plant, machinery, fixtures, fittings and motor vehicles £m	Machines loaned to customers £m	Total £m
Cost			
At 1 January 2001	0.5	1.0	1.5
Additions	0.1	0.2	0.3
At 31 December 2001	**0.6**	**1.2**	**1.8**
Depreciation			
At 1 January 2001	0.4	0.6	1.0
Charge for year	0.1	0.3	0.4
At 31 December 2001	**0.5**	**0.9**	**1.4**
Net book value at 31 December 2001	**0.1**	**0.3**	**0.4**
Net book value at 31 December 2000	0.1	0.4	0.5

The net book value of tangible fixed assets includes amounts of £17,000 (2000: £17,000) in respect of assets held under finance leases.

Notes to the financial statements

12 Stocks

Group

	2001 **£m**	2000 £m
Raw materials and consumables	**0.2**	0.2
Work in progress	**0.1**	0.2
Finished goods	**0.4**	0.5
	0.7	0.9

There is no significant difference between replacement cost and the values shown above.

13 Debtors

Amounts falling due within one year	**Group 2001 £m**	Group 2000 £m	**Company 2001 £m**	Company 2000 £m
Trade debtors	**0.3**	0.3	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**0.7**	10.6
Other debtors, prepayments and accrued income	**0.1**	–	**–**	–
	0.4	0.3	**0.7**	10.6
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	**–**	–	**14.0**	–
	0.4	0.3	**14.7**	10.6

14 Creditors: amounts falling due within one year

	Group 2001 £m	Group 2000 £m	**Company 2001 £m**	Company 2000 £m
Bank loans and overdrafts (see note below)	**0.1**	–	**–**	–
Trade creditors	**0.7**	0.2	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**0.7**	0.7
Other creditors, taxation and social security	**0.1**	–	**–**	–
Accruals and deferred income	**0.3**	0.3	**0.1**	–
	1.2	0.5	**0.8**	0.7

The amount shown under bank loans and overdrafts arose due to timing differences between the cash book and the bank account. The Group had no overdraft or bank loan facilities at either 31 December 2001 or 2000.

15 Creditors: amounts falling due after more than one year

Future minimum payments under finance leases are as follows:

	Group 2001 £000	Group 2000 £000
Within one year	11	16
In more than one year, but not more than five years	8	15
Total gross payments	19	31
Less finance charges included above	(6)	(8)
	13	23

Finance leases are secured on the assets concerned. Interest of £4,000 (2000: £2,000) was incurred in respect of finance leases for the year.

16 Pension obligations

	2001 £000	2000 £000
Group costs in respect of defined contribution pension schemes	31	30

17 Called-up share capital

Authorised	2001 £m	2000 £m
80,000,000 ordinary shares of £1 each	–	80.0
658,754,621 ordinary shares of 10 pence each	65.9	–
658,754,621 (2000: 80,000,000) ordinary shares of 10 pence (2000: £1) each	65.9	80.0

Called-up, allotted and fully paid	Number of shares m	2001 £m	Number of shares m	2000 £m
Ordinary shares of £1 each	–	–	15.6	15.6
Ordinary shares of 10 pence each	36.9	3.7	–	–
	36.9	3.7	15.6	15.6

Notes to the financial statements

17 Called-up share capital *continued*

Movements in share capital during the year were as shown in the table below.

	£1 ordinary shares £m	Deferred 90 pence shares £m	10 pence ordinary shares £m	Total £m
At 1 January 2001	15.6	–	–	15.6
Issues of 124,144 ordinary £1 shares subsequent to exercise of employee share options	0.1	–	–	0.1
8 November 2001 conversion of each £1 ordinary share into one 90 pence deferred share and one 10 pence ordinary share	(15.7)	14.1	1.6	–
8 November 2001 issue of 20,000,000 10 pence ordinary shares subsequent to Placing on AIM	–	–	2.0	2.0
6 December 2001 issue of 1,240,258 10 pence ordinary shares subsequent to exercise of over-allotment option by Beeson Gregory	–	–	0.1	0.1
20 December 2001 cancellation of all deferred shares	–	(14.1)	–	(14.1)
At 31 December 2001	**–**	**–**	**3.7**	**3.7**

Consideration received in respect of the exercise of share options was £0.1 million. Consideration received in respect of the Placing and over-allotment option was £5.3 million; expenses incurred in connection with the Placing and over-allotment option were £1.1 million.

Warrants

Warrants to subscribe for 10 pence ordinary shares were outstanding at 31 December 2001 as set out in the following table:

Exercise period	Exercise price	Number of warrants
14 October 2000 to 14 April 2002	£4.30	143,143
Before 14 April 2003	£2.20	597,597
Before 8 October 2006	US$4.96	151,151
Total		891,891

The warrants were over the same numbers of £1 ordinary shares as shown above until the capital reconstruction on 31 October 2001, subsequent to which each warrant applied to one 10 pence ordinary share and one 90 pence deferred share until the deferred shares were cancelled on 20 December 2001. Warrants over 1,059,058 ordinary shares at an exercise price of £2.00 per share expired on 14 October 2001. There were no other movements in warrants throughout the year.

17 Called-up share capital *continued*

Employee options

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

Employee share options	**2001 Number**
At 1 January	**1,620,251**
Additions	**975,000**
Lapsed	**(580,237)**
Exercised	**(124,144)**
At 31 December	**1,890,870**

All options were over £1 ordinary shares until the capital reconstruction on 31 October 2001, subsequent to which each option applied to one 10 pence ordinary share and one 90 pence deferred share. Following the cancellation of the deferred shares on 20 December 2001, each option attaches to one 10 pence ordinary share.

As at 31 December 2001 the following options to subscribe for ordinary shares of 10 pence each were outstanding under employee share schemes:

Number of shares		Exercise price £	Exercise period
74,074		0.048	1 Oct 1999 – 30 Jun 2002
200,200		1.07	12 Oct 1999 – 1 Oct 2007
200,200		1.07	12 Oct 2000 – 1 Oct 2007
15,000		2.20	22 Mar 2001 – 22 Mar 2010
32,032		1.07	18 Jun 2001 – 18 Jun 2008
75,000		1.07	18 Jun 2001 – (see note a)
200,200		1.07	12 Oct 2001 – 1 Oct 2007
84,084		1.07	4 Dec 2001 – 4 Dec 2008
12,012		1.07	12 May 2002 – 12 May 2009
62,062		2.20	12 Jan 2003 – 12 Jan 2010
6,006		2.20	7 Feb 2003 – 7 Feb 2010
105,000		2.20	22 Mar 2003 – 22 Mar 2010
30,000		2.01	15 Nov 2003 – 15 Nov 2010
13,000		2.20	2 Apr 2004 – 2 Apr 2011
15,000		2.01	2 Apr 2004 – 2 Apr 2011
231,000		1.00	5 Apr 2004 – 5 Apr 2011
536,000	(see note b)	0.25	7 Nov 2004 – 7 Nov 2011
1,890,870			

Notes

a) To be exercised by the date of announcement of the Group results for the year ended 31 December 2002.

b) Options exercisable subject to the criterion set by the board that the shares of Deltex Medical Group plc should have outperformed the FTSE Techmark Mediscience Index between the date of grant and the date of exercise of the option.

Notes to the financial statements

17 Called-up share capital *continued*

Other options	**2001 Number**
At 1 January	–
Additions	**2,000,000**
Lapsed	–
Exercised	–
At 31 December	**2,000,000**

Options, other than employee share options, outstanding at 31 December 2002 comprise an option granted to Beeson Gregory Limited over 2,000,000 10 pence ordinary shares exercisable at 25 pence per share. The option is exercisable in whole on any one occasion between 8 November 2001 and 8 November 2004.

18 Reserves

Group	Share premium £m	Merger reserve £m	Capital redemption £m	Profit and loss account £m
At 1 January 2001 (as previously reported)	8.3	–	–	(19.0)
Prior year adjustment	(1.8)	1.8	–	–
At 1 January 2001 (as restated)	6.5	1.8	–	(19.0)
Premium on shares issued during the year	3.2	–	–	–
Issue expenses	(1.1)	–	–	–
Transfer on cancellation of deferred shares	–	–	14.1	–
Loss for the financial year	–	–	–	(3.3)
Movements on reserve associated with the grant of share options under the US share option plan	–	–	–	(0.1)
Exchange difference	–	–	–	0.1
At 31 December 2001	**8.6**	**1.8**	**14.1**	**(22.3)**

The prior year adjustment is to reclassify the share premium account balance in Deltex Medical Holdings Limited as a merger reserve arising on consolidation rather than share premium.

Company	Share premium £m	Capital redemption £m	Profit and loss account £m
At 1 January 2001	6.5	–	0.1
Premium on shares issued during the year	3.2	–	–
Issue expenses	(1.1)	–	–
Transfer on cancellation of deferred shares	–	14.1	–
Loss for the financial year	–	–	(5.7)
At 31 December 2001	**8.6**	**14.1**	**(5.6)**

Goodwill has been eliminated against reserves in the past up to 31 December 1998 when FRS 10 "Goodwill and Intangible Assets" became effective. Goodwill previously eliminated against reserves has not been reinstated. The cumulative amount of goodwill resulting from acquisitions, which has been written off to reserves, is £6.4 million (2000: £6.4 million).

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 attributable loss for the year dealt with in the accounts of the parent company is £5.7 million (2000: profit of £0.1 million).

19 Reconciliation of movements in shareholders' funds

	2001 £m	2000 £m
Opening shareholders' funds/(deficit)	**4.8**	(1.1)
Increase in share capital during the year	**2.3**	3.3
Premium on shares issued, net of costs	**2.1**	6.5
Loss for the year	**(3.3)**	(3.9)
Costs associated with share options	**(0.1)**	0.4
Exchange difference taken to reserves	**0.1**	(0.3)
Closing shareholders' funds	**5.9**	4.9

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

	2001 £m	2000 £m
Operating loss	**(3.4)**	(4.0)
Depreciation of tangible fixed assets	**0.4**	0.2
Impairment adjustment	**–**	0.1
Provision for costs associated with share options	–	0.9
Exchange differences	**(0.1)**	(0.8)
Decrease/(increase) in stocks	**0.2**	(0.5)
(Increase) in debtors	**(0.1)**	–
Increase/(decrease) in creditors	**0.6**	(0.1)
Net cash outflow from operating activities	**(2.4)**	(4.2)

21 Reconciliation of movement in net cash

	1 January 2001 £m	Cash flow £m	Other non-cash changes £m	Exchange movement £m	31 December 2001 £m
Net cash					
Cash at bank and in hand	**3.7**	**1.7**	**–**	**0.2**	**5.6**
Bank overdrafts	**–**	**(0.1)**	**–**	**–**	**(0.1)**
	3.7	**1.6**	**–**	**0.2**	**5.5**

22 Financial commitments

At 31 December 2001 the Group had annual commitments for land and buildings, under non-cancellable operating leases as follows:

	2001 £000	2000 £000
Expiring within one year	**27**	–
Expiring within two to five years	**17**	36
	44	36

The Group incurred amounts payable under operating leases in respect of land and buildings of £48,000 (2000: £36,000).

Notes to the financial statements

23 Related party transactions

Transactions 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 15 and 16 and in the directors' report on pages 11 to 13.

24 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 a small amount of finance leases, some cash and various items, such as trade debtors and trade creditors, that arise directly from its operations.

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

The board reviews and agrees policies for managing liquidity, interest rate and exchange rate risks. The policies have remained unchanged throughout the year and are summarised below:

Interest rate risk

The Group finances its operations through equity. There is also a small amount of finance lease commitment; all finance lease commitments are fixed rate liabilities. The Group has no overdraft facilities; cash balances reported as overdrafts reflect timing differences between the cash book and the bank account. The Group places its cash balances on deposit at floating rates of interest. Surplus cash balances are placed on short-term deposit (less than six months). No interest rate swaps are used.

Liquidity risk

The Group has no borrowing facilities; the policy therefore seeks to ensure that sufficient equity funds are available to meet liquidity requirements.

Currency risk

The Group has overseas 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.

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

Credit risk

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

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

24 Derivatives and other financial instruments *continued*

Interest rate and currency profile of financial liabilities

	Fixed rate financial liabilities £000	Total £000
At 31 December 2000		
Sterling	23	23
At 31 December 2001		
Sterling	**13**	**13**

	Weighted average interest rate %	Fixed rate financial liabilities, weighted average period for which rate is fixed Years
31 December 2000		
Sterling	14.2	2.7
31 December 2001		
Sterling	**14.2**	**1.7**

LIBOR one year interest rates at the following dates are:

	%
31 December 2000	5.80938
31 December 2001	4.51125

Interest rate and currency profile of financial assets	£000
At 31 December 2000	
Sterling	58
US dollar	3,651
	3,709
At 31 December 2001	
Sterling	**4,746**
Euro	**4**
US dollar	**727**
	5,477

The amounts shown as financial assets in the table above are after setting off balances reported as overdrafts due to timing differences between the cash book and bank account.

Notes to the financial statements

24 Derivatives and other financial instruments *continued*

Borrowing facilities

The Group had no committed borrowing facilities available at either 31 December 2001 or 31 December 2000.

Fair value of financial assets and liabilities

There are no differences between the book values and the fair values of the Group's financial assets and liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties, other than a forced or liquidation sale, and excludes accrued interest.

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

2000	Book value £000
Short-term borrowings:	
Bank overdraft	–
Obligations under hire purchase contracts	(13)
Long-term borrowings:	
Obligations under hire purchase contracts	(10)
Cash at bank and in hand	3,709
2001	
Short-term borrowings:	
Bank overdraft	**(116)**
Obligations under hire purchase contracts	**(8)**
Long-term borrowings:	
Obligations under hire purchase contracts	**(5)**
Cash at bank and in hand	**5,593**

Summary of methods and assumptions

Cash balances and short-term borrowings	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.

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.

	Net foreign currency monetary assets/(liabilities)		
	US dollars £000	EU currencies £000	Total £000
2000 – functional currency			
Sterling	–	97	97
2001 – functional currency			
Sterling	**690**	4	**694**