Deltex
medical group plc

Report & Accounts 2011

Highlights

Financial

- Sales of £6 3m
- 83% of revenue from disposable probes (2010 76%)
- Gross margins 72%
- Operating loss £1 4m
- Cash of £0 8m
- Operating cash neutral in second half
- Additional £0 6m investment in inventory and R&D

Operating

- ODM one of six high impact innovations mandated for implementation by NHS
- CardioQ-ODM the only haemodynamic monitor recommended by NICE
- NHS moving into implementation mode
- "Think Doppler" campaign launched in the UK
- First whole hospital system implementation underway in Canada
- Substantial investment in R&D

Current developments

- CardioQ-ODM+ launched in UK
- Partnership agreement with Premier, Inc in USA opens a route to system wide uptake
- In the UK, surgical probe sales growth over 40% for three consecutive months (December 2011, January and February 2012)

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Chairman's Statement

Deltex Medical made significantly greater progress in all its key markets during 2011 than indicated by the 0 4% increase in headline revenues to £6,303,000 as the underlying growth in the use of probes in surgery, the major market opportunity that we seek to address has been very substantial The most significant elements of this growth came from probe sales in the UK and probe sales to our international distributors, which were ahead of 2010 by £259,000 and £159,000 respectively These increases were driven by increased surgical use and the growth rates for surgical probes in the UK and in our major distributed markets remain at around the established 20% per annum level Strong growth in surgical probe sales meant December was a record month for probe sales in the UK and surgical probes since the year end have continued to be well ahead of 2011 In the UK, compared to the corresponding month a year previously, surgical probe growth has been over 40% for three consecutive months (December 2011, January and February 2012) and March has started strongly Monitor sales volumes in the UK in 2012 to date are also well ahead of 2011 and include an order of ten CardioQ-ODMs from one of the NHS Scotland health board to enable implementation of enhanced recovery in bowel surgery in its region

Gross margins were 72% overall and over 80% in our direct sales markets Operating expenses were £55,000 lower than in 2010 at £5,940,000 The operating loss was £1,402,000 (2010 £1,353,000)

Cash used in operations increased by £546,000 to £1,337,000 after £430,000 additional investment in inventory in anticipation of more rapid growth and increased investment in research and development to expand our product range Operating cash outflow before movements in working capital was £822,000 (2010 £687,000) Cash at 31 December was £752,000 and the Company was operating cash neutral in the second half

We maintained our underlying cash cost base at a similar level to 2010 while increasing investment in research and development and in our UK 'Think Doppler' marketing campaign which was launched to coincide with the December announcement that the NHS is to prioritise full implementation of ODM Only a few carefully targeted and modest increases in the cost base are planned for 2012 The momentum driving our sales growth means the Company is on track towards consistent generation of cash and profitability

Probe sales in the USA in 2011 were £125,000 lower than in 2010 despite us maintaining our share of the potential market in all our major accounts and opening important new accounts The volume of major elective operations in the USA fell sharply in the middle part of 2011 as fears over the economy grew and this led in turn to hospitals reducing stocks of probes

Restricted capital budgets in many of our markets have held back our reported growth rates Cash sales of monitors in 2011 were £438,000 (44%) lower than in 2010 with a major fall (£350,000) in revenues from the Middle East which suffered from political volatility The trend away from capital sales since 2009 supports our strategic focus on increasing probe revenues which are both higher quality and more visible

Important developments in the UK market, our largest and most developed market, during 2011 have reinforced the NHS's approach to establishing system wide adoption of a new medical technology In March 2011 the National Institute for Health and Clinical Excellence ('NICE') recommended CardioQ-ODM be considered for use in all patients undergoing major and high risk surgery in the NHS with average savings of £1,100 per patient Across the whole UK this equates to an opportunity to save £1 billion of taxpayers' money through better and faster patient recoveries CardioQ-ODM is the only fluid management monitoring technology recommended by NICE, which found CardioQ-ODM to be "dominant" over alternative cardiac output monitoring technologies during surgery, as it delivers both better outcomes and lower costs

In December 2011 the chief executive of the NHS announced that ODM was one of six high impact innovations selected for full implementation Financial penalties for insufficient progress on implementing these six innovations by March 2013 could exceed £15 million per annum in the largest NHS Trusts

The Department of Health and NHS have formed a 'Task and Finish' group to develop and launch the plan for the implementation of fluid management monitoring in surgery and this is expected to report in the coming weeks A number of related actions are already clear

- Intra-operative fluid management has been selected as one of three technologies to be pushed nationally by the Department of Health's Innovative Technology Adoption Procurement Programme ("ITAPP") in 2012/13
- ITAPP has authority through inclusion in the NHS operating framework for 2012/13 ITAPP "identifies innovative technologies that can be adopted by local organisations A small number of evidence-based technologies, including the Oesophageal Doppler Monitoring, are suggested for wide adoption by local health economies"
- NICE has published a case study on ODM implementation on the NHS Evidence website within its recommendations to support the NHS's drive to improve Quality, Innovation, Productivity and Prevention ("QIPP")
- NICE's most recent cost savings guidance league table shows CardioQ-ODM as the single highest impact technology it has recommended since 2005, accounting for over 40% of total identified cost savings by NICE

In March 2012 we launched the CardioQ-ODM+, a premium version of our monitors which allows clinicians to pursue an additional fluid management strategy, 'minimisation of respiratory swing', to that normally driven by ODM, 'stroke volume optimisation' While the evidence base for this approach suggests only modest benefits over traditional care when compared to stroke volume optimisation, we expect it to broaden our products' appeal to clinicians

Our goal is to make oesophageal Doppler monitoring (ODM) a standard of care for patients undergoing major surgery and in intensive care We believe that, in most modern health systems, it is essential to have a robust evidence base of both clinical benefit and cost effectiveness in order to achieve system-wide adoption of a new medical technology Deltex Medical is one of the very first medical technology companies to have completed the investment necessary to build such an evidence base as a result, use of ODM during surgery has the proven potential to deliver both clinical and economic benefits that are material at each of patient, hospital and system level

Having succeeded in creating an opportunity for potentially transformational growth in the UK, our key priorities in 2012 are to support the NHS deliver its implementation plan and to create similar opportunities for system wide adoption of CardioQ-ODM in other healthcare systems In France probe consumption increased 20% during the year following award of a major tender covering Paris hospitals late in 2010 forthcoming clinical guidelines from the French professional association of anaesthetists are expected to emphasise the importance of fluid management and monitoring during surgery Doctors in Spain are making good progress with the world's largest randomised trial of fluid management in surgery to date and preliminary results may become available in the coming months In Canada the Interior Health hospital system has completed satisfactorily the first phase of its CardioQ-ODM implementation programme and the results of the project, which is already generating considerable interest in the broader Canadian healthcare system, are due to be announced shortly

In the USA, following the presentation of data by Duke University Hospital showing the impact of an enhanced recovery surgical programme using CardioQ-ODM in October 2011, we have embarked on a number of projects aimed at accelerating clinical acceptance and uptake of ODM guided fluid management the recently announced partnership with Premier Inc is the most advanced of these Meanwhile doctors are continuing to publish research showing the benefits of CardioQ-ODM in different types of surgery, enabling us to expand our areas of focus to additional surgical specialties

Deltex Medical is in an exciting and unique position The NHS, the world's largest healthcare provider, is actively pursuing the rapid and wide-scale implementation of our products We are making significant advances in creating similar opportunities in other major healthcare systems around the world

Nigel Keen
Chairman

7 March 2012

Operating Review

During 2011 Deltex Medical strengthened its position as the global market leader in oesophageal Doppler monitoring (ODM)

Overview

During 2011 Deltex Medical strengthened significantly its position as the global market leader in oesophageal Doppler monitoring (ODM) ODM benefits substantial numbers of patients, the largest group being patients undergoing major or high risk surgery ODM's potential is being recognised increasingly by each of clinicians, health policy makers and healthcare administrators ODM during surgery can be implemented successfully into routine clinical practice on a wide scale because it is a simple procedure that is easy to learn, quick to perform and applicable in a very wide range of patients

In the UK, our largest and most developed market, we completed the proof of concept phase of our development with a recommendation in March 2011 from the National Institute for Health and Clinical Excellence ('NICE') that CardioQ-ODM be considered for use in all patients undergoing major and high risk surgery The announcement in December 2011 that the NHS is to prioritise full implementation of ODM or similar fluid management monitoring technology confirmed the potential for Deltex Medical to move into a prolonged phase of accelerated growth Internationally, we are making good progress in developing export markets for CardioQ-ODM

The robust evidence base showing CardioQ-ODM to both improve patient outcomes and reduce costs gives Deltex Medical a substantial competitive advantage CardioQ-ODM is the only fluid management monitoring technology recommended by NICE and, to date, NICE has chosen not to evaluate any of the three other haemodynamic monitoring technologies submitted to it by their manufacturers NICE found CardioQ-ODM to be dominant (both better outcome and lower cost) over the most commonly available competitive approaches

Probe revenues in 2011 amounted to 83% of total cash sales (which exclude clinical research revenues under barter arrangements), compared to 76% in 2010 Probe growth was strongest in the UK surgical market and in those international distributor markets where we focused most resource As our business has developed we have increasingly focused on generating probe revenues and taking a pragmatic approach to increasing the installed base of monitors This transition towards higher quality recurring revenue streams is timely as macro-economic conditions have meant capital budgets have become severely restricted in many of our markets

In large part the drive behind the NHS decision to implement CardioQ-ODM comes because modern healthcare systems need to deliver higher quality care at lower costs in order to meet changing demographic needs NICE estimates that CardioQ-ODM can save *circa* £1,100 per patient on average this is equivalent to £1 billion saving each year across the whole UK This emphasis on quality and efficiency has become more urgent as a result of fiscal deficits and healthcare inflation in many developed countries and we believe that adoption in one system is likely to accelerate success in other systems

Rather than let the shortage of capital budgets slow down our progress in the UK towards CardioQ-ODM being widely adopted for use in surgery we continued to expand the installed base through lending machines and introducing managed care service contracts Overall the UK surgical installed base increased by 66 units to 519 In addition the critical care installed base increased by nine units to 284 Going into the new NHS financial year and launch of the NHS implementation plan for ODM our priority is to expand the surgical installed base rapidly through a combination of monitor price reductions, loan programmes and managed care service contracts

For those export markets where we work with distributor partners and we see opportunities for accelerated growth through overcoming capital budgetary restrictions holding back monitor installations, we are actively considering new business models which will help rapid growth in the current environment through facilitating wider availability of monitors in operating theatres

Overall, the modest 5% growth in monitor revenues in the first half turned into a 29% fall in the second half compared to 2010 Where we had anticipated difficulties in repeating monitor revenues from 2010, for example from the Middle East due to political instability, we were able to redeploy resources and replace some of the lost revenue with higher quality probe revenues backed by exciting growth opportunities in markets such as Canada, Scandinavia, Austria and Australia In the UK, monitor sales volumes fell sharply from the April start of the NHS financial year and only started to recover towards the end of the year

Markets

The CardioQ-ODM has two distinct established clinical applications firstly, to guide fluid management during surgery and secondly, to monitor cardiac output in critical care settings

Surgical market

In March 2011, the National Institute for Health & Clinical Excellence ('NICE') recommended that CardioQ-ODM be considered for use in patients undergoing major and high risk surgery and in high risk patients undergoing major surgery NICE estimated the applicable number of such patients in the NHS in England alone to be over 800,000 each year Clinical evidence to date specifically supports the use of CardioQ-ODM in each of cardiac, orthopaedic, colorectal, renal, urological, other abdominal, gynaecological, plastic, vascular and transplant surgery furthermore, CardioQ-ODM has been shown to be effective in both elective and emergency surgery and with both general and regional anaesthetics

The NICE evaluation and recommendation confirms that the potential global market for CardioQ-ODM in surgery includes tens of millions of patients, even if confined to developed health economies the most conservative estimate of the potential value of the market opportunity Deltex Medical has created is in excess of £1 billion per annum The Company's core focus is on building market leading positions in this surgical market, both geographically and by type of surgery

Critical care market

In critical care settings, well-equipped hospitals will often have more than one cardiac output monitoring technology available In this environment, ODM's strengths are that it is quick to set up, easy to use, safe, low cost and the ideal technology for a patient in crisis requiring rapid or frequent intervention The potential market for cardiac output monitoring in critical care is a fraction of the size of that for intra-operative fluid management

Through the recent launch of the CardioQ-ODM+, Deltex Medical has incorporated pulse pressure variation, the best validated parameter from the Pulse Pressure Waveform Analysis ('PPWA') approach to monitoring cardiac output Note that, in surgery, although adding PPWA parameters does not expand per se the market potential of ODM, the Company's clinical and market research indicates that it may help accelerate some clinicians' acceptance of the value of ODM measured flow variables

NICE's assessment of the evidence supporting CardioQ-ODM and PPWA concluded that CardioQ-ODM was dominant (i e delivering both better outcomes and lower costs) over PPWA in both surgical and critical care applications However, in the critical care setting only, there was not sufficient evidence for NICE to recommend CardioQ-ODM ahead of PPWA. ODM's being dominant does not mean no potential value in PPWA the Company believes that future iterations of the CardioQ-ODM+ will deliver clear and substantial competitive advantages over current PPWA solutions for monitoring applications in critical care settings by combining a best in class monitoring modality with the best tool for guiding intervention

United Kingdom

Deltex Medical has established a clear market leading position in the UK surgical market as well as a strong presence in the smaller critical care market

In total UK sales grew by £443,000 (13%) over 2010

Operating Review continued

The biggest driver of UK sales growth came from sales of surgical probes which increased by £272,000 (16%) over 2010 After adjusting for the small numbers of hospital bulk orders of surgical probes in both 2010 and 2011, growth in surgical probe sales in the UK has remained broadly in line with the compound annual growth rate of 20% established since 2004 While this growth rate puts ODM amongst the fastest growing broad application new medical technologies in the NHS, the NHS's rate of adoption, and consequently the Company's sales, will need to accelerate significantly to meet the NHS's objective of full implementation

Sales of intensive care probes stabilised, levelling off after several years of a trend towards lower usage of cardiac output monitoring in UK intensive care units as clinical practice has evolved whereas in the past most patients were sedated to the point of unconsciousness while in intensive care, the preference now is to keep them awake and mobile where possible, thus reducing the need for cardiac output monitoring

United States of America

Sales in the USA were £154,000 (18%) behind 2010, with a £125,000 (15%) fall in probe sales probe sales comprised over 99% of total sales in the USA where our normal model is to place monitors free of charge in return for higher probe prices

The biggest declines in probe sales compared to 2010 came from our two largest accounts in the USA and were as a result of sharp falls in volumes of elective surgery in the middle part of the year, compounded by hospital de-stocking Nevertheless, in both accounts we maintained or improved our penetration rates and in 2012 we are pursuing plans aimed at generating substantial growth both in these accounts and in the systems of which they are members

Recognition of the important impact of haemodynamic management on surgical outcomes in the USA has for many years lagged this recognition in the UK and Europe, however, there are clear signs of this changing with haemodynamic management featuring more prominently on the agendas of clinical meetings for both anaesthetists and surgeons

Our objective in the USA is to achieve system-wide adoption of the CardioQ-ODM to guide fluid management during major surgery Our strategy is to work with a small number of reputable hospitals to achieve broad penetration within them and to demonstrate the clinical and economic benefits of this implementation

At the annual American Society of Anesthesiolologists meeting in Chicago in October 2011 doctors from Duke University Hospital in North Carolina presented the results of their initial implementation of CardioQ-ODM within a surgical enhanced recovery programme These showed substantial improvements in patient outcomes as well as good reductions in lengths of hospital stay of up to 40% We have been able to use this first contemporary data from a major US hospital to build a pipeline of projects for both CardioQ-ODM as a stand-alone improvement in practice and as a cornerstone of implementing modern approaches to surgery Such projects are designed both to increase sales and to generate compelling evidence for more rapid adoption and roll-out of CardioQ-ODM

In February 2012 Premier Inc announced that it had selected Deltex Medical and the CardioQ-ODM to participate in its QCEIP ("QUEST Comparative Effectiveness & Innovation Programme") programme This project includes conducting a study and subsquently producng a peer reviewed abstract, correlating health outcomes to product performance This abstract is publicised through a variety of Premier's Communication channels We expect successful outcomes from this project to generate opportunities for us to work in a partnership with Premier and a leading teaching hospital to promote the benefits of CardioQ-ODM to Premier's member hospitals Premier's members account for approximately 30% of US hospital discharges

International

Distributors service export markets, with the exceptions of those in the USA and Spain, with support from a small team of our own staff

Sales to distributors in 2011 totalled £1,795,000, a decrease of £142,000 (7%) from 2010 This decrease mainly comprises the net effect of a £159,000 (16%) increase in probe revenues and a £305,000 (34%) decrease in monitor sales Changes in the sales mix meant average selling prices for probes were £55 compared to £51 in 2010 The average selling price of monitors to distributors was £3,700 compared to £4,235 in 2010

Probe growth was generally strongest in our best established distributor markets in France, Scandinavia, Austria and Peru In addition we generated substantial growth in Canada as our distributor acquired monitors and probes to support our first Canadian implementation project in a medium sized hospital system in British Columbia feedback to date from this project has been overwhelmingly positive and we expect to be able to announce shortly the results and consequent activity

Probe sales in France were approximately 20% higher at the end of the year than the start, primarily as a result of growth in the Paris area where CardioQ-ODM was successful in a major tender announced late in 2010 The latest generation of professional practice guidelines for anaesthetists in France are due to be published in the next few months and are expected to favour the fluid management strategies enabled by ODM this would constitute a major development in France where the adoption of innovative medical practice is more heavily weighted towards clinicians than in many other developed health economies

Sales to the Middle East were circa £350,000 lower than in 2010, due to lower monitor sales Early in 2011, as signs of political unrest in the region grew, we chose to redirect resource towards supporting growth in higher quality probe revenues in more developed healthcare economies In recent years the Middle East had been the easiest market into which to sell monitors as capital budgets were largely unaffected by the global economic slowdown Looking forward, we expect capital budgets to remain constrained in most of our markets in the Middle East and therefore to continue to focus more on higher quality recurring probe revenue streams

We have a small direct sales team in Spain whose efforts are focused entirely on two projects aimed at establishing the drivers necessary for system-wide adoption of CardioQ-ODM Sales in 2011 total £65,000, £123,000 less than in 2010 which benefited from a small number of one-off orders related to these projects which are not expected to be repeated until after completion of the projects

In the first project leading colorectal surgeons are introducing surgical enhanced recovery as a result of its benefits having already been established within the programme in Spain, use of CardioQ-ODM is one of four mandatory interventions out of the 14 in total

We are also supporting a government sponsored multi-centre trial The trial includes patients undergoing major abdominal, gynaecological, urological and trauma surgery and is the world's largest randomised controlled clinical trial of fluid management during surgery The clinical leads have indicated that preliminary data may be available in the next few months Positive results will represent a major milestone towards system-wide adoption of our products in Spain

Research and Development

Our research and development ('R&D') activities are focused in two areas firstly, the further development of our CardioQ-ODM monitors and probes with a particular objective of making them still easier to use in broader clinical settings and applications, secondly research into and development of complementary and new products In 2011 we increased substantially our investment in R&D and in March 2012 we have launched the CardioQ-ODM+ incorporating additional haemodynamic monitoring parameters giving us the most comprehensive technological offer on the market

Prospects

We have started 2012 with confidence Our products are independently validated as delivering better care, better health and lower costs which puts them in the "sweet spot" of evolving health policy in many developed health economies In the UK our technology has been prioritised by the NHS as a high impact innovation and we are making good progress towards creating similar opportunities in a growing number of major export markets

Ewan Phillips
Chief Executive

7 March 2012

Financial Review

Revenues from surgical probes in the UK were 16% ahead over the whole of 2010.

Trading performance

Revenues for the year grew by £24,000 to £6,303,000 (2010 £6,279,000) Revenues from surgical probes in the UK were 16% ahead over the whole of 2010, continuing a compound annual growth increase of 20% since launch of the probes in 2004

Gross margins were 72% (2010 74%) Gross margins were affected by changes to margins achieved on monitors as the result of a decision to aggressively discount monitors in response to constrained hospital capital budgets Probe pricing was maintained or increased in all significant markets This, combined with no increase in the unit cost of production of probes resulted in gross margins of over 80% in each of the Company's direct sales markets of UK, USA and Spain

Administrative expenses reduced by £334,000 to £2,012,000 (2010 £2,346,000) This includes a reduction in share-based payments charges of approximately £58 000 and clinical trial costs of £164,000

Sales and distribution costs have increased by £165,000 to £3,532,000 (2010 £3,367,000) In the early part of the year, marketing costs were increased in order to promote the NICE recommendation to the NHS In the second half of the year, additional investment has been made in marketing, with the support of an outside agency This is to ensure that the Company is well positioned to take advantage in 2012 and beyond of the NHS Chief Executive review as described within the Chief Executive's report

Further detail on the increase in Research and Development expenditure (R&D) charge by £114,000 from £282 000 to £396 000 follows

Operating losses increased £49,000 to £1,402,000 (2010 £1,353,000) Operating expenses reduced by £55,000 to £5,940,000 (2010 £5,995,000) Of the £5,940,000 operating costs, £670,000 (2010 £1,053,000) relates to non-cash items including accounting charges for share-based payment, depreciation and amortisation of fixed assets and intangible assets, amortisation of clinical trial prepayments and changes to provisions Cash operating expenses were kept under tight control in 2011 with a view to accelerating profitability without affecting the potential long-term market penetration of CardioQ-ODM as explained above towards the end of the year we launched a targeted marketing campaign on CardioQ-ODM in the UK to coincide with the announcement of the actions arising from the NHS Chief Executive's report 'Innovation Health & Wealth' Actual cash expenditure has remained within the Company's cost plans, which included a small increase for additional investment activities

Research and development

During the year, additional personnel were recruited into the research and development department This, together with the engagement of outside consultancies has enabled the Company to accelerate the development of a number of projects It is broadly intended, that whilst continuing to improve the current product range, a new product will be released each year for the next three years The first of these products, the CardioQ-ODM+ was launched in March 2012 and is described in more detail within the Chief Executive's review

Total costs, before capitalisation for research and development in the year were £683,000 (2010 £456,000) A reconciliation between total costs and the amount charged to the Consolidated Statement of Comprehensive Income, in accordance with International Accounting Standard 38 is given below

	2011 £'000	2010 £'000
Total charge for research and development	**683**	456
Less amount capitalised	**(347)**	(213)
Add amortisation of amounts previously capitalised	**60**	39
Research and development charged to Statement of Comprehensive Income	**396**	282

The increase in investment (before capitalisation) of R&D over the past five years is shown below

The net book value of capitalised R&D at the end of the financial year was £724,000 (2010 £437,000) On release of the product, the capitalised costs are charged to the Consolidated Statement of Income over the life of the product in accordance with our accounting policies

Non-cash revenue and costs

In order for the reader to better understand the effect of non-cash items on the Company's profitability and cash flow, alternative performance measures are provided on the Consolidated Statement of Comprehensive Income and note 24, 'Notes to the Cash flow Statement'

The larger non-cash items are explained in more detail below

Non-cash revenue

In recent years the Company has completed a number of transactions on a non-cash basis aimed specifically at opening new market opportunities through focused research aimed at generating clinical and/or economic evidence of the benefits of the Company's products in specific circumstances In 2010, the total non-cash revenue associated with these projects was £319,000

During 2011, a specific project was started to enable the acceleration of the development of a new ICU focused product This product is intended to offer features that are substantially ahead of the current technology available within the ICU and is due to be released in 2014 Twenty-five development versions of this monitor were sold under barter arrangements to twenty key sites around the world These sites have committed to providing essential data for the further development of this product to the Company in return for ownership rights of the monitors A project manager was recruited for this important project early in 2011 The non-cash revenue associated with this project in 2011 was £500,000 The value of the projects that are being carried out at twenty different sites, although difficult to quantify is considered to be substantially more than the £500,000 recognised

The split of revenue between cash and non-cash over the past five years is as follows

Financial Review continued

Non-cash costs

Clinical trial and other costs

The costs associated with these projects are initially capitalised and subsequently amortised over the length of the clinical trials or projects with regard to the amount of progress that has been carried out as specified contractually between the other party and the Company Total costs amortised during the year with respect to clinical trials amount to £270,000 (2010 £389,000)

Share-based payments

Share based payments are charged to the Consolidated Statement of Comprehensive Income in accordance with IFRS2, where the value of the award (as calculated using the Black-Scholes method) is charged over the vesting period of the option

Share based payments arise as a result of

- Grant of options to employees
- Grant of options to distributors or consultants

The Company has two Employee Share Option Plans The original plan was set up in March 2000, but has now expired with regard to the issue of new awards A new scheme, for which authority was obtained at the AGM held in April 2011, was approved by HM Revenue & Customs in September 2011 and awards made from it shortly thereafter

In addition to these schemes, share options are also granted to employees under the Company's Enterprise Management Incentive Scheme ("EMI")

The EMI scheme allows the Company to make tax efficient awards to certain employees, whilst preserving its cash resources For the years ended 31 December 2010 and 31 December 2011, sales bonuses to UK based employees were satisfied using options awarded under the EMI scheme The total share based payment charges for 2011, including bonus awards, was £386,000 (2010 £522,000)

Financial income and expenditure

Financial income in the year remained in line with 2010 at £1,000 primarily as a result of the continued low interest received on cash balances

Finance costs decreased by £38,000 to £123,000 (2010 £161,000) primarily due to a decrease in the interest rate charged on the convertible loan note and a one-off charge in 2010 of £16,000 relating to arrangement expenses of both the increase in the invoice discounting facility and the addition of the US receivables within the facility

Taxation

Under the UK Government's Research and Development tax credit scheme, the Company will claim approximately £102,000 relating to R&D in 2011 (2010 £50,000) This increase is directly related to research and development activity during the year

Earnings per share

The reported net loss for the year was £1,421,000 (2010 £1,468,000) With a weighted average number of shares of 136,698,498 (2010 129,563,192), the basic loss per share was 1 0p (2010 1 1p)

Cash flow and liquidity

Cash at 31 December 2011 was £752,000 (2010 £699,000) Reported net cash used in operating activities increased by £562,000 to £1,352,000 (2010 £790,000) This increase includes an additional investment in R&D and inventory of £339,000 when compared to 2010 The reported net cash in operating activities includes a number of non cash items Restated to exclude non-cash items, the net cash used before movements in working capital increased by £432,000 to £732,000 (2010 £300,000)

In April 2011, the Company placed 3,684,211 shares to raise approximately £1,000,000 after expenses This money was used to enable the Company to accelerate funding on research and development activities, build inventory in anticipation of growth in the UK and to commence a sustained investment in direct marketing within the UK market

Sales are normally higher in the second half of the year than the first half both because of underlying growth trends and because of higher than usual orders from international distributors as they agree their marketing programmes for the following year In both 2011 and 2010 the Company achieved circa 20% of the year's sales in December Sales of probes in the first two months of 2012 have encouraged the

Board that the Company is on track to deliver the levels of sales growth required to become consistently cash positive throughout the financial year The chart below shows the contribution in cash sales and cash expenditure comparing the first half of 2011 with the second half

The Company continues to employ an invoice discounting facility in its management of cash and working capital At 31 December 2011, the amount of funds drawn down under the facility totaled £723,000 (2010 £659,000)

Balance Sheet

The Group's non-current assets at 31 December 2011 totaled £1,041,000 (2010 £1,004,000) consisting principally of plant and equipment including CardioQ-ODM monitors on contracted loan to customers £250,000 (2010 £177,000) and capitalised development costs £724,000 (2010 £437,000) The increase in capitalised development costs relates to the investment in new products which are aimed to be released over the coming years The first of these, the CardioQ-ODM+ was released in March 2012

Net current assets increased by £893,000 to £2,341,000 (2010 £1,448,000) In anticipation of the expected demand from the NHS, where affordable, the Company has decided to increase inventory levels to ensure that such demand can be met at relatively short notice This has led to a direct impact on the year-end inventory, which has increased, by £339,000 to £912,000 (2010 £573,000) Trade and other receivables have increased by £822,000 to £2,818,000 (2010 £1,996,000) Approximately £150,000 of this increase was due to the growing UK business at the end of the year and a further £160,000 from International business in December £324,000 of this movement relates to the reclassification from non-current to current of a clinical trial which is expected to be completed in 2012

Current liabilities increased by £328,000 to £2,243,000 (2010 £1,915,000) primarily as a result of the increase at the year end of stock creditors and a further £64,000 drawn down on the Company's invoice discounting facility

Non-current liabilities increased by £83,000 to £1,526,000 (2010 £1,443,000) The majority of this increase is as a result of the movement in the National Insurance provision for share options

The closing share price at the end of the financial year was 24 55p, compared with 19 5p at the beginning of the year The highest and lowest prices recorded in the financial year were 31 50p and 15 00p respectively

At 31 December 2011, shareholders' funds stood at £1,856,000 an increase of £847,000 over 2010 (£1,009,000)

Key performance indicators

At this stage of its development, the Group's two key performance indicators are probe sales and the underlying cash burn rate (i e the difference between normalised run-rates for cash flows and outflows)

The directors regularly monitor the Group's progress by reference to these two key performance indicators A summary of the progress made against these indicators during the year ended 31 December 2011 is set out below

Probe sales

Probe sales increased by £205,000 in 2011 from £4,595,000 to £4,800,000

Rates of regular probe consumption at hospitals at the end of 2011 were higher than at the start of the year in the majority of our key target markets including the UK and France Although decreasing during the year, the USA is also showing signs of recovery within its core areas of focus coming into 2012 Further details of probe sales are given in the Operating Review on pages 4 to 7

Underlying cash burn rate

The underlying cash burn rate is based around management's estimate of the normalised levels of sales and costs It increases if the Group increases its cost base or sales fall and decreases as the Group's sales grow or costs fall During 2011, the Company decided to increase its cost base for investment purposes only, investing in both research and development and marketing activities Excluding these investment activities, the underlying cost base has been kept at the low levels that were initiated in 2008

The underlying cash burn at the end of 2010 was calculated at approximately £46,000 per month

Financial Review continued

During 2011, the underlying cash burn was calculated as being approximately £50,000 per month The difference between underlying and actual cash burn is also affected by changes in the Group's working capital profile

In addition to these key performance indicators, the following areas are also regularly monitored and where necessary appropriate action is taken, actual cash flows, working capital balances (including inventory levels and receivable collections), sales and other transactions involving monitors and progress with research and development projects and with clinical studies

Paul Mitchell
Finance Director

7 March 2012

Directors

Non-executive directors

Nigel Keen MA FCA
Chairman

Nigel has been involved with Deltex Medical since 1988, and Chairman since 1996 He is also the Non-executive Chairman of Bioquell plc, Laird plc and Oxford Instruments plc Nigel is the Chairman of the Remuneration Committee and the Audit Committee

Dr Edwin Snape MSc PhD
Vice-Chairman

Ed has been connected with Deltex Medical for over ten years and Vice-Chairman since 1999 He is currently a Director of Sultan Scientific Limited, Myoscience Inc , Spectra Analysis Instruments, Inc and Lab 21 Limited He has over 30 years' experience investing in medical devices and life sciences businesses in the USA and Europe

Julian Cazalet MA FCA

Julian joined the Board in April 2008 He was until 2007 a Managing Director — Corporate Finance of JPMorgan Cazenove After graduating in Economics from Cambridge, he qualified as a Chartered Accountant before joining Cazenove in 1973 He became a Partner in 1978 From 1989 he worked in Corporate Finance, firstly in Equity Capital Markets and subsequently advising listed companies He is Chairman of Herald Investment Trust plc and a Director of Charles Taylor Consulting plc and of The White Ensign Association Limited

Professor Sir Duncan Nichol

Duncan has been an influential figure in the provision of acute health services in the UK throughout his career He worked for the NHS for nearly 30 years in a number of senior management roles and was Chief Executive from 1989 to 1994 Duncan has been the Deputy Chairman of the Christie NHS Foundation Trust since 2008 Duncan is also currently a Non-executive Director of Synergy Healthcare plc, a provider of healthcare support services to the NHS and the first Chairman of the UK Academy for Healthcare Science

Executive directors

Ewan Phillips MA ACA
Chief Executive

Ewan joined Deltex Medical as Group Finance Director in August 2001 with a background in corporate finance He took on responsibility for UK sales in October 2002 and was appointed managing director of the UK subsidiary in November 2005 before being appointed Chief Executive in September 2009

Paul Mitchell BSc FCA
Finance Director

Paul joined Deltex Medical in August 2002 as Financial Controller, after qualifying as a Chartered Accountant with PricewaterhouseCoopers In November 2004 he was appointed Company Secretary and was appointed Finance Director in September 2009

Secretary and Advisers

Company secretary and registered office

Paul Mitchell BSc FCA
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www deltexmedical com
Company registered number 3902895

Nominated adviser and broker

Arden Partners
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London
EC2N 1AR

Independent auditors

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9 Greyfriars Road
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Berkshire
RG1 1JG

Solicitors

Laytons
2 More London Riverside
London
SE1 2AP

Principal bankers

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EC2R 8LA

Financial PR advisers

Kreab Gavin Anderson
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London
WC2R 0DW

Registrars

The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Directors' Report
For the year ended 31 December 2011

The directors present their report and the audited financial statements for the year ended 31 December 2011

Business review and principal activities

The Company is the ultimate holding company of a group of subsidiary undertakings ('the Group') engaged in the research, development, manufacture and sale of oesophageal Doppler haemodynamic monitoring systems ('ODM')

The Company is required to set out in this report a fair view of the business of the Group during the financial year ended 31 December 2011, the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group This information, together with the Group's research and development activities and likely future prospects are reviewed in the Chairman's Statement on pages 2 to 3, the Operating Review on pages 4 to 7, and the Financial Review on pages 8 to 12

Results and dividends

The results for the year are shown in the Consolidated Statement of Income on page 23 The directors do not recommend payment of a dividend (2010 £Nil)

Principal risks and uncertainties

The Group's strategy has been and continues to be the establishment of ODM-guided fluid management using the CardioQ-ODM as a standard of care firstly in the Group's home market of the UK, then secondly in the USA and other major markets for medical technology both through direct sales and marketing and, where appropriate, through distribution partnerships The Group regularly reviews its strategic options and financing arrangements to reflect circumstances encountered from time to time

The directors have, therefore, identified the following as being the principal risks and uncertainties facing the Group

- Changes in the rates of adoption of the Group's products in key markets
- The availability to the Group of resources, including cash, to pursue its strategy
- The credit risk in relation to the invoice discounting facility is borne by the Company
- Exposure to political risks in certain territories

The Group has established internal controls to assess the impact or potential impact of actual developments affecting these risks The Group has developed internal forecasting and reporting tools that are used to manage carefully cash flow, production scheduling and stock holdings

A faster, or slower than expected change in the adoption of the Group's products could expose the Group to supply chain and production capacity risks In addition, supply chain disruptions such as delays or losses of inventory also present a potential risk to the Group's ability to progress its strategic aims The Group mitigates these risks through effective supplier selection, management and procurement practices

Key performance indicators

At this stage of its development, the Group's two key performance indicators are probe sales and the underlying cash burn rate (i e the difference between normalised run-rates for revenues and costs)

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 The amount charged to the Consolidated Statement of Comprehensive Income in 2011 was £396,000 (2010 £282,000) The amount capitalised as an intangible asset during 2011 was £347,000 (2010 £213,000), see note 12 Further information is given in the Operating Review on pages 4 to 7 and the Financial Review on pages 8 to 12

Financial risk management

The Group's financial instruments comprise some cash and various items, such as trade receivables, trade payables and borrowings, that arise directly from its operations It is, and has been throughout

Directors' Report continued

the year under review, the Group's policy that it does not undertake any trading in financial instruments

The Board reviews and agrees policies for managing liquidity, interest rate, exchange rate risks, credit risks and capital risks The policies have remained unchanged throughout the year and are summarised below

Liquidity risk

The Group is principally managed to ensure that sufficient cash reserves and credit facilities are available to meet liquidity requirements The Group has available to it an invoice discounting facility with the Group's bankers to supplement working capital needs From time to time, additional funding is raised to allow the Group to invest in its strategic projects to develop the business in its chosen markets

Management monitors rolling forecasts of the Group's liquidity reserves which comprises undrawn invoice discounting facilities and cash and cash equivalents on the basis of expected cash flows

Currency risk

The Group has overseas subsidiaries in the USA, Spain and Germany and as a result the Group's sterling balance sheet can be affected by movements in the US dollar/euro/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 However, given the size of the Group's operations, the costs of managing exposure to currency risk exceed any potential benefits and therefore the Group does not engage in any hedging in respect of currency risks The directors will revisit the appropriateness of this policy should the Group's operations change in size or nature

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 and monitors its exposure to credit risk on an ongoing basis

The Group is also exposed to credit related losses and territory specific credit risk in the event of non-performance by counterparties in connection with financial instruments

The maximum credit risk exposure at the balance sheet date is represented by the carrying value of financial assets and there are no significant concentrations of credit risk For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted As at the date of signing the financial statements all cash and cash equivalents are held with institutions with an 'A' rating as per Standard & Poor's

Interest Rate Risk

The Group has both interest-bearing assets and interest-bearing liabilities The Group's policy is to seek the highest possible return on interest-bearing assets without bearing significant credit risk, and to minimise the rate payable on interest-bearing liabilities

The Group places its cash balances on deposit at floating rates of interest Surplus cash balances are placed on short-term deposit (less than three months) No interest rate swaps are used

Interest rate risk comprises both the interest rate price risk that results from borrowing at fixed rates of interest and also the interest cash flow risk that results from borrowing at variable rates At this time, the majority of the Group's borrowings attract floating rates of interest and therefore the Group's principal interest rate risk is a cash flow risk.

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide future returns to shareholders and benefits for other stakeholders and to maintain optimal capital structure

Ordinary shares are classified as equity Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business The Board of directors monitors the demographic spread of shareholders

The Board encourages employees to hold shares in the Company This has been carried out through the Company's various executive share option plans Full details of these schemes are given in note 22

Directors' interests

	2011	2010
	£'000	£'000
Nigel Keen	**5,759,660**	5,633,804
Dr Edwin Snape	**1,116,338**	4,392,724
Sir Duncan Nichol	**647,416**	602,107
Ewan Phillips	**1,309,773**	1,159,773
Julian Cazalet	**3,527,882**	3,455,388
Paul Mitchell	**148,704**	130,501
	12,509,773	15,374,297
	8.80%	*11 64%*

Amounts in italics relate to percentage of issued share capital at 31 December 2011 and 31 December 2010

Dr Edwin Snape is a principal of Nexus Medical Partners II, L P On 19 April 2011, the Company was informed that Nexus Medical Partners had disposed of its entire holding of 3,367,004 ordinary shares in the Company In addition, Nexus loaned approximately $518,518 to the Company's US subsidiary in 2008 by way of an unsecured loan note repayable after five years Interest on the loan note is to be charged at 4% per annum with all interest rolling up for settlement on redemption

Directors' remuneration

Details of the share options of those directors who served during the year are as follows

	At 1 January 2011 No	**Granted during 2011 No**	**Exercised 2011 No**	**Expired 2011 No**	**At 31 December 2011 No**	**Exercise price £**	**Exercise period from**	**Exercise period to**
Ewan Phillips								
2000 Executive Share	100 000	–	–	(100 000)	0	0 25	07 Nov-04	06 Nov 11
Option Scheme	60 000	–	–	–	60,000	0 25	27 Nov-05	26 Nov-12
	120 000	–	–	–	120,000	0 15	28 Oct-06	27 Oct 13
	400 000	–	–	–	400 000	0 24	12-Oct-07	11 Oct-14
	400 000	–	–	–	400 000	0 2075	28-Mar-09	27-Mar 16
	400 000	–	–	–	400 000	0 295	29-Jun-10	28-Jun-17
	500 000	–	–	–	500,000	0 185	30-Jun-11	29-Jun 18
	500,000	–	–	–	500 000	0 1275	12 Jun-12	12 Jun 19
2011 Executive Share Option Scheme	–	1 000 000	–	–	1 000,000	0 1725	28-Sep-14	27 Sep 21
EMI Scheme	583 333	–	–	–	583 333	0 01	24 Mar-04	27 Oct 13
	156,739	–	(104 656)	–	52,083	0 01	15 Mar-05	11 Oct 14
	259 225	–	(45,344)	–	213 881	0 01	15 Mar-07	19 May 16
	235 962	–	–	–	235,962	0 01	27 Mar-08	28-Jun 17
	342 857	–	–	–	342,857	0 01	07-Apr-08	29-Jun 18
	510 638	–	–	–	510 638	0 01	12 Jun-09	12-Jun 19
	43 478	–	–	–	43 478	0 01	30-Dec-09	30-Dec-19
	31 250	–	–	–	31,250	0 01	24-Mar-10	24-Mar 20
	34,884	–	–	–	34 884	0 01	25-Jun-10	25-Jun 20
	690 104	–	–	–	690 104	0 01	13-Oct-10	13 Oct 20
	20 270	–	–	–	20 270	0 01	23-Dec-10	23-Dec 20
	–	13 636	–	–	13,636	0 01	19-Apr-11	18-Apr 21
	–	507 692	–	–	507 692	0 01	28-Sep-11	27 Sep 21
	5 388 740	1 521 328	(150,000)	(100 000)	6,660 068			

Directors' Report continued

	At 1 January 2011 No.	Granted during 2011 No	Exercised 2011 No	Expired 2011 No	At 31 December 2011 No	Exercise price £	Exercise period from	Exercise period to
Paul Mitchell								
2000 Executive Share	12,000	–	–	–	12,000	0 25	27-Nov 05	26-Nov-12
Option Scheme	28 000	–	–	–	28 000	0 15	28-Oct-06	27-Oct-13
	100 000	–	–	–	100 000	0 24	12 Oct 07	11-Oct-14
	100,000	–	–	–	100 000	0 2075	28-Mar-09	27 Mar-16
	125,000	–	–	–	125,000	0 295	29-Jun-10	28-Jun-17
	125 000	–	–	–	125,000	0 185	30-Jun-11	29-Jun-18
	125 000	–	–	–	125 000	0 1275	12-Jun-12	12-Jun-19
2011 Executive Share Option Scheme	-	300,000	-	-	300,000	0 1725	28 Sep-14	27 Sep-21
EMI Scheme*	55 556	–	(55 556)	–	–	0 01	13-Oct-10	13 Oct-20
	-	133,231	(133,231)	-	–	0 01	28 Sep-11	27 Sep-21
	670 556	433 231	(188 787)	-	915 000			

All shares and options at 31 December 2011 and 31 December 2010 related to ordinary 1p shares

* Enterprise Management Incentive Scheme

Directors' remuneration

The remuneration paid to the directors was

	Salary and fees £	Bonus £	Benefits £	Pension £	2011 Total £	Salary fees and benefits £	Bonus £	Pension £	2010 Total £
Julian Cazalet	24 000	–	–	–	24,000	24,000	–	–	24 000
Nigel Keen	33 333	–	–	–	33 333	33 333	–	–	33 333
Paul Mitchell	86 520	-	7,500	3,461	97 481	91 317	15 000	3 281	109,598
Duncan Nichol	24 000	–	–	-	24,000	24 000	-	-	24,000
Ewan Phillips	185 000	–	7 500	7 400	199 900	192 500	–	7 400	199 900
Ed Snape	24 000	–	–	–	24 000	24 000	–	–	24,000
	376,853	-	15 000	10,861	402 714	389,150	15,000	10,681	414 831

Throughout the year ended 31 December 2011 all amounts in respect of fees payable regarding Nigel Keen s services as director were made to Imperialise Limited, a company of which Mr Keen is the sole director and the majority shareholder

Directors' bonus

Discretionary bonuses have been awarded retrospectively to executive directors, in respect of work carried out in the year ended 31 December 2010, through an Enterprise Management Incentive Scheme which allowed the directors concerned to sacrifice an element of their entitlement to cash bonuses in return for share options exercisable at the nominal value of 1p per ordinary share

	Period covered	Number of options	Exercise price £
Ewan Phillips	January 2010 to January 2011	461 538	0 01
Paul Mitchell	January 2010 to January 2011	133,231	0 01

In addition to the amounts charged above Ewan Phillips has elected to sacrifice his entitlement to a cash increase in salary in return for share options exercisable at 1p per shares as follows

	Period covered	Number of options	Exercise price £
Ewan Phillips	January 2011 to September 2011	59 790	0 01

These have been charged to the Consolidated Statement of Comprehensive Income in accordance with IFRS "Share based payments"

Details of the service contracts of the executive directors at 31 December 2011 are set out in the table below

Ewan Phillips	
Commencement date	11 September 2001
Notice period	Six months
Aggregate remuneration	£200,000 salary, car allowance, discretionary bonus, pension contribution of 4% of salary
Compensation on early termination	None
Non-competition	Standard restrictions on soliciting customers or suppliers or working for competing businesses for 12 months
Paul Mitchell	
Commencement date	3 September 2009
Notice period	Six months
Aggregate remuneration	£86,520 salary, car allowance, discretionary bonus, pension contribution of 4% of salary
Compensation on early termination	None
Non-competition	Standard restrictions on soliciting customers or suppliers or working for competing businesses for 12 months

Ewan Phillips has elected to sacrifice £15,000 (2010 £15,000) of the aggregate remuneration reported above in lieu of share options Paul Mitchell also elected for £8,112 (2009 £8,112) of the aggregate remuneration reported above, to be settled through equity issue during the year

Directors' indemnities

As permitted by the Companies Act 2006, the Company has indemnified the directors in respect of proceedings brought by third parties and indemnity insurance was in place throughout the year

Major interests in shares

The following are beneficial interests of 3% or more, of which the directors have been notified in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the Company's ordinary share capital, the only class of voting capital, at 7 March 2012

	Number of ordinary shares	Percentage of issued share capitl
BlackRock, Inc	9,135,789	6 43%
Cazenove Capital Management Limited	6,879,749	4 84%
Henderson Global Investors	6,983,238	4 91%
Herald Investment Management Limited	9,314,190	6 55%
Nigel Keen	5,759,660	4 05%

Charitable and political donations

No donations were made by the Company or Group during the year for political or charitable purposes (2010 £Nil)

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 Company during the year cannot be calculated as invoices received relating to the Company's activities were settled on its behalf by subsidiaries The average time taken by fellow subsidiaries to satisfy liabilities was 60 days (2010 60 days)

Going concern

The Group meets its day-to-day working capital requirements through a combination of operational cash flows, an invoice discounting facility and the raising of additional finance if required The directors have examined detailed budgets and forecasts for the next fifteen months from the date of approval of these financial statements This review indicates that the Group is expected to continue trading at current

Directors' Report continued

levels as a going concern on the basis of increasing net cash inflows from sales over expenditure of the Group

Further details of Group's cash flows are given in the Chairman's Statement on pages 2 to 3, the Operating Review on pages 4 to 7, the Financial Review on pages 8 to 12 and the Directors' report on page 19 and the Basis of preparation note on page 34

The Board has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future and accordingly continues to adopt the going concern basis in preparing the financial statements as detailed in note 1

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the parent Company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) Under Company law the directors must not approve the financial statements unless they are satisfied they give a true and fair view of the state of affairs of the Company and the Group and the profit or loss for that period

In preparing those financial statements the directors are required to

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent Company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the Group and parent Company financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent Company will continue as a going concern in business, in which case there should be supporting assumptions or qualifications as necessary

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors confirm that they have complied with the above requirements in preparing the financial statements

Each of the directors, whose names and functions are listed on page 13 confirm that, to the best of each person's knowledge and belief

- The financial statements, prepared in accordance with IFRSs as adopted by the EU give a true and fair view of the assets, liabilities, financial position and loss of the Company and the Group, and
- The directors' report contained in the annual report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face

The directors are responsible for the maintenance and integrity of the Company and Group website, www deltexmedical com Legislation in the United

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

Disclosure of information to auditors

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

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Independent auditors

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

Annual General Meeting

The notice convening the Annual General Meeting, which will take place on 2 May 2012 at 11 00am at Laytons, 2 More London Riverside, London SE1 2AP, accompanies this report

By order of the Board

Paul Mitchell
Company Secretary

7 March 2012

Independent Auditors' Report

to the members of Deltex Medical Group plc

We have audited the Group financial statements of Deltex Medical Group plc for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities statement set out on pages 20 and 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Chairman's Statement, the Operating Review, the Financial Review and Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit Other matter We have reported separately on the parent Company financial statements of Deltex Medical Group plc for the year ended 31 December 2011

Miles Saunders

Miles Saunders (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

7 March 2012

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Revenue	2	**6,303**	6,279
Cost of sales	4	**(1,765)**	(1,637)
Gross profit		**4,538**	4,642
Administrative expenses	4	**(2,012)**	(2,346)
Sales and distribution costs	4	**(3,532)**	(3,367)
Research and development costs	4	**(396)**	(282)
		(5,940)	(5,995)
Operating loss	3, 4	**(1,402)**	(1,353)
Analysed as			
Operating loss before exceptional items		**(1,402)**	(1,374)
Exceptional items	5	**–**	21
Operating loss		**(1,402)**	(1,353)
Finance income	7	**1**	1
Finance costs	7	**(123)**	(161)
Loss before taxation		**(1,524)**	(1,513)
Tax credit on loss	8	**103**	45
Loss for the year	23	**(1,421)**	(1,468)
Other comprehensive income			
Exchange differences taken to reserves	23	**(14)**	(6)
Other comprehensive income for the year, net of tax		**(14)**	(6)
Total comprehensive loss for the year		**(1,435)**	(1,474)
Loss per share – basic and diluted		**(1 0p)**	(1 1p)

The notes on pages 27 to 57 form an integral part of these consolidated financial statements

Alternative performance measures (note 1)

	2011 £'000	2010 £ 000
Adjusted operating loss		
Operating loss including non-cash items	**(1,402)**	(1,353)
Share-based payments	**386**	522
Equity settled costs	**182**	116
Net non-cash clinical trial (credits)/charges	**(387)**	70
Depreciation and amortisation	**191**	154
Net increase in provisions, including receivables	**305**	136
Sundry non-cash charges/(credits)	**(7)**	55
Adjusted operating loss before non-cash items	**(732)**	(300)

These supplementary disclosures do not form part of the Consolidated Statement of Comprehensive Income

Consolidated Balance Sheet

at 31 December 2011

	Note	2011 £'000	2010 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	**309**	239
Intangible assets	11	**724**	437
Trade and other receivables	14	**8**	328
Total non-current assets		**1,041**	1,004
Current assets			
Inventories	13	**912**	573
Trade and other receivables	14	**2,818**	1,996
Current income tax recoverable		**102**	95
Cash and cash equivalents	15	**752**	699
Total current assets		**4,584**	3,363
Total assets		**5,625**	4,367
Liabilities			
Current liabilities			
Borrowings	16	**(743)**	(689)
Trade and other payables	18	**(1,500)**	(1 226)
Total current liabilities		**(2,243)**	(1,915)
Non-current liabilities			
Borrowings	16	**(1,359)**	(1 335)
Provisions for other liabilities	19	**(167)**	(108)
Total non-current liabilities		**(1,526)**	(1,443)
Total liabilities		**(3,769)**	(3,358)
Net assets		**1,856**	1,009
Equity			
Share capital	21, 23	**1,421**	1 320
Share premium	23	**21,901**	20,116
Capital redemption reserve	23	**17,476**	17,476
Other reserves	23	**3,286**	2,890
Translation reserve	23	**(9)**	5
Retained deficit	23	**(42,219)**	(40,798)
Total equity		**1,856**	1,009

The notes on pages 27 to 57 form an integral part of these consolidated financial statements

The financial statements on pages 23 to 57 were approved by the Board of Directors on 7 March 2012 and were signed on its behalf by

N J Keen
Chairman
Deltex Medical Group plc (3902895)

P J Mitchell
Finance Director
Deltex Medical Group plc (3902895)

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Share capital £'000	**Share premium £'000**	**Capital redemption reserve £'000**	**Other reserves £'000**	**Translation reserve £'000**	**Retained deficit £'000**	**Total equity £'000**
Balance at 1 January 2010	1 269	19,974	17 476	2,399	11	(39 330)	1,799
Comprehensive income							
Loss for the year	–	–	–	–	–	(1,468)	(1,468)
Other comprehensive income							
Exchange movements taken to reserves	–	–	–	–	(6)	–	(6)
Total comprehensive income for the year	–	–	–	–	(6)	(1 468)	(1 474)
Shares issued during the year	51	–	–	–	–	–	51
Premium on shares issued during the year	–	142	–	–	–	–	142
Issue expenses	–	–	–	–	–	–	–
Credit in respect of service costs settled by award of options	–	–	–	491	–	–	491
Balance at 31 December 2010	**1,320**	**20,116**	**17,476**	**2,890**	**5**	**(40,798)**	**1,009**
Comprehensive income							
Loss for the year	–	–	–	–	–	(1,421)	(1,421)
Other comprehensive income							
Exchange movements taken to reserves	–	–	–	–	(14)	–	(14)
Total comprehensive income for the year	–	–	–	–	(14)	(1,421)	(1,435)
Shares issued during the year	101		–	–	–	–	101
Premium on shares issued during the year	–	1,838	–	–	–	–	1,838
Issue expenses	–	(53)	–	–	–	–	(53)
Credit in respect of service costs settled by award of options	–	–	–	396	–	–	396
Balance at 31 December 2011	**1,421**	**21,901**	**17,476**	**3,286**	**(9)**	**(42,219)**	**1,856**

The notes on pages 27 to 57 form an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

	Note	2011 £'000	2010 £ 000
Cash flows from operating activities			
Net cash used in operations	24	**(1,337)**	(791)
Interest paid		**(112)**	(97)
Income taxes received		**97**	98
Net cash used in operating activities		**(1,352)**	(790)
Analysed as			
Net cash used in operating activities before exceptional items		**(1,352)**	(679)
Exceptional items		**-**	(111)
Net cash used in operating activities		**(1,352)**	(790)
Cash flows from investing activities			
Purchase of property plant & equipment	10	**(194)**	(143)
Capitalised development expenditure	11	**(346)**	(213)
Interest received	7	**1**	1
Net cash used in investing activities		**(539)**	(355)
Cash flows from financing activitites			
Issue of ordinary share capital	23	**1,939**	193
Expenses in connection with share issue		**(53)**	-
Proceeds from increase in borrowings		**70**	187
Effect of exchange rate fluctuations on borrowings		**(4)**	8
Expenses in connection with new borrowing		**-**	(16)
Repayment of obligations under finance leases		**(4)**	(7)
Net cash generated from financing activities		**1,948**	365
Net increase/(decrease) in cash and cash equivalents		**57**	(780)
Cash and cash equivalents at beginning of the year		**699**	1,480
Exchange losses on cash and cash equivalents		**(4)**	(1)
Cash and cash equivalents at end of the year		**752**	699

The notes on pages 27 to 57 form an integral part of these consolidated financial statements

Notes to the Financial Statements

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

General information

These financial statements are the consolidated financial statements of Deltex Medical Group plc, a public limited company registered and domiciled in the United Kingdom and its subsidiaries ('the Group) Deltex Medical Group plc is listed on the Alternate Investment Market The address of the registered office is Deltex Medical Group plc, Terminus Road Chichester PO19 8TX, registered number 3902895

Basis of reporting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) with interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS The consolidated financial statements have been prepared under the historical cost convention, and on a going concern basis as discussed in more detail under the 'Basis of Preparation' section of this note

The following standards, amendments to standards and interpretations which have been endorsed by the EU have been adopted with effect from 1 January 2011 or as stated below No changes to previously published accounting policies or other adjustments were required on their adoption

- Revised IAS 24 Related Party Disclosures
- Amendment to IFRIC 14, Prepayments of a Minimum Funding Requirement
- IFRIC 19, Extinguishing Financial Liabilities with Equity instruments
- Amendment to IFRS 1, Limited Exemption from Comparative IFRS 7 Disclosure for First-time Adopters
- Amendment to IAS 32, Financial instruments classification of rights issues
- Annual Improvements to IFRSs 2010

Accounting standards not yet effective

Certain new standards and amendments to existing standards have been published that are mandatory for future accounting periods, subject to EU endorsement Those which the Group has not adopted early and effective date (periods beginning) are as follows

- Amendments to IFRS 7, Financial Instruments Disclosures on Derecognition – 1 July 2011
- Amendment to IFRS 1, First time adoption on fixed dates and hyperinflation – 1 July 2011
- Amendment to IAS 12, Income taxes on deferred tax – 1 January 2012
- Amendment to IAS 1, Financial statement presentation regarding other comprehensive income – 1 July 2012
- IAS 19 (revised 2011), Employee benefits, eliminating the corridor approach – 1 January 2013
- IFRS 9, Financial instruments – 1 January 2015
- IFRS 10 Consolidated financial statements – 1 January 2013
- IFRS 11, Joint arrangements – 1 January 2013
- IFRS 12, Disclosures of interests in other entities – 1 January 2013
- IFRS 13 Fair value measurement – 1 January 2013
- IAS 27 (revised 2011), Separate financial statements – 1 January 2013
- IAS 28 (revised 2011) Associates and joint ventures – 1 January 2013

None of these are expected to have a material impact on the Group

Notes to the Financial Statements continued

1 **Principal accounting policies** continued

Basis of consolidation

The Consolidated Financial Statements include the financial statements of the parent Company and all of its subsidiaries All intra-group transactions, balances, income and expenses are eliminated on consolidation Subsidiaries are fully consolidated from the date on which control is transferred to the Group They are de-consolidated from the date that control ceases

Revenue recognition

Revenue is measured at the fair value of the consideration receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts VAT and other sales related taxes and exclude intercompany sales

- Monitor and probe revenue
  Revenue on monitors and probes is recognised at the point when substantially all of the risks and rewards of ownership are transferred to the customer normally this is on dispatch

- Clinical trial data
  Where goods are exchanged for trial data the exchange is treated as revenue under a barter transaction The revenue is measured at fair value of the trial data or at the fair value of the goods supplied, where the fair value of the trial data cannot be reliably measured The corresponding asset is recorded as a prepayment (see clinical trials accounting policy)

- Operating leases
  When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset Lease income is recognised over the term of the lease on a straight-line basis

- Managed care service contracts
  Where contracts exist which provide for a specified number of probes over a period of time for a total contract fee, revenue is recognised on a a 'per probe basis Variations between this percentage of completion accounting and the monthly contract fee charged is recognised as deferred or accrued income on the balance sheet

- Other service contracts
  In respect of service contracts and other agreements for ongoing support, revenue is recognised in equal monthly instalments over the period of the contract to match the benefits to the customer

Operating segments

An operating segment is a component of an entity that engages in business activities for which discrete financial information is available

For reporting purposes, the results of the Group are allocated between four operating segments which equate to specific geographical areas and are as described in note 2 The Group accounting policies are applied consistently across the four segments Head office and other costs, which cannot be fairly allocated are shown separately

The Group has a single group of related products and services being the supply of monitors and probes and related services Segment information is provided on the basis of geographic areas where we have direct operations and distributor markets which is the basis on which the Group Chief Operating Decision Maker manages its worldwide activities The Chief Operating Decision Maker is the executive Board Revenue is attributed to the UK, USA and Spain as being the country where the sales is made through our direct operations All other revenue which is derived from sales to distributors is classified as International

Whilst Spain does not meet the quantitative criteria for disclosure as a separate segment, it is expected to become a significant contributor to the Group's performance in future years as the Group expands its opportunities in this country Consequently the Group has chosen to include Spain as a reportable segment as it is felt that such information would be useful to the users of the financial statements

Notes to the Financial Statements continued

1 Principal accounting policies continued

Operating segments continued

Segment operating result is the measure of segment profit/(loss) and comprises gross profit, selling and general administrative expenses Research and non-capitalised development costs, other net operating income/(expense), as well as other net financial income/(expense) are not allocated in calculating the segment/operating result

Exceptional items

Exceptional items relate to material non-recurring items of income and expense arising from circumstances such as disposals of property, plant and equipment, discontinued operations, disposals of investments, onerous contracts and litigation settlements The separate reporting of exceptional items helps provide a better understanding of the Group's underlying performance during the period

Foreign currency translation

The functional and presentational currency for the parent Company is UK pounds sterling Group companies use their local currency as their functional currency Transactions denominated in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date, with any gains or losses being included in the net profit or loss of the period Exchange differences arising on non-monetary assets and liabilities are recognised directly in equity

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date Income and expense items are translated at the average exchange rates for the period Exchange differences arising if any are dealt with through the Group's reserves, until such a time as the subsidiary is sold whereupon the cumulative exchange differences relating to the net investment in that foreign subsidiary are recognised as part of the profit or loss on disposal in the Consolidated Statement of Comprehensive Income However, cumulative exchange differences arising prior to 1 January 2006 remain in equity as permitted by IFRS 1

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling denominated assets and liabilities

Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder or subject to certain conditions at the option of the Group and the number of shares to be issued does not vary with changes in their fair value

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts

Subsequent to initial recognition the liability component of a compound financial instrument is measured at amortised cost using the effective interest method The equity component of a compound financial instrument is not re measured subsequent to initial recognition except on conversion or expiry

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period

Notes to the Financial Statements continued

1 **Principal accounting policies** continued

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables Significant financial difficulties of the debtor probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Consolidated Statement of Comprehensive Income within 'sales and distribution' costs When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables Subsequent recoveries of amounts previously written off are credited against 'sales and distribution costs' in the Consolidated Statement of Comprehensive Income

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation in respect of a past event and it is probable that settlement will be required of an amount that can be reliably estimated Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation The increase in the provision due to passage of time is recognised as interest expense

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

Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment The cost of purchased assets includes the original purchase price together with any incidental expenses of acquisition

Depreciation is calculated so as to write down property plant and equipment to their estimated realisable values, by equal annual instalments over their expected useful economic lives at the following rates

Leasehold property and improvements	five years or to the end of the lease period if less
Plant and machinery	three to five years
Machines loaned to customers	five years
Fixtures, fittings and equipment	three to five years

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

Machines loaned to customers

In order to support key accounts and increased probe usage, CardioQ-ODM monitors may be placed on long-term loan with customers Where these monitors are expected to be placed for a period longer than 12 months, the monitors are transferred at book value to property plant and equipment and amortised over five years Where monitors are placed on a short-term loan of less than 12 months and it is expected that the monitors will be sold thereafter, the monitors are included within inventories and a provision for refurbishment cost is charged to the Consolidated Statement of Comprehensive Income

Intangible fixed assets

Research and development expenditure – internally generated

Costs for self-initiated research and development activities are assessed as to whether they qualify for recognition as internally generated intangible assets Apart from complying with the general recognition requirements and initial measurement of an intangible asset, qualification criteria are met only when technical as well as commercial feasibility can be demonstrated and cost can be measured reliably It must also be probable that the intangible asset will generate future economic benefits and that it is clearly identifiable and allocatable to a specific product

Notes to the Financial Statements continued

1 Principal accounting policies continued

Research and development expenditure – Internally generated continued

Further to meeting these criteria, only such costs that relate solely to the development phase of a self-initiated project are capitalised Any costs that are classified as part of the research phase of a self-initiated project are expensed as incurred If the research phase cannot be clearly distinguished from the development phase, the respective project related costs are treated as if they were incurred in the research phase only

Amortisation is calculated so as to write down the value of the intangible assets by equal annual instalments over their expected useful economic lives at the following rates

Monitors	five years
Probes	five years

The costs in respect of trialling for clinical, economic and other purposes is not considered to be research and development expenditure The accounting policy for this is detailed below

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They are included in current assets except for maturities greater than 12 months after the balance sheet date Such assets are carried at amortised cost using the effective interest method Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired as well as through the amortisation process

Loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process Borrowing costs are recognised as an expense when incurred

Impairment of property, plant and equipment and intangible assets excluding goodwill

At each Balance Sheet date the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss The recoverable amount is the higher of the asset's value in use and its fair value less costs to sell Value in use is calculated using cash flow projections for the asset (or group of assets where cash flows are not identifiable for specific assets) discounted at the Group s cost of capital

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount

Retirement benefit costs

Retirement benefit costs are accounted for in accordance with IAS 19 (amended)

The Group provides pension arrangements to the majority of full-time UK employees through a money purchase (defined contribution) scheme Contributions and pension costs are based on pensionable salary and are charged as an expense as they fall due The Group has no further payment obligations once the contributions have been paid

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 to the Consolidated Statement of Comprehensive Income in the year in which they are payable There are no post-retirement obligations in respect of this scheme payable by the Group

Notes to the Financial Statements continued

1 **Principal accounting policies** continued

Investments

Investments are stated at cost less any provisions for impairment

Inventories

Inventories are stated at the lower of cost and net realisable value Cost is determined on a first in, first out basis Work in progress and finished goods are included on a basis appropriate to the state of completion of the various individual items taking account of production materials and components together with an appropriate share of directly attributable labour and overheads Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution Provision is made for obsolete, slow-moving or defective items where appropriate

Finance and operating leases

Costs in respect of operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term Where property, plant and equipment are financed by finance lease agreements, which transfer to the Group substantially all the benefits and risks of ownership, the assets are treated as if they had been purchased outright and are included in property, plant and equipment Such amounts are written off over the period of the lease The capital element of the finance lease commitment is shown as obligations under finance leases within borrowings The finance lease payments are treated as consisting of capital and interest elements The capital element is applied to reduce the outstanding obligations and the interest element is charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term

Clinical and other trials

The cost of trialling for clinical, economic and other purposes to support the Group's sales and promotional activity, or the cost of purchasing the rights to the use of the data arising from such trials, is written off as the trial is delivered At each Balance Sheet date any asset relating to prepaid clinical and other trials, or prepayments recognised from barter transactions, are assessed for impairment and where necessary an impairment loss is recognised as an expense in the Consolidated Statement of Comprehensive Income

Current and deferred taxation

The tax expense represents the sum of current tax and deferred tax Tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised in equity, in which case it is recognised in equity

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

Deferred tax is provided using the Balance Sheet date liability method on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit In principle deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets or liabilities in a transaction that affects neither the tax profit nor the accounting profit

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is not probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current liabilities and when the deferred income taxes relate to the same fiscal authority

Notes to the Financial Statements continued

1 **Principal accounting policies** continued

Share-based payments

The Group awards directors, employees and certain of the Company's distributors and advisers equity-settled share-based payments, from time to time, on a discretionary basis In accordance with IFRS 2 'Share-based payments', equity-settled share-based payments are measured at fair value at the time of grant Fair value is measured by use of a Black-Scholes model The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest The options are subject to vesting conditions of up to six years, and their fair value is recognised as an expense with a corresponding increase in 'other reserves' equity over the vesting period The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised

The fair value of the equity-settled share-based payment is recharged by the Group company to the subsidiary operating company at fair value The expense is, therefore, recognised in the subsidiary operating company, with the equity reserve being recognised in the Group company

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution The fair value of employee services received, measured by reference to the grant date fair value is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity

Cash and cash equivalents

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

Share capital

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

Trade payables

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

Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date

Significant judgements, assumptions and estimates

In the process of applying the Group s accounting policies, the directors have made a number of judgements In addition, the preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Although these estimates are based on the directors' best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates The key assumptions at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

- **Clinical trial data**

  The Group exchanges goods for trial data and this exchange is treated as revenue under a barter transaction These represent non-cash transactions Where the fair value of the trial data cannot be reliably measured, the clinical trial cost is measured at the fair value of the goods being supplied The determination of this fair value involves some judgement of what is an appropriate comparable sales value The timing of completion of the trials is estimated at the start of the trial, and the prepaid costs split accordingly between non-current and current assets However, unforeseen future events may adversely impact on the value and timing of the trials which would result in potential impairments or changes in balance sheet classification of the assets

Notes to the Financial Statements continued

1 **Principal accounting policies** continued

- **Valuation of share-based payments**

  In order to determine the value of share-based payments, management are required to make an estimation of the effects of non-transferability, exercise restrictions and behavioural considerations Fair value is measured by use of a Black-Scholes model and the inputs are set out in note 22

- **Trade receivables recoverability**

  Judgements have been made in respect of various overseas territories in which the Company operates in order to assess the recoverability of receivables from these territories

- **Research and development**

  Costs for research and development activities are only capitalised as intangible assets if the qualification criteria are met These criteria are met only when the technical as well as commercial feasibility can be demonstrated and cost can be measured reliably The amounts capitalised represents the Group's estimate of what costs have met this criteria There is a risk that the intangible asset will not generate the required future economic benefits and therefore could result in potential impairments

Alternative financial measures

The Group uses a number of alternative (non-Generally Accepted Accounting Practice (non-GAAP)) financial measures, which are not defined by IFRS The directors use these measures in order to assess the underlying operational performance of the Group and as such these measures are important and should be considered alongside the IFRS measures The following non-GAAP measures are referred to in these Financial Statements

(a) *Adjusted operating loss beneath the Consolidated Statement of Comprehensive Income*
This is defined as operating loss before non-cash charges to the Consolidated Statement of Comprehensive Income A reconciliation of the operating loss to the adjusted operating loss is shown beneath the Consolidated Statement of Comprehensive Income

(b) *Adjusted operating cash flow before movement in working capital*
This is defined as the operating cash flow before movement in working capital which relates to cash transactions only Therefore any non-cash working capital elements have been removed A reconciliation of the adjusted operating cash flow before movement in working capital to the operating cash flow before movement in working capital is shown beneath the Notes to the Cash Flow Statement (note 24)

Basis of preparation

In common with many companies of its size and which are at its stage of development, the directors manage carefully the Group's limited resources to develop the opportunities open to it without overstretching the funding capabilities of the business

The funds the Group has available to it are provided both by the results of its commercial activities and through the new funding provided to it by the capital markets and secured lending and the Group drives its development of the market in keeping with this level of funding, having sufficient flexibility in its cost structure to tailor expenditure to accord with income levels

As noted in the Directors' Report, in preparing these financial statements the directors have reviewed detailed budgets and cash flow forecasts for the next 15 months from the date of approval of these financial statements This review indicates that the Group is expected to continue trading at current levels as a going concern on the basis of increasing net cash inflows from sales over expenditure of the Group

The directors believe it is appropriate to prepare the financial statements on the going concern basis

Notes to the Financial Statements continued

2 Operating segments

For management purposes, the Group is currently organised into four operating segments UK, USA, Spain and International These segments are the basis on which the Group reports its segment information

The principal activities of each segment are as follows

- the UK segment employs a direct sales team in the marketing, sales and support of the Group's CardioQ monitor and associated probes within the UK territory
- the USA segment employs a direct sales team in the marketing, sales and support of the Group's CardioQ monitor and associated probes within the USA territory,
- the Spanish segment employs a direct sales team in the marketing, sales and support of the Group s CardioQ-ODM monitor and associated probes within the USA territory,
- the International segment supports distributors in selected territories to promote the marketing, sales and support of the CardioQ-ODM and its associated probes within these territories

The reportable segment results for the year ended 31 December 2011 are as follows

	UK £'000	USA £'000	International £'000	Spain £'000	Unallocated £'000	Total £'000
Total segment revenue	3,910	710	1,795	65	–	6,480
Inter segment revenue	(177)	–	–	–	–	(177)
Revenue from external customers	3,733	710	1,795	65	–	6,303
Segment operating result	1,143	(556)	309	(153)	(2,145)	(1,402)
Finance income						1
Finance costs						(123)
Loss before taxation						(1 524)
Tax credit on loss						103
Loss for the financial year						(1 421)

Included within the segment operating results are the following significant non-cash items

	UK £'000	USA £'000	International £'000	Spain £'000	Unallocated £'000	Total £'000
Depreciation and amortisation	45	43	5	15	83	191
Equity-settled transactions	143	(2)	46	1	198	386
Receivables provision	1	–	246	–	–	247
Amortisation of clinical trial costs	–	–	–	–	113	113
Capitalisation of clinical trial costs	(340)	–	(140)	(20)	–	(500)
Total	**(151)**	**41**	**157**	**(4)**	**394**	**437**

Notes to the Financial Statements continued

2 **Operating segments** continued

The reportable segment results for the year ended 31 December 2010 are as follows

	UK £'000	USA £'000	International £'000	Spain £'000	Unallocated £'000	Total £'000
Total segment revenue	3,562	864	1,937	188	–	6,551
Inter-segment revenue	(272)	–	–	–	–	(272)
Revenue from external customers	3,290	864	1,937	188	–	6,279
Segment operating result	996	(509)	568	(48)	(2,360)	(1,353)
Finance income						1
Finance costs						(161)
Loss before taxation						(1,513)
Tax credit on loss						45
Loss for the financial year						(1,468)

Included within the segment operating results are the following significant non-cash items

	UK £'000	USA £'000	International £'000	Spain £'000	Unallocated £'000	Total £'000
Depreciation and amortisation	31	54	1	–	67	153
Equity-settled transactions	138	31	47	–	306	522
Receivables provision	–	–	100	3	–	103
Amortisation of clinical trial costs	–	–	–	–	389	389
Capitalisation of clinical trial costs	(99)	–	(102)	(118)	–	(319)
Total	**70**	**85**	**46**	**(115)**	**762**	**848**

Unallocated costs include those costs that cannot be split between segments, including expenditure on research and development and clinical trials

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties

The reportable segment assets and liabilities at 31 December 2011 and capital expenditure are as follows

	UK £'000	USA £'000	International £'000	Spain £'000	Unallocated £'000	Total £'000
Assets	1,667	257	1,092	215	2,394	5,625
Liabilities	262	265	83	20	3 139	3,769

	Assets £'000	Liabilities £'000
Segment assets/liabilities	3,231	630
Unallocated		
Intangible assets	724	–
Property, plant and equipment	57	–
Taxation receivable	102	–
Prepayments and accrued income	802	–
Other debtors	1	–
Cash and cash equivalents	708	–
Borrowings	–	1,983
Trade and other payables	–	866
Provisions	–	290
	5,625	3 769

Notes to the Financial Statements continued

2 Operating segments continued

The reportable segment assets and liabilities at 31 December 2010 and capital expenditure are as follows

	UK £'000	USA £'000	International £'000	Spain £'000	Unallocated £'000	Total £'000
Assets	1,050	301	1,019	233	1,764	4,367
Liabilities	115	292	81	20	2,850	3,358

	Assets £'000	Liabilities £'000
Segment assets/liabilities	2,603	508
Unallocated		
Intangible assets	437	-
Property, plant and equipment	60	-
Taxation receivable	95	-
Prepayments and accrued income	518	-
Other debtors	1	-
Cash and cash equivalents	653	-
Borrowings	-	1 911
Trade and other payables	-	848
Provisions	-	91
	4,367	3,358

Segment assets consist primarily of inventories and trade and other receivables Unallocated assets comprise primarily of intangible assets, property, plant and equipment, prepayments and accrued income, cash and cash equivalents and taxation receivable

Segment liabilities primarily comprise deferred income and accrued employee costs Unallocated liabilities comprise trade and other payables, provisions and other borrowings

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

	2011 Probes £'000	2011 Monitors £'000	2011 Other £'000	2011 Total £'000	2010 Probes £'000	2010 Monitors £'000	2010 Other £'000	2010 Total £'000
Direct markets								
UK	2,870	678	185	3,733	2 611	500	179	3,290
USA	705	-	5	710	830	29	5	864
Spain	43	22	-	65	131	57	-	188
Distributor markets								
Rest of Europe	667	322	6	995	597	326	10	933
Rest of the World	515	270	15	800	426	571	7	1,004
	4,800	1,292	211	6,303	4 595	1,483	201	6,279

It is not practical to split the assets and liabilities between the different revenue streams

Notes to the Financial Statements continued

3 Auditor remuneration

Services provided by the Group's auditors and network firms

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

	2011 £'000	2010 £'000
Audit services		
– Fees payable to Company auditors for the audit of the parent Company and the consolidated financial statements	**20**	20
Other services		
Fees payable to the Company's auditors and associates for other services		
– The audit of the Company's subsidiaries pursuant to legislation	**58**	58
– Other services pursuant to legislation	**3**	–
– Taxation advice	**–**	15
	81	93

4 Expenses by nature

	2011 £'000	2010 £'000
Changes in inventories of finished goods and work in progress	**255**	32
Raw materials and consumables used	**1,338**	1,320
Employee benefit costs	**3,737**	3,531
Other employee costs	**615**	554
Depreciation and amortisation charges	**191**	154
Net research and development expenditure (excluding employee costs)	**29**	66
Net clinical trial costs	**317**	447
Operating lease commitments – land and buildings	**87**	91
Foreign exchange loss/(gain)	**54**	(1)
Charge in respect of service costs	**2**	17
Audit and accountancy	**117**	106
Meeting and other PR costs	**223**	227
Professional and consultancy fees	**528**	598
Loss on disposal of property, plant and equipment	**–**	26
Other	**212**	464
	7,705	7 632

5 Exceptional items

Charges relating to exceptional items totalled £nil (2010 £(21,000)) in the year In the prior year these were with respect to the settlement for the early termination of a contract

Notes to the Financial Statements continued

6 Employees

The average monthly number of persons, including executive directors by function was as follows

	2011 Number	2010 Number
By activity		
Sales and marketing	**33**	32
Production	**14**	15
Office and management	**15**	12
Research and development	**4**	2
	66	61

Employee benefit expense	2011 £'000	2010 £'000
Wages and salaries	**3,170**	2 913
Social security costs	**273**	236
Other pension costs – defined contribution plans	**58**	47
Share-based payments	**256**	324
Other post-employment benefits	**-**	11
	3,757	3,531

Directors' emoluments	2011 £	2010 £
Aggregate emoluments	**358,520**	370,817
Sums paid to third parties for directors' services	**33,333**	33,333
Contributions to directors' personal pension schemes	**10,861**	10,681
	402,714	414,831

Benefits are accruing to two (2010 two) directors under personal pension plans

Included in the above figure is an amount paid to the employing company, Imperialise Limited, of a Non-executive director for the services of that director of £33,333 (2010 £33,333)

Highest paid director	2011 £	2010 £
Aggregate emoluments	**192,500**	192,500
Contributions to directors' personal pension schemes	**7,400**	7,400
	199,900	199 900

Director share sales during the period relate to shares in lieu of £21,650 bonus and salary entitlement sacrifice, resulting in a net gain of £16,657 Exercisable at 1p per share, the gross gain was £44,259 No shares were sold by the highest paid director during the period

Notes to the Financial Statements continued

7 Finance income and costs

	2011 £'000	2010 £'000
Finance income		
Bank interest receivable	**1**	1
	1	1
Finance costs		
Finance lease interest payable	**1**	2
Interest payable	**100**	134
Facility and loan arrangement fees	**22**	25
	123	161

8 Taxation

	2011 £'000	2010 £'000
Current tax		
Research and development tax credit	**(102)**	(50)
Adjustment in respect of prior years	**(1)**	5
Total current tax and tax on loss on ordinary activities	**(103)**	(45)

The taxable receipt for the year is lower than the effective rate of corporation tax in the UK of 26 5% (2010 28%) applied to the Group's loss on ordinary activities before tax

The tax differences are explained below

	2011 £'000	2010 £'000
Loss on ordinary activities before tax	**(1,524)**	(1,513)
Loss on ordinary actitis multiplied by the standard rate in the UK 26 5% (2010 28%)	**(404)**	(424)
Effects of		
Expenses not deductible for tax purposes	**105**	138
Difference between depreciation charges and capital allowance claims	**32**	17
Losses carried forward	**338**	346
Tax rate on difference on receivable research and development tax credit	**(83)**	(43)
Higher rates of overseas losses	**(90)**	(89)
Adjustments in respect of prior years	**(1)**	5
	(103)	(50)

The standard rate of corporation tax in the UK changed from 28% to 26% with effect from 1 April 2011 Accordingly, the company's profits for this accounting period are taxed at an effective rate of 26 5% and will be taxed at 26% in the future

Deferred tax

At 31 December 2011, the Group had an unrecognised potential deferred tax asset of £12 343,000 (2010 £12,005,000) representing accumulated trading losses carried forward which are available against future profits depreciation in excess of capital allowances of £54,000 (2010 £24,000) and share option charges of £371,000 (2010 £404,000)

Finance (No 2) Act 2010 was substantively enacted on 21 July 2010 and included legislation to reduce the main rate of corporation tax from 28% to 27% A further reduction to 26% with effect from 1 April 2011 was enacted via a resolution passed by Parliament on 29 March 2011 On 5 July 2011 Finance Act 2011 was substantively enacted, reducing the main rate of corporation tax to 25% with effect from 1 April 2012 Closing deferred tax balances have therefore, been valued at 25% (2010 27%) as this is the tax rate that will apply on reversal

The June 2010 and March 2011, Budget Statements also included proposals for further reductions of the main rate of corporation tax by 1% per annum to 23% on 1 April 2014 These changes had not been substantively enacted at the balance sheet date and, therefore the effects of these are not included in these financial statements

Loss relief is available indefinitely

Notes to the Financial Statements continued

9 Basic and diluted loss per share

The loss per share calculation is based on the loss of £1,421,000 and weighted average number of shares in issue of 136,698,498 For 2010 the loss per share calculation was based upon the loss of £1,468,000 and weighted average number of shares in issue of 129,563,192 Whilst the company is loss-making the diluted loss per share and the loss per share are the same

10 Property, plant and equipment

	Plant and equipment £'000	Fixtures and fittings £'000	Machines loaned to customers £'000	Total £'000
Cost				
At 1 January 2010	414	302	439	1,155
Exchange	–	1	8	9
Additions	10	–	133	143
Disposals	–	–	(45)	(45)
At 31 December 2010	424	303	535	1,262
Exchange	–	–	(4)	(4)
Additions	31	–	163	194
Disposals	–	–	–	–
At 31 December 2011	**455**	**303**	**694**	**1,452**
Accumulated Depreciation				
At 1 January 2010	381	251	291	923
Exchange	–	1	3	4
Charge for the year	22	10	82	114
Disposals	–	–	(18)	(18)
At 31 December 2010	403	262	358	1,023
Exchange	–	–	(11)	(11)
Charge for the year	24	10	97	131
Disposals	–	–	–	–
At 31 December 2011	**427**	**272**	**444**	**1,143**
Net book value				
At 1 January 2010	33	51	148	232
At 31 December 2010	21	41	177	239
At 31 December 2011	**28**	**31**	**250**	**309**

Depreciation expense of £107 000 (2010 £9,000) has been charged in cost of sales, £4 000 (£2010 4,000) in research and development, £nil (2010 £81,000) in sales and distribution and £20,000 (2010 £20 000) in administrative expenses

The net book value of property plant and equipment includes amounts of £7,000 (2010 £11,000) in respect of assets held under finance leases The depreciation charge for the year relating to assets held under finance leases was £4,000 (2010 £4,000)

Notes to the Financial Statements continued

11 Intangible assets

	Development Expenditure £'000
Cost	
At 1 January 2010	347
Additions	213
At 31 December 2010	560
Additions	347
At 31 December 2011	**907**
Accumulated amortisation	
At 1 January 2010	84
Charge for the year	39
At 31 December 2010	123
Charge for the year	60
At 31 December 2011	**183**
Net book value	
At 1 January 2010	263
At 31 December 2010	437
At 31 December 2011	**724**

Amortisation of £60,000 (2010 £39,000) has been included in research and development in the Consolidated Statement of Comprehensive Income Amortisation is charged on a straight-line basis over five years

12 Subsidiary undertakings

Details of the Group's principal trading subsidiaries are set out below In all cases the direct holding is 100% of the ordinary shares

- Deltex Medical Limited, incorporated and operating in the United Kingdom (UK), manufactures and markets medical devices
- Deltex Medical (Chichester) Limited, incorporated in the United Kingdom UK provided employee services, until 1 April 2010, now considered to be dormant
- Deltex Medical SC Inc incorporated and operating in the United States of America markets and sells medical devices in the USA which are manufactured by the Group in the UK
- Deltex Medical, Espana incorporated and operating in Spain, markets and sells medical devices in Spain which are manufactured by the Group in the UK
- Deltex Medical, GmbH, incorporated and operating in Germany, markets medical devices in Germany which are manufactured by the Group in the UK. Deltex Medical GmbH is itself a 100% owned subsidiary of Deltex Medical Limited

Notes to the Financial Statements continued

13 Inventories

	2011 £'000	2010 £'000
Raw materials and consumables	**198**	114
Work in progress	**82**	56
Finished goods	**632**	403
	912	573

There is no material difference between the book value and the replacement cost of the inventories shown Based on inventory holdings and sales history, no specific or general provisions for obsolete or slow-moving inventory (2010 £nil) are considered necessary

14 Trade and other receivables

	2011 £'000	2010 £'000
Amounts falling due within one year		
Trade receivables	**2,143**	1 931
Less provision for impairment of trade receivables	**(297)**	(241)
	1,846	1 690
Other receivables	**-**	1
Prepayments and accrued income	**972**	305
	2,818	1,996
Amounts falling due after more than one year		
Trade receivables	**8**	4
Prepayments and accrued income	**-**	324
	8	328
	2,826	2,324

All non-current receivables are due within two to five years (2010 two to five years) from the Consolidated Balance Sheet date

Included within current prepayments and accrued income is £324,000 which represents clinical trial costs arising from barter sales (2010 £324,000 in non-current prepayments and accrued income) The amount is fully expected to be recovered through the successful completion of the related trials

Trade receivables that are less than two months past due are not considered impaired As at 31 December 2011 trade receivables of £143,000 (2010 £108 000) were more than two months past due but not impaired These related to a number of independent customers for whom there is no recent history of default The ageing analysis of these trade receivables is as follows

	2011 £'000	2010 £'000
Up to two months	**47**	3
Two to six months	**39**	12
More than six months	**57**	93
At 31 December	**143**	108

Notes to the Financial Statements continued

14 Trade and other receivables continued

As of 31 December 2011 specific trade receviables of £297 000 (2010 £241,000) were impaired and provided for The ageing of these receivables was as follows

	2011 £'000	2010 £'000
Over six months	**297**	241

Included in the £297,000 provision above is approximately £200 000 provided against receivables from the Middle East

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

	2011 £'000	2010 £'000
Pounds	**662**	636
Euros	**669**	390
US dollars	**523**	668
At 31 December	**1,854**	1,694

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

	2011 £'000	2010 £'000
At 1 January	**241**	138
Provision for receivables impairment	**2**	108
Receivables written off during the year as uncollectible	**(97)**	(5)
At 31 December	**146**	241

The creation and release of provision for impaired receivables have been included in sales and distribution costs in the Consolidated Statement of Comprehensive Income Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash

The other classes within trade and other receivables do not contain impaired assets

The directors consider that the carrying amounts of trade and other receivables approximate their fair value

The maximum exposure to credit risk at the reporting date is the carrying value of each class or receivable mentioned above

The Group does not hold any collateral as security

15 Cash and cash equivalents

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

Notes to the Financial Statements continued

16 Borrowings

	2011 £'000	2010 £'000
Current borrowings		
Invoice discounting facility	**723**	659
Other loans	**20**	26
Finance lease	**-**	4
	743	689
Non-current borrowings		
Other loans	**1,359**	1,335
	2,102	2,024

Invoice discounting facility

The amount shown represents the cash drawn down under an invoice discounting facility, £1,000 remained undrawn (2010 £Nil) The amount outstanding under this facility is secured by way of a fixed charge over the Group's UK and a proportion of the international trade debtors Amounts drawn down under the facility are repayable from the end of the month of invoice This is an ongoing facility and is separated into three accounts being Sterling, US$ and Euro currencies

The facility is subject to six months' notice on either side and is not subject to annual review

Other loans

£1,001,000 of the amount shown relates to Loan Notes, of which £981,000 are repayable in full on 27 February 2014 being five years from the date of issue although they may be repaid in whole or in part at the Company's discretion in certain circumstances If such repayment is made the Company will issue the Loan Notes holder with warrants over 8 million 1p ordinary shares each at a price of 12 5p The Loan Notes are convertible into 8 million 1p ordinary shares in the Company ('Ordinary Shares') at the effective price of 12 5p, being a premium of 26 6% over the share price at close of business on 26 February 2009 The Company can also enforce conversion if the ordinary share price is equal to or exceeds 37 5p for any period of 90 consecutive days The Loan Notes are unsecured and interest is payable at 10 5% per annum for the first two years and at 5 5% above LIBOR thereafter

This loan note represents a compound financial instrument under the disclosure requirements of IAS 32 Financial Instruments – Presentation' The directors have assessed the portion which would be classified as equity, rather than debt and have concluded that the amount is not material to cause the instrument to be disclosed seperately between its equity and debt components

Included within the £1 001 000 is an amount of £16,000 relating to capitalised transaction costs in setting up the loan note This is being amortised over the life of the loan

The remaining £378 000 of the amount shown relates to a US dollar loan made in the US to the Group's US subsidiary It is repayable on 31 May 2013 and bears interest calculated on the simple method at 4% per annum The interest is repayable on the maturity date The loan is not secured on the assets of the Group

The directors consider the carrying value of the fixed rate borrowings approximate to market rate and the floating rate borrowings are at market rate and therefore these borrowings approximate to their fair value

Borrowings in foreign currencies

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

	2011 £'000	2010 £'000
Pounds	**1,453**	1,346
US dollars	**478**	472
Euros	**171**	206
	2,102	2,024

Notes to the Financial Statements continued

16 **Borrowings** continued

The average effective interest rates paid, after taking into account the impact of hedging, were as follows

	2011 %	2010 %
Invoice discounting facility		
– Sterling	**3 00**	3 00
– Euro	**4 00**	3 75
– Dollar	**3 63**	3 63
Other loans – US Dollar loan	**4 00**	4 00
Loan note	**8 00**	10 25
Finance leases	**n/a**	17 00

Borrowings are held under both fixed and floating rates as follows

	2011 £'000	2010 £'000
Fixed rates		
Finance leases and hire purchase agreements	**–**	4
Other loans	**378**	1,361
Floating rates		
Invoice discounting facility	**723**	659
Other loans	**1,001**	–
	2,102	2,024

17 **Obligations under finance leases**

	2011 £'000	2010 £ 000
Within one year	**–**	5
In the second to fifth years inclusive	**–**	–
	–	5
Less future finance charges	**–**	(1)
Present value of lease obligations	**–**	4
Less amounts due for settlement within 12 months (shown under current liabilities)	**–**	(4)
Amount due for settlement after 12 months, but less than five years	**–**	–

Lease obligations are denominated in UK sterling

18 **Trade and other payables**

	2011 £'000	2010 £'000
Current liabilities		
Trade payables	**729**	453
Tax and social security payable	**153**	229
Other payables	**57**	43
Accruals and deferred income	**561**	501
	1,500	1,226

Trade payables are non-interest bearing and on average have 30 to 60 day settlement terms The directors consider that the carrying amount of trade payables approximates to their fair value

Notes to the Financial Statements continued

19 Provision for other liabilities

	2011 £'000	2010 £'000
At 1 January	**108**	87
Charged to the Consolidated Statement of Comprehensive Income	**94**	50
Provision utilised	**(35)**	(29)
At 31 December	**167**	108

The above provision includes national insurance that may become payable on share option gains on share share options that are exercisable over the next one to ten years and is therefore included as a non-current liability

20 Pension obligations

The Group operates a defined contribution pension scheme for its UK employees The assets of the scheme are held separately from those of the Group in independently administered funds The Group also maintains a defined contribution Salary Reduction Simplified Employee Pension Plan ('SARSEP') for US employees Under the terms of the SARSEP, the Group may make discretionary contributions on behalf of the employees The pension cost represents the contributions paid and payable by the Group to these schemes and in aggregate amounted to £58,000 (2010 £58,000)

21 Share capital

	2011 £'000	2010 £'000
6,568 546,210 authorised ordinary shares of 1 pence each	**65,685**	65,685

	2011 £'000	2010 £'000
142,099,365 Called up allotted and fully paid (2010 132,025,866)	**1,421**	1,320

The movement in the Company s issued share capital during the year is as follows

During the year, the Company issued 3,731 027 1p ordinary shares pursuant to the exercise of options The Company placed 3 684,211 1p ordinary shares with institutional and other investors In addition, a total of 176,509 1p ordinary shares at an average price of 18 62p were issued to certain of the Company's advisers who elected to take shares in lieu of cash payment for their services to the Company Also 1,785,000 1p ordinary shares at an average price of 17 89p per share were issued to certain of the Company's distributors as a result of option exercises

A further 696,752 1p ordinary shares at an average price of 10 69p per share were issued to certain of the Company's directors who elected to take shares in lieu of cash payment for their services to the Company

Employee options

Current and former employees of the Group hold options to subscribe for shares in the Company The following table sets out movements in share options during the year

Notes to the Financial Statements continued

21 **Called up share capital** continued

Employee share options

Summary	Executive Scheme No	EMI Scheme No	Total No.
At 1 January 2011	8,602,300	4,435,477	13,037,777
Additions	3,095,000	1,934,753	5,029,753
Exercised	(2,450,000)	(1,495,796)	(3,945,796)
Lapsed	(105 000)	–	(105,000)
Expired	(221,000)	–	(221,000)
At 31 December 2011	**8,921,300**	**4,874,434**	**13,795,734**

All options relate to one 1p ordinary share

Further details of the above plans are given in note 23

As at 31 December 2011 the following options to subscribe for ordinary shares of 1p each were outstanding under employee share schemes

	Number of options	Exercise price £	Exercise period from	Exercise period to
Current employees	4,000	0 25	19-Mar-05	18-Mar-12
	320,000	0 25	27-Nov-05	26-Nov-12
	345,000	0 15	28-Oct-06	27-Oct-13
	625,000	0 01	24-Mar-04	27-Oct-13
	916,000	0 28	12-Oct-07	11-Oct-14
	117,300	0 01	01-Mar-05	01-Oct-14
	943,000	0 2075	28-Mar-06	27-Mar-13
	374,623	0 01	19-May-06	19-May-16
	302,840	0 01	27-Mar-08	29-Jun-17
	1,085,000	0 295	29-Jun-10	28-Jun-17
	1,214,000	0 185	01-Jul-11	30-Jun-18
	478,571	0 01	01-Mar-09	30-Jun-18
	1 249,300	0 1275	12-Jun-12	12-Jun-19
	689,412	0 01	12-Jun-09	11-Jun-19
	275,205	0 01	24-Mar-09	23-Mar-19
	43,478	0 01	30-Dec-09	30-Dec-19
	31,251	0 01	24-Mar-10	24-Mar-20
	34,884	0 01	25-Jun-10	25-Jun-20
	867,881	0 01	13-Oct-10	13-Oct-20
	20 270	0 01	23-Dec-10	23-Dec-20
	16 720	0 01	15-Mar-11	15-Mar-21
	23 124	0 01	15-Apr-11	15-Apr-21
	927,721	0 01	27-Sep-11	27-Sep-21
	46,154	0 01	27-Sep-11	29-Sep-21
	2 845,000	0 1725	27-Sep-14	27-Sep-21
	13,795,734			

Notes

(a) Options exercisable subject to criterion set by the Board that the shares of Deltex Medical Group plc should have outperformed the FTSE Medical Equipment Supplies Sector between the date of grant and the date of exercise of the option

(b) Enterprise Management Incentive Scheme

Notes to the Financial Statements continued

21 **Called up share capital** continued

Other options

	At 31 December 2011 No	Exercise price £	Exercise period from	Exercise period to
Company contractor(1)	20 000	0 25	19-Mar-05	18-Mar-12
Company distributors(2)	60,000	0 1925	31-Jan-11	30-Jan-12
Company contractors(2)	252,000	0 1875	01-Mar-11	28-Feb-18
Company contractor(1)	250,000	0 215	01-Nov-10	31-Oct-17
Company contractor(2)	100,000	0 235	16-Apr-10	15-Apr-17
	682,000			

(1) Options are exercisable in whole on any one occasion during the exercise period
(2) Options are exercisable in part or in whole at any time due during the exercise period

All options relate to one 1p ordinary share

22 **Share-based payments**

The Group has three share option schemes, the Deltex Medical Group plc 2000 Approved Share Option Scheme, the Deltex Medical Group plc 2011 Approved Share Option Scheme and the Deltex Medical Group plc Enterprise Management Incentive plan ('EMI')

Options granted under the Approved Share Option Schemes are valued at the market price on the date of grant Options are conditional on the employee completing three years service (the vesting period) The options are exercisable starting three years from the grant date, subject to the Group achieving certain performance conditions, the options have a contractual term of ten years The Group has no legal or constructive obligation to repurchase or settle the options in cash

Options granted under the EMI scheme are granted at 1p per option Options are granted in lieu of cash for bonuses or salary obligations relating to past achievement therefore there is no vesting period The options have a contractual term of ten years The Group has no legal or constructive obligation to repurchase or settle the options in cash

Details of share options outstanding during the year for the Approved Share Options Schemes are as follows

	2011 Number of share options No	**2011 Weighted average exercise price (in £)**	2010 Number of share options No	2010 Weighted average exercise price (in £)
Outstanding at beginning of the period	**8,602,300**	**0 21**	9 066,343	0 23
Granted during the period	**3,095,000**	**0 17**	–	0 00
Lapsed during the period	**(105,000)**	**0.21**	(421,000)	0 20
Exercised during the period	**(2,450,000)**	**0 21**	–	-
Expired during the period	**(221,000)**	**0 47**	(43,043)	2 70
Outstanding at the end of the period	**8,921,300**	**0 20**	8,602,300	0 21
Exercisable at end of period	**4,827,000**	**0.23**	5,102,000	0 25

The options outstanding at 31 December 2011 had a weighted average exercise price of 19 5p (2010 21 3p), and a weighted average remaining contractual life of 78 months (2010 57 months) On 27 September 2011, 3,095,000 options were granted with an estimated fair value of 7 7p per share and £237 077 in aggregate

Notes to the Financial Statements continued

22 Share-based payments continued

The inputs into the Black-Scholes model are as follows

	September 2011
Fair value at measurement date	7 66p
Share price	17 25p
Exercise price	17 25p
Expected volatility	59 10%
Expected option life (expressed as weighted average life used in modelling)	3 74 years
Risk-free interest rate	1 13%

Details of share options outstanding during the year for the EMI Scheme are as follows

	2011 Number of share options No	2011 Weighted average exercise price (in £)	2010 Number of share options No	2010 Weighted average exercise price (in £)
Outstanding at beginning of the period	**4,435,477**	**0 01**	6,062 929	0 01
Granted during the period	**1,934,753**	**0 01**	2,472,740	0 01
Lapsed during the period	**-**	**-**	(61 153	0 01
Exercised during the period	**(1,495,796)**	**0 01**	(4,039 039)	0 01
Outstanding at the end of the period	**4,874,434**	**0 01**	4,435,477	0 01
Exercisable at end of period	**4,874,434**	**0 01**	4,435,477	0 01

The options outstanding at 31 December 2011 had a weighted average exercise price of 1p (2010 1p), and a weighted average remaining contractual life of 83 months (2010 88 months) On 15 March 2011, 402,265 options were granted with an estimated fair value of 17 50p per share and £70 432 in aggregate On 15 April 2011, 32,559 options were granted with an estimated fair value of 27 50p per share and £8,957 in aggregate On 27 September 2011, 1,421,753 options were granted with an estimated fair value of 16 3p per share and £231 113 in aggregate Also on 27 September 2011, 78 177 options were granted with an estimated fair value of 16 3p per share and £12,708 in aggregate

Enterprise Management Incentive Scheme

The inputs into the Black-Scholes model are as follows

	September 2011	April 2011	March 2011
Fair value at measurement date	16 30p	27 50p	17 50p
Share price	17 25p	28 50p	18 50p
Exercise price	1 0p	1 0p	1 0p
Expected volatility	59 60%	55 00%	54 80%
Expected option life (expressed as weighted average life used in modelling)	1 year	1 year	1 year
Risk-free interest rate	0 55%	0 88%	0 88%

Notes to the Financial Statements continued

22 Share-based payments continued

	December 2010	October 2010	June 2010	March 2010
Fair value at measurement date	18 50p	16 00p	10 75p	12 00p
Share price	19 50p	17 00p	11 75p	13 00p
Exercise price	1 0p	1 0p	1 0p	1 0p
Expected volatility	54 80%	64 40%	51 00%	56 50%
Expected option life (expressed as weighted average life used in modelling)	1 year	1 year	1 year	1 year
Risk-free interest rate	0 88%	0 68%	0 71%	1 01%

Where appropriate, for both schemes the expected volatility has been based on historical volatility over a period of the same length as the expected option life and ending on the grant date Where the historic period is shorter than the expected option life, volatility has been measured over the maximum amount of time historic information can be obtained

The fair value of the equity-settled share-based payment is recharged by the Group company to the subsidiary operating company at fair value The expense is therefore recognised in the subsidiary operating company, with the equity reserve being recognised in the Group company

23 Share capital and other reserves

	Share capital £'000	**Share premium £'000**	**Capital redemption reserve £'000**	**Other reserve £'000**	**Translation reserve £'000**	**Retained deficit £'000**
At 1 January 2010	1,269	19,974	17 476	2,399	11	(39,330)
Share issued during the year	51	–	–	–	–	–
Premium on shares issued during the year	–	142	–	–	–	–
Loss for the financial year	–	–	–	–	–	(1,468)
Credit in respect of service cost settled by award of options	–	–	–	491	–	–
Exchange movements taken to reserves	–	–	–	–	(6)	–
At 31 December 2010	1,320	20,116	17,476	2,890	5	(40,798)
Share issued during the year	101	–	–	–	–	–
Premium on shares issued during the year	–	1,838	–	–	–	–
Issue expenses	–	(53)	–	–	–	–
Loss for the financial year	–	–	–	–	–	(1 421)
Credit in respect of service cost settled by award of options	–	–	–	396	–	–
Exchange movements taken to reserves	–	–	–	–	(14)	–
At 31 December 2011	**1,421**	**21,901**	**17,476**	**3,286**	**(9)**	**(42,219)**

The Capital redemption reserve represents the nominal value of shares repurchased and then cancelled during the year ended 31 December 2001 The Other reserve represents the reserve for cumulative share-based payment charges since 1 November 2002 The translation reserve comprises all foreign exchange differences arising since 1 January 2006 from the translation of the Group's net investments in foreign subsidiaries into sterling

The cumulative goodwill relating to acquisitions made prior to 1998, which has been eliminated against reserves, is £6,400 000 (2010 £6 400 000)

Notes to the Financial Statements continued

24 Notes to the Consolidated Statement of Cash Flows

	2011 £'000	2010 £'000
Operating loss	**(1,402)**	(1,353)
Adjustments for		
Depreciation of property, plant and equipment	**131**	114
Amortisation of intangible assets	**60**	39
Exchange loss/(gain) on property, plant and equipment	**–**	(5)
(Gain)/loss on disposal of property, plant and equipment	**(7)**	27
Share-based payments	**396**	491
Operating cash flows before movement in working capital	**(822)**	(687)
Increase in inventories	**(339)**	(81)
Increase in trade and other receivables	**(509)**	(6)
Increase/(decrease) in trade and other payables	**274**	(38)
Increase in provisions	**59**	21
Net cash used in operations	**(1,337)**	(791)

Operating cash flows before movement in working capital

Alternative performance measures	2011 £'000	2010 £'000
Adjusted operating cash flow before movement in working capital		
Operating cash flow before movement in working capital	**(822)**	(687)
Equity settled costs	**172**	147
Net increase in provisions, including receivables	**297**	136
Net non-cash clinical trial (credits)/charges	**(387)**	70
Sundry non-cash charges	**8**	34
Adjusted operating cash flow before movement in working capital	**(732)**	(300)

These supplementary disclosures do not form part of the note to the Consolidated Statement of Cash Flows and these tables are not included in the notes to the financial statements

25 Commitments

Operating lease commitments

The Group leases land and buildings and various plant and machinery under non-cancellable operating lease agreements The lease terms are between five and seven years and the majority of lease agreements are renewable at the end of the lease period at the market rate The lease expenditure charged to the Consolidated Statement of Comprehensive Income during the year is disclosed in note 4

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

	2011 £'000	2010 £'000
No later than one year	**81**	81
Later than one year and no later than five years	**123**	197
	204	278

Notes to the Financial Statements continued

26 Financial Instruments

The Group's financial instruments comprise some cash and various items, such as trade receivables and trade payables that arise directly from its operations

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

The Board reviews and agrees policies for managing liquidity, interest rate, exchange rate risks credit risk and capital risk The policies have remained unchanged throughout the year and are summarised below

Liquidity risk

The Group is principally managed to ensure that sufficient cash reserves and credit facilities are available to meet liquidity requirements The Group has available to it an invoice discounting facility with the Group s bankers to supplement working capital needs From time to time, additional funding is raised to allow the Group to invest in its strategic projects to develop the business in its chosen markets

Management monitors rolling forecasts of the Group's liquidity reserves which comprises undrawn invoice discounting facilities and cash and cash equivalents on the basis of expected cash flows

Currency risk

The Group has overseas subsidiaries in the USA, Spain and Germany and as a result the Group's sterling balance sheet can be affected by movements in the US dollar and euro exchange rates

The Group also has transactional currency exposures Such exposures arise from sales and purchases by operating units in currencies other than the unit's functional currency In general all overseas operating units trade and hold assets and liabilities in their functional currency

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

Credit risk

The Group is exposed to credit related losses in the event of non-performance by 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 and monitors its exposure to credit risk on an ongoing basis

The Group is also exposed to credit related losses and territory specific credit risk in the event of non-performance by counterparties in connection with financial instruments

The maximum credit risk exposure at the balance sheet date is represented by the carrying value of financial assets and there are no significant concentrations of credit risk For banks and financial institutions only independently related parties' with a minimum rating of 'A' are accepted As at the date of signing the financial statements all cash and cash equivalents are held with institutions with an 'A' rating as per Standard & Poors

Interest Rate Risk

The Group has both interest-bearing assets and interest-bearing liabilities The Group's policy is to seek the highest possible return on interest-bearing assets without bearing significant credit risk, and to minimise the rate payable on interest-bearing liabilities

The Group places its cash balances on deposit at floating rates of interest Surplus cash balances are placed on short-term deposit (less than three months) No interest rate swaps are used

Interest rate risk comprises both the interest rate price risk that results from borrowing at fixed rates of interest and also the interest cash flow risk that results from borrowing at variable rates At this time the majority of the Group's borrowings attract floating rates of interest and therefore the Group's principal interest rate risk is a cash flow risk

Notes to the Financial Statements continued

26 Financial Instruments continued

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide future returns to shareholders and benefits for other stakeholders and to maintain optimal capital structure

Ordinary shares are classified as equity Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects The Board s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business The Board of directors monitors the demographic spread of shareholders

The Board encourages employees to hold shares in the Company This has been carried out through the Company s various executive share option plans Full details of these schemes are given in note 23

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position There were no changes to the Group s approach to capital management during the year Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements

Liabilities – by maturity

Financial Instruments principally comprise the Group s borrowings under an invoice discounting facility with the Royal Bank of Scotland, net obligations under finance leases and long-term loans

In February 2009, the Group raised £1 001,000 before expenses by the issue of a convertible loan notes to Amati Global Investors, a venture capital trust managed by Amati Global Partners LLP

The Loan Notes are repayable in full on 27 February 2014 being five years from the date of issue although they may be repaid earlier at the Company's discretion in certain circumstances If such repayment is made the Company will issue the Loan Notes holder with warrants over 8 million 1p ordinary shares at a price of 12 5p per share

The Loan Notes are convertible into 8 million ordinary shares in the Company ("Ordinary Shares") at the effective price of 12 5p, being a premium of 26 6% over the share price at close of business on 26 February 2009 The Company can also enforce conversion if the ordinary share price is equal to or exceeds 37 5p for any period of 90 consecutive days

The Loan Notes are unsecured and interest is payable at 10 5% per annum for the first two years and at 7 5% above LIBOR thereafter

Interest on the invoice discounting facility is payable at floating rate of 2 5% to 3 25% above LIBOR and on the long-term US subsidiary loan at a rate of 4% per annum

The table below summarises the Group's financial liabilities into the relevant maturity groupings based upon the remaining period at the balance sheet to the contractual maturity date The amounts disclosed are the undiscounted cash flows

Year ended 31 December 2011

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings				
Invoice discounting facility	723	-	-	-
Other loans	20	378	981	-
Trade and other payables	1,500	-	-	-
	2,243	378	981	-

Notes to the Financial Statements continued

26 **Financial Instruments** continued

Year ended 31 December 2010

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings				
Invoice discounting facility	659	–	–	–
Other loans	26	–	1,335	–
Finance lease liabilities	4	–	–	–
Trade and other payables	1,238	–	–	–
	1,927	–	1,335	–

Fair value of financial assets and liabilites

There is a close approximation 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

Year ended 31 December 2011	**Loans and receivables £'000**	**Fair value through profit and loss £'000**	**Amortised cost £'000**	**Total carrying amount £'000**
Financial assets				
Trade and other receivables	**1,846**	**–**	**–**	**1,846**
Cash and cash equivalents	**752**	**–**	**–**	**752**
	2,598	**–**	**–**	**2,598**
Financial liabilities				
Trade payables	**–**	**–**	**1,397**	**1,397**
Invoice discounting facility	**–**	**–**	**723**	**723**
Other loans	**–**	**–**	**1,379**	**1,379**
Finance lease liabilities	**–**	**–**	**–**	**–**
	–	**–**	**3,499**	**3,499**

Year ended 31 December 2010	Loans and receivables £'000	Fair value through profit and loss £'000	Amortised cost £'000	Total carrying amount £'000
Financial assets				
Trade and other receivables	1,690	–	–	1,690
Cash and cash equivalents	699	–	–	699
	2,389	–	–	2,389
Financial liabilities				
Trade payables	–	–	997	997
Invoice discounting facility	–	–	659	659
Other loans	–	–	1 361	1,361
Finance lease liabilities	–	–	4	4
	–	–	3 021	3,021

Notes to the Financial Statements continued

26 Financial Instruments continued

Financial Instruments disclosure

Financial assets and liabilities are measured at fair value according to the following three levels of fair value hierarchy

The levels of the fair value hierarchy and its application to our financial assets and liabilities are described below

Level 1 quoted prices in active markets for identical assets or liabilities,

Level 2 inputs other than quoted prices that are observable for the asset or liability, either directly (i e as prices) or indirectly (i e derived from prices), and

Level 3 inputs for the asset or liability that are not based on observable market data

All financial assets and liabilities are considered to be Level 3 The directors believe that there is no material difference between book value and fair value as at 31 December 2011

Sensitivities

The following table details the Group's sensitivities to changes in sterling against the respective foreign currencies The sensitivities represent management's assessment of the effect on monetary assets of the possible changes in foreign exchange rates The sensitivity analysis of the Group s exposure to foreign currency risk at the year end has been determined based upon the assumpion that the increase in Euro and US dollar exchange rates is effective throughout the financial year and all other variables remain constant

			2011		2010
	Sensitivity	**Profit £'000**	**Equity £'000**	Profit £'000	Equity £'000
Euros	10%	**(85)**	**(85)**	(78)	(78)
US dollar	10%	**21**	**21**	5	5

The following table details the Group's sensitivity to an increase of 1% in interest rates throughout the year, with all other variables remaining constant

		2011		2010
	Profit £'000	**Equity £'000**	Profit £'000	Equity £ 000
Sterling	**(10)**	**(10)**	2	2
Euros	**(1)**	**(1)**	(2)	(2)
US dollar	**(1)**	**(1)**	(1)	(1)

Transactions within the Group are carried out on an arm's length basis and not disclosed as all such transactions have been eliminated on consolidation

Directors' interests in the share capital of the Company are disclosed on page 17

Notes to the Financial Statements continued

27 Related party transactions

The following transactions were carried out with related parties

Key management compensation

Key management personnel comprise members of the management team as defined by IAS 24 'Related Party Disclosures

	2011 **£'000**	2010 £'000
Aggregate emoluments	**692**	745
Sums paid to third parties for directors' services	**33**	33
Contributions to key management's personal pension schemes	**22**	22
	747	800

Equity issue

Dr Edwin Snape a director of the Company, is principal of Nexus Medical Partners II, L P

In April 2008 Nexus Medical Partners II, L P loaned $518,518 to the Company's US subsidiary by way of an unsecured loan note repayable after five years Interest on the loan note is to be charged at 4% per annum with all interest rolling up for settlement on redemption

In addition to the above, there is an amount of £236,000 (2010 £269,000) charged to the Consolidated Statement of Comprehensive Income with respect to IFRS 2 'Share-based payments' for key management

Further details of directors' interest in the Company are given in the Directors' Report on page 17

Independent Auditors' Report
to the members of Deltex Medical Group plc

We have audited the parent company financial statements of Deltex Medical Group plc for the year ended 31 December 2011 which comprise the Company Balance Sheet, the Accounting Policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 20 and 21, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the group financial statements of Deltex Medical Group plc for the year ended 31 December 2011

Miles Saunders

Miles Saunders (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

7 March 2012

Company Balance Sheet

at 31 December 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Investments	4	**37,001**	35,202
Current assets			
Debtors			
Amounts falling due within one year	5	**12**	13
Cash at bank and in hand		**558**	458
		570	471
Creditors			
Amounts falling due within one year	6	**(134)**	(103)
Net current assets		**436**	368
Total assets less current liabilities		**37,437**	35,570
Creditors			
Amounts falling due after more than one year	9	**(980)**	(972)
Net assets		**36,457**	34 598
Capital and reserves			
Called up share capital	7	**1,421**	1,320
Share premium account	10	**21,901**	20,116
Capital redemption reserve	10	**17,476**	17,476
Other reserves	10	**3,286**	2,890
Profit and loss account	10	**(7,627)**	(7,204)
Total shareholders' funds	11	**36,457**	34,598

The notes on pages 60 to 64 form an integral part of these financial statements

These financial statements were approved by the Board of Directors on 7 March 2012 and were signed on its behalf by

N J Keen
Chairman
Deltex Medical Group plc (3902895)

P J Mitchell
Finance Director
Deltex Medical Group plc (3902895)

Notes to the Financial Statements

1 Principal accounting policies

These financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006, and the accounting policies set out below, all of which have been applied consistently throughout the year and in accordance with applicable United Kingdom accounting standards

Investments

Investments are stated at cost less any provisions for diminution in value At each balance sheet date the Company reviews the carrying amount of the investments to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss The recoverable amount is the higher of the investments value in use and its fair value less costs to sell Value in use is calculated using cash flow projections for the investments discounted at the Company s cost of capital

If the recoverable amount of the investment is estimated to be less than its carrying amount the carrying amount of the investment is reduced to its recoverable amount An impairment loss is recognised as a charge to the profit and loss account, unless the relevant investment is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date Where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

Foreign currency translation

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

Share-based payments

The Company awards directors, employees and certain of the Group s distributors and advisers equity-settled share-based payments, from time to time, on a discretionary basis In accordance with FRS 20 'Share-based payments', equity-settled share-based payments are measured at fair value at the time of grant Fair value is measured by use of a Black-Scholes model The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will eventually vest The options are subject to vesting conditions of up to six years, and their fair value is recognised as an expense with a corresponding increase in other reserves' equity over the vesting period The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised Provision for National Insurance payable on such gains is recognised in accordance with UITF 25

The fair value of the equity-settled share-based payment is recharged by the Company to the subsidiary operating company at fair value The expense is therefore recognised in the subsidiary operating company, with the equity reserve being recognised in the Group company

Related party transactions and cash flow statement

The Company is the ultimate parent undertaking of the Deltex Medical Group and is therefore included in the consolidated financial statements of that Group which are on page 26 of the consolidated financial statements The Company has taken advantage of the exemptions under FRS 8 'Related Party Disclosures' relating to the disclosure of transactions with other Group companies

Notes to the Financial Statements continued

1 **Principal accounting policies** continued

Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held with banks with a maturity of less then three months

Share capital

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

Terms of loans to subsidiaries

The Company uses its cash to fund the operations of its subsidiaries until such a time that the subsidiaries are in a position to return the monies to Group These loans are interest free and have no fixed repayment date

Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, or subject to certain conditions at the option of the Group and the number of shares to be issued does not vary with changes in their fair value

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period

2 **Loss for the year**

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year Deltex Medical Group plc reported a loss for the financial year ended 31 December 2011 of £423 000 (2010 £421,000)

3 **Directors' emoluments**

The remuneration of the Non-executive directors was as follows

	2011 **£**	2010 £
Aggregate emoluments	**72,000**	72 000
Sums paid to third parties for directors' services	**33,333**	33,333
	105,333	105,333

There are Nil (2010 Nil) benefits accruing to directors under personal pension plans

Included in the above figure is an amount paid to the employing company, Imperialise Limited of a Non-executive director for the services of that director of £33,333 (2010 £33,333)

All Executive directors in office at the year end receive their emoluments from Deltex Medical Limited, a subsidiary undertaking of the Group Except for financing activities, their services to the Company are incidental to their services to the Group as a whole

The average number of Non-executive diretors by function was as follows

	2011 **No**	2010 No
Administration	**4**	4

The Company had no additional employees other than the directors (2010 None)

Notes to the Financial Statements continued

4 Investments

	2011 Investments in subsidiary undertakings £'000	2011 Loans to subsidiary undertakings £'000	2011 Total £'000	2010 Investments in subsidiary undertakings £'000	2010 Loans to subsidiary undertakings £'000	2010 Total £'000
At 1 January	846	34,356	35,202	846	33,191	34,037
Additions	–	1,799	1,799	–	1,165	1,165
At 31 December	846	36,155	37,001	846	34,356	35,202

The directors believe that the carrying value of the investments is supported by their underlying net assets

Loans to subsidiary undertakings in the amount of £36,155 000 relate to long-term balances with Deltex Medical Limited and Deltex Medical Holdings, Inc The directors consider that these balances are intended to be, for all practical purposes, permanent equity and do not expect them to be repayable in the forseeable future These loans have therefore been treated as part of Deltex Medical Group plc net investment in these subsidiaries, with exchange difference arising on the long-term balance with Deltex Medical Holdings, Inc being dealt with as adjustments to reserves During the year additional long-term debtor balances have been reclassified as long-term investments as this follows the substance of the transactions

Details of the Company's principal trading subsidiary undertakings are set out below In all cases the holding is a direct holding of 100% of the ordinary shares

- Deltex Medical Limited, incorporated and operating in the United Kingdom (UK), manufactures and markets medical devices
- Deltex Medical (Chichester) Limited, incorporated in the UK, provided employee services until 1 April 2010, now considered to be dormant
- Deltex Medical SC, Inc incorporated and operating in the United States of America, markets and sells medical devices in the USA which are manufactured by the Group in the UK
- Deltex Medical, Espana, incorporated and operating in Spain, markets and sells medical devices in Spain which are manufactured by the Group in the UK
- Deltex Medical GmbH incorporated and operating in Germany, markets and sells medical devices in Germany which are manufactured by the Group in the UK Deltex Meical GmbH is itself a 100% owned subsidiary of Deltex Medical Limited

5 Debtors

	2011 £'000	2010 £'000
Amounts falling due within one year		
Other debtors	5	6
Prepayments and accrued income	7	7
	12	13

6 Creditors Amounts falling due within one year

	2011 £'000	2010 £'000
Other creditors	65	53
Accruals and deferred income	69	50
	134	103

Notes to the Financial Statements continued

7 Called up share capital

See note 21 of the Consolidated Financial Statements on pages 47 to 49 for full details of the share capital and share schemes held

8 Share-based payments

See note 22 of the Consolidated Financial Statements on pages 49 to 51 for full details of the Company's share-based payments

9 Creditors Amounts falling due after more than one year

The amount of £980 000 (2010 £972,000) relates to Loan Notes that are repayable in full on 27 February 2014 being five years from the date of issue although they may be repaid earlier at the Company's discretion in certain circumstances If such repayment is made the Company will issue the Loan Notes holder with warrants over 8 million 1p ordinary shares at a price of 12 5p per share

The Loan Notes are convertible into 8 million 1p ordinary shares in the Company ('Ordinary Shares') at the effective price of 12 5p, being a premium of 26 6% over the share price at close of business on 26 February 2009 The Company can also enforce conversion if the ordinary share price is equal to or exceeds 37 5p for any period of 90 consecutive days

The Loan Notes are unsecured and interest is payable at 10 5% per annum for the first two years and at 7 5% above LIBOR thereafter

10 Reserves

	Other reserves £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000
At 1 January 2011	2,890	20,116	17,476	(7 204)
Premium on shares issued during the year	–	1,785	–	–
Loss for the financial year	–	–	–	(423)
Credit in respect of service cost settled by award of share options	396	–	–	–
At 31 December 2011	**3,286**	**21,901**	**17,476**	**(7,627)**

11 Reconciliation of movements in shareholders' funds

	2011 £'000	2010 £'000
Opening shareholders' funds	**34,598**	34 335
Increase in share capital during the year	**101**	51
Premium on shares issued during the year	**1,838**	142
Issue expenses	**(53)**	-
Loss for the financial year	**(423)**	(421)
Credit in respect of service cost settled by award of share options	**396**	491
	36,457	34 598

Notes to the Financial Statements continued

12 Ultimate controlling party

There are no shareholders with overall control of the Company as at 31 December 2011 or 31 December 2010

13 Related party transactions

Exemption has been taken under FRS 8 from disclosing related party transaction between the Company and its subsidiary undertakings

Dr Edwin Snape, a director of the Company, is principal of Nexus Medical Partners II, L P

In April 2008, Nexus Medical Partners II, L P loaned US$518,518 to the Company's US subsidiary by way of an unsecured loan note repayable after five years Interest on the loan note is to be charged at 4% per annum with all interest rolling up for settlement on redemption

The directors of Deltex Medical Group plc had no other material transaction with the Company during the year, other than as a result of service agreements Details of the directors' remuneration are disclosed in the Directors' Report in the Consolidated Financial Statements on pages 17 to 19

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