Deltex
medical group plc

Report & Accounts 2013

Contents

Highlights

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  - International up 26%, in particular France, up 37%
- Overall probe revenues up 20% to £6.3m (2012: £5.3m)
- Gross profit on probes up 20% to £4.8m (2012: £4.0m)
- Net monitor income less costs flat at £0.4m
- Cash position increased 119% to £1.5m (2012: £0.7m)

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  - Medicare & Medicaid physician payment
- Ten additional dedicated trainer accounts in UK hospitals
- Establishment of Deltex Medical Canada as a jointly owned subsidiary
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- Launch of new training aide, ODM patient simulator

Statutory results

- Revenue up £0.4m to £7.2m (2012: £6.8m)
- Revenue excluding barter income up £0.8m
- Combined probe and monitor gross margin 72% (2012: 71%)
- Operating loss of £2.1m (2012: operating loss of £2.1m) after US market development costs of £0.6m (2012: £0.1m

Chairman's Statement

Deltex Medical's goal is to make Oesophageal Doppler Monitoring ('ODM') a standard of care in both major surgery and in critical care in healthcare markets throughout the world. Achieving this will create an international business that generates substantial profits and cash. We have made good progress towards achieving this goal in 2013.

Our products are gaining traction both in countries, such as the UK, France, Sweden and Peru where we have market leading positions and are focused on market development and in evolving markets for haemodynamic monitoring and management including the USA, Canada, Spain and Germany where our focus is more on market creation. Traction in these markets generates a high quality, high margin revenue stream with opportunities for substantial growth as a result of increased usage of our single patient use disposable probes.

Proforma results

Surgical probe revenue growth in 2013 was £1,055,000 (24%) generating a £793,000 increase in gross profit on probes which has resulted in a £776,000 reduction in the loss before non-cash and US market development costs from £1,062,000 in 2012 to £286,000 in 2013. This is a key indicator of the Company's ability to generate cash from trading and this KPI was £302,000 positive in the second half of the year.

Pro-forma results

For the year ended 31st December 2013	**2013**	2012
	£'000	£'000
Probe revenue		
Surgical probes	**5,509**	4,454
Critical care probes	**788**	811
Total probe revenue	**6,297**	5,265
Cost of sales - probes	**(1,542)**	(1,303)
Gross profit probes	**4,755**	3,962
Monitor and sundry income		
Sundry income	**35**	2
Net monitor income less costs *	**379**	401
	414	403
Cash Costs	**(5,455)**	(5,427)
Loss before Non-cash and US market development costs	**(286)**	(1,062)
Non-cash		
Clinical research income	**–**	448
Costs	**(1,213)**	(1,415)
Loss before US market development costs	**(1,499)**	(2,029)
US market development costs	**(599)**	(49)
Operating loss	**(2,098)**	(2,078)
* Net monitor income less costs comprises:		
Revenue from monitors sold	**668**	838
Maintenance revenue	**87**	120
Cost of sales - monitors	**(201)**	(419)
Amortisation costs of placed monitors	**(175)**	(138)
Total	**379**	401

Cash costs were controlled tightly and less than 1% higher than in 2012 at £5,455,000 (2012: £5,427,000). Net monitor income was £22,000 (5%) lower than in 2012 at £379,000 (2012: £401,000). During 2013 we sold an additional 133 monitors and placed over 200, increasing our installed base at the end of the year to around 3,000 units

Total cash at 31 December 2013 was £1,459,000, £1,000 lower than at the interim on 30 June 2013. The movement on the cash balance in the second half reflects working capital movements as well as the investment of £306,000 in our US market development project.

Statutory results

Revenue as reported in the Consolidated Statement of Comprehensive Income increased by £394,000 to £7,151,000. This reflects an increase in surgical probe sales of £1,055,000, offset by a reduction in monitor sales of £170,000 and clinical research income of £448,000. The operating loss was £20,000 higher than in 2012 at £2,098,000 (2012: £2,078,000). Compared to the £776,000 reduction in the loss before non-cash and US market development costs this reflected the net effects primarily of: £599,000 US market development costs incurred on our collaboration with Premier Inc (2012: £49,000); a £448,000 reduction in Clinical Research Income following our decision to seek to retain title to monitors placed with hospitals for research purposes; and a £202,000 reduction in total non-cash costs to £1,213,000 (2012: £1,415,000). The Company expects the substantial majority of the US market development costs to be completed during 2014 and 2015 and that most of the remaining balance of £264,000 prepaid costs relating to previous Clinical Research Income to unwind over 2014.

UK Market

Deltex Medical has a strong market leading position in UK intra-operative fluid management ('IOFM') and has the largest surgical installed base, with a presence in the majority of hospitals in the UK treating a considerable number of patients. CardioQ-ODM is the only IOFM technology recommended by the National Institute for Health and Care Excellence ('NICE'). Surgical probe revenues grew by 26% to £3,094,000 on a 22% increase in volumes to 40,690 units (2012 revenue £2,452,000 and 33,355 units).

Since mid-2012 we have been focusing the majority of our clinical support resources on those hospitals looking to implement IOFM in depth in the hospital. In particular we are looking to migrate such accounts to our dedicated trainer programme which comprises the allocation of a dedicated clinical trainer at a level appropriate to the scale of planned implementation followed up by enhanced account management including regular reporting and audit support. We entered 2013 with two UK dedicated trainer accounts, added two more in the first half and a further six in the second half. We currently have 12 dedicated trainer accounts established, together with an expanding pipeline of additional potential accounts of over 20 hospitals.

Our UK sales and clinical support operation generated net cash of over £1.5m in 2013, circa £0.3m more than in 2012. We believe that our focus on increasing the number of dedicated trainer accounts will maintain our market leadership, maximise return on investment and strongly increase cash generation. This in turn will allow us to reinvest incremental cash generated in the UK into markets which are known to provide the opportunity for rapid growth in adoption of beneficial medical technologies such as ODM.

The NHS in England announced in December 2011 its selection of ODM as one of six high impact innovations to be adopted at pace and scale. Implementation of this decision has been weak to date: targets set for implementation were barely above the trajectory already established and no sanctions have been imposed against the significant numbers of hospitals who failed to achieve these low initial targets. The Company believes that there is considerable scope for the NHS to drive accelerated ODM adoption and that, if it does so effectively, it will lead to substantial patient benefits and cost savings to the NHS. The NHS is expected to announce its updated plans for high impact innovations, such as ODM, shortly.

US market

Our strategy in the USA is to develop a small number of hospital accounts where our products are embedded broadly and deeply into routine usage across major surgery; to then broaden the base of customers, utillising the experience gained from this strong base of profitable accounts with the goal of positioning the business for national roll-out of ODM. The Board believes that such a roll-out will be expedited if a small number of these initial hospital accounts are able to demonstrate credibly the clinical and economic benefits of implementing ODM. The Company therefore initiated a US market development project in 2013 building on pilot work undertaken with Premier Inc and Duke University

Chairman's Statement continued

Hospital in 2011 and 2012. Premier, through a network of subscribing hospital members, manage a large database of hospital outcomes and costs enabling both assessment of clinical practice and outcomes in the USA. This analysis is relatively low cost and has direct impact on change programmes such as the implementation of ODM. Premier have demonstrated their ability to disseminate amongst their members data highlighting variations in outcomes and related variations in practice as a platform for quality improvement programmes amongst their members together with the results of such programmes.

We have made significant progress in implementing this strategy in 2013 and are encouraged by the pace at which the market opportunity is growing:

- We have moved from two to five established dedicated trainer accounts. These five accounts delivered well over 100% of the £99,000 total probe revenue growth in 2013 (13%) with four of them averaging over 50% growth
- We have a growing pipeline of other potential dedicated trainer accounts from our existing geographic focus areas
- We have seen a step-up in interest from a number of leading teaching hospitals around the country generating further pipeline expansion
- We are further increasing the pipeline through targeted programmes to disseminate the currently available results and products from our US market development investment
- We have signed our first partnership agreement with an anaesthesia services group (professional partnerships that contract to provide anaesthesia services to hospitals) and are supporting their addition of ODM into the care services they offer
- In April 2013 ODM became the first technology for over a decade where Medicare (the US governmental entity which reimburses healthcare costs to certain categories of US patients) makes extra payments to doctors nation-wide for its use
- Hospital systems focusing efforts on how to improve outcomes and reduce costs to compete post Obamacare and the Affordable Healthcare Act (US governmental focus on providing healthcare to a greatly expanded population of US nationals)
- Sharp increase in the focus of the US anaesthesia profession on demonstrating its value to patients and healthcare systems in relationship to escalating healthcare costs across the USA

We have made excellent progress with our collaboration agreement with Premier Inc's Research Services division. We entered this to accelerate the creation of a mass market opportunity for our products in the USA. To date the project has defined an approach to enhanced recovery specifically for the USA; demonstrated a material level of savings from its implementation at a leading teaching hospital and highlighted substantial variation in fluid management practice across the USA and possible links to variations in outcome.

We have agreed with Premier to expand the outcome and fluid variation part of the project as this is proving to be a very powerful tool to highlight that there is a major clinical problem in the USA to which we have a proven solution. We have already used the available preliminary variation data successfully to support pipeline expansion. Publication of the variation data in a peer review journal will allow Premier, under their independence governance rules, to disseminate the findings to their membership. Premier has agreed to support the preparation of a manuscript suitable for submission to appropriate journals.

We have expanded the hospital implementation analysis part of our US market development project to include leading teaching hospitals which are not members of the Premier system but which have similar capability to demonstrate the benefits of ODM implementation in major and high risk surgery. We believe this will deliver further high value outputs and accelerate the goals of our Premier collaboration. We are in the implementation phase with the first such hospital, are supporting initial training in two more, agreeing a mid-year start date with a fourth to allow

them to collect base data prior to implementation. We are in discussion with a small number of additional hospitals to participate in the programme (which includes strategically important Premier members) and aim to develop these accounts into fully fledged dedicated trainer accounts over time while also producing compelling evidence to aid pipeline recruitment.

As a result of the progress made in 2013 we believe that the Company may be able to build a bigger platform for expansion sooner than previously envisaged. The degree of clinical acceptance of the benefits of ODM may also reach a level suitable for wider national roll-out of its use across the USA sooner than previously envisaged.

International markets

International probe revenues increased by 26% to £1,537,000 (2012: £1,223,000) on a 23% increase in units sold to 28,795. We made continued progress in the majority of our markets and all our main focus markets including Scandinavia and Peru. Probe sales to our French distributor increased 37% reflecting strong underlying growth in probe usage coinciding with highly supportive clinical guidelines from the national anaesthesia professional body. We acquired 51% of the Canadian business for ODM through the establishment of our first jointly owned subsidiary and are monitoring closely progress with this approach to accelerating growth. After several years of investment in market creation projects in Spain, including support for a major government funded multi-centre randomised clinical trial; we expect the nature and scale of the resulting market development opportunity to emerge during 2014.

Prospects

Deltex Medical is in an exciting phase in its development. We have made significant progress in growing the business. Our products have market leadership positions in those territories where we have moved from market creation into market development. Further territories are now moving more rapidly than before towards the market development stage including the key US market which has progressed significantly further than we anticipated at the start of 2013. Profits from these growing operations will allow us to build the business more quickly in the years to come delivering sustainable value for our shareholders.

Nigel Keen
Chairman

11 March 2014

Operating Review

The cash generated from our high quality probe revenue streams is transforming the Company's financial position

Overview

During 2013 Deltex Medical further strengthened its global market leading position in oesophageal Doppler monitoring (ODM). ODM benefits substantial numbers of patients, the largest group being patients undergoing major surgery and is the only technology proven both to reduce post-operative complications suffered by patients and to reduce lengths of hospital stay. ODM during surgery can be implemented successfully into routine clinical practice on a wide scale as it is a simple procedure that is easy to learn, quick to perform and applicable in almost all patients.

Deltex Medical generates revenues from the sale of single patient disposable probes, from the sale of monitors and from providing maintenance and support services. Sales of probes are the best indicator of the level of uptake of ODM and therefore the value created by the Company. Probe sales increase as more doctors start to treat larger numbers of patients. We have adopted a presentation of our results which highlights our performance against key performance indicators (KPIs).

Pro-forma numbers

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Probes										
Surgical	5,509	4,454	3,719	3,174	2,425	1,855	1,417	1,038	750	459
Critical care	788	811	1,081	1,421	1,656	2,016	1,768	1,594	1,529	1,490
Total probe revenue	6,297	5,265	4,800	4,595	4,081	3,871	3,185	2,632	2,279	1,949
Gross profit probes	4,755	3,962	3,562	3,393	3,077	2,716	2,184	1,670	1,432	1,250
	76%	75%	74%	74%	75%	70%	69%	63%	63%	64%
Monitor and sundry income	414	403	476	849	852	965	468	284	335	338
Cash costs	(5,455)	(5,427)	(5,165)	(4,732)	(5,353)	(5,446)	(4,472)	(3,913)	(3,581)	(3,998)
Loss before non-cash and US market development costs	(286)	(1,062)	(1,127)	(491)	(1,424)	(1,765)	(1,820)	(1,959)	(1,813)	(2,411)

Pro-forma results since 2004. Split of surgical and crtical care probes from 2004 – 2009 are based on management estimates re export markets.

Since 2009 the Company has focused its resources on the larger and rapidly growing surgical market opportunity where it can achieve higher returns on investment: surgical probe revenues in 2013 were £3,654,000 (circa 300%) higher than in 2008 whereas cash costs in 2013 were only £9,000 (under 0.2%) higher than in 2008. The decline in critical care probe revenues is a result of changes in practice in intensive care medicine whereby far fewer patients are kept unconscious thereby requiring cardiac output monitoring than previously. The Company now only actively supports the critical care market in the UK which has been stable since mid-2012.

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

Deltex Medical's key focus is on intra-operative fluid management using ODM during surgery. The National Institute for Health & Clinical Excellence ('NICE') recommends CardioQ-ODM in patients undergoing major and high risk surgery and in high risk patients undergoing lower risk surgery. NICE estimates their guidance applies to over 800,000 NHS surgical patients a year in the NHS in England. This equates to tens of millions of patients globally and an evolving market opportunity worth well over £1 billion per annum. The Company's core focus is on building market leading positions in this surgical market as it develops.

Deltex Medical has considerable competitive advantages in the emerging market for intra-operative fluid management: ODM, a technology that measures blood flows precisely in the central circulation; proven patient management algorithms driven by changes in a directly measured physiological parameter; a comprehensive evidence base of both clinical and economic benefit across multiple types of surgery; positive clinical meta-analyses and government systematic reviews; NICE recommendation and recognition as a key component of modern 'enhanced recovery' approaches to surgery.

ODM has the widest applicability by far of any intra-operative fluid management ('IOFM') technology with the fewest clinical contra-indications. Deltex Medical has developed and proven effective clinical support programmes which enable hospitals to implement ODM deeply and broadly into routine practice. We have developed our dedicated trainer clinical support programmes for hospitals implementing our products at scale. These programmes support the rapid and sustainable adoption of ODM through provision of a dedicated trainer, enhanced account management, implementation audit support and regular progress reporting against local adoption metrics. Established dedicated trainer accounts are highly profitable and generate high rates of growth.

Critical care market

Doctors and nurses caring for patients in critical care settings want to be able both to monitor the haemodynamic status of patients over prolonged periods and to intervene using drugs and fluids to optimise the patient's circulating blood volume. ODM's strengths in such settings 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 CardioQ-ODM+ launched in 2012 combines ODM with the most common competing technology for cardiac output monitoring, Pulse Pressure Waveform Analysis ('PPWA'). PPWA devices are suited more to monitoring than guiding intervention as they are unable to detect reliably certain types of haemodynamic change without frequent, traditionally cumbersome, recalibration. The CardioQ-ODM+ has substantial competitive advantages over other PPWA devices as it can be recalibrated using ODM very precisely and very quickly at no additional cost. The CardioQ-ODM+ allows instant switching from PPWA monitoring mode to ODM flow mode to guide intervention.

United Kingdom

Deltex Medical has built on a strong market leading position in the UK surgical market in 2013 and has maintained its position as a market leader in the mature critical care market.

UK surgical probe revenues grew by 26% during the year just ended compared to 24% growth in 2012 and 16% growth in 2011. We entered 2012 with two dedicated trainer accounts, increased this to four at the half year and have now increased this to 10 at year end with two more added to date in 2014. In addition we have a dedicated trainer account pipeline of over 20 hospitals and in the next twelve months, expect to promote a substantial proportion of these to dedicated trainer status as well as to add additional accounts to the pipeline. We plan to support the majority of these accounts through focused deployment of our existing clinical trainer resources. In total we sold surgical probes to over 80% of NHS hospitals in 2013.

Operating Review continued

We sold 40,690 surgical probes in the UK in 2013, an increase of 7,335 (22%). Critical care probe consumption was flat with revenues 3% lower than 2012 at £788,000.

During the year we increased the UK surgical installed base by 162 monitors to 777. Including 333 critical care monitors, the total UK installed base was 1,110 at the end of the year. We generated £243,000 of monitor revenues in the year against a backdrop of continuing severe restrictions on NHS capital budgets. The CardioQ-ODM+ launched late in 2012 has been well received in both critical care and surgery and comprised 21% of the total UK installed base at 31 December 2013.

Growth in the second half of 2013 was to some extent helped by the NHS's stated intention to implement ODM fully at pace and scale in order to realise the improvements in patient outcomes and cost savings proven with ODM. Some doctors seeking to implement ODM have found it easier than previously to engage NHS managers in some hospitals, but this has not been universal. Central to the NHS's implementation plan is the requirement that all NHS hospitals should achieve a minimum level of IOFM adoption in order to pre-qualify for the 2.5% of their revenues available under CQUIN financial incentive schemes. The NHS has, however, not enforced this and has not sanctioned any NHS body for failing to adopt IOFM or any other of the six targeted high impact innovations which were scheduled for adoption by the NHS at the same time as the requirement for ODM use was put in place. The NHS has indicated it is dissatisfied with the progress made with ODM/IOFM adoption to date and intends to change its approach, particularly with regard to financial incentives. It plans to replace the CQUIN pre-qualification approach with an alternative, but is yet to announce details of its new plan for high impact innovations.

The NHS approach to implementation of ODM has caused considerable confusion to potential users as it allows hospitals to adopt IOFM technologies other than ODM without prior evaluation as to whether the alternative technologies chosen, are able to deliver similar benefits to ODM. As the results of new clinical trials are published, it is becoming increasingly clear that only ODM will deliver the clinical and economic benefits which led the NHS to choose to adopt ODM in the first place. The Board believes that the new information coming from these clinical trials will create opportunities for the Company to increase further its market leading position in IOFM in the UK.

United States of America

Probe revenues in the USA increased by £99,000 (13%) to £878,000 with 9% volume growth of probes. Growth in the USA was held back by a fall in the number of people undergoing major surgery. Hospital associations estimate this fall to have been circa 12% nationally and it was 18% in our largest account where probe sales were 320 units (12%) lower than 2012. This decrease is expected to be temporary as people adjust to considerably higher excess payments on their health insurance plans following the recession and the enactment of 'Obamacare'. 2013 is expected to be the first year since the Second World War when healthcare expenditure fell as a percentage of US GDP.

We increased the number of dedicated trainer accounts in the USA over the year from two to five and these five accounts generated 845 additional probe unit sales in total including the 320 unit fall at our largest account for the reason described above: growth from the other four dedicated trainer accounts was over 50% in total (1,165 probes) and all five accounts are expected to generate considerable growth in 2014 and beyond.

In the USA, clinical acceptance of the importance of accurate fluid management during surgery has been considerably behind Europe. However, we have seen signs of a significant acceleration in interest throughout 2013 with a further step-up already evident in 2014. In the current year we have already received enquiries about ODM implementation from a number of leading hospitals, all major teaching institutions new to the use of ODM, as well as further expansion of our pipeline from our existing geographical focus areas. Our objective for 2014 is to convert a good proportion of this pipeline of hospitals into further dedicated trainer accounts and to penetrate further hospitals in those healthcare

systems where we have already established a dedicated trainer account. Broadening our base in this way will provide a platform for national roll-out of ODM when the interest in fluid management starts to spread from academic medical centres into general hospitals throughout the USA.

There are a number of factors both generic to IOFM and specific to ODM which are helping to drive this rising tide of clinical acceptance in the USA:

- Gathering momentum behind the spread of enhanced recovery surgical programmes where IOFM is one of the core components
- Hospitals actively seeking ways to improve outcomes and reduce costs to remain competitive post Obamacare and the introduction of the Affordable Healthcare Act
- The US anaesthesia profession leadership's growing recognition of the need for anaesthetists to demonstrate high added value within modern surgical approaches
- ODM becoming in April 2013 the first additional procedure for over a decade for which Medicare (the taxpayer funded health insurance scheme for the over 65s) has agreed to make extra payments to anaesthetists nationally in the USA
- Growing recognition that the wide unexplained variation across the USA in the amount of fluid given to patients undergoing surgery is indicative of a major addressable quality of care problem

Deltex Medical's research collaboration with Premier Inc is central to our strategy to accelerate creation of a major market opportunity for our products in the USA. The project made excellent progress in 2013 with a number of key milestones achieved:

- Completion of pilot phase with Duke University Hospital which showed: substantial (circa 40%) reductions in length of hospital stay from enhanced recovery in colorectal surgery using ODM; hospital cost savings of over $5,000 per patient; additional realisable cost savings from significant reductions in readmissions and re-operations
- Completion of a nationally applicable clinical protocol for enhanced recovery for colorectal surgery with elements, including IOFM, applicable to all major surgery
- Completion of a burden of illness study from Premier's clinical database showing significant unexplained variations in outcomes after major surgery across a large number of patients across the USA
- Completion of a further burden of illness study identifying large unexplained variation in fluid administration both on the day of surgery (addressable by ODM) and in the post-operative period (addressable both by ODM and broader enhanced recovery principles).

The degree of variation in fluid administration was far greater than anticipated by Premier, ourselves and the clinical experts advising the collaboration. As a consequence of the results of the project to date and the broader positive developments pointing towards more rapid creation of a mass market for ODM, Premier have agreed to our proposals to re-balance the future work programme. We now plan to:

- Expand the database interrogation phase of the project through the first quarter of 2014 to understand better the variation in fluid administration and assess its association with the variation in key surgical outcomes previously identified
- Submit abstracts to present key findings at the pre-eminent US surgical and anaesthesia clinical meetings in 2014 as well as select international meetings
- Compile manuscript for publication of the key results in a leading peer review clinical/healthcare journal (target Q4 2014)
- Dissemination of variation data to Premier members after publication. Prior to this and to the extent feasible prior to publication, Deltex Medical and selected clinical experts will be able to utilise the data
- Narrowing the focus of future analysis projects to the implementation of intra-operative fluid management rather than enhanced recovery and broadening the scope to multiple surgical disciplines rather than just colorectal

In view of the rapid expansion of our pipeline amongst leading teaching hospitals we are seeking to support generation of clinical and economic data on the implementation of ODM in a small number of similar teaching hospitals which are not subscribers to Premier's databases, as long as they are able to deliver similarly robust data in a timely manner at modest cost. We have already installed monitors, completed initial training and commenced implementation in one such hospital, are doing the initial training at two further sites, agreed scope and a second quarter start in a fourth and are discussing proposals with a small number of other hospitals in our pipeline, including Premier members. We expect to spend less on this phase of our US market

Operating Review continued

development project than envisaged a year ago and to generate higher probes sales sooner from such sites than was envisaged under the original plan. We are redeploying some of the resources saved to promote the burden of illness results prior to their publication. As part of this, we are sponsoring, through UK Trade & Investment, a series of events across the USA aimed at highlighting to select leading hospitals UK successes with enhanced recovery and ODM in the context of the Premier variation data. A first round of events in February on the West Coast of the USA was well received and is expected to help us accelerate several hospitals through the pipeline as well as add several high quality accounts to the pipeline.

International

Distributors service the majority of export markets with support from a small team of our own sales and clinical support staff.

Probe revenues in our International markets increased by 26% to £1,537,000 (2012: £1,223,000) on a 23% volume increase to 28,795.

The biggest absolute growth came from France where the national anaesthesia professional society published clinical guidelines highly favourable to ODM during the year. We sold 9,000 probes to our distributor in 2013, up 2,440 (37%) on 2012. We believe that we are one of two IOFM market leaders in France with a strong leadership position in the Paris area. Late in 2013 we agreed to extend our distributor's contract for a further four years based on a business plan which includes increased investment in clinical support and increased targeting of hospitals outside Paris. At the start of 2014 our French distributor won a four year tender renewal allowing it to supply CardioQ-ODM products to the Assistance Hopitaux Publique de Paris ('AHPP'). AHPP is the public hospital system of the city of Paris and its suburbs. It includes over 40 hospitals and is linked to the University of Paris.

In Canada we acquired 51% of the business from our distributor to establish our first jointly owned subsidiary in an international market. We are participating in a tender in the hospital system where we are best established which, if successful, will provide a platform for growth in Western Canada. Doctors at one of Eastern Canada's leading teaching hospitals are approximately half way through a trial of ODM within their enhanced recovery programme which, assuming good results, will position our products strongly as enhanced recovery gains traction in Canada. Canadian sales totalled £20,000 in 2013 comprising end user sales in the last few weeks of the year. In prior years Canadian sales comprised of bulk sales to our distributor which were £197,000 in 2012 and £245,000 in 2011. We expect our experience in Canada to determine the extent to which we seek joint ventures in other markets going forward.

We have a small direct sales and clinical support operation in Spain which has been focused for several years on two strands of work: one to support the inception of enhanced recovery approaches to surgery; the other a government funded multi-centre randomised controlled trial of ODM in multiple types of major surgery with the first results due to be presented in June 2014. We expect both strands to influence heavily Spanish clinical guidelines for IOFM and enhanced recovery which are being developed in 2014. Subject to agreeing commercially satisfactory working capital arrangements in the difficult Spanish economic environment we hope to be positioned for major expansion going into 2015.

We achieved satisfactory growth in probe sales in a number of territories where we are more established including Austria, Scandinavia, Peru and Germany. The CardioQ-ODM+ has generated considerable interest in a number of markets including Germany, where the Charite Hospital in Berlin continues to publish a series of trials highlighting the clinical benefits of ODM and where clinical guidelines for IOFM are in the early stages of development.

International monitor sales totalled £394,000 compared to £657,000 in 2012 reflecting a change in our focus towards generating high quality, recurring probe revenues rather than one off monitor sales. As a result the largest order for monitors in the year was for 25 monitors following a tender win in South Africa which was followed by probe stocking orders as the monitors were installed.

Operations

We have sustained our high investment in R&D with total expenditure in 2013 of £583,000. We are developing a new monitor platform incorporating a modern graphical user interface, increased connectivity and enhanced signal acquisition for both flow and pressure parameters. We plan to launch this new platform in 2015.

This year we have launched the first generation ODM training simulator and are working with a small number of leading academic institutions in the UK, France, Germany and the USA to incorporate this into clinical simulation training and education programmes. We are also embedding use of the simulator into our general and dedicated training programmes with the twin aims of decreasing the learning curve for new ODM users and maximising the productivity of our clinical support teams.

We are six months into a two year project to streamline probe manufacturing processes, increase probe margins and further enhance probe handling characteristics. This project is expected to create opportunities for substantial margin improvements.

Prospects

We have started 2014 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 increasing numbers of developed health economies. We have market leading positions and increased growth rates in the more developed markets for our products and have momentum in the roll-out of our dedicated trainer programme as more hospitals start to adopt at scale. The cash generated from our high quality probe revenue streams is transforming the Company's financial position and opportunities for near term accelerated growth are increasing in the USA.

Ewan Phillips
Chief Executive

11 March 2014

Financial Review

Surgical probe revenue continues to be a fast growing, recurring high margin revenue stream

Statutory results

Consolidated Statement of Comprehensive Income

Revenue as reported in the Consolidated Statement of Comprehensive Income increased by £394,000. The revenue has been split into two parts, probes and other, reflecting the key operating segments of the business. The movement in probe sales is detailed below under probe revenue. Detailed market information is given in the Operating Review on pages 6 to 11. In addition, a breakdown of revenue and units by market is given in the segmental analysis note on page 41.

Other income comprises:

	2013	2012
	£'000	£'000
Revenue from monitors sold	**668**	838
Maintenance revenue	**87**	120
Clinical research income	**-**	448
Other	**99**	106
Other revenue	**854**	1,512

Explanations on the changes in monitor revenue and clinical research income are given under "Net monitor income" and "Clinical research income" within this review. Maintenance revenue has decreased by £33,000 to £87,000 (2012: £120,000) as a result of continuing increase in the monitor installed based being owned by the Company, rather than the hospital who would normally purchase a maintenance agreement.

The overall gross margin for the Group increased by 1% to 72% (2012: 71%), primarily as the result of the increase in margins achieved on the higher value probes from 1% to 76% and an improvement in the gross margin achieved on monitors from 50% to 70%. The increase in probe sales of £1,032,000 led to a direct increase in gross margin of £793,000. The lower margin on the monitors in 2012, was due to a decision to seed the market quickly with the Group's new CardioQ-ODM+ monitors, through selling to distributors at discounted prices.

Cost remained under close control during the year with administrative expenses remaining broadly flat at £2,145,000 (2012: £2,186,000). Sales and distribution costs reduced by £163,000 to £3,940,000 (2012: £4,103,000) primarily as the results of specific expenditure on additional marketing in 2012 that was also completed during 2012. The movement on Research and Development costs are described within the section "Intangible Assets" within this review.

US market development costs

In January 2013, c£2,400,000 (after expenses) was raised specifically to fund investment in a project to develop more rapidly a mass market for our products in the USA. The costs incurred supporting this project are being monitored separately due to its nature. The increase in costs of £550,000 to £599,000 (2012: £49,000) reflects the full year charge of a work stream started in January 2013. In 2012, a pilot exercise was conducted to test the feasibility of the project. Further details of this work stream are given in the operating review on pages 8 to 10.

Financial income and expenditure

Financial income in the year remained in line with 2013 at £1,000 (2012: £1,000) primarily as a result of the continued low interest received on cash balances.

Finance costs increased by £2,000 to £120,000 (2012: £118,000) as a result of interest payable on a new finance lease.

Taxation

Under the UK Government's Research and Development tax credit scheme, the Group will claim approximately £111,000 relating to R&D in 2013 (2012: £102,000).

Earnings

The reported net loss for the year was £2,114,000 (2011: £2,093,000). With a weighted average number of shares of 164,175,818 (2012: 148,243,393), the basic loss per share was 1.3p (2012: 1.4p).

Pro-forma results

As of the 2013 interim statement we introduced a new pro-forma results statement which enables the reader of the accounts to understand better the key performance indicators of the Group; namely probe sales and margins, cash costs, net income from or cost of increasing the installed base, profit before and after non-cash items and profit before specific investment in the developing US market. In addition, we have added further analysis of our results on the face of the Statement of Comprehensive Income.

This format does not alter the total revenue, costs, profit or loss for the year, simply representing the results in an easier to understand format. For comparative purposes, the results since 2004 have been re-presented within the operating review on page 6.

Probe revenue

Surgical probe growth revenue is a key performance metric for the Group. During 2013, the Group increased surgical probe sales by £1,055,000 (24%), whilst ICU probe sales remained broadly flat at £788,000 (2012: £811,000). Surgical probe revenue continues to be a fast growing, recurring high margin revenue stream which is expected to impact significantly on the Group's profitability as more patients are treated using one of the Group's probes.

Net monitor income

Net monitor income comprises revenue and costs associated with monitors as follows:

	2013	2012
	£'000	£'000
Revenue from monitors sold	**668**	838
Maintenance revenue	**87**	120
Cost of sales	**(201)**	(419)
Amortisation costs of placed monitors	**(175)**	(138)
Net monitor income	**379**	401

Severe constraints on capital available to healthcare systems in most developed health economies continue to impact on the sale of monitors to hospitals.

Cash costs

During 2013, the cost base was set so that the Group, before investment would be broadly cash positive at an operating level on sales of £7.2m. Cash costs remain under tight control with cash costs (before US market development costs) for the year increasing by £28,000 to £5,455,000 (2012: £5,427,000). These cash costs include items such as movements in provisions as well as the capitalisation and subsequent amortisation of Research and Development costs. Although these costs incur cash expenditure when originally invested in, there is a timing difference between the expenditure and when

Financial Review continued

they are charged to the Consolidated Statement of Comprehensive Income. Therefore as well as reported loss on cash items, the Group continues to monitor closely the actual cash spend in a year. This continues to be well managed and was within 1% of that budgeted at the start of the year.

Cash loss before US market development costs

Together with probe revenue, this is a key measure for the Group. In 2013, given that net monitor income and sundry revenue remained relatively flat when compared to 2012 (2013: £414,000; 2012: £403,000), the additional gross margin achieved on the probes has directly contributed to a £776,000 reduction in cash losses from £1,062,000 to £286,000. Progress towards cash profitability can be shown in the following chart. This charts the cash losses (before specific US market development costs) over the past three years, which has primarily been achieved through the continued growth of the Group's high margin, recurring probe revenue.

Cash loss before US market development costs

Clinical research income

Prior to 2013, in certain circumstances where Deltex Medical required clinical research undertaken in hospitals that wished to acquire monitors, but did not have the budget to do so, a cashless trade has taken place where the monitors are sold to the hospitals in return for contracted research work of a value at least equivalent to that of the monitors sold. This being a low cost way of obtaining clinical research for the Group. The costs of the research are then carried forward as a prepayment and charged to the Consolidated Statement of Comprehensive Income as completed.

From September 2013, the Group's intention is to structure these agreements so as to maintain title to the monitors. This means that there will not be any associated clinical research income or corresponding costs in the financial statements. As a result of this change in strategy in 2013, no such contracts were entered into and no revenue or additional corresponding costs were recorded (2012 Revenue: £448,000).

Non-cash costs

Non-cash costs decreased by £202,000 to £1,213,000 primarily due to:

(i) a decrease in clinical trial charges arising from the barter transaction noted above of £141,000 to £262,000;

(ii) a decrease in equity settled costs of £117,000 to £153,000

(iii) a small increase in share based payment of £63,000 to £643,000.

Clinical trial charges are dependent on the level of progress that the projects have made during the year. During 2013, clinical trials, based primarily on the Groups CardioQ-ODM+ product continued well and are expected to be substantially completed in 2014.

Equity settled costs largely comprise non-executive director fees. In addition certain advisors to the Group also elect to have a proportion of their fees settled in equity.

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 (see note 21) for further details.

Share based payments primarily arise under the award of options to employees. The Group uses two types of employee share plans: Deltex Medical Employee Share Option Plan and the Deltex Medical Enterprise Management Incentive Scheme. Bonuses to UK based employees are settled through the award of options under the Group's EMI scheme. This allows the Group to utilise its cash resources effectively, whilst providing for a tax efficient manner for its

employees to be rewarded. A small increase in bonuses for 2013 (and therefore the share based payment charge) reflects progress made with ODM adoption against corporate targets

Balance Sheet

Key movements in the Balance Sheet are described below:

Property, Plant and Equipment

The Group continued to invest in the installed base of monitors in its key markets in order to support the growth in its high margin probe business. During 2013, an additional £295,000 (2012: £306,000) of monitors were placed in hospitals and capitalised in accordance with the Group's policies. These units are charged to cost of sales over a period of five years from date of installation in the hospital. In 2013, this charge totalled £175,000 (2012: £138,000).

In addition, a new accounting and manufacturing system was installed in the year at a cost of £50,000. This will substantially upgrade our internal reporting capabilities to allow for better management information throughout the business. This system was financed and led to a corresponding increase in finance leases of £49,000.

Intangible assets

The Group continues to invest in Research and Development, which in recent years has included the release of the CardioQ-ODM+ monitor that combines pressure and flow. During 2013, the CardioQ-EDM+ (the US version of the CardioQ ODM+) monitor was also released, following US FDA regulatory approval. These products are currently receiving positive evaluations and feedback both in the UK and USA. Further work was also carried out on the next platform of CardioQ-ODM, which is expected to be released in 2015, as well as an ODM simulator to assist with classroom teaching and hospital implementations.

In accordance with International Accounting Standard 38, R&D development cost is capitalised on the balance sheet and then amortised over the products' lives when certain conditions are met (see note 1 for criteria). The Group's accounting policy is to amortise all products over five years from the date the product is available.

A reconciliation between total costs incurred and the amount charged to the Consolidated Statement of Comprehensive Income is given below:

	2013	2012
	£'000	£'000
Total cost incurred on research and development	**885**	905
Less: amount capitlised to Balance Sheet	**(411)**	(472)
Add: amortisation on released products	**109**	120
Net amount charged to the Consolidated Statement of Comprehensive Income	**583**	553

Of the £1,378,000 (2012: £1,076,000) of net book value related to capitalised development expenditure, £424,000 (2013: £423,000) relates to previously released products and £954,000 (£653,000) to the development of products yet to be released.

An amount of £124,000 has also been provisionally capitalised as goodwill on the acquisition of the Canadian ODM business from the Group's former distributor. Due to the timing of the acquisition being close to the year-end, the final fair value allocation will be completed during 2014.

Inventories

Inventory levels have decreased by £43,000 to £920,000 (2012: £963,000). The Group's policy is to hold sufficient probes and monitors to meet increasing demand, whilst ensuring that overall working capital is managed effectively.

Trade and other receivables

Trade receivables increased by £664,000 to £2,730,000 (2012: £2,066,000) as a result of increased sales in December, when compared to the prior year. This increase in receivables at the year-end has a direct impact on working capital, which is explained further below within cashflow. Clinical trial prepayments have decreased from £676,000 to £264,000 as clinical trial prepayments, recognised under barter transactions in previous years, continue to unwind.

Borrowings

As a direct result of timings of receivables at the year-end, the amount drawn down under the Group's invoice discounting facility increased by £522,000 to £1,246,000. During the year, a loan on the US subsidiary was converted into equity, reducing the Group's net debt by £394,000. The amount owed under finance leases also increased as a result of the investment in new finance and manufacturing systems.

Financial Review continued

Trade and other payables

In 2012, a number of the Group's new CardioQ-ODM+ monitors were built for sale in December. This led to an increase in trade payables at the year end. This build was not repeated in 2013, therefore trade payables decreased by £325,000 to £644,000 (2012: £969,00) In addition, the amount of Tax and Social Security payable increased by £212,000 to £381,000 (2012: £169,000) primarily due to a number of EMI options that were exercised at the end of 2013.

Cashflow

The Group has traditionally had three funding requirements:

(a) funding of operating losses to cash breakeven,

(b) funding working capital

(c) funding investments

(a) Operating costs

Details of the cash breakeven are given in the section titled "Cash losses before US market development costs" above.

(b) Working capital

Inventory build, sales profile, movements in trade creditors/receivables etc. continue to have an impact on the Group. The working capital movement on the cashflow note 23 is set out in the standard format, which does not take into account the substantial amount of non-cash items included in both prepayment and accruals. Excluding these non-cash items the working capital movement for the year was:

Working capital movement in:

	2013	2012
	£'000	£'000
Inventory	**43**	(51)
Trade receivables	**(664)**	(212)
Trade payables	**(325)**	240
Tax and social security payable	**212**	14
	(734)	(9)

The movements in these balances are described in detail elsewhere above.

(c) Investments

Where the Group has identified specific investment opportunities that are considered likely to produce positive returns to shareholders, then, unless they can be funded out of current cash flows, the Group may seek further equity funding from investors to fund these opportunities.

In January 2013, such an opportunity was identified to accelerate the development of the Group's business in the USA. As a consequence c£2,400,000 (net of expenses) of new equity was placed in order to fund this opportunity. Further details of this are given within the Chairman's Statement and Operating Review.

In addition, the Group has made further investment in the installed base of its units in both the UK and USA during the period at a cost of £295,000 (2012: £306,000).

Finally, a further £174,000 was invested in acquiring 51% of the Canadian business from the Group's Canadian distributor through the establishment of a new subsidiary. The Group intends to use these assets to support the future growth of the business.

Key performance indicators

As previously described, the presentation of the results was changed this year to focus on the key performance measures of the Group. These being the rate of surgical probe growth as well as cash losses. The Group's progress towards achieving these is described within this Financial Review above.

Paul Mitchell
Finance Director

11 March 2014

Strategic Report
For the year ended 31 December 2013

Group strategy

Deltex Medical's goal is to make Oesophageal Doppler Monitoring ("ODM") a standard of care in healthcare markets throughout the world. Achieving this will create an international business that generates substantial profits and cash. This is achieved through both engaging healthcare systems at a national level and physicians at the user level. This is an area where the Group has developed considerable expertise and progress is explained and is further within the Chairman's Statement and Operating Review on pages 2 to 11.

Group's business model

Deltex Medical generates revenues from the sale of single patient disposable probes, from the sale of monitors and from providing maintenance and support services. The Group operates a direct sales force in the UK, USA and Spain. In Canada, the Group has entered into an agreement with its previous distributor to accelerate development within this territory of ODM through a jointly owned subsidiary of which the Group owns 51% of the shares. In all other territories, the Group sells to distributors.

The Group continues to invest carefully to ensure that it maximises the opportunity from acceleration of the adoption rate of the Group's products, whilst carefully managing its cash resources.

Employee gender

A breakdown of the gender of our Directors, Senior Managers and all other employees is given below:

	Male No.	Female No.
Directors	6	-
Senior Managers	4	3
All other employees	36	35
Total	**46**	**38**

Human rights issues

The Group is unaware of any significant human rights issues affecting the Group or its employees.

Business review and future developments

The Group is required to set out in this report a fair view of the business of the Group during the financial year ended 31 December 2013, the position of the Group at the end of the financial year, future developments 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 5, the Operating Review on pages 6 to 11, the Financial Review on pages 12 to 16 and the directors report on page 20.

Paul Mitchell
Company Secretary

11 March 2014

Directors

Non-executive directors

Nigel Keen MA FCA FI ET
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.

Dr Edwin Snape BSc 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. Lab 21 Limited and Selah Genomics Inc. 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 and is the Chairman of the Audit Committee. He was until 2007 a Managing Director — Corporate Finance of JPMorgan Cazenove. After graduating in Economics from Cambridge, he qualified as a Chartered Accountant before joining Cazenove in 1973. He became a Partner in 1978. From 1989 he worked in Corporate Finance, firstly in Equity Capital Markets and subsequently advising listed companies. He is Chairman of Herald Investment Trust plc and a Director of Charles Taylor plc, Private Equity Investor plc and of a number of charities.

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 was the Deputy Chairman of the Christie NHS Foundation Trust from 2008 to 2012 and is currently Chairman of the Countess of Chester NHS Foundation Trust. Duncan is also currently a Non-executive Chairman of Synergy Health 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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Company registered number: 3902895

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Directors' Report

For the year ended 31 December 2013

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2013. The directors who served during the year and up to the date of signing the financial statements are disclosed on page 18.

Business review, future developments 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 Group is required to set out in this report a fair view of the business of the Group during the financial year ended 31 December 2013, the position of the Group at the end of the financial year, future developments 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 5, the Operating Review on pages 6 to 11 and the Financial Review on pages 12 to 16.

Results and dividends

The results for the year are shown in the Consolidated Statement of Comprehensive Income on page 28. The directors do not recommend payment of a dividend (2012: £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.
- 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 surgical probe sales growth and cash losses before specific investments. See Financial Review for details on page 16.

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 2013 was £583,000 (2012: £553,000). The amount capitalised as an intangible asset during 2013 was £411,000 (2012: £472,000), see note 10. Further information is given in the Operating Review on pages 6 to 11 and the Financial Review on pages 12 to 16.

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

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 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 and Spain 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 uses international distributors in a number of overseas territories. In order to assist the distributors in developing their markets, these distributors may be given extended trade terms. Extended trade terms, by their nature can increase the credit risk to the Group. Such risks are carefully managed through direct relationships with the distributors and knowledge of their markets.

The 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.

Directors' Report continued

Directors' interests

	31 December 2013 No.	31 December 2012 No.
Nigel Keen	**6,985,163**	5,898,547
Dr Edwin Snape	**1,430,624**	1,216,338
Sir Duncan Nichol	**928,916**	722,416
Ewan Phillips	**1,609,773**	1,309,773
Julian Cazalet	**4,080,268**	3,617,882
Paul Mitchell	**352,831**	176,496
	15,387,575	12,941,452
Percentage of issued share capital.	**9.00%**	8.57%

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

	At 1 January 2013 No.	Granted during 2013 No.	Exercised 2013 No.	Expired 2013 No.	At 31 December 2013 No.	Exercise price £	Exercise period from	Exercise period to
Ewan Phillips								
2001 Executive	120,000	-	-	(120,000)	-	0.15	28-Oct-06	27-Oct-13
Share Option Scheme	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	1,000,000	-	-	-	1,000,000	0.1725	28-Sep-14	27-Sep-21
Share Option Scheme	500,000	-	-	-	500,000	0.24	10-Oct-15	10-Oct-22
2003 EMI Scheme*	583,333	-	(200,000)	-	383,333	0.01	24-Mar-04	27-Oct-14
	52,083	-	-	-	52,083	0.01	15-Mar-05	11-Oct-14
	213,881	-	(100,000)	-	113,881	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
	277,174	-	-	-	277,174	0.01	10-Oct-12	09-Oct-22
2013 EMI Scheme*	-	115,385	-	-	115,385	0.01	23-Dec-13	22-Dec-23
	7,377,242	115,385	(300,000)	(120,000)	7,072,627			

Directors' interests (continued)

	At 1 January 2013 No.	Granted during 2013 No.	Exercised 2013 No.	Expired 2013 No.	At 31 December 2013 No.	Exercise price £	Exercise period from	Exercised period to
Paul Mitchell								
2001 Executive	28,000	–	–	(28,000)	–	0.15	28-Oct-06	27-Oct-13
Share Option Scheme	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	300,000	–	–	–	300,000	0.1725	28-Sep-14	27-Sep-21
Share Option Scheme	150,000	–	–	–	150,000	0.24	10-Oct-15	10-Oct-22
2003 EMI Scheme*	93,478	–	(93,478)	–	–	0.01	10-Oct-12	09-Oct-22
	1,146,478	–	(93,478)	(28,000)	1,025,000			

All shares and options at 31 December 2013 and 31 December 2012 related to ordinary 1p shares.
* Enterprise Management Incentive Scheme

Directors' remuneration

The remuneration paid to the directors was:

	Salary and fees					Salary and fees				
	Cash settled £	Equity settled £	Car allowance £	Pension £	2013 Total £	Cash settled £	Equity settled £	Car allowance	Pension £	2012 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	20,000	7,500	4,260	118,280	86,520	11,500	7,500	3,460	108,980
Duncan Nichol	–	24,000	–	–	24,000	–	24,000	–	–	24,000
Ewan Phillips	185,000	–	7,500	7,400	199,900	185,000	–	7,500	7,400	199,900
Ed Snape	–	24,000	–	–	24,000	–	24,000	–	–	24,000
	271,520	**125,333**	**15,000**	**11,660**	**423,513**	271,520	116,833	15,000	10,860	414,213

Throughout the years ended 31 December 2012 and 2013, 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.

Salary sacrifice

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 2013 to December 2013	115,385	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 2013 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

Directors' Report continued

Paul Mitchell

Commencement date	3 September 2009
Notice period	Six months
Aggregate remuneration	£106,520 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 (2012: £15,000) of the aggregate remuneration reported above in lieu of share options. In addition, Paul Mitchell elected for £20,000 (2012: £11,500) of the aggregate remuneration reported above to be settled through equity issue.

Directors' indemnities

As permitted by the Companies Act 2006, the Company has indemnified the directors in respect of proceedings brought by third parties and qualifying third party indemnity insurance was in place throughout the year and up to the date of approval of the financial statements.

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 11 March 2014:

	Number of ordinary shares	Percentage of issued share capital
BlackRock, Inc.	9,404,196	5.50%
Legal and General Investment Management Limited	14,283,386	8.33%
Herald Investment Management Limited	10,709,190	6.26%
Nigel Keen	6,985,163	4.09%

Equity issue

Details of equity issues in the year are set out in note 20.

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 until 31 December 2015. This review indicates that the Group has sufficient liquidity to continue as a going concern.

Further details of Group's cash flows are given in the Financial Review on page 16 and the Basis of preparation note on page 39.

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 financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International

Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively;
- 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 in business.

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

The directors are responsible for the maintenance and integrity of the 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 7 May 2014 at 11.00am at Laytons, 2 More London Riverside, London SE1 2AP, will be sent in due course.

By order of the Board

Paul Mitchell
Company Secretary

11 March 2014

Independent Auditors' Report

to the members of Deltex Medical Group plc

Report on the group financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements (the "financial statements"), which are prepared by Deltex Medical Group plc, comprise:

- the consolidated statement of comprehensive income for the year then ended;
- the consolidated balance sheet as at 31 December 2013;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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.

In addition, we read all the financial and non-financial information in the Chairman's Statement, Operating Review, Financial Review, Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 24, 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 ISAs (UK & 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.

Other matter

We have reported separately on the parent company financial statements of Deltex Medical Group plc for the year ended 31 December 2013.

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

11 March 2014

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

	Note	2013 Probes £'000	2013 Other £'000	2013 Total £'000	2012 Probes £'000	2012 Other £'000	2012 Total £'000
Probe revenue							
Surgical probes		**5,509**	**-**	**5,509**	4,454	-	4,454
Critical care		**788**	**-**	**788**	811	-	811
Other		**-**	**854**	**854**	-	1,512	1,512
Total Revenue	2	**6,297**	**854**	**7,151**	5,265	1,512	6,777
Total cost of sales		**(1,542)**	**(440)**	**(1,982)**	(1,303)	(661)	(1,964)
Gross profit		**4,755**	**414**	**5,169**	3,962	851	4,813
Administrative expenses	4			**(2,145)**			(2,186)
Sales and distribution costs	4			**(3,940)**			(4,103)
Research and development	4			**(583)**			(553)
US market development costs	4			**(599)**			(49)
Total costs				**(7,267)**			(6,891)
Operating loss before costs of US market development				**(1,499)**			(2,029)
US market development costs				**(599)**			(49)
Operating loss*	4			**(2,098)**			(2,078)
Finance income	6			**1**			1
Finance costs	6			**(120)**			(118)
Loss before taxation				**(2,217)**			(2,195)
Tax credit on loss	7			**111**			102
Loss for the year	22			**(2,106)**			(2,093)
Other comprehensive income							
Items that may be subsequently reclassified to profit or loss							
Exchange differences taken to reserves	22			**(31)**			(11)
Other comprehensive expense for the year, net of tax				**(31)**			(11)
Total comprehensive loss for the year				**(2,137)**			(2,104)
Total comprehensive loss for the year attributable to:							
Owners of the Parent				**(2,145)**			(2,104)
Non-controlling interests				**8**			-
				(2,137)			(2,104)
Loss per share - basic and diluted				**(1.3p)**			(1.4p)
***Operating loss is split:**							
Cash loss				**(286)**			(1,062)
US market development costs				**(599)**			(49)
Non - cash charges (net)				**(1,213)**			(967)
Operating Loss	4			**(2,098)**			(2,078)

The notes on pages 32 to 61 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet

at 31 December 2013

	Note	2013 £'000	2012 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**585**	463
Intangible assets	10	**1,502**	1,076
Trade and other receivables	13	**10**	37
Total non-current assets		**2,097**	1,576
Current assets			
Inventories	12	**920**	963
Trade and other receivables	13	**3,081**	2,935
Current income tax recoverable		**118**	114
Cash and cash equivalents	14	**1,459**	667
Total current assets		**5,578**	4,679
Total assets		**7,675**	6,255
Liabilities			
Current liabilities			
Borrowings	15	**(1,284)**	(1,123)
Trade and other payables	17	**(1,855)**	(1,866)
Total current liabilities		**(3,139)**	(2,989)
Non-current liabilities			
Borrowings	15	**(1,028)**	(996)
Provisions for other liabilities	18	**(135)**	(165)
Total non-current liabilities		**(1,163)**	(1,161)
Total liabilities		**(4,302)**	(4,150)
Net assets		**3,373**	2,105
Equity			
Share capital	20, 22	**1,709**	1,510
Share premium	22	**26,440**	23,659
Capital redemption reserve	22	**17,476**	17,476
Other reserves	22	**4,217**	3,792
Translation reserve	22	**(51)**	(20)
Retained deficit	22	**(46,426)**	(44,312)
Equity attributable to owners of the Parent		**3,365**	2,105
Non-controlling interests		**8**	-
Total equity		**3,373**	2,105

The notes on pages 32 to 61 form an integral part of these consolidated financial statements.

The financial statements on pages 28 to 61 were approved by the Board of Directors on 11 March 2014 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 2013

		Attributable to owners of the Parent								
	Note	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other reserves £'000	Translation reserve £'000	Retained deficit £'000	Total £'000	Non-controlling Interest £'000	Total equity £'000
Balance at 1 January 2012		1,421	21,901	17,476	3,286	(9)	(42,219)	1,856	–	1,856
Comprehensive income										
Loss for the year	22	–	–	–	–	–	(2,093)	(2,093)	–	(2,093)
Other comprehensive income										
Exchange movements taken to reserves	22	–	–	–	–	(11)	–	(11)	–	(11)
Total comprehensive expense for the year		–	–	–	–	(11)	(2,093)	(2,104)	–	(2,104)
Shares issued during the year	20, 22	89	–	–	–	–	–	89	–	89
Premium on shares issued during the year	22	–	1,832	–	–	–	–	1,832	–	1,832
Issue expenses	22	–	(74)	–	–	–	–	(74)	–	(74)
Credit in respect of service costs settled by award of options	22	–	–	–	506	–	–	506	–	506
Balance at 31 December 2012		**1,510**	**23,659**	**17,476**	**3,792**	**(20)**	**(44,312)**	**2,105**	**–**	**2,105**
Comprehensive income										
Loss for the year	22	–	–	–	–	–	(2,114)	(2,114)	8	(2,106)
Other comprehensive income										
Exchange movements taken to reserves	22	–	–	–	–	(31)	–	(31)	–	(31)
Total comprehensive expense for the year		–	–	–	–	(31)	(2,114)	(2,145)	8	(2,137)
Shares issued during the year	20, 22	199	–	–	–	–	–	199	–	199
Premium on shares issued during the year	22	–	2,892	–	–	–	–	2,892	–	2,892
Issue expenses	22	–	(111)	–	–	–	–	(111)	–	(111)
Credit in respect of service costs settled by award of options	22	–	–	–	425	–	–	425	–	425
Balance at 31 December 2013		**1,709**	**26,440**	**17,476**	**4,217**	**(51)**	**(46,426)**	**3,365**	**8**	**3,373**

The notes on pages 32 to 61 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Cash flows used in operating activities			
Net cash used in operations	23	**(1,427)**	(1,119)
Interest paid		**(98)**	(105)
Income taxes received		**107**	90
Net cash used in operating activities		**(1,418)**	(1,134)
Cash flows used in investing activities			
Purchase of property, plant and equipment	9	**(364)**	(346)
Capitalised development expenditure	10	**(411)**	(472)
Acquisition of subsidiary	10	**(174)**	–
Interest received	6	**1**	1
Net cash used in investing activities		**(948)**	(817)
Cash flows generated from financing activitites			
Issue of ordinary share capital	22	**2,698**	1,921
Expenses in connection with share issue		**(111)**	(74)
Proceeds from increase in borrowings		**580**	29
Repayment of obligations under finance leases		**(13)**	(4)
Net cash generated from financing activities		**3,154**	1,872
Net increase/(decrease) in cash and cash equivalents		**788**	(79)
Cash and cash equivalents at beginning of the year		**667**	752
Exchange losses on cash and cash equivalents		**4**	(6)
Cash and cash equivalents at end of the year		**1,459**	667

The notes on pages 32 to 61 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 AIM, a market of that name operated by the London Stock Exchange Plc. The address of the registered office is Deltex Medical Group plc, 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, with exception of fair value accounting for share based payments, and on a going concern basis as discussed in more detail under the 'Basis of Preparation' section of this note.

The following standards, amendments to standards and interpretations which have been endorsed by the EU have been adopted with effect from 1 January 2013 or as stated below. No changes to previously published accounting policies or other adjustments were required on their adoption.

- Amendments to IFRS 7, Financial Instruments: Disclosures on transfers of assets
- Amendment to IAS 1, Financial statement presentation regarding other comprehensive income
- Amendment to IAS 12, Income taxes on deferred tax
- IFRS 13, fair value measurement
- IAS 19, Employee benefits (revised 2011)
- Annual improvements 2011

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:

- IFRS 9, Financial instruments – 1 January 2015
- IFRS 10, Consolidated financial statements – 1 January 2014
- IFRS 11, Joint arrangements – 1 January 2014
- IFRS 12, Disclosures of interest in other entities – 1 January 2014
- IAS 27 (revised 2011), Separate financial statements – 1 January 2014
- IAS 28 (revised 2011), Associates and joint ventures – 1 January 2014
- Amendment to IAS36, Impairment of assets – 1 January 2014

There are no other IFRS or IFRSIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the parent Company and all of its subsidiaries. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Consistent accounting policies have been adopted across the Group. Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Notes to the Financial Statements continued

1 **Principal accounting policies** continued

Basis of consolidation continued

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

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 excludes 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; for UK customers normally this is when the goods are accepted at the customers specified delivery address and for International customers this is normally on dispatch.
- Bill and hold
  A small number of customers request "Bill and hold" arrangements, where the Group holds the goods sold to the customer on their behalf until the customer is ready to receive them. Revenue is only recognised, when the customer has recognised that all the risks and rewards of ownership have passed to the customer, including under these Bill and hold arrangements.
- 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).
- 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 '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 and maintenance
  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. In 2012, the Group reported the following as operating segments, UK, USA, International and Spain. The principal activity of the Group has increasingly become the sale of probes in all countries, with the geographical split becoming the secondary segment. Therefore, the primary segmental reporting for the Group has been restated to probes and other.

The Group has a single group of related products and services, being the supply of probes and other related services. Segment information is provided on the basis of probe revenue and other, 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.

The segmental operating result is the measure of operating profit generated by probes and other. The Group has also split its net assets and liabilities according to the operating segments of probes and other.

Notes to the Financial Statements continued

1 Principal accounting policies continued

Foreign currency translation

The functional and presentation 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.

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.

Notes to the Financial Statements continued

1 Principal accounting policies continued

US market development costs

US market development costs consist of targeted expenditure specific to certain of the Group's activities aimed at accelerated development of the market opportunity for its products in the USA. These costs relate primarily to the Group's research collaboration with Premier Inc and include fees paid to Premier and its partners, direct costs of supporting the collaboration including related research projects in hospitals and dissemination of the results of such research as it becomes available. Costs incurred in support of the Group's ongoing US business are excluded and charged in arriving at the profit or loss before non-cash and US market development costs.

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

Depreciation is calculated 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 periods:

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

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

Machines loaned to customers

In order to support key accounts and increase probe usage, monitors may be placed on long-term loan with customers. Where these monitors are expected to be placed for a period longer than 12 months, the monitors are transferred at book value to property, plant and equipment and depreciated over five years. Where monitors are placed on a short-term loan of less than 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 assets

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 below 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.

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 of 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.

Notes to the Financial Statements continued

1 Principal accounting policies continued

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

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.

Non-financial assets other than goodwill which have suffered an impairment are reviewed for possible reversal of impairment at each reporting date.

Retirement benefit costs

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.

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. Assets held under finance leases should be depreciated over the lower of the useful lives and the term 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.

Notes to the Financial Statements continued

1 **Principal accounting policies** continued

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. Prepaid clinical and other trials amounts are included within prepayments and accrued income in trade and other receivables in the Consolidated Balance Sheet.

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.

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.

At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

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.

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 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.

- **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 21.

- **Trade receivables recoverability**
  The Group uses international distributors in a number of overseas territories. Judgements have been made in respect of these various overseas territories, in order to assess the recoverability of receivables from these territories, to see whether an impairment provision is required. In addition, in order to assist the distributors in developing their markets, these distributors may be given extended trade terms. Extended trade terms, by their nature can increase the credit risk to the Group. Such risks are carefully managed through direct relationships with the distributors and knowledge of their markets.

Notes to the Financial Statements continued

1 Principal accounting policies continued

- **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) *Proforma results – Chairman's statement*
This presents our progress against key performance indicators: probe sales and margins, cash costs, net income from or cost of increasing the installed base, profit before and after non-cash items and profit before investment in the Premier project.

(b) *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. Non-cash costs comprise Share based payments, equity settled costs, clinical trial charges arising from non-cash barter transactions and depreciation and amortisation. A reconciliation of the operating loss to the adjusted operating loss is shown beneath the Consolidated Statement of Comprehensive Income.

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 until 31 December 2015

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.

2 Operating segments

In 2012, the Group reported the following as operating segments, UK, US, International and Spain. The principal activity of the Company has increasingly become the sale of probes in all countries, with the geographical split becoming a secondary segment. Therefore, the primary segmental reporting for the Group has been restated to probes and other.

Segment results include items directly attributable to a segment as well as those, which can be allocated on a reasonable basis.

Notes to the Financial Statements continued

2 Operating segments continued

The reportable segment results for the year ended 31 December 2013 are as follows:

	Probes £'000	Other £'000	Unallocated £'000	Total £'000
Revenue from customers	**6,297**	**854**	**–**	**7,151**
Segment profit/(losses)	**4,755**	**414**	**(7,267)**	**(2,098)**
Finance income	**–**	**–**	**–**	**1**
Finance costs	**–**	**–**	**–**	**(120)**
Loss before taxation	**–**	**–**	**–**	**(2,217)**
Tax credit on loss	**–**	**–**	**–**	**111**
Loss for the financial year	**–**	**–**	**–**	**(2,106)**

The reportable segment results for the year ended 31 December 2012 are as follows:

	Probes £'000	Other £'000	Unallocated £'000	Total £'000
Revenue from customers	5,265	1,512	–	6,777
Segment profit/(losses)	3,962	851	(6,891)	(2,078)
Finance income	–	–	–	1
Finance costs	–	–	–	(118)
Loss before taxation	–	–	–	(2,195)
Tax credit on loss	–	–	–	102
Loss for the financial year	–	–	–	(2,093)

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

The reportable segment assets and liabilities at 31 December 2013 and capital expenditure are as follows:

	Probes £'000	Other £'000	Unallocated £'000	Total £'000
Assets	**2,791**	**2,545**	**2,339**	**7,675**
Liabilities	**256**	**105**	**3,941**	**4,302**

	Assets £'000	Liabilities £'000
Segment assets/liabilities		
Unallocated:		
Property, plant and equipment	**86**	**–**
Intangible assets	**191**	**–**
Inventory	**124**	**–**
Trade and other receivables	**361**	**–**
Current income tax	**118**	**–**
Cash	**1,459**	**–**
Borrowings	**–**	**2,312**
Trade and other payables	**–**	**1,500**
Provisions	**–**	**129**
	2,339	**3,941**

Notes to the Financial Statements continued

2 Operating segments continued

The reportable segment assets and liabilities at 31 December 2012 and capital expenditure are as follows:

	Probes £'000	Other £'000	Unallocated £'000	Total £'000
Assets	2,283	2,215	1,757	6,255
Liabilities	314	254	3,582	4,150

	Assets £'000	Liabilities £'000
Segment assets/liabilities		
Unallocated:		
Property, plant and equipment	59	–
Intangible assets	–	–
Inventory	10	–
Trade and other receivables	907	–
Current income tax	114	–
Cash	667	–
Borrowings	–	2,119
Trade and other payables	–	1,303
Provisions	–	160
	1,757	3,582

These assets/liabilities are allocated based on the operations of the segment.

Segment assets consists primarily of intangible assets, inventories and trade and other receivables. Unallocated assets comprise primarily of trade and other receviables, current income tax and cash.

Segment liabilities primarily comprise of trade payables, accruals and deferred income.

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

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

	2013 Probes units	**2013 Monitors units**	**2013 Probes £'000**	**2013 Monitors £'000**	**2013 Other £'000**	**2013 Total £'000**	2012 Probes Units	2012 Monitors Units	2012 Probes £'000	2012 Monitors £'000	2012 Other £'000	2012 Total £'000
Direct markets												
UK*	**47,605**	**59**	**3,882**	**243**	**151**	**4,276**	40,695	84	3,263	613	193	4,069
USA	**7,676**	**3**	**878**	**31**	**4**	**913**	7,020	2	779	16	6	801
Spain	**725**	**–**	**78**	**–**	**1**	**79**	472	1	55	3	–	58
Canada	**170**	**1**	**3**	**17**	**–**	**20**	–	–	–	–	–	–
Distributor markets												
Rest of Europe	**16,780**	**17**	**917**	**77**	**16**	**1,010**	14,485	73	781	261	10	1,052
Rest of the World	**11,120**	**53**	**539**	**300**	**14**	**853**	8,420	120	387	393	17	797
	84,076	**133**	**6,297**	**668**	**186**	**7,151**	71,092	280	5,265	1,286	226	6,777

*UK probe sales are split:

	2013 Units	**2013 £'000**	2012 Units	2012 £'000
Surgical	**40,690**	**3,094**	33,355	2,452
Critical care	**6,915**	**788**	7,340	811
	47,605	**3,882**	40,695	3,263

Notes to the Financial Statements continued

3 Auditor remuneration

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

	2013 £'000	2012 £'000
Audit services		
– Fees payable to Company auditors for the audit of the parent Company and the consolidated financial statements	**24**	21
Other services		
Fees payable to the Company's auditors for other services		
– The audit of the Company's subsidiaries persuant to legislation	**63**	60
– Other advisory services for presentational changes	**11**	–
	98	81

4 Expenses by nature

	2013 £'000	2012 £'000
Changes in inventories of finished goods and work in progress	**(8)**	95
Raw materials and consumables used	**1,454**	1,475
Employee benefit costs	**4,644**	4,515
Other employee costs	**816**	656
Depreciation and amortisation charges	**326**	297
Net research and development expenditure (excluding employee costs)	**34**	9
Net clinical trial costs	**262**	452
Operating lease charge	**85**	87
Foreign exchange (loss)/gain	**(6)**	48
Charge in respect of service costs	**3**	–
Audit and accountancy	**134**	151
Meeting and other PR costs	**268**	297
Professional and consultancy fees	**461**	418
Marketing strategy	**27**	226
US market development (excluding employee costs)	**284**	49
Other	**465**	81
	9,249	8,855

Notes to the Financial Statements continued

5 Employees

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

	2013 Number	2012 Number
By activity		
Sales and marketing	**39**	37
Production	**15**	17
Office and management	**16**	16
Research and development	**6**	5
	76	75

Employee benefit expense	2013 £'000	2012 £'000
Wages and salaries	**3,644**	3,534
Social security costs	**284**	330
Other pension costs - defined contribution plans	**73**	68
Share-based payments, including bonus accruals	**643**	583
	4,644	4,515

Directors' emoluments	2013 £	2012 £
Aggregate emoluments	**378,520**	370,020
Sums paid to third parties for directors' services	**33,333**	33,333
Contributions to directors' personal pension schemes	**11,660**	10,860
	423,513	414,213

Benefits are accruing to two (2012: 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 (2012: £33,333).

Highest paid director	2013 £	2012 £
Aggregate emoluments	**192,500**	192,500
Contributions to directors' personal pension schemes	**7,400**	7,400
	199,900	199,900

There were no director share sales during 2013 or 2012.

Notes to the Financial Statements continued

6 Finance income and costs

	2013 £'000	2012 £'000
Finance income		
Bank interest receivable	**1**	1
	1	1
Finance costs		
Finance lease interest payable	**3**	1
Interest payable	**93**	93
Facility and loan arrangement fees	**24**	24
	120	118

7 Taxation credit on loss

	2013 £'000	2012 £'000
Current tax:		
Research and development tax credit	**(118)**	(114)
Adjustment in respect of prior years	**7**	12
Total current tax and tax on loss on ordinary activities	**(111)**	(102)

The taxable receipt for the year is lower than the effective rate of corporation tax in the UK of 23.25% (2012: 24.5%) applied to the Group's loss on ordinary activities before tax.

The tax differences are explained below:

	2013 £'000	2012 £'000
Loss on ordinary activities before tax	**(2,217)**	(2,195)
Loss on ordinary activities multiplied by the standard rate in the UK 23.25% (2012: 24.5%)	**(515)**	(538)
Effects of:		
Expenses not deductible for tax purposes	**99**	124
Difference between depreciation charges and capital allowance claims	**50**	43
Losses carried forward	**601**	529
Tax rate on difference on receivable research and development tax credit	**(139)**	(141)
Higher rates of overseas losses	**(214)**	(131)
Adjustments in respect of prior years	**7**	12
	(111)	(102)

The standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 23.25% and will be taxed at 23% in the future.

Deferred tax

At 31 December 2013, the Group had an unrecognised potential deferred tax asset of £9,897,000 (2012: £11,034,000) representing accumulated trading losses carried forward which are available against future profits, depreciation in excess of capital allowances of £121,000 (2012: £89,000) and share option charges of £122,000 (2012: £361,000).

During the year, as a result of the changes in the UK corporation tax rate to 21% from 1 April 2014 and to 20% from 1 April 2015, which were substantially enacted on 2 July 2013, the closing deferred tax balances have been valued at 20% (2012: 23%) as this is the tax rate that will apply on reversal.

Loss relief is available indefinitely.

Notes to the Financial Statements continued

8 Basic and diluted loss per share

The loss per share calculation is based on the loss of £2,114,000 and weighted average number of shares in issue of 164,175,818. For 2012 the loss per share calculation was based upon the loss of £2,093,000 and weighted average number of shares in issue of 148,243,393. Whilst the Company is loss-making the diluted loss per share and the loss per share are the same.

9 Property, plant and equipment

	Leasehold property and improvements £'000	Plant and equipment £'000	Fixtures and fittings £'000	Machines loaned to customers £'000	Total £'000
Cost					
At 1 January 2012	228	475	55	694	1,452
Exchange	–	(1)	(1)	(11)	(13)
Additions	5	35	–	306	346
Disposals	–	–	–	(51)	(51)
At 31 December 2012	233	509	54	938	1,734
Exchange	–	–	–	(6)	(6)
Additions	–	69	–	295	364
Disposals	–	–	–	(44)	(44)
At 31 December 2013	**233**	**578**	**54**	**1,183**	**2,048**
Accumulated Depreciation					
At 1 January 2012	215	429	55	444	1,143
Exchange	–	–	(1)	(8)	(9)
Charge for the year	10	29	–	138	177
Disposals	–	–	–	(40)	(40)
At 31 December 2012	225	458	54	534	1,271
Exchange	–	–	–	(3)	(3)
Charge for the year	6	36	–	175	217
Disposals	–	–	–	(22)	(22)
At 31 December 2013	**231**	**494**	**54**	**684**	**1,463**
Net book value					
At 1 January 2012	13	46	0	250	309
At 31 December 2012	8	51	0	404	463
At 31 December 2013	**2**	**84**	**0**	**499**	**585**

Depreciation expense of £185,000 (2012: £149,000) has been charged in cost of sales, £10,000 (2012: £8,000) in research and development, £nil (2012: £nil) in sales and distribution and £22,000 (2012: £20,000) in administrative expenses.

The net book value of property, plant and equipment includes amounts of £54,000 (2012: £15,000) in respect of assets held under finance leases.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and in the current year within cost of sales in the income statement.

Notes to the Financial Statements continued

10 Intangible assets

	Development Expenditure £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2012	907	–	907
Additions	472	–	472
At 31 December 2012	1,379	–	1,379
Additions	411	124	535
At 31 December 2013	**1,790**	**124**	**1,914**
Amortisation			
At 1 January 2012	183	–	183
Charge for the year	120	–	120
At 31 December 2012	303	–	303
Charge for the year	109	–	109
At 31 December 2013	**412**	**–**	**412**
Net book value			
At 1 January 2012	724	–	724
At 31 December 2012	1,076	–	1,076
At 31 December 2013	**1,378**	**124**	**1,502**

Amortisation of £109,000 (2012: £120,000) 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, and commences when the product related to the development expenditure is available for use.

On 20 December 2013, a 51% holding in Deltex Medical (Canada) Limited was acquired, giving rise to £124,000 of provisional goodwill. Due to the timing of the acquisition close to the year end, the final fair value allocation will be completed during 2014. The carrying value of goodwill is supported by a value in use calculation of the Canadian business. See note 27.

11 Subsidiary undertakings

Details of the Group's trading subsidiaries are set out below. In all cases the direct holding is 100% of the ordinary shares unless stated otherwise:

- Deltex Medical Limited, incorporated and operating in the United Kingdom (UK), manufactures and markets medical devices.
- 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 (Canada) Limited, incorporated and operating in Canada, markets medical devices in Canada which are manufactured by the Group in the UK. Deltex Medical Canada is itself a 51% owned subsidiary of Deltex Medical Group plc, with 49% being held by a non-controlling interest.
- 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. This Company is dormant.

Notes to the Financial Statements continued

12 Inventories

	2013 £'000	2012 £'000
Raw materials and consumables	**119**	154
Work in progress	**27**	43
Finished goods	**774**	766
	920	963

Based on inventory holdings and sales history, no specific or general provisions for obsolete or slow-moving inventory (2012: £nil) are considered necessary.

13 Trade and other receivables

	2013 £'000	2012 £'000
Current:		
Trade receivables	**2,824**	2,277
Less: provision for impairment of trade receivables	**(104)**	(248)
	2,720	2,029
Prepayments and accrued income	**361**	906
	3,081	2,935
Non-current:		
Trade receivables	**10**	37
	10	37
	3,091	2,972

All non-current receivables are due within two to five years (2012: two to five years) from the Consolidated Balance Sheet date.

Trade receivables that are less than two months past due are considered recoverable. As at 31 December 2013, trade receivables of £142,000 (2012: £119,000) 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:

	2013 £'000	2012 £'000
Two to four months overdue	**40**	6
Four to eight months overdue	**63**	98
More than eight months overdue	**39**	15
At 31 December	**142**	119

Notes to the Financial Statements continued

13 Trade and other receivables continued

As of 31 December 2013, specific trade receivables of £104,000 (2012: £248,000) were impaired and provided for. The ageing of these receivables was as follows:

	2013 £'000	2012 £'000
Over six months overdue	**104**	248

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

	2013 £'000	2012 £'000
Pounds	**1,497**	635
Euros	**644**	903
US dollars	**569**	528
Canadian dollars	**20**	–
At 31 December	**2,730**	2,066

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

	2013 £'000	2012 £'000
At 1 January	**248**	297
Provision for receivables impairment	**69**	25
Receivables written off during the year as uncollectible	**(213)**	(74)
At 31 December	**104**	248

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 for trade and other receivables to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The Group does not hold any collateral as security.

14 Cash and cash equivalents

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

Notes to the Financial Statements *continued*

15 Borrowings

	2013 £'000	2012 £'000
Current borrowings		
Invoice discounting facility	**1,246**	724
Other loans	**20**	394
Finance lease	**18**	5
	1,284	1,123
Non-current borrowings		
Other loans	**997**	989
Finance lease	**31**	7
	1,028	996
	2,312	2,119

Invoice discounting facility

The amount shown represents the cash drawn down under an invoice discounting facility; £nil remained undrawn (2012: £1,000). The amount outstanding under this facility is secured by way of a fixed charge over the Group's UK and a proportion of the international trade receivables. Amounts drawn down under the facility are repayable from the end of the month of invoice. This is an ongoing facility and is separated into three accounts being Sterling, US$ and Euro currencies.

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

Other loans

£1,017,000 of the amount shown relates to Loan Notes, of which £997,000 are repayable in full on 27 February 2016 being seven 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 7.5% 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 separately between its equity and debt components.

In 2012, an amount of £374,000 related to a US dollar loan made in the US to the Group's US subsidiary. This loan was repaid in full including accrued interest on 31 December 2013 through the issue of £393,000 of equity to the loan note holders.

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:

	2013 £'000	2012 £'000
Pounds	**1,945**	1,445
US dollars	**70**	462
Euros	**297**	212
	2,312	2,119

Notes to the Financial Statements continued

15 Borrowings continued

The average effective interest rates paid were as follows:

	2013 %	2012 %
Invoice discounting facility		
– Sterling	**3.00**	3.00
– Euro	**3.29**	3.63
– Dollar	**3.63**	3.63
Other loans - US Dollar loan	**4.00**	4.00
Loan note	**8.00**	8.00
Finance leases	**25.00**	25.00

Borrowings are held under both fixed and floating rates as follows:

	2013 £'000	2012 £'000
Fixed rates		
Finance leases	**49**	12
Other loans	**–**	374
Floating rates		
Invoice discounting facility	**1,246**	724
Other loans	**1,017**	1,009
	2,312	2,119

16 Obligations under finance leases

	2013 £'000	2012 £'000
Within one year	**23**	7
In the second to fifth years inclusive	**38**	8
	61	15
Less future finance charges	**(12)**	(3)
Present value of lease obligations	**49**	12
Less: amounts due for settlement within 12 months (shown under current liabilities)	**(18)**	(5)
Amount due for settlement after 12 months, but less than 5 years	**31**	7

Two finance leases of £50,000 were secured during 2013 for purchase of capital equipment (2012: £15,000). £49,000 of these finance leases remained owing at 31 December 2013 and are secured on the capital equipment purchased.

Lease obligations are denominated in UK sterling.

17 Trade and other payables

	2013 £'000	2012 £'000
Current liabilities		
Trade payables	**644**	969
Tax and social security payable	**381**	169
Other payables	**76**	55
Accruals and deferred income	**754**	673
	1,855	1,866

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

18 Provision for other liabilities

	2013 £'000	2011 £'000
At 1 January	**165**	167
Charged to the Consolidated Statement of Comprehensive Income	**39**	9
Unused amounts reversed to the Consolidated Statement of Comprehensive Income	**(69)**	(11)
At 31 December	**135**	165

The above provision predominantly relates to national insurance of £77,000 (2012: £145,000) that may become payable on share option gains on share options that are exercisable over the next one to ten years and is therefore included as a non-current liability. Also included above is a dilapidation provision of £52,500 (2012: £15,000) to return the UK property to the landlord at the end of the tenancy in a specified condition.

19 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 £73,175 (2012: £67,782).

20 Share capital

	2013 £'000	2012 £'000
6,568,546,210 authorised ordinary shares of 1 pence each	**65,685**	65,685

	2013 £'000	2012 £'000
170,929,138 Called up, allotted and fully paid (2012: 151,032,255)	**1,709**	1,510

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

During the year, the Company issued 3,019,607 1p ordinary shares pursuant to the exercise of options. The Company placed 13,157,895 1p ordinary shares with institutional and other investors. A total of 224,334 1p ordinary shares at an average price of 16.88p 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. In addition, 2,858,759 1p ordinary shares at an average price of 13.75p were issued as settlement of loan notes conversion.

A further 636,288 1p ordinary shares at an average price of 14.00p 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.

Notes to the Financial Statements continued

20 Share capital continued

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:

Employee share options

Summary	Executive Scheme Number	EMI Scheme Number	Total Number
At 1 January 2013	10,080,300	5,155,263	15,235,563
Additions	114,000	2,213,405	2,327,405
Exercised	–	(2,735,036)	(2,735,036)
Lapsed	(51,000)	(2,173)	(53,173)
Expired	(284,000)	–	(284,000)
At 31 December 2013	**9,859,300**	**4,631,459**	**14,490,759**

All options relate to one 1p ordinary share.

Further details of the above plans are given in note 21.

As at 31 December 2013 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	383,333	0.01	27-Oct-06	27-Oct-14
	910,000	0.28	12-Oct-07	11-Oct-14
	52,083	0.01	01-Mar-04	01-Oct-14
	940,000	0.2075	28-Mar-09	27-Mar-16
	142,370	0.01	19-May-06	19-May-16
	294,178	0.01	29-Jun-07	29-Jun-17
	1,077,000	0.295	29-Jun-10	28-Jun-17
	1,171,000	0.185	01-Jul-11	30-Jun-18
	392,857	0.01	30-Jun-08	30-Jun-18
	1,139,300	0.1275	12-Jun-12	12-Jun-19
	561,752	0.01	12-Jun-09	11-Jun-19
	224,265	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
	851,214	0.01	13-Oct-10	13-Oct-20
	20,270	0.01	23-Dec-10	23-Dec-20
	13,636	0.01	15-Apr-11	15-Apr-21
	624,167	0.01	27-Sep-11	27-Sep-21
	46,154	0.01	27-Sep-11	29-Sep-21
	2,820,000	0.1725	27-Sep-14	27-Sep-21
	706,498	0.01	10-Oct-12	10-Oct-22
	1,802,000	0.24	10-Oct-15	10-Oct-22
	93,684	0.01	20-Nov-13	20-Nov-23
	115,385	0.01	23-Dec-13	23-Dec-23
	14,490,759			

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

20 Share capital continued

Other options

	At 31 December 2013 No.	Exercise price £	Exercise period from	Exercise period to
Company contractor[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
Company contractor[2]	**250,000**	0.145	01-May-13	30-Apr-23
	852,000			

(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.

21 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:

	2013 Number of share options No.	2013 Weighted average exercise price (in £)	2012 Number of share options No.	2012 Weighted average exercise price (in £)
Outstanding at beginning of the period	**10,080,300**	0.21	8,921,300	0.20
2013 correction to opening balance	**114,000**	0.24	1,732,000	0.24
Lapsed during the period	**(51,000)**	0.21	(57,000)	0.20
Exercised during the period	**–**	–	(192,000)	0.15
Expired during the period	**(284,000)**	0.15	(324,000)	0.25
Outstanding at the end of the period	**9,859,300**	0.21	10,080,300	0.21
Exercisable at end of period	**5,237,300**	0.22	5,527,300	0.21

The options outstanding at 31 December 2013 had a weighted average exercise price of 20.8p (2012: 20.6p), and a weighted average remaining contractual life of 68 months (2012: 77 months). In 2013, 114,000 options were granted as a correction to the October 2012 grant with an estimated fair value of 8.54p per share and £9,736 in aggregate.

Notes to the Financial Statements continued

21 Share-based payments continued

The updated inputs into the Black-Scholes model are as follows:

	October 2012
Fair value at measurement date	8.54p
Share price	24.0p
Exercise price	24.0p
Expected volatility	47.80%
Expected option life (expressed as weighted average life used in modelling)	3.62 years
Risk-free interest rate	0.44%

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

	2013 Number of share options No.	**2013 Weighted average exercise price (in £)**	2012 Number of share options No.	2012 Weighted average exercise price (in £)
Outstanding at beginning of the period	**5,155,263**	**0.01**	4,874,435	0.01
Granted during the period	**2,213,405**	**0.01**	1,759,678	0.01
Lapsed during the period	**(2,173)**	**0.01**	(23,700)	0.01
Exercised during the period	**(2,735,036)**	**0.01**	(1,455,150)	0.01
Outstanding at the end of the period	**4,631,459**	**0.01**	5,155,263	0.01
Exercisable at end of period	**4,631,459**	**0.01**	5,155,263	0.01

The options outstanding at 31 December 2013 had a weighted average exercise price of 1p (2012: 1p), and a weighted average remaining contractual life of 72 months (2012: 79 months). On 20 November 2013, 2,098,020 options were granted with an estimated fair value of 13.62p per share and £285,750 in aggregate. On 23 December 2013, 115,385 options were granted with an estimated fair value of 13.00p per share and £15,000 in aggregate.

Enterprise Management Incentive Scheme

The inputs into the Black-Scholes model are as follows:

	December 2013	**November 2013**
Fair value at measurement date	13.00p	13.62p
Share price	14.00p	14.62p
Exercise price	1.00p	1.00p
Expected volatility	41.30%	38.60%
Expected option life (expressed as weighted average life used in modelling)	1 year	1 year
Risk-free interest rate	0.39%	0.34%

Notes to the Financial Statements continued

21 Share-based payments continued

	October 2012	March 2012
Fair value at measurement date	23.00p	23.50p
Share price	24.00p	24.50p
Exercise price	1.0p	1.0p
Expected volatility	23.70%	57.00%
Expected option life (expressed as weighted average life used in modelling)	1 year	1 year
Risk-free interest rate	0.29%	0.45%

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.

22 Share capital and other reserves

	Attributable to owners of the Parent						
	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other reserves £'000	Translation reserve £'000	Retained deficit £'000	Non-controlling interest £'000
At 1 January 2012	1,421	21,901	17,476	3,286	(9)	(42,219)	–
Share issued during the year	89	–	–	–	–	–	–
Premium on shares issued during the year	–	1,832	–	–	–	–	–
Issue expenses	–	(74)	–	–	–	–	–
Loss for the financial year	–	–	–	–	–	(2,093)	–
Credit in respect of service cost settled by award of options	–	–	–	506	–	–	-
Exchange movements taken to reserves	–	–	–	–	(11)	–	-
At 31 December 2012	1,510	23,659	17,476	3,792	(20)	(44,312)	–
Share issued during the year	199	–	–	–	–	–	–
Premium on shares issued during the year	–	2,892	–	–	–	–	–
Issue expenses	–	(111)	–	–	–	–	–
Loss for the financial year	–	–	–	–	–	(2,114)	8
Credit in respect of service cost settled by award of options	–	–	–	425	–	–	–
Exchange movements taken to reserves	–	–	–	–	(31)	–	–
At 31 December 2013	**1,709**	**26,440**	**17,476**	**4,217**	**(51)**	**(46,426)**	**8**

The Capital redemption reserve represents the nominal value of shares repurchased and then cancelled during the year ended 31 December 2001. The Other reserves 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 (2012: £6,400,000).

Notes to the Financial Statements continued

23 Notes to the Consolidated Statement of Cash Flows

	2013 £'000	2012 £'000
Loss before taxation	**(2,217)**	(2,195)
Adjustments for:		
Net finance costs	**119**	117
Depreciation of property, plant and equipment	**217**	177
Amortisation of intangible assets	**109**	120
Effect of exchange rate fluctuations on borrowngs	**(22)**	(25)
Exchange loss on property, plant and equipment	**3**	3
Loss on disposal of property, plant and equipment	**22**	11
Share-based payments	**425**	506
Operating cash flows before movement in working capital	**(1,344)**	(1,286)
Decrease/(increase) in inventories	**93**	(51)
Increase in trade and other receivables	**(119)**	(146)
(Decrease)/increase in trade and other payables	**(27)**	366
Increase in provisions	**(30)**	(2)
Net cash used in operations	**(1,427)**	(1,119)

24 Commitments

Operating lease commitments

The Group leases land and buildings and various plant and machinery under non-cancellable operating lease agreements. 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:

	2013 £'000	2012 £'000
No later than one year	**58**	81
Later than one year and no later than five years	**24**	50
	82	131

25 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 risk, currency risk, credit risk, interest rate risk and capital risk. The policies have remained unchanged throughout the year and are summarised below:

Liquidity risk

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

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

Notes to the Financial Statements continued

25 Financial Instruments continued

Currency risk

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

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

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

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 Group uses international distributors in a number of overseas territories. In order to assist the distributors in developing their markets, these distributors may be given extended trade terms. Extended trade terms, by their nature can increase the credit risk to the Group. Such risks are carefully managed through direct relationships with the distributors and knowledge of their markets.

The maximum credit risk exposure at the balance sheet date is represented by the carrying value of financial assets and there are no significant concentrations of credit risk. See note 13 for further details. 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.

Capital risk

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

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

The Board encourages employees to hold shares in the Company. This has been carried out through the Company's various executive share option plans. Full details of these schemes are given in note 21.

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

Notes to the Financial Statements continued

25 Financial Instruments continued

Liabilities – by maturity

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

In February 2009, the Group raised £1,001,000 before expenses by the issue of 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 2016 being seven 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 7.5% above LIBOR.

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 2013

	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	**1,246**	**–**	**–**	**–**
Other loans	**20**	**–**	**997**	**–**
Finance lease liabilities	**18**	**15**	**16**	**–**
Trade and other payables	**1,474**	**–**	**–**	**–**
	2,758	**15**	**1,013**	**–**

Year ended 31 December 2012

	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	724	–	–	–
Other loans	394	989	–	–
Finance lease liabilities	5	7	–	–
Trade and other payables	1,866	–	–	–
	2,989	996	–	–

Notes to the Financial Statements continued

25 Financial Instruments continued

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 2013	**Loans and receivables £'000**	**Financial liabilities at amortised cost £'000**	**Total carrying amount £'000**
Financial assets			
Trade and other receivables	**2,730**	**–**	**2,730**
Cash and cash equivalents	**1,459**	**–**	**1,459**
	4,189	**–**	**4,189**
Financial liabilities			
Trade payables	**–**	**1,763**	**1,763**
Invoice discounting facility	**–**	**1,246**	**1,246**
Other loans	**–**	**1,017**	**1,017**
Finance lease liabilities	**–**	**49**	**49**
	–	**4,075**	**4,075**

Year ended 31 December 2012	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total carrying amount £'000
Financial assets			
Trade and other receivables	2,066	–	2,066
Cash and cash equivalents	667	–	667
	2,733	–	2,733
Financial liabilities			
Trade payables	–	1,695	1,695
Invoice discounting facility	–	724	724
Other loans	–	1,383	1,383
Finance lease liabilities	–	12	12
	–	3,814	3,814

Notes to the Financial Statements continued

25 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 2013.

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 sensitivities analysis of the Group's exposure to foreign currency risk at the year end has been determined based upon the assumption that the increase in Euro, US dollar and CAN dollar exchange rates is effective throughout the financial year and all other variables remain constant.

An increase of 10% has been used as a maximum exposure expectation for exchange rate sensitivities.

		2013			2012
	Sensitivity	**Profit £'000**	**Equity £'000**	Profit £'000	Equity £'000
Euros	10%	**(73)**	**(73)**	(104)	(104)
US dollar	10%	**101**	**101**	49	49
CAN dollar	10%	**(3)**	**(3)**	–	–

The following table details the Group's sensitivity to changes of 1% in interest rates throughout the year, with all other variables remaining constant. 1% has been used as a maximum exposure expectation for interest rate sensitivities.

	2013			2012
	Profit £'000	**Equity £'000**	Profit £'000	Equity £'000
Sterling	**–**	**–**	(6)	(6)
Euros	**(1)**	**(1)**	(1)	(1)
US dollar	**(1)**	**(1)**	(1)	(1)

Notes to the Financial Statements continued

26 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'.

	2013 £'000	2012 £'000
Aggregate emoluments	**723**	703
Sums paid to third parties for directors' services	**33**	33
Contributions to key management's personal pension schemes	**24**	22
	780	758

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 was charged at 4% per annum with all interest rolling up for settlement on redemption. This loan was repaid through the issue of equity on 31 December 2013.

In addition to the above, there is an amount of £180,000 (2012: £260,000) 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 22.

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.

27 Business combinations

On 20 December 2013, the group acquired 51% of the share capital Deltex Medical (Canada) Limited for CAN $311,425 (including $51 of share capital) and therefore obtained control of Deltex Medical (Canada) Limited, who market medical devices manufactured by Deltex Medical Limited in the UK.

As a result of the acquisition, the group is expected to increase its presence in Canada, to work directly with the Canadian healthcare authorities and it also expects to reduce its costs of trading in Canada through this direct link.

The provisional goodwill of £124,000 arising from the acquisition is attributable to acquired customer base and also economies of scale from the direct link to Canada. Due to the timing of this acquisition, the final fair value allocation will be completed in the first half of 2014.

The following table summarises the consideration paid for Deltex Medical (Canada) Limited and the provisional fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

Consideration at 20 December 2013	**£'000**
Inventory	50
Goodwill	124
Total	174

Report on the parent company financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2013;
- 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The parent company financial statements (the "financial statements"), which are prepared by Deltex Medical Group plc, comprise:

- the parent company balance sheet as at 31 December 2013; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 Chairman's Statement, Operating Review, Financial Review, Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 24, 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 ISAs (UK & 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.

Other matter

We have reported separately on the group financial statements of Deltex Medical Group plc for the year ended 31 December 2013.

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

11 March 2014

Parent Company Balance Sheet

at 31 December 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Investments	5	**38,565**	39,308
Current assets			
Debtors	6	**3,840**	10
Cash at bank and in hand		**1,009**	317
		4,849	327
Creditors:			
Amounts falling due within one year	7	**(156)**	(138)
Net current assets		**4,693**	189
Total assets less current liabilities		**43,258**	39,497
Creditors:			
Amounts falling due after more than one year	10	**(997)**	(989)
Net assets		**42,261**	38,508
Capital and reserves			
Called up share capital	8	**1,709**	1,510
Share premium account	11	**26,440**	23,659
Capital redemption reserve	11	**17,476**	17,476
Other reserves	11	**4,217**	3,792
Profit and loss account		**(7,581)**	(7,929)
Total shareholders' funds	12	**42,261**	38,508

The notes on pages 65 to 69 form an integral part of these financial statements.

The financial statements on pages 64 to 69 were approved by the Board of Directors on 11 March 2014 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. For further details on why the directors believe it is appropriate to prepare the financial statements on the going concern basis see Basis of preparation on page 39.

Investments

Investments are stated at cost less any provisions for impairment in value. At each balance sheet date the Company reviews the carrying amount of the investments to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. The recoverable amount is the higher of the 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 taxation 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. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to reserves. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. 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 28 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 at bank and in hand

Cash at bank and in hand includes cash in hand and deposits held with banks.

Share capital

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

Terms of loans to subsidiaries

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

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 Profit 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 profit for the financial year ended 31 December 2013 of £348,000 (2012: loss of £302,000).

3 Auditor remuneration

During the year the Company obtained the following services from the Group's auditors at costs as detailed below:

	2013 £	2012 £
Audit services		
– Fees payable to Company auditors for the audit of the Company	**24**	20
	24	20

4 Directors' emoluments

The remuneration of the Non-executive directors was as follows:

	2013 £	2012 £
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 (2012: 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 (2012: £33,333). Remuneration, including Executive directors is disclosed on pages 23 and 24 of these Report and Accounts.

Notes to the Financial Statements continued

4 Directors' emoluments *continued*

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. For further details, see page 23 of the Directors' Report.

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

	2013 Number	2012 Number
Administration	**4**	4

The Company had no additional employees other than the directors (2012: None).

5 Investments

	2013 Investments in subsidiary undertakings £'000	**2013 Loans to subsidiary undertakings £'000**	**2013 Total £'000**	2012 Investments in subsidiary undertakings £'000	2012 Loans to subsidiary undertakings £'000	2012 Total £'000
At 1 January	**846**	**38,462**	**39,308**	846	36,155	37,001
Additions	**–**	**2,257**	**2,257**	–	2,307	2,307
Loan reclassification	**–**	**(3,000)**	**(3,000)**	–	–	–
At 31 December	**846**	**37,719**	**38,565**	846	38,462	39,308

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

There is no difference between cost and net book value of the investments.

Loans to subsidiary undertakings in the amount of £37,719,000 relate to long-term balances with Deltex Medical Limited and Deltex Medical 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 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 except for Deltex Medical (Canada) Limited:

- Deltex Medical Limited, incorporated and operating in the United Kingdom (UK), manufactures and markets medical devices.
- Deltex Medical SC, Inc. incorporated and operating in the United States of America (USA), 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.
- During the year, Deltex Medical GmbH was liquidated as the entity was dormant.
- Deltex Medical (Canada) Limited, incorporated and operating in Canada, markets medical devices in Canada which are manufactured by the Group in the UK. Deltex Medical Canada is itself a 51% owned subsidiary of Deltex Medical Limited, with 49% being held by a non-controlling interest.
- 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. This Company is dormant.

Notes to the Financial Statements continued

6 Debtors

	2013 £'000	2012 £'000
Amounts falling due within one year:		
Other debtors	**7**	3
Prepayments	**6**	7
	13	10
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertaking	**3,827**	–
	3,840	10

At the start of the year, the Group reclassified £3,000,000 of the long term investments by Group in Deltex Medical Limited as long term loans. These loans are being charged interest at a rate of 10% per annum, are secured and payable in more than one year.

7 Creditors: Amounts falling due within one year

	2013 £'000	2012 £'000
Other creditors	**97**	64
Accruals	**59**	74
	156	138

8 Called up share capital

See note 20 of the Consolidated Financial Statements on pages 51 to 53 for full details of the share capital and share schemes held.

9 Share-based payments

See note 21 of the Consolidated Financial Statements on pages 53 to 55 for full details of the Company's share-based payments.

10 Creditors: Amounts falling due after more than one year

	2013 £'000	2012 £'000
Loan notes	**997**	989

The amount of £997,000 (2012: £989,000) relates to Loan Notes that are repayable in full on 27 February 2016 being seven 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.

Notes to the Financial Statements continued

11 Reserves

	Other reserves £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000
At 1 January 2013	3,792	23,659	17,476	(7,929)
Premium on shares issued during the year	–	2,781	–	–
Profit for the financial year	–	–	–	348
Credit in respect of service cost settled by award of share options	425	–	–	–
At 31 December 2013	**4,217**	**26,440**	**17,476**	**(7,581)**

12 Reconciliation of movements in shareholders' funds

	2013 £'000	2012 £'000
Opening shareholders' funds	**38,508**	36,457
Increase in share capital during the year	**199**	89
Premium on shares issued during the year	**2,892**	1,832
Issue expenses	**(111)**	(74)
Profit/(loss) for the financial year	**348**	(302)
Credit in respect of service cost settled by award of share options	**425**	506
Closing shareholders' funds	**42,261**	38,508

13 Ultimate controlling party

There are no shareholders with overall control of the Company as at 31 December 2013 or 31 December 2012.

14 Related party transactions

Exemption has been taken under FRS 8 from disclosing related party transactions 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. This loan was settled through issue of equity on 31 December 2013.

The directors of Deltex Medical Group plc had no other material transactions 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 23 and 24.

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