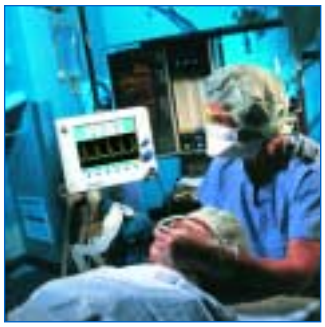
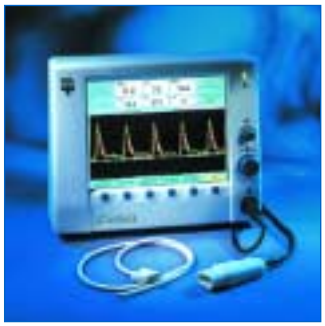
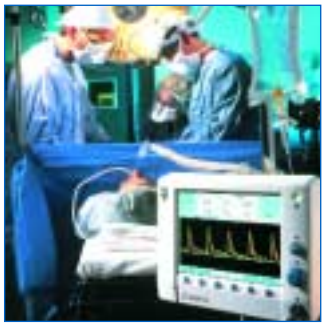




Deltex Medical Group plc

Admission to AIM and Placing



Nominated Adviser and Broker

Beeson Gregory

Preliminary Prospectus Dated 8 October 2001

THIS PRELIMINARY PROSPECTUS IS BEING SENT FOR INFORMATION PURPOSES ONLY TO SHAREHOLDERS OF DELTEX MEDICAL GROUP PLC AND DOES NOT CONSTITUTE OR INCLUDE AN OFFER TO SUCH SHAREHOLDERS TO ACQUIRE OR TO APPLY FOR SECURITIES OF DELTEX MEDICAL GROUP PLC.

If you have sold or otherwise transferred all of your Ordinary Shares in the Company, you should immediately forward this document to the purchaser or the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

THIS DOCUMENT IS IMPORTANT. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

This document, which comprises a prospectus, has been drawn up in accordance with the Public Offers of Securities Regulations 1995 ("POS Regulations"). A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with regulation 4(2) of the POS Regulations. To the best of the knowledge and belief of the Directors of Deltex Medical Group plc (whose names appear on page 3 of this document) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. All the Directors accept responsibility accordingly.

Application will be made to the London Stock Exchange for the Ordinary Shares, both issued and to be issued, to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). It is emphasised that no application is being made for admission of these securities to the Official List. Although the Ordinary Shares are currently admitted to listing on Nasdaq Europe, such admission to listing will be withdrawn immediately upon the Ordinary Shares being admitted to trading on AIM. The Ordinary Shares are not dealt on any other recognised investment exchange and no application is being made for the Ordinary Shares to be admitted to any such exchange.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not Officially Listed.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

London Stock Exchange plc has not itself examined or approved the contents of this document.

The rules of AIM are less demanding than those of the Official List. Prospective investors should read the whole text of this document and should be aware that investment in Deltex Medical Group plc is speculative and involves a degree of risk. It is expected that dealings in the Ordinary Shares will commence on AIM on 8 November 2001.

See Part II – "Risk Factors of the Group" for a discussion of certain factors to be considered in connection with an investment in the Ordinary Shares.

Deltex Medical Group plc

(Incorporated in England and Wales under the Companies Act 1985 with Registered No. 3902895)

Admission to AIM
and
Placing of new Ordinary Shares of a nominal value of 10p each to raise £5,000,000

Nominated Adviser and Broker

Beeson Gregory Limited

Share Capital immediately following Placing

Authorised			Issued		
Number	Amount		Number	Amount	
658,754,621	Ordinary 10p	£65,875,462.10	33,551,074	Ordinary 10p	£3,355,107.40
15,693,931	Deferred 90p	£14,124,537.90	15,693,931	Deferred 90p	£14,124,537.90
		£80,000,000			£17,479,645.30

The above statistics are based upon the assumptions set out in the note to the Placing Statistics on page 4.

The Ordinary Shares of Deltex Medical Group plc now being placed will, following issue, rank *pari passu* in all respects with the existing issued ordinary share capital of the Company including the right to receive all dividends after the date of this document or other distributions hereafter declared or paid on the ordinary shares of Deltex Medical Group plc.

Beeson Gregory, which is regulated by The Securities and Futures Authority Limited, is acting exclusively for Deltex Medical Group plc in relation to the Placing and the proposed admission of the Ordinary Shares to trading on AIM. Its responsibilities as Deltex Medical Group plc's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to Deltex Medical Group plc or to any Director or to any other person in respect of his decision to acquire shares in Deltex Medical Group plc in reliance on any part of this document. No representation or warranty, express or implied, is made by Beeson Gregory as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). Beeson Gregory will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document or for advising any person other than Deltex Medical Group plc in respect of the Placing or any acquisition of Ordinary Shares. Beeson Gregory has not authorised the contents of, or any part of, this document and no liability whatsoever is accepted by Beeson Gregory for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which Deltex Medical Group plc, the Directors and, in respect of their report contained in this document, PricewaterhouseCoopers are solely responsible.

Copies of this document will be available free of charge during normal business hours on any weekday (except Saturdays and public holidays) at the offices of Beeson Gregory Limited, The Registry, Royal Mint Court, London EC3N 4LB for the period from the date of this document until the date which is one month from the date of Admission.

The Ordinary Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended, nor under the securities laws of any state of the US nor under any securities laws of Canada, Australia or Japan nor has a prospectus in relation to the Ordinary Shares been lodged with or registered by the Australian Securities and Investments Commission and, accordingly, subject to certain exceptions, the Ordinary Shares may not be offered, sold or delivered directly or indirectly in or into the US, Canada, Australia or Japan.

For convenience, the following exchange rates are used throughout this Prospectus unless stated otherwise: $1: £0.68 and 1 Euro: £0.62.

Contents

Directors, Secretary and Advisers

Directors

Nigel John Keen, (aged 54), Non-Executive Chairman
Kempton Joseph Coady, III, (aged 53), Chief Executive Officer
Dr Edwin Snape, (aged 61), Non-Executive Vice-Chairman
Ewan Alastair Phillips ACA, (aged 37), Chief Financial Officer
Dr George Flouty, (aged 56), Non-Executive Director
Peter Thomas Smedvig, (aged 55), Non-Executive Director

The business address of each of the Directors is Deltex Medical Group plc, Terminus Road, Chichester, West Sussex PO19 2TX, UK.

Company Secretary and Registered Office

Ewan Alastair Phillips ACA
Terminus Road
Chichester
West Sussex PO19 2TX
UK
Tel: +44 (0) 1243 774837

Nominated Adviser and Broker

Beeson Gregory Limited
The Registry
Royal Mint Court
London EC3N 4LB
UK

Auditors and reporting accountant

PricewaterhouseCoopers
The Quay
30 Channel Way
Ocean Village
Southampton SO14 3QG
UK

PR advisers to the Company

Financial Dynamics
Holborn Gate
26 Southampton Buildings
London WC2A 1PB
UK

Solicitors to the Company

Clifford Chance Limited Liability Partnership
200 Aldersgate Street
London EC1A 4JJ
UK

Solicitors to the Placing

Eversheds
Senator House
85 Queen Victoria Street
London EC4V 4JL
UK

Principal bankers to the Company

The Royal Bank of Scotland plc
62-63 Threadneedle Street
PO Box 412
London EC2R 8LA
UK

Registrars

Connaught St. Michaels Limited
PO Box 30
Cresta House
Alma Street
Luton
Bedfordshire LU1 2PU
UK

Placing statistics[1]

The Placing Price and the number of Placing Shares are subject to negotiations between Beeson Gregory and the Company following completion of the book-building process. Following the outcome of those negotiations, the Company will issue a supplementary prospectus announcing the Placing Price and number of Placing Shares.

The statistics set out below are based on an assumed Placing Price of £0.28 (being the mid price of an Ordinary Share on Nasdaq Europe of $0.425 at close of business on 4 October 2001, being the latest practicable date prior to publication of this document, converted at the mid-market closing exchange rate between the US dollar and Sterling of $1: £0.67 on such date).

The Placing Price is likely to be different from the assumed Placing Price.

Number of Ordinary Shares in issue immediately prior to the Placing	15,693,931
Number of Placing Shares	17,857,143
Number of Ordinary Shares in issue immediately following the Placing	33,551,074
Proceeds of the Placing receivable by the Company, net of expenses[2]	£4,150,000

Notes:

(1) The Placing Statistics have been calculated on the basis that the Over Allotment Option is not exercised and no other warrants or options are exercised prior to Admission

(2) Not including stamp duty or SDRT

Expected timetable of principal events

Extraordinary General Meeting of the Company	10.00 am on 31 October 2001
Announcement of Placing Price and number of Placing Shares	Not later than 1 November 2001
Ordinary Shares admitted to trading on AIM and dealings commence	8 November 2001
Definitive share certificates dispatched and CREST accounts credited	8 November 2001

Definitions

The following terms and expressions have the following meanings when used in this Prospectus:

"Acts"	The UK Companies Acts 1985 and 1989 (as amended from time to time)
"Admission"	The admission of the Ordinary Shares in issue and to be issued pursuant to the Placing to trading on AIM becoming effective in accordance with the AIM Rules expected to occur on 8 November 2001
"AIM"	The Alternative Investment Market of the London Stock Exchange
"AIM Rules"	The rules of the London Stock Exchange governing admission to and the operation of AIM
"Articles"	The Articles of Association of the Company
"Beeson Gregory"	Beeson Gregory Limited whose registered office is The Registry, Royal Mint Court, London EC3N 4LB, UK
"Board" or the "Directors"	The board of directors of the Company
"Capital Reorganisation"	The sub-division of existing ordinary shares of £1 in the Company to be effected by the Resolutions, further details of which are set out in Part I of this Prospectus to take effect upon the Placing being satisfactorily completed
"Clearstream"	Clearstream International
"Closing Date"	The date of Admission
"Companies Act" or "Act"	The UK Companies Act 1985 (as amended from time to time)
"Company"	Deltex Medical Group plc, a public limited company registered in England and Wales under company number 3902895, whose registered office is Terminus Road, Chichester, West Sussex PO19 2TX, UK
"CREST"	The electronic, paperless transfer and settlement mechanism for equity trades transacted on AIM and on the London Stock Exchange's market for listed securities operated by CRESTCo Limited
"Deltex Executive Scheme"	Has the meaning given in paragraph 8 of Part V of this Prospectus
"Deferred Shares"	Deferred shares of 90p each in the capital of the Company following the Capital Reorganisation
"DMHL"	Deltex Medical Holdings Limited, a wholly owned subsidiary of the Company which was previously the ultimate holding company of the Group
"DMHL Executive Schemes"	Has the meaning given in paragraph 8 of Part V of this Prospectus
"EGM" or "Extraordinary General Meeting"	The extraordinary general meeting of the Company to be held at the offices of Clifford Chance Limited Liability Partnership, 200 Aldersgate Street, London EC1A 4JJ, UK on 31 October 2001 at 10.00 am and at which the Resolutions will be proposed
"Euroclear"	Euroclear Bank, the operator of the Euroclear system
"Existing Ordinary Shares"	The Ordinary Shares in issue immediately prior to the Placing
"Existing Shareholders"	The Ordinary Shareholders immediately prior to the Placing
"Group"	The Company or DMHL (as the context requires) and its subsidiaries
"Inland Revenue"	The United Kingdom Inland Revenue

"Locked Shareholders"	Each of the Directors that beneficially own any Ordinary Shares, the Selling Shareholder and certain of the Existing Shareholders
"London Stock Exchange"	London Stock Exchange plc
"Memorandum"	The Memorandum of Association of the Company
"Nasdaq Europe" or "Nasdaq Europe[SM]"	Nasdaq Europe SA/NV or the system operated by Nasdaq Europe SA/NV as the context requires
"Nasdaq Europe Admission"	The admission of the then issued ordinary share capital of the Company to listing on Nasdaq Europe on 14 April 2000
"Nasdaq Europe Rules" or the "Nasdaq Europe Rule Book"	The rule book published by Nasdaq Europe and approved by Ministerial Decree and dated 11 May 2001, as it may be amended from time to time
"Official List"	The Official List of the UK Listing Authority
"Optionholders"	Persons entitled to subscribe for Ordinary Shares under the terms of the Share Option Schemes
"Option Shares"	The Ordinary Shares which may be issued or sold to Beeson Gregory or purchasers or subscribers procured by Beeson Gregory pursuant to the Over Allotment Option
"Ordinary Shareholders" or "Shareholders"	The holders from time to time of Ordinary Shares
"Ordinary Shares"	Ordinary shares of 10p each in the capital of the Company following the Capital Reorganisation
"Over Allotment Option"	An option, exercisable up to 30 days following the Closing Date, to be granted by the Company and the Selling Shareholder to Beeson Gregory to subscribe for or purchase or procure purchasers or subscribers for up to that number of Option Shares equal to 15 per cent. of the number of Placing Shares, such total amount to be satisfied in the first instance (but up to a maximum of half of such Option Shares) by the Selling Shareholder and thereafter as to the balance by the Company
"participants"	In relation to Euroclear or Clearstream, a person who holds an account in the relevant system
"Placing"	The proposed conditional placing of the Placing Shares by Beeson Gregory at the Placing Price pursuant to the Placing Agreement
"Placing Agreement"	The agreement to be entered into between (1) the Company (2) the Directors and (3) Beeson Gregory relating to the Placing and Admission
"Placing Price"	The price per Placing Share to be established in negotiations between the Company and Beeson Gregory as described further on page 30
"Placing Shares"	The new Ordinary Shares to be offered via the Placing
"POS Regulations"	The Public Offers of Securities Regulations 1995 (as amended)
"£", "Pound", "pound", "Sterling", "pence" and "p"	The lawful currency of the UK
"Resolutions"	The resolutions to be proposed at the EGM
"SDRT"	Stamp Duty Reserve Tax
"SEC"	The United States Securities and Exchange Commission
"Securities Act"	The United States Securities Act of 1933, as amended
"Selling Shareholder"	The Pauline Thomas Medical Charity
"Share Option Schemes"	The Deltex Executive Scheme and the DMHL Executive Schemes

"subsidiary"	A subsidiary or subsidiary undertaking, in each case as defined by section 736 of the Act
"UK" or "United Kingdom"	The United Kingdom of Great Britain and Northern Ireland
"UK GAAP"	Generally Accepted Accounting Principles in the UK
"US", "USA" or "United States"	The United States of America
"US$", "$", "dollar", "US dollars", "cents" and "c"	The lawful currency of the US
"US GAAP"	Generally Accepted Accounting Principles in the US

Glossary of technical and clinical terms

"Algorithm"	Equation or rule for calculating the solution to a mathematical problem
"Aorta"	The main artery in the body carrying oxygenated blood to the tissues
"Cardiac" or "Coronary"	The heart; associated with/in relation to the heart
"Cardiac output"	The volume of blood pumped by the heart in one minute
"CardioQ™, EDM, ODM"	See Monitor
"Cerebral"	The brain; associated with/in relation to the brain
"Cerebral perfusion pressure"	The difference between the cerebral artery pressure and cerebral tissue pressure
"Class J"	An official classification of a controlled area, such as a clean room, by environmental cleanliness
"Clinical outcome"	Measurable clinical benefits associated with a particular procedure, therapy or treatment regime
"Colloid fluid"	Liquid substance used to expand blood volume as a substitute for blood
"Critical care"	The treatment of critically ill patients, including those who are undergoing or have recently had surgery. Usually, these patients are in hospital in special care units, intensive care units or in operating rooms
"Descending aorta"	The descending part of the main artery as it leaves the heart
"Diagnostic instruments"	Instruments, either electronic or chemical-based, which are used to determine and describe disease states and differential patient states
"Doppler ultrasound"	Doppler's principle states that the frequency of sound or light waves emitted by or reflected from a moving object alters proportionately to the relative velocities of the object and the receiver. Ultrasound is high frequency sound waves with frequencies above the range of human hearing, i.e. in excess of 20KHz
"Flow time corrected (FTc)"	Time of systolic flow corrected for heart rate using Bazett's equation
"Gastro-intestinal"	Relating to the stomach (gastro/gastric) and intestines in the human body
"Haemodynamic"	Relating to the blood flow
"Haemorrhage"	Bleeding, which may be internal and unseen or external
"Homeostasis"	The tendency for the internal environment of the body to remain constant despite changes outside
"Hypotension"	Below normal blood pressure
"Hypovolemia"	Below normal blood volume
"Inotropic"	Therapy given to alter the contractile state of the heart
"Intraoperative"	During an operation
"Left ventricle"	Heart chamber that pumps oxygenated blood into the aorta
"Mean acceleration"	The peak velocity divided by the time to reach peak velocity from the beginning of systole
"Monitor"	One of the devices developed, assembled and marketed by the Group, principally the Esophageal Doppler Monitor ("EDM"), Oesophageal Doppler Monitor I ("ODM I"), Oesophageal Doppler Monitor II ("ODM II"), CardioQ™ and the NeuroQ™

"Monitoring instruments"	Instruments, often electronic, which are used to record patient status either intermittently or continuously
"Morbidity"	Relating to the "unwellness" of a patient
"Mortality"	Relating to the death of a patient
"Neurological"	In relation to the nervous system and, in particular, the brain
"NeuroQ™"	The cerebral flow monitor being developed by Deltex
"Nomogram"	A specially developed formula based on quantified data from a large patient population, which is used to calculate parameters in other patients
"Non-invasive"	Not requiring an incision or a surgical procedure and not being in direct contact with the patient's blood
"Obstetrics"	Relating to midwifery, labour and birth
"Oesophagus"	The canal from the mouth to the stomach. Also esophagus, oesophageal and esophageal
"Peak velocity"	The maximum velocity at which the blood is moving during systole
"Paediatrics"	Relating to children
"Perioperative"	Around the time of the operation
"Pulmonary"	Relating to the lungs
"Pulmonary artery catheter (PAC)"	A long, thin catheter (tube) which is inserted into the lumen of a fairly large superficial vein (e.g. jugular vein or femoral artery) and manipulated under X-ray control so as to enter the right side of the heart and pass into the pulmonary artery
"Suprasternal notch"	The V shaped notch at the top of the breastbone
"Systole"	The contraction of the heart by which the blood is forced onward and circulation maintained
"Thermodilution"	A technique used by the pulmonary artery catheter to attain a measurement of cardiac output
"Vasodilator"	A type of therapy (normally a drug or fluid) given to dilate the blood vessels (often to reduce afterload or resistance to blood flow on the heart)
"Vasoconstrictor"	A type of therapy (normally a drug or fluid) given to cause improved contraction of the heart
"Vasoreactive agents"	The general name for the two types of drugs, that is, vasodilators or vasoconstrictors
"Ventricle"	The heart comprises two ventricles and two auricles. The ventricles are responsible for pumping blood away from the heart

Summary key information

This summary highlights information contained elsewhere in this Prospectus. This summary is not complete and does not contain all of the information investors should consider before investing in Ordinary Shares of the Company. Investors should read the following summary together with the more detailed information regarding the Group, the Ordinary Shares, the financial information of the Group (and the notes thereto) in Part III of this document and the other information contained in this Prospectus.

Introduction

The Group develops, assembles and markets a non-invasive cardiac function monitor and therapy guidance device, the CardioQ™. By applying Doppler ultrasound technology, the CardioQ™ provides clinicians with an early warning on the haemodynamic condition of critically ill patients. This continuous, real-time monitoring facilitates the administration of fluids or drugs in a timely fashion and provides an immediate assessment of their impact. The Group intends to establish its technology as common practice in operating theatres, intensive care units and accident and emergency departments worldwide. The Group is also currently developing a paediatric version of the CardioQ™, and the NeuroQ™, a similarly non-invasive device to assess blood circulation in the brain.

During times of physical stress, the human body may prioritise the provision of oxygen delivery to the most critical organs, such as the brain, heart and liver, at the expense of those considered somewhat less important or peripheral, such as the stomach and kidneys. Research has shown that, by properly maintaining oxygen delivery to the peripheral organs, patient morbidity and mortality can be reduced. This reduction can lead to a shorter hospital stay and, ultimately, a significant reduction in healthcare costs. Clinical studies have repeatedly shown that the Group's technology provides significant health and economic benefits by helping to reduce post-operative complications and length of hospital stays by an average of 30 to 40 per cent. for a wide range of patients.

The worldwide market for this product has been independently estimated to be in excess of US$1 billion (£680 million) (see Part I – "Information on the Group – Introduction – The Market Opportunity"). There are currently approximately 380 Monitors installed in hospitals in Europe, Australasia and Africa and approximately 230 in hospitals in the US. Some of the facilities using this technology include: UK – Middlesex, Guy's, Hammersmith, Royal Free and St George's Hospitals in London; France – Lariboisière Hospital in Paris; US – Duke University Hospital, South Carolina, St. Paul's Hospital, University of Texas South West, Texas, Hartford Hospital, Connecticut, and University of Alabama, Birmingham, Alabama. Whilst the current average probe consumption per monitor is approximately 3 per month, highest probe consumption can reach 15 probes per monitor per month where accepted as common practice in the hospital.

The CardioQ™ incorporates the Group's proprietary software and a narrow, easy-to-use, disposable oesophageal probe. The probe is used for transmitting and receiving an ultra-sound signal (the "Doppler signal"). To use, the probe is inserted down the oesophagus, where it is easily positioned parallel to the aorta (primary artery). Monitoring often begins in less than a minute and the clinician is provided with non-invasive and continuous cardiac function and volume management data.

Such information is made possible by the Group's proprietary nomogram and algorithm, which transform the Doppler information into a unique combination of real time, beat-to-beat cardiac output, stroke volume data and other flow parameters. This allows clinicians to monitor closely how well the heart is transporting blood to the body's organs. Additionally, the Monitor provides other flow-based parameters that aid the clinician in the management of patient fluid volume. The amount of fluid within a patient is critical to his or her physical well being. Less than optimal volume in the circulatory system can lead to reduced oxygen delivery throughout the body. This lack of adequate fluid, called covert hypovolemia, is recognized as one of the key risk factors associated with complications surrounding major surgery. Research with the Monitor has demonstrated how clinicians have been able to improve patient morbidity, reduce length of stay and, ultimately, reduce the cost of care through the close management of patient fluid volume status.

The Company's Ordinary Shares were admitted to trading on Nasdaq Europe in April 2000 via an Initial Public Offering ("IPO"), which raised net proceeds of US$13 million. The IPO has enabled the Group to move towards its objective of making its technology common practice in operating theatres, intensive care units and casualty departments in hospitals throughout the world. The Group has begun this process by investing in four main areas: clinical education, clinical studies, the expansion of the distribution network, and a number of research and development projects to facilitate the use of the CardioQ™ and to work towards the next generation of the technology.

Clinical studies

The Group has had a sustained policy of expanding the clinical proof supporting the use of its technology. Currently, there are more than 75 clinical publications on the use of the Monitor. These research studies cover various areas. The initial clinical studies were carried out in order to validate the results of the Monitor against known standards for measuring cardiac output and therefore demonstrate that the technology worked. Other application studies were completed to show that the Monitor worked over a variety of types of operation. Correlation studies were undertaken to show the relationship of the Monitor's parameters to accepted measures like cardiac output. Finally, patient research studies were completed with the Monitor to show that there was an improvement in patients' outcomes when the Monitor was used intra-operatively to guide fluid therapy. All studies have shown the effectiveness of the Monitor as a clinical device. Most significantly, various research studies across a variety of operations support improved patient outcome as a direct result of using the Monitor to guide therapy.

Product portfolio and product development

The Group's principal product is the CardioQ™, which is sold in Europe, Australasia, Africa and North and South America. The CardioQ™ bears the European CE Mark and has 510K – Class II clearance from the US Food and Drugs Administration ("FDA").

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

Current trading and prospects

The Directors believe that good progress is being made in increasing product awareness and sales in the Group's markets, with particular sales growth in certain countries in Europe and Asia. A UK governmental proposal to increase spending within cardiology over the next few years provides particular encouragement for the Group. The Directors anticipate that the Group will gain regulatory approval to sell the CardioQ™ in Japan later this year. This is expected to boost future revenue figures further as Japan is the third largest market for medical devices (behind the United States and Europe).

Sales in the United States have been slower than anticipated creating a cost/revenue imbalance. The Group is addressing this, concentrating efforts on existing accounts to maximise probe sales and repositioning low usage Monitors, thus reducing overall US costs. The Directors believe that success in the international markets will help drive sales growth in the US.

Since 30 June 2001 the Group has continued to trade in line with the Directors' expectations. Revenues in the third quarter of the current financial year are expected to reflect the seasonal summer slowdown in the medical device industry. However, the Directors expect this to improve in the fourth quarter following traditionally strong monthly sales in the Autumn.

The Directors believe that, if the Placing did not take place, on the basis of current cash balances it would be necessary to implement a revised operating strategy that would include a reduction in costs. Without implementing such a revised operating strategy and/or achieving an increase in revenue and/or accessing other sources of financing, it is possible that the Group would not have sufficient resources to meet its operating and capital requirements in the medium term. The Group has no planned items of major capital expenditure. The successful completion of the Placing is critical to providing the Group with longer term security in its funding position and enabling it to accelerate its growth strategy. See Part I – "Information on the Group – The Placing – Use of Proceeds". The Company's application for Admission is conditional upon completion of the Placing.

The Directors expect that, following the Placing, the Group's continued concentration on the European and Asian markets, combined with the strategy of maintaining and growing the presence in the key US hospitals, should impact favourably on the Group's move into profitability. The Directors are optimistic about the potential for the Group's technology in an expanding market and look forward to the remainder of 2001 and beyond with confidence.

Admission to AIM and withdrawal of listing on Nasdaq Europe

The Board has decided that it would be in the interests of the Company and its shareholders as a whole to seek admission to AIM and withdrawal of admission to listing on Nasdaq Europe immediately upon the Ordinary Shares being admitted to trading on AIM. Withdrawal of admission to listing on Nasdaq Europe is necessary in order for the Ordinary Shares to be treated as not being "listed" or "quoted". The Ordinary Shares are likely to be treated in this way for the purposes of those sections of the Income and Corporation Taxes Act 1988 which use those terms in relation to securities, provided that the Company remains one which does not have any of its shares quoted on a recognised Stock Exchange (for these purposes AIM is not, and Nasdaq Europe is, a recognised Stock Exchange). The Company's status of not being "listed" or "quoted" will be necessary for it to fulfil certain of the requirements for investment by Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS) investors. The Board also believes that admission to AIM will raise the financial research coverage of the Company in the UK, providing extra visibility. This should ultimately result in improved liquidity for the Ordinary Shares.

The Company's Ordinary Shares will be quoted in Sterling on AIM.

Nasdaq Europe trading history

The Company's Ordinary Shares currently trade on Nasdaq Europe in US Dollars. The monthly high, low and average prices in US dollars for the Company's Ordinary Shares on Nasdaq Europe from 1 May 2000 to 30 September 2001 are set out below:

Month	High ($)	Low ($)	Average ($)
May 2000	7.40	6.50	6.95
June 2000	6.50	2.50	3.73
July 2000	3.75	3.00	3.28
August 2000	3.25	2.10	2.73
September 2000	3.25	2.75	3.06
October 2000	3.05	2.25	2.82
November 2000	2.75	2.25	2.54
December 2000	2.25	0.40	1.75
January 2001	1.15	0.25	0.83
February 2001	1.35	1.05	1.22
March 2001	1.08	0.71	0.89
April 2001	1.30	1.05	1.11
May 2001	1.55	1.25	1.37
June 2001	1.33	0.60	1.11
July 2001	1.00	0.30	0.60
August 2001	0.50	0.36	0.43
September 2001	0.52	0.43	0.45

On 4 October 2001 the last reported sale price on such date was $0.55.

The Placing – Use of proceeds

The net proceeds receivable by the Company from the issue of the Placing Shares are estimated to be £4,150,000 net of expenses payable by the Company estimated to be £850,000 before stamp duty and SDRT.

The Company estimates that the net proceeds from the Placing will be applied as follows:

	£'000
Marketing and distribution	2,700
Research and development	500
Funding clinical studies	300
Working capital requirements	650
	4,150

The Company intends to increase its marketing, distribution and sales support capacity in selected markets in Europe, Asia and Latin America such as France, Japan and Brazil whilst consolidating its presence in countries such as the United States and the United Kingdom. Research and development expenditure is planned to allow the Group to access particular applications where its technology can be applied through the SupraQ™ and through high end monitor interfaces, as well as upgrading the CardioQ™ platform to its next generation. Further clinical studies are planned to confirm the efficacy of the Group's technology in specific clinical applications and in targeted territories where local trials are required to complement existing clinical papers. The remainder of the net proceeds will be used to support the Group's ongoing working capital requirements.

Pending application of the net proceeds from the Placing as described above, they will be invested in short term interest bearing bank accounts.

Summary financial information

The following selected consolidated historical financial data of the Group should be read in conjunction with the Accountants' Report in Part III of this Prospectus, from which it has been extracted without material adjustment. In addition, investors should read the whole of this Prospectus and not just rely on the following summary financial information.

Consolidated income statement

	Year ended 31 December 1998 £	Year ended 31 December 1999 £	Year ended 31 December 2000 £	**Six month period ended 30 June 2001 £**
Turnover	378,286	801,040	958,651	**693,196**
Cost of sales	(401,888)	(554,830)	(459,276)	**(424,717)**
Gross profit/(loss)	(23,602)	246,210	499,375	**268,479**
Net operating expenses before exceptional costs	(2,081,038)	(3,090,524)	(3,831,800)	**(2,116,812)**
Exceptional costs	(601,150)	–	(697,897)	**–**
Operating loss	(2,705,790)	(2,844,314)	(4,030,322)	**(1,848,333)**
Loss before and after tax	(2,696,300)	(2,882,184)	(3,926,171)	**(1,747,211)**
Loss per share – basic and diluted	(0.248)	(0.244)	(0.272)	**(0.112)**

Consolidated balance sheet

	As at 31 December 1998 £	As at 31 December 1999 £	As at 31 December 2000 £	**As at 30 June 2001 £**
Fixed assets	246,907	318,310	457,214	**519,834**
Current assets	957,536	982,865	4,910,345	**2,969,716**
Total assets	1,204,443	1,301,175	5,367,559	**3,489,550**
Current liabilities	(1,056,106)	(1,763,059)	(529,483)	**(379,086)**
Long-term liabilities	(349,707)	(632,995)	(9,752)	**(6,869)**
Shareholders' equity	(201,370)	(1,094,879)	4,828,324	**3,103,595**

Notes to selected consolidated historical financial data

The selected consolidated historical financial data provided has been extracted without material adjustment from the Accountants' Report in Part III, which has been prepared in accordance with UK GAAP, which differs in certain material respects from US GAAP. A reconciliation from UK GAAP to US GAAP can be found in Part III.

The loss per share and the diluted loss per share are calculated on the basis set out in Part III.

The financial information consolidates the financial information of the Company and all of its subsidiaries.

The exceptional costs in the years ended 31 December 1998 and 31 December 2000 comprise costs associated with the re-acquisition of distribution rights and a charge associated with the grant of share options under the Company's US share option plan, respectively.

Part I

Information on the Group

Introduction

Overview

The Group develops, assembles and markets a non-invasive cardiac function monitor and therapy guidance device, the CardioQ™. By applying Doppler ultrasound technology, the CardioQ™ provides clinicians with an early warning on the haemodynamic condition of critically ill patients. This continuous, real-time monitoring facilitates the administration of fluids or drugs in a timely fashion and provides an immediate assessment of their impact. The Group intends to establish its technology as common practice in operating theatres, intensive care units and accident and emergency departments worldwide. The Group is also currently developing a paediatric version of the CardioQ™, and the NeuroQ™, a similarly non-invasive device to assess blood circulation in the brain.

During times of physical stress, the human body may prioritise the provision of oxygen delivery to the most critical organs, such as the brain, heart and liver, at the expense of those considered somewhat less important or peripheral, such as the stomach and kidneys. Research has shown that, by properly maintaining oxygen delivery to the peripheral organs, patient morbidity and mortality can be reduced. This reduction can lead to a shorter hospital stay and, ultimately, a significant reduction in healthcare costs. Clinical studies have repeatedly shown that the Group's technology provides significant health and economic benefits by helping to reduce post-operative complications and length of hospital stays by an average of 30 to 40 per cent. for a wide range of patients.

The worldwide market for this product has been independently estimated to be in excess of US$1 billion (£680 million) (see Part I – "Information on the Group – Introduction – The Market Opportunity"). There are currently approximately 380 Monitors installed in hospitals in Europe, Australasia and Africa and approximately 230 in hospitals in the US. Some of the facilities using this technology include: UK – Middlesex, Guy's, Hammersmith, Royal Free and St George's Hospitals in London; France – Lariboisière Hospital in Paris; US – Duke University Hospital, South Carolina, St. Paul's Hospital, University of Texas South West, Texas, Hartford Hospital, Connecticut, and University of Alabama, Birmingham, Alabama. Whilst the current average probe consumption per monitor is approximately 3 per month, highest probe consumption can reach 15 probes per monitor per month where accepted as common practice in the hospital.

The CardioQ™ incorporates the Group's proprietary software and a narrow, easy-to-use, disposable oesophageal probe. The probe is used for transmitting and receiving an ultra-sound signal (the "Doppler signal"). To use, the probe is inserted down the oesophagus, where it is easily positioned parallel to the aorta (primary artery). Monitoring often begins in less than a minute and the clinician is provided with non-invasive and continuous cardiac function and volume management data.

Such information is made possible by the Group's proprietary nomogram and algorithm, which transform the Doppler information into a unique combination of real time, beat-to-beat cardiac output, stroke volume data and other flow parameters. This allows clinicians to monitor closely how well the heart is transporting blood to the body's organs. Additionally, the Monitor provides other flow-based parameters that aid the clinician in the management of patient fluid volume. The amount of fluid within a patient is critical to his or her physical well being. Less than optimal volume in the circulatory system can lead to reduced oxygen delivery throughout the body. This lack of adequate fluid, called covert hypovolemia, is recognized as one of the key risk factors associated with complications surrounding major surgery. Research with the Monitor has demonstrated how clinicians have been able to improve patient morbidity, reduce length of stay and, ultimately, reduce the cost of care through the close management of patient fluid volume status.

The Company's Ordinary Shares were admitted to trading on Nasdaq Europe in April 2000 via an Initial Public Offering ("IPO"), which raised net proceeds of US$13 million. The IPO has enabled the Group to move towards its objective of making its technology common practice in operating theatres, intensive care units and casualty departments in hospitals throughout the world. The Group has begun this process by investing in four main areas: clinical education, clinical studies, the expansion of the distribution network, and a number of research and development projects to facilitate the use of the CardioQ™ and to work towards the next generation of the technology.

Other methods of measurement

Doctors still use a variety of other means to measure the effects of oxygen deprivation due to inadequate blood flow or hypovolemia. For example, heart rate and blood pressure (non-invasive or central venous pressure) are used as indicators of haemodynamic status. However, heart rate and blood pressure can be poor and late indicators of low blood flow and of an oxygen deprivation problem. In addition, during operations blood-soaked cotton swabs are sometimes counted with estimates then being made of the probable blood loss. Based on this crude estimate, blood or blood substitutes are then administered. The Foley catheter is also used to measure the amount of urine being produced by the patient each hour, with a low urine output often being an indication to mean fluid should be added to the blood.

Historically clinicians have used the Pulmonary Artery Catheter ("PAC") to assess cardiac output by the thermodilution method, but this method is invasive: it requires a puncture to be made through the skin and tissue and a long catheter threaded through a vein and into the pulmonary artery. The PAC involves the risk of puncturing a blood vessel or introducing infection, and, in most instances, provides only intermittent cardiac output measurements and therefore no real time information about the patient's blood flow. The PAC is also relatively difficult to learn how to use, can take up to 30 minutes or longer to position correctly, and is costly. The PAC is currently considered the standard method for the measurement of cardiac output and various pressure parameters. (See Part I – "Information on the Group – Competition – Invasive Competition".)

It can be seen that the other methods of measuring cardiac output are inaccurate or are subject to large degrees of error or do not provide real time or continuous data. The introduction of the CardioQ™ represents a significant change in managing cardiac function and optimizing performance of the heart for intensive care units and operating rooms.

The CardioQ™ advantage

The CardioQ™ provides real time measures of the various components of cardiac function. The data is presented in both a wave and numerical form. With these measures the clinician can monitor the patient continuously and treat him or her therapeutically.

Clinical studies

The Group has had a sustained policy of expanding the clinical proof supporting the use of its technology. Currently, there are more than 75 clinical publications on the use of the Monitor. These research studies cover various areas. The initial clinical studies were carried out in order to validate the results of the Monitor against known standards for measuring cardiac output and therefore demonstrate that the technology worked. Other application studies were completed to show that the Monitor worked over a variety of types of operation. Correlation studies were undertaken to show the relationship of the Monitor's parameters to accepted measures like cardiac output. Finally, patient research studies were completed with the Monitor to show that there was an improvement in patients' outcomes when the Monitor was used intra-operatively to guide fluid therapy. All studies have shown the effectiveness of the Monitor as a clinical device.

Most significantly, various research studies across a variety of operations support improved patient outcome as a direct result of using the Monitor to guide therapy.

	Hospital carrying out study/year	Number of patients	Reduced length of stay
1	University College London Hospital – 1995	60	37 per cent.
2	Middlesex Hospital, London – 1996	40	40 per cent.
3	Duke University Hospital, Durham, North Carolina – pilot study – 1998	44	33 per cent.
4	Duke University Hospital, Durham, North Carolina – 1999	100	30 per cent.
5	St. Paul's Hospital, Dallas, Texas – 2000	124	31 per cent.

The first outcome study using the Monitor was published in the United Kingdom in 1995. At that time, the estimated average cost for a patient undergoing open-heart surgery in the United Kingdom was £4,900. The study demonstrated how effective use of the Monitor to manage the patients' cardiac function and volume status, before, during and after cardiac surgery, was associated with a reduction in the average length of time the patient stayed in the hospital from 10.1 to 6.4 days (Archives of Surgery 130, 1995). This length of stay reduction translated to an estimated saving of £1,600 or 33 per cent. per patient.

While the 1995 outcome study focused on heart patients, a second outcome study in 1997 using the Monitor focused on hip replacement cases as its foundation. This study (British Medical Journal, 315, 1997) showed a 40 per cent. reduction in length of stay for the group diagnosed and treated with the Monitor.

In August 1999, Duke University Hospital in Durham, North Carolina, published a study using the Monitor on 100 patients with a wide variety of general surgical procedures where there was a predicted blood loss of 500 ml or more in a randomised trial. Surgeries included major urological (e.g. retropubic prostatectomy), major abdominal, and major gynaecological procedures (e.g. tumour de-bulking, abdominal hysterectomy). The findings from this study show a 30 per cent. reduction in the postoperative length of stay and the conclusion reached was that intraoperative fluid optimisation guided by the Monitor appears to be associated with faster recovery and shorter hospital stay. This study was featured as one of the few studies selected for mass media attention at the October 1999 meeting of the American Society of Anesthesiologists.

Part I

Information on the Group *continued*

The following are the most significant studies completed during 2000 and 2001:

- A clinical trial was completed at St Paul's Hospital in Dallas, Texas, on 124 patients undergoing cardiac bypass surgery. The reduction in length of stay shown by the study is 31 per cent. The results were presented to the American Society of Anesthesiology's annual meeting in October 2000. The results were published in *Anesthesiology; 2000; 93*.

- A study undertaken at the University of Texas Southwestern Medical Centre in Dallas, Texas was published in the *Annals of Thoracic Surgery; 2000; 69*. It showed that the results using the Group's technology from 34 patients undergoing coronary artery bypass surgery were as good as or better than the established PAC methodology.

- The first phase of a nurse-led study was completed by London's Bloomsbury Institute of Intensive Care Medicine in October 2000, showing a significant reduction in ICU stay from 2.6 days to 1.9 days and a 19 per cent. reduction in hospital stay if one used proactive circulatory management in the first four hours after cardiac surgery. Equally important was the proof of the ease of the CardioQ^{TM} with minimal intervention from doctors. This study was published in the *Journal of Intensive Care Medicine; 2000; 26*.

- A study undertaken at the Department of Paediatric Medicine at Guy's Hospital, London validated the accuracy of a paediatric version of the CardioQ^{TM} when used for monitoring critically ill children. This is important because, at present, cardiac output and blood flow are not routinely measured in critically ill children because traditional, invasive measurement methods can cause undue stress. The study was published in *Critical Care Medicine; 2000; 28* in August 2000.

- The first study using the Group's technology on awake patients using a nasal insertion of the probe was completed at Hartford Hospital, Hartford, Connecticut. Results show that awake patients can tolerate nasal probe insertion with application of a mild external anaesthetic. The study was published in *Chest; 2001; 119*.

In addition, the Group held a symposium at the American Society of Anesthesiology's annual meeting in San Francisco on the subject of haemodynamic monitoring and fluid optimisation in October 2000. A monograph on this subject was prepared for this meeting by University College London Hospitals.

The market opportunity

By counting the types of operating room and intensive care unit procedures where this technology might be used worldwide, the total available market for the Group's technology was estimated in November 1999 to be in excess of $1 billion (£680 million) per annum.

An independent assessment by a medical marketing practitioner based in the USA comprised two analyses on behalf of the Company to estimate the potential worldwide market size. The first analysis took a subset of operations worldwide where a blood loss of 500ml or more is expected and operations are over two hours in length. The results of this analysis show a total available market of $1 billion (£680 million) (approximately $500 million (£340 million) in the US market and $500 million (£340 million) in the rest of the world).

The second analysis assumed that every critical care bed has the Group's technology beside it. The total number of critical care beds worldwide was estimated at 266,000. The assumption is that each Doppler technology site will consume six probes per month at an approximate cost of $75 (£51) per probe. This translates into a total available market in excess of $1.35 billion (£920 million). These studies estimate that the current worldwide potential use for the Monitor is 13.5 million cases per annum.

The Directors believe that all operating rooms and intensive care units should have the capability to provide real time diagnosis and therapeutic guidance of blood flow and cardiac function. The Directors believe that this will enable clinicians to time the administration of fluids and drugs in order to maintain peripheral organs, improve patient outcome and decrease the cost of care.

Over 2 million PACs are sold each year worldwide. The Directors believe that the Monitor has the potential to supplement or ultimately replace the PAC, and can be used for many less critically ill patients who would benefit from cardiac function monitoring, but for whom traditional methods have not offered an acceptable risk to benefit ratio.

Product portfolio and product development

The Group's principal product is the CardioQ™, which is sold in Europe, Australasia, Africa and North and South America. The CardioQ™ bears the European CE Mark and has 510K – Class II clearance from the US Food and Drugs Administration ("FDA").

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

Progress has been made recently on a number of product development projects: these have included the development of software which can be used on paediatric patients, software enhancements on the CardioQ™, single patient probe redesign to reduce costs and improve ease of use, the linguistic and software translations involved in the entry into new countries and the submission of technical data for regulatory purposes in order to assist the expansion of the distribution network.

Three recent projects are particularly significant. The first is the adaptation of the CardioQ™ to high end monitors via an interface. High end monitors are critical care devices which combine a variety of functions to monitor a patient's vital signs continuously. These monitoring functions include heart rate, temperature, blood pressure (monitored invasively and non-invasively), electrocardiograph (ECG) and pulse oximetry. The monitors consist of a series of modules with specific functions which display their data on a single display. One of the longer term objectives of the Group is to integrate its technology into such high end monitors which are beside most critical care beds in hospitals throughout the world. During 2001, the Group developed interfaces to the high end monitors manufactured by Agilent/Hewlett Packard and Spacelabs Medical Inc. There is also an interface development agreement in place with Datex Ohmeda. If the technology is adopted by these manufacturers, the Group would gain access to more than 70 per cent. of this market worldwide. Work has been completed on the prototypes which act as interfaces. The eventual goal is to produce a small module which will fit directly into the high end monitors.

The second development project is the multi-patient probe ("MPP"), which has been developed primarily to meet the needs of those users who need a lower cost per procedure, such as for regular and frequent use in operating theatres. Alternatively, some markets demand a re-usable device, such as in Germany, where medical devices are 'recycled' where possible. Since it is re-useable, the MPP has a more robust design to withstand multiple insertions and disinfection. Furthermore, comprehensive depth-markings have been added to facilitate accurate placement for paediatric and nasal applications. A software module has been added to the CardioQ™ to manage and regulate MPP usage, storing data from up to six patients at the same time.

The third development project is the NeuroQ™, a non-invasive ultrasound-based device which measures blood perfusion in the mid cerebral artery: in other words, the NeuroQ™ monitors how well blood is able to circulate through the brain. This is critical to know following a head injury or a stroke. Researchers from the Neurosciences Critical Care Unit at the Department of Anaesthesia at Addenbrookes Hospital, Cambridge examined 25 patients suffering from head injury and found that the readings taken by the NeuroQ™ correlated well with those obtained from the traditional invasive method which involves inserting a transducer directly into the skull and affixing it with a bolt. The study was completed during 2000 and appeared in the *Journal of Neurology, Neurosurgery and Psychiatry* in the first quarter of 2001. It concluded that the non-invasive nature of the NeuroQ™ is a definite advantage in situations where direct cerebral perfusion pressure measurement is not available or not possible due to compounding factors. Now that the development work on the NeuroQ™ has largely been completed, the Group is currently reviewing its options for the commercialisation of the technology.

Technology and the products

At the core of the Group's products is Doppler ultrasound technology. The Doppler principle states that the frequency of sound or light waves emitted by, or reflected from, a moving object alters proportionately to the relative velocities and observation angle of the object and the receiver. Although Doppler may be best known as a system used by police forces to detect vehicles' speed, Doppler has also been used safely in medical applications for many years. In 1990, the Group recognised that this same technology could be used to provide information on the heart's haemodynamic function, both continuously and non-invasively and began the development of the technology used in the CardioQ™ and the NeuroQ™.

The benefit of the Group's technology

Currently the Group's technology represents a real time method of diagnosis and therapeutic administration of fluids (blood substitutes) and vasoreactive (inotropic or vasodilatory) drugs. The latter therapy helps optimise the heart's performance and blood flow to peripheral arteries and organs like the stomach and kidneys. The compromise of these organs and peripheral vasculature increases patient morbidity and the overall patient length of stay and associated costs in the intensive care unit. Products such as the PAC provide a periodic measure of cardiac output, but give no real-time measure of blood flow nor direct feedback on fluid and vasoreactive drug therapy. As outlined above

Part I

Information on the Group *continued*

under 'Introduction – Clinical Studies', various studies have demonstrated how clinicians have been able to reduce patient morbidity, length of stay and, ultimately, the cost of care through the close management of patient fluid volume status.

The products

The Group's current principal product is the CardioQ™. The CardioQ™ comprises a liquid crystal display monitor with PC based hardware, proprietary software and specialised interconnect devices together with a disposable, flexible probe which incorporates an ultrasound transponder and receiver.

The CardioQ™ is the up to date version of a product that was originally sold under the names ODM II (and its predecessor ODM I) in Europe and EDM in the US. In 1999, the CardioQ™ was introduced to replace the ODM/EDM. All of these monitoring systems have comprised an electronic colour monitor that provides visual and audible information, and a narrow, single-patient, easy-to-use oesophageal probe, used for transmitting and receiving the Doppler signal. The Monitor is used primarily in sedated patients, for example, those undergoing surgery or in intensive care. Monitoring begins with a probe being placed down the patient's oesophagus and positioned adjacent to the aorta as it leaves the heart. While there is an education process associated with proper probe placement and monitor use, in experienced hands the entire process can take less than a minute to accomplish. The signal returning from the probe is a Doppler-based two-dimensional measure of blood flow plotted against time, which provides a visual and quantitative representation of aortic blood flow.

The Monitor's volumetric component, with which clinicians are most familiar, is derived by simply entering the patient's height, weight and age. The Monitor contains a proprietary nomogram which converts the measurement of flow into a volumetric measure. The accuracy of the nomogram has been validated in several randomised trials. Once the patient's details are entered, a proprietary algorithm transforms the Doppler information into a continuous display of cardiac output, stroke volume and other flow parameters.

The CardioQ™ received the European CE Mark in April 1999 and FDA 510K (Class II) clearance in September 1999. The predecessor monitor, the EDM or ODM II, received FDA 510K (Class II) clearance for marketing of medical devices and certain other European regulatory approvals in 1995.

Product development programmes

The Group has traditionally relied on two sources of expertise to develop its products: (i) its academic advisers and collaborators and (ii) its in-house team of electronic and software development engineers. The Group will continue to use the former for the earlier stages of product development, including clinical trials, and will use its in-house team for the implementation stage of product development and product upgrades.

The Group has spent the following amounts on its Research and Development activities in the last three and a half years: 1998: £299,000, 1999: £302,000, 2000: £456,000, 2001 (1st half): £117,000 and intends to use approximately £500,000 of the proceeds from the Placing to continue funding Research and Development in the future. (See Part I – "Information on the Group – The Placing – Use of Proceeds".)

The CardioQ™ Using the CardioQ™ as its basis, the Group is developing the following new products or product features:

- A paediatric version of the nomogram for measurement of real time blood flow parameters such as cardiac output, stroke volume and corrected flow time.
- A probe designed for nasal insertion.
- Release 5 software, which facilitates the multi-patient probe, the paediatric version, nasal insertion and a variety of languages.

The SupraQ™ The Group has begun development of the SupraQ™, a cardiac function monitor which processes Doppler signals transmitted by an external ultrasound transducer located on the patient's suprasternal notch (the V shaped notch at the top of the breastbone). The principle of blood flow measurement for the SupraQ™ is the same as for the CardioQ™, albeit with different 'window' on the aorta. Given the non-invasive signal acquisition, the SupraQ™ will provide an alternative to the CardioQ™ where oesophageal placement is either undesirable or impossible. Thus, the SupraQ™ will find application in Accident and Emergency departments where it can be used to obtain

a fast snap-shot of patients' haemodynamic status and, crucially, will provide early detection of occult bleeding in trauma patients, a diagnosis not possible using the 'traditional signs' of blood pressure and heart rate.

The application of the SupraQ™ to these, and other, areas of healthcare has been validated by previous studies carried out with its predecessor, the Portable Doppler Monitor ("PDM"). The SupraQ™ will be based on the advanced CardioQ™ technology, offering improved signal quality and measurement capability. Several prototypes will be produced this year to be placed with key PDM users for clinical evaluation. Ultimately, the SupraQ™ will take the form of a smaller and lighter unit for use in ambulances and field hospitals; and pre-operatively, to optimise the patient's haemodynamic status prior to surgery and to provide a 'base-line' measurement for post-operative recovery.

A core component of both the modular and portable variants of the CardioQ™ is minimised electronic hardware, exploiting advances in signal processing technology. The Group's product development team has already successfully tested a prototype version of its 'next generation' of ultrasonic hardware.

The NeuroQ™ As outlined above, the Group, in conjunction with its academic collaborators, is developing a new product called the NeuroQ™. This Monitor estimates cerebral perfusion pressure by measuring blood flow in the mid-cerebral artery, which carries oxygenated blood to the head.

Monitoring blood flow to the head post-operatively is desirable, particularly in vulnerable patients for whom adverse neurological events can be unexpected and serious. Non-invasive monitoring can also be important for patients who have received head injuries. The NeuroQ™ is designed to monitor both types of patient. Equipment already exists to monitor blood flow to the brain, but is considered invasive, expensive and complex and involves surgery concentrated in specialist neurological centres. It is intended that the NeuroQ™ will be non-invasive, affordable, easy to use and appropriate for use in much wider applications, in emergency departments, intensive care units and other environments outside these centres.

The NeuroQ™ is being developed in conjunction with the Department of Neurosurgery at Cambridge University and Addenbrooke's Hospital, Cambridge. A patent application is being filed to protect the method of measurement being used in the NeuroQ™. The NeuroQ™ will use the same hardware platform as the CardioQ™.

Marketing and distribution

Target markets

The CardioQ™ enables physicians to monitor cardiac output and cardiac function continuously in sedated patients who are critically ill. In addition, the Monitor is used to measure the effects of therapeutic intervention with fluids (e.g. blood substitutes) and/or vasoreactive drug therapy. The Monitor can be used in a wide variety of clinical applications and has proved to be a useful tool in the management of critical care patients.

The Monitor's operating room use is recommended in the following situations:

- anticipated patient blood or fluid loss is greater than 500 ml;
- the operation is over 2 hours in length; or
- the patient is over 60 years of age and has abnormally high or low blood pressure.

The technology is also beneficial in the intensive care unit and is recommended for use, *inter alia*, in the following situations:

- post-operative monitoring;
- haemodynamically unstable, low patient urine output; or
- when the patient is suffering from sepsis.

Part I

Information on the Group *continued*

Monitor applications

The Monitor is designed for use with sedated moderate to high-risk and critically ill patients and potential applications span the critical care environment. The Monitor has proved to be an effective tool in the operating room, intensive care unit and emergency department for managing fluid and drug levels.

The Directors believe that the Monitor could be used in virtually any situation where the clinician feels the need for cardiac function monitoring is warranted and does not wish to incur the additional time, risk or cost which an invasive method might present. Additionally, because of its volume management benefits and the potential to reduce morbidity and related healthcare costs, the CardioQ™ is especially beneficial for patients with the potential for excessive fluid loss. These may include patients undergoing major vascular, orthopaedic, urological, gynaecological, bowel and spinal surgery, as well as patients facing emergency situations such as fractures, burns and trauma.

While many of the following Monitor applications are supported by research, others are advocated through common practice:

Potential Indications for the CardioQ™

High-risk general anaesthesia

- Patients over 65 years of age
- Cardiac patients in non-cardiac surgery
- Anaesthesia grade greater than 3 – blood loss of 500ml or more is expected
- Paediatrics
- Severe hypertensive patients

Intensive care unit

- Post-operative surveillance
- Sepsis
- Adult Respiratory Distress Syndrome (ARDS)
- Hypotension
- Volume management
- Unstable haemodynamics
- Tachycardia
- Oliguria

Specialist and volume-risk procedures

- Cardiac and related vascular
- Major orthopaedic
- Bowel resections
- Transplants
- Radical prostatectomy

Trauma departments

- Burn patients
- Shock patients
- Fracture
- Emergency room rapid assessment
- Multi-organ trauma

Clinical education

The Group's main goal is to make the use of its technology common practice among anaesthetists, surgeons and critical care nurses. The applicability and benefits to patients of using the CardioQ™ or its predecessor products have been demonstrated in more than 75 clinical publications. This now constitutes a highly substantial body of clinical proof. Significantly, several of these studies not only show the clinical benefits of using the technology, but also the evidence of the economic benefits that can result for its users.

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

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

As a corollary to the activity of the clinical trainers, the Group has established a number of training centres. The first of these was started in November 2000 at the Middlesex Hospital, London. Monthly courses in the importance of haemodynamic monitoring in general and use of the CardioQ™ in particular are given by senior clinicians at the hospital. The courses are advertised in hospitals throughout the UK and

doctors and nurses are invited to attend. Similar courses have been set up at hospitals in Brighton and Paris and the intention is to expand the courses across Europe and the United States. Attendees often receive official accreditation, which is counted towards their continuing education. An advanced course in the use of the CardioQ™ is also offered.

Commercial strategy

The Group currently markets its products in the US, Europe, Latin America and certain other countries via two principal channels:

1 through its in-house sales and marketing team; and

2 through specialist product distributors.

Europe There are approximately 300 Monitors in European hospitals. In order to service these hospitals, in 2000 and 2001, the Group has appointed direct sales staff (a manager of UK sales, a salesman and three clinical trainers) to focus on the UK and France. These two countries have the largest number of hospitals already using the Group's products. The Group has entered into contracts with a number of specialist distributors to distribute the CardioQ™ and probes: Actamed Limited in the UK, Gamida S.A. in France, Medival S.p.A. in Italy, Nufer AG in Switzerland, Almeda in the Czech Republic, and Bisping GmbH in Germany. In Scandinavia and Benelux the Group is currently negotiating with distributors to expand sales coverage further. Prior to 1999 Abbott International exclusively distributed the Monitor throughout Europe and currently retains distribution rights for Spain, Greece and Hungary.

Asia E-Wha of Korea signed a distribution agreement with the Group in November 2000 and Korean regulatory approval was granted in March 2001. A Korean probe reimbursement scheme is due to be granted and published in September 2001 covering a broad range of applications. Nihon Kohden of Japan signed a distribution agreement with the Group in July 2000 and Japanese regulatory approval is anticipated later this year (on the basis of local advice received from Nihon Kohden who have been involved in making the application for regulatory approval on the Group's behalf). More than 50 Monitors have been placed in Asia.

US The Group implemented a realignment of its US sales and marketing activity in August 2001 to support and service the market with five clinical education trainers. The Group's strategy is to maintain its sales and presence in the US at several key hospitals. Using the US clinical staff the Group intends to maintain a sales increase in existing accounts. The Group plans to focus its development efforts on those accounts and studies which will yield the greatest visibility of the clinical and economic importance of its technology and create a market pull through effect.

The US sales team became operational in October 1996 and its primary aim has been to identify key centres for the early trial and adoption of the Monitor. The Group recognised the need for extensive market support studies to be carried out in the US to replicate and support the earlier studies carried out in Europe. One of the US team's key objectives has been to establish clinical trial and product evaluation centres. The Group has sold or placed approximately 230 Monitors in the US and, in addition, has successfully initiated over 75 product evaluations and eight clinical trials with support from specialist distributors.

In addition, the Group is working to develop contracts with national group purchasing organisations ("GPOs"). It signed an agreement in early 1999 with the Dallas-based consortium, Novation, a combination of the VHA (comprising over 2,000 health care organisations) and the University Hospital Consortium (an alliance of over 100 academic medical centres), for the sale of its oesophageal probe. In addition, the Company signed an agreement with Consorta in May 2001. Consorta is a GPO that represents more than half of the Catholic hospitals in the US. The new agreement will expedite the introduction of the CardioQ™ to 320 acute care facilities and approximately 500 primary care outpatient facilities that are owned by or affiliated with Consorta shareholders. Such group purchasing agreements give individual healthcare providers access to economies of scale by working as a collective unit.

Latin America The Group has begun marketing the Monitor in certain South American countries and has appointed Bioxel as its distributor in Uruguay and Argentina, Regor Enterprises in Columbia, and Ecovital in Brazil (the latter pursuant to a distribution agreement signed in July 2001).

Other countries There are approximately 30 Monitors placed in hospitals in territories outside Europe, Asia-Pacific and the US. Optical Medical of Australia signed a distribution agreement in January 2000. As detailed in Part I – "Information on the Group – The Placing – Use of Proceeds", the Group intends to use a portion of the proceeds of the Placing to introduce the Monitor into additional markets, by using the most appropriate mix of corporate partnerships, distribution agreements and direct selling.

Part I

Information on the Group *continued*

Sales experience

The Group's revenue by geographic region has been as follows:

	1998	1999	2000	**2001 (1st half)**
	£	£	£	**£**
United Kingdom	42,576	251,205	284,109	**202,630**
United States of America	220,081	324,058	395,272	**183,318**
Rest of Europe	66,177	197,777	249,205	**124,215**
Rest of World	49,452	28,000	30,065	**183,033**
	378,286	801,040	958,651	**693,196**

The above financial information has been extracted without material adjustment from the Accountants' Report in Part III of this Prospectus.

During 1999 the Group experienced significant growth in Monitor placement and probe sales due to the introduction of the CardioQ™ and a sales focus on expanding probe usage in existing accounts. In accordance with a strategic variation to the Group's revenue model, the increase in monitor placements has not been reflected in revenues in 2000 and the first half of 2001 because the Group has increasingly loaned Monitors to hospitals under probe consumption agreements. This is particularly the case in the United States. The Monitor is initially provided free of charge and typically 8 to 15 probes per month are sold for a price of between $119 (£81) and $149 (£101) each. The Monitor placements thus give rise to future revenues from probe sales, which should allow the Group to recover the cost of the Monitor.

Among the Group's customers the current average probe consumption per Monitor is approximately 3 per month, with highest probe consumption reaching 15 probes per Monitor per month. The Group has found that when users are comprehensively trained on the use of the CardioQ™, their use of probes increases.

Competition

The technology for monitoring the haemodynamic status of critically ill and high risk patients has evolved from non-invasive indicators of single parameters to invasive methods which provide measurements of multiple haemodynamic parameters. However, the most advanced invasive procedures are sometimes not used in high-risk patients because of inherent risks and costs. Consequently, a renewed emphasis has been placed on providing accurate, non-invasive methods for continually assessing haemodynamic and cardiac function.

In the high risk patients currently monitored for cardiac output the Directors believe that the primary competition for the Monitor is the PAC. When compared with the PAC, the Directors believe that the Monitor's non-invasive and continuous features offer heart output assessment at a reduced level of risk and additionally the potential for wider applications.

Other competitors are categorised as non-invasive, which include other Doppler-based products and products using bioimpedance techniques. The Monitor has been repeatedly validated against several other accepted cardiac function monitoring methods in a wide variety of patient populations.

Invasive competition

Pulmonary Artery Catheter/Thermodilution PACs have become the most commonly used method for monitoring cardiac performance, particularly in the US. The PAC consists of a long catheter with a small balloon at the tip that is inserted into the jugular vein in the upper body or the groin of the patient and fed through the right side of the heart. The resting-place of the tip of the PAC is the pulmonary artery, from where it transmits cardiac output data and various pressure measurements. The other end of the PAC remains outside the body and is attached to a computer for measurement purposes. This insertion typically requires two skilled operators and takes approximately thirty minutes. Insertion and use of the device require a high level of training.

The PAC permits measurement of right heart pressure and can be used to determine cardiac output. While PAC varieties have evolved to include the monitoring of continuous cardiac output and mixed venous oxygen saturation, the majority employ the thermodilution method to acquire information on cardiac output.

By contrast, the Group's Monitor often takes a few minutes (3-6 minutes) to set up and begin monitoring. It is non-invasive and continuous, can be easily operated by virtually all critical care personnel and, by continuously measuring the flow of blood leaving the heart with each beat, delivers a better assessment of left ventricular performance. European and US validation studies have compared the Monitor with PAC cardiac output measurements using the thermodilution method and have suggested a very strong correlation in cardiac output results between the two methods. World-wide PAC usage in 1999 was in excess of 2 million units per annum, of which approximately 1 million applications occurred in the US.

Continuous Cardiac Output (CCO) Several companies produce CCO devices, which provide continuous cardiac output information. The CCO, however, has the disadvantages of a monitoring time lag and averaging used in providing the haemodynamic information. Besides the display delay, limitations also translate into an inability of the CCO monitor to display extremes of rapidly changing high and low output values.

AorTech's TruCCOMS TruCCOMS is an invasive technology and, like the PAC, is designed to measure cardiac output and certain pressures. It requires insertion of the catheter into the pulmonary artery where it joins the heart. The catheter is linked to a temperature sensor and a coiled heating element. Once the catheter is inserted, its coil is heated to a baseline level of approximately 1°C above blood temperature. Every time the heart beats, heat is dissipated by the blood flow, and the system has to use more power to maintain the coil at baseline temperature. The power required to maintain the temperature differential is directly proportional to the cardiac output.

The TruCCOMS PAC has the ability to measure cardiac output continuously. It operates by way of "mass heat transfer", continuously measuring the amount of power required to maintain the 1°C heat differential mentioned in the above paragraph. The TruCCOMS system is able to provide a virtually immediate measurement of cardiac output, the delay between measurement and display of the reading being less than 10 seconds. Once inserted, TruCCOMS provides continuous measurement until the catheter is removed.

PiCCO Another invasive technology for measuring cardiac output and certain pressures is a device manufactured by a US Group, Pulsion, called the PiCCO. It is claimed that the PiCCO is easier to use than a PAC. The major difference between this device and the PAC is the fact that it uses a femoral artery approach rather than surgical insertion via the jugular vein.

LiDCO and PulseCO LiDCO is an alternative method of measuring cardiac output. LiDCO is produced by a London firm, LiDCO Group Plc, which claims to produce a method of measuring cardiac output which is equivalent to the thermodilution catheter. Instead of inserting a separate PAC, a lithium sensitive sensor is attached to an existing arterial line. The LiDCO system uses an indicator dilution method of measuring cardiac output. Lithium Chloride is injected via a vein and arterial blood is drawn past an ion-selective electrode sensor. The resultant lithium dilution curve is analysed and displayed with cardiac output being calculated as the dose of lithium divided by the area of the primary lithium curve. Some clinical studies have been completed using the LiDCO technology. In May 1999 LiDCO received 510K approval for marketing in the United States and UK marketing authorisation was granted in February 2001.

The PulseCO system provides a range of real time clinical data. Following calibration via the discreet measurement from the LiDCO system, the PulseCO system derives cardiac output from blood pressure data and provides the necessary data for the derivation of the oxygen delivery. The PulseCO system consists of a flat screen monitor connected to an analogue pressure signal on the blood pressure monitor. In June 2001, following a 510K pre market notification to the United States Food and Drug Authority, PulseCO received approval for marketing in the United States. In the European Union, PulseCO obtained regulatory clearance to be marketed and has carried the CE mark since that date.

Part I

Information on the Group *continued*

Non-invasive competition

Doppler-based technology Arrow International markets a product developed by Sometec S.A. under a new name: Hemasonic 100. This product consists of an electronic monitor and a reusable probe with a sterile sheath. The Hemasonic 100 system requires the cleaning and preparation of the probe between patient uses.

Other companies have developed non-invasive Doppler monitors, including trans-tracheal monitors.

Bioimpedance Several companies are known to be working on products which provide cardiac output information by measuring the electrical impedance between known positions on a patient's skin. Some published results of the bioimpedance products, however, have expressed doubt as to their accuracy and precision.

Trans-Oesophageal Echocardiography (TOE) The Monitor is sometimes compared to the *TOE* technique for assessing haemodynamic status. While both methods use ultrasound waves to make their measurements and use probes that are placed in the oesophagus, further comparisons are limited. *TOE* is most often used as an imaging and diagnostic device to assess cardiac function, particularly valve function and ventricular wall motion.

The Monitor and *TOE* technologies may complement each other. For example, *TOE* can be used in an aortic valve replacement operation to examine the defective valve and the performance of the replacement. Following the repair, the Monitor can be used to monitor the patient continuously in the operating room and intensive care unit, where *TOE* equipment is not commonly used because of its size and the expertise needed to operate it. The cost of *TOE* equipment is approximately $180,000 for the hardware and $20,000 for the reusable probe. The differences in user applications and cost do not position *TOE* as a direct competitor of the Monitor.

Facilities and manufacturing

The Group leases a 9,000 square foot building in Chichester, UK. This site serves as administrative headquarters, a product development location and a product assembly facility for monitors and probes. Probes are assembled in a Class J clean room facility at the Chichester facility and packed and sterilised by specialist companies in the UK and the US. The UK location has all the accreditation required for the manufacture of medical equipment, including IS09001 for Europe and CSA/NRTL for the US. The Group also rents a sales and marketing office in Branford, Connecticut totalling 1,460 square feet in size.

The UK facility in Chichester will continue to serve as an assembly, research and development, customer support and service maintenance centre, as well as the administrative and statutory headquarters of the Group. Employees at the UK site will also continue to co-ordinate product development with the Group's academic and clinical collaborators.

Proprietary protection

The Group has a portfolio of intellectual property for its product range. This portfolio includes copyright in respect of adult and paediatric nomograms and associated know-how.

The Group has invested significantly in building a patent portfolio which covers aspects of the CardioQ™, the NeuroQ™ and the SupraQ™ devices. The current list of applications is as follows:

Country	Subject/Title	Number	Filing Date
United Kingdom	Sine wave forming	GB9920373.9	Aug. 27, 1999
United Kingdom*	Transcranial Monitor	GB0025682.6	April 28, 1999
United Kingdom	Autogain	GB0030449.3	Dec. 13, 2000
United Kingdom	Narrow band noise suppression	GB0118481.1	July 30, 2001
United Kingdom†	Suprasternal Notch Monitor	2280688	Sept. 14, 2001
International (PCT)	Smart probe/timer	PCT/GB00/01412	April 13, 2000
International (PCT)	Probe with additional transducer	PCT/GB00/03461	Sept. 8, 2000
International (PCT)	Snapshot/autosnap	PCT/GB01/0300	Jan. 25, 2001

* Application in respect of NeuroQ™

† Application in respect of SupraQ™

Other than the patent applications marked * and †, the inventions which are the subject of United Kingdom patent applications may become the subject of International applications under the provisions of the Paris Convention. This convention allows a British applicant to seek equivalent foreign protection, within 12 months of the initial UK filing date, without loss of priority. The International applications listed were filed under the Paris Convention and it is anticipated that any future International applications will also be filed under Paris Convention rules.

CardioQ™ is the subject of pending applications for registration as a trade mark in the USA and in the European Community. *NeuroQ™* is the subject of a pending application for registration in the European Community. *SupraQ™* is the subject of a pending application in the United Kingdom and may become subject to equivalent foreign protection under the Paris Convention. In respect of trade marks the time allowed under the Paris Convention is 6 months from the initial UK filing date.

The Group operates an active intellectual property monitoring and assessment programme and its policy is to assess all new developments for patent protection as they arise.

Directors, senior management and employees

Directors

Nigel Keen MA FCA, Non-Executive Chairman Nigel Keen has been a Non-Executive Director and Chairman of the Group since 1996 and has been involved with certain members of the Group since 1988. He is Chairman of Cygnus, which he founded in 1984 and which was an early investor in the Group. Cygnus is a venture capital investment firm formed to provide a bridge for young companies to access support from the capital markets. Prior to founding Cygnus, he ran a small publicly listed industrial holding company with a diverse portfolio of businesses. Previously he headed the corporate finance team of European Banking Company Limited, an international investment bank, where he was responsible for its venture capital activities, mergers and acquisitions and private placements of equity and debt for a wide range of companies. He is a non-executive director of a number of publicly listed and privately owned companies including The Laird Group plc (Chairman), Axis-Shield plc (Chairman) and Oxford Instruments plc (Chairman). He has a Masters degree in Engineering from Cambridge University and is a qualified chartered accountant.

Kempton J. Coady, III BSc MBA, Chief Executive Officer Kempton J. Coady, III became an Executive Director of DMHL in September 1998 and was appointed Chief Executive Officer in October 1998. He has worked for more than 20 years in the medical device industry. Between 1982 and 1990 he held senior positions for Philips Medical Systems North America in its CT Scanning and X-ray Divisions. In 1990 he became Vice President of Sales and Marketing for ISG Technologies, an emerging medical device company which produced three-dimensional, imaging devices for surgical guidance and helped lead the company to a NASDAQ initial public offering in 1992. He became President and Chief Executive Officer of a start up haemodynamic monitoring company, MCG International, in 1992. State and venture capital financing was raised to fund the development of monitoring systems and consumable sound detection devices. MCG International was sold to the military contractor Harris Corporation in 1994. He was then appointed Head of World-wide Marketing and Business Development for Datascope's Patient Monitoring Division and Head of the Medical Devices Division of the contract research organisation, Quintiles. He is also a member of the board of Memry Corporation, a manufacturer of nitinol based medical components of Bethel, CT. He has a BSc. in Chemistry and Biology from Bates college and an MBA from Cornell University.

Dr Edwin Snape BSc PhD, Non-Executive Vice-Chairman Dr Edwin Snape was appointed Non-Executive Vice-Chairman in September 1999. He has extensive investment experience in the medical device industry. Over the past 30 years he has been involved in the formation and management of numerous private equity funds with over $375 million under management, including the Vista Group and Orien Ventures. He also founded or co-founded several health care companies, including the Liposome Company, Immunogen and VimRx Pharmaceuticals. Additional medical device companies in which he was involved, through the Vista Group, as an investor or director include Amnion,

Part I

Information on the Group *continued*

Cyberonics, Infusion Systems, Innovative Surgical Products, Interflo (sold to Baxter Travenol) and Strato Medical. He is currently a director of Synergy Pharmaceuticals, Inc. He has pioneered a number of technical innovations and authored numerous technical papers. He holds several patents in the advanced materials field and has his Bachelor of Science and PhD degrees from the University of Leeds.

Ewan Phillips MA ACA, Chief Financial Officer Ewan Phillips joined the Group in August 2001 and the Board in September 2001 as Chief Financial Officer. Prior to joining Deltex, he was Director of Finance and Strategic Development of European Career Systems plc, an internet start-up company delivering tailored recruitment solutions to the UK public sector. Previously, he was a director in the corporate finance department of Deloitte & Touche, advising a range of listed and private companies on finance raising and other transactions. He is a philosophy graduate and a chartered accountant.

Dr George Flouty MD, Non-Executive Director Dr George Flouty joined the Board in July 2000. He has recently retired after a 24 year career at Pfizer, spent in the pharmaceutical as well as the medical device businesses. His management experience has included responsibility for clinical research, regulatory affairs, quality assurance and total quality management as well as considerable involvement with mergers and acquisitions and crisis management. He attended the University of Leeds Medical School and is a Fellow of both the Royal College of Radiology and the Royal Medical Society. He is also a member of the British Institute of Radiology.

Peter Smedvig BA MBA, Non-Executive Director Peter Smedvig was appointed a Non-Executive Director in May 1996, when he became an investor in the Group. Since 1977 he has been chairman of the board of a family holding company, Summa AS, renamed Peder Smedvig Capital AS in September 1997. He is the chairman of Smedvig ASA, a company listed on the Oslo Stock Exchange since 1990 and the New York Stock Exchange since 1996. In 1987, on behalf of Summa, he acquired and merged ScanaArmatur and ScanPaint to form Scana Industrier ASA and was instrumental in the company being listed on the Oslo Stock Exchange in 1995. He is the Chairman of Scana Industrier ASA. Peder Smedvig Capital AS retains a 30 per cent. interest in Smedvig ASA and a 54 per cent. interest in Scana Industrier ASA. He has a BA from the University of Newcastle and an MBA from the Wharton School of Finance and Commerce.

Senior management

Gordon Pendleton, Head of Operations, aged 46 Prior to joining the Group in June 2000, Gordon Pendleton was Operations Director of Phoenix Medical Limited, a supplier of cardiovascular and intubation medical devices. He started his career in 1973 as a graduate trainee for the Avon Rubber Group, specifically Avon Medicals Limited, a major supplier of IV and solution administration kits, renal dialysis and epidural systems. He has also worked for Smith and Nephew and Simms (Smith Industries Medical Systems) in various positions carrying responsibility for manufacturing, procurement, technical, process control, QA and regulatory affairs, and in several different members/ locations of the above global groups. He has spent his entire career in various specialist health companies.

Dr Tim Spencer MSc PhD, Head of Research, aged 38 Dr Tim Spencer has been Head of Research and development since January 2001, having joined the Group as a Senior Development Engineer in April 2000. He has a background in medical physics with ten years experience in medical device and healthcare technology. His research career started in ophthalmic imaging at Aberdeen University, where he was a Research Fellow for Scotia Pharmaceuticals between 1992 and 1994. He moved into medical ultrasound in 1994 when he was appointed Research Fellow for the British Heart Foundation, investigating the role of intravascular ultrasound in coronary heart disease at the Western General hospital in Edinburgh. He remained in the field of cardiac ultrasound when moving into industry in 1997, when he joined Jomed Imaging (formerly Intravascular Research Limited) as principal ultrasound physicist.

Andrew Mears, Production Manager, aged 32 Andrew Mears has been Production Manager since 1999, having joined the Group as an electronic engineer in 1989. In that time he has had either manufacturing or design input into every product produced by the Group. His responsibilities include the production of both the oesophageal probes in the cleanroom and monitors in the main production area. Prior to joining the Group he worked for Granada where initially he worked in their IT department before joining a pilot scheme to train technical personnel internally.

Daniel Bretonneau, Head of Sales, aged 53 Daniel Bretonneau, who joined the Group in June 1999, has a degree in Management and Business Administration from the University of Angers (France) and is an interpreter in English and German as well has having 25 years of experience in Sales and Marketing of medical equipment for intensive care and operating rooms throughout Europe, the Middle East and Asia. He has successively contributed at senior manager and director level in a number of leading medical companies, including ATM Medishield (BOC Group which later became Ohmeda), Air Liquide Group (now Aire Liquide Santé), Physio Control, Bruker and Novametrix. He has experience in a wide range of medical products and therapies, from cardio-respiratory to MRI scanning. He has developed a network

of contacts at clinical, distributor and manufacturer level, speaks five languages fluently and is able to converse at business level in a range of others.

Employees

The Group currently has 31 full time employees. Of these, 11 are employed in manufacturing, 3 in research and development, 12 in sales, distribution and marketing and 5 in general administration. The recruitment and retention of high calibre employees is a key factor in the success of the Group. The Group requires all key employees to sign non-compete agreements and all employees are bound by strict confidentiality agreements. None of the employees are represented by any collective bargaining agreement and the Group has never experienced any work stoppage or slowdown. The Board considers the Group's employee relations to be excellent and employee turnover to be low by industry standards.

Indemnification and insurance

Pursuant to the Articles, each of the Directors, Secretary or other officers of the Company and/or any other company in the Group will be indemnified by the Company from all costs, charges, losses and liabilities incurred by him in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers and/or in relation to or in connection with his duties, powers or office. This indemnity extends to any liability incurred in defending any proceedings, civil or criminal, which relate to anything done or omitted or alleged to have been done or omitted by him as an officer or employee of the Company and/or any company in the Group and in which judgement is given in his favour or the proceedings are otherwise disposed of without any finding or admission of any material breach of duty on his part or in which he is acquitted or in connection with any application under any statute for relief from liability in respect any such act or omission in which relief from liability is granted.

The Directors have the power to purchase and maintain insurance for the benefit of any persons that are or were at any time a director, officer or employee of the Company or any Group company or that are or were trustees of any pension fund or employee share scheme in which employee of the Company or any Group company are interested. Such insurance may include insurance against any liability incurred by them in respect of any act or omission in the actual purported execution and/or discharge of their duties and/or in the exercise or purported exercise of their powers and/or otherwise in relation to their duties, powers or offices in relation to the Company or any Group company or pension fund.

In addition, the Group maintains levels of product liability insurance in the UK, USA and elsewhere in the world which the Directors consider are appropriate for its current business. The Directors regularly review the Group's insurance policies.

Related party transactions

A bank overdraft facility of up to £500,000, of which £470,000 was drawn down on 31 December 1999, was secured by a counter indemnity given to the bank by certain shareholders advised by Cygnus Venture Partners Limited, of which N J Keen, the Company's Non-Executive Chairman, is a director. In addition, the same shareholders made available to the Group a loan of up to £500,000 in an agreement dated 12 January 2000. Both the bank overdraft and the loan were repaid out of the proceeds of the 3 March 2000 deed poll (see paragraph 15(xi) of Part V).

Corporate governance

The Group will endeavour to comply as far as is practicable with the principles of good governance and code of best practice prepared by the Committee on Corporate Governance, chaired by Sir Ronald Hampel, published in June 1998.

The Board has considered the guidance published by the Institute of Chartered Accountants in England and Wales concerning the internal control requirements of the Combined Code and has established an ongoing process for identifying, evaluating and managing any significant risks faced by the Group.

The Company holds board meetings at least quarterly throughout the year at which reports from the Group's operations together with finance reports are considered. The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and acquisitions.

Part I

Information on the Group *continued*

The Audit Committee is chaired by Nigel Keen. It will always be chaired by a non-executive director. It meets at least twice a year and is responsible for, amongst other things, ensuring that the financial performance of the Group is properly reported and monitored, focusing particularly on compliance with legal requirements, accounting standards, the requirements of AIM and for meeting the auditors and reviewing the reports from the auditors relating to accounts and internal control systems. It meets at least once a year with the auditors without executive board members present. The Audit Committee comprises Nigel Keen, Dr Edwin Snape, Dr George Flouty and Peter Smedvig.

The Remuneration Committee is chaired by Nigel Keen. This committee reviews the performance of executive directors and within agreed terms of reference sets the scale and structure of their remuneration including pension rights, the Group's policy on compensation of executive directors and the basis of their service agreements with due regard to the interests of shareholders. It also determines the allocation of share options to employees. It is a rule of the Remuneration Committee that no Director shall participate in discussions or decisions concerning his own remuneration. The Remuneration Committee comprises Nigel Keen, Dr Edwin Snape, Dr George Flouty and Peter Smedvig.

Current trading and prospects

The Directors believe that good progress is being made in increasing product awareness and sales in the Group's markets, with particular sales growth in certain countries in Europe and Asia. A UK governmental proposal to increase spending within cardiology over the next few years provides particular encouragement for the Group. The Directors anticipate that the Group will gain regulatory approval to sell the CardioQ^{TM} in Japan later this year. This is expected to boost future revenue figures further as Japan is the third largest market for medical devices (behind the United States and Europe).

Sales in the United States have been slower than anticipated creating a cost/revenue imbalance. The Group is addressing this, concentrating efforts on existing accounts to maximise probe sales and repositioning low usage Monitors, thus reducing overall US costs. The Directors believe that success in the international markets will help drive sales growth in the US.

Since 30 June 2001 the Group has continued to trade in line with the Directors' expectations. Revenues in the third quarter of the current financial year are expected to reflect the seasonal summer slowdown in the medical device industry. However, the Directors expect this to improve in the fourth quarter following traditionally strong monthly sales in the Autumn.

The Directors believe that, if the Placing did not take place, on the basis of current cash balances it would be necessary to implement a revised operating strategy that would include a reduction in costs. Without implementing such a revised operating strategy and/or achieving an increase in revenue and/or accessing other sources of financing, it is possible that the Group would not have sufficient resources to meet its operating and capital requirements in the medium term. The Group has no planned items of major capital expenditure. The successful completion of the Placing is critical to providing the Group with longer term security in its funding position and enabling it to accelerate its growth strategy. See Part I – "Information on the Group – The Placing – Use of Proceeds". The Company's application for Admission is conditional upon completion of the Placing.

The Directors expect that, following the Placing, the Group's continued concentration on the European and Asian markets, combined with the strategy of maintaining and growing the presence in the key US hospitals, should impact favourably on the Group's move into profitability. The Directors are optimistic about the potential for the Group's technology in an expanding market and look forward to the remainder of 2001 and beyond with confidence.

Admission to AIM and withdrawal of listing on Nasdaq Europe

The Board has decided that it would be in the interests of the Company and its shareholders as a whole to seek admission to AIM and withdrawal of admission to listing on Nasdaq Europe immediately upon the Ordinary Shares being admitted to trading on AIM. Withdrawal of admission to listing on Nasdaq Europe is necessary in order for the Ordinary Shares to be treated as not being "listed" or "quoted". The Ordinary Shares are likely to be treated in this way for the purposes of those sections of the Income and Corporation Taxes Act 1988 which use those terms in relation to securities, provided that the Company remains one which does not have any of its shares quoted on a recognised Stock Exchange (for these purposes AIM is not, and Nasdaq Europe is, a recognised Stock Exchange). The Company's status of

not being "listed" or "quoted" will be necessary for it to fulfil certain of the requirements for investment by Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS) investors. The Board also believes that admission to AIM will raise the financial research coverage of the Company in the UK, providing extra visibility. This should ultimately result in improved liquidity for the Ordinary Shares.

Venture Capital Trusts and Enterprise Investment Scheme relief

The Directors believe that a subscription for Ordinary Shares will be a qualifying holding for a VCT. The Company is seeking provisional confirmation from the Inland Revenue that the Company satisfies the requirements of the VCT legislation and that a subscription for Ordinary Shares will, as a result, be a qualifying holding for a VCT.

In addition, the Directors believe that a subscription for Ordinary Shares by individual investors who are UK taxpayers will, subject to their personal circumstances, qualify under the Enterprise Investment Scheme. The Company is also seeking provisional confirmation from the Inland Revenue that the Company is a qualifying company under the EIS legislation. Provided positive confirmation is obtained, after acquiring Ordinary Shares, each investor will be provided with a certificate necessary for a claim for EIS relief to be submitted to his/her tax inspector. These certificates should be despatched by the Company to the investor once the Company has authority from the Inspector of Taxes to issue certificates.

Although the Company currently expects to satisfy the relevant conditions for VCT and EIS investment, neither the Directors nor the Company gives any undertaking to conduct its activities in a way that preserves this status.

Capital reorganisation

Prior to the Capital Reorganisation, the nominal value of each ordinary share in the Company is £1. It is possible that the price at which the Placing will proceed will represent a discount to the current nominal value. The Acts prohibit the issue of shares at a price below their nominal value. As part of the arrangements for the Placing, resolutions will be proposed at an Extraordinary General Meeting of the Company on 31 October 2001 sub-dividing each existing ordinary share of £1 into one new Ordinary Share of 10p and one new Deferred Share of 90p.

Each new Ordinary Share will have the same rights (including voting and dividend rights and rights on a return of capital) as the prior ordinary share which it replaces. On completion of the Capital Reorganisation, Shareholders whose prior ordinary shares of £1 in the Company were held in certificated form will be sent new certificates for their holdings of new Ordinary Shares.

The rights attaching to the Deferred Shares, which will not be admitted to trading on AIM or any other recognised investment exchange, will render them effectively valueless. No certificates will be issued in respect of Deferred Shares. It is intended that the Deferred Shares will be repurchased by the Company for a nominal amount in due course. Further details of the rights attached to the Deferred Shares are set out in paragraph 4(c) of Part V.

The placing

General

The Company intends to issue Placing Shares to raise £4,150,000 net of expenses to be paid by the Company estimated to be £850,000 (before stamp duty and SDRT). These shares are not being offered to all Existing Shareholders on a pre-emptive basis. Dependent on certain matters, including the results of the book-building process and market conditions, the Board reserves the right to increase or decrease the amount to be raised pursuant to the Placing.

Beeson Gregory, pursuant to the Placing Agreement to be entered into, will agree with the Company on the terms and subject to the conditions therein contained, to use its reasonable efforts to procure subscribers or purchasers for the Placing Shares at the Placing Price. The Company will agree to issue the Placing Shares at the Placing Price. Further details of the Placing Agreement are set out in paragraph 10 of Part V.

Completion of the Placing will be conditional upon, among other matters:

(i) Admission;

(ii) the passing of the Resolutions at the EGM;

Part I

Information on the Group *continued*

(iii) there having been no breach of certain representations and warranties, covenants to be set out in the Placing Agreement; and

(iv) delivery of accountants' letters.

The Placing Shares will be offered through private placements utilising exemptions from public offering and registration requirements in Europe.

In connection with the issue of the Placing Shares, Beeson Gregory may engage in over allotment and price stabilising transactions in relation to the Ordinary Shares. Over allotment involves sales in excess of the issue size, which creates a short position for Beeson Gregory. Stabilising transactions involve bids to purchase the Ordinary Shares in the open market for the purpose of pegging, fixing or maintaining the price of each Ordinary Share. Such stabilising transactions may cause the price of the Ordinary Shares to be higher than it would otherwise be in the absence of such transactions. Such activities, if commenced, may be discontinued at any time.

The Company and the Selling Shareholder will grant Beeson Gregory the Over Allotment Option, exercisable up to 30 days following the Closing Date, to acquire up to that number of Option Shares equal to 15 per cent. of the number of Placing Shares. To the extent that the Over Allotment Option is not exercised in full, it will be satisfied first from Option Shares held by the Selling Shareholder (up to a maximum of half of such Option Shares) and second from Option Shares issued by the Company. Any Option Shares issued or sold are to be issued or sold on the same terms and conditions as the Placing Shares. Details of the Over Allotment Option Agreement to be entered into at the same time as the Placing Agreement is entered into are set out in paragraph 15(viii) of Part V.

Nature of the placing

United Kingdom The Company has represented, warranted and undertaken to Beeson Gregory that the Company has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Placing Shares in, from or otherwise involving the UK.

United States The Placing Shares have not been registered and will not be registered under the Securities Act or any state securities laws in connection with the Placing and, unless so registered, may not be offered or sold within the United States or to or for the benefit of "US Persons" as defined in Regulation S under the Securities Act except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws.

General No action has been taken by the Company that would, or is intended to, permit a public offer of the Placing Shares in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Placing Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other prospectus, information memorandum, form of application, advertisement or other document or information may be distributed or published in any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

Non-resident or foreign owners

There are no laws or regulations of the UK or provisions in the Articles that restrict the right of non-resident or foreign owners of any Ordinary Shares to hold or vote in relation to such Ordinary Shares.

Placing price

The Placing Price will be determined by negotiations between the Company and Beeson Gregory on the basis of the information gathered through a book-building process. Amongst others, the factors which will be considered in determining the Placing Price may include prevailing market and economic conditions, revenues and earnings of the Company, the prevailing market price of the Ordinary Shares on Nasdaq Europe, market valuations of other companies engaged in activities similar to those of the Company, estimates of the business potential and prospects of the Company, the present state of the Company's business, the Company's management, the level of interest shown by potential investors during the book-building process and any other factors deemed relevant by the Company and Beeson Gregory. A supplementary prospectus will be published following the determination of the Placing Price confirming, among other matters, the Placing Price and the number of Placing Shares, as well as disclosing if the Company becomes aware that there has been a significant change affecting any matter contained in this Prospectus or if a significant new matter has arisen, the inclusion of information in respect of which would have been required to be mentioned in this Prospectus if it had arisen at the time of its preparation.

Admission and trading

Application will be made to the London Stock Exchange for all of the Ordinary Shares in the capital of the Company in issue at the date of this Prospectus and to be issued pursuant to the Placing to be admitted to trading on AIM.

The Ordinary Shares will trade under the symbol "DEMG" on AIM. The Ordinary Shares will be quoted in sterling on AIM.

All price sensitive information in respect of the Company will be made available to investors through the Company Announcements Office and Regulatory News Service of the London Stock Exchange.

The Company's Ordinary Shares currently trade on Nasdaq Europe in US Dollars. The monthly high, low and average prices in US dollars for the Company's Ordinary Shares on Nasdaq Europe from 1 May 2000 to 30 September 2001 are set out below:

Month	High ($)	Low ($)	Average ($)
May 2000	7.40	6.50	6.95
June 2000	6.50	2.50	3.73
July 2000	3.75	3.00	3.28
August 2000	3.25	2.10	2.73
September 2000	3.25	2.75	3.06
October 2000	3.05	2.25	2.82
November 2000	2.75	2.25	2.54
December 2000	2.25	0.40	1.75
January 2001	1.15	0.25	0.83
February 2001	1.35	1.05	1.22
March 2001	1.08	0.71	0.89
April 2001	1.30	1.05	1.11
May 2001	1.55	1.25	1.37
June 2001	1.33	0.60	1.11
July 2001	1.00	0.30	0.60
August 2001	0.50	0.36	0.43
September 2001	0.52	0.43	0.45

On 4 October 2001 the last reported sale price on such date was $0.55.

Net proceeds and costs of the placing

The net proceeds receivable by the Company from the issue of the Placing Shares are estimated to be £4,150,000, net of expenses payable by the Company estimated to be £850,000 before stamp duty and SDRT.

Use of proceeds

The Company estimates that the net proceeds from the Placing will be applied as follows:

	£'000
Marketing and distribution	2,700
Research and development	500
Funding clinical studies	300
Working capital requirements	650
	4,150

The Company intends to increase its marketing, distribution and sales support capacity in selected markets in Europe, Asia and Latin America such as France, Japan and Brazil whilst consolidating its presence in countries such as the United States and the United Kingdom. Research and development expenditure is planned to allow the Group to access particular applications where its technology can be applied through the SupraQ™ and through high end monitor interfaces, as well as upgrading the CardioQ™ platform to its next generation. Further clinical studies are planned to confirm the efficacy of the Group's technology in specific clinical applications and in targeted territories where local trials are required to complement existing clinical papers. The remainder of the net proceeds will be used to support the Group's ongoing working capital requirements.

Part I

Information on the Group *continued*

Pending application of the net proceeds from the Placing as described above, they will be invested in short term interest bearing bank accounts.

Lock up

Each of the Locked Shareholders will enter into an agreement prior to Admission, that until the public announcement of the preliminary financial results of the Group in respect of the period ending 31 December 2001 he/it will not without the prior written consent of Beeson Gregory, transfer or otherwise dispose of, either directly or indirectly, any Ordinary Shares held by him/it on Admission or publicly announce an intention to do any of the foregoing. The Company will agree in the Placing Agreement that from the date of the Placing Agreement until the first anniversary of the date of Admission it will not (without the consent of Beeson Gregory) sell, contract to sell, grant any option to purchase or issue any Ordinary Shares or any instrument or securities convertible into or exchangeable for, or otherwise dispose of any Ordinary Shares except pursuant to the Over Allotment Option or the Share Option Schemes or in connection with a share dividend.

Extraordinary general meeting

The Extraordinary General Meeting of the Company will be held at the offices of Clifford Chance Limited Liability Partnership, 200 Aldersgate Street, London EC1A 4JJ, UK on 31 October 2001 at 10.00 am. Resolutions will be proposed, conditional upon the Placing being completed satisfactorily, in order to:

- approve the sub-division of the existing ordinary shares of £1 in the Company into Ordinary Shares and Deferred Shares;
- amend the Articles of Association to reflect the new share capital structure and set out the rights of the Deferred Shares and to comply with London Stock Exchange and AIM requirements;
- authorise the Directors to allot Ordinary Shares pursuant to the Placing and to allot relevant securities in accordance with Section 80 of the Act up to an aggregate nominal amount equal to the lower of (i) the authorised but un-issued share capital of the Company immediately following the Placing and (ii) the aggregate of one third of the issued share capital of the Company immediately following the Placing and the nominal value of new Ordinary Shares reserved for issue under the Share Option Schemes and the Warrant Deed Polls following the capital reorganisation, in substitution for any currently existing authority;
- disapply the pre-emption provisions contained in Section 89(1) of the Act in respect of the allotment and issue of equity securities in connection with the Placing and otherwise to disapply such pre-emption provisions in respect of an amount equal to 10 per cent. of the issued share capital of the Company immediately following the Placing; and
- amend the Deltex Executive Share Option Scheme to provide:

(i) for options to be granted subject to a minimum exercise price in sterling equal to the middle-market quotation of Ordinary Shares on AIM on the relevant dealing days;

(ii) for the maximum value of shares under options granted to individuals to be subject to an annual limit based on the individual's basic salary; and

(iii) for the replacement of the 5% limit of the grant of executive options with an overall 10% limit for all share options.

Payment, clearing and settlement agencies

Introduction

As at the date of this Prospectus, the Existing Ordinary Shares may be held either in certificated form, or in Euroclear or Clearstream in electronic form.

Following Admission, the Ordinary Shares will be in registered form and may be held either in certificated form or in electronic form, either through CREST or through Euroclear or Clearstream. Further details on CREST and Euroclear/Clearstream are set out below.

Following the withdrawal of admission to listing of the Ordinary Shares on Nasdaq Europe, transactions will no longer be able to be executed on Nasdaq Europe. Transactions will only be able to be executed on the London Stock Exchange and may be settled either in electronic form in CREST or through the residual system involving share certificates and share transfer forms.

The Placing Shares will be issued by the Company at the option of each subscriber therefor under the Placing ("Placee"):

(i) to that Placee or its nominee(s), by delivery of one or more share certificates to be held in certificated form; or

(ii) to that Placee's or its nominee(s)'s CREST participant.

Details of how transfers of Ordinary Shares may be made between CREST and Euroclear/Clearstream are set out below.

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. CREST was introduced in July 1996. The Articles provide for the Ordinary Shares to be settled through CREST and the Company has made the Ordinary Shares eligible for settlement in CREST by means of a resolution of the Board dated 5 October 2001 as contemplated by the Uncertificated Securities Regulations 1995. The Directors will apply for the Ordinary Shares to be admitted to CREST with effect from Admission and CREST is expected to agree to such admission.

Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the relevant shareholders so wish. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

Each Placee who elects to hold Ordinary Shares in CREST must hold such shares through a CREST participant account. Shares held through a CREST participant may be transferred within CREST to another person with the same or a different CREST participant or directly to any CREST participant.

Euroclear/Clearstream

The Euroclear and Clearstream operators provide Euroclear and Clearstream participants with, among other things, safekeeping, administration, clearance and settlement, securities lending and borrowing and related services. Euroclear and Clearstream participants are investment banks, securities brokers and dealers, banks, central banks, custodians, investment managers, corporations, trust companies and certain other organisations and include Beeson Gregory. In addition, shareholder notices (such as dates of shareholder meetings and annual reports) issued by the Company will be distributed to shareholders through Euroclear and Clearstream.

Non-participants of Euroclear and Clearstream may hold and transfer book-entry interests in securities through accounts with a direct participant of Euroclear and Clearstream or any other securities intermediary that holds a book-entry interest in the securities through one or more securities intermediaries standing between such other securities intermediary and the Euroclear and Clearstream operators.

Although the Euroclear and Clearstream operators have agreed to procedures in order to facilitate transfers of securities among participants of Euroclear and Clearstream and between Euroclear and Clearstream participants and participants of other intermediaries, they are under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time.

Transfers between CREST and Euroclear/Clearstream At the date of this document, Ordinary Shares deposited with Euroclear or Clearstream may only be transferred to CREST (and Ordinary Shares deposited with CREST may only be transferred to Euroclear or Clearstream) in certificated form.

However, Ordinary Shares deposited with CREST for the account of Euroclear may be transferred in electronic form either (i) between different CREST participants using the CREST system or (ii) between individuals within the Euroclear account, using the Euroclear or Clearstream system.

PART II

Risk factors of the Group

An investment in the Ordinary Shares involves certain risks. Prior to making any investment decision, prospective subscribers for the Ordinary Shares should consider carefully all of the information set forth in this Prospectus and, in particular, the risks described below.

No assurance of profitability

Whilst the Company's predecessor companies date back to 1989 the Group has primarily been engaged in research and development activities with only limited revenues having been generated. The Group has incurred and continues to incur substantial operating expenses in the research and development of its products and technologies, as well as in the marketing of those products and technologies to potential customers. The Company expects that the Group's operating expenses, in particular its sales and marketing expenses, will increase significantly during the next several years as a result of the expansion of its existing operations and the promotion of the Group's products. The Company requires rapid growth in sales of the Group's products in order to underpin all these costs, and there can be no guarantee that these sales levels can be achieved, or that they can be achieved within the time frame required. There can be no assurance that in the future the Group will be profitable on a half-yearly or annual basis and, if profitable, whether the Group can sustain profitability, or that its operating losses will not increase. This makes the assessment of future operating results difficult. See Part III – "Accountants' Report on the Group" and Part IV – "Management Discussion and Analysis of Financial Condition and Results of Operations".

Management of growth

The ability of the Group to implement its strategy in a rapidly evolving market requires effective planning and management control systems. The Group has recently expanded its operations and anticipates that further expansion will be required to address potential growth in its customer base and market opportunities. The Group's growth plans are expected to place a significant strain on the Group's managerial, operational, financial and human resources. Therefore the Group's future growth, if any, will depend on its ability to expand and improve operational, financial and management information and control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to expand and improve operational, financial and management information and control systems in line with the Group's growth would have a material adverse effect on the Group's business, financial condition and results of operations. See Part I – "Information on the Group" and Part IV – "Management Discussion and Analysis of Financial Condition and Results of Operations".

Potential fluctuations in half-yearly results

The Directors believe that a variety of factors could materially adversely affect revenues, gross profit and income from operations. These factors include, among others, demand and market acceptance for the Group's technologies; the loss of any customers; changes in the relative volume of sales of the Group's various customers; unanticipated delays or problems experienced by the Group's customers; market acceptance of the products by the Group's customers; the Group's ability to develop timely solutions for each emerging generation of technologies; the level of expenditures for research and development and sales, general and administrative functions of the Group; direct and indirect costs associated with protecting the Group's intellectual property; and foreign exchange rate fluctuations. In addition, because most operating expenses are relatively fixed in the short term, the Group may be unable to adjust spending sufficiently and in a timely manner to compensate for any unexpected revenue shortfall, which could materially adversely affect half-yearly results of operations. Accordingly, the Directors believe that period-to-period comparisons of its results of operations should not be relied upon as an indication of future performance. In addition, the results of any half-yearly period are not indicative of results to be expected for a full fiscal year. In certain future half-years, the Group's results of operations may be below the expectations of public market analysts or investors. In such event, the market price of its Ordinary Shares could be materially adversely affected.

Government regulation

The Group, in common with other medical device companies, is subject to controls on the manufacture, quality control, labelling, supply and marketing of its products. It is mandatory in most developed countries to obtain and maintain marketing approval for a product from the relevant regulatory authority. The submission of an application to a regulatory authority does not guarantee that approval of marketing the product will be granted.

Research and development costs

The Group's principal activity is to develop, assemble and market medical monitoring and therapeutic equipment. Significant investment will be required on an ongoing basis to undertake research and development. Prototype development, outcome studies and regulatory approvals will be required before marketing or licensing of the Group's future products. Inappropriate design of the prototype, adverse or inconclusive results from outcome studies may substantially delay, or halt entirely, any further developments of the products concerned.

Product testing and regulatory approval

The clinical evaluation, manufacture, assembly and marketing of the Group's products and its ongoing development activities are subject to regulation by government and regulatory agencies in countries where the Group or any of its potential licensees intend to test or market products. Of particular importance is the requirement in most countries to obtain and maintain regulatory approval for a product from the relevant regulatory authority to enable it to be marketed in that country. Such approval requires the clinical evaluation of data relating to the quality, safety and efficacy of a product for its proposed use. Many countries, including the members of the European Union and the USA, have very high standards of technical appraisal and, accordingly, the clinical trial process is, in most cases, very lengthy. The time taken to obtain such approval in particular countries varies, but may take several years from the date of application. Whilst certain of the Group's products have received regulatory approvals in the US and Europe, there can be no assurance that the Group's products will successfully complete the clinical trial process or that regulatory approvals to manufacture and market the Group's products will ultimately be obtained in other areas and in relation to future products.

Furthermore, each regulatory authority may impose its own requirements (by, for instance, restricting a product's indicated uses) and may refuse to grant, or may require additional data before granting an approval even though the relevant product may have been approved by another country's authority. If regulatory approval is obtained, the product and its manufacturer are subject to continual review, and there can be no assurance that such approval will not be withdrawn or restricted. Changes in application legislation, regulatory policies or discovery of problems with the product or the manufacturer may result in the imposition of restrictions on the product or manufacturer or the demand for a product recall by authorities.

The failure to comply with applicable regulatory requirements can, among other things, result in fines, injunctions, civil penalties, total or partial suspension of regulatory approvals, refusal to approve pending applications, recalls, seizures of product, operating and production restrictions and criminal prosecutions.

Commercial agreements

A significant part of the Group's current and future revenues are, and will be, derived from distribution or collaboration agreements with other companies. There can be no assurance that the Group will be able to negotiate commercially acceptable distribution or other agreements for the future exploitation of its products. In addition, there can be no assurance that any company which enters into agreements with the Group will not pursue alternative technologies either on its own or in collaboration with others, including the Group's competitors, as a means of developing devices similar to the Group's products.

Competition and competing products

The Group's current and future potential competitors include, amongst others, major multinational medical instrument and healthcare companies with substantially greater resources than those of the Group. There is no assurance that competitors will not succeed in developing systems and products that are more effective or economic than any of those developed by the Group or which would render the Group's products obsolete or otherwise non-competitive. The Directors expect that each of the competing companies described in this Prospectus (see Part I – "Information on the Group – Competition") are likely to continue to develop their products and may develop new competing products. In this situation the Group's products are likely to experience additional competition.

Product liability and insurance

The Group's business exposes it to potential product liability risks which are inherent in research and development, early hospital verification work, outcome studies, marketing and the use of medical monitoring and therapeutic devices. In addition, it may be necessary for the Group to secure certain additional levels of insurance as a condition to the conduct of outcome studies. There can be no assurance

PART II

Risk factors of the Group *continued*

that future insurance cover will be available to the Group at an acceptable cost, if at all, or that in the event of any claim, the level of insurance carried by the Group now or in the future will be adequate or that a product liability or other claim would not materially and adversely affect the business. Furthermore there can be no assurance that any collaborators or licensees of the Group will agree to indemnify the Group or be sufficiently insured or have a net worth sufficient to satisfy any such claims.

Retention of and reliance upon key employees

Deltex has endeavoured to ensure that the principal members of its management and scientific team are suitably incentivised, including through share option schemes, but the retention of such staff cannot be guaranteed and the loss of their services could adversely affect the ability of the Group to achieve its planned development objectives. In addition, the Group's success will be critical to recruiting and retaining appropriately qualified personnel to perform future research and development work. There can be no assurance that the Group will be able to recruit such personnel when it requires them.

Risks associated with international sales

The Group sells its products in many parts of the world (see Part I – "Information on the Group – Marketing and Distribution"). As a result, the Group's business is affected by fluctuations in currency exchange rates. The Group generates a significant percentage of its revenues, and a lower percentage of its operating expenses, in currencies other than pounds sterling, particularly in US dollars. The Group's operating profitability could be materially adversely affected by large fluctuations in the rate of exchange between pounds sterling and such other currencies.

Future capital needs: uncertainty of additional funding

The Group intends to continue to invest in the research and development of its existing products and technologies and in new products and technologies, as well as in sales and marketing activities. The Group's future liquidity and capital requirements will depend upon numerous factors, including the costs and timing of expansion of research and development efforts and the success of these research and development efforts; the costs and timing of expansion of sales and marketing activities; the extent to which the Group's technologies and products gain market acceptance; competing technological and market developments; the costs involved in maintaining and enforcing patent claims and other intellectual property rights; the level and timing of revenues; available borrowings under line of credit arrangements; strategic acquisition opportunities and other factors. The failure of the Group to secure additional funding when needed could have a material adverse effect on the Group's business, financial condition and results of operations. See Part I – "Information on the Group – Current Trading and Prospects" and paragraph 12 of Part V.

Risks relating to intellectual property

Currently all intellectual property rights are owned by Deltex (Guernsey) Limited. No assurance is given that the Group will develop any future products that are patentable, or that any patents that are applied for will be sufficiently broad in their scope to provide protection for the Group's intellectual property rights and exclude competitors with similar technology. Substantial cost may be incurred if the Group is required to defend its intellectual property rights against third parties. There is no assurance that the obligation to maintain the Group's or its collaborators' know-how will not be breached.

The commercial success of the Group will also depend in part on non-infringement of patents of third parties. Competitors or potential competitors may have filed applications for, may have been granted, or may obtain patents that may relate to products competitive with those of the Group or its technology. If this is the case, the Group may have to obtain appropriate licences under these patents, which may not be available on acceptable terms or at all, or cease or alter certain activities or processes, or develop or obtain alternative technology. This may have a material adverse effect on the Group.

Litigation may be necessary in the future to enforce the Group's patents and other intellectual property rights, to determine the scope of the proprietary rights of others, or to defend against claims of infringement or invalidity, and there can be no assurance that the Group would prevail in any future litigation. Any such litigation, whether or not determined in the Group's favour or settled by the Group, would be costly and would divert the efforts and attention of the Group's management and technical personnel from normal business operations, which could have a material adverse effect on the Group's business, financial condition and results of operations. Adverse determinations in litigation could result in the loss of the Group's proprietary rights, subject the Group to significant liabilities, require the Group to seek licences from third parties or prevent the Group from selling its products or licensing its technologies, any one of which could have a material adverse effect on the Group's business, financial condition and results of operations. Moreover, the laws of certain countries in which the Group's technologies are or may in the future be licensed may not protect the Group's intellectual property rights to the same extent as the laws of the United Kingdom and the United States, thus increasing the possibility of infringement of the Group's intellectual property rights. See Part I – "Information on the Group – Proprietary Protection".

Potential volatility of stock price

The Placing Price may not be indicative of prices that will prevail in the trading market on AIM after Admission. In addition, global securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. The market prices of the securities of many publicly held healthcare and medical instrument companies have in the past been, and can in the future be expected to be, volatile. The market price of the Company's Ordinary Shares may be volatile and may be subject to wide fluctuations in response to announcements of technological innovations or new products by the Group, its customers or its competitors, release of reports by securities analysts, developments or disputes concerning patents or proprietary rights, economic and other external factors, as well as period-to-period fluctuations in the Group's financial results.

Adverse effect of future sales of ordinary shares

Sales, or the possibility of sales, of a substantial number of Ordinary Shares in the public market could adversely affect the prevailing market price of the Ordinary Shares. In addition, Ordinary Shares are reserved for issue pursuant to the Company's share option schemes and certain warrants. If some or all of these unissued Ordinary Shares are issued, it could have a material adverse effect on the market price of the Ordinary Shares. See Part V – "Additional Information – Share Capital and Share Option Schemes".

Part III

Accountants' report on the Group

PRICEWATERHOUSECOOPERS

The Directors
Deltex Medical Group plc
Terminus Road
Chichester
PO19 2TX

The Directors
Beeson Gregory Limited
The Registry
Royal Mint Court
London
EC3N 4LB

8 October 2001

PricewaterhouseCoopers
The Quay
30 Channel Way
Ocean Village
Southampton SO14 3QG

Dear Sirs

Deltex Medical Group plc

We report on the financial information set out below. This financial information has been prepared for inclusion in the Prospectus dated 8 October 2001 ("the Prospectus") of Deltex Medical Group plc ("the Company"), which together with its subsidiaries form the Group ("the Group") to raise £5m from the issue of new ordinary share capital of the Company.

Basis of preparation

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

The financial information set out below is based on the audited consolidated statutory financial statements of the Group for the three years ended 31 December 2000 and the audited non-statutory consolidated financial statements for the six months ended 30 June 2001 after making such adjustments as we considered necessary.

Responsibility

Such financial statements are the responsibility of the directors of the Company, who approved their issue.

The directors of the Company are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of its losses, cash flows and recognised gains and losses for the periods then ended.

Consent

We consent to the inclusion in the prospectus of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 of the Public Offers of Securities Regulations 1995.

Consolidated profit and loss accounts

for the years ended 31 December 1998, 1999, 2000 and 6 months to 30 June 2001

	Notes	Year to 31 December 1998 £	Year to 31 December 1999 £	Year to 31 December 2000 £	**Six month period ended 30 June 2001 £**
Turnover	2	378,286	801,040	958,651	**693,196**
Cost of sales		(401,888)	(554,830)	(459,276)	**(424,717)**
Gross profit/(loss)		(23,602)	246,210	499,375	**268,479**
Net operating expenses – before exceptional costs	3	(2,081,038)	(3,090,524)	(3,831,800)	**(2,116,812)**
– exceptional costs	4	(601,150)	–	(697,897)	**–**
Net operating expenses – total		(2,682,188)	(3,090,524)	(4,529,697)	**(2,116,812)**
Operating loss		(2,705,790)	(2,844,314)	(4,030,322)	**(1,848,333)**
Interest receivable and similar income		88,485	17,214	217,048	**102,482**
Interest payable and similar charges	7	(78,995)	(55,084)	(112,897)	**(1,360)**
Loss on ordinary activities before taxation	8	(2,696,300)	(2,882,184)	(3,926,171)	**(1,747,211)**
Tax on loss on ordinary activities	9	–	–	–	**–**
Loss for the period	20,21	(2,696,300)	(2,882,184)	(3,926,171)	**(1,747,211)**
Loss per share – basic and diluted	10	(0.248)	(0.244)	(0.272)	**(0.112)**

The above results all relate to continuing operations.

Part III

Accountants' report on the Group *continued*

Statement of Group total recognised gains and losses

for the years ended 31 December 1998, 1999, 2000 and 6 months to 30 June 2001

	Note	Year to 31 December 1998 £	Year to 31 December 1999 £	Year to 31 December 2000 £	**Six month period ended 30 June 2001 £**
Loss for the period		(2,696,300)	(2,882,184)	(3,926,171)	**(1,747,211)**
Currency translation differences on foreign currency net investment	21	30,706	(99,390)	(328,460)	**(39,732)**
		(2,665,594)	(2,981,574)	(4,254,631)	**(1,786,943)**

Consolidated balance sheets

at 31 December 1998, 1999, 2000 and 30 June 2001

	Notes	31 December 1998 £	31 December 1999 £	31 December 2000 £	**30 June 2001 £**
Fixed assets					
Tangible assets	12	246,907	318,310	457,214	**519,834**
Current assets					
Stocks	13	276,602	359,082	893,119	**583,005**
Debtors: due within one year	14	123,269	424,978	308,506	**264,126**
Cash at bank and in hand		557,665	198,805	3,708,720	**2,122,585**
		957,536	982,865	4,910,345	**2,969,716**
Creditors:					
amounts falling due within one year	15	(1,056,106)	(1,763,059)	(529,483)	**(379,086)**
Net current assets/(liabilities)		(98,570)	(780,194)	4,380,862	**2,590,630**
Total assets less current liabilities		148,337	(461,884)	4,838,076	**3,110,464**
Creditors:					
amounts falling due after more than one year	16	(349,707)	(632,995)	(9,752)	**(6,869)**
Net assets/(liabilities)		(201,370)	(1,094,879)	4,828,324	**3,103,595**
Capital and reserves					
Called up share capital	18	11,407	12,226	15,569,787	**15,693,931**
Share premium account	19	12,345,295	14,002,426	8,298,174	**8,298,174**
Profit and loss account	20	(12,558,072)	(15,109,531)	(19,039,637)	**(20,888,510)**
Equity shareholders' funds/(deficit)	21	(201,370)	(1,094,879)	4,828,324	**3,103,595**

Consolidated cash flow statements

for the years ended 31 December 1998, 1999, 2000 and the 6 months to 30 June 2001

	Notes	31 December 1998 £	31 December 1999 £	31 December 2000 £	**30 June 2001 £**
Net cash outflow from operating activities	22	(2,506,419)	(2,425,749)	(4,234,214)	**(1,622,060)**
Returns on investments and servicing of finance					
Interest received		88,485	17,214	217,048	**101,565**
Interest paid		(39,781)	(24,956)	(31,401)	**–**
Interest element of finance lease payments		(780)	(1,347)	(1,979)	**(1,360)**
Net cash inflow/(outflow) from returns on investments and servicing of finance		47,924	(9,089)	183,668	**100,205**
Capital expenditure					
Purchase of tangible fixed assets		(131,878)	(303,344)	(481,025)	**(246,022)**
Sale of tangible fixed assets		1,120	–	–	**–**
Net cash outflow for capital expenditure		(130,758)	(303,344)	(481,025)	**(246,022)**
Net cash outflow before financing		(2,589,253)	(2,738,182)	(4,531,571)	**(1,767,877)**
Financing					
Issue of ordinary share capital		3,263,203	1,619,800	9,552,121	**6,027**
Expenses paid in connection with share issue		(184,667)	(71,850)	(1,470,365)	**–**
Net proceeds of new loans		265,781	365,790	–	**–**
Capital element of finance lease payments		(3,556)	(4,726)	(10,033)	**(4,243)**
Net cash inflow from financing		3,340,761	1,909,014	8,071,723	**1,784**
Increase/(decrease) in net cash in the period	23	751,508	(829,168)	3,540,152	**(1,766,093)**

Part III

Accountants' report on the Group *continued*

Notes to the financial information

1 Principal accounting policies

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

Basis of accounting
The financial information has been prepared in accordance with the historical cost convention.

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

The audit opinion on the consolidated financial statements of Deltex Medical Group plc for the six months ended 30 June 2001 was modified to include an emphasis of matter paragraph referring to the going concern basis on which those financial statements were prepared. That modification has not been repeated in this report as this accountants' report has been prepared solely for the purposes of the prospectus of Deltex Medical Group plc which assumes that on the admission of Deltex Medial Group plc to the Alternative Investment Market and the offering of its ordinary shares, £5m will be raised which, together with its existing capital resources, will enable the Group to meet its working capital requirements over the next twelve months.

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

The comparative figures for the Consolidated Profit and Loss Account for the years ended 31 December 1998 and 1999, for the Consolidated Balance Sheet at 31 December 1998 and 1999 and the Consolidated Cash Flow Statements for the years ended 31 December 1998 and 1999 relate to Deltex Medical Holdings Limited, the predecessor Group of Deltex Medical Group plc.

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

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

Turnover comprises sales of Monitors and Probes. Monitors loaned to customers are dealt with under tangible fixed assets. Turnover is recognised on despatch.

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

Tangible fixed assets and other intangible assets
The cost of tangible fixed assets is their purchase cost, together with any incremental expenses of acquisition and any directly attributable costs.

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

	%
Leasehold property and improvements	20
Plant and machinery	20-33
Motor vehicles	25
Fixtures and fittings	20
Machines loaned to customers	33

The directors perform an annual impairment review and, if the directors believe that the resulting net book value is overstated a provision for impairment is made.

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

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

Deferred taxation
Deferred taxation is recognised on a full provision basis for timing differences between the recognition of gains and losses in the financial statements and their recognition in the taxation computation.

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 substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

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

Deltex Medical Inc. maintains a defined contribution Salary Reduction Simplified Employee Pension Plan ("SARSEP") which allows eligible employees to have a percentage of their before tax compensation contributed to an Individual Retirement Account. Under the terms of SARSEP, the Company may make discretionary contributions on behalf of the employees that are charged against profits in the year in which they are payable. There are no post retirement obligations in respect of this scheme payable by the company.

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

Employee share schemes
The underlying value of options and other share-related benefits granted to employees is assessed on the basis of information available at the date of the award and any difference between the fair market value of the shares at the date of the award and the option price is charged to the profit and loss account over the period in which the options vest, provided that the award is not solely in respect of past performance. The associated credit is taken to profit and loss reserve in accordance with UITF 17. In accordance with UITF 25, the tax charge arising on the future potential exercise of Inland Revenue unapproved options is amortised to the profit and loss account over the period from the date of grant to the date the options unconditionally vest with the employee. The charge is based upon the difference between the option exercise price and the closing fair value/market price at the balance sheet date.

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

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

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

2 Segmental analysis

The Group's revenue can be analysed as follows:

	Year to 31 December 1998 £	Year to 31 December 1999 £	Year to 31 December 2000 £	**Six month period ended 30 June 2001 £**
Monitors and probes	368,758	801,040	958,651	**693,196**
Pump spare parts	9,528	–	–	**–**
	378,286	801,040	958,651	**693,196**

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

Turnover and results by origin

All products are supplied from the UK.

Turnover by destination

	Year to 31 December 1998 £	Year to 31 December 1999 £	Year to 31 December 2000 £	**Six month period ended 30 June 2001 £**
United Kingdom	42,576	251,205	284,109	**202,630**
United States of America	220,081	324,058	395,272	**183,318**
Rest of Europe	66,177	197,777	249,205	**124,215**
Rest of World	49,452	28,000	30,065	**183,033**
	378,286	801,040	958,651	**693,196**

Net loss before taxation by destination

	Year to 31 December 1998 £	Year to 31 December 1999 £	Year to 31 December 2000 £	**Six month period ended 30 June 2001 £**
United Kingdom	(1,655,340)	(1,213,947)	(1,482,162)	**(639,067)**
United States of America	(1,040,960)	(1,668,237)	(2,444,009)	**(1,108,144)**
	(2,696,300)	(2,882,184)	(3,926,171)	**(1,747,211)**

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

Net assets/(liabilities)

	31 December 1998 £	31 December 1999 £	31 December 2000 £	**30 June 2001 £**
United Kingdom	2,421,091	3,338,132	4,101,574	**2,635,636**
United States	(2,622,461)	(4,433,011)	726,750	**467,939**
	(201,370)	(1,094,879)	4,828,324	**3,103,575**

3 Net operating expenses

	Year to 31 December 1998 £	Year to 31 December 1999 £	Year to 31 December 2000 £	**Six month period ended 30 June 2001 £**
Administrative expenses				
– general	1,053,003	1,269,147	1,092,018	**731,125**
– expense associated with the grant of share options under the US share option plan (UITF 17)	–	430,115	184,133	**56,187**
– exceptional costs (see note 4)	601,150	–	697,897	**–**
Total Administrative expenses	1,654,153	1,699,262	1,974,048	**787,312**
Marketing overheads	729,253	1,085,877	2,099,513	**1,202,521**
Research and development costs	298,782	302,000	456,136	**126,979**
National Insurance on share options	–	3,385	–	**–**
	2,682,188	3,090,524	4,529,697	**2,116,812**

4 Exceptional costs

	Year to 31 December 1998 £	Year to 31 December 1999 £	Year to 31 December 2000 £	**Six month period ended 30 June 2001 £**
Re-acquisition of distribution rights	601,150	–	–	**–**
Expense associated with grant of share options under the Company's US share option plan.	–	–	697,897	**–**
	601,150	–	697,897	**–**

During 1998 the Group negotiated a repurchase of the Oesophageal Doppler Monitor ("ODM") distribution rights in Europe from Abbott International, its previous European distributor who had been awarded the distribution rights in 1992.

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

One of the Group's share option plans gave employees of Deltex Medical Inc., the Group's main trading subsidiary in the United States of America, the right to buy shares of Deltex Medical Group plc at less than nominal value. To rectify the situation a charge has been made for the shortfall of £697,897 between the option price and the nominal value on all such options.

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

	£
Initial reserve	697,897
Utilised in the year	(557,505)
Balance of reserve at 31 December 2000	**140,392**
Utilised in the period to 30 June 2001	(118,117)
Balance of reserve at 30 June 2001	**22,275**

The reserve is included within the profit and loss account.

All other charges associated with these options have been dealt with under operating expenses before exceptional charges.

5 Employee information

The average monthly number of persons (including executive directors) employed was:

	Year to 31 December 1998 Number	Year to 31 December 1999 Number	Year to 31 December 2000 Number	**Six months period ended 30 June 2001 Number**
By activity				
Office and management	4	8	8	**7**
Production	9	11	12	**11**
Research and development	3	3	4	**3**
Sales	10	7	21	**10**
	26	29	45	**31**

	1998 £	1999 £	2000 £	**2001 £**
Staff costs (for the above persons)				
Wages and salaries	1,000,827	1,226,439	1,863,391	**881,087**
Social security costs	79,499	96,017	154,510	**75,637**
Other pension costs	17,833	18,695	30,082	**15,903**
	1,098,159	1,341,151	2,047,983	**972,627**

6 Directors' emoluments and interests

Directors shareholdings prior to 31 December 1999 have not been disclosed because they relate to the predecessor company.

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

N Keen owned 19,687 ordinary shares at 30 June 2001. (31 December 2000 19,687; 31 December 1999 nil;). N Keen is a trustee and executor of the Pauline Thomas Charity Will Trust which owns 589,700 ordinary shares (31 December 2000 589,700; 31 December 1999: 700 "A" ordinary shares in Deltex Medical Holdings Limited ("DMHL"), the predecessor holding company of the Group). N Keen has no beneficial interest in the shareholding of the trust. At 30 June 2001 Mr Keen was a director of Cygnus Venture Partners Limited. Cygnus Venture Partners Limited advised certain shareholders who owned 1,064,599 ordinary shares (31 December, 2000 1,064,599; 31 December 1999: 700 issued "A" ordinary shares, 100% of the issued "B" ordinary shares, 125 issued "C" ordinary shares and related warrants and 1,315 Convertible shares of DMHL – see note 18).

On 6 March 2000 a loan was received from Cygnus Ventures Limited by Deltex Medical Group plc for £1,500,000 at an interest rate of 8% per annum. In addition to the interest, Cygnus received 100,000 warrants. The loan was repaid in full on 28 April 2000 along with the interest for the period of loan of £17,425. A bank overdraft facility of up to £500,000, of which £470,000 was drawn at 31 December 1999, was secured by a counter indemnity given to the bank by certain shareholders advised by Cygnus Venture Partners Limited, of which N J Keen, the Company's Non-Executive Chairman, is a director. In addition, the same shareholders made available to the Group a loan of up to £500,000 in an agreement dated 12 January 2000. Both the bank overdraft and the loan were repaid out of the proceeds of the 3 March 2000 deed poll.

Dr Snape is a director of New England Partners. New England Partners and associated companies owns 594,211 ordinary shares and related warrants (31 December 2000 594,211; 31 December 1999: New England Partners and associated companies owned promissory notes amounting to US$2 million in DMHL which were converted into 594,211 ordinary shares on 5 May 2000).

On 20 March 2000 a loan was received from New England Partners by Deltex Medical Group plc for £155,000 at an interest rate of 8% per annum. In addition to the interest New England Partners received 10,333 warrants. The loan was repaid in full on 2 May 2000 along with interest for the period of the loan of £1,495.

P Smedvig is a director of Peder Smedvig Capital AS. Peder Smedvig Capital AS owns 478,478 ordinary shares and 265,265 warrants (31 December 2000 478,478; 31 December 1999: 250 issued "C" ordinary shares and related warrants and 228 Convertible shares of DMHL).

D Moorhouse owned 2,800 ordinary shares at 30 June 2001 (31 December 2000: 2,800).

None of the directors had a material interest at any time during the year in any contract of significance, other than a service contract with the Company or any of its subsidiaries.

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

The directors' remuneration does not include any pension entitlement and they are not included in the Company pension scheme.

The remuneration paid to the directors was:

	Year to 31 December 1998			Year to 31 December 1999			Year to 31 December 2000			**Six months to 30 June 2001**		
	Salary/ fees £	Bonus £	Total £	Salary/ fees £	Bonus £	Total £	Salary/ fees £	Bonus £	Total £	**Salary/ Fees £**	**Bonus £**	**Total £**
K J Coady (appointed 14.10.98)	19,578	–	19,578	98,130	–	98,130	120,740	33,370	154,110	**64,331**	**–**	**64,331**
A V Hacker (resigned 31.12.98)	78,000	–	78,000	–	–	–	–	–	–	**–**	**–**	**–**
D P Moorhouse (resigned 11.09.01)	80,979	15,000	95,979	88,416	5,000	93,416	103,692	40,000	143,692	**54,140**	**–**	**54,140**
P T Smedvig	7,500	–	7,500	7,500	–	7,500	15,375	–	15,375	**9,000**	**–**	**9,000**
Dr E Snape (appointed 09.09.99)				2,500	–	2,500	15,375	–	15,375	**9,000**	**–**	**9,000**
Dr J S Vender (resigned 06.09.01)	7,500	–	7,500	7,500	–	7,500	15,375	–	15,375	**9,000**	**–**	**9,000**
Dr G Flouty (appointed 11.07.00)	–	–	–	–	–	–	9,000	–	9,000	**9,000**	**–**	**9,000**
	193,557	15,000	208,557	204,046	5,000	209,046	279,557	73,370	352,927	**154,471**	**–**	**154,471**
Sums paid to third parties in respect of N J Keen	7,500	–	7,500	13,750	–	13,750	25,417	–	25,417	**11,250**	**–**	**11,250**

From 1 January 1998 to 30 June 1999 and from 1 January 2001 to 30 June 2001, the amounts shown above for N J Keen represent amounts paid to Imperialise Limited, a company of which N J Keen is the sole director and majority shareholder. From 1 July 1999 to 31 December 2000, fees were paid to Cygnus Ventures II Limited for the services of N J Keen. N J Keen is a majority shareholder of this company.

Under the terms of the Deltex Executive Scheme and the DMHL Executive Schemes (see note 18), the directors have an interest in options over ordinary shares as follows:

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

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

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

On 18 June 1998 options over 30 ordinary shares were issued to AV Hacker (a director who resigned on 31.12.98) at an exercise price of £1,071.43. On 6 April 2000 a further 30,000 bonus shares were issued as stated above. As at 30 June 2001 AV Hacker has the following share options over ordinary shares which had not been exercised:

Number	Exercise price	Exercise period
13,013	£1.07	06/1998-06/2008
17,017	£1.07	06/1998-06/2005

Deltex Medical Group Plc – Share price information

	$
At 31 December 2000	0.40
High – May 2000 to December 2000	7.40
Low – May 2000 to December 2000	0.40
At 30 June 2001	**0.95**
High – January 2001 to June 2001	**1.55**
Low – January 2001 to June 2001	**0.25**

See also note 28 for movements on options over shares held by directors post year end.

7 Interest payable and similar charges

	Year to 31 December 1998 £	Year to 31 December 1999 £	Year to 31 December 2000 £	**Six month period ending 30 June 2001 £**
Bank overdrafts repayable within 5 years	20,501	7,137	8,381	**–**
Promissory note	26,355	27,344	79,517	**–**
Interest payable on other loans	20,665	18,476	23,020	**–**
Finance lease and hire purchase contracts	780	1,348	1,979	**1,360**
Interest on $2,000,000 Redeemable Loan Stock	10,694	–	–	**–**
Other	–	779	–	**–**
	78,995	55,084	112,897	**1,360**

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

8 Loss on ordinary activities before taxation

Loss on ordinary activities is stated after charging/(crediting):

	31 December 1998 £	31 December 1999 £	31 December 2000 £	**30 June 2001 £**
Auditors' remuneration for:				
Audit services	31,000	33,125	36,500	**36,500**
Other services	18,481	21,948	37,844	**14,963**
Depreciation charge for the year:				
Tangible owned fixed assets	59,073	235,204	234,009	**196,471**
Fixed asset impairment	–	–	123,687	**–**
Tangible fixed assets held under finance leases	1,338	4,666	3,216	**4,369**
Loss on disposal of fixed assets	2,080	–	–	**–**
Operating leases – land and buildings	36,000	36,000	36,000	**36,000**
Research and development expenditure	298,792	302,000	456,136	**126,979**
Exchange gains on conversion of loan stock and share subscription	(41,184)	(2,240)	–	**–**
Expense associated with the grant of share options (including UITF 17 charges)	–	433,500	882,030	**56,187**

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

9 Tax on loss on ordinary activities

	1998 £	1999 £	2000 £	**2001 £**
Loss before taxation				
– United Kingdom	(1,655,340)	(1,213,947)	(1,482,162)	**(639,067)**
– United States of America	(1,040,960)	(1,668,237)	(2,444,009)	**(1,108,144)**
	(2,696,300)	(2,882,184)	(3,926,171)	**(1,747,211)**
UK Taxation				
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK at 30% (1999: 30.25% 1998: 31%)	(513,155)	(367,219)	(444,649)	**(191,720)**
Effects of				
Expenses not allowable for tax purposes	30,510	21,643	235,867	**19,871**
Capital allowances in excess of depreciation	(3,213)	(6,313)	(7,379)	**1,989**
Tax losses not recognised	(485,858)	351,889	216,161	**169,860**
Current UK tax charge for the period	–	–	–	**–**
US Taxation				
Loss on ordinary activities multiplied by the standard rate of corporation tax in the US at 35%	(364,336)	(583,883)	(855,403)	**(387,850)**
Effects of				
Expenses not allowable for tax purposes	–	132,708	46,041	**10,833**
Capital allowances in excess of depreciation	(2,206)	(5,244)	(8,352)	**(5,062)**
Tax losses not recognised	366,542	456,419	817,714	**382,079**
Current US tax charge for the period	–	–	–	**–**
Total tax charge for the period	–	–	–	**–**

The group has accumulated tax losses carried forward of £13.1m. The tax losses have arisen in the UK and US and will be available to offset against future trading profits in the respective territory.

Deferred tax assets have not been recognised in connection with the available tax losses on the basis that the future economic benefit to the company is uncertain.

10 Loss per share

The loss per share calculation for the period to 30 June 2001 is based on the loss of £1,747,211 and weighted average number of shares in issue of 15,643,874. For 2000, the loss per share calculation was based on the loss of £3,926,171 and weighted average number of shares in issue of 14,436,384. For comparative purposes, the loss per share calculations relating to Deltex Medical Holdings Limited (the predecessor holding company) ("DMHL") have been shown and are based on losses of £2,882,184 for 1999 and £2,696,300 for 1998. The weighted average number of shares in issue in these periods were 11,834 for 1999 and 10,869 for 1998. In connection with the flotation of Deltex Medical Group plc in April 2000, DMHL made a bonus issue at a rate of 1,000 new shares for each existing share. The loss per share has been stated for 1998 and 1999 for comparative purposes as if this share structure had been in place during the whole of these two years.

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

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

11 Subsidiary undertakings

Details of the company's principal subsidiaries are set out below:

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

The principal business activities of these subsidiaries are:

(a) Deltex Medical Holdings Limited – holding company. The previous Group holding company and the predecessor company to Deltex Medical Group plc before the group reorganisation on 6 April 2000 (see note 1);
(b) Deltex Medical Limited – development, manufacture and marketing of medical equipment;
(c) Deltex (Guernsey) Limited – holding company for Group intellectual property rights;
(d) Deltex Holdings Inc – marketing and selling of medical equipment in the USA (manufactured by the Group in the UK), through its own wholly owned trading subsidiary, Deltex Medical Inc.

12 Tangible fixed assets

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

The net book value of tangible fixed assets includes an amount of £14,235 in respect of assets held under finance leases, of which £9,499 relates to motor vehicles and £4,736 to fixtures and fittings.

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

The net book value of tangible fixed assets includes an amount of £13,474 in respect of assets held under finance leases, of which £6,966 relates to motor vehicles and £6,508 to fixtures and fittings.

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

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

The net book value of tangible fixed assets includes an amount of £17,351 in respect of assets held under finance leases, of which £4,433 relates to motor vehicles and £12,918 to fixtures and fittings.

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

	Leasehold property and improvements £	Fixtures and fittings £	Plant and machinery £	Motor vehicles £	Machines loaned to customers £	Total £
Cost						
At 1 January 2001	36,638	105,468	372,118	22,969	959,316	1,496,509
Exchange rate adjustment	215	3,479	–	–	43,839	47,533
Additions	–	–	4,997	–	241,025	246,022
Disposals	–	–	–	–	–	–
At 30 June 2001	36,853	108,947	377,115	22,969	1,244,180	1,790,064
Depreciation						
At 1 January 2001	36,638	50,435	319,132	17,093	615,997	1,039,295
Exchange rate adjustment	215	1,486	–	–	28,394	30,095
Charge for period	–	5,559	13,587	1,764	179,930	200,840
Impairment adjustment	–	–	–	–	–	–
At 30 June 2001	36,853	57,480	332,719	18,857	824,321	1,270,230
Net book value						
At 30 June 2001	–	51,467	44,396	4,112	419,859	519,834

The net book value of tangible fixed assets includes an amount of £16,773 in respect of assets held under finance leases, of which £3,166 relates to motor vehicles and £13,607 to fixtures and fittings.

13 Stocks

	31 December 1998 £	31 December 1999 £	31 December 2000 £	**30 June 2001 £**
Raw materials and consumables	42,653	51,290	225,009	**165,712**
Work in progress	4,542	12,600	218,812	**227,332**
Finished goods	229,407	295,192	449,298	**189,961**
	276,602	359,082	893,119	**583,005**

There is no significant difference between replacement cost and book cost.

14 Debtors

	31 December 1998 £	31 December 1999 £	31 December 2000 £	**30 June 2001 £**
Amounts falling due within one year				
Trade debtors	111,496	277,770	282,590	**245,379**
Called up share capital not paid	–	110,000	–	**–**
Other debtors	3,303	22,373	20,294	**11,832**
Prepayments	8,470	14,835	5,622	**6,915**
	123,269	424,978	308,506	**264,126**

15 Creditors: amounts falling due within one year

	31 December 1998 £	31 December 1999 £	31 December 2000 £	**30 June 2001 £**
$500,000 nil interest promissory note	301,205	312,500	–	**–**
$500,000 8.75% promissory note	–	312,500	–	**–**
Other loans	259,210	–	–	**–**
Bank overdraft	16	470,324	–	**–**
Trade creditors	98,552	233,165	214,694	**157,388**
Obligations under finance leases	3,849	5,151	13,427	**12,067**
Other taxation and social security	13,376	14,157	19,526	**18,708**
Other creditors	272,106	18,173	17,970	**35,010**
Accruals and deferred income	107,792	397,089	263,866	**155,913**
	1,056,106	1,763,059	529,483	**379,086**

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

Finance lease creditors are secured on the assets concerned.

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

Other loans of £259,210 in 1998 represented a US subsidiary's dollar loan of $430,289, the subsidiary being Deltex, Inc. Interest was charged at 2% over the US Federal Reserve 10-year bond rate. The loan was secured on the assets of Deltex, Inc and by a guarantee given by Deltex Medical Holdings Limited. The lender could convert at any time the unpaid principal into common stock shares of Deltex, Inc up to a maximum of 5% of the then issued common stock. The repayment terms of the loan were renegotiated and accordingly at the end of 1998 the full balance was included within current liabilities. The loan was repaid in full during 1999. The lender retains warrants – (see note 18).

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

16 Creditors: amounts falling due after more than one year

	31 December 1998 £	31 December 1999 £	31 December 2000 £	**30 June 2001 £**
$500,000 8.75% promissory note (note 15)	301,205	–	–	**–**
$1,000,000 nil interest promissory note (note 15)	–	625,000	–	**–**
Obligations under finance leases	10,068	7,995	9,752	**6,869**
Accruals and deferred income	38,434	–	–	**–**
	349,707	632,995	9,752	**6,869**

Finance lease creditors are secured on the assets concerned.

On 16 July 1997, Deltex Holdings, Inc., a wholly owned subsidiary of the company, issued a promissory note in the amount of US $500,000 bearing interest at 8.75% per annum. This note was converted into ordinary shares on the occasion of the listing of the company on Nasdaq Europe (see note 18).

On 2 August 1999, Deltex Holdings Inc. issued a promissory note in the amount of US$1,000,000. This note was converted into ordinary shares on the occasion of the listing of the company on Nasdaq Europe (see note 18).

Deltex Medical Holdings Limited has provided guarantees in respect of the performance of its subsidiary, Deltex Holdings, Inc. in relation to the promissory notes.

Maturity of financial liabilities – 1998

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

Maturity of financial liabilities – 1999

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

Maturity of financial liabilities – 2000

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

Maturity of financial liabilities – 2001

	Debt £	Finance Leases £	Total £
One year or less		12,067	12,067
Between one and two years	–	6,869	6,869
Between two and five years	–	–	–
	–	18,936	18,936

17 Pension obligations

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

	£
1998	£17,833
1999	£18,695
2000	£30,082
2001	**£15,903**

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

18 Called up share capital

Called up share capital represents that of Deltex Medical Group Plc. The amounts for 1998 and 1999 have not been shown because the Company was not in existence in these years.

	31 December 2000 £	30 June 2001 £
Authorised		
50,000 ordinary shares of £1 each	50,000	
6,000,000 "A" ordinary shares of £1 each	6,000,000	
13,000,000 "B" ordinary shares of £1 each	13,000,000	
5,000,000 "C" ordinary shares of £1 each	5,000,000	
8,950,000 convertible shares of £1 each	8,950,000	
47,000,000 ordinary shares of £1 each	47,000,000	
14 April 2000 conversion of all shares to ordinary shares of £1 each		
80,000,000 ordinary shares of £1 each	80,000,000	80,000,000

	Ordinary £	"A" £	"B" £	"C" £	Convertible £
Allotted, called up and fully paid					
On incorporation two ordinary subscriber shares of £1 each	2				
2 March 2000 Issue of 49,998 ordinary shares of £1 each	49,998				
2 March 2000 Conversion to convertible shares	(50,000)				50,000
10 March 2000 Issue of 2,402,400 "A" ordinary shares of £1 each		2,402,400			
10 March 2000 Issue of 5,605,600 "B" ordinary shares of £1 each			5,605,600		
10 March 2000 Issue of 1,059,058 "C" ordinary shares of £1 each				1,059,058	
10 March 2000 Issue of 3,121,168 convertible shares of £1 each					3,121,168
14 April 2000 Conversion of promissory notes into convertible shares of £1 each					594,211
14 April 2000 Conversion of all shares in issue into ordinary shares	12,832,437	(2,402,400)	(5,605,600)	(1,059,058)	(3,765,379)
14 April 2000 Issue of 2,081,785 ordinary shares of £1 each	2,081,785				
18 May 2000 Issue of 70,000 ordinary shares of £1 each	70,000				
18 May 2000 Issue of 220,000 ordinary shares of £1 each	220,000				
15 September 2000 Issue of 5,005 ordinary shares of £1 each	5,005				
29 September 2000 Issue of 223,443 ordinary shares of £1 each	223,443				
29 December 2000 Issue of 137,117 ordinary shares £1 each	137,117				
10 February 2001 Issue of 39,039 ordinary shares of £1 each	39,039				
14 February 2001 Issue of 59,079 ordinary shares of £1 each	59,079				
12 March 2001 Issue of 26,026 ordinary shares of £1 each	26,026				
	15,693,931	–	–	–	–

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

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

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

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

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

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

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

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

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

The Company's ordinary shares were admitted to trading on Nasdaq Europe on 14 April 2000 at a price of US$7 per share. 2,151,785 ordinary shares of £1 each were issued in connection with the flotation in May 2000 which resulted in a premium of £7,992,113 net of broking commissions being credited to the share premium account (see note 19). 585,565 ordinary shares of £1 each were issued and partly paid during the year under the Company's Employee Share Option Scheme at an exercise price of US$0.07 per share (see note 4).

The share capital issued during the period ending 2001 relates to share options being exercised by employees.

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

Warrants

Warrants to subscribe for ordinary shares of £1 each are outstanding at 30 June 2001 and are set out in the following table:

	Exercise price	Number of warrants
Before 14 October 2001	£2	1,059,058
Before 14 April 2003	£2.20	597,597
Before 8 October 2006	US$4.96	151,151
14 October 2000 to 14 April 2002	£4.30	143,143
At 30 June 2001		**1,950,949**

The warrants were issued to certain shareholders of the DMHL pursuant to DMHL Offer. None have been exercised at 30 June 2001.

Options

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

	1998 Number	1999 Number	2000 Number	**2001 Number**
At 1 January	748,748	1,625,624	1,683,682	**1,620,251**
Additions	876,876	58,058	522,134	**411,000**
Exercised	–	–	(585,565)	**(124,144)**
At 31 December/30 June	1,625,624	1,683,682	1,620,251	**1,907,107**

The number of options outstanding or issued before 6 April 2000 has been restated for comparative purposes to account for a 1,000 for-one bonus offer effected on 6 April 2000 to all shareholders, warrantholders and optionholders.

As at 30 June 2001 the following options to subscribe for ordinary shares of £1 each were outstanding:

Number of shares	Exercise price £	Exercise period	
74,074	*0.048	21 Feb 96/01 Oct 99	21 Feb 03
200,200	1.07	12 Oct 99	01 Oct 07
200,200	1.07	12 Oct 00	01 Oct 07
15,000	2.20	22 Mar 01	22 Mar 10
152,152	1.07	18 Jun 01	18 Jun 08
200,200	1.07	12 Oct 01	12 Oct 07
124,124	1.07	04 Dec 01	04 Dec 08
32,032	1.07	12 May 02	12 May 09
119,119	2.20	12 Jan 03	12 Jan 10
6,006	2.20	07 Feb 03	07 Feb 10
245,000	2.20	22 Mar 03	22 Mar 10
10,000	4.70	02 May 03	02 May 10
15,000	2.01	12 Jul 03	12 Jul 10
75,000	2.01	15 Nov 03	15 Nov 10
13,000	2.20	02 Apr 04	02 Apr 11
15,000	2.01	02 Apr 04	02 Apr 11
411,000	1.00	05 Apr 04	05 Apr 11
1,907,107			

* See Note 4

19 Share premium account

	1998 £	1999 £	2000 £	**2001 £**
At 1 January	8,076,290	12,345,295	14,002,426	**8,298,174**
Capitalised on 6 April 2000	–	–	(12,226,000)	**–**
Premium on shares issued during the period	4,695,651	1,728,981	7,992,113	**–**
Issue expenses	(426,646)	(71,850)	(1,470,365)	**–**
At 31 December/30 June	12,345,295	14,002,426	8,298,174	**8,298,174**

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

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

20 Profit and loss account

	1998 £	1999 £	2000 £	**2001 £**
At 1 January	(9,892,478)	(12,558,072)	(15,109,531)	**(19,039,637)**
Loss for the financial period	(2,696,300)	(2,882,184)	(3,926,171)	**(1,747,211)**
UITF 17 charge on share options	–	430,115	184,133	**56,187**
Movements on reserve associated with the grant of share options under the US share option plan	–	–	140,392	**(118,117)**
Exchange difference	30,706	(99,390)	(328,460)	**(39,732)**
At 31 December/30 June	(12,558,072)	(15,109,531)	(19,039,637)	**(20,888,510)**

Goodwill has been eliminated against reserves in the past. In accordance with FRS 10 "Goodwill and intangible assets", goodwill previously eliminated against reserves has not been reinstated. The cumulative amount of goodwill resulting from acquisitions, which has been written off to reserves, is £6,421,929.

21 Reconciliation of movements in shareholders' funds

	Year ended 31 December 1998 £	Year ended 31 December 1999 £	Year ended 31 December 2000 £	**Period ended 30 June 2001 £**
Opening shareholders' funds/(deficit)	(1,807,130)	(201,370)	(1,094,879)	**4,828,324**
Increase in share capital during the period excluding bonus issue	2,349	819	3,331,561	**124,144**
Premium on shares issued, net of costs	4,269,005	1,657,131	6,521,748	**–**
Loss for the period	(2,696,300)	(2,882,184)	(3,926,171)	**(1,747,211)**
UITF 17 charge on share options	–	430,115	184,133	**56,187**
Movements on reserves associated with the grant of share options under the US share option plan (see note 4)	–	–	140,392	**(118,117)**
Exchange difference taken to reserves	30,706	(99,390)	(328,460)	**(39,732)**
Closing shareholders' funds/(deficit)	(201,370)	(1,094,879)	4,828,324	**3,103,595**

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

	31 December 1998 £	31 December 1999 £	31 December 2000 £	**30 June 2001 £**
Operating loss	(2,705,790)	(2,844,314)	(4,030,322)	**(1,848,333)**
Depreciation on tangible fixed assets	60,411	239,870	237,225	**200,840**
Impairment adjustment	–	–	123,687	**–**
Expense associated with share options (including 2000 exceptional item)	–	433,500	882,030	**56,187**
Exchange differences	(1,020)	(80,774)	(772,741)	**(236,256)**
Loss on sale of fixed assets	2,080	–	–	**–**
Decrease/(increase) in stocks	131,122	(82,480)	(534,037)	**310,114**
Decrease/(increase) in debtors	34,909	(191,709)	6,472	**44,380**
(Decrease)/increase in creditors	(28,131)	100,158	(146,528)	**(148,992)**
Net cash outflow from operating activities	(2,506,419)	(2,425,749)	(4,234,214)	**(1,622,060)**

23 Reconciliation of movement in net debt

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

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

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

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

The non-cash changes on debt falling due within one year relate to a conversion of debt into shares (see note 15).

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

The non-cash changes on debt falling due within one year relate to a conversion of debt into shares

	1 January 2001 £	Cash Flow £	Other non Cash Changes £	Exchange Movement £	**30 June 2001 £**
Net cash					
Cash at bank and in hand	3,708,720	(1,766,093)	–	179,958	**2,122,585**
	3,708,720	(1,766,093)	–	179,958	**2,122,585**
Debt					
Finance lease contracts due within one year	(13,427)	1,360	–	–	**(12,067)**
Finance lease contracts due after one year	(9,752)	2,883	–	–	**(6,869)**
	(23,179)	4,243	–	–	**(18,936)**
Net cash	3,685,541	(1,761,850)	–	179,958	**2,103,649**

24 Cash flow from exceptional items

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

25 Financial commitments

At 31 December/30 June the group had annual commitments for land and buildings, under non-cancellable operating leases as follows:

	1998 £	1999 £	2000 £	**2001 £**
Expiring within two to five years	36,000	36,000	36,000	**36,000**

At 31 December/30 June the group had placed contracts for future capital expenditure not provided in the financial statements amounting to:

	£
1998	30,942
1999	–
2000	–
2001	–

26 Related party transactions

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

Other than the related party transactions disclosed in note 6 there are no other related party transactions requiring disclosure.

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

27 Derivatives and other financial instruments

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

Narrative disclosures

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

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

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

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

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

	Fixed	Floating
1998	55%	45%
1999	41%	59%
2000	100%	–
2001	**100%**	**–**

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

Currency risk The Group has overseas subsidiaries in the USA and as a result the Group's sterling balance sheet can be affected by movements in the US dollar/sterling exchange rates.

The Group also has transactional currency exposures. Such exposures arise from sales and purchases by operating units in currencies other than the unit's functional currency.

The Group does not engage in any hedging in respect of currency risks. The Group has cash balances largely denominated in US dollars. The Group also has investments in subsidiaries in US dollars therefore performing a natural hedge.

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.

Interest rate and currency profile of financial liabilities

	Floating rate financial liabilities £	Fixed rate financial liabilities £	Financial liabilities on which no interest is paid £	Total £
At 31 December 1998				
Sterling	16	13,917	–	13,933
US dollar (convertible debt)	259,210	301,205	301,205	861,620
	259,226	315,122	301,205	875,553
At 31 December 1999				
Sterling	470,324	13,146	–	483,470
US dollar (convertible debt)	–	312,500	937,500	1,250,000
	470,324	325,646	937,500	1,733,470
At 31 December 2000				
Sterling	–	23,179	–	23,179
	–	23,179	–	23,179
At 30 June 2001				
Sterling	**–**	**18,936**	**–**	**18,936**
	–	**18,936**	**–**	**18,936**

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

The floating rate financial liabilities comprise US dollar denominated loan from the CDA (see note 15).

	Weighted average interest rate %	Fixed rate financial liabilities, weighted average period for which rate is fixed Years	Financial liabilities on which no interest is paid. Weighted average period until maturity Years
1998			
Sterling	13.9	1.9	–
US dollar (convertible debt)	8.75	1.5	–
1999			
Sterling	13.9	1.1	–
US dollar (convertible debt)	8.75	0.5	3.0
2000			
Sterling	14.2	2.7	–
2001			
Sterling	**14.2**	**2.4**	**–**

LIBOR one year interest rates at the following dates are:

	%
31 December 1998	5.4063
31 December 1999	6.5938
31 December 2000	5.7500
30 June 2001	5.6563

Interest rate and currency profile of financial assets

	£
At 31 December 1998	
Sterling	510,085
US dollar	47,580
	557,665
At 31 December 1999	
Sterling	84,145
US dollar	114,660
	198,805
At 31 December 2000	
Sterling	57,566
US dollar	3,651,154
	3,708,720
At 30 June 2001	
Sterling	**60,976**
French Francs	**238**
US dollar	**2,061,371**
	2,122,585

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at each period end:

	31 December 1998 £	31 December 1999 £	31 December 2000 £	**30 June 2001 £**
Floating rate and expiring within one year	–	29,676	–	**–**

Fair value of financial assets and liabilities

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

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

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

	Book value £	Fair value £
1998		
Short term borrowings		
Bank overdraft	16	16
Obligations under finance lease contracts	3,849	3,849
US dollar debt	560,415	560,415
Long term borrowings		
US dollar debt	301,205	265,594
Obligations under finance lease contracts	10,068	10,896
Cash at bank and in hand	557,665	557,665
1999		
Short term borrowings		
Bank overdraft	470,324	470,324
Obligations under finance lease contracts	5,151	5,151
US dollar debt	625,000	625,000
Long term borrowings		
US dollar debt	625,000	422,549
Obligations under finance lease contracts	7,995	8,495
Cash at bank and in hand	198,805	198,805
2000		
Short term borrowings		
Bank overdraft	–	–
Obligations under finance lease contracts	13,427	13,427
US dollar debt	–	–
Long term borrowings		
US dollar debt	–	–
Obligations under finance lease contracts	9,752	9,752
Cash at bank and in hand	3,708,720	3,708,720
2001		
Short term borrowings		
Bank overdraft	–	–
Obligations under finance lease contracts	12,067	12,067
US dollar debt	–	–
Long term borrowings		
US dollar debt	–	–
Obligations under finance lease contracts	6,869	6,869
Cash at bank and in hand	2,122,585	2,122,585

Summary of methods and assumptions

Short-term borrowings and cash balances	Fair value approximates to the carrying amount because of the short maturity of these instruments.
Long term borrowings	The fair values of fixed rate liabilities have been calculated by discounting cash flows at prevailing interest rates. For floating rate loans, fair values approximate to book value reported in the balance sheet where payments are reset to market rates at intervals of less than one year.

Currency exposures on monetary assets

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

	Net foreign currency monetary assets/(liabilities)			
	Sterling £	US Dollars £	EU currencies £	Total £
1998 – functional currency				
Sterling	–	2,202,361	7,903	2,210,264
US dollars	–	–	–	–
Total	–	2,202,361	7,903	2,210,264
1999 – functional currency				
Sterling	–	2,872,889	59,409	2,932,298
US dollars	–	–	–	–
Total	–	2,872,887	59,409	2,932,298
2000 – functional currency				
Sterling	–	–	96,860	96,860
US dollars	–	–	–	–
Total	–	–	96,860	96,860
2001 – functional currency				
Sterling	**–**	**1,298,091**	**238**	**1,298,329**
US dollars	**–**	**–**	**–**	**–**
Total	**–**	**1,298,091**	**238**	**1,298,329**

28 Post balance sheet events

On 6 September 2001, Jeffery Vender resigned as a director of the company. Jeffery Vender has 74,074 options over ordinary £1 shares and the options will remain exercisable until 30 June 2002. On 11 September 2001, David Moorhouse resigned as a director of the company. David Moorhouse had 260,210 options over ordinary £1 shares, 75,000 of those options will be exercisable at £1.07 up to the date of publication of the 31 December 2002 results. The remaining options have been forgone.

Subsequent to the year-end there have been changes to the authorised and issued share capital of the company.

Resolutions will be proposed at an Extraordinary General Meeting of the Company on 31 October 2001 for each of the issued Ordinary £1 Shares of Deltex Medical Group plc to be subdivided into one Ordinary Share of 10p and one Deferred Share of 90p and each un-issued Ordinary Share of £1, into ten Ordinary Shares of 10p. The 10p Ordinary Shares will have the same rights attached to them as the original £1 Ordinary Shares. The 90p Deferred Shares will carry no voting rights, no rights to receive notice of, to attend, or to speak at any general meeting. The Deferred Shareholders will not be entitled to receive a dividend or any other distribution of the Company. On a winding up, the Deferred Shareholders shall be entitled to the repayment of the amount paid up on such shares after repayment of the capital paid up on the Ordinary Shares plus the sum of £1 million per Ordinary Share.

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

29 Summary of significant differences between UK GAAP and US GAAP

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

(a) Consolidated Cash Flow Statement

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

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

	31 December 1998 £000	31 December 1999 £000	31 December 2000 £000	**30 June 2001 £000**
Operating activities				
Net cash outflow from operating activities (UK GAAP)	(2,506)	(2,426)	(4,234)	**(1,623)**
Interest received	88	17	217	**102**
Interest paid	(41)	(26)	(33)	**(1)**
Net cash used by operating activities (US GAAP)	(2,459)	(2,435)	(4,050)	**(1,522)**
Financing Activities				
Net cash inflow from financial (UK GAAP)	3,341	1,909	8,072	**2**
Increase/(decrease) in bank overdraft	(243)	470	(470)	**–**
Net cash provided by financing activities (US GAAP)	3,098	2,379	7,602	**2**
(Decrease)/increase in net cash in the year (UK GAAP)	751	(829)	3,540	**(1,766)**
Increase/(decrease) in bank overdraft	(243)	470	(470)	**–**
Net (decrease)/increase in unrestricted cash and cash equivalents (US GAAP)	508	(359)	3,070	**(1,766)**

(b) Goodwill

Under UK GAAP, a reconstruction in 1996 was accounted for using acquisition accounting and goodwill of £6,421,929 arose. This has been written-off to reserves in the financial information prepared under UK GAAP.

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

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

(c) Deferred taxation

Under UK GAAP deferred tax is recognised on a full provision basis for timing differences between the recognition of gains and losses in the financial statements and their recognition in the taxation computation. US GAAP requires deferred taxation to be provided in full, using the liability method on all temporary differences between the tax and book basis of assets and liabilities.

Under US GAAP, deferred tax assets and liabilities are recognised for all temporary timing differences and income tax losses, in accordance with FAS 109 "Accounting for Income Taxes". Valuation allowances are provided when it is considered more likely than not that all, or a portion, of the

deferred tax assets will not be realised. A valuation allowance has been provided for the entire deferred tax asset balance for all years presented. Deferred tax amounts also arise as a result of the other UK to US GAAP adjustments.

(d) Unpaid share capital

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

(e) Promissory notes

The Company had two promissory notes totalling $1,500,000 that, under UK GAAP, fall within creditors. Under US GAAP they would be classified as equity as the instruments may only be settled in convertible shares of the company, except in the event of default. The effect is to increase the Company's stockholders' equity and has been adjusted for below in 1999.

(f) Warrants

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

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

(g) Share options

One of the Group's share option plans gave employees of Deltex Medical Inc., the Group's main trading subsidiary in the United States of America, the right to buy shares of Deltex Medical Group plc at less than nominal value. To rectify the situation a charge has been made under UK GAAP for the shortfall of £697,897 between the option price and the nominal value on all such options. Under US GAAP no such adjustment would be required. This reversal has been shown in the reconciliation below.

Under UK GAAP National Insurance should be accrued in connection with share options to employees. Under US GAAP future income taxes in relation to share options should not be accrued. This has been adjusted for below.

Part III

Accountants' report on the Group *continued*

Notes to the financial information *continued*

(h) Summary of retained profits and net assets

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

	1998 £000	1999 £000	2000 £000	**2001 £000**
Retained loss for year per UK GAAP	(2,696)	(2,882)	(3,926)	**(1,747)**
National Insurance on share options	–	3	–	**–**
Extraordinary charge on early extinguishment of debt	–	(186)	–	**–**
Reversal of share option expense	–	–	698	**–**
Retained loss for year per US GAAP	(2,696)	(3,065)	(3,228)	**(1,747)**
Total equity shareholders' (deficit)/funds per UK GAAP	(201)	(1,095)	4,828	**3,103**
Less: unpaid share capital	–	(110)	–	**–**
Add: equity adjustments in respect of promissory notes and warrants	299	916	–	**–**
Add: National Insurance on share options	–	3	–	**–**
Total stockholders' equity per US GAAP	98	(286)	4,828	**3,103**

(i) Earning per share

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

	1998 £	1999 £	2000 £	**2001 £**
Net loss per share (note 10)	0.245	0.254	0.224	**0.111**

Yours faithfully

PricewaterhouseCoopers
Chartered Accountants

Part IV

Management discussion and analysis of financial condition and results of operations

The following discussion of the financial condition and results of operations of the Company is based on, and should be read in conjunction with, the Accountants' Report on the Group for the financial years ended 31 December 1998, 1999 and 2000 and the six month period ended 30 June 2001 set out in Part III of this Prospectus.

The Group's consolidated financial information included elsewhere in this Prospectus has been prepared in accordance with UK law and UK GAAP, together with a reconciliation to US GAAP of net income and shareholders' equity.

Overview

The Group develops, assembles and markets medical equipment: in particular, a cardiac function monitor called the CardioQ™ and the associated single patient disposable probe.

DMHL, a previous holding company of the Group, was formed in 1996 to consolidate the activities of a number of companies, all of which operated in the general area of development, manufacturing and marketing of medical equipment. The Group's involvement with cardiac monitoring through the use of Doppler or ultrasound technology dates back to 1989 when it acquired Doptek Ltd., a company established in Chichester, UK.

The Group was at a developmental stage throughout the period 1989 to 1996 when it developed a number of predecessor models to the CardioQ™ known as the ODM II and its predecessor ODM I and the EDM, each of which obtained regulatory clearance for sale in Europe and the United States except that the ODM I did not obtain regulatory clearance in the United States. Throughout this period the Company was funded by private equity raised from venture capitalists and a variety of institutional investors, including in particular, funds advised by Cygnus Venture Partners Limited.

Considerable sums continued to be invested through private placements of equity in the period 1996 to 1999 in order to continue the development programme which led to the production of the CardioQ™, as well as other products in the pipeline, such as enhancements to the disposable probe, a product called the NeuroQ™ which measures pressure in the mid-cerebral artery through the use of similar Doppler technology, and an external version of the probe.

The introduction of the CardioQ™ in the United States in October 1999 enabled the Group's salesforce to raise the profile both of the product and the Group as a whole. The results from a clinical trial completed earlier in the year at Duke University, Durham, North Carolina, which showed an overall reduction in the length of stay in hospital of over 30 per cent. amongst general surgical patients, was one of a limited number of papers featured at the American Society of Anesthesiology's annual meeting and received widespread publicity. The results of this clinical trial correspond closely to those of earlier studies carried out in Europe.

In 1999 the Group re-acquired the distribution rights from Abbott International, its previous European distributor which had acquired distribution rights in 1992. A new Director of European Sales was appointed at the beginning of the year and new salespeople were recruited in the UK and France. The Group's strategy was to appoint specialist distributors in individual European countries to cater to their local needs. Thus, distributors were appointed and contracts signed in the UK, France, Italy, and Germany, while negotiations were being actively discussed with distributors in Switzerland, certain Scandinavian countries, the Czech Republic, Israel and Australia at the year end.

During 1999 the Group's research and development activities, based in Chichester, West Sussex, were focused primarily on the completion of the CardioQ™ and ensuring that it complied with regulatory requirements in Europe and the United States. This was successfully achieved, with the receipt in June of the CE Mark enabling the CardioQ™ to be sold in countries in the European Community and the completion in September of the regulatory steps necessary to comply with FDA rules for release of the CardioQ™ in the United States. Work continued in conjunction with Cambridge University and Addenbrooke's Hospital on the NeuroQ™, a device which allows a clinician to monitor mid-cerebral perfusion pressure non-invasively.

The most significant event of 2000 was the admission of the Company's Ordinary Shares to trading on Nasdaq Europe in April 2000 via an Initial Public Offering ("IPO"), which raised net proceeds of US$13 million. In order to effect the IPO, the Company acquired all the issued share capital and other financial instruments of DMHL. The IPO enabled the Group to move towards its objective of making its technology common practice in operating theatres, intensive care units and casualty departments in hospitals throughout the world. The Group began this process by investing in four main areas: clinical education, clinical studies, the expansion of the distribution network, and a number of research and development projects to facilitate the use of the CardioQ™ and to work towards the next generation of the technology. See Part I – "Information on the Group – Marketing

Part IV

Management discussion and analysis of financial condition and results of operations *continued*

and Distribution – Clinical Education", Introduction – Clinical Studies", "Marketing and Distribution – Commercial Strategy" and "Introduction – Product Portfolio and Product Development".

During 2000, the Group refined its sales strategy in the United States to focus its efforts on teaching hospitals in large metropolitan areas. This was in response to slower than anticipated sales creating a cost/revenue imbalance. The objective was to place multiple units in as many departments of the hospital as possible, while at the same time expanding the use of the monitors by training doctors and nurses as widely as possible. The aim was to ensure that there is a broad population at each hospital adept at using the CardioQ^{TM}, with a resulting increase in probe consumption. An additional benefit was that the Group's resources were deployed in a more targeted and cost-effective way. The Group's sales strategy in Europe and Asia was unchanged: to widen coverage geographically through the expansion of the network of distributors and to expand use of the CardioQ^{TM} by means of clinical training.

During the first six months of 2001, sales of probes outside the United States have been particularly strong and have increased at a faster rate than in the US. As a result, it was decided to invest an increasing proportion of the sales and marketing resources in Europe, Asia and Latin America. In addition, the Group has maintained its clinical training programme in the United States. The intention is to encourage increasing use of the monitors, and therefore probe sales, in those select, leading teaching hospitals where it has already established a strong presence. The Company believes that it is important to retain and develop these relationships with major US hospitals, predominantly in the North East and South West of the United States, and use these as reference points since many countries in Latin America and Asia look to the United States for a point of reference in clinical practice. The Directors believe that success in the international markets will help drive sales growth in the US.

2001 (1st half)

Turnover amounted to £693,000, reflecting continued strong sales growth, in particular in certain countries in Europe and Asia where growth in sales has increased at a faster rate than in the US.

The gross profit margin of 39 per cent. generated a gross profit of £268,000. The gross margin was less than in 2000 because of significant de-stocking having taken place in the first half of 2001 and a consequent allocation of overhead over lower production volumes.

The operating loss of £1.8 million reflected proportionately (i) a decline in Research and Development expenditure mainly because a major outsourced project in the area of probe design was being undertaken in the United States in 2000, which has now been successfully completed; and (ii) rising Sales and Marketing costs as a result of increased activity in most markets and in particular because of the continued recruitment of the clinical training force which was only begun in the third quarter of 2000.

The loss for the period amounted to £1.7 million.

2000 compared with 1999

Turnover rose 20 per cent. to £959,000. Sales growth was particularly strong in Europe, where the use of the CardioQ^{TM} became increasingly accepted as one of the most efficient and safe methods of assessing cardiac function and improving patient care by guiding treatment. Revenue underestimated, however, the progress made in sales during the year: in unit terms, sale and placements of monitors rose by 65 per cent. from 166 to 274 monitors, and probe sales rose by 38 per cent. from 13,250 to 18,300. In accordance with a strategic variation to the Group's revenue model, the monitor placements were not reflected in revenues because the Group loaned monitors to hospitals under probe consumption agreements, which give rise to future revenues from probe sales and should therefore allow the Group to recover the price at which it would otherwise have sold the monitor. This was particularly the case in the United States.

The gross profit margin rose to 52 per cent. for the year, generating a gross profit of £499,000. This increase was due to higher production volumes in 2000, which spread production overheads over a larger number of units, and to the sales mix: greater volumes of high-margin probes were sold and the average selling price of probes rose, particularly outside the United States.

Expenditure across all categories rose in order to reflect the higher volume of investment following the IPO. Thus, Research and Development expenditure rose by 51 per cent. as a result of increased activity. Sales and Marketing expenditure showed the largest increase of 93 per cent. to

£2.1 million as a result of recruitment of clinical trainers in the United States and Europe, a higher profile in terms of the Group's presence at medical congresses and exhibitions and a range of marketing initiatives. Administration and Finance expenditure declined by 14 per cent. to £1.1 million due mainly to fluctuations in the exchange rate between the US dollar and Sterling, which had a favourable influence on reported earnings because many of the Group's liquid assets were held in US dollars which appreciated over the year against Sterling.

After taking account of an exceptional charge of £698,000 relating to the share options of empoyees and former employees in the United States, and interest received on the Company's cash deposits following the IPO, amounting to £217,000, the resulting net loss increased to £3.9 million.

1999 compared with 1998

1999 was a year of considerable change for the Group as it obtained regulatory approval for the CardioQ™ in Europe and the US and started to market the product through new distributors.

Turnover rose 112 per cent. to £801,000 as stocks of the ODM and EDM were sold off, the CardioQ™ came on stream and probe sales increased nearly threefold.

Gross profit rose to £246,000, while the 1998 margin had been lowered by the disproportionate effect of an increase in production labour at low volume levels and some sales at a low margin to a US distributor.

The operating loss rose to £2.8 million, after (i) a charge of £0.4 million in respect of share options awarded, (ii) increased expenditure in sales and marketing costs caused by the appointment of new distributors, (iii) the need to accelerate promotional and training activity surrounding the launch of the CardioQ™, (iv) research and development expenditure, again surrounding the development of the CardioQ™ and (v) the acquisition of the requisite regulatory approvals.

The loss for the year of £2.9 million remained proportionately similar, at 7 per cent. higher than the figure for 1998, due to lower interest receivable. This in turn was due to differences in the timing of fund raising activities and the resulting differences in interest bearing cash balances.

Liquidity and capital resources

The cash flow statement for the first half of 2001 shows that the major adjustments to the operating loss for the period of £1.8 million are the depreciation charge (£201,000), most of which relates to the CardioQ™s lent to hospitals, and the exchange rate difference. Working capital showed a net decrease of £120,000 over the 2000 year end, reflecting notably a reduction in stocks. After accounting for interest received (£102,000) and the lending of CardioQ™s to hospitals (£246,000), representing virtually all of the figure for the purchase of fixed assets, the decrease in net cash over the six months amounted to £1.8 million. This resulted in cash of £2.1 million at 30 June 2001. See Part I – "Information on the Group – Current Trading and Prospects" and paragraph 12 of Part V.

Part V

Additional information

1 The company

(a) The Company was incorporated and registered in England and Wales on 6 January 2000 with registered number 3902895 under the Acts as a public company limited by shares with the name of Chalkgrove plc.

(b) The Company's name was changed to Deltex Medical Group plc on 2 March 2000.

On 14 April 2000 the then issued ordinary share capital of the Company was admitted to listing on Nasdaq Europe.

The principal legislation under which the Company operates are the Acts and the regulations made thereunder.

(c) The registered office, head office and the principal place of business in the United Kingdom of the Company is at Deltex House, Terminus Road, Chichester, West Sussex PO19 2TX.

2 Subsidiaries

(a) The Company is the holding company of the Group the principal activities of which are the development, manufacture and marketing of medical and hospital equipment.

(b) The Company has the following principal subsidiary undertakings, all of which are wholly owned, either directly or indirectly, by the Company and consolidated into the annual financial statements of the Company:

Name and registered office	Issued and fully paid share capital	Nature of business/activity
Deltex Medical Holdings Limited of Deltex House, Terminus Road, Chichester, West Sussex PO19 2TX.	Issued: £12,238,226 divided into; 2,402,400 "A" ordinary shares of £1 each; 5,605,600 "B" ordinary shares of £1 each; 1,059,058 "C" ordinary shares of £1 each; and 3,171,168 convertible shares of £1 each.	Intermediate holding company
Deltex Medical Limited of Deltex House, Terminus Road, Chichester, West Sussex PO19 2TX.	Issued: £11,000 divided into 10,890 ordinary shares of £1 each 110 "A" Shares of £1 each	Development, manufacture and marketing of medical equipment.
Deltex Instruments Limited of Deltex House, Terminus Road, Chichester, West Sussex PO19 2TX.	Issued: £100 divided into 100 ordinary shares of £1 each	Dormant
Deltex Medical Inc. care of: Thomas Mock 3030 LBJ Freeway Suite 1650 Dallas, Texas 75234	1,000 common shares without par value	Marketing and selling of medical equipment in the USA.
Deltex (Guernsey) Limited of The Royal Bank of Scotland Trust Company (Guernsey) Limited, 22 High Street, St Peter Park, Guernsey.	2 ordinary shares of £1 each	Holding Company for Group Industrial and Intellectual Property Rights.
Deltex Holdings, Inc. care of: The Company Corporation 2711 Centerville Road, Suite 400 Wilmington, Delaware 19808 U.S.A.	Issued: 1,000 comon shares without par value	Intermediate holding company

Name and registered office	Issued and fully paid share capital	Nature of business/activity
Deltex Inc. care of: Corporation Service Company 94 Hungerford Street Hartford, Connecticut 06106 U.S.A.	5,000 common shares without par value	Dormant

3 Share capital

(a) On incorporation the authorised share capital of the Company was £50,000 divided into 50,000 Ordinary Shares of £1 each, of which two shares were issued fully paid to the subscribers. All of these shares (issued and unissued) in the Company were converted into Convertible Shares on 2 March 2000.

(b) **Share capital of the Company**

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

By an ordinary resolution passed on 8 March 2000, the authorised share capital of the Company was increased to £80,000,000 by the creation of a further 6,000,000 "A" Ordinary Shares, 13,000,000 "B" Ordinary Shares, 5,000,000 "C" Ordinary Shares, 8,950,000 Convertible Shares and 47,000,000 Ordinary Shares each of £1 each. The Directors were authorised to issue 80,000,000 shares without regard to rights of pre-emption under section 89 of the Act, such authority to expire on 8 March 2005.

On 10 March 2000, the Company made an offer to all of the shareholders, option holders and warrant holders of DMHL (the "DMHL Offer"). The offer was to acquire the entire issued share capital of DMHL, all existing options and warrants over shares and, to the promissory noteholders, to vary the promissory notes held by NEGF II LP and New England Partners Capital L.P. in exchange for the issue by the Company of an aggregate 12,238,226 shares credited as fully paid to the shareholders of DMHL, the grant of options over 1,808,807 shares under the Deltex Employee Share Option Scheme, the grant of warrants over 1,950,916 shares and the grant of conversion rights over 594,211 shares in the Company to holders of promissory notes, such issues, grants and conversion rights being in proportion to the holdings of such shareholders, optionholders, warrant holders and the conversion rights of note holders in DMHL. The offer was conditional upon, *inter alia*, the Company receiving 100% acceptances from DMHL shareholders or such lesser amount as agreed by the directors and upon receiving the unanimous approval of DMHL shareholders of the bonus issue referred to below and to certain amendments being made to the DMHL Articles. The DMHL Offer was declared unconditional on 6 April 2000.

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

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

Subsequent to the DMHL Offer being completed NEGF II LP exercised its option (conditional upon the Nasdaq Europe Admission) to convert US$500,000 plus interest outstanding on a promissory note held by it in Deltex Holdings Inc. into Convertible Shares in the Company in accordance with the terms of that promissory note. A further US$1,500,000 of promissory notes held by NEGF II L.P. and New England Partners Capital L.P. in Deltex Holdings Inc. automatically converted into Convertible Shares in the Company on 13 April 2000. A total of 594,211 Convertible Shares were issued to NEGF II L.P. and New England Partners Capital L.P. pursuant to the conversion of these promissory notes.

Upon the Nasdaq Europe Admission, the entire authorised and issued share capital in the Company (including Convertible Shares issued to NEGF II LP and New England Partners Capital L.P. pursuant to the conversion of their promissory notes in Deltex Holdings Inc.) automatically converted into Ordinary Shares on a one for one basis in accordance with the Company's articles of association in operation at that time.

Immediately following the Nasdaq Europe Admission, 2,081,785 Ordinary Shares of £1 each were issued to institutional and other investors at US$7.00 per share pursuant to a placing agreement executed by Beeson Gregory, the Company and others dated 13 April 2000.

Part V

Additional information *continued*

Following this, on 19 May 2000, Beeson Gregory exercised an option granted to it by the Company under such placing agreement and was issued 70,000 Ordinary Shares of £1 each, again at US$7.00 per share.

Following the above share issues in April and May 2000 the following issues of ordinary shares in the Company have taken place (all pursuant to the exercise of options under the Share Option Schemes):

Date of issue	Number of ordinary shares of £1 issued	Issue price
18 May 2000	220,000	£0.048
15 September 2000	5,005	£0.048
29 September 2000	223,443	£0.048
29 December 2000	137,117	£0.048
10 February 2001	39,039	£0.048
14 February 2001	59,079	£0.048
12 March 2001	26,026	£0.048

(c) **DMHL share capital**

DMHL, a wholly owned subsidiary of the Company, was incorporated in 1995. In the 3 years prior to the date of this document the following changes have occurred in the share capital of DMHL:

(i) In 1998 DMHL increased its authorised share capital by £100,000 to £200,000 by the creation of 80,000 ordinary shares of £1 each and 20,000 Convertible Shares of £1 each;

(ii) In 1998 2,349 Convertible Shares were issued by DMHL at a price of £2,000 per share;

(iii) In 1999 360 Convertible Shares were issued by DMHL at a price of £2,000 per share and 459 Convertible Shares were issued at a price of £2,200 per share;

(iv) On 6 April 2000 DMHL increased its authorised capital to £80,000,000 by the creation of a further 5,920,000 "A" Ordinary Shares, 12,990,000 "B" Ordinary Shares, 4,990,000 "C" Ordinary Shares, 8,920,000 Convertible Shares and 46,980,000 Ordinary Shares; and

(v) On 6 April 2000 DMHL effected a 1,000 for 1 bonus issue to all shareholders funded out of its share premium account.

After these changes the current authorised and issued share capital of DMHL was and remains as follows:

Authorised Capital	
6,000,000	"A" Ordinary Shares of £1 each
13,000,000	"B" Ordinary Shares of £1 each
5,000,000	"C" Ordinary Shares of £1 each
9,000,000	Convertible Shares of £1 each
47,000,000	Ordinary shares of £1 each
80,000,000	

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

(d) **Other Financial Instruments Representing Shares**

At the date of this Prospectus the following warrants are outstanding. Upon exercise, the holders of these warrants will be entitled to be issued a total of 1,950,949 Ordinary Shares in the Company. These warrants were issued through four separate agreements, as detailed below.

Name of Warrant Issue Agreement	Date of Agreement	Number of Ordinary Shares	Exercise price per Warrant	Date Exercisable
Deed Poll 1	11 April 2000	1,059,058	£2.00	on or before 14 October 2001
Deed Poll 2	11 April 2000	597,597	£2.20	on or before 14 April 2003
Deed Poll 3	11 April 2000	151,151	US$4.96	on or before 8 October 2006
Deed Poll 4	11 April 2000	143,143	£4.30	from 14 October 2000 until 14 April 2002

See also paragraph 15 for further details.

At the date of this Prospectus the following options issued under the Share Option Schemes are outstanding. Upon exercise, the holders of these options will be entitled to be issued a total of 1,365,070 Ordinary Shares in the Company.

At the date of this Prospectus the following options to subscribe for ordinary shares of £1 issued pursuant to the Share Option Schemes are outstanding:

Number of shares into which options are exercisable	Exercise price per option (£)	Exercise period
74,074	0.048	21 Feb 96/1 Oct 99 – 21 Feb 03
200,200	1.07	12 Oct 99 – 1 Oct 07
200,200	1.07	12 Oct 00 – 1 Oct 07
105,030	1.07	18 Jun 01 – 18 Jun 08
200,200	1.07	12 Oct 01 – 12 Oct 07
86,086	1.07	4 Dec 01 – 4 Dec 08
12,012	1.07	12 May 02 – 12 May 09
62,062	2.20	12 Jan 03 – 12 Jan 10
6,006	2.20	7 Feb 03 – 7 Feb 10
105,000	2.20	22 Mar 03 – 22 Mar 10
10,000	4.70	2 May 03 – 2 May 10
15,000	2.01	12 Jul 03 – 12 Jul 10
30,000	2.01	15 Nov 03 – 15 Nov 10
13,000	2.20	2 Apr 04 – 2 Apr 11
15,000	2.01	2 Apr 04 – 2 Apr 11
231,000	1.00	05 Apr 04 – 5 Apr 11

(e) **Convertible Debt Securities**

There are no convertible debt securities, exchangeable debt securities or debt securities with warrants outstanding.

(f) New Articles of Association were adopted by the Company, with effect from Nasdaq Europe Admission, pursuant to a special resolution passed by written resolution on 6 April 2000.

At the EGM to be held on 31 October 2001, the Resolutions will be proposed to effect a share capital reorganisation whereby each issued and authorised ordinary share of £1 will be converted into one Ordinary Share of 10p and one Deferred Share of 90p. For the rights attaching to Deferred Shares please see section 4(c) of Part V. Further, the proposed Resolutions will authorise the Directors to issue Ordinary Shares

Part V

Additional information *continued*

pursuant to the Placing and thereafter Ordinary Shares equal to the lower of (i) the authorised but unissued share capital of the Company immediately following the Placing and (ii) the aggregate of one third of the issued share capital of the Company following the Placing and the nominal value of Ordinary Shares reserved for issue under the Share Option Schemes, of which a number of Ordinary Shares equal to five per cent. of the issued share capital immediately following the Placing and the Ordinary Shares to be issued in respect of the Placing may be issued without regard to rights of pre-emption under section 89 of the Act, such authorities to expire on the earlier of 15 months after the date of the Resolutions and the conclusion of the Annual General Meeting of the Company next following the passing of the Resolutions.

(g) The Company will remain subject to the provisions of section 89 of the Companies Act 1985 (which confers on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash). These restrictions apply to the balance of the authorised but unissued share capital of the Company which is not the subject of the disapplication referred to above.

Save for Ordinary Shares reserved for issue under the Share Option Schemes or the warrant deed polls, or pursuant to or in connection with the Placing, no material issue of shares (other than to shareholders pro rata to their shareholdings) will be made by the Company within one year of the date of this document without the prior approval of the Company in general meeting.

(h) Save as disclosed in this Part V of this Prospectus:

(i) in the previous 3 years there has been no issue of share or loan capital of the Company and no material issue of share or loan capital of any subsidiary undertaking (otherwise than intra-Group issues by wholly-owned subsidiary undertakings and pro rata issues by partly-owned subsidiary undertakings) for cash or other consideration;

(ii) in the previous 3 years no commissions, discounts, brokerages or other special terms have been granted by the Company or any subsidiary undertaking in connection with the issue, conversion or sale of any share or loan capital of the Company or any of its subsidiary undertakings; and

(iii) no share or loan capital of the Company or any of its subsidiary undertakings is under option or is agreed conditionally or unconditionally to be put under option.

(i) The Ordinary Shares are in registered form and are capable of being held in uncertificated form.

4 Memorandum and articles of association

(a) The Memorandum provides that the Company's principal objects are to act as a holding company and to invest in other companies and businesses. The objects of the Company are set out in full in paragraph 4(A)(ii) of its memorandum which is available for inspection at the address specified in paragraph 17 below.

(b) The articles of association of the Company (the "**Articles**") contain and in the case of the Deferred Shares detailed in paragraph 4(c) below will, upon the Resolutions being passed and the Placing becoming unconditional, contain provisions to the following effect:

(i) **Voting rights**
Subject to any special terms as to voting on which any Ordinary Shares may have been allotted or issued, or may for the time being be held (no such shares currently being in issue), or any suspension or abrogation of voting rights pursuant to the Articles (including circumstances where a statutory notice requiring disclosure of the beneficial ownership of Ordinary Shares has not been complied with), every member present in person at a general meeting on a show of hands has one vote and every member present in person or by proxy on a poll has one vote for every Ordinary Share of which he is the holder.

(ii) **Variation of class rights**

Subject to the provisions of the Acts and all statutes and subordinate legislation for the time being enforced concerning companies so far as they apply to the Company, the rights attached to Ordinary Shares may be varied whether or not the Company is being wound up: either in such manner (if any) as may be provided by those rights; or in the absence of any such provision, either with the consent in writing of the holders of at least three-fourths of the nominal amount of the issued Ordinary Shares; or with the sanction of a special resolution (which requires at least three-fourths of those shareholders present at the meeting to vote in favour) passed at a separate meeting of the holders of the Ordinary Shares.

The rights attached to the Ordinary Shares are not deemed to be varied by the creation, allotment or issue of further Ordinary Shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by the Company of its own Ordinary Shares in accordance with the provisions of the Act and the Articles.

(iii) **Alteration of capital**

The Company may by ordinary resolution (which requires at least one half of those shareholders present at the meeting to vote in favour) increase its share capital, consolidate and divide all or any of its share capital into Ordinary Shares of a larger amount than its existing shares, sub-divide all or any of its Ordinary Shares (subject to the provisions of the Acts) into Ordinary Shares of a smaller amount or cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person.

Subject to the provisions of the Acts, the Company may by special resolution reduce its share capital, capital redemption reserve and share premium account in any way.

(iv) **Transfer of shares**

Transfer of interests in Ordinary Shares which have been deposited in Euroclear and/or Clearstream and/or CREST will not need to be approved by the Board as such interests are represented by book-entries.

Each member may transfer all or any of his Ordinary Shares by instrument of transfer in writing in any usual form or in such other form approved by the Board executed by or on behalf of the transferor and, in the case of the transfer of a share which is not fully paid, by or on behalf of the transferee. The transferor shall remain the holder of the Ordinary Shares concerned until the name of the transferee is entered in the register of members in respect thereof.

Subject to the provisions of the Articles, the Board may in its absolute discretion and without giving any reason therefor, refuse to register the transfer of an Ordinary Share unless all of the following conditions are satisfied:

A. It is in respect of a fully paid Ordinary Share;

B. It is in favour of a single transferee or not more than four joint transferees;

C. It is duly stamped (if required); and

D. It is delivered for registration to the Company's registered office or such other place as the Board may decide, accompanied (except in the case of a transfer by a recognised person or those defined in the Articles, where a certificate has not been issued) by the share certificate(s) to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution of the transfer by him or, if the transfer is executed by some other person on his behalf, the authority of that person to do so.

In relation to partly paid shares, the exercise of the discretion by the Board shall not prevent dealings in the partly paid shares from taking place on an open and proper basis.

(v) **Directors**

Subject to the Acts and provided he has disclosed to the board the nature and extent of any relevant material interest, a Director may:

A. enter into or be interested in a transaction, proposed or otherwise with the Company or in which the Company is an interested party;

B. hold office or take profit from the Company as a director and act (individually or through his firm) in a professional capacity to the Company (except as an auditor of the Company or its subsidiaries);

Part V

Additional information *continued*

C. not be liable to account to the Company for a profit, remuneration or other benefit realised by such transaction or proposal.

A director is obliged by the Articles to disclose such an interest to the extent he is aware of it and may not vote or be counted in any resolution of the board or a committee of the board in respect of which he has such an interest except where the resolution relates to:

D. the giving of a guarantee, security or indemnity in respect of obligations incurred by him at the request or for the benefit of any member of the Group;

E. the giving of a guarantee, security or indemnity in respect of obligations of the Company for which he has assumed responsibility in whole or in part, jointly with others or alone, under a guarantee or indemnity or the giving of security;

F. a transaction, proposed or otherwise for the offer or subscription for, or the purchase of securities of any member of the Group in which he is entitled to participate as a holder of securities or a participant in the underwriting or sub-underwriting of the same;

G. a transaction, proposed or otherwise in which his interest is formed by his holding (to his knowledge) of less than one per cent. of any class of the equity share capital or the voting rights on the relevant company;

H. a transaction, proposed or otherwise for the benefit of the employees of any member of the Group so long as such transaction does not award him any special privilege or benefit;

I. a transaction, proposed or otherwise concerning the purchase or maintenance of any insurance policy for the benefit of persons including the directors.

(vi) **Borrowing powers**

The Board may exercise all powers of the Company to borrow money and to mortgage or charge all or part of the undertaking, property and assets (present or future) and uncalled capital of the Company. This power is restricted by the Articles such that the aggregate principal amount outstanding in respect of moneys borrowed by the Group may not exceed a sum being four times adjusted capital and reserves (as defined by the Articles), without the Board first obtaining the sanction of an ordinary resolution of the Company.

(vii) **Purchase of own shares**

Subject to the provisions of the Acts, the Company may purchase any of its shares of any class (including redeemable shares) in any way.

(viii) **Dividends**

Subject to the provisions of the Acts and the Articles, the Company may by ordinary resolution declare a dividend to be paid to the members according to their respective rights and interests, but no dividend may exceed the amount recommended by the Board. The Board can declare or pay such interim dividend (including any dividend payable at the fixed rate) as appear to it to be justified by the profits of the Company available for distribution.

Except as otherwise provided by the rights attached to Ordinary Shares, all dividends must be declared and paid according to the amounts paid up on the Ordinary Shares in respect of which the dividend is declared and paid. No amount paid up on an Ordinary Share in advance of a call can be treated as paid up on the Ordinary Share and all dividends shall be apportioned and paid proportionately to the amounts paid up on the Ordinary Shares during any portion or portions of the period in respect of which the dividend is paid.

The Board may, with the prior authority of an ordinary resolution of the Company, direct the payment of any dividend declared to be satisfied wholly or in part by the distribution of specific assets, and in particular, of paid up shares or debentures of another company. The Board may, with the prior authority of an ordinary resolution of the Company, offer holders of a particular class of share the right to elect to receive further shares of that class or Ordinary Shares, in either case credited as fully paid, instead of cash in respect of all or part of a dividend.

If dividends are declared out of distributable profits, subject to the terms on which any of such shares may be issued, holders of Ordinary Shares on the date specified by the declaration will be entitled to such dividend.

(ix) **Distribution of assets on a liquidation**

On a voluntary winding-up of the Company, the liquidator may, on obtaining any sanction required by law, divide among the members in kind the whole or any part of the assets of the Company, whether or not the assets consist of property of one kind or property of different kinds. For such purpose, the liquidator may set such a value as he deems fair on any one or more class or classes or property and may determine on the basis of such valuation and in accordance with the then existing rights of members how such a division shall be carried out as between members or classes of members. The liquidator may not, however (save with the consent of the member concerned), distribute to a member any assets to which there is attached a liability or potential liability for the owner.

This is irrespective of a member's right to participate in a surplus on a winding-up which he had under law.

(x) **Unclaimed dividends**

All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends unclaimed for a period of 12 years after having been declared are forfeited and cease to remain owing by the Company and shall lapse in favour of the Company.

(xi) **Redeemable shares**

Subject to the provisions of the Act and to the rights attached to existing shares, shares may be issued on terms that they are to be redeemed or, at the option of the Company or the holder, are likely to be redeemed.

(c) **Rights attaching to the Deferred Shares**

Holders of Deferred Shares shall not have any right to receive notice of general meetings of the Company nor the right to attend, speak or vote at any such general meeting. Deferred Shares shall not entitle their holders to receive any dividend or other distribution of the Company. Holders of Deferred Shares shall only be entitled to the repayment of the amount paid up on such shares after repayment of the capital paid up on the Ordinary Shares plus the sum of £1 million per Ordinary Share. The Company shall have irrevocable authority at any time after the passing of the Resolutions to appoint any person to execute on behalf of the holders of the Deferred Shares a transfer thereof and/or an agreement to transfer the same, without making any payment to the holders thereof, to such person as the Company may determine as custodian thereof. The Deferred Shares may be repurchased by the Company at a price not exceeding 1p for all the Deferred Shares to be purchased. No share certificates shall be issued in respect of the Deferred Shares.

Part V

Additional information *continued*

5 Directors and senior management

(a) In addition to their directorships of the Company (in the case of the Directors), the Directors and the senior management named in this document hold or have held the following directorships, and are or were members of the following partnerships, over or within the past five years.

Name	Current directorships/ Partnerships	Previous directorships/ Partnerships
Kempton J. Coady	Memry Corporation	None
Nigel Keen	Cygnus Group Limited Cygnus Limited Vista Ventures Limited Venture Research International Limited Cygnus Management Services Limited Imperialise Limited The Laird Group Plc Axis – Shield Plc Oxford Instruments Plc Oxford Magnetic Technology Limited Channel Islands Development Corporation Limited (Guernsey) Cygnus Venture Partners Limited	Alan Wagstaff and Partners Limited Scotia Holdings Plc Limbridges Limited BEC Group Limited Cygnus Computer Group Limited C.G.C. Realisations Limited Cygnus Venture Managers Limited (Guernsey) Cygnus Ventures Limited (Guernsey) Lakeview Internationale S.L. Mastercalf Holdings Limited Accelerated Technology Limited Cygnus Venture II Managers Limited (Guernsey) Cygnus Ventures Europe Limited (Guernsey) Cygnus Ventures II Limited (Guernsey) Itex Holdings Limited (Jersey)
Edwin Snape	Micro Networks Corporation Synergy Pharmaceuticals Stabar Enterprises, Inc New England Partners II, LP Vista Partners II, LP NEP Capital, LLC	CDC Technologies, Inc Cygnus Ventures Limited (Guernsey) Cygnus Venture II Managers Limited (Guernsey) Cygnus Ventures Europe Limited Cygnus Ventures II Limited (Guernsey) Cygnus Venture Managers Limited (Guernsey)
Peter Smedvig	Peter Smedvig Capital Limited Altium Capital Limited Peter Smedvig Capital LP Limited DS AS Isbjørn Hekla AS Peder Smedvig AS Peder Smedvig Capital AS Petrus AS Scana Industrier ASA Smedvig ASA Smedvig Rederi AS Veni AS Venito AS Almondy AB Mandelbageriet AB	West Venture Limited Smedvig 1989 Limited Eaton Capital Management Limited Eaton Capital Associates Limited Deutag Limited Axis-Shield Plc
George Flouty	None	None
Ewan Phillips	None	European Career Systems Plc

(b) Save as set out at paragraph 5(c) below, at the date of this document none of the Directors or senior management named in this document:

(i) has any unspent convictions in relation to indictable offences;

(ii) has been declared bankrupt or entered into an individual voluntary arrangement;

(iii) was a director with an executive function of any company at the time of or within the 12 months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration or company voluntary arrangements of that company or any composition or arrangement with its creditors generally or any class of its creditors;

(iv) was a partner in a partnership at the time of or within the 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership;

(v) has had his assets the subject of any receivership or was a partner in a partnership at the time of or within the 12 months preceding any assets thereof being the subject of a receivership; or

(vi) has been the subject of any public criticisms by any statutory or regulatory authority (including any recognised professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

(c) Ewan Phillips was an executive director of European Career Systems plc, which went into members' voluntary liquidation on 7 August 2001. The total deficiency to creditors amounted to £480,374.

6 Directors' and other interests

(a) The interests of the Directors in the Ordinary Shares of the Company which have been notified by each Director to the Company pursuant to section 324 or section 328 of the Companies Act 1985 and are required to be entered in the register of directors' interests maintained under section 325 of the Companies Act 1985, or the interests of a connected person of a Director which would, if the connected person were a Director, be required to be disclosed as detailed above pursuant to section 324, section 325 or section 328 of the Companies Act 1985, and the existence of which is known to or could with reasonable diligence be ascertained by that Director as at the date of this document and as they will be immediately following the Placing, are as follows:

	At present		Following the Placing	
Name of Director	Number of Ordinary Shares	% of issued share capital	Number of Ordinary Shares	% of issued share capital
Nigel Keen	19,687	0.13	19,687	0.06
Nigel Keen[1]	589,700	3.76	589,700	1.76
Nigel Keen[2]	1,064,599	6.78	1,064,599	3.17
Edwin Snape[3]	594,211	3.79	594,211	1.77
Peter Smedvig[4]	478,478	3.05	478,478	1.43

1 as trustee of the Pauline Thomas Medical Charity

2 as a director of Cygnus Venture Partners Limited which advises certain ordinary shareholders. These shareholders also hold warrants over 454,454 Ordinary Shares

3 as principal of NEGF II L.P. and New England Partners Capital L.P. These shareholders also hold warrants over 10,010 Ordinary Shares

4 as director of Peder Smedvig Capital AS. This shareholder also holds warrants over 265,265 Ordinary Shares

The above statistics relating to the share capital of the Company after the Placing are based upon the assumptions given in respect of the "Placing Statistics" set out at page 4 of this Prospectus.

Part V

Additional information *continued*

(b) Options have been granted to Directors under the Company's Executive Share Option Schemes as follows:

Name of Director	Number of Ordinary Shares under option	Percentage of present issued share capital	Percentage of issued share capital after the Placing	Exercise price	Exercisable from	Expiry date
Kempton Coady	600,600	3.83	1.79	£1.07	10/1999	10/2007
Kempton Coady	100,000	0.64	0.30	£2.20	03/2003	01/2010

The above statistics relating to the share capital of the Company after the Placing are based upon the assumptions given in respect of the "Placing Statistics" set out at page 4 of this Prospectus.

The Company intends to grant immediately prior to the Placing additional options over Ordinary Shares to Kempton Coady and Ewan Phillips under the Share Option Schemes at an exercise price per share equal to the Placing Price. Such numbers of options will be detailed in the supplementary prospectus to be published following the determination of the Placing Price.

(c) Save as set out in this Part V, following the Placing no Director will have any interest in the share capital of the Company or any of its subsidiaries.

(d) In so far as is known to the Company the following persons, other than the Directors, are at the date of this document or are expected to, immediately following completion of the Placing, be interested, directly or indirectly, in 3 per cent. or more of the Company's issued share capital:

	At present		After the Placing	
Name	Ordinary Shares beneficially held	Percentage of issued share capital	Ordinary Shares beneficially held	Percentage of issued share capital
Travelers Group	801,801	5.11	801,801	2.39
Close Finsbury Life Sciences Investment Trust	750,000	4.78	750,000	2.24
Vendome UK Limited	634,854	4.05	634,854	1.89
New England Partners	594,211	3.79	594,211	1.77
Selmeston Limited	596,206	3.80	596,206	1.78
The Pauline Thomas Medical Charity	589,700	3.76	589,700	1.76
Peder Smedvig Capital AS	478,478	3.05	478,478	1.43
Stanlife Nominees Limited	634,834	4.05	634,834	1.89
The Gerald Kerkut Charitable Trust	595,706	3.80	595,706	1.78

The above statistics relating to the share capital of the Company after the Placing are based upon the assumptions given in respect of the "Placing Statistics" set out at page 4 of this Prospectus.

(e) The Directors are not aware of any person who could directly or indirectly, jointly or severally, exercise control over the Company.

(f) Save as set out in this Part V, no Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Group and which was effected by any member of the Group in the current or immediately preceding financial year of the Company or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

(g) There are no outstanding loans granted by any member of the Group to any Director, nor has any guarantee been provided by any member of the Group for their benefit.

7 Directors' service agreements and terms of appointment

(a) Directors have entered into service agreements as follows:

Service agreements

(i) Kempton Coady

Parties	Deltex Medical Group Plc and Kempton J Coady III
Commencement Date	23 August 2001
Notice Period	Fixed period to 22 August 2003 and thereafter 6 months by either party
Aggregate Remuneration	US$180,000, payment for a company car, compensation of up to 35% salary and share options (to be determined by the Remuneration Committee)
Compensation on early termination	A sum equal to 12 months' salary other than in the case of termination due to voluntary resignation, malfeasance, failure of a medical examination and various other matters
Non-competition	Standard restrictions on the solicitation of former clients/customers/suppliers and participation in a competing business within 12 months of termination

(ii) Ewan Phillips

Parties	Deltex Medical Group Plc and Ewan Phillips
Commencement Date	23 August 2001
Notice Period	Six months by either party
Aggregate Remuneration	£85,000 – payment for a company car and share options (to be determined by the Remuneration Committee)
Compensation on early termination	A sum equal to 12 months' salary other than in the case of termination due to voluntary resignation, malfeasance, failure of a medical examination and various other matters
Non-competition	Standard restrictions on the solicitation of former clients/customers/suppliers and participation in a competing business within 12 months of termination

The non-executive directors of the Company (Nigel Keen, Edwin Snape, Peter Smedvig and George Flouty) were all appointed with effect from 22 March 2000 and are each entitled to an annual director's fee of £18,000 (except Nigel Keen who is entitled to a director's fee of £25,000).

Directors' fees are payable in quarterly instalments in arrears and the level of fees is reviewed annually.

The Company agrees to use its reasonable endeavours to obtain appropriate directors' and officers' liability insurance for the benefit of the non-executive directors.

(b) Copies of the executive Directors' service agreements and the letters of appointment of the non-executive Directors will be available for inspection at the address specified in paragraph 17 below.

(c) Save as set out in this Part V, there are no existing or proposed service agreements between any Director and any member of the Group other than agreements expiring or terminable without payment of compensation (other than statutory compensation) within one year.

Part V

Additional information *continued*

(d) The aggregate remuneration paid including bonuses, pension fund contributions made and benefits in kind granted to the Directors during the year ended 31 December 2000 was £352,927. The aggregate amount payable to the Directors under the arrangements in force at the date of this document (including pension fund contributions and benefits in kind but excluding bonuses) is estimated to amount to £380,000 for the current financial year.

8 Share option schemes

(a) Share options are held by employees and directors of the Company under the following schemes:–

(i) Deltex Medical Holdings Limited 1998 Approved Executive Share Option Scheme (the "DMHL Approved Scheme");

(ii) Deltex Medical Holdings Limited 1998 Unapproved Executive Share Option Scheme (the "DMHL Unapproved Scheme");

(together the "DMHL Executive Schemes")

(iii) Deltex Medical Group plc Executive Share Option Scheme (the "Deltex Executive Scheme").

(b) **The DMHL Executive Schemes**

Options over shares in the Company are currently outstanding under the terms of the DMHL Executive Schemes. These options were granted to replace options over shares in Deltex Medical Holdings Limited as a result of the acquisition of the share capital of that company. Since the Nasdaq Europe Admission no options have been granted under the DMHL Executive Schemes and no options will be granted under these schemes in the future.

Options subject to the terms of the DMHL Executive Schemes will normally become exercisable on the third anniversary of grant and must be exercised before the tenth anniversary in the case of the DMHL Approved Executive Scheme and the seventh anniversary in the case of the DMHL Unapproved Executive Scheme.

If an optionholder ceases employment due to injury, disability, redundancy, retirement, notice serviced by his company or as a result of his company or business being sold outside the group his option will become exercisable from the date of cessation and must if at all be exercised within the period ending six months (or such longer period specified by the Board) after such date. If an optionholder dies his personal representatives may exercise his option within 12 months following his death.

Options held by employees or directors who cease employment for any other reason will automatically lapse on cessation subject to the Board's discretion to allow exercise (to the extent determined by the Board) and the achievement of any performance condition.

Provisions for the early exercise of an option also apply in the event of a takeover, reconstruction, amalgamation or winding up of the Company.

Options are not transferable (except in circumstances of death to the optionholder's personal representatives).

On a variation of the Company's share capital the exercise price and/or the number of shares comprised in an option may be adjusted by the Board in such manner as the Board considers fair and reasonable. Adjustments to options granted under the DMHL Approved Executive Scheme require the consent of the Inland Revenue.

The rules of the DMHL Executive Schemes and the terms of subsisting options may be varied and amended in the same circumstances under the Deltex Executive Scheme (set out below).

(c) **The Deltex Executive Scheme**

The Deltex Executive Scheme was adopted by the Board of Directors of the Company on 22 March 2000 for the purposes of granting options both before and after the Nasdaq Europe Admission. No options may be granted more than ten years after the date of adoption of the scheme.

The Deltex Executive Scheme comprises three parts:

(i) Part A: for the purpose of granting UK Inland Revenue approved options to employees and directors resident in the UK;

(ii) Part B: for the purpose of granting unapproved options to employees and directors resident in the UK and abroad;

(iii) Part C: this solely applies to rolled-over options over shares in the Company granted to replace options which were originally granted under the Deltex Holdings Inc. 1996 Non statutory Stock Option Plan over shares in Deltex Holdings Inc. Options which have been rolled over into the terms of Part C will remain subject to their original vesting and exercise provisions. Since the Nasdaq Europe Admission no options have been granted under Part C and no options will be granted under this part in the future.

Since the Nasdaq Europe Admission options have been granted under Part A and Part B of this scheme and options will continue to be granted under these parts of the Deltex Executive Scheme following Admission.

Set out below is a summary of the terms applicable to options which have been and will be granted under Parts A and B of the Deltex Executive Scheme

All employees and full time directors of the Company or its subsidiaries who are not within two years of their contractual date of retirement are eligible to be granted options under Part A of the Deltex Executive Scheme. All employees and directors of the Company or its subsidiaries are eligible to be granted options under Part B.

Options may normally only be granted within the 6 weeks following the announcement of the Company's results for any period or at other times if the Board considers that exceptional circumstances apply.

Prior to Admission options granted under Part A are granted at an exercise price not less than the market value of shares which has been agreed with the Inland Revenue to be the closing price of Shares on Nasdaq Europe on the dealing day immediately preceding the day of grant. Options granted under Part B are granted with an exercise price which is not less than the closing price of shares on Nasdaq Europe on the dealing day or average closing price of the three dealing days preceding the day of grant.

Options granted under Part B on Nasdaq Europe Admission were granted with an exercise price equal to the price at which shares were offered for sale pursuant to the Nasdaq Europe Admission.

Subject to Admission, the Board have approved an amendment to the Deltex Executive Scheme to provide that the price at which options may be granted under Part B shall not be less than the middle-market quotation of Ordinary Shares on AIM (as derived from the Daily Official List) on the relevant dealing days and the Board have requested the Inland Revenue's agreement that the market value of shares in respect of approved options granted under Part A should be calculated in the same way.

The following limits apply to the grant of options under the Deltex Executive Scheme:

(iv) The total number of shares over which options to subscribe may be granted under all executive schemes operated by the Company in any ten year period may not exceed 5% of the issued share capital of the company, but excluding any options granted prior to Nasdaq Europe Admission. However, at the EGM shareholders are being asked to approve that this limit is increased to 10% and is applicable to all options granted under any employee share schemes operated by the Company (excluding any options granted prior to Nasdaq Europe Admission);

(v) The scheme currently provides that no person shall be granted options which would, at the time of grant, cause the market value of the shares for which he may subscribe under options granted to him in any ten year period to exceed 4 times his total remuneration for any 12 month period (again, excluding any options granted prior to Nasdaq Europe Admission). However, shareholders are being asked to approve amendments to the scheme at the EGM which will remove this limit and provide instead that individual awards are subject to an appropriate annual limit based on the individual's basic salary. The limit shall be determined by the Remuneration Committee of the Company having regard to best practice and the need to operate a competitive remuneration policy;

(vi) No person shall be granted options under Part A of the Deltex Executive Scheme which would cause the value of shares under options held by him under any Inland Revenue approved scheme to exceed £30,000.

Options will normally become exercisable subject to the achievement of a performance condition on or after the third anniversary of grant and not later than the tenth anniversary.

Part V

Additional information *continued*

If an optionholder ceases employment due to injury, disability, redundancy, retirement, notice served by his company or as a result of his company or business being sold outside the group his option will be exercisable during the period of six months after such date (or such other period determined by the Board). If an optionholder dies his personal representatives may exercise his option within the 12 months following his death. The early exercise of an option is also permitted in the event of a takeover, reconstruction, amalgamation or winding up of the Company.

Options held by employees or directors who cease employment for any other reason will automatically lapse, subject to the Board's discretion to allow exercise (to the extent determined by the Board) and the achievement of any performance condition.

At the Board's discretion, options granted under Part B may become exercisable on other terms specified by the Board, and the Board may in its discretion allow options to be exercised early. The Board shall only consider exercising such discretion in exceptional circumstances.

Options are not transferable (except in circumstances of death to the optionholder's personal representatives).

On a variation of the Company's share capital the exercise price and/or the number of shares comprised in an option may be adjusted by the Board in such manner as the Board considers fair and reasonable. Adjustments to options granted under Part A of the Deltex Executive Scheme shall require the consent of the Inland Revenue.

The Board has power to amend the Deltex Executive Scheme. However, amendments to the advantage of participants may not be made to the rules of the Deltex Executive Scheme relating to eligibility, limits, exercise price, adjustments to options and exercise provisions without the approval of shareholders of the Company. However, shareholder approval is not required for minor amendments to benefit the administration of the Deltex Executive Scheme, to account of changes in legislation or to obtain or maintain favourable tax treatment for participants or any company in the group. No amendment may be made to the terms of subsisting options to the disadvantage of participants without their majority consent.

The Inland Revenue will be asked to approve amendments made to Part A of the Deltex Executive Scheme.

(d) The Company intends to grant immediately prior to the Placing additional options over Ordinary Shares to employees under the Share Option Schemes at an exercise price per share equal to the Placing Price. This will include options to be granted to certain Directors referred to in paragraph 6(b) of this Part V.

9 Principal establishments

The Group leases a 9,000 square foot building at Terminus Road, Chichester, West Sussex PO19 2TX, UK at an annual rent of £36,000. The lease will expire on 13 September 2002. Discussions are currently underway to extend the lease. The Directors understand from communications with the landlord that obtaining this extension should not present any difficulties.

The Group also rents a sales and marketing office at 61 North Main Street, Branford, CT 06405, USA totalling 1,460 square feet in size for 3 years expiring on 31 March 2004 at an annual rent of £24,000 for the first year, £25,500 for the second year and £27,000 for the final year.

10 Placing arrangements

(a) The Company, the Directors and Beeson Gregory have agreed the terms of the Placing Agreement which is expected to be signed prior to the Placing. Under the Placing Agreement, Beeson Gregory agrees (subject to the conditions referred to in the agreement and in reliance on the warranties, indemnities and undertakings in the agreement) to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price and, in the event that subscribers are not obtained for all or any of the Placing Shares at the Placing Price to subscribe, as principal and at the Placing Price, for all those Placing Shares in respect of which subscribers have not been obtained.

(b) The obligations of Beeson Gregory under the Placing Agreement are subject to a number of conditions including: the representations and warranties referred to below being true and accurate in all material respects from the date of the Placing Agreement up to and including

Admission; the supplementary prospectus setting out the Placing Price being delivered to the Registrar of Companies and made available as appropriate; the Company and the Directors having complied in all material respects with the Placing Agreement and other related agreements; compliance with various AIM Rules requirements; and delivery of certain documents specified in the Placing Agreement duly signed by the parties thereto.

(c) In consideration of Beeson Gregory's services in connection with the Placing they are entitled to:

(i) a corporate finance fee of £225,000;

(ii) a commission of 3.5 per cent. of the Placing Price for each of the Placing Shares for which they have procured placees;

(iii) repayment of all costs of and incidental to the Placing and the applications for Placing Shares and all other costs and expenses incurred by Beeson Gregory which are directly attributable to the work carried out by them for the Company in connection with the arrangements contemplated in the Placing Agreement; and

(iv) be granted an option over Ordinary Shares on the terms set out in the option agreement referred to in paragraph 15 of this Part V.

In the event that the Placing Agreement is terminated due to the conditions not being satisfied or waived, or is otherwise terminated by Beeson Gregory then the fees in paragraph (i) and the expenses in paragraph (iii) above are still payable by the Company to Beeson Gregory.

(d) In connection with the Placing, the Company and each of the Directors (the "**Warrantors**") severally give a number of warranties in respect of, *inter alia*, the Placing, the content of the Prospectus and other documents connected with the Placing. Warranties given are disclosed against in the content of the Prospectus (and supplements thereto) and each Warrantor's liability is limited in respect of matters so disclosed. The warranties expire on the public announcement of the 31 December 2002 preliminary financial results of the Company.

(e) In additions to the warranties, the Company and each Director severally agrees to indemnify Beeson Gregory (and any of its current and former employees, directors or agents) against all losses, liabilities and expenses suffered or incurred by them and resulting from, directly or indirectly, the Placing Agreement or the Placing unless and to the extent that any of them arises from the fraud, negligence or wilful default of Beeson Gregory or the breach by Beeson Gregory of their obligations under the Placing Agreement or of any applicable law, regulation or rule including the Financial Services Act or the rules of the Securities and Futures Authority.

(f) The aggregate liability of the Company and the Directors under the warranties and indemnities given is subject to certain agreed limits.

11 Taxation

The following is a summary of certain UK and Belgian tax consequences of ownership and disposal of the Ordinary Shares. This summary is based on current UK and Belgian Law and practice and is for general information only and does not discuss any tax legislation which may be pending, unless explicitly mentioned. It does not purport to be a complete analysis of all potential tax effects relevant to a decision to invest in the Ordinary Shares and prospective investors are urged to consult their tax advisers regarding the applicable tax consequences for acquiring, holding and disposing of the Ordinary Shares based upon their particular circumstances. The discussion below is based upon laws and relevant interpretations thereof in effect at the date of this Prospectus, all of which are subject to change, possibly with retroactive effect. The following does not address any other tax laws than those of the UK and Belgium. Prospective investors who are in any doubt as to their tax position or who are not residents of the UK or Belgium should seek independent advice with respect to taxation consequences of acquiring, holding and disposing of Ordinary Shares.

United Kingdom taxation

The following information is intended only as a general guide to current UK tax legislation as at April 2001 and to what is understood to be the current practice of the UK Inland Revenue, which may change, as it applies to persons resident or ordinarily resident in the UK for tax purposes who are beneficial holders of Ordinary Shares as investments and not as trading stock and may not apply to certain classes of persons. Any person who is in any doubt as to his tax position is strongly recommended to consult his tax adviser immediately.

(a) **Taxation of dividends on ordinary shares**

Under current UK taxation legislation, no tax will be withheld at source from dividend payments by the Company.

For individual beneficial owners of Ordinary Shares resident in the UK, a tax credit is available equal to 10 per cent. of the gross dividend (one ninth of the dividend), which may be set off against their tax liability on their total income. An individual who is liable to the higher (currently 40 per cent.) rate of income tax will be liable to tax at 32.5 per cent. on the total of the dividend and the tax credit, and the tax

Part V

Additional information *continued*

credit will satisfy that liability as to 10 per cent., leaving a further 22.5 per cent. (equal to one quarter of the cash dividend received) to pay. Basic, lower rate, taxpayers will not be liable to additional income tax on dividends received. Non taxpayers are not able to reclaim any part of the tax credit. Charities, certain heritage bodies and scientific research organisations may be eligible for compensation payable out of funds to be provided by the Exchequer for a five year transitional period with effect from 6 April 1999.

A UK resident corporate beneficial owner of Ordinary Shares will not normally be liable to corporation tax on any dividend received from the Company unless it is a dealer in securities or a financial institution for whom different considerations may apply. The dividend and the associated tax credit constitute franked investment income. Companies and pension funds are not able to recover any part of the tax credit accompanying dividends.

An owner of Ordinary Shares who is resident in a country other than the UK is liable to UK tax on dividends received but will not be entitled to any payment from the Inland Revenue in respect of the tax credit on dividends on the Ordinary Shares. For example, a Belgian resident is taxable on UK dividends, but is already deemed to have paid this tax liability. This is because of the UK tax credit attaching to the dividend. A Belgian tax resident is therefore not liable to pay any further UK tax. Furthermore, a Belgian tax resident is not entitled to any repayment of the tax credit, unless the Belgian tax resident is a corporate shareholder holding not less than 10 per cent. of the share capital of the UK company, in which case there would be a repayment of a small proportion of the tax credit (equivalent to 0.28 per cent. of the net dividend). Corporate beneficial owners of Ordinary Shares benefiting from special treaty provisions relating to corporate investors holding not less than 10 per cent. of the voting power in the Company, are entitled to a very small part repayment of tax credit.

(b) **UK Stamp Duty and Stamp Duty Reserve Tax ("SDRT")**

Except in relation to depository receipts arrangements or clearance services, where special rules apply:

(i) No stamp duty or SDRT will be payable on the issue of new Ordinary Shares;

(ii) Any subsequent conveyance or transfer on sale of Ordinary Shares will usually be subject to stamp duty on the instrument of transfer, generally at the rate of 0.5 per cent.of the amount or value of the consideration (rounded up to the nearest £5). A charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration will arise in relation to an unconditional agreement to transfer Ordinary Shares. However, where within 6 years of the date of such agreement, an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be cancelled or repaid. A transfer of Ordinary Shares effective on a paperless system through CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration.

The above statements are intended only as a general guide to the current position. Certain categories of persons are not liable to stamp duty or SDRT, and others may be liable at a higher rate or may, although not primarily liable for the tax, be required to notify an account under the Stamp Duty Reserve Tax Regulations 1996. Any shareholder who is in any doubt as to the application of stamp duty and/or SDRT in his particular circumstances (especially a shareholder who holds or intends to hold Ordinary Shares on a paperless system through Clearstream or Euroclear) should consult his tax adviser immediately.

(c) **Capital Gains Tax**

UK resident or ordinarily resident individual beneficial owners of Ordinary Shares will be liable to capital gains tax on any chargeable gain realised on the disposal of the Ordinary Shares whilst they are resident or ordinarily resident for tax purposes in the UK, subject to any allowances, reliefs or exemptions which may be available to them. UK resident corporate beneficial owners of Ordinary Shares are liable to corporation tax on chargeable gains realised on disposal of their holding of Ordinary Shares, subject to certain reliefs and exemptions.

(d) **Inheritance Tax**

Ordinary Shares are assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may give rise to a liability to UK inheritance tax, subject to certain reliefs and exemptions, even if the holder is not domiciled in the UK or deemed to be so domiciled. No UK inheritance tax is payable when the total estate is less than £242,000 for 2001/2002. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and there are particular rules which apply to gifts where the donor reserves or retains some benefit. There are also special rules, which apply to close companies and trustees of settlements holding shares, which bring them within the charge to inheritance tax.

Belgian Tax Considerations

The Company explicitly renounces to the advantage of the reduced withholding tax rate of 15 per cent. provided for in Article 269, section 3 of the Belgian Income Tax Code 1992.

(a) **Withholding taxes**

(i) Individual Shareholders

- Dividends distributed to individual Shareholders subject to the individual income tax are subject to a 25 per cent. withholding tax in case the dividends are distributed through a Belgian paying agent. This withholding tax is a final tax.

- Dividends distributed to individual Shareholders subject to the individual income tax are not subject to a withholding tax in case the dividends are not distributed through a Belgian paying agent. In this case, the individual shareholder should mention the amount of the dividend received in his annual individual income tax return. The dividend income will then be subject to a separate tax at a rate of 25 per cent. increased with the municipal surcharge.

(ii) Corporate Shareholders

According to Article 106, §1 RD/ITC 1992, dividend income distributed by a foreign company to a Belgian resident company via a Belgian paying agent is exempt from withholding tax if formalities are complied with. If no such paying agent intervenes, there is no Belgian withholding tax issue.

(iii) Shareholders subject to the Legal Entity Tax

Similar to Belgian individual residents, a withholding tax of 25 per cent. is due.

(b) **Income tax**

(i) Individual Shareholders

For dividends distributed to individual Shareholders subject to the individual income tax which have not been subject to a withholding tax, the individual shareholder should mention the amount of the dividends received in his annual individual income tax return. The dividend income will then be subject to a separate tax at a rate of 25 per cent. increased with the municipal surcharge.

(ii) Corporate Shareholders

The tax regime of the received dividends distributions will depend upon whether or not and, if so, to what extent the "dividends received deduction" applies; if said deduction is applicable, only 5 per cent. of the dividends received from the Company will, in the absence of sufficient tax deductible items, be taxed at the normal corporate tax rate of 40.17 per cent.; otherwise, the dividends will be fully taxable.

The "dividends received deduction" will apply if the Belgian corporate shareholder owns, at the time of attribution of the dividend, a participation of at least 5 per cent. or with an acquisition value of at least EUR 1,239,467.62 (EUR 1,200,000 as from tax year 2002) in the Company; these conditions do not apply to certain types of companies such as insurance and investment companies.

(iii) Shareholders subject to the Legal Entity Tax

The above-mentioned withholding tax constitutes a final tax. No further Legal Entity Tax is due.

(c) **Capital Gains Taxation**

(i) Individual Shareholders

Individual Shareholders holding the Ordinary Shares as a private investment are not subject to capital gains taxation on the disposal of shares in a foreign company. However, capital gains may become taxable at a rate of 33 per cent., increased with a 3 per cent. crisis surcharge and the municipal surcharge, in case the capital gains are considered as speculative income, i.e., income resulting from operations or speculations exceeding the normal administration of private investments. If the individual shareholder has invested the Ordinary Shares in his business activity, capital gains on the disposal of the shares become taxable at a separate rate of 16.5 per cent. increased with a 3 per cent. crisis surcharge and the municipal surcharge in case the shares are invested in the business for more than 5 years. If less, the progressive individual income tax rates apply.

(ii) Corporate Shareholders

Capital gains on the Ordinary Shares are tax-exempt if the dividends qualify for the "dividends received deduction". The participation conditions, as set out above, do not apply for the capital gains exemption.

(iii) Shareholders subject to the Legal Entity Tax

Capital gains on the Ordinary Shares are tax-exempt.

Part V

Additional information *continued*

(d) **Stock Exchange Tax**
A tax of 0.35 per cent. with a maximum of EUR 247.89 per transaction is levied upon the delivery following the subscription of Ordinary Shares through Belgian professional intermediaries. The rate applicable for each sale and purchase in the secondary market through the intervention of a Belgian professional intermediary is 0.17 per cent. with a maximum of EUR 247.89 per transaction. An exemption of the Stock Exchange Tax applies to dealings between professional intermediaries and to dealings by professional intermediaries or non-residents acting on their own account.

(e) **Tax on report transactions**
Report transactions concluded or executed in Belgium are subject to a stamp tax at the rate of 0.085 per cent. in the hands of both contracting parties, in case a professional intermediary intervenes. A report transaction is an agreement whereby a person sells public securities and simultaneously agrees to purchase at a later date similar securities from the purchaser (or *vice versa*).

The above is only a guide to the general tax position as at the date of this Prospectus, is based on current legislation and, in the case of the UK, Inland Revenue practice. If any person is in any doubt as to his tax position or is subject to tax in a jurisdiction other than the UK or Belgium, he should consult his own professional adviser.

12 Working capital

The Directors, having made due and careful enquiry, are of the opinion that, taking into account the net proceeds of the Placing receivable by the Company, the working capital available to the Company and the members of its Group will, from Admission, be sufficient for their present requirements, that is for at least the next twelve months.

13 Significant change

Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 30 June 2001, the date to which the latest audited accounts of the Group were prepared.

14 Litigation

Neither the Company nor any of its subsidiary undertakings is or has been engaged in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position nor are any such proceedings pending or threatened against the Company or any of its subsidiary undertakings.

15 Material contracts

The following are the only contracts (not being contracts entered into in the ordinary course of business) that have been entered into by any member of the Group within the two years immediately preceding the date of this document which are, or may be, material or have been entered into at any time by any member of the Group and contain provisions under which any member of the Group has an obligation or entitlement which is, or may be, material to the Group as at the date of document:

(i) On 2 March 2000, the Company entered into agreements with the following Shareholders: The Royal Bank of Scotland Trust Company (Guernsey) Limited G132 and The Royal Bank of Scotland Trust Company (Guernsey) Limited G574 (who together subscribed for £49,998 of nominal capital of the Company to enable the Company to obtain its trading certificate under section 117 of the Act) whereby the Company agreed to accept from them the transfer of shares in DMHL in discharge of the undertakings they gave to the Company pursuant to section 738 of the Act to pay up the £49,998 of subscribed nominal capital and the £2 of transferred nominal capital in the Company.

(ii) On 3 March 2000, the Company received undertakings in connection with the Nasdaq Europe Admission (as described more particularly in paragraph 3 of this Part V), that specified shareholders and warrantholders and noteholders would accept the offer, warrant offer and/or note offer;

(iii) Pursuant to the Nasdaq Europe Admission the Company has executed warrant deed polls and issued warrants over its share capital to those persons who previously held warrants in DMHL. There are warrants in issue over 1,950,949 ordinary shares in the Company representing 12.43 per cent. of the pre-Placing issued capital. The warrants are exercisable at prices between £2 and £4.30 and are exercisable at various times.

(iv) The Company adopted an Executive Share Option Scheme on 22 March 1999. The details of the scheme and its predecessors are summarised at paragraph 8 of this Part V.

(v) Pursuant to acceptance of the DMHL Listing referred to at paragraph 2(b) of this Part V by NEGF II LP, the Company, DMHL and NEGF II LP agreed to amend the promissory notes to the value of US$2,000,000 in Deltex Holdings Inc. such that the promissory notes now convert into shares in the Company, where prior to the DMHL Listing they were convertible into shares in DMHL. The promissory notes either were converted or converted automatically into approximately 594,211 ordinary shares in the Company prior to Nasdaq Europe Admission.

(vi) **2000 Underwriting Agreement**

Under an agreement between Deltex, Beeson Gregory, NJ Keen and others, and ICE Securities and others dated 13 April 2000 (the "**Underwriting Agreement**"), Deltex agreed to grant Beeson Gregory an option to procure subscribers for up to 600,000 Ordinary Shares and to issue to a syndicate of brokers (including Beeson Gregory) 2,081,785 Ordinary Shares to be placed with various investors. The placing of shares was conditional on, among other things, Nasdaq Europe Admission.

In connection with the placing, the Company and Directors severally gave a number of warranties in respect of the Nasdaq Europe prospectus issued by the Company dated 13 April 2000 (the "**Nasdaq Europe Prospectus**"), its due capacity, authorisation and corporate structure, share capital, working capital, accounts, taxation, insurance, licences and consents, intellectual property, indebtedness, material contracts, solvency, litigation, employees and compliance with law and, in addition, warranted the contents of verification notes, a legal review and director's questionnaires. Warranties given were disclosed against by the Company in the Nasdaq Europe Prospectus.

In addition, the Company and each Director indemnified Beeson Gregory and the other members of the syndicate of brokers against all losses and liabilities suffered in any jurisdiction by such persons arising out of the performance by members of the syndicate of brokers of their obligations under the agreement, including any material misrepresentation made in any document issued in connection with the Nasdaq Europe placing, Nasdaq Europe Admission or any failure to comply with the laws of countries into which such documents were distributed.

The Company further indemnified Beeson Gregory in its capacity as sponsor to the Company in respect of Nasdaq Europe Admission against all losses and liability suffered by it in respect of any untrue statement of material fact contained both in the Nasdaq Europe Prospectus and the preliminary prospectus issued on 22 March 2000 by the Company in connection with Nasdaq Europe Admission and the omission of any material fact therefrom, whether alleged or otherwise. Such indemnity excepted any loss or liability arising out of a breach by Beeson Gregory of the agreement or the rules of The Securities and Futures Authority.

The aggregate liability of the Company and the Directors under the warranties and indemnities given was subject to certain agreed limits. No claim has been brought against the Company or the Directors.

The Company agreed to pay to Beeson Gregory and the other members of the syndicate of brokers a selling commission of 4.2 per cent. and a management and underwriting commission of 2.8 per cent. of the offer price of US$7.00 per offer share.

(vii) **Placing Agreement**

Details of the terms of the proposed Placing Agreement are set out in paragraph 10 of this Part V.

(viii) **Over Allotment Option Agreement**

The Company, Beeson Gregory and the Selling Shareholder have agreed the terms of an agreement whereby the Company and the Selling Shareholder grant to Beeson Gregory an option to procure subscribers or purchasers (as the case may be) for up to that number of Option Shares equal to 15 per cent. of the number of Placing Shares at the Placing Price in addition to the Placing Shares. This agreement will be signed immediately prior to the Placing at the same time as the Placing Agreement referred to above is signed.

The Over Allotment Option will be exercisable at any time from Admission up until (and including) the 30th day following Admission by written notice to the Company's solicitors. Such notice shall be irrevocable and may relate to some but not all of the Ordinary Shares the

Part V

Additional information *continued*

subject of the Over Allotment Option (in which case it shall be exercised first in respect of Ordinary Shares held by the Selling Shareholder (up to a maximum of half the total number of Option Shares) and thereafter in respect of the Ordinary Shares to be issued by the Company). The Company and the Selling Shareholder give limited warranties to Beeson Gregory Limited relating to authority to enter into the agreement, unencumbered title to the shares (in the case of the Selling Shareholder) and power to allot the shares (in the case of the Company).

Beeson Gregory is entitled to deduct from the consideration payable to the Company or the Selling Shareholder commission at the rate of 3.5% of the Placing Price for each Option Share sold or issued along with all stamp duty and SDRT relating to the sale pursuant to the agreement.

(ix) **2001 option agreement**

The Company and Beeson Gregory have agreed on the terms of an option agreement (to be signed immediately prior to the Placing) whereby, in consideration of Beeson Gregory entering into the Placing Agreement and agreeing to act as Nominated Adviser and Broker to the Company, the Company will grant Beeson Gregory an option to subscribe for up to £500,000 of Ordinary Shares (the "**Relevant Shares**") at the Placing Price exercisable at any time between the date of Admission and the 3rd anniversary of the date of Admission.

Beeson Gregory may exercise its option in whole only. Beeson Gregory may, in exercising the option, direct that the Ordinary Shares specified in the option notice be issued to its nominee.

Beeson Gregory is entitled to assign the whole of its rights under the agreement to another of its group companies.

(x) **Nominated Adviser's and Broker's Agreement**

The Company has entered into an agreement dated 8 October 2001 with Beeson Gregory under which Beeson Gregory agrees to act as nominated adviser and broker to the Company in order to provide advice to the Company and its directors as to their responsibilities and obligations to ensure compliance by the Company with the AIM Rules (on an ongoing basis).

The agreement continues until terminated by either the Company or Beeson Gregory by not less than 3 months' prior written notice (expiring on or after 8 October 2002). In the event the Admission does not occur by 8 November 2001 or such later date as Beeson Gregory may agree (being not later than 30 November 2001), then the agreement shall terminate and be of no further force or effect.

In consideration of Beeson Gregory acting as nominated adviser and broker the Company agrees to pay Beeson Gregory an annual retainer of £40,000 plus VAT by equal quarterly instalments in arrears of £10,000 plus VAT (such payments being subject to and conditional upon Admission). In addition, the Company agrees to pay all costs, charges and expenses of or incidental to, or incurred in connection with the appointment of Beeson Gregory thereunder and all stock exchange and other regulatory body fees and expenses relating thereto.

The Company agrees not to make any claim against Beeson Gregory to recover any loss, damage, cost, etc. which the Company (or its directors or subsidiaries) may incur by reason of or arising out of Beeson Gregory performing its obligations under the agreement. In addition, the Company agrees to indemnify Beeson Gregory and its employees, shareholders and subsidiaries for any losses they may incur in connection with the carrying out by Beeson Gregory of its obligations or services under the agreement. The indemnity does not extend to fraud, negligence or default of any such indemnified person or a breach of the agreement by Beeson Gregory or breaches of the Financial Services Act or rules of The Securities and Futures Authority.

The Company undertakes to Beeson Gregory to comply with all relevant laws and regulations in any jurisdiction and to obtain appropriate advice in relation thereto. The Company also agrees to supply Beeson Gregory with certain specific information and such other information as Beeson Gregory may reasonably require to properly perform their duties under the agreement.

(xi) On 3 March 2000 DMHL executed a deed poll constituting up to £3,000,000 of fixed rate unsecured loan notes. The loan notes were at an interest rate of 8 per cent. per annum and were to be redeemed on the earlier of 31 December 2000 or within 14 days of Nasdaq Europe Admission. Noteholders received a free attaching warrant over 1 ordinary share in DMHL for every £15,000 of loan stock applied for. Those warrants are exercisable by the holders between 6 and 24 months after Nasdaq Europe Admission at a subscription price of £4,300 per ordinary share (or £4.30 per ordinary share following the 1,000 for 1 bonus issue effected by DMHL on 6 April 2000) (subject to adjustment following a further change to the share capital of DMHL). Further details of these warrants are given in paragraph 3(d) of this Part V. The

Royal Bank of Scotland Trust Company (Guernsey) Limited G132 and The Royal Bank of Scotland Trust Company (Guernsey) Limited G574 have applied for £1,500,000 and £500,000 of loan stock respectively and NEGF II LP has applied for £150,000 of loan stock.

16 General

(a) PricewaterhouseCoopers has given and has not withdrawn their written consent to the inclusion in this document of their report set out in Part III and the references to their report and name in the form and context in which these are included.

(b) Beeson Gregory has given and not withdrawn its written consent to the inclusion in this document of its name and references to itself in the form and context in which these are included.

(c) The financial information concerning the Group contained in this document does not constitute statutory accounts within the meaning of section 240(5) of the Companies Act 1985. Full individual accounts of the Company, its predecessor and each of its subsidiary undertakings for each financial year to which the financial information relates and on which the auditors gave unqualified reports have been delivered to the Registrar of Companies (where applicable). The consolidated financial statements of the Company and its predecessor in respect of the two years ended 31 December 2000 were reported on by PricewaterhouseCoopers, Chartered Accountants, the auditors of the Company within the meaning of section 235 of the Companies Act 1985. The consolidated financial statements for the year ended 31 December 1998 were reported on by Coopers & Lybrand, Chartered Accountants, the auditors of the Company within the meaning of section 235 of the Companies Act 1985.

The audit opinion on the consolidated financial statements of Deltex Medical Group plc for the six months ended 30 June 2001 was modified to include an emphasis of matter paragraph referring to the going concern basis on which those financial statements were prepared. That modification has not been repeated in the accountants' report set out in Part III as this report has been prepared solely for the purposes of the prospectus of Deltex Medical Group plc which assume that on the admission of Deltex Medical Group plc to AIM and the offering of its ordinary shares, sufficient proceeds will be raised, together with its existing capital resources, to enable it to meet its working capital requirements over the next twelve months.

(d) The assumed Placing Price of 28p per Ordinary Share represents a premium of 18p over the nominal value of 10p per Ordinary Share following the Capital Reorganisation.

(e) Payment for the Placing Shares must be made in full on application.

(f) The Company's accounting reference date is 31 December.

(g) Except as described in this document, no persons (excluding professional advisers otherwise disclosed in this document and trade suppliers) have received, directly or indirectly, from the Company within the 12 months preceding the Company's application for Admission, and no persons have entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:

(i) fees, totalling £10,000 or more;

(ii) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or

(iii) any other benefit with a value of £10,000 or more at the date of Admission.

(h) Save as disclosed in this document, no exceptional factors have influenced the Company's activities.

(i) The minimum amount which, in the opinion of the Directors, must be raised for the purposes set out in paragraph 21 of Schedule 1 to the POS Regulations is £3,000,000, which will be applied as follows:

(i) none in respect of any property purchased or to be purchased out of the proceeds of the Placing;

(ii) approximately £780,000 in respect of commissions and expenses payable under the Placing; and

(iii) the balance for working capital purposes.

Part V

Additional information *continued*

The Company has not borrowed any money in respect of the matters described in paragraph (ii) above and therefore none of the subscription monies will be applied to the repayment of any such money.

There are no further amounts which require to be provided in respect of the matters mentioned above otherwise than out of the proceeds of the Placing.

17 Documents for inspection

Copies of the following documents may be inspected at the offices of Clifford Chance Limited Liability Partnership, 200 Aldersgate Street, London, EC1A 4JJ during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for the period from the date of this document until the date which is one month from the date of Admission:

(i) the Memorandum and Articles of Association of the Company;

(ii) the audited consolidated accounts of the Company and its subsidiary undertakings for the two years ended 31 December 2000;

(iii) the Accountants' Report set out in Part III and their statement of adjustments relating to that report;

(iv) the service agreements and letters of appointment referred to in paragraph 7 above;

(v) the rules of the Share Option Schemes referred to in paragraph 8 above;

(vi) the material contracts referred to in paragraph 15 above;

(vii) the written consents referred to in paragraph 16 above.

Printed by **Burrups**, a St Ives Company B643566/5897
London Paris Frankfurt Luxembourg New York Philadelphia Washington DC Hong Kong Tokyo