SPHERE

Annual report and accounts 2015

Raising the **standard** of critical **care**

We have a clear vision for the future of real-time diagnostic care

At a glance

Sphere Medical's vision is to become a leading solution provider to the critical care market offering innovative, near real-time, point of care diagnostic and monitoring products to enable closer control of therapeutic response, improve patient outcomes and reduce the overall cost of care.

The Company's strategy is focused on developing the Proxima (CE marked device) platform for measuring blood gases, electrolytes and metabolites.

The Company is already marketing its Proxima product directly to the critical care market, with a dedicated field sales force in the UK, Germany, The Netherlands and Belgium, and proposes to work with partners for worldwide distribution.

Online
www.spheremedical.com

2015 in brief:

Business highlights

- Sales force established selling into the UK, Germany, The Netherlands and Belgium
- Proxima 3 successfully launched into Europe to gain early adopter feedback
  - First sales of Proxima 3 in the UK 2015 and Germany Q1 2016
  - To date more than 20 hospitals have undertaken evaluations
  - To date more than 90 patients connected
  - 120 articles in clinical print and online press
- Proxima 4 development milestones met
  - Technical files submitted for CE mark registration
  - Launch expected 2016
- Commenced discussions with potential commercialisation partners
- New production facilities established in Wales
- Professor Mike Grocott, Professor of Anaesthesia and Critical Care, University of Southampton, joins the Medical Advisory Board

Financial summary

- Successful equity fundraising in April 2015 of £13.2 million (before expenses)
- Revenue £15,000 (2014: £14,000) in line with go to market strategy
- Continuing tight financial control better than budget
  - Total operating expenses £6.1 million (2014: £5.9 million)
  - Product development costs capitalised £0.9 million (2014: £nil)
- Loss after taxation £5.5 million (2014: £5.3 million)
- Reduced loss per share resulting from additional shares issued 4.8p (2014: 9.0p)
- Cash balance better than budget
  - Cash and short-term investments at year end of £10.0 million (2014: £3.7 million)

Managing critically ill patients

Proxima is a patient-connected blood gas and electrolyte solution for managing patient pathways

Patient pathway management

The aim of patient pathway management is to standardise care, improve patient outcomes and reduce cost.

Up-to-date and frequent diagnostic information at the patient's bedside is an important element to improve such workflows both within and across departments.

Blood gases, electrolytes and metabolites form a vital part of the diagnostic information.

Proxima

Proxima is an in-line patient dedicated arterial blood analyser which supports rapid and frequent measurements at critical times.
A disposable multi-parameter microanalyser is integrated directly into the patient's arterial line at the bedside. It accompanies the patient throughout the entire pathway for a period of up to 72 hours.
New data can be collected at the patient's bedside. All blood is returned to the patient.

Benefits

- Better patient management during patient's critical period
- Faster and more frequent production of results
- Faster feedback on success of urgent interventions
- Reduces nursing workload
- Reduces infection risks
- Avoids blood loss
- Reduction in transfusion risk and the inherent costs of complications

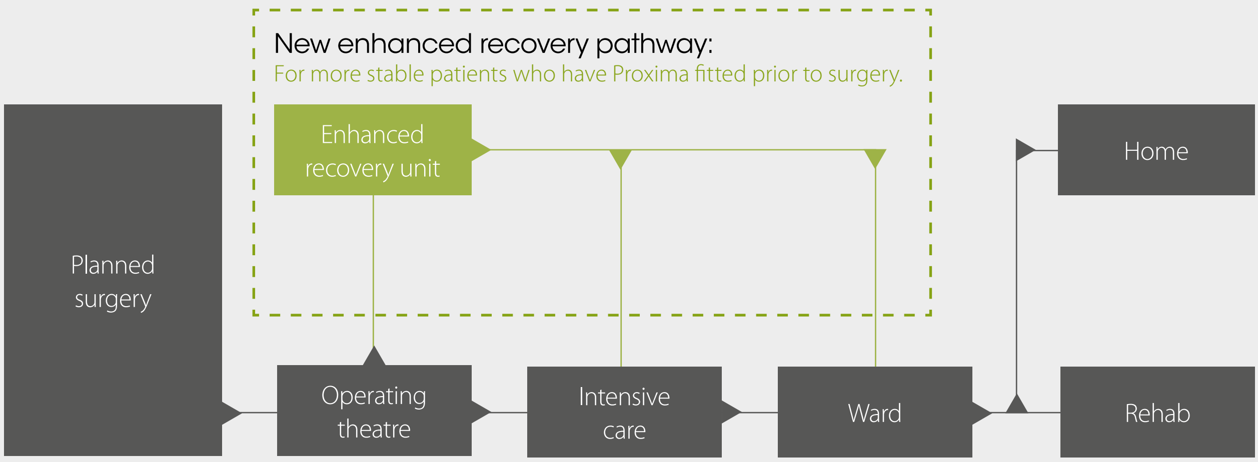
"Proxima addresses some important issues in the management of unstable critically ill patients. I am pleased to be advising Sphere Medical on this exciting development in critical care."

Prof Michael Quintel

Pathway case study

At-risk elective surgery patients will typically spend some time in intensive care after their operation. If they remain in intensive care for longer than expected, the hospital may have to cancel operations for other at-risk patients.

With Proxima fitted prior to surgery, the more stable patients can be identified and taken to an enhanced recovery unit, where there are more patients per nurse, compared with intensive care. This can release intensive care beds and reduce costs for the hospital.



Frequent blood gas measurements can improve patient outcomes

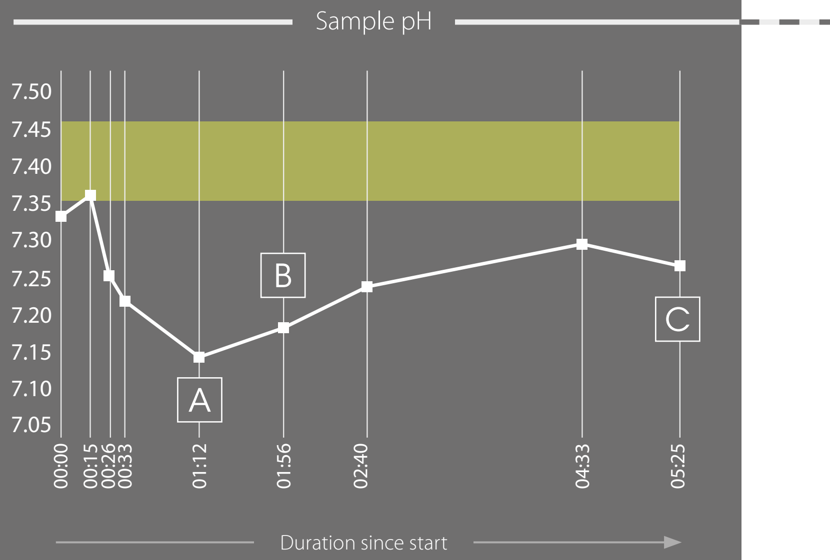
In Case one adjacent, where relatively few blood gas measurements were taken and consequently treatment was adjusted less quickly, the patient spent a long time outside the ideal physiological range, potentially exposing the patient to higher risk, such as subsequent organ malfunction. In Case two, where frequent measurements were taken, the patient was kept closer to, or within, the ideal physiological range.

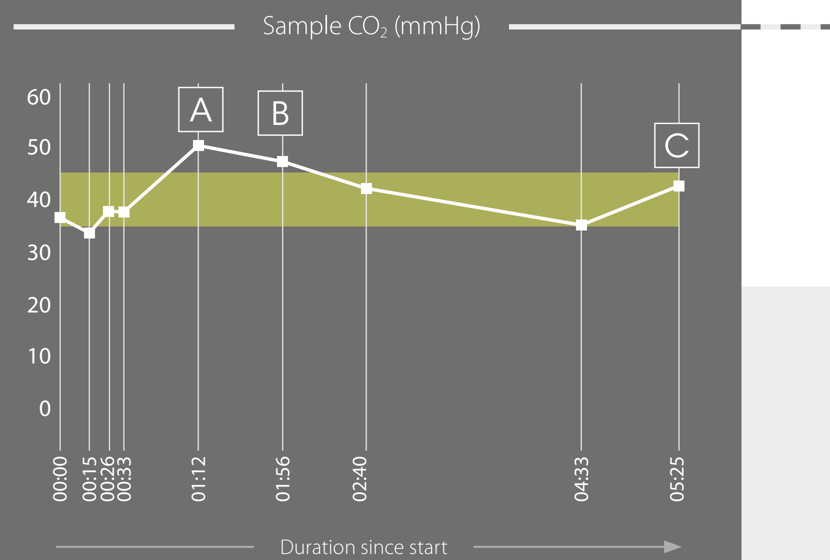
Case one

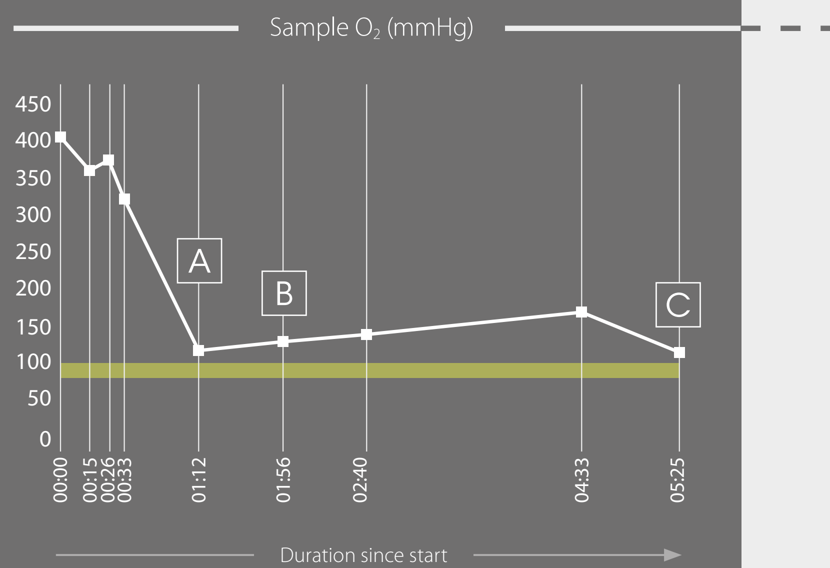
Patient undergoing procedure in the Cath Lab

Proxima was connected to the patient at the time when the arterial line was inserted and a first measurement performed. Ventilation started over an hour later (point **A**). The ventilator settings were adjusted according to the BGA measurements about two hours after the start (point **B**). By that time the patient was severely acidotic (low pH). These values did not recover back to normal before the end of the procedure, which lasted about 5.5 hours (point **C**). The patient would have benefited from more frequent measurements and adjustment of ventilator settings to keep the values closer to the physiological ranges.

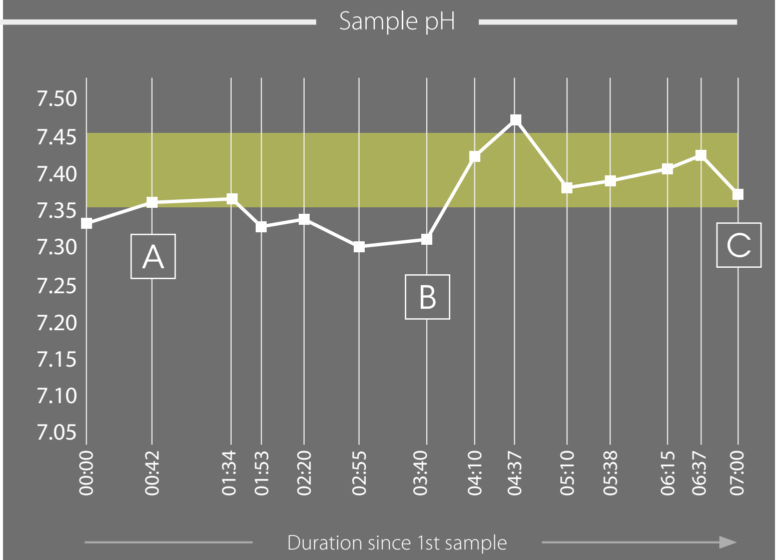
Case one: Less frequent measuring

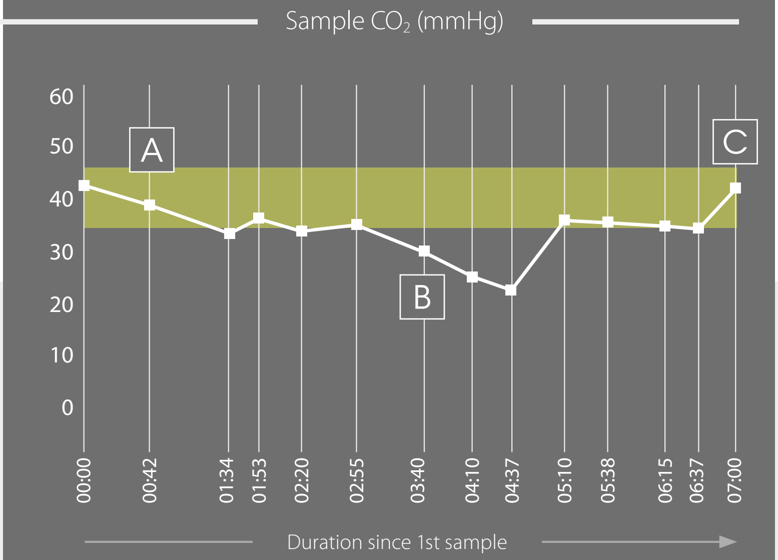


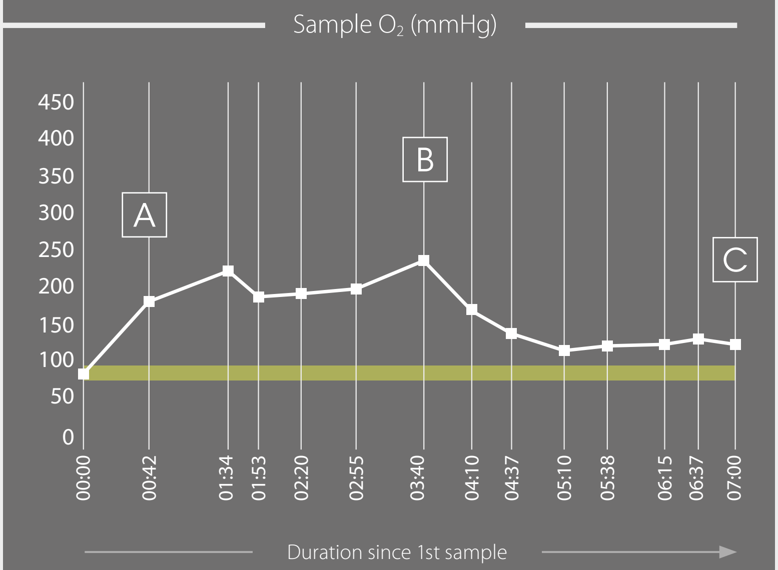




Case two: Frequent measurements







"I am excited by the possibilities that Proxima offers to improve the precision of patient care and delighted to have the opportunity to advise Sphere Medical at this important stage in the development and commercialisation of the system."

Prof Mike Grocott

Case two

Patient undergoing cardiac surgery

Proxima was connected to the patient at the time when the arterial line was inserted and a first measurement performed. The patient was put on cardiopulmonary bypass after 40 minutes (point **A**). During the procedure the patient was cooled down to a body temperature of about 20 C (point **B**). Thereafter the body was warmed up again and the patient came off the bypass after seven hours (point **C**). A measurement was taken on average every 30 minutes during the procedure and, where needed, the settings of the heart lung machine adapted. The values for pH and pCO_2 track the physiological ranges quite well. As the patient is on bypass and not on a ventilator, the O_2 values tend to be high.

The ideal physiological range
Samples

Go to market strategy

$3.2 billion market worldwide growing at 3.1% per annum

Proxima has a global market potential of more than $200 million per annum.

Strategy to increase market penetration through product evolution and geographical expansion:

Proxima 3

- ☐ Hire a small dedicated own sales force
- ☐ Sell directly to early adopters in limited European territories
- ☐ Obtain key feedback on product positioning and product performance
- ☐ Prepare market for future product generations

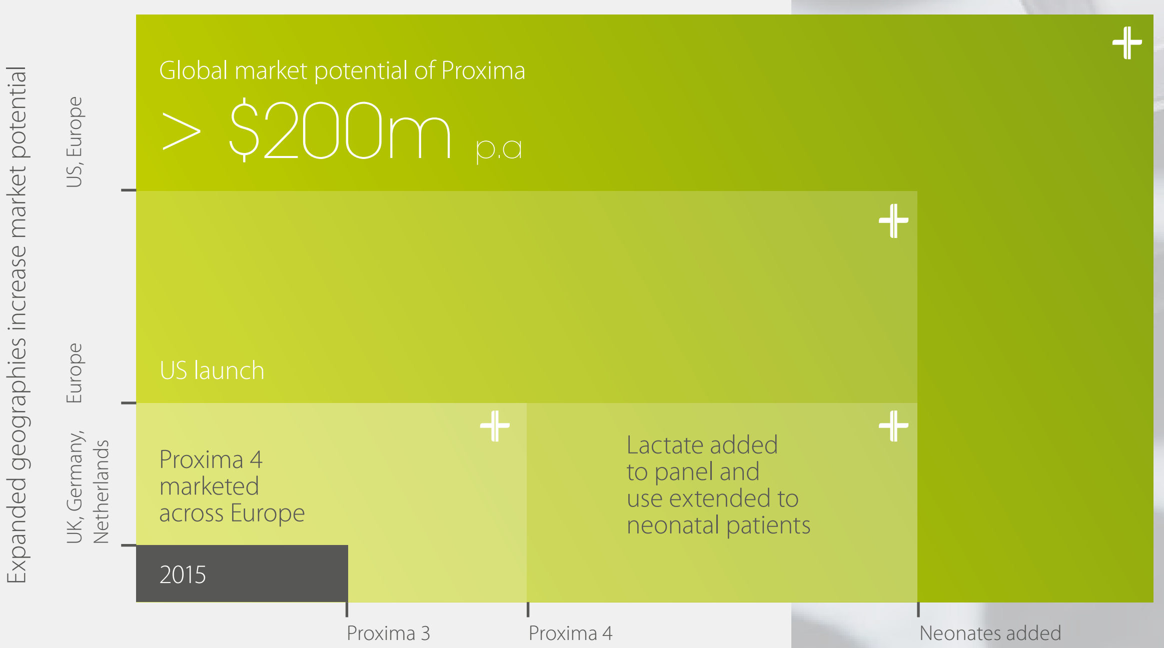
Proxima 4

- ☐ Launch for sale in established European countries, replaces Proxima 3
- ☐ Find a partner to:
  - Sell to end-customers across Europe
  - Obtain US approval subsequently
  - Sell on a worldwide basis upon approvals

Beyond Proxima 4

- ☐ Aim is to deliver annual innovation increments

Market potential of Proxima



Additional analytes increase the proportion of critical-care patients for which Proxima is suitable

"Proxima has the potential to bring about a paradigm shift in the intensive and critical care setting."

Prof Jean-Louis Vincent

Proxima 3

Proxima 3 is the first patient-attached microanalyser device worldwide to monitor all the following parameters:

- pH
- oxygen
- carbon dioxide
- potassium
- hematocrit
- base excess
- bicarbonate

Proxima 3 is particularly well suited for use with adult patients who have respiratory or cardiac conditions, where frequent measurement of oxygen and carbon dioxide concentrations are very important.

Development pipeline

Proxima 4

- Glucose and sodium added to panel
- Paediatric patients over 15 kg
- Usability and workflow improvements based on market feedback

Beyond Proxima 4

- Lactate added to the panel
- Expand to neonatal patients
- US approval

Launched in Europe and first sales achieved

Sales progress: Europe

Since Proxima 3 was launched, good progress has been made towards developing sales.

- Proxima 3 launched September 2014 in the UK and March 2015 in continental Europe
- Direct sales team hired selling into the UK, Germany, The Netherlands and Belgium
- First commercial sales achieved in UK and Germany
  - Typical sales cycle 9-12 months
- Increasing interest in Proxima in the market
  - To date more than 20 hospitals have undertaken evaluations
  - To date more than 90 patients connected
  - 120 articles in clinical print and online press
- Growing momentum throughout the year
  - >60% growth in leads generated in H2 versus H1
  - >70% growth in hospital evaluations in H2 versus H1
- Evaluations have demonstrated that Proxima can reduce the time from ordering a blood gas test to receiving the result by 40% to 60%

Hospital evaluations completed

20

Patient connections during evaluations

90

Strategy

Sphere Medical's strategy is focused on commercialising the Proxima platform for measuring blood gases, electrolytes and metabolites. The Company is already marketing its Proxima product directly to the critical care market, which includes the ICU and OR, with a small dedicated field sales force in the UK, Germany, the Netherlands and Belgium. Sphere Medical also proposes to work with partners for the worldwide distribution of Proxima.

Strategic goals:

1.0 Obtain CE mark for Proxima 4 in 2016.

2.0 Launch Proxima 4 across Europe in 2016.

3.0 Find a commercialisation partner to distribute Proxima in the major markets around the world.

4.0 Add lactate to the Proxima panel in 2017.

5.0 Register Proxima in the US.

Growing momentum throughout 2015

INTRODUCTION

2015 was an important year in the progression of the Company towards becoming a commercially successful business. A number of key milestones were reached, including recruitment of a sales force selling directly into four countries, the European launch of Proxima and the first sale of Proxima 3. In addition, development milestones have been met for Proxima 4. This next generation of the product will bring the benefits of the Proxima system to a much broader range of patients, both in terms of being applicable to a much wider list of medical conditions and by adding paediatric patients. These benefits include enabling better patient management during a patient's critical period, faster and more frequent production of results, and avoidance of blood loss and reduction of infection risks. The launch of Proxima 4, which is expected during 2016, will be an important step towards realising the full market potential of Proxima within the $3.2bn worldwide market for blood gas and electrolyte testing. Discussions have begun with potential global commercialisation partners.

We also successfully completed the £13.2 million fund raising in April 2015, which provided the Company with the financial resources to continue with its commercialisation strategy.

Dr Wolfgang Rencken
Chief Executive Officer

Richard Wright
Chief Financial Officer

COMMERCIALISATION STRATEGY

Sphere Medical's strategy is focused on commercialising Proxima, which remains the only commercially available patient-attached microanalyser device worldwide to monitor seven key analytes. The first generation to be marketed, Proxima 3, was launched in the UK in September 2014, and its continental European launch followed in March 2015. The next generation, Proxima 4, is a significant development of the product in application and functionality, and work on this is well advanced, progressing in line with the Board's timetable. We aim to launch Proxima 4 in Europe during 2016, pending CE marking approval.

Looking further ahead, we plan to introduce more enhancements to the Proxima platform, including additional analytes, improved usability and expanding its use to neonatal patients, and we aim to launch Proxima in other major markets, such as the US and Japan, in the next few years.

SALES TRACTION

Proxima is a novel device, the use of which enables hospitals to save costs. We continue to receive excellent feedback from clinicians as we demonstrate the benefits and build the case for the product. Early adoption can take 9 to 12 months, although this varies from hospital to hospital.

During 2015 we established a sales force across the UK, Germany, The Netherlands and Belgium. The first sale of Proxima 3 took place in the UK in June 2015. Since the year end we have also had the first sale in Germany. While the quantum of revenue is, as anticipated, likely to remain modest through 2016, importantly there is increasing market appetite, with a growing number of hospitals and clinicians showing interest in the Proxima platform, and a growing number of hospitals undertaking evaluations. To date, more than 20 hospitals have undertaken evaluations and more than 90 patients have been connected. We have also seen momentum increasing throughout the year, with the number of leads generated in the second half of 2015 more than 60% higher than in the first half, and the number of hospital evaluations undertaken growing by more than 70% over the same period. While some hospitals have chosen to wait for Proxima 4, a number are in the latter stages of approving the purchase of Proxima 3. Another five hospitals are currently undertaking evaluations or are in preparation to do so shortly.

$3.2bn(1)

Global market for blood gas and electrolyte testing in 2013 and growing at CAGR 3.1%(2)

$0.9bn(1)

Point of care market worldwide in 2013 and growing at CAGR 4.9%(2)

$0.3bn(1)

Point of Care market Europe in 2013 and growing at CAGR 4.8%(2)

(1) Blood Gas and Electrolyte Analysers, Global Industry Analysts Inc. 2012
(2) CAGR calculated over eight years

PRODUCT DEVELOPMENT

Development work on Proxima 4 is progressing in line with expectations. This next generation of Proxima will have glucose and sodium added to the panel of analytes. In addition, there will be improved connectivity to hospital information systems, and a number of improvements in the user experience. Many of these developments stem from feedback from the evaluations of Proxima 3 within hospitals. This will bring the benefits of Proxima, of enabling better patient management during a patient's critical period, faster and more frequent production of results, and avoidance of blood loss and reduction of infection risks, to a broader patient demographic, including paediatric patients, increasing the market potential of Proxima several-fold. The data files for CE mark registration of Proxima 4 have been submitted and we expect to be ready to launch Proxima 4 during 2016.

Beyond Proxima 4, we have plans to add further analytes. Adding lactate to the panel will be another major step in expanding the potential market for Proxima. We aim to achieve this in 2017. We also plan to make further improvements in the functionality and usability of the system, and adapt the system for use with neonates.

PARTNERING PROGRESS

We are keen to ensure a rapid roll-out of Proxima into the major markets around the world and we recognise the quickest and most efficient way of achieving this is by establishing partnering arrangements. To this end, we have commenced discussions with a number of parties interested in becoming our worldwide partner for the commercialisation of Proxima.

MARKET VALIDATION

During the year, Sphere Medical collected further data on turnaround time, being the time between making the decision that a blood sample analysis was required and when the results are available at the patient to make clinical decisions. This work, carried out across a number of intensive care units and operating theatres, concluded that turnaround time can be reduced by around 40-60% in a typical clinical environment and that the typical 4-8 minutes time spent away from the patient can be eliminated by using the Proxima system. This work is now being followed up with a formal time and motion study being carried out by an independent third party.

Results from a method comparison study carried out at the Queen Elizabeth Hospital, Birmingham were presented at International Society of Intensive Care and Emergency Medicine and the Society for Computing and Technology in Anaesthesia conferences.

White papers were completed on blood conservation and on pre-analytical errors associated with blood gas testing. The blood conservation paper, published in the Clinical Services Journal, explored the aspects of Proxima design that promoted best practice in blood conservation, a key issue in avoiding blood transfusions in critically ill patients. The pre-analytical errors white paper identified how Proxima avoids errors associated with traditional diagnostic testing, particularly around sample collection, preparation and handling. The Company has kept a consistent presence in the healthcare media, with 120 articles in the clinical print and online press during 2015.

PRODUCTION

In preparation for increased demand for Proxima, we have been expanding our manufacturing capability, in a measured way. In February 2016 we opened our new manufacturing facility in St Asaph, North Wales, which should give us adequate capacity to meet our manufacturing needs for the next few years. We are in the process of transferring manufacturing of Proxima components to St Asaph and will shortly commence commercial production once the site has received regulatory clearance.

INTELLECTUAL PROPERTY

Our intellectual property portfolio is a key asset and we continue to invest in the maintenance and development of our IP estate. We currently have 22 patents either granted or in application, covering chip and sensor design and manufacture, design of analytical systems, methods for chemical assay and methods for sensor calibration. We have an ongoing process of reviewing the patent register in order to focus our financial support on our core patent families.

KEY PERFORMANCE INDICATORS

The Group measures its performance according to a wide range of key performance indicators. The main key performance indicators for the Group during 2015 and subsequently were as follows:

Key Performance Indicator	Comment
Development milestones	☐ A number of minor updates to Proxima 3 were developed and rolled out during the year ☐ Proxima 4 development was completed and the technical files were submitted for CE mark registration
Revenue indicators and lead indicators	☐ First sale achieved in June 2015 in the UK ☐ First German sale achieved in January 2016 ☐ A growing number of leads being generated and hospital evaluations being undertaken ☐ More than 20 hospitals have undertaken evaluations ☐ More than 90 patients connected
Production	☐ Production yields have been steadily improving over the year ☐ Throughout the period we have maintained an adequate supply of product
Management of cash resources	☐ Successful £13.2 million fund raising in April 2015 ☐ The Group's cash and short-term investments totalled £10.0 million at 31 December 2015

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal risks and uncertainties are outlined below.

Risk or uncertainty	Comment
Development risk: Upgrades and enhancements such as Proxima 4 do not function as intended or do not pass CE marking	☐ Proxima 4 and subsequent developments build on the Proxima 3 platform, which has already passed these hurdles. As developments and enhancements of an existing product, there is somewhat less risk than developing a completely new product ☐ There is good knowledge and experience within the Group of the development process ☐ The Proxima 4 development is well advanced
Proxima does not gain commercial traction	☐ The first sales have already been achieved in two countries ☐ A number of additional hospitals are evaluating Proxima ☐ A partner with global marketing capability is being sought
A global commercialisation partner is not found	☐ A number of companies have already expressed an interest in exploring a global commercial partnership ☐ If a global commercialisation partner is not found, Sphere Medical can look to put in place a number of regional and country-specific partnerships
The Group's cash resources are exhausted before it becomes cash generative	☐ A global commercialisation partnership may generate improved cash flows ☐ The Group has successfully raised additional finance on several occasions in the past

FINANCIAL REVIEW

Revenue in the year ended 31 December 2015 was £15,000 (2014: £14,000).

Operating expenses were £6.1 million (2014: £5.9 million). Reflecting the move towards commercialisation of Proxima, selling and marketing expenses increased from £0.6 million to £1.0 million, and production overheads increased from £1.1 million to £1.3 million. Administration costs increased from £1.9 million to £2.2 million. £1.7 million (2014: £2.4 million) of product development costs were expensed in the period and £0.9 million (2014: £nil) of product development costs were capitalised.

Net finance income was £91,000 (2014: £65,000) representing primarily interest earned on cash deposits.

During the year, £0.6 million was received in respect of research and development tax claims for 2014 (2014: £0.5 million based on 2013 claims). No accrual has been made for any research and development tax claim for the 2015 year.

The post-tax loss for the year was £5.5 million (2014: £5.3 million). The basic and fully diluted loss per share for the year was 4.8 pence (2014: 9.0 pence).

During the year, £0.9 million of development costs in relation to Proxima were capitalised (2014: £nil). The decision to capitalise these costs rather than expense them immediately reflects management's increased confidence in the future potential of Proxima.

The funding round in April 2015 raised £13.2 million (£12.3 million net of expenses), increasing the number of Ordinary Shares in issue by 83.2 million to 141.8 million. Cash and short-term investments as at the end of the year were £10.0 million (2014: £3.7 million).

The team at Sphere Medical

There were a number of changes to the Board in 2015. David Martyr, Brenig Preest and Meinhard Schmidt joined the Board as Non-Executive Directors, each of them bringing a wealth of experience to the Board. At the Annual General Meeting in June 2015 Anthony Martin stood down as Non-Executive Chairman after ten years in the role, following which David Martyr assumed the chairmanship. Also joining the Board during the year was Richard Wright, who replaced Matthew Hall as Chief Financial Officer.

The Group continues to be supported by a very strong Medical Advisory Board (MAB), which comprises leading critical care clinicians from across Europe. In December 2015 Dr Tom Clutton-Brock stood down from the MAB as he moved to a new role within NICE. We thank him for his assistance over the past 13 years. In January 2016 Professor Michael Grocott joined the MAB. Professor Grocott is the Professor of Anaesthesia and Critical Care Medicine at the University of Southampton (UoS) and heads the UoS Centre for Human Integrative Physiology. His research interests include human responses to hypoxia, measuring and improving outcome following surgery, lung injury, and fluid therapy.

Sphere Medical continues to benefit from the hard work and expertise of its employees who, with the Board, are fully committed to transforming Sphere Medical into a successful commercial medical device company. The Board would like to take this opportunity to thank all our employees for their continued commitment.

Outlook

We are encouraged by the growing traction for Proxima 3 and look forward to the launch of Proxima 4. This will represent a major step forward in the commercialisation of Sphere Medical's technology. We will continue to develop and enhance the Proxima platform and we will progress discussions with potential worldwide commercialisation partners. 2016 is set to be a pivotal year in the progression of Sphere Medical into a commercially successful company.

Wolfgang Rencken
Director

Richard Wright
Director

Market expanded through Proxima development and new geographies

Global market potential of Proxima

$200m

per year

Dr David Martyr
Non-Executive Director and Chairman

Dr Martyr joined the Board as a Non-Executive Director in January 2015 and was appointed Chairman in June 2015. He has held several senior level positions of medical, diagnostic, life science and laser technology companies for more than 20 years. David is currently CEO of Tecan AG, a Swiss listed laboratory instruments and solutions company with a market capitalisation of over CHF1BN. Prior to that he spent 13 years at Leica Microsystems which was acquired by Danaher Corporation in 2005, his last position being Group President Leica Microsystems with US$1.3BN of sales and 4,500 employees and simultaneously VP & Group Executive, Danaher Corporation, with responsibility for the development of the Life Science and Diagnostics business platform. David is also a Non-Executive Director of ALDA (Analytical Life Science Diagnostics Association), based near Washington DC.

Dr Wolfgang Rencken
Chief Executive Officer

Dr Rencken joined the Board in February 2014. He has extensive experience in the healthcare and medical diagnostic equipment industries. He has been responsible for the development and launch of many innovative medical devices and has a proven record of revenue and profit growth. His previous roles include CEO of MAQUET Cardiopulmonary AG, COO of Definiens AG, Vice President of Engineering in the Software Components and Workstations business unit of Siemens AG. Wolfgang has a doctorate in Engineering Science from the University of Oxford. He has written many scientific publications in the area of robotics and has authored a number of patents.

Mr Richard Wright
Chief Financial Officer

Mr Wright joined the Board in August 2015. He is a Chartered Accountant with more than 20 years of experience in financial roles across a variety of sectors. Prior to joining Sphere Medical, he was Finance Director of Alliance Pharma plc, the UK-based AIM-listed speciality pharmaceutical company, for eight years. Richard has also previously held senior finance positions at FirstGroup plc, Somerfield plc and Parragon Books Limited. Richard read Mathematics at the University of Cambridge and qualified as an accountant with Ernst & Young LLP.

Mr John Gregory

Non-Executive Director and Senior Independent Director

A Chartered Accountant who for the last 20 years has concentrated on non-executive roles with young, fast-growing companies, Mr Gregory joined the Board of Sphere Medical in November 2011. He is currently Non-Executive Chairman of Foresight VCT plc and is a Non-Executive Director or Chairman of a number of private companies. John's earlier career in the City included appointments as a director of Singer & Friedlander Holdings and Managing Director of Henry Ansbacher & Co. He was also named 'AIM Non-Executive Director of the Year' in 2010 in the annual non-executive director awards.

Mr Stephen H Mahle

Non-Executive Director

Mr Mahle is the former Executive Vice President of Medtronic Inc., one of the world's largest medical device companies. He held numerous senior leadership positions with the company, including leading Medtronic's largest division as President of the Pacing Business and subsequently as President of Cardiac Rhythm Disease Management, which had sales of US$4.5BN and 12,000 employees. He retired in 2009 after 37 years. Prior to joining Medtronic, Stephen was a Captain in the US Army where he served as a research scientist at the NASA Manned Spacecraft Center in Houston. Stephen currently serves on the board of EBR Inc., an implantable medical device start-up based in Sunyvale, CA. He holds a Bachelor of Science degree in Physics from Beloit College and a Masters degree in Physics from Pennsylvania State University.

Mr Brenig Preest

Non-Executive Director

Mr Preest joined the Board in May 2015. He has 22 years' experience in the finance and healthcare sectors, primarily as an investor in high growth medical technology and biotechnology opportunities. He has been involved in over £500m of investments. His early career was at Amersham International (now GE Healthcare) and Coopers & Lybrand (now PwC) and is currently an investment director at Arthurian Life Sciences Limited, a venture capital firm, which provides management services to the Wales Life Sciences Investment Fund LP (being a fund raising up to £100 million focused on life sciences). He is also a non-executive director at CeQur AG, Apitope BV and SimbecOrion Ltd. Mr Preest is a Chartered Accountant, studied Pharmacology at Cardiff University and financial strategy at the University of Oxford, and was previously elected president for the ICAEW in Wales.

Mr Meinhard Schmidt

Non-Executive Director

Mr Schmidt has more than 20 years of international experience as an entrepreneur and senior executive in the healthcare, diagnostics and medical devices industries. Between 1998 and 2008 Meinhard was at Roche Diagnostics where he held various senior leadership roles in Diabetes Care, Lab Diagnostics and was Senior VP and Head of Roche Decentralized Solutions, which achieved the leading global position in the Near Patient Testing market. Meinhard has strong board-level experience, has worked across M&A, global operations, sales and marketing, programme and innovation management, and has held executive management positions in Germany, The Netherlands, US, Canada, Sweden, UK and Switzerland. Meinhard is currently a Board Director on valuation LAB AG and CeQur AG, and Chairman at Promimic AB and Oncimmune Ltd.

Medical advisory board

By experts for experts

Our Medical Advisory Board helps Sphere Medical to ensure that we maintain the best clinical practices and strive for continual quality improvement. The Board brings wide ranging expertise to help guide our clinical programme to understand and address clinical needs. All members of the Medical Advisory Board are acting in a personal capacity and this does not constitute or imply endorsement from their respective institutions.

Prof Jean-Louis Vincent

Professor of Intensive Care at University of Brussels. He is intensive care physician in the Department of Intensive Care at the Erasme University Hospital in Brussels. Dr Vincent has signed more than 800 original articles, some 300 book chapters and review articles, and 850 original abstracts, and has edited 86 books. Dr Vincent is the editor-in-chief of 'Critical Care', 'Current Opinion in Critical Care', and 'ICU Management'. He has received the Distinguished Investigator Award of the Society of Critical Care Medicine, the College Medalist Award of the American College of Chest Physicians, was the Recipient of the 'Society Medal' (lifetime award) of the European Society of Intensive Care Medicine and has received the prestigious Belgian scientific award of the FRS-FNRS (Prix Scientifique Joseph Maisin-Sciences biomédicales cliniques).

Prof Mike Grocott

Professor Grocott is the Professor of Anaesthesia and Critical Care Medicine at the University of Southampton and consultant in Critical Care Medicine at the University Hospital. He heads the University's Centre for Human Integrative Physiology and the critical care research area of their NIHR Respiratory Biomedical Research Unit. Professor Grocott's research interests include human responses to hypoxia, measuring and improving outcome following surgery, lung injury, and fluid therapy, and he has co-authored more than 150 peer reviewed manuscripts. He leads the Xtreme-Everest Oxygen Research Consortium, the Fit-4-Surgery Group and is joint Editor-in-Chief of Extreme Physiology and Medicine. In addition, Professor Grocott is the UK national specialty group lead for Anaesthesia, Perioperative Medicine and Pain within the NIHR Clinical Research Network, was the founding director of the UK National Institute of Academic Anaesthesia Health Services Research Centre and chairs the National Emergency Laparotomy Audit. He is a member of the Royal College of Anaesthetists' Council and a UK Faculty of Intensive Care Medicine board member.

Prof Michael Quintel

Professor Quintel is a leading clinician within the German and European intensive care profession. He is the Director of the Department of Anaesthesiology, Emergency and Intensive Care Medicine at the University of Göttingen, Germany. Professor Quintel is also member of the European Society of Intensive Care Medicine (ESICM) group on respiratory failure and member of the scientific committee of the ECMOnet, Past President of the German Interdisciplinary Society of Intensive Care Medicine (DIVI) and a past council member of the German Society of Anaesthesia and Intensive Care (DGAI). Professor Quintel is also a member of the German Sepsis Society and an Investigator in the SepNet Sepsis Clinical Trial Network in Germany and has participated in numerous sepsis and critical care trials.

Directors' report

The Directors present their annual report on the affairs of the Company and the Group, together with the audited financial statements for the year ended 31 December 2015.

Corporate Governance

There is a list of matters reserved for the Board and this list is available on the Company's website.

The Board delegates day-to-day management of the business to the Management Team, which comprises the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the VP Business Development, the VP Sales, the VP Quality and Regulatory Affairs, and the Office Manager.

The Board has an Audit Committee, Nominations Committee, Remuneration Committee and Operations Committee; each with written terms of reference. The terms of reference are available on the Company's website. Each committee reports to the Board on its activities.

The Audit Committee comprises John Gregory, Stephen H Mahle and Brenig Preest. It is chaired by John Gregory. The Chief Executive Officer and Chief Financial Officer are normally invited to attend meetings.

The Remuneration Committee comprises Stephen H Mahle, John Gregory and Meinhard Schmidt. It is chaired by Stephen H Mahle. The Chief Executive Officer is normally invited to attend meetings.

The Nominations Committee comprises Dr David Martyr, Dr Wolfgang Rencken and John Gregory. It is chaired by Dr David Martyr.

The Operations Committee comprises Dr Wolfgang Rencken, Dr David Martyr and Stephen H Mahle and is chaired by Dr Wolfgang Rencken. The Chief Operating Officer is normally invited to attend meetings.

The Company Secretary acts as secretary to each of the Board committees.

The number of scheduled Board and committee meetings held during the year, and the attendance of their members at those meetings, was as follows:

Type of meeting	Board	Audit Committee	Remuneration Committee	Nominations Committee	Operations Committee
Scheduled meetings held	7	2	2	2	5
Dr D Martyr (appointed 7 January 2015)	6	1	–	1	5
Dr W D Rencken	7	–	–	2	5
Mr R D Wright (appointed 10 August 2015)	2	–	–	–	–
Mr J H Gregory	7	2	2	2	–
Mr S H Mahle	7	2	2	–	5
Mr B Preest (appointed 1 May 2015)	3	1	–	–	–
Mr M Schmidt (appointed 7 January 2015)	7	–	2	–	–
Dr A F Martin (resigned 25 June 2015)	5	–	–	1	–
Mr F M S Hall (resigned 25 June 2015)	5	–	–	–	–

Results and dividends

The consolidated statement of comprehensive income is set out on page 23 and shows the loss for the year. The loss for the year ended 31 December 2015 was £5.5m (2014: loss of £5.3m). No dividend will be paid in respect of the year (2014: £nil).

Directors

The Directors of the Company who served during the year and up to the date of this report were:

Director	Position
Dr D R Martyr	Non-Executive Chairman (appointed as a Non-Executive Director 7 January 2015 and appointed Chairman 25 June 2015)
Dr W D Rencken	Chief Executive Officer
Mr R D Wright	Chief Financial Officer (appointed 10 August 2015)
Mr J H Gregory	Non-Executive
Mr S H Mahle	Non-Executive
Mr B Preest	Non-Executive (appointed 1 May 2015) representative of Arthurian Life Sciences Ltd
Mr M F Schmidt	Non-Executive (appointed 7 January 2015)
Dr A F Martin	Non-Executive Chairman (resigned 25 June 2015)
Mr F M S Hall	Chief Financial Officer (resigned 25 June 2015)

There have been no changes to the Board since the year end.

Biographies of the current Directors are detailed on pages 14 and 15. Mr Richard Wright is also Company Secretary.

Directors' interests

The Directors' beneficial interests, both direct and indirect, in the issued share capital of the Company are as follows:

Name	Holding of Ordinary Shares at 1 January 2015	Ordinary Shares acquired during the year	Ordinary Shares disposed of during the year	**Holding of Ordinary Shares at 31 December 2015**
Dr D R Martyr	–	125,000	–	**125,000**
Dr W D Rencken	11,970	437,500	–	**449,470**
Mr R D Wright	–	75,382	–	**75,382**
Mr J H Gregory	43,870	46,875	–	**90,745**
Mr S H Mahle	59,138	93,750	–	**152,888**
Mr B Preest	–	–	–	**–**
Mr M F Schmidt	–	187,500	–	**187,500**

Directors' options

The options over Ordinary Shares held by Directors are as follows:

Name	Exercise price	Outstanding at 31 Dec 2014	Outstanding at **31 Dec 2015**	Exercise period (vesting as in Note 1)
Dr D R Martyr	16.0p	–	**100,000**	Granted 1 May 2015 Unvested
Dr W D Rencken	40.0p	1,320,000	**1,320,000**	Granted 1 June 2014, expiry 31 May 2024 Note1
	16.0p	–	**2,260,000**	Granted 1 May 2015 Unvested
Mr R D Wright	17.75p	–	**1,340,000**	Granted 15 July 2015 Unvested
Mr J H Gregory	92.5p	35,000	**35,000**	Granted 18 May 2012, expiry 17 May 2022, Fully vested
	16.0p	–	**100,000**	Granted 1 May 2015 Unvested
Mr S H Mahle	92.5p	35,000	**35,000**	Granted 18 May 2012, expiry 17 May 2022, Fully vested
	16.0p	–	**100,000**	Granted 1 May 2015 Unvested
Mr M F Schmidt	16.0p	–	**100,000**	Granted 1 May 2015 Unvested

Note 1 The options vest 50% after one year, 25% after two years and the remaining 25% after three years of grant.

Non-Executive Directors' options

It is the view of the Board that in order to attract and retain high-quality Non-Executive Directors to the Company the issuing of share options is an important element to the overall remuneration package offered. Furthermore, the total number of options held by the Non-Executive Directors at 470,000 options or 0.3% of the total number of Ordinary Shares in issue as at 31 December 2015 is not material to either the Company or to each of the Non-Executive Directors.

Directors' emoluments (audited)

	Salary and fees £000	Performance £000	Severance £000	Pension contribution £000	Taxable benefits £000	Total 2015 £000	2014 £000
Dr D R Martyr	**48**	**–**	**–**	**–**	**–**	**48**	–
Dr W D Rencken	**220**	**124**	**–**	**22**	**22**	**388**	260
Mr R D Wright	**57**	**13**	**–**	**6**	**4**	**80**	–
Mr J H Gregory	**36**	**–**	**–**	**–**	**–**	**36**	28
Mr S H Mahle	**36**	**–**	**–**	**–**	**3**	**39**	28
Mr B Preest	**13**	**–**	**–**	**–**	**–**	**13**	–
Mr M F Schmidt	**36**	**–**	**–**	**–**	**–**	**36**	–
Previous Directors							
Mr F M S Hall	**74**	**24**	**–**	**7**	**4**	**109**	187
Dr A F Martin	**30**	**–**	**20**	**–**	**–**	**50**	58
Dr S P Hendry	**–**	**–**	**–**	**–**	**–**	**–**	154
Total	**550**	**161**	**20**	**35**	**33**	**799**	715

Significant shareholdings

As at the 4 February 2016, the Company has been notified (or is otherwise aware) of the following interests in 3% or more of the issued Ordinary Share capital of the Company:

Name	Number of Ordinary Shares	Percentage of Ordinary Shares
Woodford Investment Management LLP	29,664,500	20.9%
The Wales Life Sciences Investment Fund	25,000,000	17.6%
LSP Life Sciences Fund	10,904,000	7.7%
Ortho-Clinical Diagnostics	8,141,250	5.7%
Octopus Investments Nominees Ltd	6,250,000	4.4%
Ruffer LLP	5,653,895	4.0%
Royal London Asset Management Ltd	5,624,185	4.0%
Herald Investment Management Ltd	4,711,965	3.3%

Going concern

Having regard to the available cash resources, tight financial control, budgets and forecasts for 2016 and beyond, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group financial statements. The Directors draw your attention to the section headed 'Going concern' in Note 2 to the Group financial statements.

Independent auditor

The auditor, who was reappointed at the Annual General Meeting is Grant Thornton UK LLP. The Directors will place a resolution before the Annual General Meeting to re-appoint Grant Thornton UK LLP as auditor for the ensuing year.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

United Kingdom company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and elected to prepare the Company financial statements under United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws including FRS101 Reduced Disclosure Framework). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group and Company for that period.

In preparing these financial statements the Directors are required to:

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

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

Website publication

The Directors are responsible for maintenance and integrity of the corporate and financial information included on the Company's website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may differ from legislation in other jurisdictions.

Risk management

Details of the Group's financial risk management objectives and policies, and exposure to price risk, credit risk and liquidity risk are set out in Note 25.

Statement as to disclosure of information to auditors

The Directors, in office at the date of this report, have confirmed that:

- so far as each of the Director's is aware, there is no relevant audit information of which the auditor is unaware; and
- each Director has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Company auditor is aware of that information.

This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

Richard Wright
Company Secretary
24 February 2016

Independent auditor's report to the members of Sphere Medical Holding plc

We have audited the group financial statements of Sphere Medical Holding plc for the year ended 31 December 2015 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flow, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern

In forming our opinion on the group financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 2 to the group financial statements concerning the group's ability to continue as a going concern. The group incurred a net loss of £5.5million during the year ended 31 December 2015 and may need to raise additional finance. These conditions, along with the matters explained in Note 2 to the group financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would occur if the group was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Sphere Medical Holding plc for the year ended 31 December 2015. That report includes an emphasis of matter.

Grant Thornton UK LLP

David Newstead
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
24 February 2016

Consolidated statement of comprehensive income
for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Revenue	4	**15**	14
Cost of sales		**(2)**	(4)
Gross profit		**13**	10
Selling and marketing expenses	5	**(978)**	(577)
Production overheads	5	**(1,279)**	(1,077)
Product development	5	**(1,675)**	(2,383)
Administrative expenses	5	**(2,194)**	(1,908)
Operating expenses (net)		**(6,126)**	(5,945)
Operating loss		**(6,113)**	(5,935)
Finance income	6	**91**	65
Finance costs	6	**–**	(1)
Loss before taxation		**(6,022)**	(5,871)
Tax credit	9	**557**	524
Loss and total comprehensive income for the period attributable to the equity holders of the parent		**(5,465)**	(5,347)
Loss per share attributable to the equity holders of the parent			
Basic and diluted	10	**(4.8p)**	(9.0p)

All amounts derive from continuing operations.

The accompanying notes form an integral part of this consolidated statement of comprehensive income.

Company overview
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Consolidated statement of financial position
at 31 December 2015

	Notes	2015 £000	2014 £000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**103**	108
Intangible assets	12	**896**	12
		999	120
Current assets			
Inventories	14	**384**	215
Trade and other receivables	15	**127**	204
Cash and cash equivalents		**10,028**	3,703
Total assets		**11,538**	4,242
EQUITY			
Called up share capital	19	**1,418**	594
Share premium account		**58,102**	46,580
Other reserve		**2,786**	2,933
Profit and loss account		**(51,693)**	(46,503)
Equity shareholders' funds		**10,613**	3,604
LIABILITIES			
Current liabilities			
Trade and other payables	16	**925**	635
Obligations under finance leases	17	**–**	3
		925	638
Total liabilities		**925**	638
Total equity and liabilities		**11,538**	4,242

The accompanying notes are an integral part of this consolidated statement of financial position.

Approved and authorised for issue by the Board on 24 February 2016 and signed on its behalf:

Wolfgang Rencken
Director

Richard Wright
Director

Company number 4179503

Consolidated statement of cash flow
for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Operating activities	20	**(5,117)**	(5,584)
Cash flows from investing activities			
Purchase of property, plant and equipment	11	**(101)**	(26)
Purchase of intangible assets	12	**(892)**	(12)
Interest received	6	**91**	65
		(902)	27
Cash flows from financing activities			
Issue of share capital	19	**13,176**	26
Issue expenses		**(830)**	–
Discharge of finance lease liabilities		**(2)**	(17)
Interest payable		**–**	(1)
		12,344	8
Net change in cash and cash equivalents in the year		**6,325**	(5,549)
Cash and cash equivalents at beginning of year		**3,703**	9,251
Cash and cash equivalents at end of year		**10,028**	3,703

The accompanying notes are an integral part of this consolidated statement of cash flow.

Consolidated statement of changes in equity
for the year ended 31 December 2015

	Share capital (Note 19) £000	Share premium £000	Other reserve £000	Retained loss £000	Total equity £000
Balance as at 31 December 2013	592	46,556	2,854	(41,271)	8,731
Loss for the year ended 31 December 2014	–	–	–	(5,347)	(5,347)
Total comprehensive income for the period	–	–	–	(5,347)	(5,347)
Issue of share capital	2	24	–	–	26
Employee share-based compensation	–	–	194	–	194
Reclassification following lapse of options	–	–	(115)	115	–
Transactions with owners	2	24	79	115	220
Balance as at 31 December 2014	594	46,580	2,933	(46,503)	3,604
Loss for the year ended 31 December 2015	–	–	–	(5,465)	(5,465)
Total comprehensive income for the period	**–**	**–**	**–**	**(5,465)**	**(5,465)**
Issue of share capital	824	12,352	–	–	13,176
Issue expenses	–	(830)	–	–	(830)
Employee share-based compensation	–	–	128	–	128
Reclassification following lapse of options	–	–	(275)	275	–
Transactions with owners	824	11,522	(147)	275	12,474
Balance as at 31 December 2015	**1,418**	**58,102**	**2,786**	**(51,693)**	**10,613**

The accompanying notes are an integral part of this consolidated statement of changes in equity.

1. General information

Sphere Medical Holding plc (the 'Company' or 'Sphere Medical') and its subsidiaries (together the 'Group') undertake research and development and the manufacture and sale of products within the medical device area. The Group has manufacturing facilities in the UK and seeks to commercialise its technology and products within the UK and other countries.

The Company is a public limited company and is registered in England and Wales. The address of its registered office is Life Science Hub Wales, 3 Assembly Square, Cardiff, CF10 4PL.

On 17 November 2011 the Company floated on the AIM market of the London Stock Exchange plc.

These consolidated financial statements have been approved for issue by the Board of Directors on 24 February 2016.

2. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the Companies Act 2006.

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

These financial statements are presented in pounds Sterling because that is the currency of the primary economic environment in which the Company and its subsidiary operate.

Going concern

At 31 December 2015 the cash balance available to the Group was £10.0million while for the year the cash outflow from operating activities was £5.1million.

The Group's revenues from sales of products are not expected to be sufficient for the Group to become cash generative from commercial operations over the next 12 months, although the Board does believe that it has adequate resources to continue with its plans for at least the next 12 months. The Board's confidence that the development and commercialisation of the Group's principal product, Proxima, will prove to be successful has been increased by the launch of Proxima 3 into the European market, by the positive reception it has received, including the first sales, and by the good progress that has been made towards launching Proxima 4 in Europe.

As explained in the Strategic Report, the Group is currently in discussions with a number of potential commercialisation partners. Depending on the economics of any such arrangement, and depending on the sales growth of Proxima, the Group may or may not need to raise additional finance before it becomes cash generative. The Group has a good track record of being able to raise additional finance when it has needed to do so. The Board of Directors has concluded that the combination of these circumstances represents a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nonetheless, based on the £10.0million of cash as at 31 December 2015, the 2016 budget approved by the Board of Directors and the business plan for the next several years, the Board of Directors have reasonable expectation that the business will be able to continue in operation for at least 12 months from the date of approval of these financial statements. For these reasons, the Board of Directors continue to adopt the going concern basis of accounting in preparing these financial statements.

3. Principal accounting policies

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

New accounting standards and interpretations

During the year the following standards and interpretations came into effect:

Standard or interpretation		Effective for reporting periods starting on or after
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities	Effective 1 January 2015
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date and Transition Disclosures	Effective 1 January 2015

The adoption of these changes has not had a material impact on the Group's financial statements in this period of initial application.

3. Principal accounting policies continued

New standards and interpretations not applied

The IASB and IFRIC have issued a number of standards and interpretations with an effective date after the date of these financial statements:

Standard or interpretation		Effective for reporting periods starting on or after
IFRS 9	Financial Instruments	1 January 2018
Amendments to IFRS11	Accounting for acquisitions of interests in joint operations	Effective 1 January 2016
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	Effective 1 January 2016
	Annual Improvements to IFRSs 2012-2014 Cycle	Effective 1 January 2016
IFRS 15	Revenue from Contracts with Customers	Effective 1 January 2018

The Directors do not believe that the adoption of any of the above standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Basis of consolidation

The Group financial statements incorporate the financial statements of Sphere Medical Holding plc and its subsidiary undertakings made up to 31 December each year. Subsidiary undertakings are entities over which the Group is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group can direct decisions through the voting rights granted by shares which impacts its returns. Unrealised gains and losses on internal transactions between the Company and its subsidiary undertakings are eliminated on consolidation.

Revenue recognition

Revenue represents the fair value of amounts received or receivable for product sales and services provided and royalties earned, net of trade discounts, VAT and other sales-related taxes. The Group's policy is to recognise revenue when:

- there is persuasive evidence that an arrangement exists;
- pricing is fixed or determinable;
- delivery has occurred or services have been provided to the customer;
- collectability is probable; and
- there are no material outstanding conditions or contingencies attaching to the receipt of monies due.

Product sales – Revenue is recognised on delivery of product, ensuring the full specification is satisfied in accordance with the customer's order.

Share-based payment transactions

The Company issues equity-settled share-based payments to several of its Directors, as well as employees (including Directors) of its subsidiary, Sphere Medical Limited. In accordance with IFRS 2, for all grants of share options and awards the cost of the equity-settled share-based payments are measured at fair value at the date of grant. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. The fair value is appraised at the grant date and excludes the impact of non-market vesting conditions. That fair value is expensed on a straight-line basis over the vesting period for the related options based upon the Company's estimate of the shares that will eventually vest, with a corresponding credit to 'other reserves'.

A modification to a share option is accounted for by continuing with the existing accounting for the old option scheme and in addition recognising the increment in fair value of the new option scheme over the vesting periods. The incremental fair value granted is the difference between the fair value of the replacement equity instruments and the net fair value of the cancelled equity instruments as at the date the replacement equity instruments are granted. The net fair value of the cancelled instruments is their fair value immediately before the cancellation, less the amount of any payment made to the employee on cancellation of the equity instruments.

No expense is recognised for awards that do not ultimately vest as a result of the relevant employee ceasing to be employed by the Group.

Fair value is measured using the Black Scholes Option Pricing Model. The expected life used in the model is the expiry date of the options.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the value of the shares issued are allocated to share capital with any excess being recorded as share premium.

Foreign currency

Transactions denominated in foreign currencies are recorded in Sterling at the actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported in Sterling at the then prevailing rates of exchange. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in profit or loss.

Research and development expenditure

Expenditure on research (or the research phase of an internal project) is charged to profit or loss in the period in which it is incurred.

Development expenditure is capitalised when the criteria for recognition as an asset are met, that is when the Group can demonstrate:
- the technical feasibility of completing the project so that it will be able to use the asset for use or sale;
- its intention to complete and its ability to use the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete; and
- that costs associated with the asset and its development can be measured reliably.

Capitalised development expenditure is amortised over its expected useful life to its residual value on a straight-line basis. This amortisation commences once the generation of product to which the expenditure relates has been launched and is available for sale.

Development expenditure which is not capitalised because it fails to meet one or more of the above criteria for being capitalised is charged to profit or loss in the period in which it occurs.

Management monitors the progress of internal research and development projects by using a project management system.

Property, plant and equipment

Property, plant and equipment is carried at acquisition cost less accumulated depreciation and any provision for impairment. Depreciation is provided to write off the cost of all property, plant and equipment to its residual value on a straight-line basis over its expected useful economic lives as follows:

Plant and equipment	3 – 4 years

Residual values and useful lives are reviewed annually.

Intangible assets

Intangible assets are capitalised on the basis of the costs incurred to acquire. These costs are amortised over the estimated useful life of the asset:

Software	2 years
Development costs	5 years

Residual values and useful lives are reviewed annually.

Impairment of property, plant and equipment and intangible assets

At each balance sheet date the Group reviews the carrying amounts of its property, plant and equipment and intangible assets for any indication that those assets have suffered an impairment loss. For the purpose of this review assets are grouped into cash-generating units. As a result, some assets are tested individually for impairment and some are tested at cash-generating (or potentially cash-generating) unit level. If any indication of impairment exists, an impairment loss is recognised for the amount by which the assets or the cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for the Group's impairment testing are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancement. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses are charged pro rata to the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge that has been recognised is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Financial assets

The Group's financial assets all fall into the category of loans and receivables.

The category of a financial asset is assigned on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognised in the profit or loss or in other comprehensive income. See Note 25.5 for a summary of the Group's financial assets.

Interest receivable is accrued on a daily basis at the interest rate applicable to each deposit.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. The Group's trade and other receivables fall into this category of financial instruments. Discounting, however, is omitted where the effect of discounting is immaterial.

Significant receivables are considered for impairment on a case-by-case basis when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics, if any. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

3. Principal accounting policies continued

Inventories

Inventories comprise directly attributable costs on incomplete projects or products and are held in the statement of financial position at cost. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Inventories are expensed to the consolidated statement of comprehensive income as cost of sales or to the department which acquired them.

Income taxes

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods that are unpaid at the balance sheet date.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

In addition, tax losses available to be carried forward as well as other income tax credits are assessed for recognition as deferred tax assets.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be available to offset against any future taxable income.

Management bases its assessment of the probability of future taxable income on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Specific tax rules in the other legislations in which the Group operates are also taken into account. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilised without a time limit, that deferred tax asset is recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in profit or loss, except tax relating to items recognised in other comprehensive income and tax relating to items recognised directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and accrued interest thereon.

Post employment benefits

The Group provides post-employment benefits through different defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution.

The Group contributes to defined contribution plans, operated by independent life assurance companies, for the benefit of substantially all employees. Employer's contributions of up to 12% of pensionable payroll are paid dependent upon the age and seniority of the employee and are generally contingent upon employees' contributions. The amount charged to the profit or loss is the total of contributions payable in the year.

Financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments and on initial recognition they are measured at fair value. Financial liabilities are measured at amortised cost using the effective interest rate method except for derivatives that are measured at fair value.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges and fair value movements are included in the statement of comprehensive income lines 'finance costs' or 'finance income'. A finance liability is derecognised when it is extinguished, discharged, cancelled or expires.

Within financial liabilities are warrants classified as derivative liabilities, carried at their fair value. Fair value is measured using the Black Scholes Model. The expected life is the expiry date of the warrant.

Leased assets

In accordance with IAS 17 'Leases', the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreements, i.e. depreciation methods and useful lives, correspond to those applied to comparable assets which are legally owned by the Group. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed to finance costs.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are treated as operating leases.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit or loss net of any incentives received from the lessor on a straight-line basis over the period of the lease. Associated costs, such as maintenance and insurance, are expensed as incurred.

Share capital

Ordinary Shares are classified as equity. Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

Share premium

Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of the expenses of the share issue.

Other reserve

The other reserve represents equity-settled share-based payments made to Directors and employees.

Profit and loss account

This represents all current and prior period results as disclosed in profit or loss.

Significant accounting estimates and judgements

Share options and warrants

The fair value of options and warrants is determined using the Black Scholes valuation model, which requires a number of estimates and assumptions The significant inputs into the model are the share price at the date of grant, the exercise price, the expected option life, the expected volatility and the risk-free interest rate. The detailed estimates and assumptions are set out in Note 19. The key estimate in the model, being volatility, is based on the historical volatility in the Company's share price over the previous 12 months.

Research and development expenditure

The Board uses its judgement in the assessment of the extent, if any, to which expenditure is identified as development expenditure eligible for capitalisation rather than research expenditure. Key to this judgement is assessing whether or not the asset will generate probable future economic benefits and determining that the Group has adequate technical, financial and other resources to complete the development. Having launched Proxima 3 and achieved the first commercial sale the Directors reassessed the technical and commercial feasibility of the Proxima system and decided that the conditions for capitalising development costs had been met.

Deferred tax asset

The Board uses its judgement as to the timing and levels of future profits to assess as to when sufficient taxable profits will be generated to relieve the losses when providing for the deferred tax asset. No deferred tax asset is recognised at 31 December 2015 due to the uncertainty regarding the timing of future profits.

Research and development tax credit

The Board uses its judgement in determining the likelihood of receiving cash from any research and development tax credit claim it may make in respect of the year ended 31 December 2015. Key to this judgement is whether or not there was expenditure in the period that would meet all the criteria to qualify for such a tax credit.

4. Segment information

The Chief Operating decision makers are considered to be the Executive Directors.

The Group operates in one operating segment, that of medical devices. All of the assets of the Group are related to that operating segment and are held in the UK. Geographical analysis of the results of the business is 100% (2014 - 100%) within the UK.

The analysis of revenue by customer location is:

Geographical	2015 £000	2015 %
UK	**4**	**25.9**
Europe (Non – UK)	**10**	**69.0**
Japan	**1**	**5.1**
	15	**100**

	2014 £000	2014 %
UK	2	11
Europe (Non – UK)	9	65
Japan	3	24
	14	100

	2015 £000	2015 %
Product sales	**15**	**100**

	2014 £000	2014 %
Product sales	14	100

5. Loss attributable to equity holders

This is stated after charging:

	2015 £000	2014 £000
Depreciation of property, plant and equipment		
• owned	**105**	131
• held under finance leases	**1**	13
Amortisation of intangible assets	**8**	13
Auditor's remuneration:		
• Audit of Company	**22**	23
• Audit of subsidiary	**11**	12
• Other assurance services	**8**	2
• Tax compliance services	**6**	6
Research and development	**1,675**	2,383
Inventory expensed in year	**243**	141
Operating lease rentals		
• amounts payable for plant and machinery hire	**9**	28
• in respect of other operating leases including land and buildings	**184**	188
Net (loss) on foreign currency translation	**(1)**	(12)

6. Finance income and finance costs

	2015 £000	2014 £000
Finance income:		
Interest receivable on bank deposits and similar income	**91**	65
Finance costs:		
Finance charges payable under finance leases	**–**	(1)

7. Information regarding employees

Particulars of employees (including Executive Directors) are as shown below.

Employee costs during the year amounted to:	2015 £000	2014 £000
Wages and salaries (including performance-related and severance pay)	**3,074**	2,725
Social security costs	**301**	295
Pension costs	**106**	94
Other benefits (being income protection, life assurance, health care, company car and car allowances)	**86**	29
Charge in respect of share options	**128**	194
	3,695	3,337

Average monthly number of employees during the year:	2015 Number	2014 Number
Selling and marketing	**8**	4
Production	**17**	17
Product development	**28**	32
Project management	**–**	2
Regulation and quality	**4**	3
Administration	**8**	9
	65	67

8. Information regarding Directors and key management

Particulars of (i) the emoluments of Directors and of (ii) transactions with key management personnel are as shown below:

	Directors (including Executive and Non-Executive Directors)		Key management (including Executive and Non- Executive Directors)	
	2015 £000	2014 £000	2015 £000	2014 £000
Short term employee benefits				
Wages and salaries	**538**	467	**860**	883
Performance-related pay	**161**	100	**216**	100
Severance pay	**20**	100	**20**	100
Social security costs	**63**	76	**108**	129
Fees	**13**	–	**13**	–
Other benefits	**33**	12	**46**	15
	828	755	**1,263**	1,227
Long-term employee benefits				
Company contributions to defined contribution pension schemes	**35**	37	**50**	53
	863	792	**1,313**	1,280
Share-based payments	**(2)**	56	**28**	72
	861	848	**1,341**	1,352

Payments in respect of each Director and the highest paid Director are set out in the Directors' report. The audited section of that report forms part of the financial statements.

The Directors' interests in shares and share options of the Company are set out in the Directors' report.

No Directors exercised share options during the year.

The number of Directors who were members of a defined contribution pension scheme to which the Group contributed during the year was 3 (2014: 3). The number of other key management who were members of a defined contribution pension scheme to which the Group contributed during the year was 4 (2014: 4). The Group does not contribute to any pension schemes other than defined contribution schemes.

Brenig Preest is a representative of Arthurian Life Sciences Ltd ('Arthurian') and the fees in respect of Mr Preest are paid to Arthurian.

The Company's insurance cover includes Directors' indemnity insurance.

9. Income tax expenses

There is no tax charge for the year due to losses arising. The Directors have not recognised any credit in respect of potential research and development tax claims in respect of the current period of 2015 which may arise following agreement by HM Revenue & Customs. The Directors have yet to determine whether to make a claim or not and therefore an accurate estimate of the claim is not available.

£557,000 was received during the year in respect of research and development tax claims for 2014 (2014: £524,000 was received in respect of a research and development tax claim for 2013). The tax charge is different from that resulting from applying the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are explained below:

	2015 £000	2014 £000
Result for the year	**(6,022)**	(5,871)
Expected tax credit at the tax rate of 20.25% (2014: 21.5%)	**(1,219)**	(1,262)
Expenses not deductible for tax purposes	**30**	52
Decelerated capital allowances	**–**	14
Creation of tax losses not recognised	**1,189**	1,196
Adjustment in respect of prior years	**(557)**	(524)
Actual tax credit, net	**(557)**	(524)

No deferred tax asset has been recognised due to the current uncertainty of future taxable profits. The asset will be recognised when sufficient taxable profits are generated to relieve the losses, depreciation and capital allowances equalise and other temporary differences reverse. The amounts not provided are as follows:

	2015 £000	2014 £000
Unused tax losses	**(6,892)**	(7,212)
Depreciation in excess of capital allowances	**(7)**	(14)
Other temporary differences	**(2)**	(2)
Deferred tax asset	**(6,901)**	(7,228)

The Group may also benefit from a taxable deduction when the outstanding share options are exercised. Such a benefit would create an additional tax deductible expense. In view of the current level of trading losses and the uncertainty as to when these will be realised, the Directors have not provided for the potential deferred tax credit that might arise as its realisation is considered too uncertain to be recognised in the balance sheet.

The Group has unused tax losses of £38.3 million (2014: £32.3 million).

10. Loss per share

Fully diluted loss per share is calculated after showing the effect of outstanding options in issue. As the effect of the options would be to reduce the loss per share, the diluted loss per share is the same as the basic loss per share.

Calculation of loss per share is based on the following loss and numbers of shares:

	2015 £000	2014 £000
Loss attributable to equity holders in the Company	**(5,465)**	(5,347)

	Number ('000)	Number ('000)
Weighted average number of equity shares in issue for basic loss per share	**114,457**	59,328

	Loss per share (pence)	Loss per share (pence)
Basic and diluted loss per share	**(4.8)**	(9.0)

11. Property, plant and equipment

Plant and equipment	2015 £000	2014 £000
Cost:		
At start of year	**1,754**	1,728
Additions	**101**	26
Disposals	**(181)**	–
At end of year	**1,674**	1,754
Depreciation:		
At start of year	**1,646**	1,502
Disposals	**(181)**	–
Provided in the year	**106**	144
At end of year	**1,571**	1,646
Net book value:		
At end of year	**103**	108
At end of previous year	**108**	226

12. Intangible assets

	Software £000	Capitalised development £000	2015 Total £000	2014 Total £000
Cost:				
At start of year	**131**	**–**	**131**	119
Additions	**4**	**888**	**892**	12
At end of year	**135**	**888**	**1,023**	131
Amortisation:				
At start of year	**119**	**–**	**119**	90
Provided in the year	**8**	**–**	**8**	16
At end of year	**127**	**–**	**127**	106
Net book value:				
At end of year	**8**	**888**	**896**	12
At end of previous year	**12**	**–**	**12**	13

13. Investment in subsidiary undertakings

The subsidiary undertakings within the Group at 31 December 2015 were:

Subsidiary undertaking	Country of incorporation	Principal activity	Class of shares	Holding
Sphere Medical Limited	England & Wales	Medical diagnostics	Ordinary	Direct 100%
Sphere Medical Production Limited	England & Wales	Dormant	Ordinary	Indirect 100%

Voting rights are in accordance with the percentage of Ordinary Share ownership.

The subsidiary undertakings have been included in the consolidated financial statements.

14. Inventory

	2015 £000	2014 £000
Raw materials	**370**	215
Finished goods	**14**	–
	384	215

15. Trade and other receivables

Amounts falling due within one year:	2015 £000	2014 £000
Trade receivables	**5**	4
VAT	**17**	49
Other receivables	**105**	151
	127	204

16. Trade and other payables

	2015 £000	2014 £000
Trade payables	**241**	224
Social security and other taxes	**95**	137
Amounts owed to pension scheme	**13**	10
Accruals	**576**	264
	925	635

17. Leases

Certain of the Group's assets for manufacturing are held under finance lease arrangements. The net carrying amount of the assets held under the leases is £nil (2014: £1,000). The assets are included in the total shown in Note 11 'Property, plant and equipment'.

The repayment profile of these leases is as follows:	2015 £000	2014 £000
– Within one year	**–**	3
	–	3

Gross payments due are £nil (2014: £2,600). Interest included in those payments is £nil (2014: £33).

The Group operates from a leased property. The current lease is a three-year lease with a six month break clause. In addition the Group has operating leases on various pieces of equipment.

Minimum amounts payable under operating leases are as follows:

	2015 £000	2014 £000
– Within one year	**106**	106
– Within one to five years	**21**	15
	127	121

18. Derivative liabilities

During 2010 the Company issued a total of 1,531,464 warrants to subscribe for Ordinary Shares to the holders of the 8 per cent Fixed Rate Secured Loan Notes 2010, of which 510,487 automatically lapsed in the year to 31 December 2010, leaving 1,020,977 warrants remaining. Each Warrant 2010 entitles the holder to subscribe for one Ordinary Share at a subscription price of £1.70 at any time up to 2 February 2017. None of the subscriptions rights attached to the Warrants 2010 has been exercised since they were issued. The number of Ordinary Shares under the warrant instruments are subject to adjustment if new Ordinary Shares are issued at less than £1.70. As a result of share issues since the warrants were created, a further 1,124,840 additional shares are issuable for nil consideration on the exercise of Warrants 2010, leaving 2,145,817 Ordinary Shares issuable (2014: 1,598,898 Ordinary Shares issuable) in respect of Warrants 2010 in issue at the period end.

On 10 November 2011 the Company entered into further agreements providing parties with the right to subscribe for an aggregate of 4,554 Ordinary Shares at an exercise price of £1.70 per share with such rights lapsing on the seventh anniversary of entry into such further agreements.

On 12 July 2013 the Company issued 250,000 warrants with an exercise price of 80 pence per share, exercisable for up to five years from issue. As a result of the 2015 share issue, the exercise price for these warrants was changed to 32 pence per share.

On 22 July 2013 the Company issued 4,164,750 warrants, of which 50% are exercisable at 44 pence per share and 50% are exercisable at 92.5 pence per share. These warrants are exercisable for up to five years from issue.

The warrants have been measured at fair value using the Black Scholes Model for which the share price was taken at £0.10 (2014: £0.23), the risk-free interest rate was 0.57% (2014: 0.49%), the dividend rate nil (2014: nil). At 31 December 2015 the remaining life was 1.11 years (2014: 2.11 years) for the Warrants 2010, 2.86 years (2014: 3.86 years) for the 2011 warrants, 2.53 years (2014: 3.53 years) for the 12 July 2013 warrants and 2.56 years (2014: 3.56 years) for the 22 July 2013 warrants. The application of the above assumptions to the warrants outstanding results in an immaterial fair value at 31 December 2014 and 31 December 2015.

19. Share capital

	2015		2014	
	Start of period	**End of period**	Start of period	End of period
Issued and fully paid				
Ordinary Shares (number) of £0.01	**59,405,290**	**141,757,872**	59,208,660	59,405,290
Ordinary Shares (nominal) of £0.01	**£594,053**	**£1,417,579**	£592,087	£594,053

Share issue

82,352,582 Ordinary Shares of £0.01 each were issued and allotted in the period for total consideration of £13,176,413.

Warrants to subscribe Ordinary Shares

At the year end there were 5,440,281 warrants (2014: 5,440,281 warrants) in issue in respect of 6,565,121 Ordinary Shares (2014: 6,018,202 Ordinary Shares). Details of these warrants are given in Note 18.

19. Share capital continued

Share options

Share options are awarded to Directors and permanent employees from time to time.

At 31 December 2015 the Company had outstanding options over Ordinary Shares as follows:

Date granted	Exercise price per Ordinary Share	Number of shares at 31 Dec 2014	Granted during the year	Released during the year	Forfeited during the year	**Number of shares at 31 Dec 2015**	Scheme	Life of option and vesting	Estimated fair value (see below)
20 Dec 2005	£1.25	20,000	–	–	(20,000)	**–**	EMI	(1)	£0.563
20 Dec 2005	£1.25	100,470	–	–	(100,470)	**–**	Unapproved	(1)	£0.563
1 Feb 2006	£1.25	86,110	–	–	–	**86,110**	Unapproved	(3)	£0.563
13 Nov 2006	£1.55	183,640	–	–	–	**183,640**	Unapproved	(4)	£0.698
9 Dec 2008	£1.70	2,500	–	–	(2,500)	**–**	EMI	(5)	£0.702
13 Jan 2009	£1.70	48,589	–	–	–	**48,589**	Unapproved	(6)	£0.699
13 Jan 2009	£1.70	44,990	–	–	–	**44,990**	Unapproved	(10)	£0.699
26 Oct 2011	£0.925	18,245	–	–	(18,245)	**–**	EMI	(7)	£0.382
31 Oct 2011	£0.925	1,214,586	–	–	(368,056)	**846,530**	Unapproved	(7)	£0.382
31 Oct 2011	£0.925	404,861	–	–	–	**404,861**	Unapproved	(10)	£0.382
18 May 2012	£0.925	70,000	–	–	–	**70,000**	Unapproved	(8)	£0.334
1 June 2012	£0.925	411,660	–	–	–	**411,660**	EMI	(8)	£0.334
1 Sept 2012	£0.925	124,430	–	–	(124,430)	**–**	Unapproved	(8)	£0.3318
1 Oct 2012	£0.925	25,000	–	–	–	**25,000**	Unapproved	(8)	£0.2975
1 Jan 2013	£0.40	16,250	–	(16,250)	–	**–**	Unapproved	(8)	£0.1683
1 Aug 2013	£0.40	3,750	–	(3,750)	–	**–**	Unapproved	(8)	£0.4348
1 Sep 2013	£0.40	1,250	–	–	(1,250)	**–**	Unapproved	(8)	£0.1469
1 Oct 2013	£0.40	13,750	–	(12,500)	(1,250)	**–**	Unapproved	(8)	£0.1196
1 Nov 2013	£0.92	136,930	–	–	(124,430)	**12,500**	Unapproved	(8)	£0.0519
1 Jan 2014	£0.40	328,750	–	–	(202,500)	**126,250**	EMI	(8)	£0.0939
1 Feb 2014	£0.40	25,000	–	–	–	**25,000**	EMI	(8)	£0.0939
1 June 2014	£0.40	1,475,000	–	–	(275,000)	**1,200,000**	EMI & Unapproved	(8)	£0.0877
1 March 2015	£0.40	–	1,705,000	–	(303,750)	**1,401,250**	EMI	(8)	£0.0364
1 March 2015	£0.40	–	18,750	–	(1,250)	**17,500**	EMI	(8)	£0.0364
1 March 2015	£0.1325	–	114,700	–	–	**114,700**	EMI	(9)	£0.1026
1 March 2015	£0.925	–	28,750	–	–	**28,750**	EMI	(8)	£0.093
1 May 2015	£0.16	–	2,660,000	–	–	**2,660,000**	Unapproved	(8)	£0.0591
1 May 2015	£0.16	–	670,000	–	–	**670,000**	Unapproved	(10)	£0.0591
1 May 2015	£0.16	–	100,000	–	(50,000)	**50,000**	Unapproved	(10)	£0.0591
1 July 2015	£0.16	–	1,026,000	–	–	**1,026,000**	EMI	(8)	£0.0626
1 July 2015	£0.16	–	709,000	–	–	**709,000**	EMI	(8)	£0.0789
15 July 2015	£0.178	–	1,340,000	–	–	**1,340,000**	EMI	(8)	£0.0695
1 Sept 2015	£0.40	–	25,000	–	–	**25,000**	Unapproved	(8)	£0.0205
1 Sept 2015	£0.16	–	45,000	–	–	**45,000**	EMI & Unapproved	(8)	£0.0503
1 Oct 2015	£0.16	–	50,000	–	–	**50,000**	EMI	(8)	£0.0269
1 Oct 2015	£0.09	–	50,000	–	–	**50,000**	EMI	(8)	£0.041
Total		4,755,762	8,542,200	(32,500)	(1,593,131)	**11,672,330**			

(1) Fully vested. Expired 19 December 2015.
(3) Fully vested. Expiry 31 January 2016.
(4) Fully vested. Expiry 12 November 2016.
(5) Fully vested. Expiry 8 December 2018.
(6) Fully vested. Expiry 12 January 2019.
(7) Fully vested. Expiry October 2021.
(8) Vesting 50% after one year, 25% after two years and the remaining 25% after three years.
(9) Fully vested.
(10) Fully vested. Expiry 24 June 2018.

The estimated fair value of each share option was calculated by applying the Black Scholes option pricing model. The model inputs were the exercise price, expected volatility of 20% for all options granted to February 2008, 25% for all options granted to October 2011 and 39% for all subsequent grants to December 2014, 30% for March 2015 grants, 29% for May 2015 grants, 30% for July 2015 grants, 35% for Sept 2015 grants and 37% for October 2015 grants, no expected dividends, contractual life to the expiry date of the option at issue. Early exercise is not considered likely and therefore there have been no adjustments in this respect. Management has determined volatility based on market movements in the share price. The risk-free interest rate was taken as 5.00% for all options granted in 2004 to 2006, 5.50% for the options granted in 2007, 5.25% for the options granted on 21 February 2008, 3.00% for the options granted from December 2008 to October 2011 and 0.49% for all subsequent grants.

The expense arising from share options was £128,000 (2014: £194,000).

Further details of the share option plans are as follows:

	2015		2014	
	Number of options	**Weighted average exercise price £**	Number of options (Restated)	Weighted average exercise price (Restated) £
Outstanding at start of year	**4,755,762**	**0.773**	3,533,710	0.96
Granted	**8,542,200**	**0.214**	1,943,180	0.40
Forfeited	**(1,593,131)**	**0.668**	(524,498)	0.893
Exercised	**–**	**–**	(196,630)	0.133
Replaced	**(32,500)**	**0.400**	–	–
Outstanding at end of year	**11,672,331**	**0.379**	4,755,762	0.773

The options outstanding at 31 December 2015 had a weighted average remaining contractual life of 8.386 years (2014: 7.452 years) of which 3,765,511 (2014: 2,683,275) were exercisable at 31 December 2015.

The Articles restrict the granting of any option or other right to subscribe for shares other than to employees or Directors of the Company or any of its subsidiaries who were not employed or in office at 16 February 2005 pursuant to any Company Share Scheme provided that the number of Ordinary Shares subject to such options under all Company Share Schemes at any time does not exceed in aggregate 12% of the issued shares of the Company.

The total number of options granted at 31 December 2015 is 11,672,331 which represents 8.2% of the issued share capital (7.6% of the enlarged share capital if all options and warrants are exercised) and the total subscription monies are £4,426,000 (equivalent to an average subscription price of £0.38 per share held under option).

20. Reconciliation of operating loss to operating cash flows

	2015 £000	2014 £000
Operating activities – loss for the period before interest and tax	**(6,113)**	(5,935)
Depreciation	**106**	144
Amortisation	**8**	13
Share-based payments	**128**	194
(Increase) in inventory	**(169)**	(178)
Decrease/(Increase) in trade and other receivables	**77**	(118)
Increase/(Decrease) in trade and other payables	**289**	(228)
Taxes received	**557**	524
	(5,117)	(5,584)

21. Related party transactions

Balances and transactions between the Company and other members of the Group headed by Sphere Medical Holding plc have been eliminated on consolidation within the Group financial statements and are not disclosed in this note.

22. Financial Instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs.

23. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and at banks and accrued interest on bank deposits.

24. Contingent liabilities

There were no contingent liabilities at 31 December 2015 (2014: £nil).

25. Risk management objectives and policies

The Group is exposed to market risk, specifically currency risk and interest rate risk, which result from both its operating and investing activities. The Group's risk management focuses on securing the Group's short to medium-term cash flows by minimising the exposure to financial markets.

Financial assets and liabilities are measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance used in the measurement of the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted market prices included within level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The derivative liability, being the calculated fair value of warrants in issue, is determined based on Level 3.

25.1 Foreign currency sensitivity

Some of the Group's transactions are carried out in US Dollars and in Euros. Exposures to currency exchange rates arise from the Group's overseas sales and purchases which are primarily denominated in US Dollars and in Euros.

To mitigate the Group's exposure to foreign currency risk, non-Sterling cash flows are monitored. If the amounts and timing of payments due and receivable are determinable with sufficient certainty and the net amounts are significant (i.e. the amounts to be paid and received did not largely offset one another), the Group would consider taking appropriate hedging activity to protect cash-flows that are not expected to be offset by other currency transactions. No such hedging arrangements have so far been entered into.

Foreign currency denominated financial assets and liabilities, translated into Sterling at the closing rate, are all short term and are as follows:

	2015 – £000		2014 – £000	
	Euros	**US dollars**	Euros	US dollars
Financial assets	**96**	**1**	89	2
Financial liabilities	**(77)**	**–**	(43)	(1)
Short term exposure	**19**	**1**	46	1

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the Euro/Sterling exchange rate and US Dollar/Sterling exchange rate. It assumes a +/- 5% change in the Euro/Sterling exchange rate for the year ended 31 December 2015 (2014: 5%) and a +/- 5% change in the US Dollar/Sterling exchange rate (2014: 5%). These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each balance sheet date.

If Sterling had strengthened against the Euro and the US Dollar by 5% (2014: 5%) and 5% (2014: 5%) respectively then this would have had the following impact:

	2015 – £000			2014 – £000		
	Difference arising from change in Euros	**Difference arising from change in US Dollars**	**Total**	Difference arising from change in Euros	Difference arising from change in US Dollars	Total
Net result for the year	**+1**	**–**	**(5,466)**	+5	–	(5,353)
Equity	**+1**	**–**	**10,612**	+5	–	(3,598)

If Sterling had weakened against the Euro and the US Dollar by 5% (2014: 5%) and 5% (2014: 5%) respectively then this would have had the following impact:

	2015 – £000			2014 – £000		
	Difference arising from change in Euros	**Difference arising from change in US Dollars**	**Total**	Difference arising from change in Euros	Difference arising from change in US Dollars	Total
Net result for the year	**–1**	**–**	**(5,464)**	–5	–	(5,341)
Equity	**–1**	**–**	**10,614**	–5	–	(3,610)

Exposures to foreign currency exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless the analysis above is considered to be representative of the Group's exposure to currency risk.

25.2 Interest rate sensitivity

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. At 31 December 2015, the Group was exposed to changes in market interest rates through its bank deposits, which are subject to variable interest rates.

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +2% (2014: +3%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each balance sheet date. All other variables are held constant.

	2015 – £000		2014 – £000	
	+2%	**–2%**	+3%	–3%
Net result for the year	**(5,317)**	**N/A**	(5,153)	N/A
Equity	**9,863**	**N/A**	3,798	N/A

25.3 Credit risk analysis

The Group's exposure to credit risk is limited to the carrying value of financial assets recognised at the balance sheet date, as summarised below:

	2015 £000	2014 £000
Classes of financial assets – carrying amounts:		
Cash and cash equivalents	**10,028**	3,703
Trade and other receivables	**58**	4
Total	**10,086**	3,707

The Group monitors defaults of customers and other counterparties and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

Management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. None of the Group's financial assets is secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The credit risk for liquid funds and other short term financial assets relates to the banking institutions holding such funds and assets on behalf of the Group and may therefore be higher in conditions of general banking uncertainty. While the counterparties are reputable banks with high-quality external credit ratings, the Group nevertheless splits its deposits between different institutions in order to reduce risk.

25. Risk management objectives and policies continued

25.4 Liquidity risk analysis

The Group manages its liquidity needs by monitoring cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling monthly projection. Long-term liquidity needs are identified monthly.

The Group maintains cash and cash equivalents to meet its liquidity requirements for up to a 30-day period.

At 31 December 2015, the Group's liabilities had contractual maturities which are summarised below:

	Current – £000		**Non-current – £000**	
	Within 6 months	**6 to 12 months**	**1 to 5 years**	**Later than 5 years**
Trade payables	**241**	**–**	**–**	**–**
Other short term financial liabilities	**589**	**–**	**–**	**–**
	830	**–**	**–**	**–**

This compares to the maturity of the Group's financial liabilities at 31 December 2014 as follows:

	Current – £000		Non-current – £000	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Finance lease obligations	3	–	–	–
Trade payables	224	–	–	–
Other short term financial liabilities	274	–	–	–
	501	–	–	–

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet date.

25.5 Summary of financial assets and liabilities by category

	2015 – £000			2014 – £000		
Balance sheet headings – assets	**Loans & receivables**	**Non-financial assets**	**Total for balance sheet heading**	Loans & receivables	Non-financial assets	Total for balance sheet heading
Cash and cash equivalents	**10,028**	**–**	**10,028**	3,703	–	3,703
Investment	**–**	**–**	**–**	–	–	–
Trade receivables – current	**5**	**–**	**5**	4	–	4
VAT	**–**	**17**	**17**	–	49	49
Other receivables – current	**53**	**52**	**105**	–	151	151
Total	**10,086**	**69**	**10,155**	3,707	200	3,907

	2015 – £000			2014 – £000		
Balance sheet headings – liabilities	**Other financial liabilities**	**Non-financial liabilities**	**Total for balance sheet heading**	Other financial liabilities	Non-financial liabilities	Total for balance sheet heading
Liabilities at amortised cost:						
Trade payables	**241**	**–**	**241**	224	–	224
Social securities and other taxes	**–**	**95**	**95**	–	137	137
Amounts owing to pension scheme	**13**	**–**	**13**	10	–	10
Accruals	**576**	**–**	**576**	264	–	264
Finance lease liability – current	**–**	**–**	**–**	–	3	3
	830	**95**	**925**	498	140	638

The fair value of financial assets and liabilities is considered the same as the carrying values.

26. Capital management policies and procedures

	2015 £000	2014 £000
Equity shareholders' funds	**10,613**	3,604
Cash and liquid funds	**10,028**	3,703

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern; and
- to provide an adequate return to shareholders.

Given that the Group is in the early stage of commercialising its products, in achieving these objectives the Group generally aims to:

- have sufficient available capital at any point to allow it to operate; and
- avoid payment obligations which would exceed its likely income.

Consequently, the significant majority of the Group's funding during the year was through permanent equity capital which carries no dividend obligations and no redemption rights.

During the year the Group had no external financial covenants.

Independent auditor's report to the members of Sphere Medical Holding plc

We have audited the parent company financial statements of Sphere Medical Holding plc for the year ended 31 December 2015 which comprise the parent company balance sheet, the parent company statement of cashflow, the parent company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern

In forming our opinion on the parent company financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 1 to the parent company financial statements concerning the parent company's ability to continue as a going concern. The ability of the parent company to continue as a going concern is dependent on the underlying operations of the group as a whole and may require the group to raise additional finance. These conditions, along with the matters explained in Note 1 to the parent company financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would occur if the parent company was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the group financial statements of Sphere Medical Holding plc for the year ended 31 December 2015. The report includes an emphasis of matter.

Grant Thornton UK LLP

David Newstead
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
24 February 2016

Company balance sheet
at 31 December 2015

	Notes	2015 £000	2014 Restated £000	2013 Restated £000
Fixed assets				
Investments				
Subsidiaries	3	**32,037**	28,776	25,416
Loans	3	**20,050**	15,352	11,684
		52,087	44,128	37,100
Current assets				
Debtors	4	**53**	22	5
Cash at bank and in hand		**9,797**	3,467	9,102
		9,850	3,489	9,107
Creditors: amounts falling due within one year	5	**(51)**	(43)	(36)
Net current assets		**9,799**	3,446	9,071
Net assets		**61,886**	47,574	46,171
Capital and reserves				
Called up share capital	7	**1,418**	594	592
Share premium account		**58,102**	46,580	46,556
Other reserve		**2,786**	2,933	2,854
Profit and loss account		**(420)**	(2,533)	(3,831)
Equity shareholders' funds		**61,886**	47,574	46,171

The accompanying notes are an integral part of this balance sheet.

Approved and authorised to issue by the Board on 24 February 2016 and signed on its behalf:
Company number 4179503:

W Rencken

Wolfgang Rencken
Director

Richard Wright
Director

Company statement of cash flow
for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Operating activities	8	**(563)**	(630)
Cash flows from investing activities			
Loans to Group undertakings		**(5,542)**	(5,095)
Interest received		**89**	64
		(5,453)	(5,031)
Cash flows from financing activities			
Issue of share capital		**13,176**	26
Issue expenses		**(830)**	–
		12,346	26
Net change in cash and cash equivalents in the year		**6,330**	(5,635)
Cash and cash equivalents at beginning of year		**3,467**	9,102
Cash and cash equivalents at end of year		**9,797**	3,467

The accompanying notes are an integral part of this statement of cash flow.

Company statement of changes in equity
at 31 December 2015

	Share capital £000	Share premium £000	Other reserve £000	Retained loss £000	Total equity £000
Balance as at 31 December 2013	592	46,556	2,854	(3,831)	46,171
Profit for the year ended 31 December 2014	–	–	–	1,183	1,183
Total comprehensive income for the period	–	–	–	1,183	1,183
Issue of share capital	2	24	–	–	26
Employee share-based compensation	–	–	194	–	194
Reclassification following lapse of options	–	–	(115)	115	–
Transactions with owners	2	24	79	115	220
Balance as at 31 December 2014	**594**	**46,580**	**2,933**	**(2,533)**	**47,574**
Profit for the year ended 31 December 2015	**–**	**–**	**–**	**1,838**	**1,838**
Total comprehensive income for the period	**–**	**–**	**–**	**1,838**	**1,838**
Issue of share capital	**824**	**12,352**	**–**	**–**	**13,176**
Issue expenses	**–**	**(830)**	**–**	**–**	**(830)**
Employee share-based compensation	**–**	**–**	**128**	**–**	**128**
Reclassification following lapse of options	**–**	**–**	**(275)**	**275**	**–**
Transaction with owners	**824**	**11,522**	**(147)**	**275**	**12,474**
Balance as at 31 December 2015	**1,418**	**58,102**	**2,786**	**(420)**	**61,886**

Authorisation of financial statements

The parent company financial statements of Sphere Medical Holding plc (the 'Company') for the year ended 31 December 2015 were authorised for issue by the Board on 24 February 2016 and the balance sheet was signed on the Board's behalf by Mr R Wright and Dr W D Rencken. Sphere Medical Holding plc is a Public Limited Company incorporated and domiciled in Wales.

1. Accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention except for financial instruments and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) applicable standards and laws.

The Company transitioned to FRS 101 from UK Generally Accepted Accounting Practice for all periods presented. The date of transition is 1 January 2014. The impact of the transition is set out in Note 15.

The Company intends to take advantage of the applicable disclosure exemptions under FRS 101 for subsequent years until such time as it notifies shareholders otherwise. The Company's election to take advantage of the applicable disclosure exemptions under FRS 101 does not require shareholder approval. However, the Company is required to notify shareholders of this election. Any shareholder or shareholders holding in aggregate of 5 per cent or more of the total allotted shares in the Company may serve an objection. Objections must be served in writing and delivered to the Company Secretary at Sphere Medical Holding plc, Life Science Hub Wales, 3 Assembly Square, Cardiff, CF10 4PL, United Kingdom by no later than 31 May 2016.

The financial statements are presented in pounds Sterling.

Significant accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affects the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Share options and warrants

The fair value of options and warrants is determined using the Black Scholes valuation model, which requires a number of estimates and assumptions The significant inputs into the model are the share price at the date of grant, the exercise price, the expected option life, the expected volatility and the risk-free interest rate. The detailed estimates and assumptions are set out in Note 7. The key estimate in the model, being volatility, is based on the historical volatility in the Company's share price over the past 12 months.

The principal accounting policies are summarised below. They have been applied consistently throughout the year.

Impairment review of investment

The carrying values of investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. The impairment test involves determining the recoverable amount of the relevant investment, which corresponds to the higher of the fair value less costs to sell or its value in use. The value in use calculation for the Company's investment in Sphere Medical Limited uses cash flow projections based on financial forecasts for the next five years, being the period in which Proxima is expected to establish its market presence. The key assumptions on which the cash flow projections are made are:

- The Group will put in place a commercialisation partner.
- Revenue growth will be in line with internal forecasts up to 2020.
- A terminal value has been included at six times the EBITDA.
- Cash flows are discounted at an appropriate rate, taking into account market information and the specific circumstances of the investment. A discount rate of 15% has been used.

If the discount rate was increased by 5% to 20%, or if revenue growth were delayed by a year, there would still be no impairment to record.

Profit and loss account

No profit and loss account is presented for Sphere Medical Holding plc as provided by Section 408 of the Companies Act 2006. The Company's profit for the financial year after tax, determined in accordance with the Act, was £1,838,000 (2014: £1,183,000) and is included in the Group loss for the year.

The results of Sphere Medical Holding plc are included in the consolidated financial statements of Sphere Medical Holding plc which are available from Harston Mill Harston Cambridge CB22 7GG.

The auditor's remuneration for audit services to the Group was £33,000 (2014: £36,000) and was borne entirely by the Company. Non-audit services provided by the Company's auditor amounted to £14,000 (2014: £8,000).

Details of the Directors' emoluments and their interests in the share capital of the Group are set out on pages 19 and 20.

Share options

All share-based payment transactions granted by the Company since 7 November 2002 are recognised in the Group financial statements save for options granted that had already vested by 1 January 2005.

The Company issues equity-settled share-based payments to its Directors, as well as employees (including Directors) of its subsidiary, Sphere Medical Limited. In accordance with FRS 20, for all grants of share options and awards the cost of the equity-settled share-based payments is measured at fair value at the date of grant. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. The fair value is appraised at the grant date and excludes the impact of non-market vesting conditions. That fair value is expensed on a straight line basis over the vesting period for the related options based upon the Company's estimate of the shares that will eventually vest, with a corresponding credit to "other reserves" for Directors providing services solely to the Company. The fair value for Directors and employees of the Company's subsidiary Sphere Medical Limited is added to the cost of the investment in that subsidiary.

No expense is recognised for awards that do not ultimately vest as a result of the relevant employee ceasing to be employed by the Group.

Fair value is measured using the Black Scholes Option Pricing Model. The expected life used in the model is the expiry date of the options.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the value of the shares issued are allocated to share capital with any excess being recorded as additional paid-in capital.

Going concern

The ability of the Company to continue as a going concern is dependent on the underlying operations of the Group as a whole.

At 31 December 2015 the cash balance available to the Company was £9,797,000 (2014: £3,467,000).

The Company funds the activities of its sole subsidiary, Sphere Medical Limited, through an intercompany loan as the income generated by the subsidiary is insufficient to cover its activities. For the year to 31 December 2015, the cash outflow of the Group from operating activities was £6,004,000 and the balance on the loan at that date was £46,378,000 (2014: £40,836,000).

The Group's revenues from sales of products are not expected to be sufficient for the Group to become cash generative from commercial operations over the next 12 months, although the Board does believe that it has adequate resources to continue with its plans for at least the next 12 months. The Board's confidence that the development and commercialisation of the Group's principal product, Proxima, will prove to be successful has been increased by the launch of Proxima 3 into the European market, the positive reception it has received, including the first sales, and by the good progress that has been made towards launching Proxima 4 in Europe.

As explained in the Strategic Report, the Group is currently in discussions with a number of potential commercialisation partners. Depending on the economics of any such arrangement, and depending on the sales growth of Proxima, the Group may or may not need to raise additional finance before it it becomes cash generative. The Group has a good track record of being able to raise additional finance when it has needed to do so. The Board of Directors has concluded that the combination of these circumstances represents a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nonetheless, based on the £9.8 million of cash as at 31 December 2015, the 2016 budget approved by the Board of Directors and the business plan for the next several years, the Board of Directors have reasonable expectation that the business will be able to continue in operation for at least 12 months from the date of approval of these financial statements. For these reasons, the Board of Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Investments

Fixed asset investments are shown at cost less any provision for impairment.

The carrying values of investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Financial Instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provsions of the financial instrument and are measured initially at fair value adjusted for transaction costs.

Financial instruments – intercompany balances

Amounts due from Group companies are initially recognised at fair value being the present value of future interest and capital receipts discounted at the market rate of interest for a similar financial asset. Where the face value of the loan exceeds the fair value of the loan on initial recognition this difference is added to the investment in that subsidiary if the loan is due from a subsidiary. Interest receivable on the loan is recognised in profit and loss under the effective interest method.

2. Staff costs

Particulars of employees are as shown below.

Employee costs during the year amounted to:	2015 £000	2014 £000
Wages and salaries	**199**	114
Social security costs	**10**	9
Severence pay	**20**	–
Other benefits	**3**	–
Charge in respect of share options	**13**	14
	245	137

	2015 Number	2014 Number
Average monthly number of employees during the year	**5**	3

The Company's only employees are the Directors. The above does not include the employee costs of Wolfgang Rencken, Richard Wright and Matthew Hall who were directors of both Sphere Medical Limited and Sphere Medical Holding plc and are paid by Sphere Medical Limited.

3. Investments

	Loans £000	Investment in Subsidiary £000
Cost and Net Book Value		
At 1 January 2014 (restated)	**11,684**	**25,416**
Additions	**1,915**	**3,360**
Discount unwound	**1,753**	**–**
At 31 December 2014 (restated)	**15,352**	**28,776**
Additions	**2,395**	**3,261**
Discount unwound	**2,303**	**–**
At 31 December 2015	**20,050**	**32,037**

The loan is to Sphere Medical Limited and is used by that company for working capital requirements. The loan is interest-free, is unsecured and has no fixed date for repayment.

Included within investments in subsidiaries is £1,653,000 (2014: £1,539,000) which represents the share investment and a capital contribution made to Sphere Medical Limited via the issue of share options to that company's employees.

The Company held an investment in the following subsidiary undertakings at 31 December 2015:

Subsidiary undertaking	Country of incorporation	Principal activity	Class of shares	Holding
Sphere Medical Limited	England	Medical diagnostics	Ordinary	100%
Sphere Medical Production Limited	Wales	Medical diagnostics	Ordinary	100% (indirect)

Voting rights are in accordance with the percentage of Ordinary Share ownership. All shares are held in the name of Sphere Medical Holding plc.

The subsidiary undertakings have been included in the consolidated financial statements.

4. Debtors

Amounts falling due within one year:	2015 £000	2014 £000
VAT	–	10
Other debtors	**53**	12
	53	22

5. Creditors: amounts falling due within one year

	2015 £000	2014 £000
Trade creditors	**1**	13
Accruals and deferred income	**50**	30
	51	43

6. Derivative liabilities

During 2010 the Company issued a total of 1,531,464 warrants to subscribe for Ordinary Shares to the holders of the 8 per cent Fixed Rate Secured Loan Notes 2010, of which 510,487 automatically lapsed in the year to 31 December 2010, leaving 1,020,977 warrants remaining. Each Warrant 2010 entitles the holder to subscribe for one Ordinary Share at a subscription price of £1.70 at any time up to 2 February 2017. None of the subscriptions rights attached to the Warrants 2010 has been exercised since they were issued. The number of Ordinary Shares under the warrant instruments are subject to adjustment if new Ordinary Shares are issued at less than £1.70. As a result of share issues since the warrants were created, a further 1,124,840 additional shares are issuable for nil consideration on the exercise of Warrants 2010, leaving 2,145,817 Ordinary Shares issuable (2014: 1,598,898 Ordinary Shares issuable) in respect of Warrants 2010 in issue at the period end.

On 10 November 2011 the company entered into further agreements providing parties with the right to subscribe for an aggregate of 4,554 Ordinary Shares at an exercise price of £1.70 per share with such rights lapsing on the seventh anniversary of entry into such further agreements.

On 12 July 2013 the company issued 250,000 warrants with an exercise price of 80 pence per share, exercisable for up to five years from issue. As a result of the 2015 share issue, the exercise price for these warrants was changed to 32 pence per share.

On 22 July 2013 the Company issued 4,164,750 warrants, of which 50% are exercisable at 44 pence per share and 50% are exercisable at 92.5 pence per share. These warrants are exercisable for up to five years from issue.

The warrants have been measured at fair value using the Black Scholes Model for which the share price was taken at £0.10 (2014: £0.23), the risk free interest rate was 0.57% (2014: 0.49%), the dividend rate nil (2014: nil). At 31 December 2015 the remaining life was 1.11 years (2014: 2.11 years) for the Warrants 2010, 2.86 years (2014: 3.86 years) for the 2011 warrants, 2.53 years (2014: 3.53 years) for the 12 July 2013 warrants and 2.56 years (2014: 3.56 years) for the 22 July 2013 warrants. The application of the above assumptions to the warrants outstanding results in an immaterial fair value at 31 December 2014 and 31 December 2015.

7. Share capital

	2015		2014	
	Start of period	End of period	Start of period	End of period
Issued and fully paid				
Ordinary Shares (number) of £0.01	**59,405,290**	**141,757,872**	59,208,660	59,405,290
Ordinary Shares (nominal) of £0.01	**£594,053**	**£1,417,579**	£592,087	£594,053

Share issue

82,352,582 Ordinary Shares of £0.01 each were issued and allotted in the period for total consideration of £13,176,413.

Warrants to subscribe Ordinary Shares

At the year end there were 5,440,281 warrants (2014: 5,440,281 warrants) in issue in respect of 6,565,121 Ordinary Shares (2014: 6,018,202 Ordinary Shares). Details of these warrants are given in Note 6.

7. Share capital continued

Share options

Share options are awarded to Directors and permanent employees from time to time.

At 31 December 2015 the Company had outstanding options over Ordinary Shares as follows:

Date granted	Exercise price per Ordinary Share	Number of shares at 31 Dec 2014	Granted during the year	Released during the year	Forfeited during the year	**Number of shares at 31 Dec 2015**	Scheme	Life of option and vesting	Estimated fair value (see below)
20 Dec 2005	£1.25	20,000	–	–	(20,000)	**–**	EMI	(1)	£0.563
20 Dec 2005	£1.25	100,470	–	–	(100,470)	**–**	Unapproved	(1)	£0.563
1 Feb 2006	£1.25	86,110	–	–	–	**86,110**	Unapproved	(3)	£0.563
13 Nov 2006	£1.55	183,640	–	–	–	**183,640**	Unapproved	(4)	£0.698
9 Dec 2008	£1.70	2,500	–	–	(2,500)	**–**	EMI	(5)	£0.702
13 Jan 2009	£1.70	48,589	–	–	–	**48,589**	Unapproved	(6)	£0.699
13 Jan 2009	£1.70	44,990	–	–	–	**44,990**	Unapproved	(10)	£0.699
26 Oct 2011	£0.925	18,245	–	–	(18,245)	**–**	EMI	(7)	£0.382
31 Oct 2011	£0.925	1,214,586	–	–	(368,056)	**846,530**	Unapproved	(7)	£0.382
31 Oct 2011	£0.925	404,861	–	–	–	**404,861**	Unapproved	(10)	£0.382
18 May 2012	£0.925	70,000	–	–	–	**70,000**	Unapproved	(8)	£0.334
1 June 2012	£0.925	411,660	–	–	–	**411,660**	EMI	(8)	£0.334
1 Sept 2012	£0.925	124,430	–	–	(124,430)	**–**	Unapproved	(8)	£0.3318
1 Oct 2012	£0.925	25,000	–	–	–	**25,000**	Unapproved	(8)	£0.2975
1 Jan 2013	£0.40	16,250	–	(16,250)	–	**–**	Unapproved	(8)	£0.1683
1 Aug 2013	£0.40	3,750	–	(3,750)	–	**–**	Unapproved	(8)	£0.4348
1 Sep 2013	£0.40	1,250	–	–	(1,250)	**–**	Unapproved	(8)	£0.1469
1 Oct 2013	£0.40	13,750	–	(12,500)	(1,250)	**–**	Unapproved	(8)	£0.1196
1 Nov 2013	£0.92	136,930	–	–	(124,430)	**12,500**	Unapproved	(8)	£0.0519
1 Jan 2014	£0.40	328,750	–	–	(202,500)	**126,250**	EMI	(8)	£0.0939
1 Feb 2014	£0.40	25,000	–	–	–	**25,000**	EMI	(8)	£0.0939
1 June 2014	£0.40	1,475,000	–	–	(275,000)	**1,200,000**	EMI & Unapproved	(8)	£0.0877
1 March 2015	£0.40	–	1,705,000	–	(303,750)	**1,401,250**	EMI	(8)	£0.0364
1 March 2015	£0.40	–	18,750	–	(1,250)	**17,500**	EMI	(8)	£0.0364
1 March 2015	£0.1325	–	114,700	–	–	**114,700**	EMI	(9)	£0.1026
1 March 2015	£0.925	–	28,750	–	–	**28,750**	EMI	(8)	£0.093
1 May 2015	£0.16	–	2,660,000	–	–	**2,660,000**	Unapproved	(8)	£0.0591
1 May 2015	£0.16	–	670,000	–	–	**670,000**	Unapproved	(10)	£0.0591
1 May 2015	£0.16	–	100,000	–	(50,000)	**50,000**	Unapproved	(10)	£0.0591
1 July 2015	£0.16	–	1,026,000	–	–	**1,026,000**	EMI	(8)	£0.0626
1 July 2015	£0.16	–	709,000	–	–	**709,000**	EMI	(8)	£0.0789
15 July 2015	£0.178	–	1,340,000	–	–	**1,340,000**	EMI	(8)	£0.0695
1 Sept 2015	£0.40	–	25,000	–	–	**25,000**	Unapproved	(8)	£0.0205
1 Sept 2015	£0.16	–	45,000	–	–	**45,000**	EMI & Unapproved	(8)	£0.0503
1 Oct 2015	£0.16	–	50,000	–	–	**50,000**	EMI	(8)	£0.0269
1 Oct 2015	£0.09	–	50,000	–	–	**50,000**	EMI	(8)	£0.041
Total		4,755,762	8,542,200	(32,500)	(1,593,131)	**11,672,330**			

(1) Fully vested. Expired 19 December 2015.
(3) Fully vested. Expiry 31 January 2016.
(4) Fully vested. Expiry 12 November 2016.
(5) Fully vested. Expiry 8 December 2018.
(6) Fully vested. Expiry 12 January 2019.
(7) Fully vested. Expiry October 2021.
(8) Vesting 50% after one year, 25% after two years and the remaining 25% after three years.
(9) Fully vested.
(10) Fully vested. Expiry 24 June 2018.

The estimated fair value of each share option was calculated by applying the Black Scholes option pricing model. The model inputs were the exercise price, expected volatility of 20% for all options granted to February 2008, 25% for all options granted to October 2011 and 39% for all subsequent grants to December 2014, 30% for March 2015 grants, 29% for May 2015 grants, 30% for July 2015 grants, 35% for Sept 2015 grants and 37% for October 2015 grants, no expected dividends, contractual life to the expiry date of the option at issue. Early exercise is not considered likely and therefore there have been no adjustments in this respect. Management has determined volatility based on market movements in the share price. The risk-free interest rate was taken as 5.00% for all options granted in 2004 to 2006, 5.50% for the options granted in 2007, 5.25% for the options granted on 21 February 2008, 3.00% for the options granted from December 2008 to October 2011 and 0.49% for all subsequent grants.

The expense arising from share options was £128,000 (2014: £194,000).

Further details of the share option plans are as follows:

	2015		2014	
	Number of options	**Weighted average exercise price £**	Number of options (Restated)	Weighted average exercise price (Restated) £
Outstanding at start of year	**4,755,762**	**0.773**	3,533,710	0.96
Granted	**8,542,200**	**0.214**	1,943,180	0.40
Forfeited	**(1,593,131)**	**0.668**	(524,498)	0.893
Exercised	**–**	**–**	(196,630)	0.133
Replaced	**(32,500)**	**0.400**	–	–
Outstanding at end of year	**11,672,331**	**0.379**	4,755,762	0.773

The options outstanding at 31 December 2015 had a weighted average remaining contractual life of 8.386 years (2014: 7.452 years) of which 3,765,511 (2014: 2,683,275) were exercisable at 31 December 2015.

The Articles restrict the granting of any option or other right to subscribe for shares other than to employees or Directors of the Company or any of its subsidiaries who were not employed or in office at 16 February 2005 pursuant to any Company Share Scheme provided that the number of Ordinary Shares subject to such options under all Company Share Schemes at any time does not exceed in aggregate 12% of the issued shares of the Company.

The total number of options granted at 31 December 2015 is 11,672,331 which represents 8.2% of the issued share capital (7.6% of the enlarged share capital if all options and warrants are exercised) and the total subscription monies are £4,426,000 (equivalent to an average subscription price of £0.38 per share held under option).

8. Reconciliation of operating loss to operating cash flows

	2015 £000	2014 £000
Operating activities – loss for the period before interest and tax	**(554)**	(634)
Share-based payments	**14**	14
(Increase) in trade and other receivables	**(31)**	(17)
Increase in trade and other payables	**8**	7
	(563)	(630)

9. Leases

The Company operates from a leased property. The current lease is a three year lease with a six month break clause.

Minimum amounts payable under operating leases are as follows:

	2015 £000	2014 £000
Within one year	**94**	94
Within one to five years	**–**	–
	94	94

10. Related party transactions

Transactions with subsidiary

The Company provided a loan to Sphere Medical Ltd in the year. Details are shown in Note 3 above.

Transactions with key management personnel

All the employees of the Company are Directors. Transactions with Directors are as shown in the Note 2 Staff costs.

11. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and at banks and accrued interest on bank deposits.

12. Contingent liabilities

There were no contingent liabilities at 31 December 2015 (2014: £nil).

13. Risk management objectives and policies

The Company is exposed to market risk, specifically interest rate risk, which result from both its operating and investing activities. The Company's risk management focuses on securing the Company's short to medium-term cash flows by minimising the exposure to financial markets.

Financial assets and liabilities are measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance used in the measurement of the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:
Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted market prices included within level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The derivative liability, being the calculated fair value of warrants in issue, is determined based on Level 3.

13.1 Interest rate sensitivity

The Company's policy is to minimise interest rate cash flow risk exposures on long-term financing. At 31 December 2015, the Company was exposed to changes in market interest rates through its bank deposits, which are subject to variable interest rates.

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +2% (2014: +3%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Company's financial instruments held at each balance sheet date. All other variables are held constant.

	2015 – £000		2014 – £000	
	+2%	**-2%**	+3%	-3%
Net result for the year	**(510)**	**N/A**	(510)	N/A
Equity	**45,954**	**N/A**	46,360	N/A

13.2 Credit risk analysis

The Company's exposure to credit risk is limited to the carrying value of financial assets recognised at the balance sheet date, as summarised below:

	2015 £000	2014 £000
Classes of financial assets – carrying amounts:		
Cash and cash equivalents	**9,797**	3,467
Investment	**52,087**	44,128
Trade and other receivables	**53**	–
Total	**61,937**	47,595

The Company monitors defaults of counterparties and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties.

Management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. None of the Company's financial assets is secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The credit risk for liquid funds and other short term financial assets relates to the banking institutions holding such funds and assets on behalf of the Company and may therefore be higher in conditions of general banking uncertainty. While the counterparties are reputable banks with high quality external credit ratings, the Company nevertheless splits its deposits between different institutions in order to reduce risk.

13.3 Liquidity risk analysis

The Company manages its liquidity needs by monitoring cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling monthly projection. Long-term liquidity needs are identified monthly.

The Company maintains cash and cash equivalents to meet its liquidity requirements for up to a 30-day period.

At 31 December 2015, the Company's liabilities had contractual maturities which are summarised below:

	Current - £000		Non-current - £000	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Trade payables	**43**	**–**	**–**	**–**

This compares to the maturity of the Company's financial liabilities at 31 December 2014 as follows:

	Current - £000		Non-current - £000	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Trade payables	**36**	**–**	**–**	**–**

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet date.

13.4 Summary of financial assets and liabilities by category

	2015 – £000			2014 – £000		
Balance sheet headings - assets	Loans & receivables	Non-financial assets	Total for balance sheet heading	Loans & receivables	Non-financial assets	Total for balance sheet heading
Cash and cash equivalents	**3,467**	**–**	**3,467**	9,102	–	9,102
Investment	**52,087**	**–**	**52,087**	44,128	–	44,128
Other receivables – current	**53**	**–**	**53**	–	22	22
Total	**55,607**	**–**	**55,607**	53,230	22	53,252

	2015 – £000			2014 – £000		
Balance sheet headings – liabilities	Other financial liabilities	Non-financial liabilities	Total for balance sheet heading	Other financial liabilities	Non-financial liabilities	Total for balance sheet heading
Liabilities at amortised cost:						
Trade payables	**1**	**–**	**1**	13	–	13
Accruals	**50**	**–**	**50**	30	–	30
	51	**–**	**51**	43	–	43

The fair value of financial assets and liabilities is considered the same as the carrying values.

14. Capital management policies and procedures

	2015 £000	2014 £000
Equity shareholders' funds	**61,886**	47,574
Cash and liquid funds	**3,467**	9,102

The Company's capital management objectives are:
- to ensure the Company's ability to continue as a going concern; and
- to provide an adequate return to shareholders.

Given that the Company is in the early stage of commercialising its products, in achieving these objectives the Company generally aims to:
- have sufficient available capital at any point to allow it to operate; and
- avoid payment obligations which would exceed its likely income.

Consequently, the significant majority of the Company's funding during the year was through permanent equity capital which carries no dividend obligations and no redemption rights.

During the year the Company had no external financial covenants.

15. Transition to FRS101

For all periods up to and including the year ended 31 December 2014 the Company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2015 are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS101 applicable for the periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company started from an opening balance sheet at 1 January 2014, the Company's transition date to FRS101, and made those changes in accounting policies and other restatements required for the first time adoption of FRS101. As such this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 January 2014 prepared under UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

On transition to FRS101, the Company has applied the requirement of paragraphs 6-33 of IFRS 1 'First time adoption of International Financial Reporting Standards'.

	UK GAAP As previously reported £000	FRS101 Re-classifications and Re-measurements £000	FRS101 Total £000
Reconciliation of equity as at 1 January 2014			
Investments			
Subsidiaries	1,359	24,057	25,416
Loans	35,741	(24,057)	11,684
	37,100	–	37,100
Current assets			
Debtors	5	–	5
Cash at bank and in hand	9,102	–	9,102
	9,107	–	9,107
Creditors: amounts falling due within one year	(36)	–	(36)
Net current assets	9,071	–	9,071
Net assets	46,171	–	46,171
Capital and reserves			
Called up share capital	592	–	592
Share premium account	46,556	–	46,556
Other reserve	2,854	–	2,854
Profit and loss account	(3,831)	–	(3,831)
Equity shareholders' funds	46,171	–	46,171

	UK GAAP As previously reported £000	FRS101 Re-classifications and Re-measurements £000	FRS101 Total £000
Reconciliation of equity as at 31 December 2014			
Investments			
Subsidiaries	1,539	27,237	28,776
Loans	40,836	(25,484)	15,352
	42,375	1,753	44,128
Current assets			
Debtors	22	–	22
Cash at bank and in hand	3,467	–	3,467
	3,489	–	3,489
Creditors: amounts falling due within one year	(43)	–	(43)
Net current assets	3,446	–	3,446
Net assets	45,821	1,753	47,574
Capital and reserves			
Called up share capital	594	–	594
Share premium account	46,580	–	46,580
Other reserve	2,933	–	2,933
Profit and loss account	(4,286)	1,753	(2,533)
Equity shareholders' funds	45,821	1,753	47,574

Restatement of equity from UK GAAP to FRS101

Valuation of financial assets – intercompany loans

Under the previously-applied UK GAAP intercompany loans receivable were recognised at cost less provision for bad debts and intercompany loans payable were recorded at the amount of the proceeds. Under FRS101 intercompany loans are initially recognised at fair value and subsequently recognised at amortised cost under the effective interest method.

Restatement of Total comprehensive income

	£000
Loss for the year ended 31 December 2014 under UK GAAP	(570)
Discount unwound	1,753
Profit for the year ended 31 Decmeber 2014 under FRS101	1,183

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Advisors and Registrars

Nominated Advisor and Broker

Panmure Gordon (UK) Limited
One New Change
London
EC4M 9AF

Solicitors

Taylor Wessing LLP
5 New Street Square
London
EC4A 3TW

Auditor

Grant Thornton UK LLP
101 Cambridge Science Park
Milton Road
Cambridge
CB4 0FY

Financial PR

Consilium Strategic Communications
41 Lothbury
London
EC2R 7HG
sphere@consilium-comms.com

Patent and trademark attorneys

Elkington & Fife
Thavies Inn House
3-4 Holborn Circus
London
EC1N 2HA

Registrar

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

SPHEREMEDICAL.COM

Sphere Medical Holding plc
Life Science Hub Wales
3 Assembly Square
Cardiff
CF10 4PL

Tel: +44 (0)1223 875222
Fax: +44 (0)1223 875284