

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to what action you should take, you are recommended to seek your own personal independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 (as amended), if you are resident in the United Kingdom, or if not, from another appropriately authorised independent professional adviser.**

If you have sold or otherwise transferred all of your holding of Ordinary Shares, please immediately forward this document, together with the accompanying Form of Proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding of Ordinary Shares, you should contact the stockbroker, bank or other agent through whom the sale or transfer was effected as to the actions you should take. If you have sold or otherwise transferred only part of your holding of Ordinary Shares you should retain these documents.

The Directors of the Company, whose names and functions appear on page 8 of this document, accept responsibility (both individually and collectively) for the information contained in this document (other than the information on the Concert Party), save that Brenig Preest does not accept responsibility for the recommendation of the Independent Directors in relation to the Panel Waiver. Craig Newman and Neil Woodford (as directors of Woodford Investment Management Limited (being the investment manager for Woodford)) accept responsibility for the information contained in this document on Woodford (being a member of the Concert Party). Robert Arnold, John Banham, Marc Clement, John Hutton, Trevor Jones, Shafia Zahoor, Christopher Evans and Martin Walton (as directors of Arthurian Life Sciences Limited (being the investment manager for the Wales Fund)) accept responsibility for the information contained in this document on the Wales Fund (being a member of the Concert Party). The Independent Directors accept responsibility for the recommendation in relation to the Panel Waiver. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they respectively accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.



# Sphere Medical Holding plc

*(Incorporated in England & Wales under the Companies Act 1985 with Registered No. 04179503)*

**Proposed Cancellation of admission of Ordinary Shares to trading on AIM**  
**Approval for waiver of obligations under Rule 9 of the Takeover Code**  
**Conditional subscription for up to 283,486,888 Convertible Preferred Shares**  
**Re-registration as a private company**  
**and**  
**Notice of General Meeting**

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Panmure Gordon (UK) Limited is authorised and regulated in the United Kingdom by the Financial Conduct Authority. Panmure Gordon (UK) Limited is acting as nominated adviser exclusively for the Company and no one else in connection with the Cancellation and will not regard any other person as its client in relation to the Cancellation and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Panmure Gordon (UK) Limited, nor for providing advice in relation to any matter referred to herein.

You are recommended to read the whole of this document. In particular, your attention is drawn to the letter to Shareholders from the Chairman of the Company set out in this document which explains the background to and reasons for the proposed Cancellation and which contains a recommendation from the Directors that you vote in favour of the Resolutions to be proposed at the General Meeting.

**The proposed Investment and Cancellation described in this document are conditional, *inter alia*, on the approval of Shareholders at the General Meeting. Notice of the General Meeting to be held at 12.00 p.m. on 8 September 2017 at the offices of Taylor Wessing LLP, 5 New Street Square, London EC4A 3TW is set out at the end of this document. Shareholders will find enclosed the Proxy Form for use at the General Meeting.**

**The Proxy Form should be completed, signed and returned to the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received no later than 48 hours before the General Meeting. The completion and return of a Form of Proxy will not affect your right to attend and vote in person at the General Meeting or any adjournment thereof, if you wish to do so. Copies of this document will be available for inspection free of charge on request by a Shareholder, persons with information rights or other persons to whom this document is sent during normal business hours on any Business Day at the Company's Cambridge office at Harston Mill, Harston, Cambridge, Cambs, CB22 7GG from the date of this document until the conclusion of the General Meeting, and at the Company's website, [www.spheremedical.com](http://www.spheremedical.com).**

#### **Information regarding forwarding-looking statements**

This document contains a number of forward-looking statements relating to Sphere Medical Holding plc. Sphere Medical Holding plc considers any statements that are not historical facts as "forward-looking statements". They relate to events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of Sphere Medical Holding plc to differ materially from the information as presented in the relevant forward-looking statement. When used in this document the words "estimate", "project", "intend", "aim", "anticipate", "believe", "expect", "should", and similar expressions, as they relate to Sphere Medical Holding plc or the management of it, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this document. Sphere Medical Holding plc does not intend, nor assume any obligation to update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, save in respect of any requirement under applicable laws, the AIM Rules and other regulations.

#### **Important Information to Overseas Shareholders**

In the opinion of the Directors, there is a significant risk of civil regulatory or criminal exposure to the Company and its Directors should the opportunity to participate in the Investment be made to investors in Restricted Jurisdictions. On this basis, none of the Convertible Preferred Shares, nor this document have been or will be, registered under the relevant laws of any state, province or territory of any of the Restricted Jurisdictions. Subject to certain limited exceptions none of the Convertible Preferred Shares may be taken up or delivered in, into or within any of the Restricted Jurisdictions.

It is the responsibility of any person receiving a copy of this document outside the United Kingdom to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant territory in connection therewith, including obtaining any governmental or other consents which may be required or observing any other formalities required to be observed in such territory and paying any other issue, transfer or other taxes due in such other territory. Persons (including, without limitation, nominees and trustees) receiving this document should not, in connection with the Investment, distribute or send it into any jurisdiction when to do so would, or might, contravene local securities laws or regulations.

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## EXPECTED TIMETABLE

	<i>2017</i>
Notice provided to the London Stock Exchange to notify it of the proposed Cancellation	21 August
Posting of this document and Form of Proxy to Shareholders	22 August
Latest time and date for receipt of Forms of Proxy in respect of the General Meeting	12.00 p.m. on 6 September
Time and Date of General Meeting	12.00 p.m. on 8 September
Expected last day of dealings on AIM in the Ordinary Shares	19 September
Cancellation of the admission to trading on AIM of the Ordinary Shares expected to be effective	20 September
Completion of the Initial Investment Round	26 September
Completion of the Second Investment Round <sup>1</sup>	By no later than 4 October

<sup>1</sup>New and existing shareholders have the opportunity to invest up to an aggregate sum of £3 million in the Second Investment Round on materially the same terms as the Concert Party in the Initial Investment Round. However, there is no guarantee that any investors will participate in the Second Investment Round.

**Existing and new Shareholders wishing to participate in the Second Investment Round should refer to paragraph 14.1 in Part 1 of this document who will need to contact the Company to express an interest by no later than 11.00 a.m. 27 September 2017.**

### *Notes:*

All references to times of day in this document are to London time.

Dates set out against events that are expected to occur after the date of the General Meeting assume that the General Meeting is not adjourned and that the Resolutions are passed at the General Meeting.

All of the above times and dates are subject to change at the Company's discretion. In the event of any change, the revised times and dates will be notified to Shareholders by an announcement through a Regulatory Information Service (as defined in the AIM Rules).

## DEFINITIONS

The following shall apply throughout this document unless the context otherwise requires:

<b>“Act”</b>	the Companies Act 2006;
<b>“AIM”</b>	AIM, the market of that name operated by the London Stock Exchange;
<b>“AIM Rules”</b>	the “AIM Rules for Companies” published by the London Stock Exchange from time to time;
<b>“AIM Rules for Nominated Advisers”</b>	the AIM Rules for Nominated Advisers published by the London Stock Exchange, as amended from time to time;
<b>“Arix Bioscience”</b>	Arix Bioscience plc (company number 09777975) of 20 Berkeley Square, London, England, W1J 6EQ (being the direct parent company of Arthurian);
<b>“Arthurian”</b>	Arthurian Life Sciences Limited (company number 08111748) of Life Sciences Hub Wales, 3 Assembly Square, Britannia Quay, Cardiff, CF10 4PL (being the manager of the Wales Fund);
<b>“Board”</b>	the board of directors of the Company, as set out on page 4;
<b>“Business Day”</b>	a day, not being a public holiday, Saturday or Sunday on which clearing banks in London are open for business;
<b>“Cancellation”</b>	the proposed cancellation of admission to trading on AIM of the Ordinary Shares;
<b>“Company” or “Sphere”</b>	Sphere Medical Holding plc;
<b>“Concert Party”</b>	Woodford, WIML (in its capacity as investment manager of Woodford), the Wales Fund, Arthurian (in its capacity as investment manager of the Wales Fund) and each of their concert parties, details of which are set out in Part 2 of this document;
<b>“Convertible Preferred Shares”</b>	the new convertible preferred shares of £0.01 each to be issued by the Company in connection with the Investment having the rights set out in the Interim Articles and/or Final Articles, as summarised in Part 3 of this document; and <b>“Convertible Preferred Share”</b> means one of them;
<b>“Directors”</b>	the directors of the Company (each being a <b>“Director”</b> );
<b>“Existing Articles”</b>	the articles of association of the Company in force at the date of this document;
<b>“Existing Ordinary Shares”</b>	the 141,757,872 Ordinary Shares in issue at the date of this document;
<b>“Final Articles”</b>	the articles of association to be adopted with effect from Re-registration (in replacement of the Interim Articles) conditional upon the passing of resolution 10 at the General Meeting to reflect the rights of the Convertible Preferred Shares and the change of status of the Company to a private limited company, the key terms of which are set out in Part 4;

<b>“Form of Proxy” or “Proxy Form”</b>	the individual form of proxy enclosed with this document for use by Ordinary Shareholders in connection with the General Meeting;
<b>“FSMA”</b>	the Financial Services and Markets Act 2000, as amended from time to time;
<b>“General Meeting”</b>	the general meeting of the Company convened for 12.00 p.m. on 8 September 2017, notice of which is set out at the end of this document (including any adjournment of such meeting);
<b>“Group”</b>	Sphere Medical Holding plc and its subsidiary undertakings (as defined in the Act);
<b>“Inadvertent Breach”</b>	means the inadvertent breach of Rule 9 of the Takeover Code by Woodford as detailed in paragraph 11 of Part 1 of this document;
<b>“Independent Directors”</b>	all the directors of the Company as at the date of this document, excluding Brenig Preest who is a board representative of the Wales Fund;
<b>“Independent Shareholders”</b>	all Shareholders other than Woodford and the Wales Fund (and anyone acting in concert with either);
<b>“Independent Shares”</b>	the Ordinary Shares held by Independent Shareholders;
<b>“Initial Investment Round”</b>	the proposed investment by Woodford and the Wales Fund in the aggregate sum of £5 million by means of subscription for Convertible Preferred Shares at the Issue Price in accordance with the terms of the Subscription Agreement, conditional upon the passing of the Resolutions;
<b>“Interim Articles”</b>	the articles of association to be adopted on completion of the Cancellation (in replacement of the Existing Articles) conditional upon the passing of resolution 9 at the General Meeting, to reflect the rights of the Convertible Preferred Shares; such articles to be replaced by the Final Articles with effect from Re-registration;
<b>“Investment”</b>	the Initial Investment Round and/or the Second Investment Round (as the context requires);
<b>“Investment Warrants”</b>	the 283,486,888 warrants to be issued to investors in connection with the Investment pursuant to the Investment Warrant Instrument;
<b>“Investment Warrant Instrument”</b>	the warrant instrument to be entered into by the Company in respect of the Investment Warrants, details of which are set out in paragraph 5.2 of Part 2 of this document;
<b>“Investor Majority”</b>	the holders of not less than 50 per cent. of the Convertible Preferred Shares, including the Wales Fund and Woodford;
<b>“Irrevocable Undertakings”</b>	the irrevocable undertakings and consents received by the Company from certain Shareholders to vote in favour of the Resolutions, details of which are set out in paragraph 8 of Part 1 of this document;
<b>“Issue Price”</b>	2.822 pence per Convertible Preferred Share;
<b>“Letters of Intent”</b>	the letters of intent received by the Company from certain institutional Shareholders to vote in favour of the Resolutions, details of which are set out in paragraph 8 of Part 1 of this document;

<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Market Abuse Regulation”</b>	Market Abuse Regulation ( <i>Regulation 596/2014</i> ) (MAR), which repealed and replaced the Market Abuse Directive ( <i>2003/6/EC</i> ) (MAD) and its implementing legislation with effect from 3 July 2016;
<b>“Notice of General Meeting”</b>	the Notice of General Meeting set out at the end of this document;
<b>“OMNIS”</b>	Omnis Income & Growth Fund (being a fund managed by Woodford Investment Management Limited);
<b>“Ordinary Shareholders”</b>	holders of Ordinary Shares;
<b>“Ordinary Shares”</b>	Ordinary shares of £0.01 each in the capital of the Company;
<b>“Panel”</b>	The Panel on Takeovers and Mergers;
<b>“Panel Waiver”</b>	the waiver by the Panel of Rule 9 of the Takeover Code as described in paragraph 5 of Part 1 of this document;
<b>“Panmure Gordon”</b>	Panmure Gordon (UK) Limited;
<b>“Proposals”</b>	the proposals set out in this document including the Cancellation, Panel Waiver, Investment and Re-registration;
<b>“Registrar” or “Equiniti”</b>	Equiniti Limited of Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA;
<b>“Register”</b>	the register of members of the Company;
<b>“Regulatory Information Service”</b>	has the meaning given to it in the AIM Rules;
<b>“Re-registration”</b>	the proposed re-registration of the Company as a private limited company under the Act;
<b>“Resolutions”</b>	the resolutions to be proposed at the General Meeting as set out in the Notice of General Meeting;
<b>“Restricted Jurisdictions”</b>	the United States, Australia, Canada, Japan, New Zealand and the Republic of South Africa;
<b>“Second Investment Round”</b>	the possible investment by existing Shareholders (excluding Woodford and the Wales Fund) up to the aggregate sum of £3 million by means of subscription for Convertible Preferred Shares at the Issue Price, conditional upon the passing of the Resolutions;
<b>“Shareholders”</b>	the holders of Existing Ordinary Shares and <b>“Shareholder”</b> shall mean any one of them;
<b>“Shareholders’ Agreement”</b>	the shareholders’ agreement to be entered into between (1) the Company; (2) Woodford; and (3) the Wales Fund in connection with the Investment, details of which are set out in paragraph 5.3 of Part 2 of this document;
<b>“Subscription Agreement”</b>	the conditional subscription agreement dated 21 August 2017 entered into between (1) the Company; (2) Woodford; and (3) the Wales Fund in connection with the Investment, details of which are set out in paragraph 5.1 of Part 2 of this document;
<b>“SVB”</b>	Silicon Valley Bank;

<b>“SVB Loan Facility”</b>	the £3 million loan facility provided to the Company by SVB and dated 3 January 2017;
<b>“SVB Warrants”</b>	the warrants issued to SVB in connection with the SVB Facility Agreement which are to rescinded and replaced in their entirety by the SVB Warrants 2017;
<b>“SVB Warrants 2017”</b>	the warrants to be issued to SVB to subscribe for up to 3,189,227 Convertible Preferred Shares, details of which are set out in paragraph 5.5 of Part 2 of this document;
<b>“SVB Warrant Instrument”</b>	the warrant instrument dated 3 January 2017 entered into by the Company in respect of the SVB Warrants;
<b>“Takeover Code”</b>	the City Code on Takeovers and Mergers;
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>“Wales Fund”</b>	the Wales Life Sciences Investment Fund LP (company number LP015410) of Life Sciences Hub Wales 3 Assembly Square, Britannia Quay, Cardiff, Wales, CF10 4PL;
<b>“WEIF”</b>	CF Woodford Equity Income Fund (being a fund managed by WIML);
<b>“WIML”</b>	Woodford Investment Management Limited, being the investment manager for Woodford;
<b>“WPCT”</b>	Woodford Patient Capital Trust plc (being a fund managed by WIML);
<b>“Whitewash Resolution”</b>	the ordinary resolution to approve the Panel’s waiver of the obligations of the Concert Party (individually and collectively) to make an offer under Rule 9 of the Takeover Code on completion of the Investment, which is set out at resolution 4 of the Notice of General Meeting, and is required to be passed on a poll at the General Meeting by the Independent Shareholders; and
<b>“Woodford”</b>	together OMNIS, WEIF and WPCT (each being a fund managed by WIML).

## PART 1

### LETTER FROM THE CHAIRMAN



*Directors:*

Dr David Martyr (*Non-Executive Chairman*)  
Dr Wolfgang Rencken (*Chief Executive Officer*)  
Mr Richard Wright (*Chief Financial Officer*)  
Mr John Gregory (*Non-Executive Director and Senior Independent Director*)  
Mr Stephen H. Mahle (*Non-Executive Director*)  
Mr Meinhard Schmidt (*Non-Executive Director*)  
Mr Brenig Preest (*Non-Executive Director*)

*Registered Office:*

Life Sciences Hub Wales  
3 Assembly Square  
Cardiff  
CF10 4PL

22 August 2017

Dear Shareholder

**Conditional subscription of up to 283,486,888 Convertible Preferred Shares**  
**Cancellation of admission of Ordinary Shares to trading on AIM**  
**Waiver of Rule 9 of the Takeover Code**  
**and**  
**Notice of General Meeting**

#### 1. Introduction

The Company is today convening a meeting of Shareholders in order to:

- grant the Directors authority to issue Convertible Preferred Shares on a non pre-emptive basis to raise £5 million for the Company in respect of the Initial Investment Round and an additional sum of up to £3 million in respect of the Second Investment Round;
- grant the Directors authority to issue £8 million of Investment Warrants in connection with the Investment;
- approve the cancellation of the Company's admission to trading on AIM;
- re-register the Company as a private limited company and adopt the Interim Articles and the Final Articles; and
- seek approval from Independent Shareholders for a waiver granted by the Panel (being the Panel Waiver) of the obligations under Rule 9 of the Takeover Code which would otherwise apply to the members of the Concert Party as a result of proposed subscription of Convertible Preferred Shares and Investment Warrants pursuant to the Investment and any subsequent exercise of the Investment Warrants.

**The purpose of this letter is (a) to invite you to the General Meeting at which the Company is to seek Shareholders' approval for the Resolutions; (b) to provide you with the information on the background and reasons for the Proposals; and (c) to explain the consequences of the Cancellation and any failure to complete the Investment, and why the Directors consider the Proposals to be in the best interests of the Company, its creditors and its Shareholders as a whole.**

In addition, this document sets out why the Directors recommend that you vote in favour of the Resolutions to be proposed at the General Meeting, notice of which are set out at the end of this document.



Shareholders should note that the Proposals are inter-conditional and conditional upon the Resolutions being passed at the General Meeting. It is expected that completion of the Initial Investment Round will take place and the Company's admission to trading on AIM will be cancelled on 20 September 2017. The Second Investment Round will close on 4 October 2017. **Existing and new Shareholders wishing to participate in the Second Investment Round should refer to paragraph 14.1 of this letter who will need to contact the Company by no later than 11.00 a.m. on 27 September 2017 to express their interest.**

## **2. Background to the Proposals**

Over the past few months, the Company has been engaged in the process to raise additional finance from existing and new investors to continue with the Company's existing strategy of commercialising its product (Proxima), while continuing to develop and enhance the product and to ensure the Company met its near term working capital requirements with the intention of remaining listed on AIM. However, this has not been successful and in light of the financial position of the Company (with sufficient working capital to trade through to late September 2017), the Company has been urgently pursuing alternative funding options.

Pursuant to the terms of the Subscription Agreement, Woodford has conditionally agreed to invest £4 million and the Wales Fund has conditionally agreed to invest £1 million by way of a subscription for Convertible Preferred Shares at the Issue Price (the "**Initial Investment Round**").

Other new and existing investors will have the ability to invest an additional aggregate sum of up to £3 million by way of a subscription of up to 106,307,583 Convertible Preferred Shares (set at the same valuation as the Initial Investment Round) (the "**Second Investment Round**") at any time in the period up to 4 October 2017. The members of the Concert Party do not intend to participate in the Second Investment Round. The Investment is conditional upon: (i) the Cancellation; and (ii) the passing of the Resolutions (including the Whitewash Resolution).

In connection with the Investment, the Company has conditionally agreed to issue 283,486,888 Investment Warrants to the participants in the Investment *pro rata* to the number of Convertible Preferred Shares subscribed for in the Investment. Each Investment Warrant confers the right to subscribe for one Convertible Preferred Share. The Investment Warrants are exercisable at a price of 2.822 pence per Convertible Preferred Share (subject to customary adjustment) for the period up to 31 October 2018. The Investment Warrants shall be freely transferable.

The Convertible Preferred Shares will have full voting rights and will be capable of conversion into Ordinary Shares at the direction of the holder. For further details on the rights of the Convertible Preferred Shares please refer to Part 3 of this document.

As a result of a review of the terms of the Investment, which included *inter alia* the requirement for the Cancellation to allow a larger quantum of investment from its substantial shareholder Woodford which it could otherwise not receive if remaining a quoted company, and of the benefits and drawbacks of being a quoted company, the Board has concluded that Cancellation is in the best interests of the Company, its Shareholders and creditors and is therefore seeking Shareholder approval to cancel admission of its Ordinary Shares to trading on AIM. Pursuant to Rule 41 of the AIM Rules, the Company, through its nominated adviser, Panmure Gordon, has notified the London Stock Exchange of the proposed Cancellation.

**Shareholders should be aware that, if the Resolutions are not approved at the General Meeting, the Cancellation will not occur and the net proceeds of the Investment will not be received by the Company. If this were to happen, the Group would only have sufficient working capital to trade through to late-September 2017 without taking any mitigating action and therefore the Company would in all likelihood be forced to enter into an insolvency process.**

**Existing and new Shareholders wishing to participate in the Second Investment Round should refer to paragraph 14.1 of this letter who will need to contact the Company by no later than 11.00 a.m. on 27 September 2017 to express their interest. The proposed Second Investment Round is open to all new and existing Shareholders for the period up to 4 October 2017, subject to a minimum participation of £5,000 per investor.**

### **3. Reasons for the Investment and Cancellation**

The Board has conducted a review of the terms and conditions attaching to the Investment and of the benefits and drawbacks to the Company and its Shareholders in retaining its quotation on AIM. The Board believes that the Investment and the Cancellation are in the best interests of the Company and its Shareholders as a whole. In reaching this conclusion, the Board has considered the following key factors:

- in attempting to raise capital in the past few months, there was a lack of available finance to fund equity capital through the public markets to enable the Group to roll-out its strategy and support it in meeting its near-term working capital requirements;
- a private company structure allows its substantial shareholder Woodford to invest a greater quantum in the Investment if the Company undertakes the Cancellation as there are certain restrictions for public market investments;
- unless finance is secured, the Group's working capital will be exhausted in late-September 2017. If the Company is not successful in obtaining the Investment, the Board believes it is very unlikely that an alternative source of funding will be found and hence it will in all likelihood be forced to enter into an insolvency process;
- by undertaking the Investment and Cancellation, the Company will continue to be able to develop the Proxima platform under a revised business model which significantly reduces commercial operations in the short term; and
- the Group's progress since launching Proxima 3 has not been reflected in the market price of the Company's Ordinary Shares.

After careful consideration and after taking professional advice, the Directors have, therefore, concluded that accepting the conditions of the Investment is in the best interests of its Shareholders and that the costs and other disadvantages of remaining quoted on AIM outweigh the potential benefits and it is no longer in the best interests of the Company or its Shareholders to maintain the Company's admission to trading on AIM.

Conditional upon the Cancellation and the passing of the Resolutions, Woodford and the Wales Fund have agreed to invest in the aggregate sum of £5 million by way of subscription of shares in the capital of the Company which will provide sufficient working capital for the Group for the next 12 months. The Group's secured lender, SVB, has given its consent to the Investment and Cancellation pursuant to the SVB Letter of consent (details at paragraph 5.5 of Part 2 of this document).

The Investment is conditional upon the Cancellation having occurred and the Resolutions being passed.

### **4. The strategy of the Group following completion of the Investment**

With the limited funds available, the Board believes that the best strategy for creating shareholder value over the next 2 to 3 years is to focus on the continued development of Proxima to maximise the total addressable market, while scaling back the current commercial activities. Continued development includes developing an automated version of Proxima, which is expected to simplify the route to obtaining FDA approval in the US. Product development also includes adding lactate to the panel of analytes, which is already well advanced, and expanding the sensor to host more analytes. These activities will significantly increase the total addressable market to USD \$1 billion worldwide, compared to the USD \$160 million of Proxima 4 for Europe only. Once the necessary product approvals have been obtained, the Company will assess its commercialisation options in Europe and the US.

As a result of the revised strategy, the level of operations is expected to reduce by around 35 per cent. and the overall monthly cash usage by around 40 per cent. It is intended to continue to operate across the two sites in Harston, near Cambridge, and St Asaph, north Wales.

Woodford and the Wales Fund strongly support this strategy and wish to participate in the proposed Investment, underwriting £5 million thereof by way of conditionally committing to the Initial Investment Round. The proposed Second Investment Round is open to all new and existing Shareholders for the period up to 4 October 2017, subject to a minimum participation of £5,000 per investor.

## 5. Details of the Concert Party and reasons for the Panel Waiver

### **Background**

Under the Takeover Code, persons acting in concert comprise persons who, pursuant to an agreement or understanding (whether formal or informal), co-operate to obtain or consolidate control of a company or to frustrate the successful outcome of an offer for a company. Control means an interest or interests in shares carrying 30 per cent. or more of the voting rights of the company, irrespective of whether the holding or holdings give de facto control.

The Takeover Code also provides that certain categories of person are presumed to be acting in concert, including:

- a company, its parent, subsidiaries and fellow subsidiaries, and their associated companies, and companies of which such companies are associated companies, all with each other (for this purpose ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associated company status); and
- a fund manager (including an exempt fund manager) with any investment company, unit trust or other person whose investments such fund manager manages on a discretionary basis, in respect of the relevant investment accounts.

As a result of these presumptions:

- WIML is presumed to be acting in concert with OMNIS, WEIF and WPCF, as fund manager of those funds;
- Woodford is presumed to be acting in concert with Arthurian, because Woodford holds more than 20 per cent. of the share capital of Arthurian's parent company, Arix Bioscience; and
- Arthurian is presumed to be acting in concert with the Wales Fund, as fund manager of the Wales Fund.

Woodford is currently beneficially interested in 42,526,575 Existing Ordinary Shares, representing 29.99 per cent. of the existing voting shares of the Company. The Wales Fund is currently beneficially interested in 25,000,000 Existing Ordinary Shares, representing 17.6 per cent. of the existing voting shares of the Company. The members of the Concert Party, in aggregate are currently beneficially interested in 67,526,575 Existing Ordinary Shares, representing 47.6 per cent. of the existing voting shares of the Company.

Brenig Preest is a director of the Company (in his capacity as board representative of the Wales Fund). Further information on the Concert Party is set out in Part 2 of this document.

### **General**

The Takeover Code governs, *inter alia*, transactions which may result in the change of control of a public company.

Under Rule 9 of the Takeover Code, any person who acquires an interest in shares (as defined in the Takeover Code) which, taken together with shares in which he is already interested and in which persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights of a company which is subject to the Takeover Code, is normally required to make a general offer to all the remaining shareholders to acquire their shares.

Similarly, when any person, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. of the voting rights of such company but does not hold shares carrying more than 50 per cent. of such voting rights, a general offer will normally be required if any further interest in shares is acquired by such person.

An offer under Rule 9 must be in cash and at the highest price paid by the person required to make the offer, or any person acting in concert with him, for any interest in shares acquired during the 12 months prior to the announcement of the offer.

It is noted that when a person holds shares which carry over 50 per cent. of the voting rights of a company, it generally has buying freedom to acquire additional shares without having to make a general offer.

## Potential voting rights of the Concert Party

Upon completion of the Investment, the potential voting rights attributable to the interests of the Concert Party will be as follows:

	Number of existing Ordinary Shares at the date of this document	Percentage of voting rights	Number of Convertible Preferred Shares immediately following the Investment <sup>1</sup>	Percentage voting rights in the Company immediately following the Investment (assuming no Warrants exercised) <sup>2</sup>	Maximum number of Warrants to be issued in respect of the Investment <sup>2</sup>	Percentage voting rights in the Company immediately following the Investment (assuming no Warrants exercised) <sup>5</sup>	Percentage voting rights in the Company immediately following the Investment (assuming all Warrants held by Woodford are exercised) <sup>2,3</sup>	Percentage voting rights in the Company immediately following the Investment (assuming all Warrants held by Wales Fund are exercised) <sup>2,4</sup>	Percentage voting rights in the Company immediately following the Investment (assuming all Warrants held by Woodford and Wales Fund are exercised) <sup>5</sup>
WPCT	27,650,000	19.5%	106,307,583	42%	170,092,133	31.5%	55.7%	35.7%	50.5%
OMNIS	3,126,575	2.2%	35,435,861	12.1%	56,697,378	9.1%	17.5%	10.3%	15.8%
WEIF	11,750,000	8.3%	–	3.7%	–	2.8%	2.1%	3.1%	1.9%
<b>Woodford*</b>	<b>42,526,575</b>	<b>29.99%</b>	<b>141,743,444</b>	<b>57.8%</b>	<b>226,789,511</b>	<b>43.3%</b>	<b>75.3%</b>	<b>49.1%</b>	<b>68.2%</b>
Wales Fund	25,000,000	17.6%	35,435,861	18.9%	56,697,377	14.2%	11.1%	31.2%	19.4%
<b>Total</b>	<b>67,526,575</b>	<b>47.6%</b>	<b>177,179,305</b>	<b>76.7%</b>	<b>283,486,888</b>	<b>57.5%</b>	<b>86.4%</b>	<b>80.2%</b>	<b>87.7%</b>

\* The interests of OMNIS, WEIF and WPCT are aggregated

<sup>1</sup> Woodford and the Wales Fund have conditionally agreed to subscribe for Convertible Preferred Shares in the Initial Investment Round. They do not intend to participate in the Second Investment Round

<sup>2</sup> Assumes no participation by investors in the Second Investment Round

<sup>3</sup> Assumes Wales Fund does not exercise any Investment Warrants

<sup>4</sup> Assumes Woodford does not exercise any Investment Warrants

<sup>5</sup> Assumes full participation by investors in the Second Investment Round (with Woodford and Wales not participating in the Second Investment Round)

Save as set out above, no other member of the Concert Party holds any Ordinary Shares, Convertible Preferred Shares, Investment Warrants or other interests in the Company.

## The Panel Waiver

The Panel has agreed to waive the obligation of the members of the Concert Party to make a general offer that would otherwise arise as a result of the Investment and/or exercise of the Investment Warrants, subject to the approval of Independent Shareholders. Accordingly, Resolution 4 is being proposed at the General Meeting and will be taken on a poll. The members of the Concert Party will not be entitled to vote on the Whitewash Resolution. **In the event the Whitewash Resolution is approved, the Concert Party will not be restricted from making a general offer for the Company.**

**Following the completion of the Investment, the Concert Party will hold more than 50 per cent. of the voting rights of the Company, members of the Concert Party (for so long as they continue to be treated as acting in concert) may accordingly increase their aggregate interest in shares without incurring any obligation under Rule 9 to make a general offer, although individual members of the Concert Party will not be able to increase their percentage interests in shares through or between a Rule 9 threshold without Panel consent.**

As stated above, the Investment is conditional upon, *inter alia*, the Shareholders approving the Panel Waiver.

## 6. The Cancellation

### 6.1 Effect of Cancellation

The principal effects of Cancellation will be that:

- there will be no public market or trading facility on any recognised investment exchange for the Ordinary Shares and, consequently, there can be no guarantee that a Shareholder will be able to purchase or sell any Ordinary Shares. The underlying liquidity in the Ordinary Shares is currently low and, in the opinion of the Directors, is likely to remain that way for the foreseeable future whether or not the Cancellation proceeds. A proposal for an informal matched bargain facility arranged through the Company is described below. Hence, the opportunity for Shareholders to realise their investment in the Company will be more limited;

- it is possible that following publication of this document, the liquidity and marketability of the Ordinary Shares may be significantly reduced and the value of such shares may be adversely affected as a consequence;
- the regulatory and financial reporting regime applicable to companies whose shares are admitted to trading on AIM will no longer apply. The Company will, therefore, achieve cost savings as a result of no longer being subject to the provisions of this regime;
- Shareholders will no longer be afforded the protections given by the AIM Rules, such as the requirement to be notified of certain events, including substantial transactions, financing transactions, related party transactions and fundamental changes in the Group's business, including certain acquisitions and disposals;
- the Company will cease to have an independent financial and nominated adviser and broker;
- as an unlisted company, the Company will be subject to less stringent accounting disclosure requirements;
- the Cancellation may have either positive or negative taxation consequences for Shareholders. Shareholders who are in any doubt about their tax position should consult their own professional independent adviser immediately; and
- following the tenth anniversary of the Cancellation (and subject to the re-registration of the Company as a private company occurring) the provisions of the Takeover Code will cease to apply with respect to the Company.

Provided the Company's place of central management and control continues to be in the United Kingdom, the Company will, however, remain subject to the Takeover Code until such tenth anniversary and Shareholders will benefit from those provisions including in the case of an offer for all of the shares of the Company whereby all shareholders will need to be treated equally. Shareholders will also continue to benefit from the relevant provisions of the Act.

The Company's Shareholders should note that, if the resolution to Re-register the Company as a private company becomes effective, after the expiry of 10 years from the date of re-registration they will not receive the protections afforded by the Takeover Code in the event that there is a subsequent offer to acquire their shares.

## 6.2 **Cancellation process**

Under the AIM Rules, the Cancellation can only be effected by the Company after the passing of a resolution approved by at least 75 per cent. of the votes cast by Shareholders (present in person or by proxy) in a general meeting, and the expiration of a period of 20 Business Days from the date on which notice of the Cancellation is given, which is deemed to have been given in the announcement made by the Company on 21 August 2017. In addition, a period of at least five Business Days following approval of the Cancellation is required before the cancellation of admission of the Ordinary Shares to trading on AIM will be effective. The Company, through its nominated adviser, Panmure Gordon, has notified the London Stock Exchange of the proposed Cancellation.

## 6.3 **Ordinary Share dealing following Cancellation**

Following Cancellation, as the Ordinary Shares will no longer be traded on a public market, the Company intends for the period of 18 months from the date of Cancellation to use reasonable endeavours to facilitate introductions and communication among Shareholders who wish to sell their Ordinary Shares and those persons who wish to purchase Ordinary Shares. To do this Shareholders or persons wishing to acquire or sell Ordinary Shares will be able to leave an indication with the Company that they are prepared to buy and sell Ordinary Shares at a specified price. In the event that the Company is able to match that order with an opposite sell or buy instruction, the Company would contact both parties to effect the order. In carrying out such activities, the Company will take no responsibility to match-up Shareholders wishing to sell and purchase Ordinary Shares, and no responsibility in respect of the time frame in which introductions or communications (if any) are made or as to the price at which any trades might take place.

## **7. Re-registration and adoption of Interim Articles and Final Articles**

It is proposed that, if the Resolutions are approved, the Company, which is currently a public limited company, be re-registered as a private company and that amendments to reflect this change in status be made to the Company's articles of association subject to the passing of the statutory period of time before the resolution giving effect to the Re-registration may be registered at Companies House. Resolution 10 contained in the Notice of General Meeting seeks Shareholder approval for the Re-registration and adoption of the Final Articles.

The Interim Articles will be adopted conditional upon the Cancellation and will remain in place for the period up to Re-registration. The Interim Articles being adopted will reflect the rights of the Convertible Preferred Shares. The Company will remain a public limited company until such time the Re-registration becomes effective.

Under resolution 10, in conjunction with the Re-registration the Board is asking Shareholders to approve the adoption by the Company of the Final Articles with effect from Re-registration. The Final Articles will reflect the rights of the Convertible Preferred Shares and will include provisions which the Directors believe to be appropriate for a private limited company incorporated under the Act with a broad shareholder base. The Directors believe re-registration of the Company as a private limited company should provide the Company with greater flexibility to structure potential future transactions to grow the business.

The principal effects that the Re-registration will have are as follows:

- private companies with one class of shares may authorise their Directors to allot shares up to an unlimited number, without having to offer those shares pro-rata to existing shareholders and without seeking the approval of shareholders in general meeting. Following the Investment the Company will have Ordinary Shares and Convertible Preferred Shares in issue so this change will have no effect for so long as it has more than one of class of share in issue;
- private companies are not required to hold annual general meetings. Following Re-registration this will be the position with the Company;
- following Re-registration the Company will not be permitted to make a public offer of shares; and
- various changes will be required to the Existing Articles to reflect the change in status from a public to a private company, which will be effected by the adoption of the Final Articles. A summary of these changes are set out in Part 4. A summary of the changes are set out in Part 4.

Notwithstanding the Re-registration and the changes that will be made by the adoption of the Final Articles, the Company will remain subject to the requirements of English company law, which contains various provisions for the protection of minority shareholders, and the Company will continue to communicate information about the Company to the Shareholders in accordance with the requirements of the Act.

A copy of the Company's Existing Articles and the proposed Interim Articles and Final Articles will be available for inspection during normal business hours (excluding Saturdays, Sundays and bank holidays) at the Company's registered office from the date of this document until the close of the General Meeting. The proposed Interim Articles and Final Articles will also be available for inspection at the General Meeting at least 15 minutes prior to the start of the meeting and up until the close of the meeting.

## **8. Irrevocable Undertakings**

Certain of the Directors have given irrevocable undertakings to the Company to vote in favour of the Resolutions (and to procure that such action is taken by the relevant registered holders) in respect of their beneficial holdings totalling 1,080,985 Ordinary Shares, representing approximately 0.8 per cent. of the Ordinary Shares in issue.

In addition, the Company has received letters of intent from certain institutional Shareholders to vote in favour of the Resolutions in respect of a total 6,250,000 Ordinary Shares representing, in aggregate, approximately 4.41 per cent. of the Ordinary Shares in issue.



## **9. Current trading**

By 30 June 2017, 55 hospital departments engaged with Sphere Medical on Proxima 4 and requested evaluations, of which 38 had received a product demonstration. Furthermore, six customers placed orders within the first six months after launch.

The Board is pleased to report that the main issues surrounding the limitation on supply of Proxima 4 sensors announced on 2 May this year have been effectively addressed. This limitation constrained sales activity during the first half of this year.

Our three distributors in continental Europe have all now received initial supplies of Proxima 4 and have received training. Patient evaluations have also commenced in all three territories.

The Company is immediately scaling back its sales and marketing activities and commencing a restructuring in line with the new strategy.

## **10. Board structure and corporate governance**

The composition of the Board will remain unchanged for the period up to Cancellation. However, it is a possibility that the Board undergoes a restructuring following the completion of the Investment and Cancellation.

Notwithstanding the above, the Company will continue to ensure that appropriate standards of corporate governance are in operation and the principles of the UK Corporate Governance Code are followed so far as is practical and appropriate to the size and nature of the Company post the Cancellation. The Company will also continue to communicate information about the Company (including annual accounts) to its Shareholders, as required by law.

## **11. Historic inadvertent breach of Rule 9 of the Takeover Code**

Woodford and the Wales Fund were presumed to be acting in concert with effect from 20 June 2016 when Arix Bioscience, the owner of Arthurian (which is the discretionary fund manager of the Wales Fund), obtained FCA consent for the acquisition of Arthurian. Woodford then held 52.5 per cent. of Arix Bioscience and as at the date of this document holds, 30.7 per cent. of the voting rights in Arix Bioscience.

On 20 June 2016, Woodford held 29.64 per cent. of the voting rights of the Company and the Wales Fund held 17.6 per cent. of the voting rights of the Company, and the Concert Party held an aggregate of 47.24 per cent. of the voting right of the Company.

Between 5 August and 30 August 2016, Woodford purchased an aggregate of 510,000 Ordinary Shares in three separate trades, thereby increasing its holding of voting rights in the Company to 29.9 per cent. On the basis that these purchases increased the Concert Party's aggregate holding of voting rights in the Company from 47.24 per cent. to 47.59 per cent., they had the effect of triggering an obligation for the Concert Party to make a mandatory offer for the entire issued share capital in the Company under Rule 9.1(b) of the Takeover Code. However, Woodford and the Wales Fund had not appreciated at the time that these acquisitions were made that they were presumed to be acting in concert and no such offer was made.

The Panel has accepted that this obligation for the Concert Party to make a mandatory offer for the Company under Rule 9.1(b) was triggered inadvertently and has, accordingly, agreed that no offer is required to be made as a result of these purchases. Ordinarily, the Panel would require, as a condition of its not requiring an offer to be made, that sufficient shares are disposed of to independent third parties in order to remedy the breach of Rule 9 that has occurred. However, the Panel has agreed not to require Woodford to sell 510,000 Ordinary Shares in this case on the basis that:

- (a) by the time that Woodford had appreciated that it had thereby triggered an obligation under Rule 9.1(b) of the Takeover Code, it was in confidential discussions with the Company regarding the Proposals and, accordingly, Woodford was then restricted under the Market Abuse Regulation from dealing in the Company's shares; and
- (b) in the event that the Resolutions are approved and the Proposals are implemented, then the Concert Party will come to hold more than 50 per cent. of the Company's voting rights (in which event the Concert Party would be permitted to acquire further shares carrying voting rights in the Company

without triggering an obligation for an offer to be made under Rule 9 of the Takeover Code, although individual members of the Concert Party will not be able to increase their percentage interest in shares through or between a Rule 9 threshold without Panel consent).

The Independent Directors and Panmure Gordon have each confirmed to the Panel that they agree that:

- (a) the Concert Party should not be required to make a mandatory offer as a result of the purchases of Ordinary Shares made by Woodford in August 2016; and
- (b) subject to the Resolutions being approved, Woodford should not be required to sell 510,000 Ordinary Shares in order to remedy the obligation that it inadvertently then triggered under Rule 9.1(b) to make a mandatory offer.

## **12. Related party transaction**

When a company enters into a related party transaction, under the AIM Rules the independent Directors of the company are required, after consulting with the company's nominated adviser, to state whether, in their opinion, the transaction is fair and reasonable in so far as its shareholders are concerned.

The participation by the Concert Party in the Investment constitute related party transactions under the AIM Rules for Companies by virtue of Woodford and the Wales Fund each being a substantial shareholder in the Company. The Directors independent of Woodford and the Wales Fund, being the Board as a whole (excluding Brenig Preest), consider, having consulted with Panmure Gordon, the Company's nominated adviser, that the terms of the related party transactions are fair and reasonable insofar as the Company's Shareholders are concerned.

## **13. Resolutions to be voted on at the General Meeting**

For the purposes of effecting the Investment and Cancellation the Resolutions will be proposed at the General Meeting. Set out at the end of this document is a notice convening the General Meeting to be held at 12.00 p.m. on 8 September 2017 at the offices of Taylor Wessing LLP, 5 New Street Square, London EC4A 3TW. The full text of the Resolutions is set out in that notice.

A summary of the Resolutions are set out below:

- Resolution 1 is a resolution to grant authority to the Directors (effective from Cancellation), to allot shares in the Company up to a maximum aggregate nominal amount of £2,834,868.88, being the maximum required for the purposes of issuing the Convertible Preferred Shares pursuant to the Investment;
- Resolution 2 is a resolution to grant authority to the Directors (effective from Cancellation), to allot shares in the Company and grant rights to subscribe for or convert any security into shares in the Company up to a maximum aggregate nominal amount of £2,866,761.88, being the maximum required for the purposes of issuing the Investment Warrants and SVB Warrants 2017;
- Resolution 3 is a resolution to grant authority to the Directors (effective from Cancellation), to allot shares in the Company and grant rights to subscribe for or convert any security into shares in the Company up to a maximum aggregate nominal amount of £700,000, being the maximum required for the purposes of issuing equity securities in connection with the share option plan of the Company (adopted by the Directors from time to time);
- Resolution 4 is a resolution to approve the Panel's waiver of Rule 9 of the Takeover Code. This resolution will be taken on a poll of the Independent Shareholders only, and must be approved on a poll by the Independent Shareholders who together represent a simple majority of the issued Ordinary Shares held by the Independent Shareholders being voted (whether in person or by proxy) at the General Meeting;
- Resolutions 5 to 7 (inclusive) are resolutions to empower the Directors, pursuant to section 570 of the Companies Act (effective from Cancellation), to allot the Convertible Preferred Shares, Investment Warrants and SVB Warrants 2017 and equity securities in respect of the Company's option plan on a non pre-emptive basis;



- Resolution 8 is a resolution to cancel the admission of the Company's ordinary shares of £0.01 each to trading on AIM and to authorise the directors of the Company to execute all documents and take all necessary or desirable actions in order to effect such cancellation;
- Resolution 9 is a resolution to adopt the Interim Articles (in replacement of the Existing Articles) conditional upon Cancellation;
- Resolution 10 is a resolution to re-register the Company as a private company under the name Sphere Medical Holding Limited, and to adopt the Final Articles as the new articles of association of the Company (in replacement of the Interim Articles) in connection with Re-registration.

## **14. Action to be taken**

### **14.1 *In respect of participation in Second Investment Round***

If any new or existing Shareholders wish to participate in the Second Investment Round, they should contact Wolfgang Rencken or Richard Wright at the Company on 01223 875222 by no later than 11.00 a.m. on 27 September 2017.

The minimum investment sum in the Second Investment Round is £5,000 per investor.

Upon confirmation of interest and at the discretion of the Board, the Shareholder will be sent the relevant documentation to be executed in order to subscribe for Convertible Preferred Shares and Investment Warrants which must be returned by first class post to Wolfgang Rencken or Richard Wright at Sphere Medical Holding plc, Harston Mill, Harston, Cambridge CB22 7GG by no later than 2 October 2017. The Second Investment Round will be closed on 4 October 2017.

### **14.2 *In respect of voting at the General Meeting***

Shareholders listed on the Company's share register at 6.30 p.m. (UK time) on 6 September 2017 shall be entitled to participate at the General Meeting and vote there in person or by proxy. Shareholders will find enclosed with this document a Form of Proxy for use at the General Meeting. It is noted that only Independent Shareholders will be able to vote on the Whitewash Resolutions. The Form of Proxy should be completed and returned in accordance with the instructions printed thereon so as to arrive at the Company's Registrars, Equiniti Limited of Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA as soon as possible and in any event not later than 12.00 p.m. on 6 September 2017. The completion and return of a Form of Proxy will not preclude you from attending and voting in person at the General Meeting or any adjournment thereof, if you so wish and are so entitled.

If the Form of Proxy is not returned by 12.00 p.m. on 6 September 2017, your vote will not count.

## **15. Taxation**

The Proposals may have taxation consequences for Shareholders. Shareholders who are in any doubt about their tax position should consult their own professional independent tax adviser.

## **16. Importance of the Vote and Recommendation**

**Shareholders should be aware that, if the Resolutions are not approved at the General Meeting, the Proposals will not occur and the net proceeds of the Investment will not be received by the Company. If this were to happen, the Group would only have sufficient working capital to trade through to late-September 2017 without taking any mitigating action.**

**The Directors, who have been so advised by Panmure Gordon, consider the terms of the Cancellation, Investment and Re-registration to be fair and reasonable and in the best interests of the Shareholders, creditors and the Company as a whole. Accordingly, with respect to the Resolutions to effect the Cancellation, Investment and Re-registration to be proposed at the General Meeting, the Directors unanimously recommend that you vote in favour.**

**The Independent Directors, who have been so advised by Panmure Gordon, consider the terms of the Panel Waiver to be fair and reasonable and in the best interests of the Independent Shareholders and the Company as a whole. Accordingly, the Independent Directors unanimously**

**recommend that you vote in favour of the Whitewash Resolution to be proposed at the General Meeting.**

**In providing advice to the Directors, Panmure Gordon has taken into account the Directors' commercial assessments, including in relation to the position of the Company in the event that the Proposals are not completed.**

**The Directors who hold shares in the Company have irrevocably undertaken to vote in favour of all Resolutions in respect of their own shareholdings amounting to 1,080,985 Existing Ordinary Shares (representing 0.8 per cent. of the Existing Ordinary Shares in issue). It is noted that Brenig Preest does not hold any interests in the share capital of the Company.**

Yours faithfully

**Dr David Martyr**

*Chairman*

## PART 2

### ADDITIONAL INFORMATION

#### 1. Responsibility

The Directors, whose names are set out on page 8 of this document, accept responsibility both individually and collectively for the information contained in this document (including any expressions of opinion) (with the exception of any information relating to the Concert Party), save that Brenig Preest does not accept responsibility for the Board's recommendations in relation to the Panel Waiver. To the best knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

Craig Newman and Neil Woodford in their capacity as directors of WIML (being the investment fund manager for OMNIS, WEIF and WPCT) (the "**WIML Directors**"), accept responsibility for the information contained in this document relating to WIML and Woodford and the intentions of the Concert Party in paragraph 4 of this Part 2. To the best knowledge and belief of the WIML Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

Robert Arnold, John Banham, Marc Clement, John Hutton, Trevor Jones, Shafia Zahoor, Christopher Evans and Martin Walton in their capacity as directors of Arthurian (being the investment manager of the Wales Fund) (the "**Arthurian Directors**"), accept responsibility for the information contained in this document relating to Arthurian and the Wales Fund and the intentions of the Concert Party in paragraph 4 of this Part 2. To the best knowledge and belief of the Arthurian Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. Composition of the Concert Party

The members of the Concert Party are the following:

- (a) Omnis Income & Growth Fund ("**OMNIS**"), a sub-fund of Omnis Portfolio Investments ICVC, an investment company with variable capital authorised by the Financial Conduct Authority. OMNIS invests primarily (meaning at least 70 per cent. of its scheme property) in UK listed securities including companies which are listed but not incorporated in the UK. As at 31 May 2017, OMNIS had £238.04 million of assets under management;
- (b) CF Woodford Equity Income Fund ("**WEIF**"), a fund of CF Woodford Investment Fund, an open-ended investment company with variable capital authorised by the Financial Conduct Authority. WEIF invests primarily in UK listed companies. As at 30 June 2017 WEIF had a fund size of £10.13 billion;
- (c) Woodford Patient Capital Trust plc ("**WPCT**"), a public company listed on the Main Market of the London Stock Exchange. WPCT's invests in a diversified portfolio with a focus on UK companies, both quoted and unquoted. As at 30 June 2017 WPCT's total assets were £829.5 million;
- (d) Woodford Investment Management Limited ("**WIML**"), as the discretionary fund manager of OMNIS, WEIF and WPCT (together "**Woodford**");
- (e) Wales Life Sciences Investment Fund LP (the "**Wales Fund**") which is a limited partnership registered in England and Wales under the Limited Partnerships Act 1907. The Wales Fund is a UK-based investment management fund which specialises in the life sciences industry. As at 31 March 2017, the Wales Fund had a fund size of £50 million; and
- (f) Arthurian Life Sciences Limited ("**Arthurian**"), as discretionary fund manager of the Wales Fund.

WIML is a private limited company incorporated in England and Wales. WIML is authorised and regulated by the UK Financial Conduct Authority. Its directors and other corporate details are listed in the table below:

<i>Name</i>	Woodford Investment Management Limited
<i>Directors</i>	Craig Newman, Neil Woodford
<i>Address</i>	9400 Garsington Road, Oxford Business Park, Oxford OX4 2HN
<i>Website</i>	www.woodfordfunds.com
<i>Place of incorporation</i>	England and Wales
<i>Registered number</i>	10118169
<i>Activities</i>	Investment management

Arthurian is a private limited company incorporated in England and Wales. Arthurian is authorised and regulated by the UK Financial Conduct Authority. Its directors and other corporate details are listed in the table below:

<i>Name</i>	Arthurian Life Sciences Limited
<i>Directors</i>	Robert Arnold, John Banham, Marc Clement, Christopher Evans, John Hutton, Trevor Jones, Martin Walton and Shafia Zahoor
<i>Address</i>	Life Sciences Hub Wales 3 Assembly Square, Britannia Quay, Cardiff, Wales, CF10 4PL
<i>Website</i>	www.arthurianlifesciences.co.uk
<i>Place of incorporation</i>	England and Wales
<i>Registered number</i>	08111748
<i>Activities</i>	Investment management

Save as disclosed in this document, there is no agreement, arrangement, or understanding (including any compensation arrangement) between any member of the Concert Party and any person acting in concert with him and any of the Independent Directors, recent directors, Shareholders or recent shareholders having any connection with or dependence upon the Proposals set out in this document.

### **3. Interests and dealings**

3.1 For the purposes of this paragraph, references to:

- (A) “acting in concert” has the meaning attributed to it in the Takeover Code;
- (B) “connected persons” means in relation to a Director, those persons whose interests in Ordinary Shares the Director would be required to disclose pursuant to Part 22 of the Companies Act 2006 and related regulations and includes any spouse, civil partner, infants (including step children), relevant trusts and any company in which a Director holds at least 20 per cent. of its voting capital;
- (C) “dealing” or “dealt” includes:
  - (1) acquiring or disposing of relevant securities, of the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to relevant securities, or of general control of relevant securities;
  - (2) taking, granting, acquiring, disposing of, entering into, closing out, terminating, exercising (by either party) or varying an option (including a traded option contract) in respect of any relevant securities;
  - (3) subscribing or agreeing to subscribe for relevant securities;
  - (4) exercising or converting, whether in respect of new or existing relevant securities, any relevant securities carrying conversion or subscription rights;
  - (5) acquiring, disposing of, entering into, closing out, exercising (by either party) of any rights under, or varying, a derivative referenced, directly or indirectly, to relevant securities;
  - (6) entering into, terminating or varying the terms of any agreement to purchase or sell relevant securities; and

- (7) any other action resulting, or which may result, in an increase or decrease in the number of relevant securities in which a person is interested or in respect of which he has sought a position;
- (D) “derivatives” include any financial product whose value in whole or in part is determined directly or indirectly by reference to the price of an underlying security;
- (E) a person having an “interest” in relevant securities includes where a person:
- (1) owns securities;
  - (2) has the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to securities or has general control of them;
  - (3) by virtue of any agreement to purchase, option or derivative, has the right or option to acquire securities or call for their delivery or is under an obligation to take delivery of them, whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise; or
  - (4) is party to any derivative whose value is determined by reference to the prices of securities and which results, or may result, in his having a long position in them;
- (F) “relevant securities” means Ordinary Shares, or any securities convertible into, or exchangeable for, rights to subscribe for and options (including traded options) in respect of, and derivatives referenced to, any Ordinary Shares; and
- (G) “short position” means any short position (whether conditional or absolute and whether in the money or otherwise) including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery.

3.2 As at the date of this document, the members of the Concert Party had the following interests of the Company:

<i>Name of Concert Party Member</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued Ordinary Shares</i>
Omnis Income & Growth Fund	3,126,575	2.2%
CF Woodford Equity Income Fund	11,750,000	8.3%
Woodford Patient Capital Trust plc	27,650,000	19.5%
	<u>42,526,575</u>	<u>29.99%</u>
Wales Life Sciences Investment Fund LP	25,000,000	17.6%
	<u>67,526,575</u>	<u>47.6%</u>

3.3 During the 12 months ended 21 August 2017 (being the latest practicable date prior to the posting of this document), the members of the Concert Party have undertaken the following dealings in Ordinary Shares:

<i>Name of Concert Party Member</i>	<i>Date</i>	<i>Company shares acquired</i>	<i>Price paid per share</i>	<i>Resulting holding</i>
OMNIS	30 August 2016	10,000	11p	29.99%

3.4 Save as disclosed in paragraph 3.3 above, during the 12 months ended 21 August 2017 (being the latest practicable date before the posting of this document), no dealings in Ordinary Shares by a member of the Concert Party, their directors, their connected persons or any parties acting in concert with them have taken place.

3.5 Save as disclosed in paragraph 3.3 above, no member of the Concert Party, nor their directors, connected persons or any parties acting in concert with a member of the Concert Party owns or controls or (in the case of their directors or connected persons) is interested directly or indirectly in, or has borrowed or lent, has rights to subscribe for, or has any short position in, any relevant securities,

nor has any such person dealt therein during the 12 months before the latest practicable date before the posting of this document.

- 3.6 Save as disclosed in paragraph 6.9 of this Part 2, neither the Directors nor any member of their immediate families or related trusts (so far as the Directors are aware having made due enquiry), nor any person acting in concert with the Directors is interested directly or indirectly in, or has borrowed or lent, has rights to subscribe for, or has any short position in, any relevant securities, nor has any such person dealt therein during the 12 months before the latest practicable date before the posting of this document.
- 3.7 During the 12 months ended 21 August 2017 (being the latest practicable date prior to the posting of this document), neither the Company, nor any of the Directors nor any member of their immediate families or related trusts, owns or controls or (in the case of the Directors and their families or related trusts) is interested directly or indirectly in, or has rights to subscribe for, or has any short position in a Concert Party or any interest or security which is convertible into, or exchangeable for, rights to subscribe for and options in respect of, and derivatives referenced to, any of the foregoing or has dealt in any such interests or securities in the 12 months before the latest practicable date before the posting of this document.
- 3.8 As at 21 August 2017 (being the latest practicable date prior to the posting of this document), and so far as is known to the Company, no persons acting in concert with the Company (other than the Directors, in respect of which information is disclosed in paragraph 6 of this Part 2) were interested in Ordinary Shares.
- 3.9 As at 21 August 2017 (being the latest practicable date prior to the posting of this document), neither the Company nor any person acting in concert with the Company (so far as is known to the Company), had borrowed or lent any relevant securities, save for any borrowed shares which have either been on-lent or sold.

#### **4. Intentions of the Concert Party following the Investment**

The members of the Concert Party have confirmed that there is no agreement, arrangement or understanding for the transfer of their Ordinary Shares and/or Convertible Preferred Shares to any third party, and neither is intending to seek any changes in respect of: (i) the location of the Company's place of business; (ii) employer contributions into any of the Company's pension schemes, the accrual of benefits for existing members, nor the admission of new members; or (iii) redeployment of the Company's fixed assets.

The strategic plans for the Group following completion of the Proposals are set out in paragraph 4 of Part 1. The Board and the Concert Party believe that the best strategy for creating shareholder value over the next 2-3 years, given the limited funds available, is to focus on the continued development of Proxima to maximise the total addressable market while scaling back the current commercial activities of the Group. In light of this the intention of the Board and the Concert party is to focus on developing an automated version of Proxima, which should simplify the route to obtaining FDA approval and enable the Company to commence marketing both in Europe and the USA.

The scaling back of commercial activities and the resultant restructuring of the Company's operations is expected to lead to the Company's workforce being reduced by up to about 35 per cent. by the end of the year. These reductions will be centred on sales, marketing and related activities, but all areas of the business will be affected. The Board is committed to ensuring that the workforce is kept fully informed and consulted during the redundancy selection process; that the number of redundancies is kept to a minimum; and that the Company complies with all of its legal obligations.

Furthermore, although the composition of the Board will remain unchanged in the period up to Cancellation, it is envisaged that the Board will be restructured soon after completion of the Investment.

Woodford has also confirmed that as a result of and following completion of the Investment, it does not intend to change its business strategy as an investor in public equity and alternative investment markets. The Wales Fund has confirmed that as a result of and following completion of the Investment, it does not intend to change its business strategy as an investor in the life sciences industry. Each of Woodford and the Wales Fund confirm that following the Investment there is no intention to discontinue the employment of the

existing employees and management of Woodford and the Wales Fund (respectively), nor will there be any material change in the conditions of employment.

## **5. Material contracts entered into by the Company within the two years prior to the date of this document**

The following are the material contracts (not being contracts entered into in the ordinary course of business) which have been entered into within the two years prior to the date of this document by the Company:

### **5.1 The Subscription Agreement**

Pursuant to the Subscription Agreement, Woodford has conditionally agreed to invest £4 million and the Wales Fund has conditionally agreed to invest £1 million by way of a subscription for Convertible Preferred Shares at the Issue Price (the “**Initial Investment Round**”). The Investment is conditional upon: (i) the Cancellation; and (ii) the passing of the Resolutions (including the Whitewash Resolutions).

Certain new and existing shareholders will have the ability to invest an additional aggregate sum of up to £3 million by way of a subscription of Convertible Preferred Shares (set at the same valuation as the Initial Investment Round) (the “**Second Investment Round**”) at any time in the period up to 4 October 2017.

The rights attaching to the Convertible Preferred Shares are summarised in Part 3 below.

The Company has given various warranties to Woodford and the Wales Fund (with standard financial and time period limitations on liability) as are customary for an investment of this nature.

### **5.2 The Investment Warrant Instrument**

On completion of the Subscription Agreement, the Company will enter into the Investment Warrant Instrument under which the Company agrees to issue up to 283,486,888 Investment Warrants in connection with the Investment to the investors *pro rata* to the number of Convertible Preferred Shares subscribed for in the Investment. The Investment Warrants will be allocated to the investors upon closing of the Second Investment Round.

Each Investment Warrant confers the right to subscribe for one Convertible Preferred Share. The Investment Warrants are exercisable at a price of 2.822 pence per Convertible Preferred Share (subject to customary adjustment) for the period up to 31 October 2018. The Investment Warrants shall be freely transferable.

### **5.3 The Shareholders’ Agreement**

On completion of the Subscription Agreement the Company, Woodford and the Wales Fund will enter into the Shareholders’ Agreement.

The Shareholders’ Agreement imposes a customary restriction on the Company to seek the consent of Woodford and the Wales Fund prior to carrying out certain actions once the Investment is complete. Also upon completion of the Investment, the Company is obligated to provide Woodford and the Wales Fund with such information as they may require pertaining to the Group.

The Shareholders’ Agreement provides each of Woodford and the Wales Fund with the right to appoint a director to the Board. In addition Woodford will have the right to appoint an observer to the Board.

### **5.4 SVB Loan Facility and SVB Warrants**

Pursuant to a secured loan facility dated 3 January 2017, Silicon Valley Bank (“**SVB**”) has made available to the Group a term loan in the sum of £3 million in two tranches. Tranche 1 is an amount of £1.5 million which has been fully drawn down. Tranche 2 is an amount of £1.5 million which can be drawn down at any time until and including 31 March 2018 (“**Tranche 2**”) conditional upon certain conditions being satisfied, including that the Company has achieved sales of its products of not less than £1 million (exclusive of VAT) in the period up to and including 31 March 2018.



The principal of the loan shall be repaid in 24 equal instalments commencing on the first business day of each month following 31 March 2018. The loan facility is subject to certain early repayment events and confers certain rights to SVB as are customary of a facility of this nature.

In conjunction with the SVB Loan Facility, on 3 January 2017 the Company issued 562,500 SVB Warrants to SVB pursuant to the SVB Warrant Instrument. The SVB Warrants were exercisable at a price of 16 pence per Ordinary Share (subject to customary adjustment). In connection with the Proposals, the parties have agreed to terminate the SVB Warrant Instrument and issue the SVB Warrants 2017 in replacement of the SVB Warrants.

The governing law and jurisdiction of the SVB Loan Facility and SVB Warrant Instrument is the law of England and Wales.

## 5.5 **SVB Letter of Consent**

Pursuant to the consent letter from SVB to the Company, SVB has:

- (a) consented to the Proposals;
- (b) confirmed that the Proposals shall not trigger any prepayment of the SVB Loan Facility;
- (c) confirmed that any breach of the representations and warranties of the SVB Loan Facility and the resulting event of default as a result of the Proposals shall be waived;
- (d) confirmed the cancellation of the availability of Tranche 2 under the SVB Loan Facility within 30 days of Cancellation; and
- (e) waived any and each event of default and any other breach of the SVB Loan Facility that has arisen (or that would have arisen but for such waiver) as a result of the Proposals and/or the entry into by the Company of any and all documents as are necessary to give effect to the Proposals.

In connection with the Investment, the Company has agreed to issue 3,189,227 warrants to SVB (the "**SVB Warrants 2017**"). Each SVB Warrant 2017 confers the right to subscribe for one Convertible Preferred Share per warrant. The SVB Warrants 2017 are exercisable at a price of 2.822 pence per Convertible Preferred Share (subject to customary adjustment) for the period of 10 years from the date of grant.

## 6. **Director's service contracts**

- 6.1 Dr Wolfgang Rencken entered into a service agreement with the Company effective as of 27 February 2014 whereby he was appointed Chief Executive Officer of the Company on a full-time basis. Dr Rencken is paid a salary of £220,000. The service contract will continue until terminated on six months' notice by either party and provides, among other things, for health insurance and a discretionary bonus as may be determined by the Board.
- 6.2 Richard Wright entered into a service agreement with the Company effective as of 10 August 2015 whereby he was appointed Chief Financial Officer of the Company on a full-time basis. Mr Wright is paid a salary of £150,000. The service contract will continue until terminated on six months' notice by either party and provides, among other things, for health insurance and a discretionary bonus as may be determined by the Board.
- 6.3 Dr David Martyr was appointed non-executive Director and Chairman of the Board under a letter of appointment dated 7 January 2015 (as amended and restated on 25 June 2015). Under the letter of appointment, Dr Martyr is entitled to an annual fee of £60,000, and reimbursement of reasonable expenses. The term of appointment is until 25 June 2018 and thereafter shall continue until terminated with three months' notice from either party.
- 6.4 John Gregory was appointed non-executive Director under a letter of appointment dated 24 October 2011 which became effective upon the original admission of the Company's Ordinary Shares to trading on AIM on 17 November 2011. Under the letter of appointment, Mr Gregory is entitled to an annual fee of £36,000, and reimbursement of reasonable expenses. The notice period for either party is one month.



- 6.5 Stephen H Mahle was appointed non-executive Director under a letter of appointment dated 24 October 2011 which became effective upon the original admission of the Company's Ordinary Shares to trading on AIM on 17 November 2011. Under the letter of appointment, Mr Mahle is entitled to an annual fee of £36,000, and reimbursement of reasonable expenses. The notice period for either party is one month.
- 6.6 Meinhard Schmidt was appointed non-executive Director under a letter of appointment dated 17 December 2014 which became effective on 7 January 2015. Under the letter of appointment, Mr Schmidt is entitled to an annual fee of £36,000 and reimbursement of reasonable expenses. The term of appointment is until 17 December 2017 and thereafter shall continue until terminated with one month's notice from either party.
- 6.7 Brenig Preest was appointed non-executive Director under a letter of appointment dated 1 May 2015. Under the letter of appointment, Mr Preest is entitled to an annual fee of £20,000 (which is paid to Arthurian) and reimbursement of reasonable expenses. The notice period for either party is one month.
- 6.8 Other than as disclosed in paragraphs 6.1-6.7 (inclusive) above:
- there are no service contracts between any of the Directors and the Company or any of its subsidiaries;
  - no Director is entitled to commission or profit sharing arrangements;
  - no service contract or letter of appointment of any Director has been entered into or amended within the period of six months prior to the date of this document (save that payment of the non-executive fees for the period from 1 May 2017 and a portion of the executive directors salaries for the period from 1 May 2017 have been deferred until after completion of the Investment to aid the cash flow of the Company); and
  - other than statutory compensation and payment in lieu of notice, no compensation is payable by the Company or any of its subsidiaries to any Director upon early termination of their appointment.
- 6.9 As at 21 August 2017 (being the latest practicable date before the publication of this document), the Directors had the following interests in, and options over, Ordinary Shares.

**Directors' interests in Ordinary Shares**

<i>Name</i>	<i>No. of shares as at 21 August 2017</i>
Dr David Martyr	125,000
Dr Wolfgang Rencken	449,470
John Gregory	90,745
Stephen H Mahle	152,888
Meinhard Schmidt	187,500
Brenig Preest	–
Richard Wright	75,382

**Directors' interest in options over Ordinary Shares**

	<i>Option Price</i>	<i>Options as at 21 August 2017</i>
Dr David Martyr	16.0p	100,000
Dr Wolfgang Rencken	40.0p	1,320,000
	16.0p	3,260,000
John Gregory	92.5p	35,000
	16.0p	100,000
Stephen H Mahle	92.5p	35,000
	16.0p	100,000
Meinhard Schmidt	16.0p	100,000
Brenig Preest	–	–
Richard Wright	17.75p	1,340,000
	16.0p	500,000

## 7. Material change

Except for the limited cash resources detailed below, there has been no material change in the financial or trading position of the Company since 28 February 2017, being the date up to which the audited accounts of the Company for the period to 31 December 2016 were published.

In the event that the Resolutions are not passed and the Investment and Cancellation do not occur, the Company only has working capital sufficient to run the business as a going concern until late-September 2017. The Directors believe it is very unlikely that an alternative source of funds would be found so the Company would in all likelihood be forced to enter into an insolvency process.

## 8. Middle market quotations

The table below sets out the middle market quotations for an Ordinary Share, as derived from the AIM Appendix of the London Stock Exchange Daily Official List, on the first business day of each of the six months preceding the date of this document and on 21 August 2017, being the latest practicable date before the posting of this document:

<i>Date</i>	<i>Price per Ordinary Share</i>
1 March 2017	5.250p
3 April 2017	7.125p
2 May 2017	7.000p
1 June 2017	7.500p
3 July 2017	8.250p
1 August 2017	5.750p
21 August 2017	6.000p

## 9. Major Shareholders

Insofar as is known to the Company, the following shareholders (other than any Director) as at the date of this document and immediately following completion of the Investment will be interested, directly or indirectly, in 3 per cent. or more of the voting rights in respect of the Company's issued share capital:

<i>Name</i>	<i>As at the date of this document</i>			<i>Immediately following completion of the Investment</i>		
	<i>Number of Ordinary Shares</i>	<i>Number of Convertible Preferred Shares</i>	<i>Percentage of existing share capital</i>	<i>Number of Ordinary Shares</i>	<i>Number of Convertible Preferred Shares</i>	<i>Percentage of enlarged share capital<sup>1</sup></i>
Woodford* The Wales Life Sciences Investment Fund LP	42,526,575	–	29.99%	42,526,575	141,743,444	57.8%
LSP Life Sciences Fund	25,000,000	–	17.6%	25,000,000	35,435,861	18.9%
Ortho-Clinical Diagnostics	10,904,000	–	7.7%	10,904,000	–	3.4%
Octopus Investments	8,141,250	–	5.7%	8,141,250	–	2.6%
Ruffer LLP	6,250,000	–	4.4%	6,250,000	–	2.0%
	5,653,895	–	4.0%	5,653,895	–	1.8%

\* The interests of OMNIS, WEIF and WPCT are aggregated

<sup>1</sup> Assuming the warrants in the capital of the Company are not exercised

## 10. Consent

Panmure Gordon has given and has not withdrawn its consent to the inclusion of its name and references to it in this document, in the form and context in which they appear.

## 11. Incorporation of relevant information on the Company by reference

11.1 In respect of the Company, the following documents are incorporated by reference in this document in compliance with Rule 24.15 of the Takeover Code, and are available from the Company's website at <http://www.spheremedical.com/>.

<i>Information incorporated by reference to this document</i>	<i>Reference Document</i>	<i>Page number in Reference Document</i>
<b>For the year ended 31 December 2016</b>		
Independent Auditors' report to the members	Annual Report 2016	20
Consolidated income statement for the year ended 31 December 2016	Annual Report 2016	21
Consolidated statement of changes in equity for the year ended 31 December 2016	Annual Report 2016	24
Consolidated statement of financial position at 31 December 2016	Annual Report 2016	22
Consolidated cash flow statement for the year ended 31 December 2016	Annual Report 2016	23
Notes to the consolidated financial statements	Annual Report 2016	25
<b>For the year ended 31 December 2015</b>		
Independent Auditors' report to the members	Annual Report 2015	22
Consolidated income statement for the year ended 31 December 2015	Annual Report 2015	23
Consolidated statement of changes in equity for the year ended 31 December 2015	Annual Report 2015	26
Consolidated statement of financial position at 31 December 2015	Annual Report 2015	24
Consolidated cash flow statement for the year ended 31 December 2015	Annual Report 2015	25
Notes to the consolidated financial statements	Annual Report 2015	27

11.2 In respect of members of the Concert Party, the following documents have been incorporated by reference in this document:

- (i) the annual reports and accounts of WPCT for the years ended 31 December 2015 and 31 December 2016 as well as an interim report to 30 June 2017. These can be found on Woodford's website at: <https://woodfordfunds.com/funds/wpct/important-documents/>;
- (ii) the annual performance data of WEIF at 31 December 2016 is included in Appendix 3 of the prospectus of CF Woodford Investment Fund (being the umbrella company for WEIF), which is available on Woodford's website at: <https://woodfordfunds.com/funds/weif/>. In addition, the performance of WEIF as at 30 June 2017 is set out in the "Fund Facts" section of Woodford's website which can be found at: <https://woodfordfunds.com/funds/weif/fund-facts/>; and
- (iii) the investment manager market review of OMNIS for the first quarter of 2017 is available for download via the "Factsheet" link at: <http://www.omnisinvestments.com/our-fund-range/sector-fund-range/income-growth-fund/>.

11.3 Shareholders or other recipients of this document may request copies of the information incorporated by reference from the Company at its Cambridge office at Harston Mill, Harston, Cambridge, Cambs, CB22 7GG, or by telephone at +44(0) 1223 875222. Hard copies of the information incorporated by reference will not be sent to Shareholders or other recipients of this document unless requested.

## **12. Documents available for inspection**

12.1 Copies of the following documents are available for inspection on request by a Shareholder, person with information rights, or other person to whom this document is sent at the Company's Cambridge office at Harston Mill, Harston, Cambridge, Cambs, CB22 7GG during normal business hours on any weekday (Saturdays, Sundays and public holidays in the UK excepted) from the date of this document until the conclusion of the General Meeting:

- (i) the Existing Articles, Interim Articles and Final Articles;
- (ii) the consent referred to in paragraph 10 above;
- (iii) the Subscription Agreement;
- (iv) the Shareholders' Agreement;
- (v) the Irrevocable Undertakings and Letters of Intent;
- (vi) the Company's annual report and accounts for the two years to 31 December 2016; and
- (vii) the annual reports and accounts of WPCT for the years ended 31 December 2015 and 31 December 2016 as well as an interim report to 30 June 2017;
- (viii) the annual performance data of WEIF at 31 December 2016 , which is included in Appendix 3 of the prospectus of CF Woodford Investment Fund (being the umbrella company for WEIF) and the "Fund Facts" setting out the performance of WEIF as at 30 June 2017;
- (ix) the "Factsheet" containing the investment manager market review of OMNIS for the first quarter of 2017; and
- (x) this document (including the Notice of General Meeting).

12.2 Copies of the documents set out above in paragraph 12.1 of this Part 2 are also available on the Company's website at the following address: <http://www.spheremedical.com/>

## PART 3

### SUMMARY OF THE TERMS OF THE CONVERTIBLE PREFERRED SHARES

A summary of the principal terms of the Convertible Preferred Shares is set out below:

Optional Conversion Rate	The Convertible Preferred Shares will initially convert 1:1 to Ordinary Shares at any time at the option of the holder, subject to adjustments for consolidation, sub-division and similar events.
Mandatory Conversion Rate	On a qualifying IPO, the Convertible Preferred Shares will automatically convert into such number of Ordinary Shares as required to reflect the liquidity preference (detailed below).
Coupon	The Convertible Preferred Shares shall be entitled to a preferential dividend of 8 per cent. per annum compound.
Anti-Dilution	If the Company issues additional securities at a lower purchase price than the current Convertible Preferred Share conversion price, the holders of Convertible Preferred Shares will be entitled to additional Convertible Preferred Shares by way of a capitalisation issue, calculated on a customary broad based weighted average basis.
Liquidity Preference	<p>In the event of any liquidation, dissolution or winding up of the Company, the holders of the Convertible Preferred Shares will receive, before and in preference to the holders of Ordinary Shares, the original purchase price on each Convertible Preferred Share plus the accrued coupon.</p> <p>The balance of any proceeds will be distributed pro-rata to holders of Convertible Preferred Shares and Ordinary Shares on an as-converted basis.</p> <p>In the event of a sale of shares in the capital of the Company which will result in the purchaser of those shares acquiring a controlling interest in the Company or a disposal of all or substantially all of the Group's undertaking and assets, the proceeds shall be distributed on the basis of the liquidity preference.</p>
Voting Rights	<p>The shares held by CF Woodford Equity Income Fund ("<b>WEIF</b>") will each have one vote per share provided that if WEIF's shares constitute more than 19.5 per cent. of the total voting share capital of the Company, WEIF's shares will be limited in aggregate to 19.5 per cent. of the total number of votes, those votes to be split equally on a fractional basis amongst WEIF's shares.</p> <p>The same will apply in relation to the shares held by Omnis Income &amp; Growth Fund ("<b>OMNIS</b>").</p> <p>Notwithstanding any other provisions of the Company's constitution, for so long as Woodford Patient Capital Trust Plc ("<b>WPCT</b>") is the holder of any shares in the capital of Company and any provision would result in WPCT being able to exercise more than 49 per cent. of the votes capable of being exercised at any particular meeting, the number of votes attaching to all shares held by WPCT will so long as this situation pertains, be restricted so that the votes conferred on WPCT in respect of all shares held by it in the capital of the Company will represent 49 per cent. of the votes capable of being exercised.</p>

**Note:** for the avoidance of doubt, rule 9.7 of the Takeover Code will continue to apply for the ten year period following Re-Registration meaning that the shares which are subject to a restriction on the exercise of voting rights, or to a suspension of voting rights, will nonetheless be regarded for the purposes of the Takeover Code as having voting rights which are currently exercisable at a general meeting.

Form

The Convertible Preferred Shares will be issued in certificated form.

Transfer

The Convertible Preferred Shares may be freely transferred subject only to standard pre-emption rights in favour of other shareholders and are subject to the co-sale, tag along and drag along provisions set out in the Final Articles (as summarised in Part 4 below).

## PART 4

### EFFECT OF RE-REGISTRATION ON SHAREHOLDERS AND ADOPTION OF FINAL ARTICLES

The following are the principal effects which the Re-registration of Sphere as a private limited company and the adoption of the proposed Final Articles would have on the rights and obligations of Shareholders and the Company:

#### **1. Accounts and reports**

As a public company, Sphere is currently required to deliver its accounts and reports within six months following the end of its financial year and then to circulate copies to Shareholders. Following the Re-registration and the adoption of the Final Articles, the period for the sending out of accounts and reports will change to nine months following the end of the financial year and there will be no requirement to publish half-yearly accounts. Sphere will still be required to circulate accounts and reports to Shareholders and the Directors intend that they will be made available annually on the Company's website and upon request to receive them electronically, in order to reduce the expense of printing and posting out to all Shareholders.

#### **2. General meetings and resolutions**

A public company is required to hold an annual general meeting of Shareholders each year. However, this requirement will not apply after the Re-registration and the adoption of the Final Articles. In addition, after the Re-registration, Shareholder resolutions of Sphere may be obtained as written resolutions by obtaining the approval in writing to that resolution of the holders of a majority of voting shares then in issue in the case of ordinary resolutions and the holders of 75 per cent. of the voting shares then in issue in the case of special resolutions.

#### **3. Directors and Company Secretary**

The Existing Articles contain provisions requiring the Directors to retire by rotation every three years. These provisions have been removed in the Final Articles. In addition, the Final Articles will not require any Director appointed by the Board to be re-appointed by the Shareholders at the next annual general meeting following his appointment, as is currently required. The role of company secretary is no longer required for private companies and the Final Articles provide for the appointment to be optional rather than compulsory,

Pursuant to the Shareholders' Agreement, each of Woodford and the Wales Fund shall have the right to appoint a director to the Board of the Company.

#### **4. Financial assistance, reductions of capital and purchase of own shares out of capital**

As a public limited company, Sphere is currently prohibited under the Act from performing actions which constitute financial assistance for the acquisition of its own shares. This limits the ability of the Company to engage in certain transactions. However, following the Re-registration, these restrictions will no longer apply to Sphere.

The Company must obtain the sanction of the Court for any reduction of capital so long as it is a public limited company, which can be a lengthy and expensive process. However, following the Re-registration, Sphere will be able to take advantage of the more flexible provisions applicable to private companies under the Act and which do not require the approval of the Court.

Following Re-registration, Sphere will be able to effect buy backs of shares out of capital, which it is currently prohibited from doing as a public limited company.

#### **5. Drag-along rights**

The Interim Articles and Final Articles will provide a mechanism whereby if a specified percentage of shareholders agree to sell their shares, they can compel the other shareholders to sell their shares as well, ensuring that a prospective buyer can acquire 100 per cent. of the company. Under the mechanism, where

holders of not less than 50.01 per cent. in nominal value of the issued share capital of the Company including the Investor Majority accept an offer from a third party purchaser to buy their shares, those shareholders shall be entitled to force the remaining holders of the issued share capital of the Company to accept such an offer and sell their shares to the third party on the same terms and conditions.

#### **6. Tag-along rights**

The Interim Articles and Final Articles will include a provision to enable minority shareholders to force those shareholders who wish to sell their shares to a third party to procure an offer for the shares held by the minority shareholders. Under the mechanism, where the holders of not less than 50.01 per cent. in nominal value of the total issued share capital of the Company accept an offer from a third party purchaser to buy their shares, the holders of the remaining issued share capital of the Company shall be entitled to force the selling shareholders (who wish to sell their shares) to procure an offer for the shares benefiting from the rights.

#### **7. Co-sale rights**

The holder of the Convertible Preferred Shares will have co-sale rights such that if any shareholder has an opportunity to sell any of his shares in the aggregate sum in excess of £20,000 in any rolling 12 month period, the holders of the Convertible Preferred Shares must be given the opportunity to sell a *pro rata* proportion of the number of shares being sold by such shareholder on the same terms and at the same price.

#### **8. Restrictions on transfer**

The Convertible Preferred Shares are freely transferable subject only to standard pre-emption rights in favour of other shareholders and to the tag-along, drag-along and co-sale provisions referred to above.

No transfers of shares by any employee shareholder are permitted for a lock-up period of 2 years from the date of closing of the Investment other than: (i) with the prior written consent of the Investor Majority; or (ii) if required in accordance with the other provisions of the Interim Articles and Final Articles.



## NOTICE OF GENERAL MEETING

# Sphere Medical Holding plc

*(Incorporated in England & Wales under the Companies Act 1985 with Registered No. 04179503)*

Notice is given that a General Meeting of shareholders of Sphere Medical Holding plc will be held at the offices of Taylor Wessing LLP, 5 New Street Square, London EC4A 3TW at 12.00 p.m. on 8 September 2017 to consider and vote on the resolutions set out below, which will be proposed as ordinary and special resolutions. Resolution 4 will be taken on a poll.

### Ordinary resolution

1. That, subject to the passing of resolutions 2, 3, 5, 6, 7, 8, 9 and 10, on the cancellation of the admission of the Company's ordinary shares of £0.01 each to trading on AIM taking effect (the "**Cancellation**"), the Directors be generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "**Companies Act**") to exercise all the powers of the Company to allot convertible preferred shares of £0.01 each in the capital of the Company and grant rights to subscribe for or convert any security into shares in the Company for the purpose of the Investment up to an aggregate nominal amount of £2,834,868.88.

This authority shall expire two months after the date of this resolution, save that the Company may before such expiry make any offer or agreement which would or might require shares to be allotted or rights granted to subscribe for or convert any security into shares after such expiry and the directors may allot shares or grant such rights in pursuance of any such offer or agreement as if the power and authority conferred by this resolution had not expired.

2. That, subject to the passing of resolutions 1, 3, 5, 6, 7, 8, 9 and 10 with effect from Cancellation the Directors be generally and unconditionally authorised for the purposes of section 551 of the Companies Act to exercise all the powers of the Company to allot shares in the Company and grant rights to subscribe for or convert any security into shares in the Company in connection with the Investment Warrants and SVB Warrants 2017 up to an aggregate nominal amount of £2,866,761.15.

This authority shall expire five years after the date of this resolution, save that the Company may before such expiry make any offer or agreement which would or might require shares to be allotted or rights granted to subscribe for or convert any security into shares after such expiry and the directors may allot shares or grant such rights in pursuance of any such offer or agreement as if the power and authority conferred by this resolution had not expired.

3. That, subject to the passing of resolutions 1, 2, 5, 6, 7, 8, 9 and 10 with effect from Cancellation the Directors be generally and unconditionally authorised for the purposes of section 551 of the Companies Act to exercise all the powers of the Company to allot shares in the Company and grant rights to subscribe for or convert any security into shares in the Company in connection with the share option plan of the Company (adopted by the Directors from time to time) up to an aggregate nominal amount of £700,000.

This authority shall expire five years after the date of this resolution, save that the Company may before such expiry make any offer or agreement which would or might require shares to be allotted or rights granted to subscribe for or convert any security into shares after such expiry and the directors may allot shares or grant such rights in pursuance of any such offer or agreement as if the power and authority conferred by this resolution had not expired.

4. That the waiver granted by the Panel described in the Circular, of which this notice forms a part, of the obligations under Rule 9 of the Takeover Code for the Concert Party or any member of the Concert Party (being any of Woodford, WIML (in its capacity as investment manager of Woodford), the Wales Fund or Arthurian (in its capacity as investment manager of the Wales Fund)) to make a general offer to Shareholders as a result of the allotment and issue of the Convertible Preferred Shares and/or the Investment Warrants and/or subsequent exercise of the Investment Warrants in connection with the Investment be approved (where each of the "Panel", the "Takeover Code", "Woodford", "Wales Fund", "Arthurian", "Shareholders", the "Investment", Convertible Preferred Shares", and "Investment Warrants" have the meanings defined in the Circular).

## Special Resolutions

5. That, subject to and conditional upon the passing of resolutions 1, 2, 3, 6, 7, 8, 9 and 10, with effect from Cancellation the Directors be generally and unconditionally empowered for the purposes of section 570 of the Companies Act to allot equity securities (within the meaning of section 560 of the Companies Act) for cash pursuant to the authority conferred by resolution 1 above, up to an aggregate nominal amount of £2,834,868.88, as if section 561 of the Companies Act did not apply to any such allotment.

This power shall (unless previously renewed, varied or revoked by the Company in general meeting) expire two months after the passing of such resolution, save that the Company may before the expiry of this power make any offer or enter into any agreement which would or might require equity securities to be allotted, or treasury shares sold, after such expiry and the directors may allot equity securities or sell treasury shares in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired.

6. That, subject to and conditional upon the passing of resolutions 1, 2, 3, 5, 7, 8, 9 and 10, with effect from Cancellation the Directors be generally and unconditionally empowered for the purposes of section 570 of the Companies Act to allot equity securities (within the meaning of section 560 of the Companies Act) for cash pursuant to the authority conferred by resolution 2 above, up to an aggregate nominal amount of £2,866,761.15, as if section 561 of the Companies Act did not apply to any such allotment.

This power shall (unless previously renewed, varied or revoked by the Company in general meeting) expire five years after the passing of such resolution, save that the Company may before the expiry of this power make any offer or enter into any agreement which would or might require equity securities to be allotted, or treasury shares sold, after such expiry and the directors may allot equity securities or sell treasury shares in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired.

7. That, subject to and conditional upon the passing of resolutions 1, 2, 3, 5, 6, 8, 9 and 10, with effect from Cancellation the Directors be generally and unconditionally empowered for the purposes of section 570 of the Companies Act to allot equity securities (within the meaning of section 560 of the Companies Act) for cash pursuant to the authority conferred by resolution 3 above, up to an aggregate nominal amount of £700,000, as if section 561 of the Companies Act did not apply to any such allotment.

This power shall (unless previously renewed, varied or revoked by the Company in general meeting) expire five years after the passing of such resolution, save that the Company may before the expiry of this power make any offer or enter into any agreement which would or might require equity securities to be allotted, or treasury shares sold, after such expiry and the directors may allot equity securities or sell treasury shares in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired.

8. That, subject to and conditional upon the passing of resolutions 1, 2, 3, 5, 6, 7, 9 and 10 the cancellation of admission of the Company's ordinary shares of £0.01 each to trading on AIM, a market operated by the London Stock Exchange plc, be approved in accordance with the AIM Rules of the London Stock Exchange plc and that the Company's directors and officers, or persons authorised by the directors of the Company, be authorised and directed to execute all documents and take all necessary or desirable actions in order to effect such cancellation.

9. That, subject to the passing of resolutions 1, 2, 3, 5, 6, 7, 8 and 10, with effect from Cancellation, the articles of association contained in the document attached to these resolutions and initialled be approved and adopted as the new articles of association of the Company (the "**Interim Articles**") in substitution for and to the entire exclusion of the existing articles of association.

10. That, subject to the passing of resolutions 1, 2, 3, 5, 6, 7, 8 and 9, with effect from Cancellation,
- (i) the Company be re-registered as a private company under the Companies Act by the name of Sphere Medical Holding Limited; and
  - (ii) (subject to the passing of the statutory period of time before the resolution giving effect to the re-registration may be registered at Companies House (as applicable)) the articles of association contained in the document attached to these resolutions and initialled be approved and adopted

as the new articles of association of the Company (the “**Final Articles**”) in substitution for and to the entire exclusion of the Interim Articles.

By Order of the Board

**Richard Wright**

*Company Secretary*

22 August 2017

*Notes:*

1. If you are a member of the Company entitled to attend the General Meeting, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this Notice of General Meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
2. To be valid, a proxy form must be completed and signed, and sent or delivered to the Company’s registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA so as to be received by them no later than 12.00 p.m. on 6 September 2017. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or other authority under which a proxy form is signed (or a duly certified copy of that power or authority) must be included with the proxy form.
3. A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting, you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to your proxy.
4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you may photocopy the proxy form. Please indicate the proxy holder’s name and the number of shares in relation to which they are authorised to act as your proxy, which, in aggregate, should not exceed the number of shares held by you. Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
5. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company’s register of members, the first named being the most senior.
6. The appointment of a proxy does not preclude you from attending and voting in person at the General Meeting.
7. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company’s Register of Members at 6.30 p.m. on 6 September 2017 will be entitled to attend and vote at the General Meeting.

