

Registered No SC220767

Aircraft Medical Limited

Abbreviated accounts

31 December 2010

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COMPANIES HOUSE

Aircraft Medical Limited

Registered No: SC220767

Directors

M J R McGrath
A J Williamson
B G Morton
M J Gillies

Secretary

A J Williamson

Auditors

Ernst & Young LLP
Ten George Street
Edinburgh
EH2 2DQ

Bankers

Royal Bank of Scotland plc
PO Box 31
29 Harbour Road
Inverness
IV1 1NU

Registered office

10 St Andrew Square
Edinburgh
EH2 2AF

Independent auditors' report

to the members of Aircraft Medical Limited

We have examined the company's abbreviated accounts which comprise the Balance Sheet and the related notes 1 to 7, together with the financial statements of Aircraft Medical Limited for the year ended 31 December 2010, prepared under section 396 of the Companies Act 2006.

This report is made solely to the company in accordance with Section 449 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company as a body, for our audit work, for this report, or for the opinions we have formed.

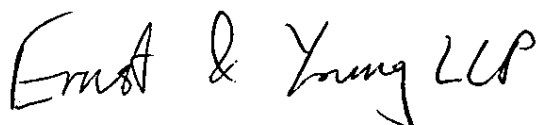
Respective responsibilities of directors and auditors

The directors are responsible for preparing the abbreviated accounts in accordance with section 444 of the Companies Act 2006. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated accounts to the Registrar of Companies and whether the abbreviated accounts have been properly prepared in accordance with the regulations made under that section and to report our opinion to you.

We conducted our work in accordance with Bulletin 2008/4 issued by the Auditing Practices Board. In accordance with that Bulletin we have carried out the procedures we consider necessary to confirm, by reference to the financial statements, that the company is entitled to deliver abbreviated accounts and that the abbreviated accounts are properly prepared.

Opinion

In our opinion the company is entitled to deliver abbreviated accounts prepared in accordance with section 444(3) of the Companies Act 2006, and the abbreviated accounts have been properly prepared in accordance with the regulation made under that section.

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Mark Harvey (Senior statutory auditor)
For an on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh

Date: 3 OCTOBER 2011

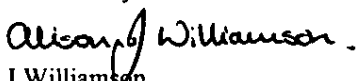
Balance Sheet

at 31 December 2010

	Note	2010 £	2009 £
Fixed assets			
Intangible assets	2	3,028,597	1,939,103
Tangible assets		331,807	229,858
Investments		1,036,896	1,036,896
		<u>4,397,300</u>	<u>3,205,857</u>
Current assets			
Stocks		289,841	353,476
Debtors		651,878	1,548,429
Cash at bank and in hand		160,777	844,503
		<u>1,102,496</u>	<u>2,746,408</u>
Creditors: amounts falling due within one year		<u>(3,225,907)</u>	<u>(2,408,674)</u>
Net current assets		<u>(2,123,411)</u>	<u>337,734</u>
Total assets less current liabilities		<u>2,273,889</u>	<u>3,543,591</u>
Creditors: amounts falling due after more than one year		<u>(539,107)</u>	<u>(622,120)</u>
Provisions			
Warranty provision		(143,463)	(142,224)
Other provisions		(597,237)	(454,305)
Deferred tax liability			(95,944)
		<u>(740,700)</u>	<u>(692,473)</u>
		<u>994,082</u>	<u>2,228,998</u>
Capital and reserves			
Called up share capital	4	246	244
Share premium account		1,574,355	1,561,357
Profit and loss account		(580,519)	667,397
		<u>994,082</u>	<u>2,228,998</u>

These abbreviated accounts have been prepared in accordance with the special provisions for small companies under section 396 of the Companies Act 2006.

These abbreviated accounts were approved by the directors on 30 September 2011 and are signed on their behalf by:


A J Williamson
Director

SC220767

Notes to the accounts

at 31 December 2010

1. Accounting policies

Basis of preparation

The financial statements of Aircraft Medical Limited were approved for issue by the Board of Directors on 30 September 2011.

The financial statements have been prepared under the historical cost convention and are in accordance with applicable United Kingdom accounting standards. The company has taken advantage of the exemption in FRS 1 from the requirement to produce a cash flow statement on the grounds that it is a small company.

Group accounts

The financial statements present information about the company as an individual undertaking and not about its group. The company and its subsidiary undertaking comprise a small-sized group. The company has therefore taken advantage of the exemption provided by section 398 of the Companies Act 2006 not to prepare group financial statements.

Revenue recognition

Turnover recognised in the profit and loss account represents amounts invoiced during the year, exclusive of value added tax. Turnover is recognised once goods are despatched.

Pensions

The company operates a defined contribution pension scheme. Contributions payable for the year are charged in the profit and loss account.

Intangible fixed assets – research and development

Expenditure on research is charged to the profit and loss account in the year in which it is incurred. Development expenditure that qualifies as such under SSAP 13 is capitalised and amortised over a period of 10 years, being the estimated useful life of assets developed based upon the expected sales arising from the projects. Expenditure qualifies for capitalisation where it is incurred on clearly defined projects whose outcome can be assessed with reasonable certainty. The estimated useful life is reassessed at each balance sheet date in respect of each project for which development costs have been capitalised.

Intangible fixed assets – patents and trademarks

Costs related to the application for patents and trademarks have been capitalised and are amortised on a straight line basis over 10 years.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Research and development	-	10% straight line
Patents	-	10% straight line

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant and machinery	-	20% straight line
Computer equipment	-	33% straight line
Office equipment	-	25% straight line

Notes to the accounts

at 31 December 2010

1. Accounting policies (continued)

Investments in subsidiary undertaking

Investments are shown at cost less any provision for impairment.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Included within the stock value in the balance sheet is demonstrator stock which is being written off on a straight line basis over 4 years.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

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

Government grants

Grants received to fund the acquisition of capital assets are deferred and amortised over the estimated useful life of the assets to which they relate. Grants received to fund revenue expenditure are released to the profit and loss account in the period in which the related expenditure is incurred.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at net proceeds. After initial recognition debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debts of the period. Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

Operating leases

Rentals paid under operating leases are charged to the profit and loss account as incurred.

Warranty provision

The company includes a provision for warranty costs in respect of sales made at the balance sheet date for which the warranty period has not expired.

Notes to the accounts

at 31 December 2010

1. Accounting policies (continued)

Share-based payment

Employees (including senior executives) of the group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and are recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions), if applicable.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as lapsed on the date of cancellation, and any cost previously recognised in the income statement for the award is written back.

Classification of shares as debt or equity

When shares are issued, any component that creates a financial liability of the company or group is presented as a liability in the balance sheet; measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption. The corresponding dividends relating to the liability component are charged as interest expense in the income statement. The initial fair value of the liability component is determined using a market rate for an equivalent liability without a conversion feature.

The remainder of the proceeds on issue is allocated to the equity component and included in shareholders' equity, net of transaction costs. The carrying amount of the equity component is not remeasured in subsequent years.

Transaction costs are apportioned between liability and equity components of the shares based on the allocation of proceeds to liability and equity components when the instruments are first recognised.

Notes to the accounts

at 31 December 2010

2. Fixed assets

	<i>Intangible assets £</i>	<i>Tangible assets £</i>	<i>Investments £</i>	<i>Total £</i>
<i>Cost:</i>				
At 1 January 2010	2,494,865	388,817	1,036,896	3,920,578
Additions	1,413,024	195,717	-	1,608,741
At 31 December 2010	3,907,889	584,534	1,036,896	5,529,319
<i>Depreciation & amortisation:</i>				
At 1 January 2010	555,762	158,959	-	714,721
Charge for year	323,530	93,768	-	417,298
At 31 December 2010	879,292	252,727	-	1,132,019
<i>Net book value:</i>				
At 31 December 2010	3,028,597	331,807	1,036,896	4,397,300
At 31 December 2009	1,939,103	229,858	1,036,896	3,205,857

Notes to the accounts

at 31 December 2010

3. Creditors

Security

Included within other loans are term loans of £nil repayable by 2010 (2009:£8,273, repayable by 2010), which are secured by a bond and floating charge over the company's assets.

Convertible Loan Stock

Also included within other loans are convertible loans. Three types of loan notes agreements are in issue:

Wellcome Trust loan note agreement 2004

These convertible loans are unsecured loan stock with no fixed repayment day which the holder may convert into ordinary shares at a discount of 20% on the share price at the time of the conversion. Three separate convertible loans are in issue to the Wellcome Trust under similar terms. The first loan of £300,000 was agreed on 31 March 2004, the second loan of £225,000 was agreed on 15 November 2005 and the third loan of £57,000 was agreed on 17 August 2006, with a final tranche of £75,000 received in July 2008. At any time after the third anniversary of the agreement date the holder may require repayment in instalments amounting to 20% of the net revenues of the company annually until fully repaid. Interest is accruing at 2% over the UK base rate on all three loans.

Wellcome Trust can require the company to repay the loan and any accrued interest before the third anniversary of the agreement date if an investment is made in the company by a member of the British Venture Capital Association or the company defaults under the terms of the agreement. The Directors understand that the Wellcome Trust does not intend to seek repayment on this basis

Fixed Rate Convertible Loan Notes

On 28 May 2010, the company entered into a convertible loan note instrument constituting £750,000 in aggregate principal amount fixed rate convertible loan notes with a grant of warrant on conversion (the 'Warrant Loan Notes'). To date the company has issued 10 Warrant Loan Notes amounting to £410,000 pursuant to this loan note. The terms under this loan note are that the at any time after 1 August 2010 there is a 'Main Financing Round' or a sale of shares conferring more than 50% of the aggregate voting rights of all shares in the company, the Warrant Loan Notes will automatically convert. The Warrant Loan Notes will convert into the relevant number of new fully-paid ordinary shares in the capital of the company at the applicable conversion price. The applicable conversion price is (i) the average price for a share subscribed for in the Main Financing Round or (ii) if the Main Financing Round does not complete in 2010, 90% of that average price or (iii) if converted on sale, 90% of the price payable for an ordinary share in that sale.

On conversion, the company will also grant to each noteholder the right to subscribe for such number of ordinary shares as is equal to the number of ordinary shares acquired by them on conversion. The exercise price of the warrants will be equal to the price applied to conversion of this note. At any time after the second anniversary of the date the Warrant Loan Notes were issued the principle amount plus any interest is redeemable. Interest is accruing at 10% per annum.

Fixed Rate Discounted Convertible Loan Notes

On 28 May 2010, the company entered into a convertible loan note instrument constituting £750,000 in aggregate principal amount fixed rate convertible loan notes with a discount on conversion (the 'Discounted Loan Notes'). To date the company has issued 5 Discounted Loan Notes amounting to £206,000 pursuant to this loan note. The terms under this loan note are that the at in the event of a Sale or in the event of a 'Main Financing Round', the Discounted Loan Notes will automatically convert. The Discounted Loan Notes will convert into the relevant number of new fully-paid ordinary shares in the capital of the company at the applicable conversion price. The applicable conversion price is (i) 80% (70% if Main Financing Round does not complete in 2010) of the average price for a share subscribed for in the Main Financing Round or (ii) if converted on sale, 90% of the price payable for an ordinary share in that sale. At any time after 14 months of the date the Discounted Loan Notes were issued the principle amount plus any interest is redeemable. Interest is accruing at 10% per annum.

Notes to the accounts

at 31 December 2010

4. Share capital

	No.	2010 £	2009 £
<i>Allotted, called up and fully paid:</i>			
Ordinary shares of 0.0001p each	24,587,766	246	
	24,447,766		244
		<u>246</u>	<u>244</u>

During the year 100,000 ordinary shares were issued at 5 pence each and 40,000 ordinary shares were issued at 20 pence each (2009: 100,000 ordinary shares were issued at 85 pence each)

5. Related Party Transactions

At 31 December 2010, Aircraft Medical Barcelona S.L. owed £411,884 (2009 - £468,341) to the company. Interest is accruing at a rate of 2% over the UK base rate.

6. Controlling party

At 31 December 2010, by virtue of his shareholding Matthew JR McGrath is deemed to be the ultimate controlling party.

7. Post Balance Sheet Events

In February 2011, judgement was passed in the company's favour in respect of the long running patent infringement litigation between it and US rival, Verathon Medical Inc. As discussed further in note 7, there remain additional ongoing patent dispute claims.

The company successfully raised private equity of £885,000 in April 2011. The private equity funding was regarded as a 'Main Financing Round' and therefore triggered the conversion of the 2010/11 convertible loan notes into £1.2m of equity which substantially improves the company's balance sheet.