financial statements

Lombard Medical Limited

For the year ended: 31 December 2017

Company registration number: 02998639

MHA MacIntyre Hudson
GLOBAL EXPERTISE · NATIONAL EXPERIENCE · LOCAL EXCELLENCE®

LOMBARD MEDICAL LIMITED

COMPANY INFORMATION

Directors	S Hubbert (resigned 18 April 2017) W Kullback (resigned 5 May 2017) P Phillips K B Lemvigh (appointed 21 August 2018) R M Pearce (appointed 21 August 2018)
Registered number	02998639
Registered office	Lombard Medical House 4 Trident Park Basil Hill Road Didcot Oxfordshire OX11 7HJ
Independent auditors	MHA MacIntyre Hudson Chartered Accountants & Statutory Auditors Pennant House 1-2 Napier Court Reading RG1 8BW

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction

The director presents his annual report and the audited financial statements of Lombard Medical Limited (the "Company") for the year ended 31 December 2017.

Business review

Following are key operational and clinical highlights during 2017.

New products, strategic partnerships and a focus on operational efficiencies are contributing to the successful ongoing restructuring of our business. Our collaboration with MicroPort promises lower production costs in 2018, and is allowing us to focus our marketing resources in the European Union, Japan and the emerging China market. Lombard has an excellent portfolio of endovascular AAA technologies which we plan to exploit in a focused and disciplined manner.

During 2017, Lombard has refocused sales and marketing activities to concentrate on markets that yield the most revenue potential at a reasonable sales cost. The Company sells both Aorfix and Altura ® product lines via a direct salesforce in the United Kingdom and Germany. In Japan, Lombard's distribution partner, Medico's Hirata, is experiencing increased demand for Aorfix following the launch of the new delivery catheter.

Lombard's collaboration with MicroPort is focused on two key areas - gaining CFDA regulatory approval in 2019 to allow marketing of the Aorfix endovascular system in China and working with Lombard to achieve a significant reduction in material and labour costs for its product lines. To that end, the parties have several initiatives and cost saving projects well underway. Based on this collaboration, Lombard's goal is to achieve industry standard gross margins within the next 24 months.

In the UK, Lombard has launched Altura via the ALTITUDE registry and the Company believes the potential of day case surgeries at prestigious UK hospital sites represents an area of growth.

The combination of Altura 's technology with our flagship Aorfix product creates a patient driven platform that we believe will allow us to capture market share from our competitors. The Altura Endovascular Stent Graft offers a simple, safe, and efficient treatment option for standard AAA anatomy and will allow physicians to treat a large number of patients more efficiently in the future, while Aorfix offers the only on-label globally approved solution for patients with Aortic neck angulation up to 90 degrees.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks and uncertainties.

The Board has implemented processes to identify risks, to assess them and to ensure that reasonable mitigation plans are in place. The principal risks and uncertainties identified that could have a material impact on the Company are set out below.

Financing

As of 17 May 2018, the Company is dependent on its immediate parent, Endovascular Technology Corporation, for financial support. Without this ongoing support, the company will be unable to continue as a going concern for the 12 months from the date of approval of these financial statements.

The financial statements of the Company have therefore been prepared on a going concern basis, because the directors have a reasonable expectation that Endovascular Technology Corporation will be able to continue to fund the Company for a period of no less than 12 months from the date of approval of these financial statements.

Manufacturing

The Company may encounter problems in its manufacturing process which may restrict commercial quantities of product that can be made. To mitigate this risk the Company appoints experienced managers in key areas and engages consultants where necessary to advise on specific manufacturing and regulatory issues.

Development

Product development projects and associated clinical trials may encounter delays or fail to achieve their endpoints. The Company seeks to mitigate this risk as far as possible through detailed planning and by closely monitoring development projects to identify potential issues as early as possible.

Regulatory

Regulatory bodies around the world have different requirements for the approval of medical devices. This may result in the restriction of indication, denial or approval or demands for additional data. The Company seeks to mitigate this risk by appointing managers and/or consultants experienced in the requirements of the specific regulatory bodies from which the Company is seeking approval.

Market competitors

Although the Company believes that its products have design features that make them competitive against the known competition, a new competitor product may be brought to the market that is more effective or economically viable than that developed by the Company. The Company monitors market developments, as far as possible, in order to take account of competitor advances in its design of new products.

Key performance indicators

The Company considers the KPIs and financial measures of revenue, operating profit, and EBITDA to be key for the business. Revenues were £4.7m in the year ended 31 December 2017 (2016: £6.9m). During the same period the Company made an operating loss of £6.83m (2016: £8.65m), and EBITDA of £(6.21)m negative (2016: £(7.89)m negative).

This report was approved by the board on and signed on its behalf.

25/09/2018

K B Lemvigh
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Results and dividends

The loss for the year, after taxation, amounted to £7,269,000 (2016 - loss £8,114,000).

Directors

The directors who served during the year were:

S Hubbert (resigned 18 April 2017)
W Kullback (resigned 5 May 2017)
P Phillips

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Post balance sheet events

Group restructuring

On 25 April 2018, the Company entered into an agreement with its principal lender, Oxford Finance LLC ('Oxford'), and Endovascular Technology Corp ('Endovascular'), a company registered in the British Virgin Islands whereby Oxford agreed to forbear on its right to capital and interest payments pending the completion of a restructuring process.

Following the completion of the restructuring process, the amounts owed to group undertakings of £127.5 million reflected in these financial statements (note 15) have been capitalised, returning the balance sheet to a solvent position. To achieve this, 20,000 Ordinary shares were issued and the inter-company loan balance of £127.5 million was released as consideration.

As part of the restructuring process, the Company's immediate parent company, Lombard Medical Technologies Limited's ('LMTL') shares in the Company were sold, together with Lombard Medical Technologies GmbH for total consideration of US $2m (approximately GBP £1.5 million) and at the same time LMTL was released of its guarantee obligations to Oxford of USD $13 million (approximately GBP £9.9 million). On the basis that the Company previously acted as guarantor to the loan facility which was to be restructured as part of the consideration, a provision in respect of the guarantee will be set up in the Company's balance sheet.

Additional financing

On 17 May 2018 the Company received additional short term loan funding of USD $3m (approximately GBP £2.3 million) from one of its investors, Microport Scientific Corporation ('Microport'). This loan has subsequently been terminated and transferred from Microport to Endovascular. Additionally, the Company has also received confirmation of the intention of Endovascular to provide further funding from which the short-term loan will be repaid and which will enable the Company to continue to be able to pay its debts as they fall due for a period of at least twelve months from the date of approval of these financial statements; the additional funding will also enable the Company to fund further market expansion and technological development.

Auditors

The auditors, MHA MacIntyre Hudson, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 25/09/2018 and signed on its behalf.

K B Lemvigh
Director

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LOMBARD MEDICAL LIMITED

Opinion

We have audited the financial statements of Lombard Medical Limited (the 'Company') for the year ended 31 December 2017, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditors' Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LOMBARD MEDICAL LIMITED (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

Use of our report

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

MHA MacIntyre Hudson

Jason Mitchell FCA (Senior Statutory Auditor)

for and on behalf of
MHA MacIntyre Hudson

Chartered Accountants
Statutory Auditors

Pennant House
1-2 Napier Court
Reading
RG1 8BW

Date: 27 September 2017

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Turnover	4	**4,740**	6,927
Cost of sales		**(5,749)**	(7,920)
Gross loss		**(1,009)**	(993)
Selling, marketing and distribution		**(1,689)**	(3,743)
Research & Development		**(1,958)**	(3,086)
Administrative expenses		**(2,174)**	(828)
Operating loss	5	**(6,830)**	(8,650)
Interest receivable and similar income	9	**2**	-
Loss before tax		**(6,828)**	(8,650)
Tax on loss	10	**(441)**	536
Loss for the financial year		**(7,269)**	(8,114)

There was no other comprehensive income for 2017 (2016:£000NIL).

The notes on pages 11 to 26 form part of these financial statements.

BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note		2017 £000		2016 £000
Fixed assets					
Intangible assets	11		**656**		800
Tangible assets	12		**610**		1,051
			1,266		1,851
Current assets					
Stocks	13	**3,621**		5,591	
Debtors: amounts falling due within one year	14	**1,309**		4,019	
Cash at bank and in hand		**462**		1,751	
		5,392		11,361	
Creditors: amounts falling due within one year	15	**(128,356)**		(127,641)	
Net current liabilities			**(122,964)**		(116,280)
Net liabilities			**(121,698)**		(114,429)
Capital and reserves					
Called up share capital	17		**41**		41
Share premium account			**1,450**		1,450
Profit and loss account			**(123,189)**		(115,920)
			(121,698)		(114,429)

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

25/09/2018

K B Lemvigh
Director

The notes on pages 11 to 26 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2016	**41**	**1,450**	**(107,806)**	**(106,315)**
Loss for the year	-	-	(8,114)	(8,114)
At 1 January 2017	**41**	**1,450**	**(115,920)**	**(114,429)**
Loss for the year	-	-	(7,269)	(7,269)
At 31 December 2017	**41**	**1,450**	**(123,189)**	**(121,698)**

The notes on pages 11 to 26 form part of these financial statements.

1. General information

Lombard Medical Limited ("The Company.") manufactures, distributes and sells endovascular stent grafts through direct sales representatives and a network of independent distributors.

The Company is a private limited company incorporated in the United Kingdom under Companies Act, and it is domiciled within the United Kingdom. Lombard Medical Inc. was the ultimate parent of the Group to which the Company belonged during the year. Post year end the ultimate parent comany was Otsuka Holdings Co.

The address of the Company's registered office is Lombard Medical House, 4 Trident Park, Basil Hill Road, Oxfordshire, OX11 7HJ. The Company's registered number is 02998639.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
    - paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements .
- the requirements of IAS 7 Statement of Cash Flows
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

2.3 Going concern

The Company has recorded a loss for the financial year of £7.2 million and has net current liabilities of £122.9 million. Nevertheless, these accounts have been prepared on a going concern basis, as the Company relies on the continued support of the Company's immedicate parent company, Endovascular Technology Corporation, which has confirmed that it will continue to support the Company for a period of at least 12 months from the date of approval of these financial statements (see note 21 Post balance sheet events).

2. Accounting policies (continued)

2.4 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'other operating income'.

2.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2. Accounting policies (continued)

2.6 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.7 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

2.8 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

2.9 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.10 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2. Accounting policies (continued)

2.11 Taxation

Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.12 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

2.13 Research and development expenditure

Research and development ("R&D") expenditure is written off to the statement of total comprehensive loss in the year in which it is incurred. Due to the regulatory environment inherent in the development of the Company's products, the criteria for development costs to be recognised as an asset are not met until a product has received regulatory approval and it is probable that future economic benefit will flow to the Company. The Company currently has no qualifying expenditure.

2.14 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

2. Accounting policies (continued)

2.14 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Research and technical equipment	-	20% straight line
Office and computer equipment	-	33% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

2.15 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.16 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.17 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.18 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged

2. Accounting policies (continued)

2.19 Financial instruments (continued)

or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company classifies all of its financial assets as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

Financial liabilities

The Company classifies all of its financial liabilities as liabilities at amortised cost.

At amortised cost

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Balance Sheet.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements in conformity with FRS 101 requires management to make judgments, estimates and assumptions. These judgments, estimates and assumptions affect the reported amounts of assets and liabilities as well as income and expenses in the financial statements provided.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual outcome is not expected to differ significantly from the estimates and assumptions made.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the decision affects only that period or the period of revision and future periods if this revision affects both current and future periods.

A key judgment in the preparation of these financial statements is the going concern assumption, the rationale for which is set out in paragraph 2.3 above.

4. Turnover

An analysis of turnover by class of business is as follows:

	2017	2016
	£000	£000
Product sales	**4,740**	6,780
Management charge	**-**	19
Licence and royalty income	**-**	128
	4,740	6,927

Analysis of turnover by country of destination:

	2017	2016
	£000	£000
United Kingdom	**869**	840
Germany	**106**	-
Rest of the world	**3,765**	6,087
	4,740	6,927

5. Operating loss

The operating loss is stated after charging:

	2017 £000	2016 £000
Research & development charged as an expense	**792**	3,086
Depreciation of tangible fixed assets	**479**	603
Amortisation of intangible assets, including goodwill	**144**	154
Exchange differences	**105**	(462)
Other operating lease rentals	**21**	16
Defined contribution pension cost	**171**	182

6. Auditors' remuneration

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

The Company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group accounts of the parent Company.

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2017 £000	2016 £000
Wages and salaries	**3,240**	4,363
Social security costs	**340**	474
Cost of defined contribution scheme	**171**	182
	3,751	5,019

The average monthly number of employees, including the directors, during the year was as follows:

	2017 No.	2016 No.
Production, research and development	**47**	85
Selling, marketing and distribution	**13**	8
Administration	**23**	22
	83	115

8. Directors' remuneration

	2017 £000	2016 £000
Directors' emoluments	**119**	160
Company contributions to defined contribution pension schemes	**15**	36
	134	196

During the year retirement benefits were accruing to no directors (2016 - NIL) in respect of defined contribution pension schemes.

9. Interest receivable

	2017 £000	2016 £000
Other interest receivable	**2**	-

10. Taxation

	2017 £000	2016 £000
Corporation tax		
Current tax on profits for the year	**441**	(550)
	441	(550)
Foreign tax		
Foreign tax on income for the year	**-**	14
	-	14
Total current tax	**441**	(536)
Deferred tax		
Total deferred tax	**-**	-
Taxation on profit/(loss) on ordinary activities	**441**	(536)

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016 - lower than) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 £000	2016 £000
Loss on ordinary activities before tax	**(6,828)**	(8,651)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	**(1,314)**	(1,730)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	**20**	10
Movement on deferred tax not recognised	**1,321**	1,390
Non-taxable income	**(27)**	-
Adjustment in research and development tax credit leading to an increase (decrease) in the tax charge	**-**	(429)
Taxation on foreign income	**-**	209
Losses carred forward	**-**	14
Reversal of accrued R&D tax credit	**441**	-
Total tax charge for the year	**441**	(536)

Factors that may affect future tax charges

The Corporation tax rate will reduce from 19% to 17% on 1 April 2020. The rate reduction to 17% was substantively enacted on 6 September 2016.

11. Intangible assets

	Software £000	Licence fees £000	Total £000
Cost			
At 1 January 2017	52	1,727	1,779
At 31 December 2017	52	1,727	1,779
Amortisation			
At 1 January 2017	46	933	979
Charge for the year	6	138	144
At 31 December 2017	52	1,071	1,123
Net book value			
At 31 December 2017	-	656	656
At 31 December 2016	6	794	800

License fees include a non-exclusive license granted by Medtronic for the US patent No. 6306141 ("Jervis" patent), which will be amortised over the remaining term of the Jervis patent of 7 years and has a net book value at December 31, 2017 of £656,000 (2016: £794,000). Amortisation costs are included in selling, marketing and distribution expenses on the statement of total comprehensive loss.

12. Tangible fixed assets

	Research and technical equipment £000	Office and computer equipment £000	Total £000
Cost or valuation			
At 1 January 2017	**2,504**	**1,003**	**3,507**
Additions	**3**	**-**	**3**
Transfers intra group	**35**	**399**	**434**
At 31 December 2017	**2,542**	**1,402**	**3,944**
Depreciation			
At 1 January 2017	**1,618**	**838**	**2,456**
Charge for the year on owned assets	**374**	**105**	**479**
Transfers intra group	**16**	**383**	**399**
At 31 December 2017	**2,008**	**1,326**	**3,334**
Net book value			
At 31 December 2017	**534**	**76**	**610**
At 31 December 2016	886	165	1,051

13. Stocks

	2017 £000	2016 £000
Raw materials and consumables	**2,866**	3,676
Work in progress (goods to be sold)	**450**	1,219
Finished goods and goods for resale	**305**	696
	3,621	5,591

Stocks are stated after provisions for impairment of £1,645,000 (2016: £1,626,000). Costs of stocks recognised as expenses were cost of sales £5,278,000 (2016: £6,563,000); selling, marketing and distribution expenses £156,000 (2016: £423,000) and research and development expenses £426,000 (2016: £1,251,000).

13. Stocks (continued)

Replacement costs of stock

The difference between purchase price or production cost of stocks and their replacement cost is not material.

14. Debtors

	2017 £000	2016 £000
Trade debtors	**861**	2,290
Amounts owed by group undertakings	**140**	-
Other debtors	**227**	1,655
Prepayments and accrued income	**81**	74
	1,309	4,019

Trade debtors are stated after provisons for impairment of £466,000 (2016: £nil). There were balances totalling £577,000 which were past their normal credit terms of 60 days. Trade debtors include £503,000 denominated in US dollars and £300,000 denominated in Euro.

15. Creditors: Amounts falling due within one year

	2017 £000	2016 £000
Trade creditors	**356**	1,927
Amounts owed to group undertakings	**127,481**	125,089
Other taxation and social security	**97**	113
Other creditors	**83**	-
Accruals and deferred income	**339**	512
	128,356	127,641

Other creditors includes £28,000 in respect of pension contributions (2016: £nil). Amounts owed to Group undertakings are unsecured, interest free and are repayable upon demand.

Trade creditors are non-interest bearing and are normally settled on 60 day terms. Trade creditors include £39,000 denominated in US dollars and £54,000 denominated in Euro.

16. Financial instruments

	2017 £000	2016 £000
Financial assets		
Financial assets measured at face value	**462**	1,751
Financial assets that are debt instruments measured at amortised cost	**1,256**	2,310
Financial assets that are equity instruments measured at cost less impairment	**-**	-
	1,718	4,061
Financial liabilities		
Financial liabilities measured at amortised cost	**(128,258)**	(127,529)

Financial assets measured at fair value through profit or loss comprise cash held at bank.

Financial assets that are debt instruments measured at amortised cost comprise trade debtors and accrued income.

Derivative financial instruments measured at fair value through profit or loss held as part of a trading portfolio comprise....
Financial liabilities measured at amortised cost comprise trade creditors, accruals and amounts due to group undertakings.

17. Share capital

	2017 £000	2016 £000
Allotted, called up and fully paid		
411,617 (2016 - 411,617) ordinary shares of £0.10 each	**41**	41

18. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £171,000 (2016: £182,000).

19. Commitments under operating leases

At 31 December 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017	2016
	£000	£000
Not later than 1 year	**7**	27
Later than 1 year and not later than 5 years	**25**	36
Later than 5 years	**61**	-
	93	63

Operating leases represent rental arrangements for motor vehicles and office equipment. These arrangements are typically between 2 and 3 years in length.

20. Related party transactions

As permitted by FRS 101, related party transactions with wholly-owned members of the Lombard Medical, Inc. Group have not been disclosed.

There have been no transactions with other related parties.

21. Post balance sheet events

Group restructuring

On 25 April 2018, the Company entered into an agreement with its principal lender, Oxford Finance LLC ('Oxford'), and Endovascular Technology Corp ('Endovascular'), a company registered in the British Virgin Islands whereby Oxford agreed to forbear on its right to capital and interest payments pending the completion of a restructuring process.

Following the completion of the restructuring process, the amounts owed to group undertakings of £127.5 million reflected in these financial statements (note 15) have been capitalised, returning the balance sheet to a solvent position. To achieve this, 20,000 Ordinary shares were issued and the inter-company loan balance of £127.5 million was released as consideration.

As part of the restructuring process, the Company's immediate parent company, Lombard Medical Technologies Limited's ('LMTL') shares in the Company were sold, together with Lombard Medical Technologies GmbH for total consideration of US $2m (approximately GBP £1.5 million) and at the same time LMTL was released of its guarantee obligations to Oxford of USD $13 million (approximately GBP £9.9 million). On the basis that the Company previously acted as guarantor to the loan facility which was to be restructured as part of the consideration, a provision in respect of the guarantee will be set up in the Company's balance sheet.

Additional financing

On 17 May 2018 the Company received additional short term loan funding of USD $3m (approximately GBP £2.3 million) from one of its investors, Microport Scientific Corporation ('Microport'). This loan has subsequently been terminated and transferred from Microport to Endovascular. Additionally, the Company has also received confirmation of the intention of Endovascular to provide further funding from which the short-term loan will be repaid and which will enable the Company to continue to be able to pay its debts as they fall due for a period of at least twelve months from the date of approval of these financial statements; the additional funding will also enable the Company to fund further market expansion and technological development.

22. Controlling party

Up to 25 April 2018, the immediate parent company was Lombard Medical Technologies Limited, a company incorporated in England and Wales.

From 25 April 2018, the immediate parent company became Endovascular Technology Corp., a company incorporated in the British Virgin Islands.

Up to 25 April 2018, the ultimate parent company was Lombard Medical, Inc., a company registered in the Cayman Islands.

From 25 April 2018 the ultimate parent undertaking became Otsuka Holdings Co., a company registered in Japan. There is no single ultimate controlling party.