LiDCO Group Plc
Annual report and financial statements
for the year ended 31 December 2003

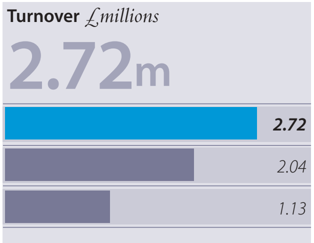
LiDCO Cardiac Sensor Systems

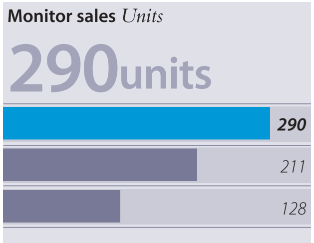
Annual report 2003

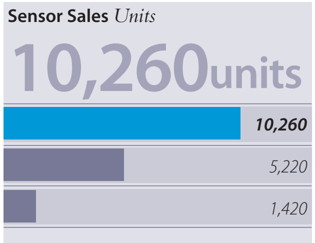
LiDCO Group Plc Annual report and financial statements for the year ended 31 December 2003

LiDCO researches, develops, manufactures and markets innovative medical devices. Our products primarily serve critical care and cardiovascular risk hospital patients who require real-time cardiovascular monitoring.

Highlights







Financial

Turnover up 33% to £2.7 million; with the gross margin increased to 70.2% from 61.9%.

The pre-tax loss reduced by 26% to £4.07 million, following a 14% reduction in overheads.

Cash burn reduced by 54% to £3.4 million (pre the £1.0 million placing in October 2003).

Commercial

£3.7 million net has been raised in May 2004, conditional on shareholder approval, by the placing of additional shares with institutional and other investors, to finance a programme of expanded US sales through independent agents and to enable new product applications to be developed and marketed.

Heads of Agreement have been signed for the appointment of four regional distributors in the US, which would enable **LiDCO to increase the number of salesmen promoting its products in the US from seven at the end of 2003 to around 60.**

In May 2004, **a contract was signed with Philips Medical Systems** to create a communications link between LiDCO's proprietary stand-alone monitoring system and Philips' patient monitors.

Group at a Glance

During the past year, we enhanced every aspect of our business. We aim to make every day extraordinary for every one of our customers, exceeding their expectations and delivering added value.

Customers

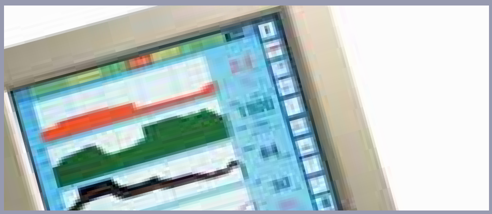
Our customers are hospitals for critical care and cardiovascular patients who require real-time, minimally-invasive cardiac monitoring.

Our business

Process

The Group has developed a minimally-invasive product, disposables and monitoring equipment which improve the standard of care, reduce the incidence of adverse events and reduce costs.

The LiDCOplus monitor



The LiDCO*plus* combines the measurement and monitoring features of LiDCO (lithium dilution cardiac output measurement) and PulseCO (real-time cardiovascular monitoring), significantly enhancing ease of use and saving space around the patient.

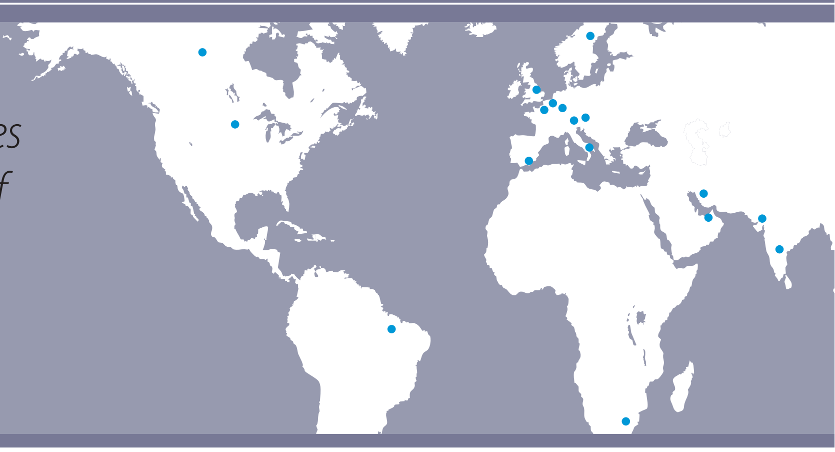
Opportunities

The market for cardiovascular monitoring equipment is worth £1.65 billion per year worldwide.

£1.65bn

Coverage

LiDCO now has distributors and sales forces covering the major markets of the US, UK and Japan and sells to 19 countries worldwide.



Future developments

In 2004, LiDCO signed a deal with Philips Medical Systems to create a communications link between the LiDCOplus monitor and Philips' IntelliVue Patient Monitor. This will allow Philips' customers access to LiDCO's hemodynamic monitoring data on the Philips monitor.

The LiDCO sensor

LiDCO has developed a proprietary lithium sensor using lithium indicator dilution to calculate cardiac output. This is used to calibrate the LiDCO*plus* monitor. Safe and extremely accurate, this method is simple to perform, taking less than five minutes for the entire procedure.

Lithium chloride solution

The LiDCO sensor is activated by a small dose of lithium chloride, injected via a central venous catheter. The resulting arterial lithium concentration-time curve is recorded by withdrawing blood past the lithium sensor.

200

Over 200 hospitals worldwide use the LiDCO system.

"LiDCO is developing its product to be useable in a wider variety of applications, including peri-operative optimisation and congestive heart failure."

What is driving market growth:

- Increasing numbers of elderly people living longer
- Demand for less invasive products offering better care
- Need for better records and integration

Our global reach

LiDCO sells through a combination of direct sales forces and specialist medical distributors, who are trained in the use of the LiDCO System.

Chairman's Review

***Theresa Wallis** Chairman*

Sales in the UK were particularly encouraging and, at the end of 2003, 25% of UK acute care hospitals had purchased LiDCO's products.

The year 2003 was one of consistent sales growth and growing recognition of the benefits of minimally-invasive haemodynamic monitoring. The foundations that had been built previously in terms of manufacturing capacity and efficiency enabled the Company to increase sales whilst maintaining pricing and gross margins.

Sales grew by 33% to £2.7 million and the loss after tax was reduced by 30% to £3.8 million. The installed base of monitors stood at 591 (264 in the US) at the year end and 10,260 sensors were sold during the year. As anticipated, overall expenditure by the Company during the year was reduced substantially to £3.4 million (excluding a placement of shares which raised £1 million) from £7.4 million in 2002. This was made possible because of the earlier significant investment in the manufacturing equipment, and facilities coupled to product margin improvements. Careful cost control was also important in minimising expenditure.

Sales in the UK were particularly encouraging and at the year end approximately 25% of UK acute care hospitals had purchased LiDCO's products. Delays in implementation of the EU mutual recognition approvals meant that sales into Europe were delayed into 2004. However in Japan, PulseCO registration was achieved and a substantial sale made. In the US, new sales models were introduced during the second half of the year in order to address the slow US capital sales cycle anticipated in last year's report.

During the year, significant effort was devoted to finding and evaluating potential US sales partners, concluding with the signing of Heads of Agreement in May 2004 with four distributors across North America. This will enable LiDCO to increase the number of salesmen promoting the LiDCO System in the US from seven in 2003 to around 60. We look forward to working with our distributors and agents across the world in order to maximize our market penetration.

Besides the actual growth in sales, the Company has made significant progress in increasing its name recognition. In addition, awareness and understanding of the benefits of the Company's products and the minimally-invasive technology on which they are based have risen. These are significant achievements for a young company that only launched its first products in 2001.

Demand from investors enabled us to issue £1.0 million of new shares in 2003 to provide additional working capital for the Company. Principally in order to enable us to fund our US expansion plans, a further £3.7 million of shares are being issued in 2004. Looking ahead, I am confident that sales will continue to grow, both directly through our highly-skilled sales force and indirectly through our distributor network. Tight controls on cash expenditure will be maintained.

I would like to take this opportunity to extend my thanks to the management and staff of LiDCO for all their dedication, hard work and enthusiasm and to our scientific advisory panel for their valuable input and support.

Theresa Wallis
Chairman
18 May 2004

Our breadth

Breadth of application

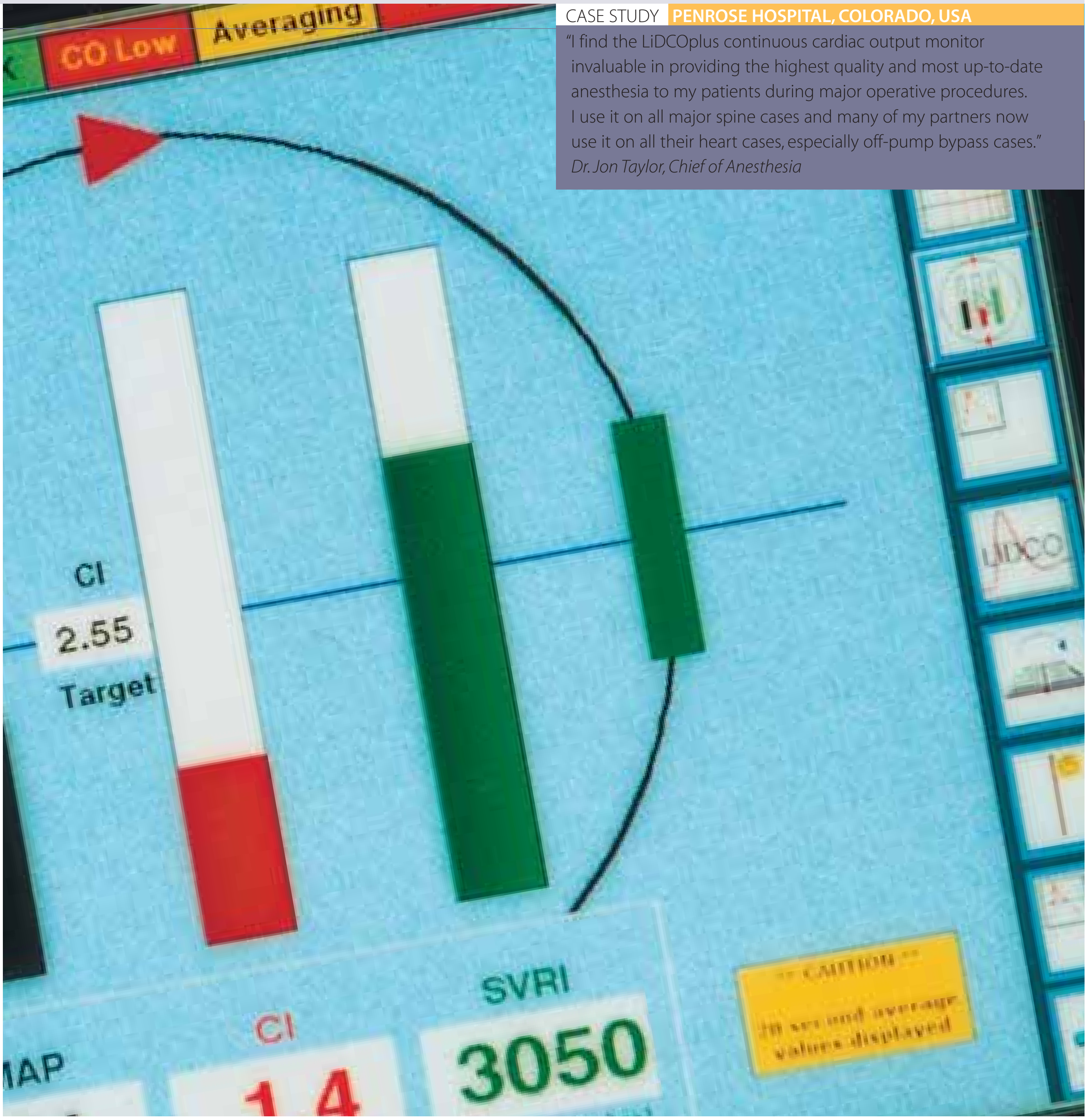
The LiDCO System brings minimally-invasive cardiac output monitoring to a wider variety of major operations.

Intensive care, recovery, surgery etc

Clinicians who use the LiDCO System have found it invaluable not only in intensive care units, but on patients undergoing a variety of surgery. Some of these are not able to have catheters inserted and are reliant on LiDCO's minimally-invasive approach to monitoring. This brings the benefits of the LiDCO System to an ever-growing new market.

CASE STUDY **PENROSE HOSPITAL, COLORADO, USA**

"I find the LiDCOplus continuous cardiac output monitor invaluable in providing the highest quality and most up-to-date anesthesia to my patients during major operative procedures. I use it on all major spine cases and many of my partners now use it on all their heart cases, especially off-pump bypass cases."
Dr. Jon Taylor, Chief of Anesthesia



Chief Executive's Review

Terry O'Brien *Chief Executive*

The requirement for less invasive, more portable and user friendly monitoring continues to grow. Estimates are that, by the year 2030, more than 70 million Americans will be over the age of 65 and more than 60% of senior citizens will experience some form of cardiovascular disease and require treatment in the emergency room, intensive care unit and other locations throughout the hospital. It is estimated that 90% of hospitals are already at or over capacity for treating such patients. This lack of capacity and the resulting shortages create an obvious need for faster, simpler and more efficient monitoring equipment. Such monitoring products need to promote earlier diagnosis and intervention as well as the ability to monitor a patient's condition during operations and thereby help in improving patient care and outcomes. There is increasing evidence that this kind of accelerated care translates into quicker recovery, shorter hospitalization and reduced costs.

Increasingly, hospitals are purchasing minimally-invasive monitoring technologies, driven by a desire to move patients quickly from high cost areas to lower cost care units such as high dependency and step-down wards. Lower risk monitors which focus on key parameters, such as oxygen delivery, and do not require the use of a ventilator, or a cardiac invasive catheter, are meeting the monitoring needs of the ageing population in the 21st Century.

Given this clear market opportunity, I am pleased to report that acceptance of our products is now occurring in all our sales territories. This is evidenced by the fact that at the end of 2003, we estimate that our technology had been adopted in more than 200 hospitals in Europe, USA and the Far East.

US distribution agreements

In the US, our key goal was to continue to recruit new customers and explore various sales models through our existing sales force. In last year's Annual Report, we stated our intention to expand distribution through a sales partnership. After considerable discussion with a number of interested parties, the decision was made to appoint a group of independent sales agents in parallel with our own sales specialists. Consequently, four distributors have signed Heads of Agreement, with final contracts due shortly. These four agents provide a wealth of experience and customer relationships and a combined sales force of around 60 people and will provide significantly increased US geographic coverage. The newer sales models introduced in the US during the second half of 2003 will underpin the approach to be taken by both our own direct US sales force and the expanded group of agents. Although this approach will require working capital support, the Directors anticipate that these new sales arrangements will be self-financing within 18 months.

Technical collaboration with Philips Medical Systems

The adoption of our products by key clinical centres has enhanced LiDCO's recognition. This has led to the signing of a contract with Philips Medical Systems to create a communications link between LiDCO's proprietary, stand-alone monitoring system and Philips' patient monitors, via the Philips Open Vuelink Interface protocol. Under the agreement, Philips is providing LiDCO with appropriate software to enable a communications link between Philips' Intellivue Patient Monitor and the LiDCOplus Hemodynamic Monitor. Once completed, the communications link will allow Philips customers to access LiDCO's proprietary hemodynamic monitoring data on the IntelliVue Patient Monitor. The integration of critical care parameters and data derived from the LiDCOplus monitor will allow a fuller picture of the patient's condition and history to be displayed and accessed throughout the hospital.

Financial Review

Turnover increased by 33% to £2,717,000. This growth was impacted by the targeted shift in business model in the US away from capital sales towards upcharge and rental models. This reduced turnover in 2003, but is expected to generate greater ongoing revenue in future years. The gross profit of £1,909,000 (2002 - £1,263,000) represents a gross margin of 70.2% (2002 - 61.9%). In direct sales territories, margins remain strong at 70% to 85% for the monitor and 79% to 90% for the disposables, with a payback on the apportioned capital costs (in upcharge or fee per use accounts) of around five months or less.

In 2003, the Company continued its active and ongoing cost management programme, the initial impact of which was a reduction of 14% in administration expenses to £6,044,000 (2002 - £7,038,000). The post-tax loss was £3,829,000 (2002 - £5,496,000) and the loss per share of 5.27p was an improvement of 32% (2002 - 7.72p). At the year end, net assets amounted to £5.6 million, including net current assets of £4.0 million. The year end net cash balance was £1.6 million (2002 - £4.0 million).

Our technology

Beat-to-beat monitoring

The LiDCOplus monitor provides real-time, beat-to-beat information on the patient's status. Each heartbeat is displayed on the monitor screen as a separate data point.

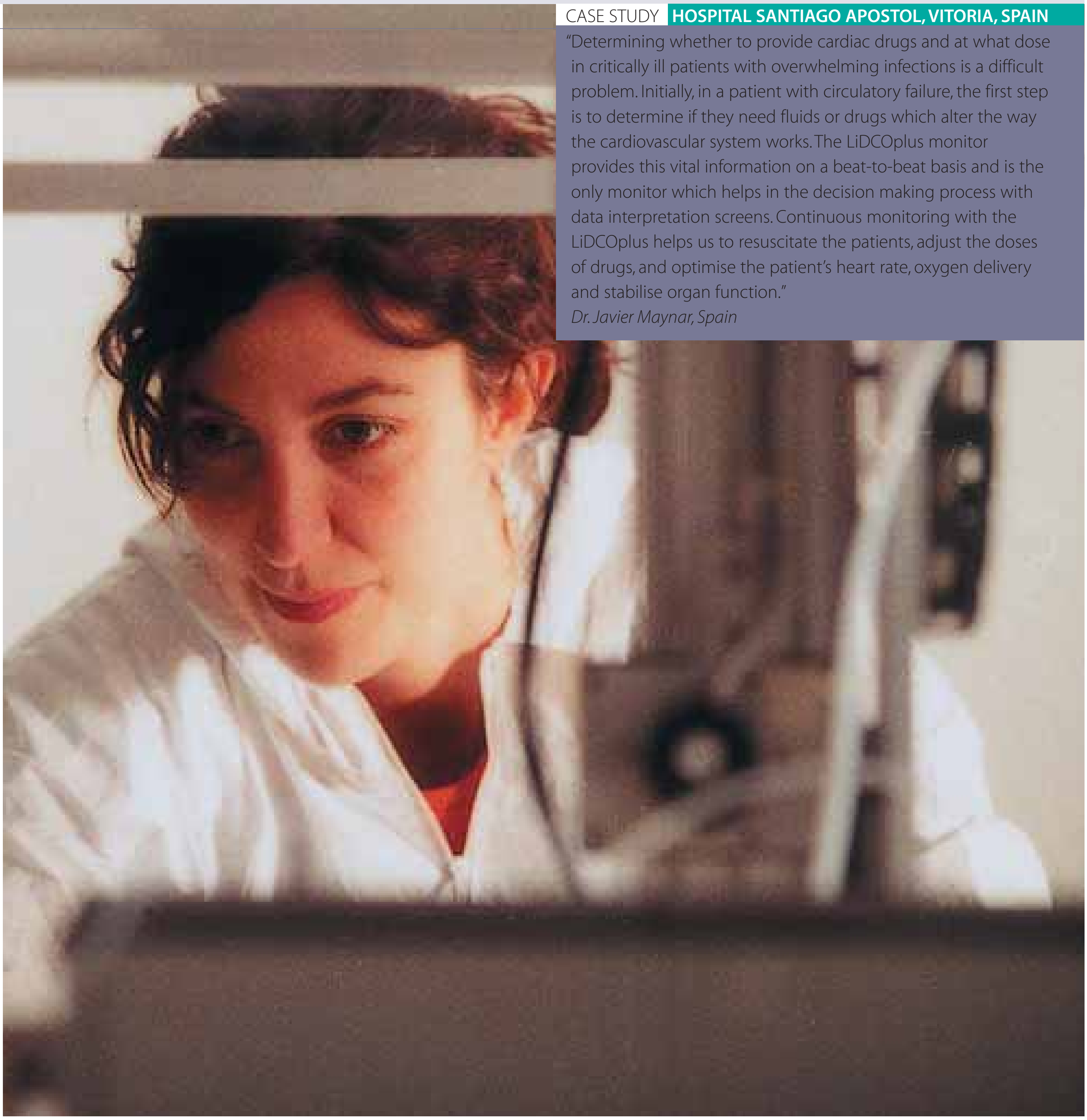
Real-time data: essential for patient care

Instead of averaging patient data over several minutes, the LiDCOplus displays each new reading on its screen without delay. Changes in the patient's condition can be seen at once by the clinician, who can adjust the patient's treatment accordingly.

CASE STUDY **HOSPITAL SANTIAGO APOSTOL, VITORIA, SPAIN**

"Determining whether to provide cardiac drugs and at what dose in critically ill patients with overwhelming infections is a difficult problem. Initially, in a patient with circulatory failure, the first step is to determine if they need fluids or drugs which alter the way the cardiovascular system works. The LiDCOplus monitor provides this vital information on a beat-to-beat basis and is the only monitor which helps in the decision making process with data interpretation screens. Continuous monitoring with the LiDCOplus helps us to resuscitate the patients, adjust the doses of drugs, and optimise the patient's heart rate, oxygen delivery and stabilise organ function."

Dr. Javier Maynar, Spain



Our adaptability

Ease of use

The time taken to attach a patient to a monitor can be critical in determining patient outcomes.

Saving clinicians' time

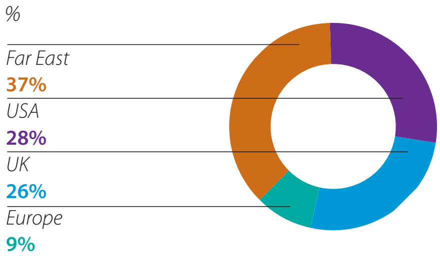
The LiDCO System is designed so that nurses can attach the sensor to the patient. This frees up time for the doctors on the ward. The patient's data is then presented on the monitor screen in an easily-readable form, so that nurses can see at a glance the condition of each patient.

CASE STUDY **VANDERBILT UNIVERSITY HOSPITAL, USA**

"The LiDCOplus monitor has been well received in the culture of our unit. The nurses are comfortable with both the initial setup and the interpretation of the data. I feel that this monitor has great potential in this unique patient population. Given the technical expertise required and risk of infection, there is little reason to insert a pulmonary artery catheter instead of a LiDCO sensor."
Dr. Jeff Guy, Assistant Professor of Surgery, Trauma Surgery, Burns, & Critical Care

LiDCO continues to sign up new distributors in countries across the world.

Our sales by market in 2003



The second half of 2004 is expected to see significant expansion in our sales activities, particularly in the US, Japan and Continental Europe. Revenue is increasingly moving towards being based on a recurring annuity stream from sensor sales, monitor rental income and software 'fee per use', rather than capital sales of the monitor. In order to support the sales expansion in the US and in additional new territories, to finance product development and to provide additional working capital, the Company is issuing an additional £3.7 million of shares (net of costs).

Trading Review

The installed base of monitors rose by 97% to 591 (2002 - 300), while sales of single use sensors also rose by 97% to 10,260 (2002 - 5,220). Of the total sales in 2003 of £2,717,000, 67% related to monitors (2002 - 74%) and 33% related to sensors and licence fees (2002 - 26%). LiDCO estimates that as of May 2004 between 2,000 and 2,500 patients per month are being treated with its technology. The Board's ambition is to achieve the Company's first profits on a monthly basis by the end of 2005.

Usage of LiDCO sensors is continuing to double every year, and this rate of growth is consistent with progress to date on sensor sales in 2004.

US

During 2003, sales to US customers were made through our direct US-based sales force. Turnover was £742,000 (2002 - £1,008,000), with capital sales of monitors representing 39% of units placed (2002 - 96%). The number of monitors and sensors placed increased by 27% and 72% respectively, with 20% of customers reordering equipment. Like-on-like sales per sales person increased by 30%. The average number of monitors purchased/placed (first order) was 3.5 with the average number of sensors used per month being up from 3 (in previous years) to 5 in LiDCO sensor calibration accounts. Turnover was adversely impacted by the shift from capital sale towards upcharge and rental/fee per use models. In addition, there was an adverse currency impact from the weakening dollar of £92,000.

The US is the biggest single market and represents approximately 50% of our potential worldwide sales. Having demonstrated the demand for LiDCO's products with a limited direct sales resource, the most pressing need was to put in place a broad-based distribution network that would be able to access this market of around 14,000 potential call points within 3,500 hospitals. To this end, we conducted a review of distribution and partnership options available (in conjunction with a US bank - William Blair). The conclusion was that the most effective approach would be to establish a network of regional agents.

Alongside existing capital sales and upcharge sales models, the rental/consignment model was introduced during the last quarter of 2003 as a basis for accelerating the market penetration of our monitoring systems given the lengthy US capital sales cycle. Under this new model, customers are charged a fee each time they use the LiDCOplus software, but pay no up-front fee for the monitor. Furthermore, they can cost-effectively calibrate their installed LiDCOplus system using third party products, as well as LiDCO sensors, thereby further increasing the range of clinical situations in which our monitors can be used. With this sales model we have had successes at a number of US hospitals where we have been able to provide advanced, real-time cardiovascular monitoring, while still saving the hospital money against their existing revenue budget for invasive monitoring.

UK

Turnover increased by 135% to £707,000 (2002 - £302,000) with sensor sales (at an average of 8 sensors per monitor per month) more than doubling. Around 25% of UK critical care hospitals now use LiDCO's technology.

In 2003, the UK became the first territory where the use of these newer products approximated that of the traditional, more invasive catheters. Given the cost constraints affecting the UK's National Health Service, this demonstrates that hospitals are willing to make investments that are regarded as relatively low-cost and high-value propositions.

Continental Europe

Sales progress in Continental Europe was slower than anticipated due to unavoidable delays at the individual country level in the implementation of our January 2003 EU mutual recognition approvals. The extent of these delays meant that sales into first wave European territories were delayed into 2004. Turnover for 2003 was £249,000 (2002 - £441,000).

In November 2003, our PulseCO monitor was launched in Japan. The Japanese market is the second largest in the world, after the USA.

Far East and Japan

Sales in the Far East and Japan totalled £815,000 (2002 - £152,000). Approval of the PulseCO system for sale in Japan was received in August 2003 and the Company's distributor, Nipro Corporation, purchased 100 monitors in preparation for the launch of the product. Following the product launch in November 2003, Nipro initiated the training of its 200-strong sales force in February 2004 and began sales activity.

Research and Development and Product Applications

Our development activities centre on additional product applications that can be quickly added to our platform monitor through further developments in the proprietary software signal processing and user interfaces. In particular, we expect to add further functionality in terms of the optimisation of risk surgery patients, which we believe to be a considerable unexploited market opportunity.

Improving outcomes and reducing costs in high-risk surgery patients

One of the most important aspects in the evolution of intensive care is the change in emphasis from the intensive care unit as a physical location to which critically ill patients are taken, towards a hospital wide cardiovascular physiology knowledge base. Adopting this strategy means that hospitals can provide cardiovascular monitoring for the sub-acute and pre-critically ill patient in less costly alternative sites of care. Perioperative optimization is the preventative manipulation of patients' physiological parameters during the period around surgery to ensure adequate oxygen delivery to the brain and other critical organs. These optimization protocols have a positive influence on patient outcomes. The increasing recognition of the advantages of preventative cardiovascular management we believe has increased the market for our minimally-invasive and portable technology.

In conjunction with a number of leading hospitals, LiDCO is developing the LiDCOplus user interface to allow the nurse-led optimization of fluid administration to such patients. This will reduce the risks and costs associated with improving outcomes in surgery patients using more invasive technologies. Tests are in progress to validate the use of our technology in this application. Results from these tests will be available shortly.

Looking ahead, we are also assessing the potential to use completely non-invasive (skin applied) sensor technology with the LiDCOplus monitor to identify and optimize high-risk surgery patients.

Our market

Market opportunity

The US, UK and Japan account for the majority of the £1.65 billion worldwide market for cardiac monitoring equipment. LiDCO now sells its products into all these countries.

LiDCO's wide spread

LiDCO has built up a network of distributors across the world and the LiDCO system is in use in 19 countries. Developing markets have been early adopters of the LiDCOplus monitor.

CASE STUDY **SOUTH AFRICA**

"I was called out last night to anaesthetise for a major abdominal operation on an 85- year old patient. The surgeon advised his family that he would be unlikely to survive the procedure or leave the operating room. However, we used the LiDCOplus device to monitor the patient throughout the case and, as a result, the patient survived to be taken to intensive care and within 24 hours he was out of danger."

Dr R. Drummond, St. Augustine's hospital, Durban

Board of Directors

01 **Dr Terence O'Brien**
Chief Executive Officer

02 **Theresa Wallis**
Chairman

03 **Dr David Band**
Scientific Director

04 **Richard Mills**
Finance Director

05 **John Barry**
Sales and Marketing Director

06 **Bert Wiegman**
Non-Executive Director

07 **Roger Bird**
Company Secretary


01


02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Scientific Advisory Panel

Professor Solomon Aronson
Professor, Department of Anaesthesia & Critical Care, University of Chicago, specialising in major surgery and intensive care medicine

Dr Max Jonas
Consultant Anaesthetist, Southampton University Hospital, in medical intensive care

Professor Patrick Wouters
Professor of Cardiovascular Anaesthesia, University of Leuven, Belgium

Dr William Peruzzi
Associate Professor of Anaesthiology, Northwestern University Medical School & Director of Respiratory Care, Northwestern Memorial Hospital, specialising in Neurosurgical intensive care

Dr Christopher Wolff
Honorary Clinical Pharmacologist, St. Bartholomew's Hospital, in Applied Physiology

01 Dr Terence O'Brien Chief Executive Officer
Dr O'Brien co-founded the Group in 1991. Prior to that, he held senior positions with biomedical companies including Sandoz SA, Pharmacia AB, Meadox Medical Inc, Novamedix Ltd, Enzymatix Ltd and Surgicraft Ltd. Dr O'Brien was Associate Commercial Director at Enzymatix, which subsequently listed on the London Stock Exchange as ChiroScience Plc.

03 Dr David Band Scientific Director
Dr Band co-founded the Group in 1991 and is the co-inventor of the LiDCO System. He was seconded to the Company full-time in 1992 from St Thomas' Hospital and is a specialist in the field of respiratory physiology, electrochemistry and ion-selective electrodes. He has a degree in medicine , and was a Reader in Applied Physiology in the Division of Physiology, GKT School of Biomedical Sciences, St Thomas' campus. Dr Band retired from King's College in August 2001 and became a full-time employee of the Group.

05 John Barry Sales and Marketing Director
Mr Barry joined the Group in February 2001. He entered the medical industry working for Baxter Healthcare Inc. In 1997 he was appointed Director of marketing for critical care in Europe and in 1999, when Baxter Healthcare sold Edwards Lifesciences Corporation, Mr Barry was appointed Director of marketing for the cardiac surgery business of Edwards Lifesciences Corporation in Europe, the Middle East and Africa.

02 Theresa Wallis Chairman
Ms Wallis is a Principal Executive of ANGLE Technology Limited and a Non-Executive Director of T&G AIM VCT plc. She worked for the London Stock Exchange for 13 years, where from 1995 she was Chief Operating Officer of the Alternative Investment Market (AIM), having managed the market's development and launch in 1994-1995. She is currently a member of the London Stock Exchange's AIM Advisory Group and the Quoted Companies Alliance's Markets and Regulation Committee.

04 Richard Mills Finance Director
Mr Mills joined the Group in April 2001. He is a qualified chartered accountant with 20 years' experience in the medical diagnostics industry, with Corning Limited, Ciba Corning Diagnostics Limited, Chiron Diagnostics Limited and Bayer AG. He has considerable experience of assisting organisations through periods of growth and transition and establishing the financial and other systems required to successfully manage this.

06 Bert Wiegman Non-Executive Director
Mr Wiegman is a partner in Langholm Capital LLP and has over 25 years experience in the private equity industry. He is Chairman of T&G AIM VCT Plc.

07 Roger Bird Company Secretary
Mr Bird is the Financial Controller and Company Secretary and joined the Group in August 2001. He is a qualified chartered accountant and spent six years at Deloitte & Touche, latterly as an audit manager. Prior to this, Mr Bird worked as a university lecturer in industrial economics.

Corporate Governance Report

Companies that have shares traded on the Alternative Investment Market (AIM) of the London Stock Exchange are not required to comply with the disclosures of the Combined Code. However, the Board is committed to maintaining the highest standards of Corporate Governance, where appropriate for a company of this size.

The Board of Directors

There were four executive and two Non-Executive Directors throughout 2003 and as at the date of this report. The Board normally meets six times a year, with additional special meetings as required.

Both of the Non-Executive Directors bring independent judgement to bear on issues considered by the Board. Mr. Wiegman served as the Senior Independent Director throughout the year.

All Directors have access to the services and advice of the Company Secretary who is responsible for ensuring compliance with the relevant procedures, rules and regulations. All Directors are able to take independent financial advice in the furtherance of their duties if necessary.

All new Directors are required to resign and seek re-election at the first Annual General Meeting following their appointment. All Directors are required to seek re-election at intervals of no more than three years. Executive Directors have service contracts containing a notice period of one year. Non-Executive Directors do not have service contracts with the Company.

Committees of the Board

Audit committee

The members of the committee are Ms. Wallis (Chairman) and Mr. Wiegman. The external auditors also attend meetings. The committee considers financial reporting, corporate governance and internal controls. It also reviews the scope and results of the external audit and the independence and objectivity of the auditors. It meets at least twice a year and reviews the interim and annual accounts before they are submitted to the Board.

Remuneration committee

The members of the committee are Ms. Wallis (Chairman) and Mr. Wiegman. The committee reviews and sets the remuneration of the Executive Directors. It also agrees a policy for the salaries and bonuses of all staff. It advises on share schemes and the granting of share options. The decisions of the committee are formally ratified by the Board.

Details of Directors' remuneration are included in note 3 to the accounts.

Nominations committee

The members of the committee are Ms. Wallis (Chairman), Mr. Wiegman and Dr O'Brien. The committee considers, at the request of the Board, candidates for new appointments to the Board and advises on all matters relating to Board appointments.

Relations with shareholders

The Company seeks to maintain and enhance good relations with its shareholders. The Company's interim and annual reports are supplemented by regular published updates to investors on technical and commercial progress. The Chief Executive and Finance Director maintain regular contact with major shareholders through a programme of regular meetings in connection with these published updates. The Company Secretary reviews each week's trading in the Company's shares and writes to each individual new shareholder whose name and address can be identified, to send them a New Investor's pack.

All investors have access to up-to-date information on the Company via its website, www.lidco.com which also provides contact details for investor relations enquiries. All shareholders are invited to make use of the Company's Annual General Meeting to raise any questions regarding the management of the Company.

Accountability and audit

Going concern

On the basis of current financial projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the forseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal control

The key procedures designed to provide an effective system of internal control are described below:

• Control environment

The Company's control environment is the responsibility of the Directors and individual managers at all levels. The Board has implemented an organizational structure with clearly-defined responsibilities and lines of accountability.

• Information systems and controls

Detailed budgets and forecasts are prepared annually and progress against expectations is reviewed monthly by the Board. Underpinning these budgets is a system of internal financial control, based on authorization procedures and tiers of authority. As a medical device Company, LiDCO also has a system of Regulatory controls, to ensure compliance with all requirements of the Medicines Control Agency, the US Food & Drug Agency and other medical bodies.

• Monitoring of effectiveness

The composition of the Board and the senior management team provides a suitable range of knowledge and experience to enable adequate risk monitoring. The Company's information systems provide detailed, regular variance reports which are reviewed and acted upon by the Board. The external auditors report separately to the Board on the Company's accounting and internal controls as part of their normal audit work.

Statement of compliance

During the course of 2003, there was one area of non-compliance with the Code, in that the Company has two Non-Executive Directors, rather than the recommended minimum of three. The Board considers that the current balance of membership is the most suitable for a Company of LiDCO's current size, but will monitor this position as the Company continues to grow.

Remuneration Report

Policy on remuneration

The Remuneration Committee recommends Directors' remuneration and remuneration policies for all staff. Remuneration levels are set in order to attract high calibre recruits and to retain and motivate those Directors and employees once they have joined the Company. This is achieved by a combination of base salary, bonuses and share options, which are offered both to Executive Directors and to employees at all levels.

The fees paid to Non-Executive Directors are determined by the Board.

Remuneration committee

The members of the committee are Ms. Wallis and Mr. Wiegman. The committee is assisted by the Company Secretary.

Service contracts

All four of the Executive Directors have service contracts with the Company dated 29 June 2001. The contracts are not set for a specific term, but include a rolling 12-month notice period. In addition, all Directors retire by rotation at the Company's Annual General Meeting and, where appropriate, offer themselves for re-election.

Non-Executive Directors have letters of appointment dated 20 December 2002 in the case of Ms Wallis and 2 July 2001 in the case of Mr Wiegman. These letters are issued in place of service contracts. In keeping with best practice, these appointments are terminable without notice by either party.

Remuneration package

All four Executive Directors receive a base salary and allowance in lieu of benefits, as shown in the table in note 3 to the accounts. Non-Executive Directors' fees are also shown in note 3.

The four Executive Directors are members of the Company's Senior Management Bonus Scheme. Under the terms of the scheme, the Remuneration Committee assesses the Directors' individual performances at the end of the financial year, judged against pre-determined benchmarks. In 2003 the criteria for awarding bonuses were based on sales performance and the Company's cash position. The same framework will apply for 2004. Bonuses are capped at 100% of base salary. Non-Executive Directors are not eligible for bonuses.

No pension contributions were payable by the Group (2002 - £nil).

Directors' shareholdings

Directors	**31 December 2003 No.**	1 January 2003 No.
D M Band	**7,060,832**	7,060,832
T K O'Brien	**9,801,682**	9,711,682
T A Wallis (Non-Executive)	**85,000**	-
R J Mills	**570,833**	500,000
J G Barry	**379,642**	187,142
A E B Wiegman (Non-Executive)	**239,285**	239,285
	18,137,274	17,698,941

The Directors have no interests in the shares of the Company's subsidiary undertakings.

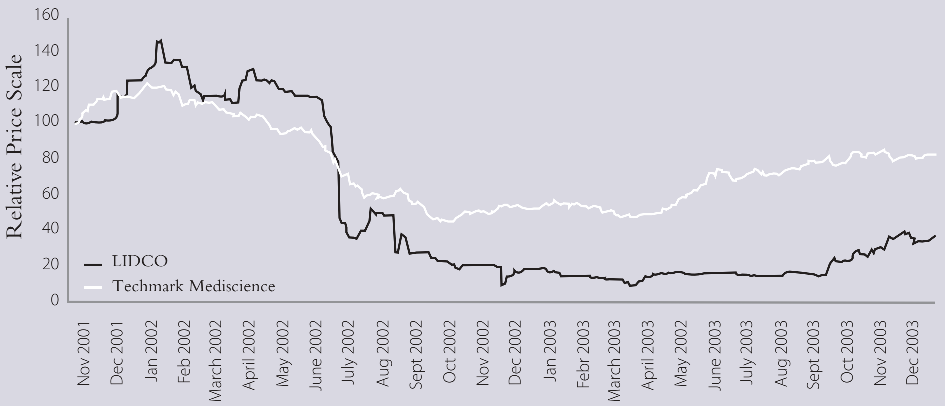
Directors' share options

Directors	Number of options 1 January 2003	Granted	Exercised	31 December 2003	Exercised price	Date from which exercisable	Expiry date
D M Band	637,500	–	–	637,500	140p	5/7/04	5/7/14
	750,000	–	–	750,000	13p	15/12/05	15/12/15
T K O'Brien	637,500	–	–	637,500	140p	5/7/04	5/7/14
	750,000	–	–	750,000	13p	15/12/05	15/12/15
R J Mills	212,500	–	–	212,500	140p	5/7/04	5/7/14
	106,250	–	(70,833)	35,417	0.5p	1/4/04	1/4/14
	75,000	–	–	75,000	116p	16/1/05	16/1/15
	750,000	–	–	750,000	13p	15/12/05	15/12/15
	–	90,000	–	90,000	28.25p	25/11/06	25/11/16
J G Barry	637,500	–	–	637,500	140p	5/7/04	5/7/14
	318,750	–	(212,500)	106,250	0.5p	1/1/04	1/1/14
	100,000	–	–	100,000	116p	16/1/05	16/1/15
	750,000	–	–	750,000	13p	15/12/05	15/12/15
	–	90,000	–	90,000	28.25p	25/11/06	25/11/16
	5,725,000	180,000	(283,333)	5,621,667			

Shareholder return

The Directors' Remuneration Report regulations specify that a Company must provide a graph of its share price over the last five years against an appropriate benchmark index. The Company's shares have been traded on the Alternative Investment Market of the London Stock Exchange since 5 July 2001, prior to which they were not publicly traded. A graph of the Company's share price since that date is shown below, using the FTSE Techmark MediScience Index as a comparator, which the Directors consider to be the most suitable benchmark index.

LiDCO share price performance 2001-3 relative to the Techmark Mediscience Index



Approved by the Board of Directors on 18 May 2004 and signed on behalf of the Board

Roger Bird
Secretary

Directors' Report

The Directors present their Annual Report and the audited Financial Statements for the year ended 31 December 2003.

Activities

The principal activity of the Group was the development, manufacture and sale of cardiac monitoring equipment. Sales in the USA are handled via LiDCO's US branch.

Results and future prospects

The Group's turnover for the year was £2,717,000 (2002 - £2,042,000), following the successful launch of the LiDCO and PulseCO systems in the US in July 2001 and in the UK in September 2001. The Group made a consolidated loss after taxation during the year of £3,829,000 (2002 - £5,496,000). The Directors do not recommend the payment of a dividend (2002 – £nil).

At 31 December 2003 the Group held £1.6 million of cash (2002 - £4.0 million). In October 2003 the Company issued £1 million of new shares, to provide additional cover for working capital requirements in 2004. The Chief Executive's report assesses the future prospects of the Group in 2004.

The Company's share price at 31 December 2003 was 29.25p (31 December 2002 – 14p).

Research and development

The Group continued to develop the LiDCOplus system during the year, as set out in the Chief Executive's Statement. Expenditure on research and development amounted to £269,000 in the year (2002 – £89,000) in addition to software development costs of £210,000 (2002 – £208,000) which are capitalised on the balance sheet and amortized.

Euro

The implications of European Monetary Union (EMU) for the firm have been considered. The necessary changes have been made to our systems and procedures to accommodate the new currency. The cost of these changes is not significant.

Directors and their interests

The Directors who served throughout the year are shown on page 13. The Directors' beneficial interests in the ordinary shares of the Company at 31 December 2003 and 1 January 2003 are shown on page 16.

Significant shareholdings

In addition to the Directors, the following shareholders had beneficial interests in more than 3% of the Company's share capital at 31 December 2003:

Name	Beneficial holding Number of shares	%
R M Greenshields	5,542,407	7.2
P A Brewer	3,322,221	4.3
Merlin Biosciences Fund LP	3,128,000	4.1
J Kratochvil	3,120,278	4.0
King's College London	3,020,278	3.9
H G Wellington Inc.	2,500,000	3.2

Supplier payment policy
The Companies Act 1985, as amended, requires the Group to make a statement of its policy and practice on the payment of creditors.

It is and will continue to be the policy of the Group to negotiate with suppliers so as to obtain the best available terms taking account of quality, delivery, price and period of settlement and, having agreed those terms, to abide by them.

The total amount of of the Group's trade creditors falling due within the period ended 31 December 2003 represents 81 days' worth (2002 – 90 days' worth) as a proportion of the total amount invoiced by suppliers during the year.

Donations
The Group made no charitable contributions during the year (2002 – none). No political donations were made during the year (2002 – none).

Statement of Directors' Responsibilites
United Kingdom company law requires the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the group for that period. In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which 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 1985. 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.

Going Concern
After making reasonable enquiries and performing analysis, the Directors have formed a judgement, at the time of approving the Financial Statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the forseeable future.

On the basis of the anticipated levels of sales, costs and cash flow, together with the additional funds being raised by issuing new shares in 2004, the Directors have satisfied themselves that the level of cash in the business is sufficient for at least the next 12 months.

For these reasons, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

Auditors
A resolution to reappoint Deloitte & Touche LLP as auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 18 May 2004 and signed on behalf of the Board

Roger Bird
Secretary

Independent Auditors' Report to the Members of LiDCO Group Plc

We have audited the Financial Statements of LiDCO Group Plc for the year ended 31 December 2003 which comprise the Consolidated Profit and Loss Account, the Balance Sheets, Consolidated Cash Flow Statement, Reconciliation of Movement in Consolidated Shareholders' Funds and related Notes 1 to 23. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 report, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the Financial Statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the Financial Statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' report is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We read the Directors' Report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Going concern

In arriving at our audit opinion we have considered the adequacy of the disclosure in note 1 concerning the Company's requirement for further funding which it is seeking by way of a placing of shares, which is subject to shareholder approval. In view of the significance of this uncertainty, we draw attention to this matter, but our opinion is not qualified in this respect.

Opinion

In our opinion the Financial Statements give a true and fair view of the state of the state of affairs of the Company and the Group at 31 December 2003 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

DELOITTE & TOUCHE LLP
Chartered Accountants and
Registered Auditors

18 May 2004

Consolidated Profit and Loss Account
Year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Turnover	1,2	**2,717**	2,042
Cost of sales		**(808)**	(779)
Gross profit		**1,909**	1,263
Administration expenses		**(6,044)**	(7,038)
Operating loss	4	**(4,135)**	(5,775)
Interest receivable and similar income		**68**	279
Loss on Ordinary Activities before Tax		**(4,067)**	(5,496)
Tax credit on loss on ordinary activities	5	**238**	–
Loss On Ordinary Activities after Tax		**(3,829)**	(5,496)
Loss per share (basic and diluted) (p)	15	**5.27**	7.72

All amounts derive from continuing operations.
There are no recognised gains or losses for the current or preceding years other than as stated above.

Balance Sheets
As at 31 December 2003

		The Group		The Company	
		2003	2002	**2003**	2002
	Note	**£'000**	£'000	**£'000**	£'000
Fixed Assets					
Intangible fixed assets	*6*	**421**	565	**–**	–
Tangible fixed assets	*7*	**1,305**	1,234	**–**	–
Investments	*8*	**88**	42	**153**	107
		1,814	1,841	**153**	107
Current Assets					
Stocks	*9*	**1,665**	2,292	**–**	–
Debtors	*10*	**1,201**	1,367	**12,668**	9,333
Cash at bank and in hand		**1,600**	3,974	**1,074**	3,522
		4,466	7,633	**13,742**	12,855
Creditors: amounts falling due within one year	*11*	**(515)**	(741)	**(2)**	(168)
Net Current Assets		**3,951**	6,892	**13,740**	12,687
Total Assets Less Current Liabilities		**5,765**	8,733	**13,893**	12,794
Creditors: amounts falling due after more than one year	*12*	**(198)**	(333)	**–**	–
Net Assets		**5,567**	8,400	**13,893**	12,794
Capital and Reserves					
Called up share capital	*14*	**386**	356	**386**	356
Share premium	*21*	**13,396**	12,430	**13,396**	12,430
Merger reserve	*21*	**8,513**	8,513	**–**	–
Profit and loss account	*21*	**(16,728)**	(12,899)	**111**	8
Equity Shareholders' Funds		**5,567**	8,400	**13,893**	12,794

These Financial Statements were approved by the Board of Directors on 18 May 2004.
Signed on behalf of the Board of Directors

Richard Mills
Director

Consolidated Cash Flow Statement
As at 31 December 2003

	Note	2003 £'000	2002 £'000
Net cash outflow from operating activities	*16*	**(3,094)**	(6,356)
Returns on investment and servicing of finance	*17*	**68**	279
Capital expenditure and financial investment	*17*	**(344)**	(1,387)
Cash outflow before financing		**(3,370)**	(7,464)
Financing	*17*	**996**	73
Decrease in cash in the year		**(2,374)**	(7,391)

Reconciliation of net cash flow to movement in net funds

	Note	2003 £'000	2002 £'000
Movement in cash in the year	18	**(2,374)**	(7,391)
Net funds at 1 January	18	**3,974**	11,365
Net funds at 31 December	18	**1,600**	3,974

Reconciliation of Movement in Consolidated Shareholders' Funds
Year ended 31 December 2003

	2003 £'000	2002 £'000
Loss for the financial year	**(3,829)**	(5,496)
Issue of shares	**996**	73
Net reduction in shareholders' funds	**(2,833)**	(5,423)
Opening shareholders' funds	**8,400**	13,823
Closing shareholders' funds	**5,567**	8,400

Notes to the Accounts
Year ended 31 December 2003

1. Accounting Policies

The Financial Statements are prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are described below.

Advantage has been taken of the exemption under s230 of the Companies Act 1985 not to disclose the profit and loss account of the Company. The loss of the Company for the year is shown in note 21.

Accounting convention

The Financial Statements are prepared under the historical cost convention.

Basis of consolidation

The consolidated accounts incorporate the Financial Statements of the Company and all its subsidiaries.

Going concern

The Company requires further funding to enable it to expand its US distribution arrangements and exploit the development of its products. The Company is seeking to raise up to £4.0 million in additional funds by way of a placing of shares. The fundraising is subject to shareholder approval, which is of its nature uncertain at this time. These accounts are prepared on a going concern basis on the assumption that such approval will be obtained.

Merger accounting

Admission to the Alternative Investment Market of the London Stock Exchange ("AIM") occurred on 5 July 2001. The restructuring of the Group agreed by the shareholders in February 2001, under which the minority holdings in LiDCO Limited would be bought out in exchange for shares in LiDCO Group, was conditional upon admission and is therefore deemed to have occurred on 5 July 2001.

The Directors consider that the relative rights of the shareholders have in substance remained unchanged during the re-organization. Merger accounting has therefore been adopted as the accounting treatment for the re-organization. Under this method, results are reported as if the acquiring companies have been combined since incorporation. No purchased goodwill is created in the transaction and the assets and liabilities of LiDCO Limited are not adjusted to reflect their market value. The comparative figures have been restated.

Turnover

Turnover represents amounts receivable from product sales and income from licence agreements granted. Dependent upon the terms of each licence agreement, income from licence agreements is recognized on a straight-line basis, commencing from the date of receipt of cash over the period of the licence, subject to a maximum of ten years.

Investments

Investments in subsidiary undertakings are stated at cost less provision for impairment. Investments in shares in LiDCO Group Plc held by the Company's Employee Share Ownership Trust are valued at the lower of cost and year end market value.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates prevailing at that date. These translation differences are dealt with in the profit and loss account.

Taxation

Deferred taxation is provided in full on timing differences arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future without replacement, calculated at the rates at which it is expected that tax will arise. Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Intangible fixed assets
Intangible fixed assets represent software development costs and clinical trials on the LiDCO and PulseCO systems. These have been capitalized and are amortized in equal annual amounts over three years.

Tangible fixed assets
Depreciation is provided on a straight-line basis over the estimated useful economic lives of the assets. The annual rates of depreciation are as follows:

Plant and machinery	20% per annum
Tools and equipment	33% per annum
Fixtures and fittings	20% per annum
Computer equipment	33% per annum

Stocks
Stocks are stated at the lower of cost and net realisable value.

Leases
Operating lease rentals are charged to the profit and loss account as incurred.

Capital instruments
Capital instruments are accounted for and classified as equity or non-equity share capital, equity or non-equity minority interests and debt according to their form. There is no premium payable on redemption of non-equity minority interests.

2. Turnover

	2003 £'000	2002 £'000
Turnover by class of business		
Licence agreements	**204**	140
Product sales	**2,513**	1,902
	2,717	2,042
Turnover by destination		
United States	**754**	1,009
Far East	**1,001**	292
United Kingdom	**706**	300
Other European countries	**249**	441
Rest of World	**7**	–
	2,717	2,042

All turnover, operating profit and net assets originated within the United Kingdom.

Notes to the Accounts
Year ended 31 December 2003

3. Information regarding Directors and Employees

The Group	2003 No.	2002 No.
Average number of persons employed		
Production	**13**	11
Sales	**23**	24
Administration	**7**	8
	43	43

Staff costs	£'000	£'000
Wages and salaries	**2,421**	3,239
Social security costs	**234**	306
	2,655	3,545

Directors' emoluments	2003 Salary and fees £'000	2003 Benefits £'000	2003 Bonus £'000	2003 Total £'000	2002 Total £'000
D M Band	**117**	**–**	**–**	**117**	113
T K O'Brien	**194**	**1**	**–**	**195**	189
T A Wallis [1]	**40**	**–**	**–**	**40**	1
T W Alexander [2]	**–**	**–**	**–**	**–**	345
R J Mills	**120**	**–**	**5**	**125**	119
J G Barry	**174**	**1**	**5**	**180**	191
P N Levensohn [3]	**–**	**–**	**–**	**–**	18
A E B Wiegman	**20**	**–**	**–**	**20**	20
	665	**2**	**10**	**677**	996

1 Ms. Wallis was appointed as a Director on 20 December 2002. Ms Wallis' fees are payable to ANGLE Technology Limited.
2 Mr. Alexander resigned as a Director on 19 December 2002. Mr Alexander's service contract entitled him to receive 12 months' salary and benefits upon the termination of his contract. Mr Alexander did not receive any bonus payment in respect of 2002, nor as part of the termination agreement.
3 Mr. Levensohn resigned as a Non–Executive Director on 27 November 2002.

4. Operating Loss

Operating loss is stated after charging:

The Group	2003 £'000	2002 £'000
Auditors' remuneration		
Group audit fees	**38**	35
Company audit fees	**5**	5
Non–audit services	**49**	51
(Gain)/loss on shares in Employee Share Ownership Trust	**(46)**	223
Research and development	**269**	89
Rentals under operating leases		
Hire of plant and machinery	**58**	58
Land and buildings	**269**	251
Depreciation – owned assets	**301**	121
Amortization	**354**	210

5. Tax on Loss on Ordinary Activities

	2003 £'000	2002 £'000
Loss on ordinary activities before tax	**(4,067)**	(5,496)
Tax at 30% thereon:	**(1,220)**	(1,649)
Effects of:		
Other timing differences	**62**	–
Expenses not deductible for tax purposes	**182**	51
Capital allowances in excess of depreciation	**90**	(89)
Unutilized tax losses	**886**	1,687
Research and development tax credits	**(238)**	–
Current tax credit for year	**(238)**	–

6. Intangible Fixed Assets

The Group	Clinical trials £'000	Software development £'000	Total £'000
Cost:			
At 1 January 2003	74	777	851
Additions during the year	–	210	210
Disposals	–	(220)	(220)
At 31 December 2003	74	767	841
Accumulated depreciation:			
At 1 January 2003	15	271	286
Charge for the year	34	320	354
Disposal		(220)	(220)
At 31 December 2003	49	371	420
Net book value:			
At 31 December 2003	25	396	421
At 31 December 2002	59	506	565

Notes to the Accounts
Year ended 31 December 2003

7. Tangible Fixed Assets

The Group	Land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost:					
At 1 January 2003	534	459	187	393	1,573
Additions during the year	7	61	2	376	446
Disposals	–	(135)	(38)	(99)	(272)
At 31 December 2003	541	385	151	670	1,747
Accumulated depreciation:					
At 1 January 2003	14	172	58	95	339
Charge for the year	56	68	42	135	301
Disposals	–	(135)	(38)	(25)	(198)
At 31 December 2003	70	105	62	205	442
Net book value:					
At 31 December 2003	471	280	89	465	1,305
At 31 December 2002	520	287	129	298	1,234

Computer equipment includes LiDCOplus and PulseCO monitors leased to hospitals.

The Company	Computer equipment £'000
Cost:	
At 1 January and 31 December 2003	2
Accumulated depreciation:	
At 1 January and 31 December 2003	2
Net book value:	
At 31 December 2003 and 2002	–

8. Investments

	Shares in subsidiary undertakings £'000	Other investments £'000	Total £'000
The Group			
At 1 January 2003	–	42	42
Gain in the year	–	46	46
At 31 December 2003	–	88	88
The Company			
At 1 January 2003	65	42	107
Gain in the year	–	46	46
At 31 December 2003	65	88	153

8. Investments (continued)

The Company's beneficial interest in subsidiary undertakings consists of:

	Country of registration	Beneficial holding	Nature of business
LiDCO Limited	England and Wales	100%	Surgical instruments and appliances
CAS Limited	England and Wales	100%	Dormant

Other investments consist of 302,118 (2002 – 302,118) ordinary shares in LiDCO Group Plc held by the Company's Employee Share Ownership Trust.

9. Stocks

The Group	**2003 £'000**	2002 £'000
Raw materials and consumables	**74**	90
Finished goods	**1,591**	2,202
	1,665	2,292

10. Debtors

	The Group		The Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Trade debtors	**970**	1,055	**–**	–
Amounts owed by Group undertakings	**–**	–	**12,667**	9,327
Other debtors	**120**	246	1	6
Prepayments and accrued income	**111**	66	**–**	–
	1,201	1,367	**12,668**	9,333

11. Creditors: Amounts falling due within one year

	The Group		The Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Trade creditors	**206**	192	**–**	–
Other creditors	**62**	123	**2**	168
Accruals and deferred income	**247**	426	**–**	–
	515	741	**2**	168

12. Creditors: Amounts falling due after more than one year

	The Group		The Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Deferred income	**198**	333	**–**	–

Notes to the Accounts
Year ended 31 December 2003

13. Deferred Taxation

No deferred taxation was provided at 31 December 2003 (2002 – none). The amounts of deferred taxation unprovided were:

	The Group		The Company	
	2003 Unprovided £'000	2002 Unprovided £'000	**2003 Unprovided £'000**	2002 Unprovided £'000
Capital allowances	**159**	248	**–**	–
Other	**(4,327)**	(3,773)	**(1)**	(1)
	(4,168)	(3,525)	**(1)**	(1)

14. Called up Share Capital

The Group and the Company	**2003 No.**	2002 No.	**2003 £'000**	2002 £'000
Authorized shares of 0.5p each	**100,000,000**	100,000,000	**500**	500
Called up, issued and fully paid	**77,235,698**	71,294,311	**386**	356

15. Loss per Share

Loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares during the year. Share options are regarded as dilutive if the exercise price was below the market price at 31 December. Dilutive options reduce the level of earnings per share, but are not considered to dilute a loss.

The Group	**2003**	2002
Loss for the financial year (£'000)	**3,829**	5,496
Weighted average number of ordinary shares ('000)	**72,604**	71,147
Effect of dilutive share options ('000)	**5,081**	4,469
Adjusted weighted average number of ordinary shares ('000)	**77,685**	75,616
Loss per share – basic and diluted (p)	**5.27**	7.72

16. Net Cash Outflow from Operating Activities

The Group	**2003 £'000**	2002 £'000
Operating loss	**(4,135)**	(5,775)
Depreciation and amortization charges	**655**	331
(Increase)/decrease in the value of investments	**(46)**	223
Decrease/(increase) in stocks	**627**	(319)
Decrease/(increase) in debtors	**166**	(171)
Decrease in creditors	**(361)**	(645)
Net cash outflow from operating activities	**(3,094)**	(6,356)

17. Analysis of Cash Flows for Headings Netted in the Cash Flow Statement

The Group	**2003 £'000**	2002 £'000
Returns on investment and servicing of finance		
Interest received	**68**	279
Capital expenditure and financial investment		
Payments to acquire intangible fixed assets	**210**	(208)
Payments to acquire tangible fixed assets	**134**	(1,172)
Investing activities	**–**	(7)
	344	(1,387)
Financing		
Issue of ordinary share capital	**996**	73

18. Analysis of net funds

The Group	2002 £'000	Cashflow £'000	**2003 £'000**
Cash in hand and at bank	3,974	(2,374)	**1,600**

19. Financial Instruments

The Group did not trade in financial instruments in 2002 or 2003.

20. (a) Maturity Profile and Financial Liabilities

The Group did not have any financial liabilities in 2002 or 2003.

20. (b) Interest Rate Profile

The Group	Floating rate financial assets £'000	Fixed rate financial assets £'000	Total £'000
At 31 December 2003			
Sterling	1,174	295	1,469
US$	131	–	131
Gross financial assets	1,305	295	1,600
At 31 December 2002			
Sterling	3,584	–	3,584
US$	390	–	390
Gross financial assets	3,974	–	3,974

20. (c) Fair Values of Financial Assets and Liabilities

There was no difference between the fair value and the book value of financial assets and liabilities.

20. (d) Hedging

During 2002, forward exchange contracts were taken out to maximize the sterling value of net dollar revenue for the year. These contracts were closed out during 2002. The Group did not hedge its financial transactions in 2003.

Notes to the Accounts
Year ended 31 December 2003

20. (e) Currency Profile

Sterling is the main functional currency of the Group. The following analysis of net monetary assets and liabilities shows the Group's currency exposures. The Group did not use forward contracts or other derivatives to manage its currency exposure in the year ended 31 December 2003. The amounts shown represent the transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in sterling.

The Group	**2003 US$'000**	2002 US$'000
Sterling	**233**	628

21. Movements of Reserves

	Share premium account £'000	Merger reserve £'000	Profit & loss account £'000	Total £'000
The Group				
Balance at 1 January 2003	12,430	8,513	(12,899)	8,044
Issue of share capital	966	–	–	966
Loss for the financial year	–	–	(3,829)	(3,829)
Balance at 31 December 2003	13,396	8,513	(16,728)	5,181
The Company				
Balance at 1 January 2003	12,430	–	8	12,438
Issue of share capital	966	–	–	966
Profit for the financial year	–	–	103	103
Balance at 31 December 2003	13,396	–	111	13,507

22. Operating Lease Commitments

The Group was committed to making the following payments under operating leases during the year:

The Group	**2003 Land and buildings £'000**	2002 Land and buildings £'000	**2003 Other £'000**	2002 Other £'000
Leases which expire				
Within one year	**–**	13	**58**	–
Within two to five years	**201**	201	**–**	58
After more than five years	**100**	55	**–**	–
	301	269	**58**	58

23. Commitments and Contingent Liabilities

At 31 December 2003, the Group had a bank guarantee outstanding for £118,116 (2002 - £nil), in favour of Granta Park Limited. This amount is a rent deposit on the Group's Sales & Marketing office in the Granta Science Park in Cambridge. The guarantee is effective until July 2006.

At 31 December 2003, the Group had a bank guarantee outstanding for £174,636 (2002 - £nil) in favour of Guy's & St. Thomas' NHS Trust. This is in respect of the supply of ampoules for the production process. The guarantee is effective until December 2004.

It is Group policy to commit to making these payments to suppliers in preference to paying for goods and services in advance, in order to maintain a satisfactory cash flow.

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