LiDCO Cardiac Sensor Systems

2005/6

LiDCO Group Plc

Annual Report and Accounts
for 12 months to 31 January 2006

Contents

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.

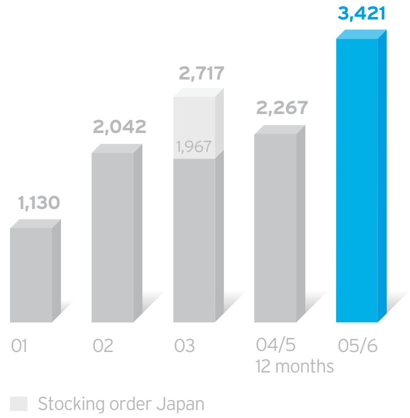
HIGHLIGHTS

FINANCIAL HIGHLIGHTS

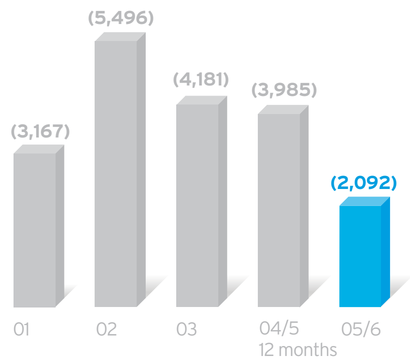
- **Turnover** at £3.4m, up 51%*
- **Gross profit** up 68% at £2.6m
- **Gross profit margin** increased from 67% to 75%
- **Administrative expenses** down 16% at £4.6m
- **Pre-tax operating loss** down 47% at £2.1m
- **Loss per share** reduced by 55% at 1.9p
- **Cash outflow** before financing down 38% at £2.2m

*comparatives taken as 12/13ths of results for 13 months to 31 January 2005.

Sales growth
£'000



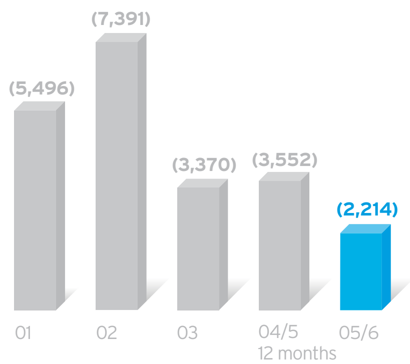
Operating loss progress
£'000



CORPORATE HIGHLIGHTS

- **Largest-ever** US order (US$456,000) for 31 monitors purchased by the US Army
- **Successful major trial** at St George's Hospital, London – average savings £4,800 per patient
- **US$2m** three year secured revolving convertible loan agreement with Laurus Master Fund
- **Regulatory approval** and launch in six new territories
- **Launch** of the LiDCO*plus* monitor version 3.0 software

Cash outflow before financing
£'000



AT A GLANCE
LiDCO

The use of LiDCO*plus* monitors in UK hospitals could result in estimated savings of £500 million annually for the UK National Health Service

PRODUCTS

THE LiDCO*plus* MONITOR
The LiDCO*plus* monitor 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.

THE LiDCO*plus* 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 accurate, this method is simple to perform, taking around five minutes for the entire procedure.

SOFTWARE VERSION 3.0
- Continuous oxygen delivery monitoring
- Interconnectivity with Philips monitors
- Proven to reduce hospital stay

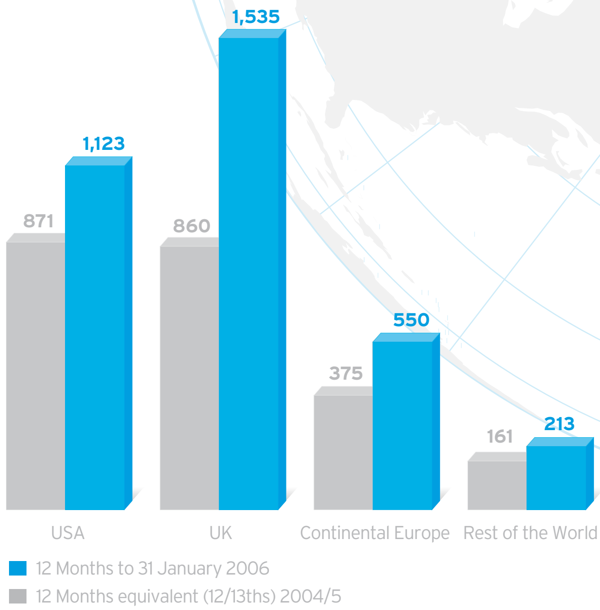
ADVANTAGES

KEY BENEFITS OF THE LiDCO*plus* MONITOR
- Provides early warning of patient deterioration
- Scientific evidence for improved patient outcome
- Is minimally invasive and therefore widely applicable
- Provides information not simply data
- Is accurate and calibrated
- PC Platform: allows updates to software which gives greater flexibility

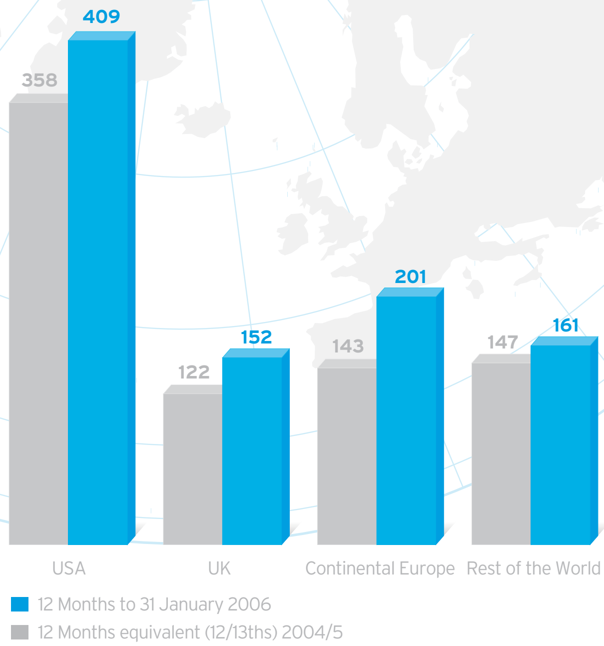
KEY BENEFITS OF THE SENSOR
- Provides an absolute cardiac output value via a novel and proven indicator dilution technique
- Is less invasive monitoring
- Is safe – Lithium Chloride has no side effects at this dose
- Potential to provide volume parameters (intra-thoracic blood volume)

INTERNATIONAL SALES

Sales by region
£'000



Monitor installed base
Units



STRATEGY

BUSINESS MODEL

- Customers are offered a choice of outright purchase of the LiDCOplus monitor or free of charge placement in return for enhanced pricing on the associated LiDCO disposables
- In the UK and USA sales are through LiDCO's direct sales force
- In other territories sales are through distributors

CUSTOMERS

Major hospitals in developed and fast developing countries

Hospital market segments

- Intensive care unit/high dependency unit
- Risk surgery/operating room
- Cardiac surgery
- Interventional cardiology

"The Group is in a strong position to take advantage of opportunities and further grow the business"

Theresa Wallis

Theresa Wallis

The Group continued to make good progress during the year.

Despite the well publicised financial challenges facing the NHS and similar constraints faced by providers of healthcare in other territories, turnover increased to £3.4 million and the loss after tax was halved to £1.9 million. Capital sales accounted for 47% of sales, with sensor and fee-per-use sales accounting for 51%.

Notable events included the sale of 31 monitors to the US Army, the sale of 49 monitors to a USA medical equipment leasing company and the publication of the St George's Hospital outcome study in the *Critical Care* journal.

The UK and USA direct sales teams continued to perform well, and the performance of most European distributors has been encouraging. The performance of the Group's regional partners in the USA was, however, disappointing and sales activity in the USA therefore continued to rely mostly on our direct sales team. We will continue to look for additional distribution support.

Regulatory approval was achieved and sales activities were launched in a further six countries, bringing the total number of countries in which the Group's products are registered and marketed to 16, 13 in the EU plus the USA, Brazil and Japan.

The Board appreciates the importance of maintaining high standards of corporate governance and complies with most provisions of the Combined Code on Corporate Governance. During the year, the Board performed a wide-ranging review of risks and controls. Annual independent audits are performed to ensure that the Group's systems, procedures and products continue to comply with the requirements of Quality Standards BS EN ISO 9001:2000 and BS EN ISO 13485:2003 and the EC Medical Devices Directive. These audits represent independent verification of the Group's compliance with some of the key elements of corporate governance.

In addition, the Board conducted a review of its own composition and performance. In May 2005, Hugh McGarel-Groves joined the Group and was appointed as Finance Director, and in October Ian Brown was appointed as a Non-executive Director to replace Bert Wiegman, who resigned from the Board in December. We are grateful for Mr Wiegman's valuable contribution since his appointment in 2001. Mr Brown brings with him extensive commercial experience in the medical device markets. In January 2006, Grant Thornton UK LLP were appointed as the Group's auditors.

During the year, the Group made use of its assets to strengthen its working-capital position, putting in place a revolving secured convertible loan facility and further agreements with a medical equipment leasing company relating to installed monitors.

The body of validation data in support of hemodynamic monitoring and the Group's products continues to grow. This and our record of continuing to address the needs of our customers through regular product improvements and upgrades, together with our strong direct sales and operational teams, places the Group in a strong position to take advantage of opportunities and further grow the business.

Once again, I would like to extend my thanks to all the Group's Directors and staff for their hard work and dedication during the year and to our Clinical Advisory Board for its support and enthusiasm.

Theresa Wallis
Chairman
LiDCO Group Plc

CHIEF EXECUTIVE OFFICER'S REVIEW

"The market for less invasive hemodynamic monitoring products is growing strongly. The challenge for LiDCO is to keep strengthening its product offering and distribution reach in order to participate fully in this growth"

Dr Terry O'Brien

Introduction

This has been a highly productive year for us on many fronts. I am very pleased to report that LiDCO's revenues have grown significantly across our major sales territories of the USA and Europe. This growth has been achieved despite the financial constraints that hospitals are subjected to that tend to slow the adoption of new medical technologies. Higher sales coupled with a reduced administrative cost base have resulted in our losses being halved within the year.

Market

It is evident that we have a significant and expanding market opportunity that is expected to grow from its current base of around US$40 million to around US$400 million per annum by the year 2010. During the year, we estimate the minimally invasive cardiovascular monitoring market grew by about 40%, from US$26 million to approximately US$40 million per annum. This has resulted in most companies providing less invasive cardiovascular monitoring products reporting sales increases within the year. Our percentage sales growth increase was greater than those reported by any of our competitors – albeit we started the year from a low revenue base. In marked contrast, sales of the older and invasive pulmonary artery catheter are expected to continue to decline – from US$150 million today, to around US$100 million per annum in 2010. So, while we are sure that competition for a share of this market will continue, we remain confident that we will stay at the forefront of this market evolution.

Product development

Continued commercial growth will come from promoting a product that is efficiently manufactured and backed up by excellence in the sales and marketing efforts.

I am delighted to report that our product quality and customer feedback continues to be first-rate.

Furthermore, our manufacturing automation and partnerships with our component suppliers will continue to reduce the cost of sales and increase margins.

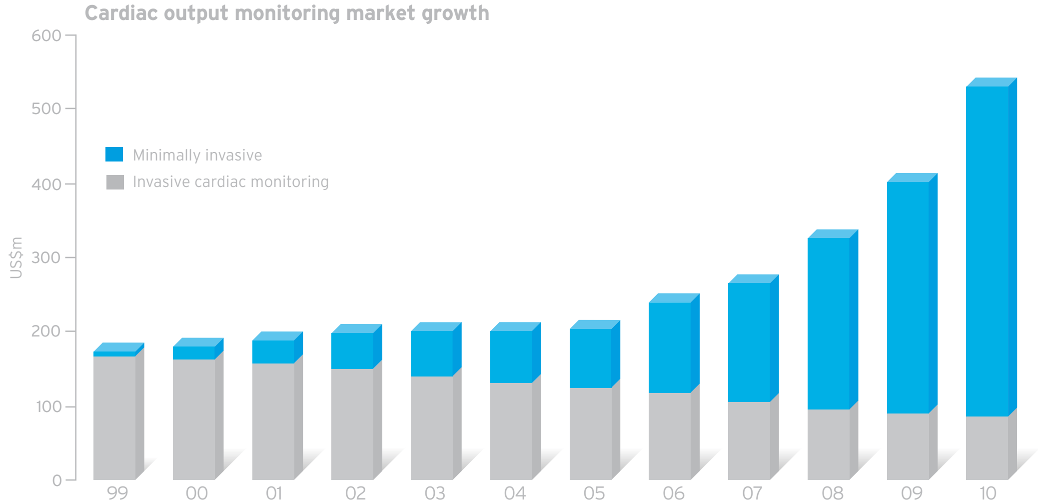
Out in the market, our products have now been independently validated through controlled clinical trials in 10 different countries: Japan, USA, UK, Italy, Spain, Belgium, Canada, Germany, Holland and India. Of these trials, the most significant was the patient and cost-outcome study by St George's Hospital, London, published in November 2005. The importance of these trial results was highlighted in a Sky News item at that time, which featured an elderly patient who, following major cancer surgery, had her oxygen delivery optimised with the LiDCO*plus* monitor. Her post-operative care, managed by our technology, ensured that she was fit enough to be back at home within 10 days, without complications, living independently again. Patient satisfaction was clearly high as she stated: "I have friends around me, things to do, people to talk to – I'm a lucky bunny". This one case study demonstrates the way in which our technology can be harnessed to dramatically improve care and save money. We have great hopes that the excellent clinical results and cost savings achieved by St George's Hospital in their patients through using our technology will lead to it becoming a worldwide standard of care in the post-operative treatment of major surgery patients.

Customers

In the UK, one in four National Health Service (NHS) trusts is in deficit. The financial crisis has led to closed wards, cancelled operations and staff shortages in hospitals with managers struggling to meet targets and balance their books. Clearly, hospital customers are looking for technologies that improve outcomes while reducing costs. Our technology has been shown to satisfy these requirements.

The results of the trial conducted by St George's Hospital, London, demonstrated that the use of the LiDCO*plus* monitor to improve oxygen levels following major surgery (Early Goal Directed Therapy) significantly reduced complications (particularly infections). Patient stay in hospital was significantly shortened – by an average of 12 days per patient. This equated to a saving of on average £4,800 per patient treated. It has been estimated that if this approach were adopted by the NHS, it would result in a saving of £500 million per year. Our minimally invasive hemodynamic monitoring equipment can significantly reduce hospital costs and reduce risks for patients. Interest in this modern approach to surgical care is on the increase.

Cardiac output monitoring market growth



Source: *Arrow International, CardioDynamics, Deltex, Edwards Life Sciences, LiDCO, Pulsion, USCOM, Cardiovascular Device Update, Reuters, Panmure*

CHIEF EXECUTIVE OFFICER'S REVIEW *continued*

At the fourth Evidence-Based Peri-Operative Medicine Conference in London in June, a review paper* concluded that most of the resources are already available to hospitals to modernise the treatment of surgical patients, reduce costs and improve the outcomes from surgical intervention. Therefore, any additional capital and running costs are "marginal in comparison with the potential savings". Of significance for the use of LiDCO's technology the report concluded that "for hemodynamic optimisation, the potential savings in terms of reduced hospital stays have been estimated for an average NHS trust to be in the order of over £2 million, based on a reduction in stays of 22–31% and taking into account capital outlay of £60,000 and annual running costs of £150,000".

Given these clear clinical and financial benefits, we are working to help our hospital customers to adopt LiDCO's advanced hemodynamic monitoring products.

In doing so, we expect there will be a considerable benefit to patients. I am pleased to report that there are additional outcome trials taking place using our technology in Europe, and North and South America. These trials are expected to reinforce the message that LiDCO's technology can reduce complications and the costs associated with the treatment of major surgery patients. Replicating the outstanding results achieved at St George's Hospital in more countries will help sales adoption through the development of more localised business cases.

A further major validation of our technology was seen when the US Army purchased 31 LiDCO*plus* monitors in November 2005.

Our product was purchased to be used in 16 major medical centres inside and outside the USA. This US$456,000 order is the largest received to date by our US sales organisation. It followed on from the successful conclusion of an extensive evaluation of our technology conducted at Brooke Army Medical Center, Texas. The choice of LiDCO's technology over the competition was a tremendous endorsement for both the technology and LiDCO's US sales force. This order was followed by a further sale announced in March 2006 of five LiDCO*plus* monitors to the US Air Force's main medical facility, Wilford Hall Medical Center, in San Antonio, Texas.

Prospects

Looking to the likely sales progress in 2006, we can see from the newspapers and national news that in the UK, hospitals are under tremendous pressure to save money. In other markets, similar pressures exist. So, despite the availability of our ethically and financially compelling outcome data, we still expect the adoption of our technology will take time. Hospitals have to become aware of the technology and its benefits, prepare a business plan, budget for the new equipment and then partner with LiDCO's clinical educator support staff to implement the change at ward level. The market for less invasive hemodynamic monitoring products is growing strongly. The challenge for LiDCO is to keep strengthening its product offering and distribution reach, in order to participate fully in this growth.

LiDCO is actively searching for potential business acquisitions and partnerships, where synergistic products or distribution channels exist, that will support and enhance its own product sales.

It is anticipated the year ahead will bring exciting opportunities for such strategic opportunities, as well as a continuation of the strong ongoing organic growth we have seen in the past year.

*"Modernising Care for Patients Undergoing Major Clinical Efficiency" presented by the Improving Surgical Outcomes Group, June 2005.

Trading Review

USA

Our sales are made through a direct sales force of five people. Turnover in 2005/6 was £1,123,000, an increase of 29% over the equivalent previous 12 months. The installed base increased by 51 units across the year to 409 LiDCO*plus* monitors.

+29% USA Sales growth

The USA represents our biggest potential market. It already represents 44% of our installed monitor base. However, it is clear that in the USA the calibration of our monitors is still a blend of calibration with an invasive pulmonary artery catheter, which we do not supply, and the LiDCO System disposables. While this generates short-term capital income and establishes the LiDCO*plus* monitor user interfaces, it has the unwanted effect of limiting growth of our sensor-based disposable income. Over time we believe that this situation will begin to resolve itself as the market moves away from invasive catheter calibration. This trend is already evident. The majority of LiDCO*plus* monitors sold last year were for calibration with the LiDCO System disposables – including those sold to the US Army. Thus our large USA installed base remains a potential source of additional sensor/disposables income. We are adding additional resource to our nurse education programme to support hospitals that wish to move towards a less invasive approach.

The appointment of USA regional distributor partners has not been a success for us. Two of our distributor businesses were purchased during the year and we agreed mutually with one more that they were not right for the task. This is unfortunate given our potential in the USA. We are currently seeking new distribution support and will continue to develop the USA market with modest yearly increases in our direct sales force.

Over the course of 2005 we were pleased to consolidate and grow our position in several large teaching hospitals including Vanderbilt University in Nashville, Tennessee; the University of Alabama; the University of Iowa and Duke University Medical Center in Durham, North Carolina. In September clinicians from Duke University published an important validation paper on our technology in the journal *Critical Care Medicine*. While benefiting from association with these prestigious hospitals, it is also encouraging to see our technology spreading into different departments within the individual centres. Doctors from all over the world come to these centres for training. Hopefully they will carry their LiDCO experience with them when they take up future positions around the globe.

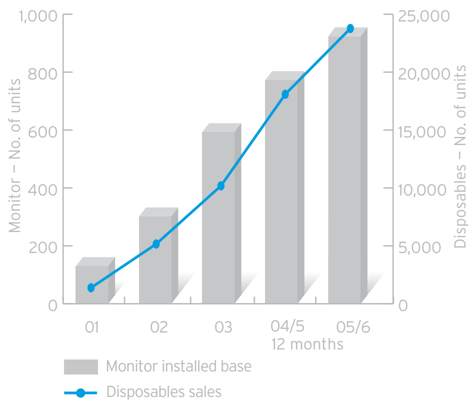
UK

As in the USA, our sales in the UK continue to be made by our direct sales force of seven people. Turnover in the UK was £1,535,000, an increase of 78% over the equivalent previous 12 months.

+78% UK Sales growth

The installed base increased by 30 units across the year to 152 LiDCO*plus* monitors. To have achieved an increase in revenues of 78% despite the very harsh economic climate and significant overspends within the NHS was an

Monitor installed base and disposables growth



CASE STUDY

DELIVERING TO THE US ARMY

US$456,000

The largest order received to date by our US sales organisation

The United States Army has purchased 31 LiDCO*plus* continuous hemodynamic monitors to be used in 16 major medical centres inside and outside the US. This order of US$456,000 for 31 LiDCO*plus* monitors is the largest received to date by our US sales organisation. It follows on from the successful conclusion of an evaluation conducted at Brooke Army Medical Center, Texas.

"We are looking forward to utilising the LiDCO*plus* system in our facilities. The use of these monitors will provide immediate and more accurate hemodynamic information allowing us to better treat and optimise our critically ill patients."

Lt. Col. Kurt Grathwohl MD, Assistant Chief of Anesthesia at Brooke Army Medical Center, who coordinated the purchase with the US MEDCOM Surgeon General.

CHIEF EXECUTIVE OFFICER'S REVIEW *continued*

excellent result. A number of new clinical centres are looking to adopt our technology and we therefore expect UK sales to continue to grow well in 2006. The main limiting factor on revenue growth will most likely be the availability of hospital funds for the purchase of our equipment and associated disposables. The UK is probably the most advanced territory in terms of its appreciation of the benefits of minimally invasive hemodynamic monitoring products, which in turn leads to it being one of the most competitive environments.

While many UK customers have more than one technology, it was pleasing to see our technology gain traction in several large centres including Guys and St Thomas' Hospital in London, Addenbrookes Hospital in Cambridge, the Royal Victoria Infirmary in Newcastle, Leicester General Hospital and Bristol Royal Infirmary. Clinicians from Guys and St Thomas' Hospital ended the year with an excellent LiDCO validation study presentation at the Society of Critical Care Medicine's annual meeting in San Francisco. In the majority of our UK customers, our position was consolidated and in many instances we saw the migration of our technology into other departments. Nowhere was this more evident than in St George's Hospital, where following the publication of their outcomes study, the protocol incorporating LiDCO's products was implemented as a standard of care for all patients undergoing high risk major surgery. Following the publication of this important paper, other institutions have indicated a desire to implement this same approach. Hopefully we will see this materialise over the course of 2006 and onwards.

Continental Europe

Turnover for the year was £550,000, an increase of 47% over the equivalent previous 12 months.

Sales in continental Europe are made via a network of small distributors and now that registration has been achieved in 13 territories, sales are increasing well with monitor placements up by 41%.

+47% **Europe** Sales growth

It was particularly pleasing to achieve registration in Denmark and Sweden, where our already established distribution partners were eager to commence sales.

Our experiences and feedback throughout the year in these markets have been very encouraging.

The normal process of establishing advocates and reference centres continues in these areas. In the longer-established territories of Italy and Spain, progress continues to be made with very encouraging year-on-year growth.

Our distributors continue to be motivated and excited by the possibilities that our technology offers them. We expect sales to continue to increase in continental Europe through 2006.

Rest of the World (ROW)

Sales in Asia, Japan and other Rest of World countries totalled £213,000, an increase of 33% on a 12 months equivalent basis.

+33% **Rest of World** Sales growth

This represents slower-than-expected capital sales of monitors to these territories, resulting in an increase in ROW installed base of only 14. However,

we are starting to see encouraging growth in sales of sensors into the ROW installed base, as newly appointed distributors in countries such as Brazil develop their local markets. Brazil, where marketing activities commenced during the year, is the largest medical market in Latin America. We expect further growth of sales of disposables and additional monitor sales in the ROW in 2006.

The most significant market for hemodynamic monitoring after the USA is Japan.

The market in Japan is dominated by the invasive pulmonary artery catheter, for which there is a high reimbursement rate for hospitals. Having purchased 100 PulseCO monitors in 2003, our distributor, Nipro Corporation, is currently selling these to Japanese hospitals via a capital sales route for calibration with a pulmonary artery catheter. Clinical trial results from Japanese university centres and customer response to the product have been encouraging.

Following these positive signs from Japanese customers, Nipro Corporation is currently engaged in establishing the clinical trials necessary to achieve a hospital reimbursement code for the use of our product. We do not expect significant additional monitor sales in Japan until this has been achieved by sometime in 2007. Licence fees of £70,000 are included within sales, relating to the original agreement with Nipro Corporation.

Research and development and product applications

LiDCO*plus* monitor software version 3.0 and Philips VueLink

This new software was launched in March 2005. The majority of customers have now elected to upgrade to the new software, which includes a number of additional new product features, including a communications link (VueLink interface) between LiDCO's proprietary stand-alone monitoring system and Philips' patient monitors. The added functionality, which allows the monitor to communicate with Philips and other third-party hospital information systems, is becoming a mandatory feature for a hemodynamic monitor. The version 3.0 software also has a number of enhancements that allow data to be downloaded to a USB key device and/or real-time download of heart-beat data via a non-proprietary ethernet connection.

It is our goal to introduce a new version of the LiDCO*plus* monitor software each year and thereby keep our products ahead of the competition. Our target for 2006 is to introduce the new version 4.0 software, most likely sometime in the second quarter. The version 4.0 will include a number of significant improvements and a new measurement, the intra-thoracic blood volume (ITBV).

The version 4.0 software will include improvements to fluid management and oxygen delivery targeting. This will include a new event-response feature, or intelligent fluid assessment screen, that will allow the detection of fluid responsiveness and response to fluid administration in ventilated, or spontaneously breathing, patients. Monitoring fluids in non-ventilated patients has been a significant technical challenge.

Our new software will be seen as a significant advance.

In order to help hospitals implement Early Goal Directed Therapy (EGDT), St George's Hospital's high risk surgery protocol, the clinician/nurse will now also be able to set a visual and individualised oxygen delivery target on the Graph Screen. This will be a unique feature and will help simplify the management of the patients scheduled for advanced hemodynamic monitoring protocols such as the St George's Hospital EGDT.

CASE STUDY

REDUCING COSTS AT ST GEORGE'S HOSPITAL

£4,800

Average saving per patient treated when using the LiDCO*plus* monitor

The results of the trial conducted by St George's Hospital, London demonstrated that the use of the LiDCO*plus* monitor to improve oxygen levels following major surgery (Early Goal Directed Therapy) significantly reduced complications (particularly infections). Patient stay in hospital was significantly shortened by an average of 12 days per patient. This equated to a saving of on average £4,800 per patient treated.

These results are highly significant and, if replicated in other hospitals in the UK, could ensure a widespread reduction in risk associated with major surgery.

"The resulting improvement in patient outcomes and shorter hospital stay will not just mean more patient beds available, but ensure massive cost savings if implemented throughout the NHS. St George's Hospital saved £1.8 million last year by implementing this simple protocol."

David Bennett, Professor of Intensive Care Medicine at St George's Hospital

CHIEF EXECUTIVE OFFICER'S REVIEW *continued*

If venous blood saturation values are available, the version 4.0 software will calculate the oxygen delivery and consumption, i.e. how much of the oxygen is being consumed by the body. This feature will again be useful in detecting levels of oxygen delivery that are inadequate and may lead to organ failure.

Finally, the version 4.0 software will have a number of changes to the calibration procedure that focus on ease of use and improved quality checks and user help screens.

New measurement: the intra-thoracic blood volume (ITBV)

Accurate measurement of the volume of blood in the thorax could be of significant benefit to patients and should widen the attraction of the LiDCO*plus* monitor to doctors working in intensive-care units. This development takes away the need to insert an invasive catheter into the central venous system, and heart or major artery, which is the currently established technique for taking the measurements.

The ITBV measurement is scheduled to be introduced in the second quarter of 2006. The lithium ion injection is currently used by LiDCO as a marker substance to measure cardiac output. Combining this existing measurement with the time taken for the lithium marker to transit from the injection point to the LiDCO sensor provides a new measurement, the ITBV. Physicians endeavour to increase the blood volume in order to rehydrate patients in surgery, trauma and intensive-care locations. Correct fluid management improves cardiac performance and critically, the oxygen delivery to vital organs that has been shown to reduce hospital bed stay. The ITBV is a much more sensitive guide to the fluid management of patients than the traditional invasive catheter-based measurement of pulmonary artery wedge pressure.

LiDCO expects that this new measurement will have widespread application in the improved fluid management of patients.

New applications for LiDCO's Minimally Invasive Monitoring System

Important progress has been made in taking LiDCO's technology into new markets.

Obstetric use

Positive data was presented at the Society of Obstetric Anesthesia and Perinatology meeting held in June 2005 in Palm Springs, California, USA. Doctors at the Departments of Anesthesiology & Obstetrics and Gynecology, University of Texas Health Science Center, San Antonio, Texas, reported that the LiDCO*plus* monitor, used to observe cardiovascular changes during continuous epidural anaesthesia in a patient undergoing caesarean section, was able to safely maintain cardiac output and blood pressure monitoring where this would not otherwise have been possible without the use of an invasive catheter. This department is one of a number of university centres actively investigating the potential applications of the LiDCO technology to the anaesthetic management of high risk obstetric patients. We expect this may develop as a valuable niche market following publication of further positive clinical reports.

Veterinary use

A paper from the Royal Veterinary Hospital, London, validating the LiDCO*plus* monitor for use in the care of horses during surgery was published in July. This is the first time that LiDCO's proprietary software, providing continuous pulse contour cardiovascular monitoring, has been demonstrated to be applicable in horses. The paper was entitled: "Use of Lithium dilution and pulse contour analysis cardiac output determination in anaesthetised horses: a clinical evaluation" – G. Hallowell &

K. Corley, *Veterinary Anaesthesia and Analgesia*, 2005, 32, 201–211. The paper concluded that LiDCO's method of pulse contour analysis is a relatively non-invasive and reliable way of monitoring continuous cardiac output in horses under anaesthesia. The paper also concluded that the ability to easily monitor continuous cardiac output might decrease morbidity and mortality in the anaesthetised horses.

We are beginning to develop a significant niche market in veterinary practice.

LiDCO's Clinical Advisory Board
We were delighted to announce in June 2005 that Professor David Bennett has joined our Clinical Advisory Board.

Professor Bennett was the Director of the Intensive Care Unit, St George's Hospital, for more than 25 years, and he is a member of the Editorial Board of Intensive Care Medicine and Critical Care.

He is internationally renowned for his pioneering work on the application of less invasive cardiovascular monitoring to improve outcomes and reduce costs associated with the treatment of risk surgery patients.

The Board was further strengthened in October 2005 by the appointment of Professor Michael Pinsky, Professor of Critical Care Medicine, Bioengineering and Anesthesiology, at the University of Pittsburgh School of Medicine, USA. He is also a member of the editorial board of the *American Journal of Respiratory and Critical Care Medicine, Intensive Care Medicine, Critical Care* journal and *Critical Care Forum*. He is Editor-in-Chief of the eMedicine textbook *Critical Care Medicine*. He has a wide range of research interests – among them being the study of heart-lung interactions, hemodynamic monitoring, cardiovascular physiology, sepsis and outcomes research. He is a world-leading authority on the application of both existing invasive, and the more recent minimally invasive, monitoring technologies to optimise cardiovascular physiology and thereby improve outcomes in critically ill patients.

Regulatory affairs

Lithium Chloride mutual recognition approvals in five further European territories

Lithium Chloride is used in conjunction with the LiDCO*plus* system to provide an absolute measure of a patient's cardiac output. During the period, we announced five further European country approvals for the Lithium Chloride injection for use with the LiDCO*plus* system in the territories of: Denmark, Ireland, Norway, Sweden and Bulgaria. These latest registrations now provide LiDCO with full marketing approval in 13 European countries.

Further applications through a third wave application to the Mutual Recognition Procedure are scheduled for the Lithium Chloride injection in the second quarter of 2006. Full marketing approvals are expected to start coming through in the last quarter of this year, with sales commencing in 2007 in France, Greece and Slovenia.

Dr Terry O'Brien
Chief Executive Officer
LiDCO Group Plc

CASE STUDY

INCREASING SALES

No.1

We are not just providing a product, but also educational and in-service support in a partnership with our distributors and customers. In all aspects of our work we have achieved a high degree of professionalism in our approach. This comment from one of our distributors, one of many received from distributors and customers during the year, sums up the superb efforts made by all the sales and marketing department during the year.

"The sales team at LiDCO are the best and most competent I have ever seen in this business. Their performance and knowledge is superb which makes a big difference to the clients. I strongly believe LiDCO as a method will become dominant in our market within a year or two and this will definitely be a result of our mutual commitment."

"Turnover for the year was £3,421,000...51% up on the equivalent previous 12 months"

Hugh McGarel-Groves

Trading results

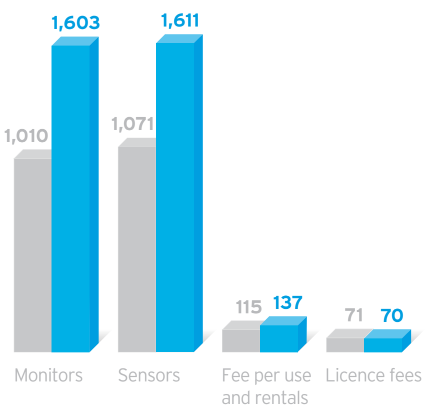
Turnover for the year was £3,421,000, an increase of 39% on the previous period of 13 months and 51% up on the equivalent previous 12 months. Within this total were sales of existing placed monitors to LiDCO's US-based hospital equipment leasing partner, for £436,000, up from £270,000 sold to our US leasing partner in 2004/5. This included £367,000 of UK monitors, which was the first time our USA leasing partner had purchased any equipment for leasing to hospitals outside the USA and demonstrates the strength of this ongoing financial partnership.

Monitor sales of £1,603,000 were up 59% by value on a 12 months equivalent basis.

19,610 sensors were sold for £1,611,000, a 50% equivalent value increase.

A further 4,192 fees for use (including rental equivalent) were earned at a sales value of £137,000, up 19%.

Sales by type
£'000s



Gross margins showed a healthy increase from 67% to 75%, mainly reflecting price increases achieved during the year and also the higher proportion of UK sales within the total (45% of sales vs 38% in 2004/5), with the UK margins significantly higher than elsewhere. In combination with the strong sales volume growth, this resulted in an overall gross profit increase of 68% to £2,550,000.

During the year the Group continued its cost-containment programme, and achieved a further reduction in administrative expenses of 16% (12 months equivalent) to £4,642,000. This resulted in an operating loss of £2,092,000 – an equivalent 12 months reduction of 47%.

Tax

The tax charge continues to be nil, whilst the Group remains at the pre-profit stage. Substantial tax losses have been accumulated both in the UK and USA, which will permit significant deferral of future tax charges, once profitability is reached. In the UK, the Group qualifies for research and development (R&D) tax credits and these are reported within the tax line in the profit and loss account.

Within the year under review are included expected R&D tax credits of £110,000 relating to 2005/6 and £69,000 relating to prior years.

Earnings per share

After allowing for the expected R&D tax credits, the loss per share of 1.91p was an improvement of 55% over the equivalent prior 12 month period.

A loss per share of 4.65p was reported for the prior 13 month period, or 4.29p on a 12 months equivalent basis.

Cash flow

Net operating outflow of £2,214,000 represents a reduction in net outflow of 38% on a 12 months equivalent basis from 2004/5 and was principally funded from existing cash resources £656,000 and from the Laurus convertible loan facility £1,355,000.

A US$2 million asset-backed convertible revolving loan facility was established with Laurus Master Fund in August 2005 and, in November 2005, US$445,000 of this loan was converted to equity in accordance with the terms of the agreement. A further drawdown took place in January 2006 and at 31 January 2006 the Laurus convertible loan facility was fully utilised.

Capital expenditure of £417,000 in the year is close to the total depreciation charge of £440,000. Group cash balances at 31 January 2006 were £951,000 as compared with £1,607,000 at 31 January 2005. It should be noted that the prior period included within financing inflows a share placement in June 2004 that produced net proceeds of about £3.7 million.

Accounting policies

International Financial Reporting Standards (IFRS) are not mandatory for the Group, as an AIM-quoted Company, until the interim results for the six months to 31 July 2007 are reported. The Group has decided not to implement IFRS earlier than the mandatory date and therefore these results are produced in accordance with existing UK Accounting Standards. FRS 25 (Financial Instruments: Disclosure and Presentation) has been implemented for the first time in these financial statements, which has resulted in the Laurus convertible loan facility being split between a liability component and an equity component. There are no other significant new accounting policies reflected in these financial statements.

Hugh McGarel-Groves
Finance Director
LiDCO Group Plc

BOARD OF DIRECTORS

1. Dr Terence O'Brien
Chief Executive Officer

2. Theresa Wallis
Chairman

3. Hugh McGarel-Groves
Finance Director

4. Dr David Band
Scientific Director

5. John Barry
Sales and Marketing Director

6. Ian Brown
Non-Executive Director

CLINICAL ADVISORY BOARD

Dr Max Jonas
Dr Jonas is a senior consultant anaesthetist at Southampton University Hospital, with particular expertise and interest in the application of hemodynamic monitoring to medical intensive-care and surgery.

Professor David Bennett
David Bennett is Professor of Intensive Care Medicine at St George's Hospital, London where until 2003 he was Director of the mixed medical/surgical intensive care unit, a position he held for more than 25 years. David has chaired numerous scientific committees, was honorary secretary of the European Society of Intensive Care Medicine and editor-in-chief of *Clinical Intensive Care*. He is on the editorial board of *Intensive Care Medicine and Critical Care*. He reviews regularly for these journals and also for *Critical Care Medicine* and *Anaesthesia and Analgesia*.

1. Dr Terence O'Brien
Chief Executive Officer
Dr O'Brien co-founded the Group in 1991. Prior to that, he has 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. Over the last 25 years Dr O'Brien has been involved in the research and development and subsequent marketing of a number of medical device technologies that are now standards of care in the anesthesia, critical care and surgery markets.

2. Theresa Wallis
Chairman
Ms Wallis is a principal executive of ANGLE plc and a non-executive director of Noble Income & Growth 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 1994/5. She is currently a member of the Quoted Companies Alliance's Executive Committee and Chairman of its Markets and Regulations Committee.

3. Hugh McGarel-Groves
Finance Director
Mr McGarel-Groves has held finance Director roles in the private healthcare sector at Hospital Corporation International, Medical Services International (Cromwell Hospital) and Nestor Healthcare (BNA). He started his career as a chartered accountant with KPMG in London, and then held senior finance positions at BP, Guinness and Sedgwick. His experience includes four years managing his own specialist engineering Company.

4. Dr David Band
Scientific Director
Dr Band co-founded the Group in 1991 and is the co-inventor of the LiDCO System. He 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.

5. 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.

6. Ian Brown
Non-Executive Director
For the past 25 years, Mr Brown has worked exclusively in the medical devices industry and has extensive experience of developing and introducing new medical devices to the market in the UK and overseas. Between 1986 and 2003, he was involved as an executive director and shareholder in a medical device start-up company (Novamedix Group), initially as sales and marketing director and later as managing director. In his early career Mr Brown worked in a number of UK and international sales and marketing positions for Johnson & Johnson, Smiths Industries and Pharmacia AB.

Professor Michael Pinsky
Professor Pinsky is Professor of Critical Care Medicine, Bioengineering and Anesthesiology at the University of Pittsburgh School of Medicine, USA and is a member of the editorial board of the *American Journal of Respiratory and Critical Care Medicine*, *Intensive Care Medicine*, *Journal of Critical Care* and *Critical Care Forum*. He is editor-in-chief of the eMedicine textbook Critical Care Medicine. He has a wide range of research interests – among them being the study of heart-lung interactions, hemodynamic monitoring, cardiovascular physiology, sepsis and outcomes research. He is a world leading authority on the application of both existing invasive, and the more recent introduced minimally invasive, monitoring technologies.

Professor William (Bill) Peruzzi
Professor Peruzzi is chief medical officer at Memorial Hermann Hospital and Memorial Hermann Children's Hospital, Houston, Texas. Bill joined Memorial Hermann in 1995 from Northwestern University, Feinberg School of Medicine in Chicago, where he served as professor of anesthesiology, chief of the Critical Care Medicine Section, and Director of the Anesthesiology Critical Care Fellowship Program. He has particular clinical expertise in general and neurosurgical intensive care and at Memorial Hermann is responsible for a number of functions including serving as the administrative advocate for medical staff, service quality, ethics, performance improvement and infection control.

Professor Patrick Wouters
Professor Wouters is the Professor of Cardiovascular Anaesthesiology at the University of Leuven, Belgium. He has researched and published extensively in the field of hemodynamic monitoring and its clinical applications.

Dr Christopher Wolff
Dr Wolff holds the post of Research Fellow at St Thomas' Hospital, Department of Applied Physiology, London. He is a clinician, physiologist and mathematician and has major research interests in respiratory and cardiovascular physiology.

Compliance with the Combined Code
Companies that have shares traded on the Alternative Investment Market of the London Stock Exchange are not required to comply with the disclosures of the Combined Code on Corporate Governance which is appended to the Listing Rules of the Financial Services Authority (the 2003 FRC Code). However, the Board is committed to maintaining the highest standards of corporate governance, where appropriate for a Company of its size.

The Board of Directors: Board composition
The Board currently consists of four Executive Directors and two Non-Executive Directors. The Non-Executive Directors are free from any relationship with the executive management of the Company and the Board considers that both Non-Executive Directors are independent Directors.

Mr Wiegman resigned as Senior Independent Non-Executive Director on 16 December 2005. Mr Brown was appointed as a Non-Executive Director on 12 October 2005 and became the Senior Independent Non-Executive Director with effect from 16 December 2005.

During the year, the Schedule of Matters reserved for the Board was reviewed and identified areas where executive management can grant approval subject to certain financial limits. Where any activities fall outside the limits laid down for executive management, approval is sought by the Board.

There were 12 scheduled meetings during the year with additional special meetings as required.

Board evaluation and performance
The Board completed its first Board evaluation in 2005, when the performance, the functioning and constitution of the Board and each committee was assessed. The results of the assessments concluded that the performance of the Board and each committee is effective.

It is the Board's intention to continue to review annually its performance and that of its committees.

Company Secretary
All the Directors have access to the advice and services of the Company Secretary, whose appointment and removal is a matter for the Board as a whole. The Company Secretary through the Chairman is responsible for ensuring Directors receive accurate, timely and clear information in a form that enables them to discharge their duties.

The Company Secretary attends all Board and committee meetings and is responsible for ensuring compliance with the relevant procedures, rules and regulations.

Independent professional advice
All Directors are able to take independent advice in the furtherance of their duties, if necessary, at the Company's expense.

Re-election of Directors
Under the Company's Articles of Association, 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.

Each of the Executive Directors has a service contract which contains a notice period of either six months or one year. The Non-Executive Directors do not have service contracts with the Company but have letters of appointment.

Board information
Board members are given appropriate documentation in advance of each Board and committee meeting. Senior executives below Board level are invited to attend Board meetings for the purpose of making presentations on their areas of responsibility. In addition to formal Board meetings, the Chairman and Chief Executive Officer and/or the Finance Director meet frequently.

Committees of the Board

Audit Committee

The members of the Committee are Ms Wallis (Chairman) and Mr Brown. 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 finalised for approval by the Board. The Committee met twice during the year.

Remuneration Committee

The members of the Committee are Ms Wallis (Chairman) and Mr Brown. 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 Committee met six times during the year.

Nominations Committee

The members of the Committee are Ms Wallis (Chairman), Mr Brown 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. The Committee met twice during the year.

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 published updates to investors on technical and commercial progress. 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.

Internal control and risk management

During the year, the Board completed a wide-ranging review of risks and controls. Progress against agreed actions relating to controls is reviewed quarterly at Board meetings.

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 organisational 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 authorisation procedures. As a medical device company, LiDCO also has a system of Regulatory controls to ensure compliance with all requirements of the Medicines and Healthcare Products Regulatory 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 that 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.

The Directors present their Remuneration Report, which covers the remuneration of both the Executive and Non-Executive Directors. The report will be subject to shareholder vote at the forthcoming Annual General Meeting in June 2006.

Committee membership

The membership of the Remuneration Committee is made up of the following Non-Executive Directors:

T A Wallis (Chairman)
I G Brown

Mr Wiegman was a member of the Committee throughout the year until his resignation on 16 December 2005. Mr Brown joined the Committee on 12 October 2005. None of the Committee members has any day-to-day involvement in the running of the Company, nor do they have any business or other relationship that could affect, or appear to affect, the exercise of their independent judgement, other than as shareholders. No Director plays a part in any decision about his or her own remuneration.

Remuneration policy of the Executive Directors

The Committee determines and recommends, on behalf of the Board, the remuneration for the Executive Directors 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 to Executive Directors and employees at all levels.

During the year, the Committee sought advice from New Bridge Street Consultants LLP (New Bridge Street) on a variety of matters relating to Executive Directors' remuneration, and the grant of options for key senior employees. The Committee is assisted by the Company Secretary.

Base salary

The annual salary for each Executive Director is paid monthly, is determined by the Committee and is effective from 1 February each year. The salary reflects the experience and level of competence of the individual to whom it applies, as judged annually by the Committee, taking into account salary levels in the market.

Annual bonus

The four Executive Directors are members of the Company's Senior Management bonus scheme. The Remuneration Committee assesses the Directors' individual performances soon after the end of the financial year, judged against pre-determined targets.

For the year under review, criteria for awarding bonuses are based on a combination of personal and corporate targets. Bonuses are capped at 100% of base salary. Non-Executive Directors are not eligible for bonuses.

Remuneration of Directors

	12 months ended 31 January 2006			
	Salary and fees £'000	**Bonus £'000**	**Total £'000**	13 months ended 31 January 2005 £'000
D M Band	**48**	**–**	**48**	130
T K O'Brien	**204**	**–**	**204**	215
J G Barry	**183**	**30**	**213**	194
R J Mills[1]	**–**	**–**	**–**	159
H M J McGarel-Groves[2]	**74**	**–**	**74**	–
T A Wallis[3]	**40**	**–**	**40**	43
A E B Wiegman[4]	**13**	**–**	**13**	22
I G Brown[5]	**11**	**–**	**11**	–
Total	**573**	**30**	**603**	763

1 Mr Mills resigned as a Director on 19 January 2005.
2 Mr McGarel-Groves was appointed to the Board on 10 May 2005.
3 Ms Wallis' fees are payable to ANGLE Technology Limited.
4 Mr Wiegman resigned as a Director on 16 December 2005.
5 Mr Brown was appointed to the Board on 12 October 2005.

Remuneration policy of the Non-Executive Directors

The Board determines the remuneration of the Non-Executive Directors. The Non-Executive Directors do not participate in the Company's share option scheme and are not eligible for annual incentive payments or benefits in kind. All Non-Executive Directors are reimbursed for travel and related business expenses reasonably incurred in performing their duties.

Contracts of service

Details of the service contracts currently in place for the Directors who have served during the year are as follows:

Executive Directors

The service contracts of Dr O'Brien, Dr Band and Mr Barry are dated 29 June 2001 and are not set for a specific term but include a rolling 12-month notice period. Mr McGarel-Groves has a service contract with the Company dated 5 April 2005; as with the other Directors, this is not set for a specific term, but includes a rolling six months notice period.

Non-Executive Directors

The Non-Executive Directors do not have service contracts with the Company. The letter of appointment for each Non-Executive Director states that they are appointed for an initial period of three years. At the end of the initial period, the contract may be renewed for a further period if the Company and the Director agree. In keeping with best practice, these appointments are terminable without notice by either party.

Directors' interests in share options

The Non-Executive Directors do not participate in the Company's share incentive plans. Options were granted to the Executive Directors as follows:

	Options at 31 January 2005	Options granted during 2005	Lapsed during the year	Exercise price	**Options at 31 January 2006**	Exercisable from	Expiry Date
T K O'Brien	637,500	–	(637,500)*	140p	**–**	-	-
	750,000	–	–	13p	**750,000**	Dec-05	Dec-12
	277,395	–	–	21.5p	**277,395**	Apr-08	Apr-15
H M J McGarel-Groves	–	250,000	–	20.75p	**250,000**	May-08	May-15
D M Band	637,500	–	(637,500)*	140p	**–**	–	–
	750,000	–	–	13p	**750,000**	Dec-05	Dec-12
	65,116	–	–	21.5p	**65,116**	Apr-08	Apr-15
J G Barry	106,250	–	–	0.5p	**106,250**	see note 1	see note 1
	637,500	–	(637,500)*	140p	**–**	-	-
	100,000	–	(100,000)*	116p	**–**	-	-
	750,000	–	–	13p	**750,000**	Dec-05	Dec-12
	90,000	–	–	28.25p	**90,000**	Nov-06	Nov-13
	–	356,844	–	21.5p	**356,844**	Apr-08	Apr-15
	–	328,481	–	22p	**328,481**	Dec-05	Apr-15
	–	328,481	–	22p	**328,481**	Apr-06	Apr-15
	–	656,961	–	22p	**656,961**	Sep-06	Apr-15
Total	4,801,261	1,920,767	(2,012,500)		**4,709,528**		

*'underwater' options voluntarily surrendered by the Directors.

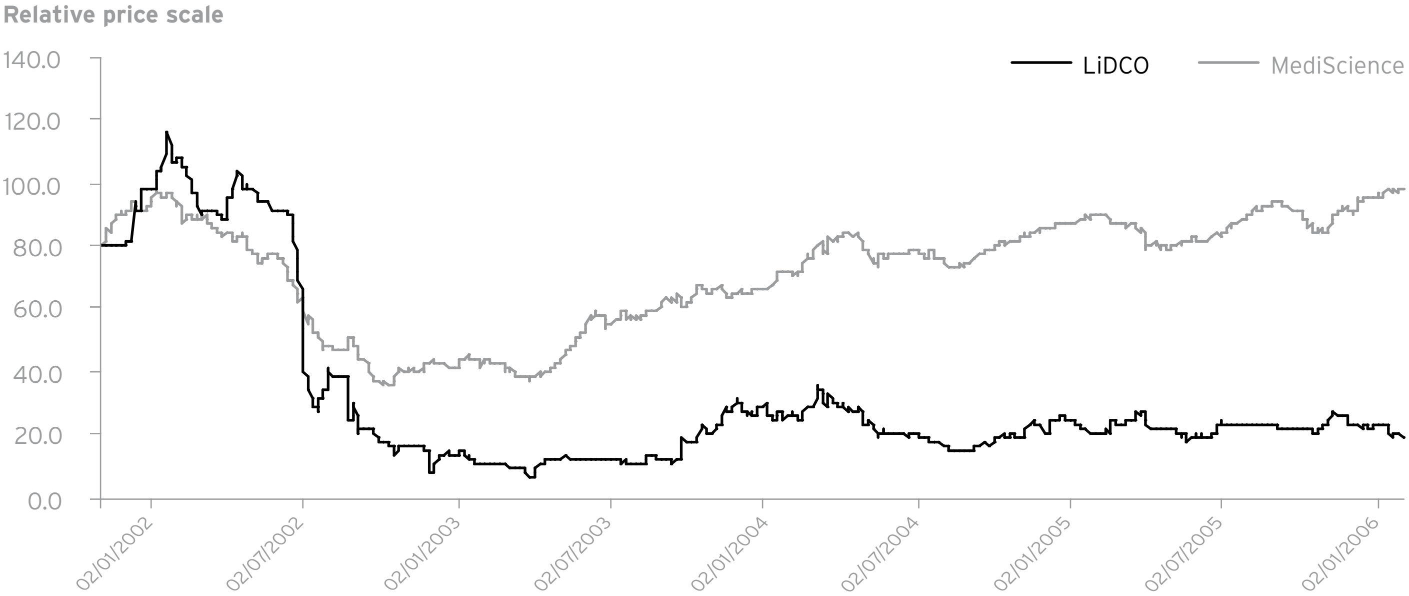
Mr Barry's options priced at 0.5p vested in three equal tranches on 1 January 2002, 1 January 2003 and 1 January 2004. Each tranche remains exercisable for a period of ten years.

Pensions

No pension contributions were payable by the Group during the year (2004/5: £nil). Executive Directors' salary includes an additional element of pay in lieu of non-salary benefits.

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 AIM market of the London Stock Exchange since 5 July 2001, prior to which they were not publicly traded. The graph below shows the share price performance since flotation, using the FTSE TechMARK Mediscience Index as a comparator, which the Directors consider to be the most suitable benchmark index.



Note: the MediScience price index data is not available prior to 02/11/2001.

T A Wallis
Chairman of the Remuneration Committee
27 April 2006

DIRECTORS' REPORT

The Directors of LiDCO Group Plc present their Annual Report and audited financial statements for the 12 months ended 31 January 2006. Comparative figures are for the 13 months ended 31 January 2005.

Principal activities

The principal activity of the Group is the development, manufacture and sale of cardiac monitoring equipment.

Results and dividends

The Group's turnover for the year was £3,421,000 (2004/5 13 months: £2,456,000). The Group made a consolidated loss after taxation of £1,906,000 (2004/5 13 months: £4,199,000). The Directors do not recommend the payment of a dividend (2004/5: £nil).

Recent regulatory approvals in Europe and Brazil have opened more markets in Europe and a new one in South America. This brings to 13 the number of European territories in which we are registered to sell lithium chloride, as well as Brazil, the largest medical market in South America. With distributors already appointed in these countries, we are looking forward to an acceleration of sales through this expanded network of distributors and territories.

The Company's share price at 31 January 2006 was 19.75p (31 January 2005: 20.5p).

Research and Development

The Group continued to develop the LiDCO*plus* system during the year, as set out in the Chief Executives' Review. Expenditure on research and development amounted to £215,000 (2005: £310,000) in addition to software development costs of £170,000 (2005: £126,000) and product registration costs of £191,000 (2004/5: £nil) which are capitalised on the balance sheet and amortised.

Share capital and share premium account

Full details of the authorised and issued share capital of the Company, together with details of the movements in the Company's issued share capital and the share premium accounts during the year, are shown in notes 12 and 14 to the financial statements.

Directors

The Directors of the Company who served during the year are set out below; short biographies are set out on pages 16 and 17.

T A Wallis		Non-Executive Chairman
T K O'Brien		Chief Executive Officer
H M J McGarel-Groves	(appointed 10 May 2005)	Finance Director
D M Band		Scientific Director
J G Barry		Sales and Marketing Director
A E B Wiegman	(resigned 16 December 2005)	Non-Executive Director
I G Brown	(appointed 12 October 2005)	Non-Executive Director

Mr Brown was appointed since the last Annual General Meeting and therefore offers himself for election. Ms Wallis retires by rotation and, being eligible, offers herself for re-election. Mr Barry retires by rotation and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting.

Directors' remuneration

The Remuneration Report, which includes information regarding Directors' service contracts, appointment arrangements and interests in share options, can be found on pages 20 to 22.

Directors' interests in shares

The Directors who held office at 31 January 2006 had beneficial interests in the ordinary shares of the Company as shown below:

Directors' shareholdings

	Ordinary shares of 0.5p each	
	31 January 2006 Number	31 January 2005 Number
T A Wallis	**108,000**	85,000
T K O'Brien	**10,109,577**	10,109,577
H M J McGarel-Groves	**52,000**	–
D M Band	**7,060,832**	7,060,832
J G Barry	**379,642**	379,642
A E B Wiegman *	**N/A**	239,285
I G Brown	**100,000**	–

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

* Mr Wiegman resigned from the Board on 16 December 2005.

Directors' indemnities

The Companies (Audit, Investigations and Community Enterprise) Act 2004, which came into force on 6 April 2005, changes the provisions of section 310 of the Companies act 1985 and gives companies the power to extend indemnities to Directors against liability to third parties (excluding criminal and regulatory penalties) and also to pay Directors' legal costs in advance, provided that these are reimbursed to the Company, where judgement is given against the Director.

Directors' and officers' insurance

The Company currently has Directors' and officers' insurance cover in place in respect of the personal liabilities which may be incurred by Directors and officers of the Company in the course of their service with the Group.

Employment policy

Equal opportunity is given to all employees regardless of their gender, race or ethnic origin, religion, age, disability, or sexual orientation.

The policy of the Directors is to encourage the involvement of all employees in the development and performance of the Group. Employees are regularly briefed on the Group's activities through regular information releases and meetings. All employees are encouraged to invest in the Group through participation in the share option schemes.

Supplier payment policy

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 the Group's trade creditors falling due within the year ended 31 January 2006 represents 55 days' worth (2005: 24 days) as a proportion of the total amount invoiced by suppliers during the period.

Significant shareholdings

In accordance with sections 198 to 208 of the Companies Act 1985, the Company has been notified that the following shareholders, other than Directors, had a beneficial interest in 3% or more of the Company's ordinary share capital as at 31 March 2006:

Shareholder	Number of shares in which there is an interest	Percentage notified*
R M Greenshields	9,042,407	9.0%
P A Brewer	6,822,221	6.8%
H J Leitch	5,876,571	5.8%
H G Wellington Inc	3,370,960	3.4%
Liontrust Asset Management	3,218,500	3.2%
Merlin Biosciences Fund LP	3,128,000	3.1%
J Kratochvil	3,020,278	3.2%

* The percentages shown are based on the issued share capital at that date.

Charitable and political donations

The Group made no charitable or political donations in the year (2004/5: £nil).

Directors' responsibilities for the financial statements accounts

The Directors are responsible for preparing the Annual Report and accounts, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year, statements which give a true and fair view of the state of affairs of the Group and parent 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the 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 that disclose with reasonable accuracy at any time the financial position of the Company and that enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

Going concern

The financial statements have been prepared on the going-concern basis, which assumes that the Company will have sufficient funds to continue in operational existence for the foreseeable future. The Company has continued to invest in the development of its operations and as a result has continued to trade at a loss in the year ended 31 January 2006.

The Directors have approved forecasts until the end of January 2008, which indicate that the Company will have sufficient funding to continue to trade during that period. The forecasts assume a level of new sales about which there is uncertainty. If such new sales are not achieved, the Directors believe that there are sufficient opportunities available to them to obtain additional funding from sources that are currently being explored which would enable the Company to continue to develop its operations and to meet its liabilities as they fall due. Accordingly the financial statements have been prepared on a going-concern basis. The financial statements do not include any adjustments that would be required in the event that the Company had insufficient funding available.

Financial risk management

The Financial Risk Management objectives and policies of the Group, including the exposure to interest rate risk, liquidity risk and currency risk are set out in notes 23 and 24 to the financial statements.

Auditors

Grant Thornton UK LLP were appointed auditors on 24 January 2006 to fill a casual vacancy in accordance with section 388(1) of the Companies Act 1985. A resolution to re-appoint Grant Thornton UK LLP as auditors and to authorise the Directors to set their remuneration will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Notice to convene the Annual General Meeting of the Company is enclosed with this Annual Report. The Notice details the resolutions to be proposed at the meeting and is set out in a separate document that is being sent to shareholders with these accounts.

By order of the Board

Denise Johnson
Company Secretary
27 April 2006

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF LiDCO GROUP PLC

We have audited the Group and parent Company financial statements (the financial statements) of LiDCO Group Plc for the year ended 31 January 2006, which comprise the principal accounting policies, the Group profit and loss account, the Group and Company balance sheets, the Group cashflow statement, the Group statement of total recognised gains and losses and notes 1 to 25. 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 work, for this report or for the opinions we have formed.

Respective responsibilities of the Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 to you 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, Chief Executive Officer's Review, Corporate Governance Report, Remuneration Report and Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations that 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.

Opinion

In our opinion, the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 January 2006 and of the Group's loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP
Registered auditors
Chartered accountants

London
27 April 2006

PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The principal accounting policies of the Company have remained unchanged from the previous year apart from the Company recognising the presentation and disclosure requirement of FRS 25, which are set out below.

Basis of consolidation

The consolidated accounts incorporate the financial statements of the Company and all its subsidiaries.

Going concern

The financial statements have been prepared on the going-concern basis, which assumes that the Company will have sufficient funds to continue in operational existence for the foreseeable future. The Company has continued to invest in the development of its operations and as a result has continued to trade at a loss in the year ended 31 January 2006.

The Directors have approved forecasts until the end of January 2008, which indicate that the Company will have sufficient funding to continue to trade during that period. The forecasts assume a level of new sales about which there is uncertainty. If such new sales are not achieved, the Directors believe that there are sufficient opportunities available to them to obtain additional funding from sources that are currently being explored which would enable the Company to continue to develop its operations and to meet its liabilities as they fall due. Accordingly the financial statements have been prepared on a going-concern basis. The financial statements do not include any adjustments that would be required in the event that the Company had insufficient funding available.

Merger accounting

Admission to AIM of the London Stock Exchange 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 reorganisation. Merger accounting has therefore been adopted as the accounting treatment for the re-organisation. 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.

Turnover

Turnover represents amounts receivable from product sales, including monitors, sensors, fees for use and rentals, and income from licence agreements granted, excluding Value Added Tax. The basis of recognition is on delivery of products and for income from licences is from the date the licence is granted, recognised in equal instalments over the licence period.

Research and Development

Research expenditure is written off to profit and loss account as it is incurred. Development expenditure is written off as incurred, except where it relates to a technically, commercially and financially viable project, when the identifiable expenditure is capitalised and amortised over the period the Company is expected to benefit, not exceeding three years.

Income from investments

Investments in subsidiary undertakings are stated at cost less provision for impairment.

Intangible fixed assets

Intangible fixed assets represent costs relating to product registration in new countries and software development costs and clinical trials on the LiDCO and PulseCO systems. Where the Directors are satisfied as to the technical, commercial and financial viability of these projects, the expenditure has been capitalised and is amortised in equal amounts over the useful life of five years for product registration costs and three years for software development and clinical trials.

Tangible fixed assets and depreciation
Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful lives. The rates generally applicable are:

Land and buildings	Over the life of the lease
Plant and machinery	10% per annum
Fixtures and fittings	Over the life of the lease
Office equipment	20% per annum
Computer equipment	33% per annum

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

Stocks
Stocks are stated at the lower of attributable production costs and net realisable value.

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.

Foreign currency
Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Financial instruments
Financial assets plus liabilities are recognised in the Group Balance Sheet when the Group becomes party to the contractual provisions of the instrument.

GROUP PROFIT AND LOSS ACCOUNT

For 12 months to 31 January 2006

	Note	12 months ended 31 January 2006 £'000	13 months ended 31 January 2005 £'000
Turnover	1	**3,421**	2,456
Cost of sales		**(871)**	(808)
Gross profit		**2,550**	1,648
Administrative expenses		**(4,642)**	(5,965)
Operating loss		**(2,092)**	(4,317)
Interest receivable		**42**	77
		(2,050)	(4,240)
Interest payable		**(35)**	–
Loss on ordinary activities before taxation	1	**(2,085)**	(4,240)
Tax on loss on ordinary activities	3	**179**	41
Loss on ordinary activities after taxation	14	**(1,906)**	(4,199)
Loss per share (basic and diluted) (p)	13	**(1.91)**	(4.65)

All transactions arise from continuing operations.

There were no recognised gains or losses other than the loss for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

BALANCE SHEETS

At 31 January 2006

		Group		Company	
	Note	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
Fixed assets					
Intangible assets	4	**473**	313	**–**	–
Tangible assets	5	**1,038**	1,221	**–**	–
Investments	6	**–**	–	**65**	65
		1,511	1,534	**65**	65
Current assets					
Stocks	7	**1,140**	1,165	**–**	–
Debtors	8	**1,995**	1,510	**115**	14
Amount due from subsidiary undertakings	8	**–**	–	**18,742**	16,435
Cash at bank and in hand		**951**	1,607	**367**	1,213
		4,086	4,282	**19,224**	17,662
Creditors: amounts falling due within one year	9	**(759)**	(558)	**–**	(3)
Net current assets		**3,327**	3,724	**19,224**	17,659
Total assets less current liabilities		**4,838**	5,258	**19,289**	17,724
Creditors: amounts falling due after more than one year	10	**(1,177)**	(123)	**(1,125)**	–
Net assets		**3,661**	5,135	**18,164**	17,724
Capital and reserves					
Called-up share capital	12	**503**	495	**503**	495
Share premium account	14	**17,566**	17,142	**17,566**	17,142
Merger reserve	14	**8,513**	8,513	**–**	–
Other reserve	14	**(88)**	(88)	**(88)**	(88)
Equity reserve	15	**–**	–	**–**	–
Profit and loss account	14	**(22,833)**	(20,927)	**183**	175
Shareholders' funds		**3,661**	5,135	**18,164**	17,724

The financial statements were approved by the Board of Directors on 27 April 2006.

Dr Terence O'Brien
Director

Hugh McGarel-Groves
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

GROUP CASH FLOW STATEMENT

For 12 Months to 31 January 2006

	Note	12 Months ended 31 January 2006 £'000	13 months ended 31 January 2005 £'000
Net cash outflow from operating activities	17	**(1,804)**	(3,535)
Returns on investments and servicing of finance			
Interest received		**42**	77
Interest paid		**(35)**	–
Net cash inflow from returns on investments		**7**	77
Taxation		**–**	–
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(55)**	(264)
Purchase of intangible fixed assets		**(362)**	(126)
Net cash outflow from capital expenditure and financial investment		**(417)**	(390)
Net cash outflow before financing		**(2,214)**	(3,848)
Financing			
Issue of ordinary share capital		**203**	3,855
Convertible loan		**1,355**	–
Net cash inflow from financing		**1,558**	3,855
(Decrease)/increase in cash		**(656)**	7

The accompanying accounting policies and notes form an integral part of these financial statements.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	12 months ended 31 January 2006 £'000	13 months ended 31 January 2005 £'000
Loss for the financial year	**(1,906)**	(4,199)
Prior year adjustments	**–**	(88)
Total gains and losses recognised since last financial statements	**(1,906)**	(4,287)

The accompanying accounting policies and notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For 12 Months to 31 January 2006

1 Turnover and loss on ordinary activities before taxation

Turnover by destination is analysed as follows:

	12 months ended 31 January 2006 £'000	13 months ended 31 January 2005 £'000
United States	**1,123**	944
United Kingdom	**1,535**	932
Continental Europe	**550**	406
Rest of World	**213**	174
	3,421	2,456

Turnover by type

	12 months ended 31 January 2006 £'000	13 months ended 31 January 2005 £'000
Monitor sales	**1,603**	1,094
Sensor sales	**1,611**	1,160
Fees for use	**137**	125
Licence fees	**70**	77
	3,421	2,456

All turnover, operating loss and net assets originated within the United Kingdom. The comparative information for the 13 months to 31 January 2005 relating to the split between monitor and sensor sales by destination and type has been found to have been misclassified and has been restated where necessary.

The loss on ordinary activities before taxation is stated after:

	12 months ended 31 January 2006 £'000	13 months ended 31 January 2005 £'000
Auditors' remuneration:		
– Group audit services	**33**	36
– Company audit fees	**–**	–
– Non-audit services*	**21**	18
Research and development	**215**	310
Depreciation of tangible fixed assets	**238**	389
Amortisation of intangible fixed assets	**202**	234
Hire of plant and machinery under operating leases	**69**	57
Rental of land and buildings	**306**	293

* Non-audit services comprise £15,000 interim review services payable to the previous auditors and £6,000 tax compliance services payable to the current auditors. The Board considers it cost effective for the auditors to provide these services.

2 Directors and employees

Staff costs during the year were as follows:

Group	12 months ended 31 January 2006 £'000	13 months ended 31 January 2005 £'000
Wages and salaries	**2,034**	2,500
Social security costs	**181**	206
	2,215	2,706

The average number of employees (including Executive Directors) of the Company during the year was:

	2006 Number	2005 Number
Production	**13**	13
Sales	**16**	15
Administration	**7**	8
	36	36

3 Tax on loss on ordinary activities

The tax charge is based on the loss for the year and represents:

	12 months ended 31 January 2006 £'000	13 months ended 31 January 2005 £'000
United Kingdom corporation tax at 30% (2005: 30%)	**–**	–
Adjustments in respect of prior year:	**(69)**	–
Research and development expenditure tax credits	**(110)**	(41)
	(179)	(41)
Loss on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30% (2005: 30%)	**(626)**	(1,272)
Effect of:		
Expenses not deductible for tax purposes	**162**	116
Capital allowances for the period in excess of depreciation	**16**	107
Increase in tax losses	**469**	998
Other timing differences	**(21)**	51
Research and development expenditure tax credits	**(110)**	(41)
Current tax credit for period	**(110)**	(41)

4 Intangible fixed assets

Group	Clinical trials £'000	Product registration £'000	Software development £'000	Total £'000
Cost				
At 1 February 2005	74	–	893	967
Additions	–	191	171	362
At 31 January 2006	**74**	**191**	**1,064**	**1,329**
Amortisation				
At 1 February 2005	74	–	580	654
Charge for the year	–	22	180	202
At 31 January 2006	**74**	**22**	**760**	**856**
Net book amount at 31 January 2006	**–**	**169**	**304**	**473**
Net book amount at 31 January 2005	–	–	13	313

5 Tangible fixed assets

Group	Land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Office equipment £'000	Computer equipment £'000	Total £'000
Cost						
At 1 February 2005	541	401	115	39	922	2,018
Additions	–	7	–	–	48	55
At 31 January 2006	**541**	**408**	**115**	**39**	**970**	**2,073**
Depreciation						
At 1 February 2005	131	189	66	33	378	797
Provided in the year	56	28	10	2	142	238
At 31 January 2006	**187**	**217**	**76**	**35**	**520**	**1,035**
Net book amount at 31 January 2006	**354**	**191**	**39**	**4**	**450**	**1,038**
Net book amount at 31 January 2005	410	212	50	5	544	1,221

A review of fixed assets' lives has taken place in accordance with the relevant standard; this resulted in the useful economic lives of plant and machinery, fixtures and fittings and office equipment being revised. If this review had not taken place, the reported depreciation charge would have been approximately £63,000 higher.

The Company held no tangible fixed assets at 31 January 2006 or 31 January 2005.

6 Investments

Company	Shares in subsidiary undertakings £'000
Cost and net book value	
At 1 February 2005 and at 31 January 2006	65

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
Cassette Analytical Systems Limited	England and Wales	100%	Dormant

7 Stocks

Group	2006 £'000	2005 £'000
Raw materials and consumables	**212**	389
Finished goods and goods for resale	**928**	776
	1,140	1,165

8 Debtors

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Trade debtors	**1,508**	1,291	**–**	–
Prepayments and accrued income	**256**	74	**112**	–
Other debtors	**231**	145	**3**	14
Inter-Company debt	**–**	–	**18,742**	16,435
	1,995	1,510	**18,857**	16,449

The inter-Company debt relates to the ongoing funding provided to the principal trading subsidiary, LiDCO Limited, whilst it continues to be loss-making. This debt has been reviewed by the Directors of the Company, who consider there is no impairment, although the full amount may not be recoverable within one year.

9 Creditors: amounts falling due within one year

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Trade creditors	**444**	182	**–**	–
Other creditors	**59**	95	**–**	3
Accruals and deferred income	**256**	281	**–**	–
	759	558	**–**	3

10 Creditors: amounts falling due after more than one year

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Deferred income	**52**	123	**–**	–
Convertible loan	**1,125**	–	**1,125**	–
	1,177	123	**1,125**	–

A US$2 million three year convertible loan agreement was entered into with Laurus Master Fund Ltd (Laurus) on 10 August 2005. The notes are convertible into ordinary shares of the Company at any time during the three-year period at a price of 24p, or at 85% of the average closing price over the preceding 10 trading days, if lower and if the conversion has been requested by the Company. Interest is payable at 2% above New York Journal Prime, which has resulted in an effective interest rate of circa 8.5%.

10 Creditors: amounts falling due after more than one year *continued*

A total drawdown of US$2,445,000 has been made against the Laurus loan facility and a conversion ofUS$445,000 was made on 17 November 2005. The balance of the Laurus loan at 31 January 2006 was US$2,000,000 (£1,125,000). This has been split in the balance sheet between the debt element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Group, as follows:

	Group		Company	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Nominal value of convertible loan	**1,125**	–	**1,125**	–
Equity component	**–**	–	**–**	–
Liability component at final drawdown date	**1,125**	–	**1,125**	–
Interest charged	**35**	–	**35**	–
Interest paid	**(29)**	–	**(29)**	–
Liability component at 31 January 2006	**1,131**	**–**	**1,131**	**–**

The Directors believe the amount shown above represents a fair value of the liability component.

11 Deferred taxation

	Group		Company	
Unprovided	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
Accelerated capital allowances	**506**	53	**–**	–
Other	**(5,927)**	(5,428)	**–**	–
	(5,421)	(5,376)	**–**	–

12 Share capital

	2006 £'000	2005 £'000
Authorised		
150,000,000 ordinary shares of 0.5p each	**750**	750
Allotted, called up and fully paid		
100,571,850 ordinary shares of 0.5p each	**503**	495

1,664,920 new shares were issued during the year of which 1,166,920 relate to the US$445,000 Laurus loan conversion on 17 November 2005. The remainder of the new shares issued relate to the exercise of employee share options, which were issued at an exercise price of US$0.2353 per share.

13 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 January 2006.

	12 months ended 31 January 2006 £'000	13 months ended 31 January 2005 £'000
Loss after tax for the financial year	**(1,906)**	(4,199)

	Number ('000)	**Number ('000)**
Weighted average number of ordinary shares	**99,572**	90,239
Effect of dilutive share options	**2,996**	6,018
Adjusted weighted average number of ordinary shares	**102,307**	96,757
Loss per share – basic and diluted (p)	**(1.91)**	(4.65)

14 Reserves

Group	Share premium account £'000	Merger reserve £'000	Other reserve £'000	Equity reserves £'000	Profit and loss account £'000
At 1 February 2005	17,142	8,513	(88)	–	(20,927)
Issue of share capital	424	–	–	–	–
Loss for the financial year	–	–	–	–	(1,906)
At 31 January 2006	**17,566**	**8,513**	**(88)**	**–**	**(22,833)**

Company	Share premium account £'000	Other reserve £'000	Equity reserves £'000	Profit and loss account £'000
At 1 February 2005	17,142	(88)	–	175
Issue of share capital	424	–	–	–
Profit for the financial year	–	–	–	8
At 31 January 2006	**17,566**	**(88)**	**–**	**183**

In accordance with the exemptions given by section 230 of the Companies Act 1985, the holding company has not prepared its own profit and loss account. The profit for the year of the Company was £8,000 (2004: £62,000).

The other reserve relates to the former investment in shares in the Employee Share Ownership Trust. As stated in note 2, this investment is no longer classified as an investment of the Company or the Group.

15 Equity reserve

The calculation has been carried out in accordance with FRS 25 in order to determine the equity component of the Laurus convertible loan. Based on the assumption that the interest rate payable to Laurus represents a full commercial rate, this calculation gives an equity component of zero.

The arrangements for the Laurus convertible loan included the grant of options to Laurus and its agent to subscribe for 1,123,596 new ordinary shares in the Company at 30p per share, exercisable at any time until 10 August 2010.

16 Reconciliation of movements in shareholders' funds

Group	**2006 £'000**	2005 £'000
Loss for the financial year	**(1,906)**	(4,199)
Issue of shares	**432**	3,855
	(1,474)	(344)
Opening shareholders' funds	**5,135**	5,479
Closing shareholders' funds	**3,661**	5,135

17 Net cash outflow from operating activities

Group	**12 months ended 31 January 2006 £'000**	13 months ended 31 January 2005 £'000
Operating loss	**(2,092)**	(4,317)
Depreciation and amortisation charges	**440**	623
Decrease in stock	**25**	500
Increase in debtors	**(307)**	(309)
(Decrease)/increase in creditors	**130**	(32)
Net cash outflow from operating activities	**(1,804)**	(3,535)

18 Reconciliation of net cash flow to movement in net debt

Group	12 months ended 31 January 2006 £'000	13 months ended 31 January 2005 £'000
Cash movement in the year	**(656)**	7
Increase in loan	**(1,355)**	–
Change in net (debt)/cash in the year	**(2,011)**	7
Conversion of loan into share capital	**230**	–
Movement in net (debt)/cash	**(1,781)**	7
Net opening cash at 1 February 2005	**1,607**	1,600
Net closing (debt)/cash at 31 January 2006	**(174)**	1,607

19 Analysis of changes in net cash and debt

Group	At 1 February 2005 £'000	Cashflow £'000	Non cashflow £'000	At 31 January 2006 £'000
Cash in hand	1,607	(656)	–	**951**
Convertible loan	–	(1,355)	230	**(1,125)**
Net cash/(debt)	1,607	(2,011)	230	**(174)**

20 Capital commitments

The Company had no capital commitments at 31 January 2006 or 31 January 2005.

21 Contingent liabilities

At 31 January 2006, the Group had a bank guarantee outstanding for £118,116 (2005: £118,116) in favour of Granta Park Limited. The amount is a rent deposit on the Group's sales and marketing office in the Granta Science Park in Cambridge. The guarantee is effective until 15 August 2006.

There were no other contingent liabilities at 31 January 2006 or 31 January 2005.

22 Leasing commitments

Operating lease payments amounting to £231,000 (2005: £350,000) are due within one year. The leases to which these amounts relate expire as follows:

	2006		2005	
Group	**Land and buildings £'000**	**Other £'000**	Land and buildings £'000	Other £'000
In one year or less	**97**	**48**	–	57
Between one and five years	**86**	**–**	293	–
In five years or more	**–**	**–**	–	–
	183	**48**	293	57

The lease on offices in the Granta Science Park, Cambridge expires in July 2006 and the remaining amount payable from 1 February 2006 to the date of expiry is £97,000.

23 Financial instruments

Financial risks

The Group's financial instruments comprise cash and liquid resources, borrowings and items such as trade debtors and trade creditors that arise from its operations.

The main risks that arise from the Group's financial instruments are interest rate, currency and liquidity risk. The board reviews and agree policies for managing each of these risks and they are summarised below.

Liquidity risk

The Group seeks to manage this financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest surplus cash assets safely and profitably.

Currency risk

The Group manages currency risk by assessing the net exposure in each non-sterling currency in which exposure arises. The only significant such exposure relates to US dollars and this has been assessed as minimal, since the Laurus loan US$ liability is offset by US$ receivables from sales.

24 Group interest rate profile

Financial assets at 31 January 2006	Floating rate Cash current bank accounts £'000	Floating rate Deposit and reserve account £'000	Fixed rate Cash current bank accounts £'000	Fixed rate Deposit and reserve account £'000	Total £'000
Currency					
Sterling	541	256	–	119	916
US dollars	35	–	–	–	35
	576	**256**	**–**	**119**	**951**

Financial assets at 31 January 2005	Floating rate Cash current bank accounts £'000	Floating rate Deposit and reserve account £'000	Fixed rate Cash current bank accounts £'000	Fixed rate Deposit and reserve account £'000	Total £'000
Currency					
Sterling	269	1,106	–	227	1,602
US dollars	5	–	–		5
	274	1,106	–	227	1,607

Financial liabilities	Floating rate **2006 £'000**	Floating rate 2005 £'000	Fixed rate **2006 £'000**	Fixed rate 2,005 £'000
Currency				
Sterling	**–**	–	**–**	–
US dollars	**1,125**	–	**–**	–
	1,125	–	**–**	–

Interest on the Laurus convertible loan is payable at 2% above New York Journal Prime, which has resulted in an effective interest rate of circa 8.5%.

The Group did not have any financial liabilities at 31 January 2005.

Fair values of financial assets and liabilities

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

Hedging

The Group did not hedge its financial transactions in the current year or preceding period.

24 Group interest rate profile *continued*

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 January 2006. 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.

Financial assets	**2006 deposit account £'000**	2005 deposit account £'000
Currency		
US dollars	**35**	5
	35	5

Financial liabilities	**2006 convertible loan £'000**	2005 convertible loan £'000
Currency		
US dollars	**1,125**	–
	1,125	–

25 Transactions with related parties

The Company has taken advantage of the exemption in Financial Reporting Standard No 8 'Related party disclosures' and has not disclosed transactions with Group undertakings.

There are no other related party transactions.

COMPANY INFORMATION

Company registration number: 2659005

Registered office:
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Company website:
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Directors and Secretary:

Ms T A Wallis	Non-Executive Chairman
Dr T K O'Brien	Chief Executive Officer
Mr H M J McGarel-Groves	Finance Director
Dr D M Band	Scientific Director
Mr J G Barry	Sales and Marketing Director
Mr I G Brown	Non-Executive Director
Ms D Johnson	Secretary

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NOTES

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