LiDCO

2015/16

LiDCO Group Plc Annual Report & Accounts for the year ended 31 January 2016

About LiDCO

LiDCO is a supplier of non-invasive and minimally invasive hemodynamic monitoring equipment to hospitals. Our products are used principally in the treatment of high-risk patients in both critical care units and in the operating theatre. They monitor the amount of blood flowing around the body helping clinicians and nurses to ensure that vital organs are kept adequately perfused with oxygenated blood by the adjustment of supportive fluid and drugs.

Clinical studies show that the optimisation of the hemodynamic status of high-risk patients produces better outcomes. LiDCO's computer-based technology is proven to significantly reduce mortality, complications, length of stay and the overall costs associated with major surgery.

With few competitors, there is a large and growing market for LiDCO's monitors. Once installed our monitors generate high recurring revenues from single patient use disposables. LiDCO has established itself as a leading edge innovator in the hemodynamic monitoring market which the Company believes is a potential $2 billion market opportunity.

www.lidco.com

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Financial highlights

- Revenue of **£7.59m** (2014/15: £8.27m) down **8%** largely due to a number of monitor sales slipping into the current financial year
- LiDCO product revenue (excluding third party products) of **£5.96m** (2014/15: £6.63m)
- Gross margins (excluding third party products) of **81%** (2014/15: 82%)
- Surgical disposables revenue down **5%** to **£3.21m** (2014/15: £3.39m)
- Critical Care disposable revenue up **2%** to **£1.61m** (2014/15: £1.58m)
- Loss before tax* of **£0.34m** (2014/15: profit £0.33m)
- Loss per share of **0.21p** (2014/15: earnings 0.18p)
- Debt free with cash at year-end of **£1.59m** (2014/15: £1.51m)

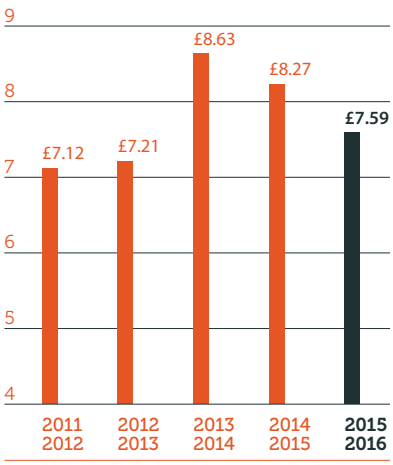
* before exceptional item and share-based payments

Operational highlights

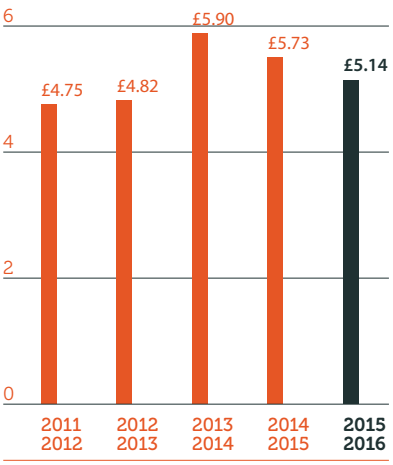
- Year of transition with Matthew Sassone appointed Chief Executive Officer in August 2015
- Awarded a five year purchasing agreement by MedAssets, a US based group purchasing organisation working on behalf of a large 38 hospital healthcare group
- 160 monitors sold/placed (2014/15: 267); 137 surgical monitors (2014/15: 210)
- Surgical disposable unit sales 39,975 (2014/15: 44,758)
- ICU disposables unit sales up 5% to 16,777 (2014/15: 15,903)
- Master Distribution Company appointed to manage South East Asia and Australasia
- Sales to Japanese distributor re-commence after two years

After year end

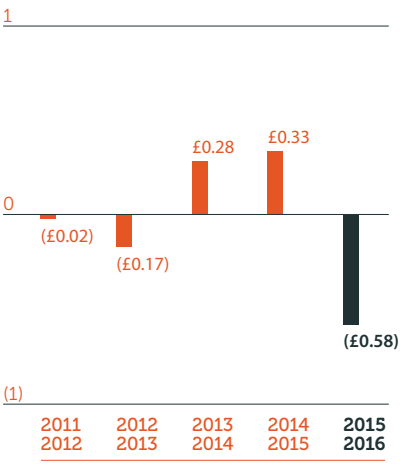
- Launch of new LiDCO*unity* hemodynamic monitor in Europe
- Awarded a NHS Supply Chain Framework Agreement for LiDCO products
- Appointed second Master Distribution Company to manage Sub-Sahara Africa
- Renewed five year commercial agreement with Argon Medical to distribute their pressure monitoring products in UK & Ireland
- Chinese Food and Drug Administration (CFDA) has formally approved the LiDCO*rapid*^{v2} for commercial sale in China



Revenue
£million



Gross profit
£million

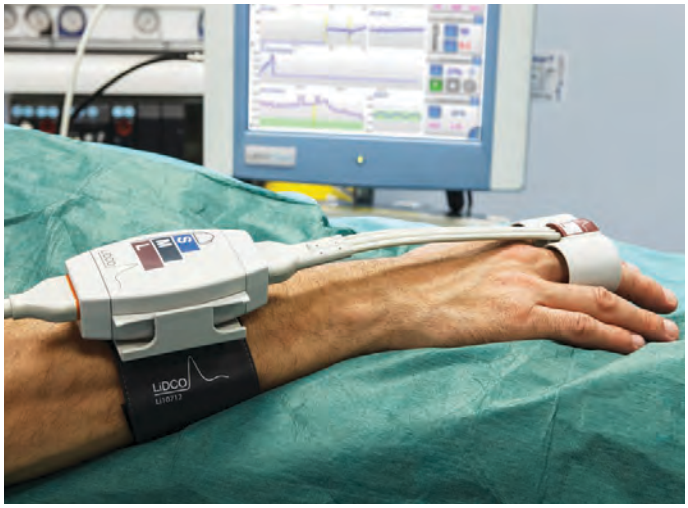


Profit/(loss) from operations*
£million

Our products

The growing market acceptance of the benefits of fluid monitoring offers significant opportunities for LiDCO's innovative, leading-edge products. They are easy to use in a variety of clinical settings and are under continual development. They require a low level of in-service resourcing and deliver recurring income with high margins. All our monitors use single-patient disposables that deliver an ongoing revenue stream. Our business model provides us with the ability to offer flexible customer solutions and the opportunity to scale-up production and sales with minimal increase in headcount.

We have a strong track record of regulatory approval and intellectual property creation. We also benefit from several routes to market including direct sales, a distributor network, licence fees and royalties.



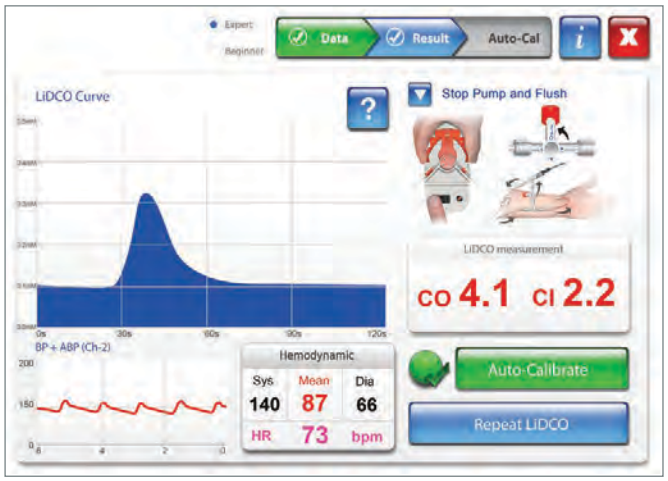
LiDCO*plus* a computer-based platform monitor used in the intensive care unit for real-time continuous display of hemodynamic parameters including cardiac output, oxygen delivery and fluid volume responsiveness (PPV% and SVV%).

LiDCO*rapid* a cardiac output monitor aimed for use in the operating theatre and peri-operative arenas for fluid and drug management. Specifically designed for multi-parameter monitoring of both depth of anesthesia and fluids. The software incorporated into LiDCO*rapid*^{V2} allows the monitor to co-display Medtronic's level of consciousness parameter and add the convenience of CNSystems' continuous non-invasive blood pressure (CNAP^{TM}*) monitoring. This addresses the growing requirement for more comprehensive non-invasive monitoring solutions. The monitor enables anaesthetists to obtain immediate accurate feedback on a patient's fluid and hemodynamic status – a key measure of overall wellbeing before, during and after surgery.

LiDCO*view* an easy-to-use graphical display of historical LiDCO*plus* and LiDCO*rapid* hemodynamic data used for research and education purposes.

LiDCO*unity* is our new 3 in 1 hemodynamic monitor that combines the full suite of LiDCO technology into one offering. The advanced monitoring system adapts to patients changing acuity levels and enables our customers to have seamless monitoring from the emergency department to the intensive care unit, the operating room to high dependency units. LiDCO*unity* has the flexibility to offer non-invasive, minimally invasive and calibrated hemodynamic monitoring all on one platform, meeting our customers' needs as their patients' acuity changes.

* CNAP^{TM} is a trademark of CNSystems Medizintechnik AG.



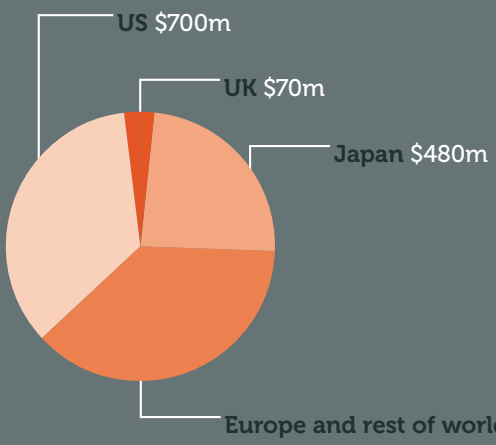
Positioned for growth

We aim to deliver long term, sustainable growth. Our strategy is to sell directly to hospitals in the UK and USA and through a network of specialty critical care and anesthesia distributors in Japan and the rest of the world.

As well as growing both domestic and international sales, we will develop and add more functions to our LiDCO*rapid* monitor platform, building acceptance and higher use through clinical outcome studies in targeted high-risk patient populations.

The surgical high-risk monitoring market is entering the growth early majority adoption phase in a number of territories. LiDCO expects surgery disposables to continue to grow in the UK, US, Japan and ROW territories. Higher levels of growth depend on further developing the market channel in territories where the opportunity has or is now entering mainstream adoption.

LiDCO's technology is portable and now completely non-invasive. This gives us the opportunity to further grow the market opportunity through extending the applications for our technology beyond the current peri-operative high-risk environment to additional surgical, interventional cardiology and medical settings.



Total potential market for disposables addressed by LiDCO*rapid*^{v2} is

$2 billion

Strategic report

The Group has spent the year focusing its sales resource seeking to progress the global opportunities for the LiDCO technology. Although sales for the financial results for 2015/16 were lower than expected, underlying this there have been a number of activities that we believe will drive future growth for the Group. The fundamentals of our high margin recurring disposable business model are strong, the global market for hemodynamic monitoring continues to grow, and the Group is both cash generative and debt free. The focus for LiDCO now is how we best address expansion beyond our core UK market.

Matthew Sassone
Chief Executive Officer

Since taking over as Chief Executive Officer in August 2015, we have been working on the strategic initiatives outlined at the interim stage, which can be grouped under the following headings:

- Geographical expansion
- Commercial focus
- Maintain our technology leadership
- Focus on specific market applications

Geographical expansion

Geographical expansion is the greatest driver of future growth and in the last year we have made a significant step forward in the largest and fastest growing market for our technology, the USA. In October 2015 LiDCO was awarded a five year purchasing agreement by MedAssets on behalf of a large US healthcare group that serves 10 million people each year in 38 hospitals across eight US states. To address this and the other growing opportunities we have plans in place to progressively add to our direct sales force.

In our distributor markets, significant progress has been made in creating the infrastructure needed to transition our business to a more repeatable and sustainable model. Our internal resources will manage distributors in the territories with the greatest mid to long term market opportunities and we will utilise master distribution companies to manage those distributors that we feel will be better served by a more local presence. As part of this more tailored approach to distribution management we have selected markets within Europe, the Middle East and Asia where we have identified strong growth opportunities and are investing together with our partners in promotional activities to further market development.

Linked to this we are aiming to gain registration in a number of key countries in 2016/17. As the world's second largest hemodynamic monitoring market, Japan is strategically important to us and I am pleased that after two years without sales of either monitors or disposables we have begun to receive new orders.

Despite the challenges of the UK market, judging our performance versus our peers we feel encouraged that we can exploit the opportunities for our technology by focusing our unique product on specific patient groups and further expanding our market share.

Commercial focus

I have reviewed the commercial focus of the business since my appointment and in the short term we have focused on tight control of overheads whilst delaying any further significant investment in sales and marketing resources and activities. We are however progressively investing in improving the way we promote ourselves globally. We have made a significant management change in the UK, realigned our sales incentives globally and are now focusing our sales efforts with a more traditional style of pipeline management.

Technology leadership

Turning to technology, I am pleased to announce that in March 2016 we launched our latest monitor, LiDCO*unity*, in the UK and Europe, and we received approval from the USA's FDA in the same month. LiDCO*unity* combines the full suite of LiDCO technology into one product, offering our customers the ability to use one monitor and one disposable for the whole acute care patient pathway. This is a unique differentiator and maintains our technology leadership position.

Strategic report
continued

Specific market application focus

When focusing on specific market applications, the fundamentals of the global market remain unchanged. It has been estimated that up to 230 million anesthetic procedures are performed each year in the world with a death rate in the region of 4% and a significant number of patients developing post-operative complications. Most post-operative complications are related to an imbalance between oxygen delivery and oxygen consumption. LiDCO's technology when used in high-risk patients in both intensive care and surgical settings as part of goal-directed hemodynamic therapy has been repeatedly shown to improve patient outcomes through the optimisation of cardiac output and oxygen delivery to tissues preventing situations of hypoperfusion.

Given the compelling results from studies utilising hemodynamic monitoring, it is not surprising that interest in the identification and better treatment and monitoring of high-risk surgery patients continues to grow globally, albeit constrained by healthcare budgets in some territories. Within this large market we are focused on specific segments where there is either the strongest clinical evidence (for example: emergency laparotomy) and/or where the uniqueness of our offering differentiates us from the competition (for example: sepsis).

With the implementation of these key strategic initiatives, combined with a growing global market, we foresee 2016/17 as being a year of solid sales growth, but recognise that our greatest opportunity for future growth will be to reinvest profits in the business for the medium term.

FINANCIAL REVIEW

Revenues

Total revenues for the year were £7.59m (2014/15: £8.27m) including sales of third party products of £1.63m (2014/15: £1.64m). Generally, global markets were challenging with regard to capital monitor sales which accounted for the majority of the reduction in LiDCO product sales. Further comment on revenues by territory is provided below.

Gross profit and margin

With the gross profit margin from LiDCO product sales being similar to last year at 81% (2014/15: 82%) overall gross profit fell in tandem with LiDCO product revenue to £5.14m (2014/15: £5.73m). The gross margin achieved on the sale of third party products remained constant at 20%.

Overheads

Total overheads (before exceptional costs) increased marginally to £5.56m (2014/15: £5.49m). There were exceptional costs of £163,000 relating to the recruitment of the new CEO, Matt Sassone together with an element of overlap costs during the handover period with Dr Terry O'Brien.

As noted in the interim statement there was a re-structuring of the UK sales force during the year, reducing the UK sales management infrastructure and sales costs in the second half and we now consider these to be at a suitable level for the UK. Geographical expansion remains the greatest driver of our future growth and we expect to progressively increase sales resources in the US in the current year. The average full time equivalent headcount (excluding non-executive directors) was unchanged at 44 employees.

Earnings and tax

The Group made an adjusted loss before tax (adjusting for an exceptional item and share-based payment charges) of £343,000 (2014/15: profit £326,000). After charging those items and receiving the benefit of £168,000 of research and development tax credits, the Group made an overall loss for the year of £416,000 (2014/15: profit £343,000) equating to a loss per share of 0.21p (2014/15: earnings per share 0.18p).

The Group has a potential unrealised deferred tax asset of £4.80m, recognition of which will be considered when a sustained trend of profits is more established.

Cash flow, borrowings and cash balances

Despite the loss during the year, the Group remained cash generative with a year-end cash balance of £1.59m (2014/15: £1.51m) and the business remains both well-funded and debt free. The Group expects to be cash generative in the current financial year.

Property, plant and equipment

There was a net decrease in property, plant and equipment in the year of £148,000 with additions of £163,000 offset by depreciation of £307,000. The most significant additions continue to be £127,000 of medical monitors that comprise placed monitors on long term loan to hospitals in the UK and USA for active use where the hospital pays for disposables together with monitors for demonstration purposes and clinical trials. The placed monitors attract a premium on the price of disposables to compensate for the cost of providing and servicing these monitors.

Intangible assets

Expenditure on intangible assets in the period was £493,000 (2014/15: £635,000) of which £419,000 (2014/15: £540,000) was spent on product development with a further £74,000 (2014/15: £94,000) spent on new product registration, predominantly in respect of Japan and China. Expenditure on product development included the new LiDCO*unity* monitor, HL7 connectivity and enhancements around the PulseCO™ algorithm.

Inventory

Inventory was reduced by £180,000 in the year. Although we expect inventory levels to reduce further in the current financial year, traditional rates of inventory turn cannot always be applied to the Group as it relies on a number of single-source key suppliers and strategically maintains high levels of inventory in respect of such suppliers.

OPERATIONAL REVIEW

REVENUE PERFORMANCE BY PRODUCT AND KEY GEOGRAPHIES

	Year to January 2016				Year to January 2015			
	Monitors £'000	**Disposables £'000**	**Other £'000**	**Total £'000**	Monitors £'000	Disposables £'000	Other £'000	Total £'000
LiDCO product								
UK	**279**	**2,983**	**322**	**3,584**	610	3,045	297	3,952
US	**86**	**976**	**9**	**1,071**	161	929	14	1,104
Japan	**9**	**26**	**–**	**35**	3	–	–	3
Europe	**145**	**572**	**15**	**732**	290	591	18	899
Rest of World	**265**	**264**	**7**	**536**	259	406	3	668
	784	**4,821**	**353**	**5,958**	1,323	4,971	332	6,626
Third party product								
UK	**–**	**1,635**	**–**	**1,635**	–	1,641	–	1,641
Total revenue	**784**	**6,456**	**353**	**7,593**	1,323	6,612	332	8,267

The most significant component of the revenue labelled 'Other' above is monitor service contracts in the UK which were £256,000 (2014/15: £243,000).

UNIT SALES PERFORMANCE BY CATEGORY IN KEY GEOGRAPHIES

Unit sales (including placed monitors)	Year to January 2016		Year to January 2015	
	Monitors units	**Disposables units and use**	Monitors units	Disposables units and use
Surgery products				
UK	**48**	**22,965**	73	24,410
US	**31**	**6,885**	37	7,065
Japan	**–**	**500**	–	–
Europe	**29**	**6,895**	37	7,210
Rest of World	**29**	**2,730**	63	6,073
Surgery total	**137**	**39,975**	210	44,758
ICU products				
All territories	**23**	**16,777**	57	15,903
Total	**160**	**56,752**	267	60,661

Strategic report
continued

During the period a total of 160 monitors (2014/15: 267 monitors) were sold or placed, with total disposable unit sales of 56,752 (2014/15: 60,661). Revenue from sales of monitors was £0.78m (2014/15: £1.32m). Surgical disposables units and revenue were down 11% to 39,975 units (2014/15: 44,758) and £3.21m (2014/15: £3.39m) respectively. Sales of intensive care disposable units rose from 15,903 to 16,777 units with revenue of £1.61m (2014/15: £1.58m). The changes by territory are shown on the table above. Total disposable revenues (including third party products) represented 85% of total product revenues (2014/15: 80%) and their product margin contribution represent 84% (2014/15: 87%) of total administration costs before exceptional costs.

UK

Sales in the UK market (excluding third party products) were £3.58m (2014/15: £3.95m) and including third party Argon products were £5.22m (2014/15: £5.59m). Sales were affected by delayed capital purchases as customers' budgets were restricted, resulting in capital purchases being £0.33m lower than prior year. A number of monitor sales slipped into the current financial year. The last few years' purchases of disposables have been impacted by both changes to, and the introduction and then withdrawal of, central incentives for NHS hospitals to procure hemodynamic monitors and disposables. We believe the final effects of this have now washed through. Revenues from surgical disposables were down 3% whilst units declined 6% to 22,965 (2014/15: 24,410) but overall our UK surgery business remained flat. Our ICU disposable sales were also stable but a drop of £0.38m in ICU monitor sales resulted in overall UK sales declining. Despite our domestic market being a challenging environment, we remain confident that there are opportunities in the UK by focusing our technology on specific patient groups and expanding our market share further.

Our surgery products were awarded a national NHS framework agreement for the first time and we expect the forthcoming launch of the LiDCO*unity* monitor to bolster our ICU revenues. In addition we made changes to our UK sales structure to drive stronger pipeline management and focus on the opportunities available to gain further market share.

US

In the US we sell direct via a small sales force whilst exploring ways to increase our access to this large and growing market. Overall the US business declined slightly to £1.07m (2014/15: £1.10m) as we focused our efforts early in the year on winning a significant purchasing agreement which impacted on our first half performance. However, in the second half we returned to a double digit year-on-year growth rate and in October 2015 LiDCO was awarded the above-mentioned five year purchasing agreement by MedAssets, a US based group purchasing organisation acting on behalf of a large US healthcare group. This major healthcare group serves 10 million people each year in 38 hospitals across eight US states. Whilst this agreement did not provide revenue in the financial year 2015/16 we expect it to make a material contribution to our business moving forward.

The US market is where we see the greatest opportunities for growth globally. This reflects a greater drive to adopt Enhanced Recovery After Surgery ('ERAS') and Perioperative Surgical Home programmes ('PSH'), both of which include proactive management of patients' hemodynamic status. Logistically, market access is our greatest challenge and we continue to investigate regional distribution partnerships together with increasing our direct sales team. To better exploit the MedAssets agreement and other opportunities we recruited an additional sales person in the current financial year.

We expect another driver of growth to come from our royalty license agreement with ICU Medical, which has an existing installed base of invasive catheter-based cardiac output monitors. ICU Medical have completed development of, and submitted a 510(k) to the USA FDA for, their new hemodynamic monitor (Cogent) that incorporates our technology. We expect to start receiving a royalty income from sales of both monitors and disposables by ICU Medical in the second half of 2016, after they launch their new monitor in the USA.

Japan

Sales of the LiDCO*rapid* disposable kit (including Argon's blood pressure transducer) are reimbursed in the Japanese market, which is the second largest market for hemodynamic monitoring in the world after the USA. Nihon Kohden was appointed in August 2012 as the exclusive distributor for the LiDCO*rapid* monitor and disposable kit in Japan. Nihon Kohden collaborates with LiDCO and its other partner Argon Medical Devices, to market and sell LiDCO*rapid* products in Japan.

After two years without sales of either monitors or disposables following a large order in January 2014, we have recommenced selling disposables to our partners in Japan. Japan is a conservative market and our partners are growing end user sales but need to counter a highly embedded competitor. Monitor sales to our distributor have recommenced in the new financial year and we expect disposable sales to continue in line with in-market sales now that their inventory has reduced.

During 2015/16 we achieved the registration of the LiDCO*rapid*^{v2} software with non-invasive blood pressure module in Japan. This enables us to expand our offering and the recent awarding of a procedural reimbursement when using non-invasive hemodynamic monitoring enables us to target an additional patient population.

Continental Europe

Sales in Europe were £0.73m (2014/15: £0.89m) with monitor sales of 31 units compared with 50 units last financial year. At the interims I spoke about moving to more sustainable and repeatable sales within our distributor markets. Looking forward we see opportunities for growth in northern Europe driven by a greater awareness of the perioperative benefits of using hemodynamic monitoring. In addition we are looking to expand into new markets, for example Turkey where we are in the process of applying for local reimbursement.

Rest of World

In the previous year 2014/15, sales grew strongly due to a significant sale to our Chinese distributor on the expectation of receiving registration for our products in 2015. LiDCO, like many other medical device manufacturers experienced long delays in the Chinese registration process and we eventually received the approval to start selling our products in March 2016. Sales in ROW were £0.54m (2014/15: £0.69m). Excluding the sale to our Chinese distributor in 2014/15, sales grew by 16%.

Since November 2015 we have appointed master distribution companies for South East Asia, Sub-Sahara Africa and Canada. Due to the high margin of our products we can afford to work through partners that will manage groups of distributors on our behalf, enabling us to manage a greater number of distribution partners without increasing direct sales resource.

We anticipate demand from China, India and the Middle East in 2016/17 and are working with our distribution partners to drive greater awareness of ERAS and perioperative fluid management principles.

New Products

In March 2016 we launched our latest monitor LiDCO*unity* at the International Symposium on Intensive Care and Emergency Medicine ('ISICEM'). LiDCO*unity* is a '3 in 1' hemodynamic monitor that combines the full suite of LiDCO technology into one offering. The advanced monitoring system adapts to patients' changing acuity levels and enables our customers to have seamless monitoring from the Emergency Department to the Operating Room to the Intensive Care Unit to the other High Dependency Units. LiDCO*unity* has the flexibility to offer non-invasive, minimally invasive and calibrated hemodynamic monitoring all on one platform, meeting our customers' needs as their patient's well-being evolves.

The LiDCO*unity* combines all the best features of LiDCO's products and represents a flexible multi-modal monitor that further distinguishes the Company's products from the competition, allowing the customer choice regarding the degree of invasiveness while continuing to offer the option of continuous brain function (depth of anesthesia) monitoring. Patients can now benefit from continuous hemodynamic and non-invasive blood pressure monitoring at any stage of their treatment and in all of the hospital locations where such care is required.

We received the registrations for LiDCO*unity* in Europe and the USA in February 2016 and March 2016 respectively. This meant we were not able to realise any sales in the financial year 2015/16, although we expect the product to make a contribution in the current financial year.

Non-invasiveness is becoming an increasingly important feature of medical technologies in key target countries such as the USA and the Company is continuing to explore ways to build on this technology and further develop our offering.

Over the year we continued to upgrade our software to add additional features and functionality. All new LiDCO monitors are now compatible with HL7, the industry standard electronic medical record communication language, adding further connectivity between our devices and hospital information systems.

Intellectual Property

Underpinning our technology and revenue streams is a strong brand and patent position. Patent cover provides us with a protectable product and strong market position. Wherever possible we take the initiative in developing and protecting our advances in physiological signal processing and intelligent graphical user interfaces. We are pleased to report that we have submitted further patent applications that enhance our core PulseCO™ algorithm.

LiDCO technology detects blood loss

5 times quicker

than major competitors

Clinical evidence and support

For medical technologies to be introduced into mainstream practice, increasingly their use has to be shown to be both clinically and cost effective.

During the year a number of important clinical papers were published supporting the use of LiDCO technology:

1. A research group in Australia evaluated the performance of minimally invasive cardiac output monitors to detect blood loss in volunteers subjected to blood removal of 2.5% blood volume aliquots to a total of 20% blood volume removed. The devices tested were LiDCO's LiDCO*rapid*, Edwards' Vigileo FloTrac™, and the USCOM and Deltex CardioQ™ Doppler based devices. A statistically significant difference from baseline stroke volume (a measure of the circulation ability to fill the heart effectively) was detected quickest by the LiDCO device after only 2.5% blood loss, compared to the other devices where blood loss was detected less quickly – the USCOM device detected after three times as much blood had been lost (7.5%), Deltex CardioQ™ and Edwards FloTrac™ devices detected after five times as much blood had been lost (12.5%). It is not possible to detect blood loss early enough using the traditional monitoring parameter of blood pressure. The precision to detect small changes in blood volume status is valuable in many clinical settings therefore earliest detection must be the goal. Through this excellent comparative study, LiDCO monitors have been shown to be the quickest at detecting blood loss. This performance gives our customers the best chance of avoiding excessive blood loss and guiding fluid replacement. Reference: Evaluation of the utility of the Vigileo FloTrac™, LiDCO™, USCOM and CardioQ™ to detect hypovolaemia in conscious volunteers: a proof of concept study. Reference: Anaesthesia 2015, 70, 142–149

2. A meta-analysis analysing the effect of GDHT (Goal Directed Hemodynamic Therapy) in adult non-cardiac surgery patients. The authors analysed the results of 10 randomised controlled trials involving 1,527 patients undergoing elective and emergency surgery. The authors concluded (with high statistical significance $p < 0.001$) that the use of GDHT with minimally invasive monitoring decreases post-operative complications and that "potential cost savings resulting from GDHT were substantial." An additional conclusion from the meta-analysis was that it is better to perform perioperative therapy than to restrict it to the postoperative period. Reference: Journal of Clinical Anesthesia 2016, 28, 105–115

Strategic report
continued

3. A randomised study investigating the effectiveness of goal-directed fluid therapy (GDFT) with the LiDCO*rapid* system on mothers and their babies who have been selected for caesarean section. It is critical in this group of patients to adequately manage hypotension and the effects of poor perfusion on the unborn child. The study concluded that LiDCO*rapid*-guided GDFT can reduce the incidence of maternal hypotension and vasopressor requirement during operation, with a subsequent decrease in the incidence of neonatal adverse events. Reference: Journal of Obstetrics & Gynaecology Research 2015, 41, 1547–1555

4. As a follow on from the OPTIMISE study, a multi-centre trial in the UK aimed at improving surgical outcomes by optimising cardiovascular management through goal-directed fluid therapy, published in the Journal of the American Medical Association, a cost-effectiveness analysis was undertaken using the data from this multi-centre randomised trial that recruited patients from 17 hospitals in the UK. The cost-effectiveness analysis used information on health-related quality of life (QoL) at randomisation, 30 days, and 6 months combined with information on vital status to report quality-adjusted life years (QALYs). Each QALY was valued using the National Institute for Health and Care Excellence (NICE) recommended threshold of willingness to pay (£20,000 per QALY) in conjunction with the costs of each group to report the incremental net monetary benefits (INB) of the treatment algorithm versus usual care. The research showed that using a conservative estimate the size of the NHS patient population eligible for this type of treatment was 270,503 over a five-year period and that the savings that could be achieved were £65 million. In addition for high-risk patients undergoing major gastrointestinal surgery, the use of a peri-operative, cardiac output guided hemodynamic therapy was associated with an average cost reduction and is likely to be cost effective at the threshold recommended for the UK by NICE. Reference: Sadique et al. Perioperative Medicine 2015

5. An editorial published in the World Journal of Surgery examined survival after emergency surgery and what can be learned from enhanced recovery after surgery programmes. The paper comments on the quiet revolution in the delivery of elective surgical care through evidence-based perioperative pathways, otherwise termed enhanced recovery after surgery (ERAS) highlighting the significant reductions in postoperative complications, length of stay (LOS) and an improvement in long term survival rates. However it points out that the challenge is that emergency general surgical operations carry a mortality rate at least ten times higher than many similar elective procedures. The editorial highlighted a recent study by Huddart et al that demonstrated a significant reduction in mortality for patients undergoing emergency laparotomy. This quality improvement project across four large hospitals in the UK applied the simple principles of evidence-based medical care and quality improvement methodology, which included goal-directed fluid therapy. Reference: World Journal of Surgery 2016 DOI 10.1007/s00268

Outlook

Having been in the role now for eight months I am pleased with the progress we have made in implementing the building blocks for future growth. Our main challenge going forward is not one of validation for our technology, but rather execution and ensuring that we have the resources to expand our product sales into the many countries where adoption of advanced hemodynamic monitoring is now occurring. We are making good progress with the strategy laid out in October 2015 and have plans to expand our commercial efforts to achieve significant top line growth.

The fundamentals of the business and the global market for the technology remain strong. LiDCO's offering has been shown to be safe, effective and unique. With the launch of LiDCO*unity* we continue to demonstrate how we will remain a technology leader in the field of hemodynamic monitoring.

We foresee 2016/17 as being a year of sales growth and cash generation. Whilst we expect to be profitable, we will continue to invest in the business to achieve the substantial growth opportunities that we believe are available with our proven and patented technology.

How we create value: our business model

LiDCO is a UK-based manufacturer and supplier of monitoring equipment and associated single patient use disposables to hospitals. LiDCO monitors are 'platform' in design. This means they can be easily and cost-effectively upgraded to add new software features and parameters by the addition of USB-connected modules. Our technology, coupled with our low cost manufacturing and product sourcing skills, combine to produce a highly differentiated, patent-protected monitor with a recurring income stream from the sale of dedicated high margin single patient use disposables.

Our monitors continuously display a number of crucial physiological parameters including arterial blood pressure, the effects of anesthesia on the level of consciousness of the brain, the requirement for intravenous fluids and the amount of blood and oxygen supplied to the body's tissues and organs. We provide this crucial data via an easy-to-interpret monitor user interface which helps clinicians and nurses ensure vital organs are adequately perfused and that patients are not over-anesthetised or sedated.

Historically, hemodynamic monitoring was invasive in nature, requiring the insertion of invasive central catheters. For this reason, it was only available to a restricted number of the high-risk patients that could potentially benefit. LiDCO's technology does not require the insertion of central catheters and can be used completely non-invasively and in both ventilated and non-ventilated patients.

Our customers are acute care physicians and nurses working in hospitals caring for emergency and high-risk patients. Hospitals are migrating away from invasive technologies towards the use of less invasive monitoring, which has been shown to be cost-effective and improve outcomes. Use of LiDCO monitors in high-risk patients in both intensive care and surgical settings has been shown to reduce mortality, complications, length of hospital stay and improve quality of life.

The key features of our business model:

- We have developed a new generation of hemodynamic monitoring products designed to address a developing disposable market opportunity – internally estimated to be potentially $2 billion per annum.
- Our disposable products are produced in high volume with low cost manufacturing processes and have a high margin.
- Sales of our products are supported with a growing body of evidence to satisfy purchaser requirements for clinical and cost effectiveness.
- We generate revenues principally through the sale or licensing of the sale of single-use disposables into a growing installed base of LiDCO-enabled monitors.
- We protect our disposable income stream through having patented products with high levels of proprietary intellectual property which are subject to on-going development.
- We provide first-class training and education to our customers. This helps entrench our technology and reduce hospitals costs, with a focus on providing LiDCO with a sustainable recurring income.

Delivering our objectives: our strategy

Our strategy is to build shareholder value through the commercialisation of LiDCO monitoring systems and associated disposables. Excellence in product design, manufacturing and sales and marketing are at the core of our values. Our products are patent protected and supported by a growing body of data showing their clinical and cost-effectiveness. Our technology is not only usable in traditional locations such as the intensive care and surgery departments, but also in any area of the hospital where high-risk patients require such monitoring. Hospitals acquiring our compelling hemodynamic platform monitors can transition from traditional invasive catheter-based monitoring to LiDCO's minimally or non-invasive monitoring in high-risk patients, thereby reducing complications and lowering costs and length of stay.

It is our strategy to derive revenue growth predominantly from increasing use of our technology and high margin disposables into a growing installed base of LiDCO-enabled monitors.

Geographical expansion is key to LiDCO's capacity to address the worldwide opportunity for sales of our technology. Our sales and distribution model has three elements. Firstly, we have direct sales into hospitals in the UK and USA. Elsewhere we sell via distribution partners. Our depth of margin on disposable sales allows us to attract quality specialist distribution partners on an exclusive and non-exclusive basis, plus where necessary work through master distribution organisations to manage our distributors on our behalf.

Our core technologies are patented and we see licensing our technology as another way to access the market. We have licensed our algorithm on a non-exclusive basis to a major corporate partner in the US in return for future royalty payments. We continue to explore further arrangements to access the US market and plan to use the incremental revenue streams from our licensing arrangement to fund more direct resources in this attractive market.

Measuring our performance: KPIs

The following KPIs are some of the indicators used by management to measure performance during the year:

KEY PERFORMANCE INDICATORS

	Year to January 2016	Year to January 2015
Revenue growth of LiDCO surgery products	**(5%)**	(2%)
Revenue growth of LiDCO ICU products	**(18%)**	(6%)
LiDCO product revenue per FTE employee	**£137,000**	£152,000
Monitors sold/placed in the year	**160**	267
Unit sales/use of surgery disposables	**39,975**	44,758
Gross profit margin on LiDCO products	**81%**	82%
Disposable margin as % of overheads	**84%**	87%

Strategic report
continued

Business objectives

Our financial objectives are to continue to profitably grow the business with cash generation. Revenue growth is expected to derive principally from increased sales of our surgical disposables. We expect the greatest growth of surgical disposable sales in the USA and key identified markets in the distribution territories. We expect the launch of LiDCO*unity* to expand use into all areas of the patient care continuum. This new product will help us reassert ourselves in the critical care segment as well as target new areas like obstetrics, emergency medical and surgery applications, where recent clinical publications have highlighted how our technology is capable of improving outcomes and reducing costs. Targeting specific patient care pathways is how we focus our activities on the greatest opportunities in our direct markets of the UK and the USA.

Our corporate collaborations are an important element of our business. There are a number of these in place, ranging from OEM module licensing-in (Medtronic and CNSystems), distribution provisions (Nihon Kohden and Argon) through to royalty-based licensing-out arrangements (ICU Medical).

In the current year we will focus on improving our digital presence as we recognise our customers rely on this for large parts of purchasing or post-purchase support. A new website is planned that will provide improved education for users and highlight the application of our technology in multiple clinical settings.

Geographical expansion is key to exploiting the opportunities in this growing market. We are aiming to expand our presence in the US as well as register our technology in a number of key markets including China, Saudi Arabia, Canada, Turkey and South Korea.

We launched our new product LiDCO*unity* at the 36th International Symposium on Intensive Care and Emergency Medicine (ISICEM) in Brussels in March 2016. We continue to invest to ensure that we retain our technology leadership position and dedicate resources to our next generation platform. Our next generation will look to add further tools that improve clinical decision making as well as catering for both the expert and novice user. At the foundation of our product development strategy is the objective of enabling our technology to be used along every step of the emergency or elective patient's care pathway.

PRINCIPAL RISKS

The Group maintains a comprehensive risk register and risk management is an important part of the management process. Regular reviews are undertaken at all levels of the business to assess the nature and magnitude of risks and the means by which they may be mitigated.

The directors consider the key commercial risks currently associated with the business are as follows (these are not listed in order of significance):

Employees, forecasting and performance

The Group relies on a small number of senior management with a wide range of relevant skills and specialist sector knowledge. The Group employs about 45 people and recognises that its success depends on the calibre of all its employees, retaining their knowledge and ensuring that their productivity is maximised. The Group therefore maintains programmes for appraising, incentivising, training and recruiting employees. The risk of underperformance is mitigated by adopting systems and processes to develop realistic plans and budgets and then closely monitoring performance against those plans. Such systems and processes provide a level of resilience and the ability to take corrective actions should a potential risk of underperformance be identified. The Group also pays close attention to safeguarding the health and safety of employees.

Intellectual property

The Group has generated a valuable portfolio of proprietary intellectual property and its success and value depend to a significant extent on this. The Company mitigates the risk of a weakening of its intellectual property position through securing and maintaining patents for its products, maintaining confidentiality agreements regarding its know-how and regularly reviewing where opportunities might exist to file new patent applications.

Supply chain management

The manufacture of the Group's products relies on the supply of components from third parties; therefore the failure of suppliers or subcontractors to continue in business or meet their commitments constitutes a risk to continuity of supply. This is mitigated by maintaining good relationships with key suppliers in order to understand their capabilities and maintaining contracts and technical agreements as appropriate. In addition we work with all of our suppliers to ensure that they meet the latest regulatory requirements. Sometimes due to the small volume of some critical components we maintain higher levels of inventory to mitigate any risks and where possible work to identify multiple sources of supply. In addition the Group continues to review its disaster recovery plans to mitigate any potential interruptions to supply.

Distributors and licensee

The Group relies on distributors for its sales and marketing activities outside the UK and US. It has also licensed its software to a US company. The Company mitigates the risk of distribution / licensing partner underperformance by selecting partners with the requisite resources, skills, access to customers and creditworthiness. In addition, the Group provides ongoing training programmes and supports and closely monitors partner activity to ensure that contracts with partners continue to be effective and up to date.

Health service budgets and introduction of online / e-procurement

The Group's performance is affected by governments' and hospitals' expenditure and any, or developing, budgetary constraints. The Group mitigates this risk by targeting a wide geographical area for its products and reducing its overall reliance on one market as well as by educating customers as to the value proposition of its products. In addition, in its direct markets it offers flexible models for purchasing. The Group has committed and effective distribution partners and focuses its efforts on sales opportunities where budgets are likely to be available. The introduction by the UK Department of Health of online procurement in late 2017 may increase pricing pressures.

Liquidity

The key financial risk is the management and maintenance of sufficient cash balances to support the ongoing development, supply and marketing of the LiDCO products. The Group mitigates this risk by seeking to maintain a high level of recurring disposable income which reduces its reliance on the sale of capital equipment to its customers together with, when appropriate, the use of shareholders' funds, overdrafts and finance facilities. In addition, with closer inventory management we aim to reduce the amount of capital tied up in inventory, and the Group has in place a system of internal financial controls to protect against unauthorised use of funds.

Product liability and litigation

Our products are used in critical applications and are used to direct clinicians' decision-making where the consequences of incorrect use could be extremely serious. The Group therefore seeks to ensure that customers are familiar with the use of the Group's products and are properly trained in their use. In addition the Group has insurance cover for certain product liability risks. Further mitigation is achieved by operating within a system of good design, test and manufacturing practices in line with the Group's quality assurance system and compliance with product regulatory requirements and standards relevant to the territories in which its products are sold. The Group is subject to regular audits by or on behalf of regulatory agencies and seeks to keep up to date with evolving regulatory requirements and standards.

Competition

Whilst the number of direct competitors is small, these include large companies with greater resources than LiDCO. In addition new competitor technologies may appear and some clinicians favour alternative approaches to the use of hemodynamic monitoring. These risks are mitigated by ensuring continued improvement of the Group's products to keep at the forefront of developments, maintaining technology leadership and differentiation from competitors, and by continuing to draw clinicians' attention to the advantages of our technology and the results of studies that show outcome benefits through the use of hemodynamic monitoring.

Matthew Sassone
Chief Executive Officer
11 April 2016

Glossary of terms

ASA – American Society of Anesthesiology
IOFM – Intra Operative Fluid Management
NHS – National Health Service (UK)
ERAS – Enhanced Recovery After Surgery
Meta-analysis – A systematic review of clinical trials with a meta-analysis is often considered the most objective of all types of reviews. A meta-analysis provides a quantitative analysis and estimation of the effectiveness of an intervention. In this meta-analysis the intervention was the protocolized and hemodynamically monitored use of a drug and/or fluid to increase blood flow in surgery patients.
AKI – Acute kidney injury
NICE – UK's National Institute for Health and Care Excellence

Board of Directors

Theresa Wallis
Non-Executive Chairman

Matthew Sassone
Chief Executive Officer

Ian Brown
Non-Executive Director

Paul Clifford
Finance Director

Theresa Wallis
Non-Executive Chairman
Ms Wallis was appointed in December 2002. She has worked most of her career in financial services, moving into the technology commercialisation sector in 2001. She worked for the London Stock Exchange for 13 years, where from 1995 to 2001 she was chief operating officer of AIM, the market for smaller growing companies, having managed the market's development and launch in 1994/5. From 2001 to end 2006 she was a principal executive of ANGLE plc, a venture management and consulting business focusing on the commercialisation of technology. Since 2001 she has held a number of non-executive directorships and she is currently a non-executive director of Special Products Limited and the Quoted Companies Alliance. Ms Wallis chairs the Group's Remuneration, Audit and Nomination Committees.

Ian G. Brown
Non-Executive Director
Mr Brown was appointed in October 2005. He has over 25 years' experience 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 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. The company was progressively sold to a major US healthcare group (Ofix). 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. Mr Brown is also a keen investor and advisor for a number of private technology and healthcare start-up companies. Mr Brown is a member of the Group's Remuneration, Audit and Nomination Committees.

Matthew Sassone
Chief Executive Officer
Mr Sassone was appointed to the board on 15 June 2015 and took over the role of Chief Executive Officer on the retirement of Dr Terry O'Brien on 14 August 2015. He has over 19 years' experience in the medical industry having started his career in sales for Quintiles in 1996. He spent 12 years at Smiths Medical in various sales, marketing and business development roles achieving the role of Managing Director, Northern and Eastern Europe and Russia in 2010. In 2012 he moved to ArjoHuntleigh, a division of the Getinge Group, as Senior Vice President Global Marketing and was subsequently appointed Chief Marketing Officer of Maquet, also a division of Getinge. Mr Sassone has a degree in biochemistry with microbiology. Mr Sassone is a member of the Group's Nomination Committee.

Paul Clifford
Finance Director
Mr Clifford is a chartered accountant, qualifying with Touche Ross (now Deloitte) in 1975. He joined the Group and was appointed to the Board in April 2008 having spent 28 years in finance positions in technology companies. In 1991 he co-founded BCS Computing Limited, a venture capital backed concern investing in computer software companies. He became finance director of software group Comino in 1996 prior to its flotation on AIM in 1997. Comino moved to a full listing in 1999 and was acquired by AIM quoted Civica plc in 2006 when Mr Clifford became finance director of Civica UK Limited, its main operating subsidiary, leaving in 2008.

Clinical Advisory Group

Dr Max Jonas
Dr Jonas is a Consultant Intensivist and Senior Lecturer in critical care working at Southampton University Hospitals. He is currently the Director of the 28 bed general intensive care unit and has specific interests in hemodynamics and the assessment of monitoring equipment. He is an elected member of the Council of the Intensive Care Society and has completed a six year term of the technology assessment section of the European Society of Intensive Care Medicine. He is the ex-president of the Society of Critical Care Technologists.

Professor Michael Pinsky
Professor Pinsky is Professor of Critical Care Medicine, Bioengineering, Anesthesiology, Cardiovascular Diseases, Clinical and Translational Research and Anesthesiology at the University of Pittsburgh School of Medicine, USA and is a member of the editorial board of the Journal of Critical Care and Critical Care Forum. He is editor-in-chief of the eMedicine WebMD's textbook Critical Care Medicine. He was awarded Docteur honoris causa (Dr hc) from the Université de Paris V (La Sorbonne), Master of Critical Care Medicine (MCCM) from the Society for Critical Care Medicine and the SMART lifetime achievement award from Milan. 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.

Dr Christopher Wolff
Dr Wolff holds the post of senior research fellow at The Centre for Clinical Pharmacology, The William Harvey Research Institute, Bart's and Queen Mary School of Medicine and Dentistry, London. He is a clinician, physiologist and mathematician and has major research interests in respiratory and cardiovascular physiology.

Dr David Band
Dr Band was appointed to the Clinical Advisory Group in April 2011. He co-founded LiDCO in 1991, is the co-inventor of the LiDCO system and until April 2011 was the Group's Scientific Director. 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.

Corporate Governance report

The UK Corporate Governance Code
Companies that have shares traded on AIM, the London Stock Exchange's market for smaller growing companies, are not required to comply with the UK Corporate Governance Code ('the Code'). Whilst the Group does not adhere to the Code, the Board is committed to maintaining high standards of corporate governance, and draws on best practice including those aspects of the Code it considers to be appropriate and practicable for a company of this size. In line with a focus on cost-effectiveness across the Group, the corporate governance processes in place balance the need to ensure that the Board carries out its responsibilities effectively with the need to do so cost-effectively.

The Board of Directors
The Board currently consists of two executive and two non-executive directors. Biographies of the directors are provided on page 15. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer (CEO) and their roles have been set out in writing and agreed by the Board.

As previously disclosed, in September 2014, Dr O'Brien gave the Board notice of his decision to retire from his position as CEO. An executive search firm was then selected to conduct the search for his successor as CEO and in June 2015 Mr Sassone joined the Company as CEO Designate. Induction and handover processes were undertaken and on 14 August 2015 Dr O'Brien retired and Mr Sassone took over Dr O'Brien's responsibilities as CEO.

The non-executive directors are Ms Wallis (Chairman) and Mr Brown (Senior Independent Director). The non-executive directors bring a wide range of skills and experience to the Board. The Board considers that the non-executive directors are independent, despite the fact that the terms of both non-executive directors now exceed nine years, a factor which the UK Corporate Governance Code states is likely to affect or could appear to affect their independence, although they meet the Code's other independence criteria. Following consideration the rest of the Board believes that each remains both independent in character and judgement and continues to be effective and demonstrate commitment to their roles. As stated in last year's annual report, the Board supports the view that refreshing the non-executive director representation on the board may be beneficial. At that time, given the CEO transition the board, having consulted the Company's nominated adviser, considered that it would have been too disruptive to change the non-executive director representation on the board during that period. With the new CEO having settled into the role, the Board has reconsidered board succession and is now actively engaged in the search for a new non-executive director and hopes to announce progress by the mid-year.

In February 2016, the Board carried out an evaluation of the performance of the Board and its Committees. This involved each director reviewing information and completing an evaluation questionnaire, the results and feedback from which were collated into a document and discussed by the Board. It is the Board's intention to continue to review annually its performance and that of its Committees.

Board processes
There is a list of the types of decisions reserved for the Board, which is reviewed annually by the Board. In addition, an agenda plan is prepared with the aim of ensuring that the Board considers all the matters that it should, whilst allowing for the unexpected. The agenda plan is reviewed regularly.

The Group normally conducts about eight Regular Board Meetings a year. In addition the Board meets to approve financial statements, the allotment of shares and to approve significant commercial agreements. The attendance of the individual directors at the Regular Board Meetings and the Audit and Remuneration Committee Meetings were as follows:

Attendance record at Board Meetings and Committees

Name	Position	Regular Board Meetings	Audit Committee	Remuneration Committee
Ms T A Wallis	Non-executive Chairman	8 (8)	2 (2)	6 (6)
Dr T K O'Brien*	Chief Executive Officer	4 (4)	n/a	n/a
Mr M G Sassone*	Chief Executive Officer	5 (5)	n/a	n/a
Mr P L Clifford	Finance Director	8 (8)	n/a	n/a
Mr I G Brown	Non-executive Director	8 (8)	2 (2)	6 (6)

* Dr T K O'Brien resigned as a director on 14th August 2015 and Mr M G Sassone was appointed on 15th June 2015.

Numbers in brackets denote the total number of meetings during the year. The Nomination Committee did not meet during the year.

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

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.

Committees of the Board
The terms of reference of the committees are set out in full on the Company's website, but a summary of the membership and work of each committee is set out below:

Audit Committee
The members of the Committee are Ms Wallis (Chairman) and Mr Brown. The executive directors and the external auditors attend the meetings by invitation. The Committee considers financial reporting 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 financial statements before they are submitted for approval by the Board. The Committee met twice during the year. The Committee considers annually whether the auditors remain independent for the purposes of the audit. This year the fee for non-audit work is £10,000 against an audit fee of £52,000. The Committee is satisfied that the auditors remain independent for the purposes of the annual audit. The Committee considers that given the size of the Group and its current stage of development a separate internal audit function is not required, but the matter is reconsidered annually by the Committee.

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 and considers any bonuses to be awarded to them. The Committee decides upon all aspects of share schemes including the approval of share options. The Committee met six times during the year. The Remuneration Committee met more times than usual during the year due to business relating to the recruitment of the new Chief Executive Officer.

Nomination Committee
The members of the Committee are Ms Wallis (Chairman), Mr Brown and Mr Sassone. At the request of the Board, the Committee recommends candidates for new appointments to the Board and advises on all matters relating to such Board appointments. The Committee did not meet during the year. The selection of the new Chief Executive Officer further to Dr O'Brien's decision to retire was undertaken by the Board as a whole.

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 public announcements to the market on technological, commercial and financial 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 Group's Annual General Meeting to raise any questions regarding the management or performance of the Company.

The Chief Executive Officer and the Finance Director meet regularly with shareholders and the investing community and report to the Board feedback from those meetings. In addition the Group's stockbrokers provide independent feedback to the Board on shareholders' views. Both non-executive directors have the opportunity to attend shareholder meetings. The Board is kept informed on market views about the Group.

Corporate Social Responsibility statement

The Company recognises the importance of Corporate Social Responsibility.

At the core of LiDCO are its medical products for hemodynamic monitoring which have been developed over a number of years. The original objective of the design of these products was to translate specialist physiological parameters and principles into useable information and tangible protocols to improve clinical outcomes. The Company has been successful in achieving this objective and its products, which are used in hospitals in many parts of the world, help surgeons to improve the outcome of clinical operations for the benefit of the patient both during and after surgery and help hospitals to reduce their costs.

LiDCO works with its employees, customers and suppliers to conduct its business in an ethical way. The Company is of a relatively small size but growing and thus the Company's commitment to Corporate Social Responsibility is dynamic and is reviewed when considered appropriate.

Employees
The Company recognises that an essential part of its continued success is the support and involvement of its employees.

- Effective communication is essential to ensure its employees are fully engaged with the business. The senior management team meets regularly throughout the year as a forum to discuss business progress and interdepartmental issues and line managers update employees on Company progress and objectives.
- Employees have annual appraisals to set objectives, identify strengths and areas for development.
- Training is provided where necessary to enhance job performance and aid development.
- The Company has a share option scheme with a high level of employee participation.
- The Company regularly reviews the benefits offered to employees.

Environment
Whilst not of substantial impact compared with many other manufacturing industries, nevertheless the Company recognises its activities have an impact on the environment and acknowledges its responsibility to ensure this is minimised.

- In accordance with the requirements of the Waste Electrical and Electronic Equipment Regulations (WEEE), the Company is registered with the UK Environment Agency as a Small WEEE Producer, and disposes of electrical equipment waste responsibly.
- Where possible, other products are recycled within the Company.
- Paper, cardboard, batteries and printer cartridge recycling collection facilities are in place in the Company's offices.
- Redundant computer equipment is offered to employees or disposed of in accordance with good practice.
- Company vehicles are run on diesel fuel for fuel efficiency.
- Company encourages employees to participate in the cycle to work scheme to minimise carbon foot print.
- The Company continually reviews the substances it uses in its manufacturing processes with the aim of using the least toxic and most environmentally friendly products commensurate with producing high quality products.

Ethics and values
- The Company designs and manufactures products that help clinicians to improve the outcome of clinical operations for the benefit of patients both during and after surgery and help hospitals to reduce their costs.
- The Company aims for all employees to have job satisfaction, a safe and secure working environment, the feeling that their achievements are recognised and an opportunity to develop their full potential.
- The Company recognises customer needs for a high level of customer service and quality of its products, at the right price.

Health and safety
- As a producer of medical products the Company operates in a highly regulated environment and is subject to regular inspection and audit.
- The Company uses an external specialist to advise on its health and safety policy and practice. Stringent procedures are in place in areas of the Company where risks are apparent, and the Company provides a physically safe working environment and training, protective clothing and equipment as appropriate to all employees.
- All company car drivers are provided with a full driving risk assessment and training upon joining, and a further paper-based risk assessment is completed every three years.
- Health and safety matters are regularly reviewed at Board Meetings.

Shareholders
The Company aims to treat its shareholders in a responsible manner. It maintains regular contact with its major shareholders to explain developments in the business and all shareholders are invited to question the Board at the Annual General Meeting. See also 'Relations with Shareholders' in the Corporate Governance Report on page 17.

Directors' remuneration report

Dear Shareholder
The remuneration of our Executive Directors and senior management is intended to motivate, retain and when necessary attract executives of the right calibre.

Remuneration levels are set in order to ensure the future success of the business and to deliver shareholder value. This is achieved by a combination of base salary, bonuses and share options.

2015/16 was a year of transition with the recruitment of M G Sassone to replace T K O'Brien, the founding CEO on his retirement on 14 August 2015 following a two-month handover process.

In respect of year 2015/16, the main decisions the Committee made were:

Remuneration package for the new CEO
During the year the Committee developed a remuneration package designed to attract M G Sassone to take up the role of chief executive and incentivise him thereafter. Details are included below.

Salary
Mr Sassone commenced employment on 15 June 2015 on an annual salary of £200,000.

Bonus
In order to incentivise both the retiring and incoming CEOs in this transition year, both Dr O'Brien and Mr Sassone were included in the year's bonus scheme with any bonus award being calculated as a percentage of the base salary that each received during the year. The bonuses for the year were 10%, 8% and 8% of salary respectively for Mr Sassone, Dr O'Brien and Mr Clifford, which was below the maximum bonus opportunity of 60% of salary. The bonuses paid out related only to performance against personal targets as the corporate target was not met.

Options
EMI share options over 2,197,802 shares and unapproved options over 2,197,802 shares were granted to Mr Sassone when his employment started on 15 June 2015, representing options over a total of 2.13% of the Company's shares in issue at the date of grant. The Options are exercisable at 0.5 pence per Ordinary Share, subject to the achievement of certain targets relating to the Company's share price and earnings per share over three and four year vesting periods respectively. The share price targets were, at 12.80 pence and 15 pence respectively, set at a premium to the mid-market share price of 11.375 pence on the date the options were granted. In order for the share price condition to be met, the share price needs to have remained at or above the target levels for at least 12 months prior to the date of exercise, except in the event of certain circumstances such as a takeover, in which case the share price target applies, but does not need to have been maintained for the previous 12 months. Prior to vesting, the Remuneration Committee will determine whether both the share price and earnings per share targets have been met.

Mr Sassone was granted options priced at par (i.e. priced at the nominal share price: 0.5p) in order to maximise the reward to the new CEO when he exercises his options, while minimising the dilution. The existence of the above mentioned share price conditions means that similarly to options that have an exercise price set at the market price on the date of grant, the option holder will only benefit if there is an increase in the share price above the share price at the time of grant.

The awards made in April 2012, with an exercise price of 18 pence vested on 24 April 2015, when the share price was 11.25 pence.

Dr O'Brien's options over 277,395 shares granted in 2005 expired in April 2015. His remaining options over 4,627,711 shares lapsed following his retirement.

In respect of future remuneration policy, the main decisions the Committee made were:

Salaries
Executive Directors' salaries are normally reviewed with effect from 1 February each year. As a result of the review undertaken in February 2016 Mr Clifford's salary was increased by a similar percentage as the majority of other employees in the Group. It should be noted that at the review in February 2015 the executive directors and most employees received no salary increase. Mr Sassone's salary remains unchanged given that at the time of the salary reviews he had been in the role for only approximately six months and it will be reviewed with effect from 1 February 2017.

Directors' remuneration report
continued

As a result of the above changes, the salaries are as follows:

Name	Salary	% increase
Mr M G Sassone	£200,000	Nil
Mr P L Clifford	£145,278	2%

Mr Clifford normally works four days per week and works additional days if required.

Bonus
The executive directors' maximum bonus opportunity for 2016/17 remains unaltered and is 60% of base salary and the award for on-target performance is 30%.

We will be seeking approval to this report at our Annual General Meeting on 25 May 2016.

If any shareholder wishes to contact me in relation to the Group's director and senior executive remuneration arrangements they can do so at the Group's head office address.

Theresa Wallis
Chairman of the Remuneration Committee
11 April 2016

Committee membership
The membership of the Remuneration Committee is made up of the following non-executive directors:

Ms T A Wallis (Chairman)
Mr I G Brown

Neither 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 votes on any decision about his or her own remuneration.

The Committee met six times in the year.

Remuneration policy
The Committee determines on behalf of the Board, the remuneration for the executive directors and such other members of the senior management as it is designated to consider and oversees any major changes in employee benefit structures throughout the Company. 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 to ensure the future success of the business and to deliver shareholder value. 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 received advice on the remuneration strategy for the remuneration package of the new CEO, from remuneration advisors MM&K. In addition MM&K advises the Company on matters relating to the Group's share option schemes.

Future remuneration policy table
The following table summarises details of the Company's future remuneration policy for the executive directors.

Table of future remuneration policy for executive directors – key elements of remuneration

	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes in policy for 2016/17
Base salary	Help recruit and retain employees. Reflects individual experience and role.	All executive directors receive a base salary. The salary reflects the experience, level of competence and days worked of the individual to whom it applies, as judged by the Committee, taking into account salary levels in the market. Reviewed annually and fixed for 12 months commencing 1 February. Decision influenced by: – role, experience and performance – average change in broader workforce salary – total organisational salary budgets Salaries have been benchmarked against companies of similar size and complexity in similar sectors.		None	M G Sassone No change P L Clifford £145,278 (increased by 2%)
Benefits and pension	Help recruit and retain employees.	Directors are entitled to permanent health insurance in common with all other employees. In addition directors are entitled to an allowance in lieu of pensions, car and other benefits.	Benefit allowance is 20% of base salary. Full cost of the annual PHI policy: T K O'Brien £1,125 P L Clifford £967 M G Sassone £nil	None	None
Annual bonus	Rewards the achievement of annual targets, delivery of personal objectives and strategic business targets if appropriate.	The executive directors who served during the year are members of the Company's Senior Management Bonus Scheme. Under the terms of the Scheme, the Remuneration Committee assesses the directors' individual performances soon after the end of the financial year, judged against pre-determined targets. The criteria for awarding bonuses include corporate and personal objectives. The principal corporate financial objective on which the directors are currently judged is profitability. Bonuses are capped at 60% of base salary. Targets are renewed annually and relate to trading performance. If appropriate, there are gate conditions that apply to the payment of bonuses. Bonus level is determined by the Committee after the year end, based on performance against targets. There is no deferral of bonus, nor any clawback provisions as the Committee thinks such complexity is unnecessary where the bonus maximum is 60% of salary in a business environment like LiDCO's.	Target % of salary: 30% Maximum % of salary: 60%	The majority of the bonus is based on achievement of specific targets of profitability and sales as well as partly on the achievement of other financial or non-financial objectives which may be relevant for the year in question: – maximum 50% salary for corporate targets – maximum 10% salary for personal objectives	No change to policy.
Share options	Incentivises executive directors to achieve returns for shareholders over a longer time frame.	LiDCO has four share option plans including EMI, HMRC Approved, Unapproved Options and consultants. Awards of share options are made with vesting dependent on the achievement of performance conditions over at least the three subsequent years. The Committee is of the opinion that clawback provisions are an unnecessary complication for a company of the size of LiDCO.	Awards in 2015/16: M G Sassone £21,978 T K O'Brien £nil P L Clifford £nil	The release of an award is dependent upon the individual's continued employment for at least a three-year holding period from the date of grant. Executives only benefit when the share price increases. Awards will have performance conditions.	No change to policy. Note re 2015/16 awards: future award levels will depend on headroom capacity under the 10% dilution rule.

Directors' remuneration report
continued

Remuneration policy of the non-executive directors
The Board determines the remuneration of the Chairman and non-executive directors. The non-executive directors do not participate in the Group's share option schemes and are not eligible for annual incentive payments or benefits in kind.

Remuneration of directors

Year ended 31 January 2016

	Salary and fees £'000	Allowance in lieu of benefits £'000	Benefits £'000	Bonus £'000	Total £'000	2015 £'000
T A Wallis	46	–	–	–	46	46
M G Sassone[1]	126	25	–	13	164	–
T K O'Brien[2]	126	25	1	10	162	264
P L Clifford	148	29	1	12	190	190
I G Brown	29	–	–	–	29	29
Total	475	79	2	35	591	529

Notes
[1] M G Sassone's employment and appointment to the Board was with effect from 15 June 2015.

[2] T K O'Brien retired on 14 August 2015. In addition to the salary he received for the year to that date, he received a sum in lieu of salary for the period 14 August to 11 September 2015, in respect of his outstanding holiday entitlement.

Contracts of service
Details of the service contracts for the directors are as follows:

Executive directors
The service contract of Mr Sassone is dated 20 April 2015 and is not set for a specific term but includes a rolling six months' notice period. Mr Clifford has a service contract with the Company dated 21 April 2008 which is not 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 appointment 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. The Chairman's appointment is for a term ending 19 December 2016 and Mr Brown's appointment for a term ending 11 October 2016.

Pensions
No pension contributions were payable by the Group during the year (2014/5: £nil).

Directors' interests in share options

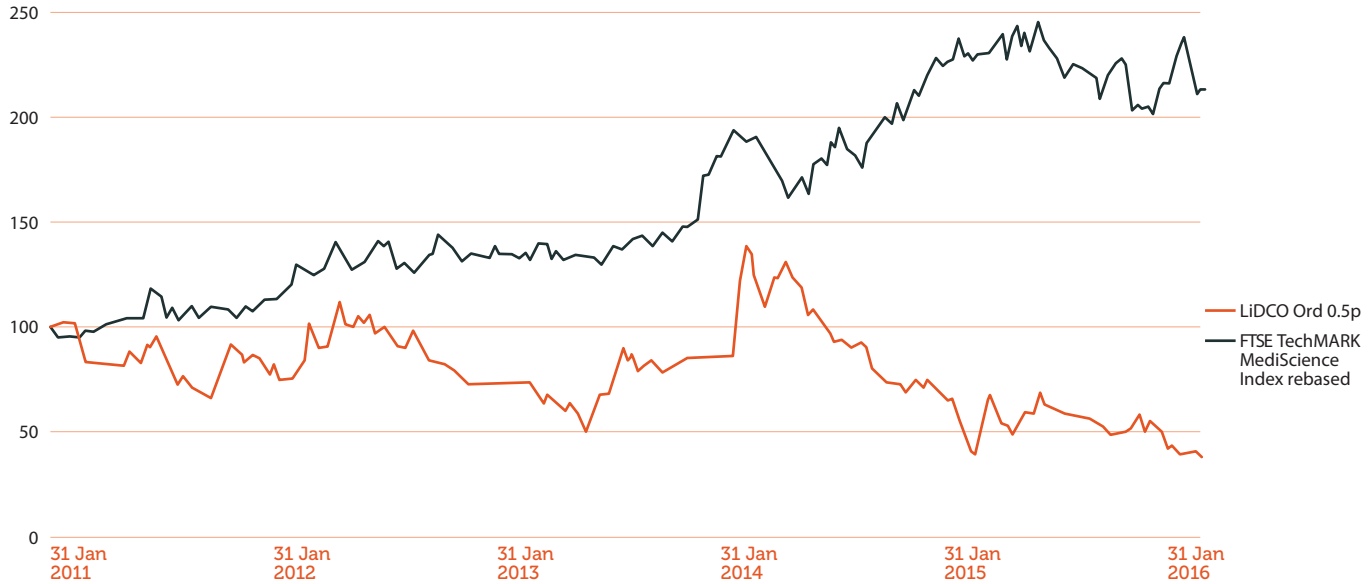
Options granted to the executive directors are as follows:

Name	Option type	Options at 31 Jan 2015	Date of grant	Options granted during 2015	Exercised during 2015	Lapsed during the year	**Options at 31 Jan 2016**	Exercise price (p)	Exercisable from	Expiry date
M G Sassone	EMI	-	Jun-2015	2,197,802			**2,197,802**	0.5	Jun-2018	Jun-2025
	Unapproved	-	Jun-2015	2,197,802			**2,197,802**	0.5	Jun-2019	Jun-2025
		-		4,395,604	Nil	Nil	**4,395,604**			
T K O'Brien	EMI	11,627	Apr-2005			11,627	**-**	21.50	Apr-2008	-
	Unapproved	265,768	Apr-2005			265,768	**-**	21.50	Apr-2008	-
	EMI	150,000	May-2009			150,000	**-**	12.67	May-2012	-
	EMI	1,692,557	May-2013			1,692,557	**-**	13.50	May-2016	-
	Unapproved	2,785,154	May-2013			2,785,154	**-**	13.50	May-2016	-
		4,905,106		Nil	Nil	4,905,106	**Nil**			
P L Clifford	Approved	66,000	Apr-2008				**66,000**	7.50	Apr-2011	Apr-2018
	Approved	75,000	May-2009				**75,000**	12.67	May-2012	May-2019
	EMI	100,000	Jun-2010				**100,000**	19.92	Jun-2013	Jun-2020
	EMI	478,650	Apr-2011				**478,650**	15.00	Apr-2014	Apr-2021
	EMI	76,833	Apr-2012				**76,833**	18.00	Apr-2015	Apr-2022
	EMI	145,448	Jul-2012				**145,448**	18.38	Jul-2015	Jul-2022
	EMI	764,938	May-2013				**764,938**	13.50	May-2016	May-2023
	Unapproved	264,358	May-2013				**264,358**	13.50	May-2016	May-2023
		1,971,227		Nil	Nil	Nil	**1,971,227**			
Totals		6,876,333		4,395,604	Nil	4,905,106	**6,366,831**			

The share price was 7.5 pence on 1 February 2015 and 7.125 pence on 31 January 2016, with high and low during the year of 13.25 pence and 5.375 pence respectively.

Shareholder return

The graph below shows the share price performance since January 2011, using the FTSE TechMARK Mediscience Index as a comparator, which the directors consider to be a suitable benchmark index.



Theresa Wallis
Chairman of the Remuneration Committee
11 April 2016

Directors' report

The directors of LiDCO Group Plc present their annual report and audited financial statements (Annual Report) for the year ended 31 January 2016.

Results and dividends
The Group's revenue for the year was £7,593,000 (2014/15: £8,267,000). The Group made a consolidated loss after taxation of £484,000 (2014/15: profit £343,000). The directors do not recommend the payment of a dividend (2014/15: £nil).

Research and development
The Group continued to develop the LiDCO products during the year. Details of the costs expended on research and development are set out in Notes 3 and 8 to the financial statements.

Share capital and share premium account
Full details of the authorised and issued share capital of the Group, together with details of the movements in the Company's issued share capital and the share premium accounts during the year, are shown in note 13 on page 46 and notes 4 and 5 on page 52.

Directors
The directors of the Group who served during the year are set out below; short biographies are set out on page 15.

T A Wallis	Non-Executive Chairman
M G Sassone	Chief Executive Officer (appointed 15 June 2015)
T K O'Brien	Chief Executive Officer (resigned 14 August 2015)
P L Clifford	Finance Director
I G Brown	Non-Executive Director

Mr Sassone retires being his first Annual General Meeting since appointment and Ms Wallis and Mr Brown, having served more than nine years retire in line with section B 7.1 of the UK Corporate Governance Code. The retiring directors, being eligible, offer themselves 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 page 19.

Directors' interests in shares
The directors who held office at 31 January 2016 had beneficial interests in the ordinary shares of the Group as shown below:

Directors' shareholdings

	Ordinary shares of 0.5p each	
	31 January 2016 Number	31 January 2015 Number
T A Wallis	**331,037**	331,037
M G Sassone	**–**	–
P L Clifford	**659,660**	659,660
I G Brown	**200,000**	200,000

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

Directors' indemnities and Directors' and Officers' insurance
The Company has exercised the power given by shareholders at the 2006 Annual General Meeting to extend the indemnities to directors and officers against liability to third parties. The directors also have Directors' and Officers' insurance cover in place in respect of personal liabilities which may be incurred by directors and officers 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 Group's policy is to encourage the involvement of all employees in the development and performance of the Group. The Group has 46 employees who are briefed on the Group's activities through meetings and informal discussions and all employees are encouraged to give their views on matters of common concern through their line management. A significant number of employees have share options.

Significant shareholdings
As at 29 February 2016 the Company was aware of the following shareholdings in excess of 3% of the Group's ordinary share capital:

Shareholder	Number of shares in which there is an interest	Percentage notified*
Ingalls & Snyder LLC	21,192,717	10.91%
Liontrust Asset Management	16,207,779	8.35%
H J Leitch	14,681,183	7.56%
P A Brewer	13,759,747	7.09%
Old Mutual Wealth	12,553,345	6.46%
T K O'Brien	11,516,563	5.93%
R M Greenshields	8,899,550	4.58%
Hargreave Hale & Co	8,537,924	4.40%
Octopus Investments Limited	8,189,009	4.22%
D M Band	7,160,832	3.69%
City Financial Investment Company	5,868,268	3.02%

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) and International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and IFRS have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. The directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the Company's performance, business model and strategy and is fair, balanced and understandable.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. To the best of our knowledge:

- the Group financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Directors' report
continued

Going concern
The Group's business activities, together with a review of the market and the Group's distribution channels are set out in the Strategic Report on pages 5 to 13. In addition, note 12 to the financial statements include the Group's policies for managing its capital; its financial risks; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group has a number of customers across different geographic areas and considerable recurring revenue through the sales of disposables which represented 85% of its revenues in the year to 31 January 2016.

The Group finances its operations through shareholders' funds, short term borrowings such as overdrafts and medium term borrowings such as finance leases. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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 note 12 to the financial statements on pages 43 to 46.

Internal controls, regulation and risk management
The composition of the Board and the senior management team provides a suitable range of knowledge and experience to enable adequate risk monitoring and internal control. The Company has implemented an organisational structure with clearly-defined responsibilities and lines of accountability.

Detailed budgets are prepared annually and progress against budget is reviewed monthly. Underpinning the monthly financial reporting is a system of internal control, based on authorisation procedures.

The Board has established a process involving all departments for the comprehensive assessment of risks to the business including the development and regular updating of a risk register which is reviewed by the Board at least annually. Actions to mitigate risk are identified and agreed. In addition the principal risks are discussed at regular Board meetings. There is a list of the types of decisions reserved for the Board and Board decisions include discussion of the risks as well as the benefits and opportunities.

As a medical device Company, LiDCO also has a system of regulatory controls, to ensure compliance with all requirements of the EC Medical Devices Directive (93/42/EEC), the US Food & Drug Administration (FDA) and other national regulatory authorities. During the year the Company maintained its compliance with ISO 13485 (Medical Devices – Quality Management Systems).

The adequacy of internal controls and the internal control structures are reviewed annually by the Board and were last reviewed in February 2016.

Auditors
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 to be held on Wednesday 25 May 2016 is set out in a separate circular including an explanation of each resolution.

On behalf of the Board

Paul Clifford
Director
11 April 2016
Company Registration Number: 2659005

Independent auditor's report to the members of LiDCO Group Plc

We have audited the Group financial statements of LiDCO Group Plc for the year ended 31 January 2016 which comprise the consolidated comprehensive income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in shareholders' equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company 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 directors and auditors
As explained more fully in the Directors' Responsibilities Statement on page 25, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the group financial statements:
- give a true and fair view of the state of the Group's affairs as at 31 January 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where under the Companies Act 2006 we are required to report to you if, in our opinion:
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the parent company financial statements of LiDCO Group Plc for the year ended 31 January 2016.

Marc Summers, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
11 April 2016

Consolidated comprehensive income statement

For the year ended 31 January 2016

	Note	Year ended 31 January 2016 £'000	Year ended 31 January 2015 £'000
Revenue	2	**7,593**	8,267
Cost of sales		**(2,455)**	(2,535)
Gross profit		**5,138**	5,732
Administrative expenses		**(5,718)**	(5,489)
Operating (loss)/profit, before exceptional cost and share based payment		**(345)**	331
Exceptional cost		**(163)**	–
Share based payment charge		**(72)**	(88)
Operating (loss)/profit	3	**(580)**	243
Finance income		**3**	7
Finance expense		**(1)**	(12)
(Loss)/profit before tax		**(578)**	238
Income tax	5	**162**	105
(Loss)/profit and total comprehensive (expense)/income for the year attributable to equity holders of the parent		**(416)**	343
(Loss)/earnings per share (basic and diluted) (pence)	6	**(0.21)**	0.18

All transactions arise from continuing operations.

There were no items of other comprehensive income for the financial year.

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

Consolidated balance sheet

At 31 January 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Property, plant and equipment	7	**931**	1,079
Intangible assets	8	**1,869**	1,789
		2,800	2,868
Current assets			
Inventory	9	**1,939**	2,119
Trade and other receivables	10	**2,480**	2,818
Current tax		**168**	123
Cash and cash equivalents		**1,587**	1,509
		6,174	6,569
Current liabilities			
Trade and other payables	11	**(1,482)**	(1,596)
Deferred income	11	**(116)**	(121)
		(1,598)	(1,717)
Net current assets		**4,576**	4,852
Net assets		**7,376**	7,720
Equity attributable to equity holders of the parent			
Share capital	13	**971**	971
Share premium		**27,798**	27,798
Merger reserve		**8,513**	8,513
Retained loss		**(29,906)**	(29,562)
Total equity		**7,376**	7,720

The financial statements were approved by the Board of Directors on 11 April 2016.

Theresa Wallis
Director

Matthew Sassone
Director

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

Consolidated cash flow statement

For the year ended 31 January 2016

	Year ended 31 January 2016 £'000	Year ended 31 January 2015 £'000
(Loss)/profit before tax	**(578)**	238
Finance income	**(3)**	(7)
Finance expense	**1**	12
Depreciation and amortisation charges	**720**	732
Share-based payments	**72**	88
Decrease/(increase) in inventories	**180**	(68)
Decrease/(increase) in receivables	**338**	(679)
(Decrease)/increase in payables	**(114)**	46
Decrease in deferred income	**(5)**	(153)
Income tax credit received	**117**	65
Net cash inflow from operating activities	**728**	274
Cash flows from investing activities		
Purchase of property, plant and equipment	**(163)**	(363)
Purchase of intangible assets	**(493)**	(635)
Proceeds on the sale of equipment	**4**	–
Finance income	**3**	7
Net cash used in investing activities	**(649)**	(991)
Net cash inflow/(outflow) before financing	**79**	(717)
Cash flows from financing activities		
Finance expense	**(1)**	(12)
Repayment of finance lease	**–**	(175)
Issue of ordinary share capital	**–**	40
Net cash outflow from financing activities	**(1)**	(147)
Net increase/(decrease) in cash and cash equivalents	**78**	(864)
Opening cash and cash equivalents	**1,509**	2,373
Closing cash and cash equivalents	**1,587**	1,509

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

Consolidated statement of changes in shareholders' equity

For the year ended 31 January 2016

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained loss £'000	Total equity £'000
At 1 February 2014	969	27,760	8,513	(29,993)	7,249
Issue of share capital	2	38	–	–	40
Share-based payment expense	–	–	–	88	88
Transactions with owners	2	38	–	88	128
Profit and total comprehensive income for the year	–	–	–	343	343
At 31 January 2015	971	27,798	8,513	(29,562)	7,720
Share-based payment expense	–	–	–	72	72
Transactions with owners	–	–	–	72	72
Loss and total comprehensive expense for the year	–	–	–	(416)	(416)
At 31 January 2016	**971**	**27,798**	**8,513**	**(29,906)**	**7,376**

The share premium account represents the excess over the nominal value for shares allotted.

The merger reserve represents a non distributable reserve arising from historic acquisitions.

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

Notes to the financial statements

For the year ended 31 January 2016

1 Principal accounting policies

The Group's principal activity is the development, manufacture and sale of cardiac monitoring equipment. LiDCO Group plc is the Group's ultimate parent company. It is incorporated and domiciled in England & Wales and situated at the address shown on page 53. The Group's shares are listed on the Alternative Investment Market of the London Stock Exchange.

Basis of preparation

These financial statements have been prepared in accordance with the principal accounting policies adopted by the Group, International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations (IFRIC) as adopted by the EU and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. They are presented in Sterling, which is the functional currency of the parent company.

The preparation of financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The accounting policies have been applied consistently throughout all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31st January 2016.

Standards issued but not yet effective

The following is a list of standards that are in issue but are not effective in the year to 2016, and have not yet been endorsed for use in the EU, together with the effective date of application to the Group.

- IFRS 9: Financial Instruments – effective 1 January 2018
- IFRS 15: Revenue from contracts with customers – effective 1 January 2018
- IFRS 16: Leases – effect 1 January 2019

IFRS 15 should be applied for annual reporting periods beginning on or after 1 January 2018. The standard will be applied in full for the year of adoption, including retrospective application to all contracts that were not yet complete at the beginning of that period. Implementation of this standard may have an impact on the financial statements of the Group and an assessment of the impact of this standard is being carried out. The Group is presently unable to quantify the potential impact until this assessment has been concluded.

The other new standards and amendments are not expected to have a material impact on the financial statements.

Going concern
The Group's business activities, together with a review of the market and the Group's distribution channels are set out in the Strategic Report on pages 5 to 13. In addition, note 12 to the financial statements include the Group's policies for managing its capital; its financial risk; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group has a number of customers across different geographic areas and considerable recurring revenue streams through the sales of disposables which represented 85% of total revenues in the year to 31 January 2016.

The Group finances its operations through shareholders' funds, short term borrowings such as overdrafts and medium term borrowings such as finance leases. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Accounting convention
The financial statements are prepared under the historic cost convention. The measurement basis and significant accounting policies are set out below.

Basis of consolidation
The Group's consolidated financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 January 2016. Subsidiary undertakings are all entities over which the Group has the power to control the financial and operating policies so as to obtain economic benefits from its activities. The Group obtains and exercises control through voting rights.

Business combinations are dealt with by the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary at the acquisition date whether or not they were recognised in the statements of the subsidiary prior to acquisition. On initial recognition the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. The results of any subsidiary undertakings acquired during the period, where applicable, are included from the date of acquisition. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition
Revenues are recognised at fair value of the consideration receivable net of the amount of value added taxes.

Sale of goods
Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products and services to entities outside the consolidated entity. Product sales revenue is recognised when the risks and rewards of ownership of the goods passes to the customer, which is normally upon delivery, and when the amount of revenue can be measured reliably.

Where delivery is delayed at the buyer's request, but the buyer takes title to the goods and accepts invoicing, the Group recognises the revenue as a capital Bill and Hold sale provided that it is probable that delivery will be made, the goods are on hand and ready for delivery, the buyer acknowledges the deferred delivery and usual payment terms apply.

Licence fees
Licence fees are recognised in accordance with the substance of the relevant distribution agreement, provided that it is probable that the economic benefit associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Licence fees received in advance of the recognition of those fees is shown as deferred income.

Delivery of services
Revenue from rendering services is recognised in the period in which the service is provided.

Interest income
Interest income is brought to account as it accrues, using the effective interest method.

Other income
Other income from support and maintenance is brought to account when the consolidated entity's right to receive income is established and the amount can be reliably measured.

Notes to the financial statements
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Research and development
Research expenditure is charged to the income statement in the period in which it is incurred.

Development costs are capitalised when all the following conditions are satisfied:
- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Capitalised development costs which comprise cost of materials, labour and attributable overheads are amortised over a period of seven years, from the date the asset is available for use. Labour costs of the development department are apportioned between development work which fulfils the above criteria and is capitalised and the maintenance of existing products which are expensed as incurred.

Development costs not meeting the criteria for capitalisation are expensed as incurred.

Intangible assets – development costs
Intangible assets represent costs relating to product registration in new countries, product development costs and clinical trials on the LiDCO system. 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, commencing when the asset is available for use.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Amortisation is calculated to write down the cost of assets less estimated residual value by equal instalments over their estimated useful life, on a straight line basis. The amortisation periods generally applicable are:

Clinical trials	Three years
Product registration costs	Five years
Product development	Seven years

Property, plant and equipment
Property, plant and equipment are stated at cost, net of depreciation. Depreciation is calculated to write down the cost less estimated residual value of these assets by equal annual instalments on a straight line basis over their estimated useful economic lives which are reassessed annually. The periods/rates generally applicable are:

Leasehold improvements	Over the expected life of the lease
Plant and machinery	10% per annum
Fixtures and fittings	12.5% per annum
Office equipment	20% per annum
Computer equipment	33% per annum
Medical monitors	20% per annum

Medical monitors include equipment on long term loan to hospitals for active use where the hospital pays for disposables. Also included in this category is equipment for demonstration purposes, clinical trials and testing.

Leases
Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases are capitalised at the lower of fair value or present value of the minimum lease payments in the balance sheet and depreciated over their estimated useful economic lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Profits generated on the sale and leaseback of fixed assets are deferred and recognised over the period of the lease.

Inventories
Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing locations and condition.

Income tax
Current tax is the tax currently payable/receivable based on the taxable result for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to other comprehensive income or equity in which case the related deferred tax is also charged or credited directly to other comprehensive income or equity.

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 statement.

Trade and other receivables
Trade receivables, which generally have 30-90 day terms, are initially recognised at fair value and subsequently at amortised cost using the effective interest method, less provisions for impairment. Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand, bank overdrafts and demand deposits with an original maturity of three months or less, and which are subject to an insignificant risk of change in value.

Financial liabilities and equity
Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes party to the contractual provisions of the instrument and are initially recorded at fair value net of issue costs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities
The Group's financial liabilities include borrowings, trade and other creditors. Financial liabilities are measured initially at fair value net of transaction costs and thereafter at amortised cost using the effective interest rate method.

Share-based payments
The Group has four equity-settled share-based remuneration schemes for employees and consultants. Where share options are awarded, the fair value of the options at the date of grant is calculated using a pricing model and is charged to the income statement over the vesting period. Market-related performance conditions are factored into the fair value of the options granted and a charge is made irrespective of whether the market-related performance conditions are satisfied. In respect of awards with non market related performance conditions, an estimate of the proportion that will vest is made at the award date which is adjusted if the number of share options expected to vest differs from the previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period.

Impairment
The carrying values of property, plant and equipment and intangible assets with finite lives are reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of impairment loss.

Notes to the financial statements
continued

Key judgements in applying the entity's accounting policies
The Group's management makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates
Useful lives of intangible assets and property, plant and equipment
Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the income statement in specific periods (notes 7 & 8).

Inventory
The Group reviews the net realisable value of, and demand for, its inventory on a regular basis to provide assurance that recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices include the timing and success of future technological innovations, competitor actions, supplier prices and economic trends (note 9).

Trade receivables
Trade receivables are primarily due from three groups: hospitals in the UK and USA where direct sales are made, global corporate distributors and independent distributors, predominantly in Europe and the Rest of the World. In making provision for overdue trade receivables, management consider the first two groups to be generally of lower risk than those due from independent distributors and apply a lower level of provision. The size of the distributor together with its financial credit rating and the length of relationship with the Group are also taken into account (note 10).

Judgements
Licence income
The Group may receive licence fees in connection with the granting of exclusive distribution rights for overseas territories. When recognising such licence fees management considers the substance of the relevant distribution agreement. Any work that the Group needs to undertake to fulfil its obligation is taken into consideration and the period over which the work is likely to be performed. Revenue is only recognised provided that it is probable that the economic benefit associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Normally such licence fees are received on signature of the distribution agreement.

Bill and Hold sales
The Group recognises Bill and Hold sales where delivery is delayed at the buyer's request. The recognition of these sales require management's judgement of certain criteria as detailed in the Accounting Policies under revenue recognition.

Capitalisation of development costs
The Group's policy on the capitalisation of development costs of intangible assets are detailed in the accounting policies above. The inclusion of such costs requires management's judgement on the technical, commercial and financial viability of the projects.

2 Revenue and segmental information

The Group has one segment – the supply of monitors, consumables and support services associated with or complimentary to the use of the LiDCO's cardiac monitoring equipment. Geographical and product type analysis is used by the chief operating decision maker to monitor sales activity and is presented below:

Revenue and result by geographical region

Group revenue	Year ended 31 January 2016 £'000	Year ended 31 January 2015 £'000
UK – LiDCO products	**3,584**	3,952
UK – third party products	**1,635**	1,641
USA	**1,071**	1,104
Japan	**35**	3
Continental Europe	**732**	899
Rest of World	**536**	668
	7,593	8,267
Result		
UK – LiDCO products	**1,691**	2,077
UK – third party products	**277**	278
USA	**91**	230
Japan	**27**	1
Continental Europe	**376**	488
Rest of World	**251**	326
Total	**2,713**	3,400
Unallocated costs	**(3,293)**	(3,157)
(Loss)/profit from operations	**(580)**	243

Products and services

	Year ended 31 January 2016 £'000	Year ended 31 January 2015 £'000
Monitor sales	**784**	1,323
Disposable sales	**4,821**	4,971
Distributed third party disposables	**1,635**	1,641
Total product revenue	**7,240**	7,935
Other income including service contracts	**353**	332
	7,593	8,267

The Group can identify trade receivables and trade payables relating to the geographical areas. As noted above, the Group has one segment and other assets and liabilities together with non sales-related overheads are not accounted for on a segment by segment basis. Accordingly, segment assets, liabilities and segment cash flows are not provided.

All non-current assets are located in the United Kingdom.

Material customers

During the year a customer, based in the UK (2014/15: based in the UK), accounted for more than 10% of the Group's total revenue. This revenue is in respect of distributed third party disposables. Revenue recognised during the year is as follows:

	2016 £'000	2016 % revenue	2015 £'000	2015 % revenue
Revenue recognised	**793**	**10%**	824	10%

Notes to the financial statements
continued

3 (Loss)/profit from operations

The (loss)/profit on operations before taxation is stated after:

	Year ended 31 January 2016 £'000	Year ended 31 January 2015 £'000
Fees payable to the Company auditors:		
– Audit of the Group accounts	**22**	20
– Audit of the Company's subsidiaries	**30**	28
– Other services relating to the interim review*	**10**	11
Research and development expenditure	**161**	195
Depreciation of property, plant and equipment	**307**	349
Amortisation of intangible assets	**413**	383
Operating leases – rental of land and buildings	**168**	168
Write down of inventories	**16**	13
Exchange rate gains/(losses)	**30**	(2)

The cost of goods sold during the year amounted to £2,107,000 (2015: £2,077,000)

* Non-audit services comprise £10,000 for interim review services. The Board considers it cost effective for the auditors to provide these services.

4 Staff costs

Staff costs during the year were as follows:

Group	Year ended 31 January 2016 £'000	Year ended 31 January 2015 £'000
Wages and salaries	**2,703**	2,578
Social security costs	**265**	239
Share-based payments charge	**72**	88
	3,040	2,905

The average number of employees (including non-executive directors) of the Group during the year was:

	2016 Number	2015 Number
Production	**12**	12
Sales	**20**	20
Administration	**14**	14
	46	46

The remuneration of directors is set out below. Additional information on directors' remuneration, share options, long-term incentive plans, pension contributions and entitlements can be found in the Directors' Remuneration Report on pages 19 to 23 and forms part of these accounts.

	2016 £'000	2015 £'000
Short-term employee benefits	**673**	602
Share-based payments	**32**	44
	705	646

5 Tax on (loss)/profit on ordinary activities

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

	Year ended 31 January 2016 £'000	Year ended 31 January 2015 £'000
United Kingdom corporation tax at 20.17% (2015: 21.33%)	–	–
United States income taxes	–	10
Research and development expenditure tax credits – current year	(168)	(123)
– prior year	–	8
Total tax	(168)	(105)

United States tax has been calculated at the Federal/State tax rates applicable to profits arising in the respective States.

The tax assessed for the year differs from the standard rate of corporation tax applied to the trading results. The differences are explained below:

Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the United Kingdom of 20.17% (2015: 21.33%)	(117)	51
Effect of:		
Expenses not deductible for tax purposes	5	5
Depreciation for the period in excess of capital allowances	11	(49)
United States income taxes	–	10
Other temporary differences	15	11
Additional deduction for research and development expenditure	(148)	(201)
Losses surrendered for research and development tax credit	234	183
Research and development expenditure tax credits – current year	(168)	(123)
Research and development expenditure tax credits – prior year	–	8
Total tax income	(168)	(105)

The above table reconciles the income tax credit with the accounting loss at the standard rate of UK corporation tax.

The current year research and development tax credit of £168,000 (2015: £123,000) represents 29% (2015: 16%) of the Group's qualifying research and development spend.

The amount of the unused tax losses and temporary differences for which no deferred tax asset was recognised at the balance sheet date was:

	Year ended 31 January 2016 £'000	Year ended 31 January 2015 £'000
Unused losses (available indefinitely)	24,149	24,149
Temporary differences (available indefinitely)	35	9
	24,184	24,158

The related deferred tax asset (calculated at 17%) of £4.1m (2015: £4.8m calculated at 20%) which will be recognised in the accounts when the trend of profits has been established.

Notes to the financial statements
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6 Earnings per share

The calculation of basic earnings or loss per share is based on the earnings or loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. The calculation of diluted earnings per share is based on the calculation described above adjusted to allow for the issue of shares on the assumed conversion of all dilutive options. Share options are regarded as dilutive when, and only when, their conversion to ordinary shares would decrease earnings or increase the loss per share.

	Year ended 31 January 2016 £'000	Year ended 31 January 2015 £'000
(Loss)/profit after tax for the financial year	**(416)**	343
	Number ('000)	Number ('000)
Weighted average number of ordinary shares	**194,175**	194,175
(Loss)/earnings per share – basic and diluted (p)	**(0.21)**	0.18

7 Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Medical monitors £'000	Total £'000
Cost						
At 1 February 2014	561	447	105	586	1,639	3,338
Additions	3	37	5	99	219	363
At 31 January 2015	564	484	110	685	1,858	3,701
Additions	6	1	8	21	127	163
Retirements	–	–	–	(6)	(10)	(16)
At 31 January 2016	**570**	**485**	**118**	**700**	**1,975**	**3,848**
Accumulated depreciation						
At 1 February 2014	556	411	90	508	708	2,273
Charge for the year	2	16	5	65	261	349
At 31 January 2015	558	427	95	573	969	2,622
Charge for the year	3	18	5	61	220	307
Retirements	–	–	–	(2)	(10)	(12)
At 31 January 2016	**561**	**445**	**100**	**632**	**1,179**	**2,917**
Carrying amount at 31 January 2016	**9**	**40**	**18**	**68**	**796**	**931**
Carrying amount at 31 January 2015	6	57	15	112	889	1,079

Plant and equipment is depreciated at various rates depending on the estimated life of the item of plant or equipment. The rates of depreciation are shown in Note 1.

Medical monitors include equipment on long term loan to hospitals for active use where the hospital pays for disposables. Also included in this category is equipment for demonstration purposes, clinical trials and testing.

During the year to 31 January 2012, the Group sold a number of medical monitors and then leased back on a three year financing lease basis. The monitors have been included as additions at their fair value of £518,000 and have been depreciated over three years. The depreciation charge for the year of the leased assets was £nil (2015: £173,000), and the net book value at 31 January 2016 was £nil (2015: £nil).

8 Intangible assets

	Clinical trials £'000	Product registration £'000	Product development £'000	Total £'000
Cost				
At 1 February 2014	283	923	4,540	5,746
Additions	–	95	540	635
At 31 January 2015	283	1,018	5,080	6,381
Additions	–	74	419	493
At 31 January 2016	**283**	**1,092**	**5,499**	**6,874**
Accumulated amortisation				
At 1 February 2014	196	715	3,298	4,209
Charge for the year	40	65	278	383
At 31 January 2015	236	780	3,576	4,592
Charge for the year	19	51	343	413
At 31 January 2016	**255**	**831**	**3,919**	**5,005**
Carrying amount at 31 January 2016	**28**	**261**	**1,580**	**1,869**
Carrying amount at 31 January 2015	47	238	1,504	1,789

Intangible assets includes assets that are internally generated and amortised over their estimated useful lives. Amortisation costs are included in administrative expenses. Additions for the year included internally generated assets of £279,000 (2015: £258,000), and externally purchased assets of £214,000 (2015: £377,000). The rates of amortisation are shown in note 1.

9 Inventory

	2016 £'000	2015 £'000
Raw materials and consumables	**589**	718
Finished goods and goods for resale	**1,350**	1,401
	1,939	2,119

At 31 January 2016, inventories stated net of allowances for obsolete or slow moving items, was £21,000 (2015: £85,000).

Notes to the financial statements
continued

10 Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	**2,252**	2,538
Other receivables	**97**	119
Prepayments	**131**	161
	2,480	2,818

All amounts are short term and the directors consider that the carrying amount of trade and other receivables approximates to their fair value. All of the Group's trade and other receivables have been reviewed for indicators of impairment. At 31 January 2016, trade receivables of £1.78m (2015: £2.11m) were within their agreed payment terms. In addition, some of the unimpaired trade receivables were past due as at the reporting date. The age of trade receivables past due but not impaired was as follows:

	2016 £'000	2015 £'000
Not more than three months	**429**	284
More than three months but not more than six months	**82**	73
More than six months but not more than one year	**198**	39
More than one year	**32**	36
	741	432

Movements in Group provisions for impairment of trade receivables are as follows, which are included within administrative expenses in the income statement.

	2016 £'000	2015 £'000
Opening balance	**36**	36
Provision for receivables impairment	**20**	–
Receivables written off in year	**(36)**	–
Closing balance	**20**	36

The other classes within trade and other receivables do not contain impaired assets.

11 Current liabilities

	2016 £'000	2015 £'000
Trade payables	**772**	926
Social security and other taxes	**308**	299
Accruals and other creditors	**402**	371
Deferred income	**116**	121
	1,598	1,717

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

12 Financial instruments

Capital risk management
The Group manages its capital structure to ensure that it will be able to continue as a going concern. The capital structure of the Group consists of cash and cash equivalents (as disclosed in the cash flow statement), borrowings (as disclosed in the note below) and equity (as disclosed in the consolidated statement of changes in shareholders' equity) attributable to the shareholders of the parent.

Financial risks
The Group's financial instruments comprise cash and liquid resources, borrowings and items such as trade receivables and trade payables that arise from its operations.

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

Credit risk
The Group's credit risk is primarily attributable to trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimates by management based on prior experience of customers which is typified by a small number of high value accounts and their assessment of the current economic environment. The maximum exposure to trade receivables is £2,349,000 (2015: £2,657,000).

The credit risk on liquid funds is limited because the counterparties are UK-based clearing banks.

Notes to the financial statements
continued

Liquidity risk
The Group seeks to manage this financial risk by ensuring sufficient liquidity through the use of variable rate bank and overdraft facilities is available to meet foreseeable needs and by investing surplus cash assets safely and profitably.

Liquidity risk analysis
The Group manages its liquidity needs by carefully monitoring scheduled finance lease payments for long term financial liabilities as well as cash outflows due in month-to-month business. Liquidity needs are monitored on a month-to-month basis.

The Group maintains cash and marketable securities to meet its liquidity requirements.

As at 31 January 2016, the Group's financial liabilities have contractual maturities which are summarised below:

	Current		Non Current	
31 January 2016	Within 6 months £'000	6 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000
Bank overdraft	–	–	–	–
Trade payables	**772**	–	–	–
Finance lease liabilities	–	–	–	–
	772	–	–	–

This compares to the maturity of the Group's financial liabilities in the previous reporting period as follows:

	Current		Non Current	
31 January 2015	Within 6 months £'000	6 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000
Bank overdraft	–	–	–	–
Trade payables	926	–	–	–
Finance lease liabilities	–	–	–	–
	926	–	–	–

Market risks
Interest rate risk
The Group finances its operations through a mixture of shareholders' funds, variable rate bank facilities and medium term loans. The Group accepts the risk attached to interest rate fluctuations as interest rates have been relatively stable or declined over the last three years and the interest expense is a small proportion of total administrative expenses.

Currency risk
The Group manages currency risk by assessing the net exposure in each non-Sterling currency in which exposure arises. The only significant exposure relates to US dollars. The Group accepts the risk attached to fluctuations in the US dollar exchange rate as US dollar payables are largely mitigated by US dollar receivables from sales.

Group interest rate profile

	Floating rate		
	Cash current bank accounts	Deposit and reserve account	Total
Financial assets at 31 January 2016	£'000	£'000	£'000
Currency			
Sterling	**160**	**1,151**	**1,311**
US dollars	**274**	**–**	**274**
Euro	**2**	**–**	**2**
	436	**1,151**	**1,587**

Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows. See note 1, principal accounting policies, covering financial assets and financial liabilities for explanations about how the category of instruments affects their subsequent measurement.

	2016	2015
Current assets	**£'000**	£'000
Loans and receivables:		
– Trade and other receivables	**2,348**	2,657
– Cash and cash equivalents	**1,587**	1,509
	3,935	4,166

	2016	2015
Current liabilities	**£'000**	£'000
Trade payables and other short term financial liabilities	**1,080**	1,225
	1,080	1,225

Currency risk management

The Group is exposed to translation and transaction foreign exchange risk. The currency where the Group is most exposed to foreign currency volatility is US dollars. The Group had the following balances denominated in US dollars:

	US dollars	
	2016	2015
	£'000	£'000
Trade and other receivables	**196**	114
Cash and cash equivalents	**274**	144
Trade and other payables	**(76)**	(78)
	394	180

No hedging instruments are used. The Group keeps under review the extent of its exposure to currency fluctuations, which relate entirely to trading transactions.

Notes to the financial statements
continued

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the Sterling to US dollar exchange rates. It assumes a percentage change in the exchange rate based on the foreign currency financial instruments held at each balance sheet date. Both of these percentages have been determined based on the average market volatility in exchange rates in the previous 12 months.

	US dollars	
	2016	2015
	£'000	£'000
Currency fluctuation	**10%**	13%

If Sterling had strengthened against the US dollar by the percentage above retrospectively, then this would have had the following impact:

	US dollars	
	2016	2015
	£'000	£'000
Net result for the year	**(240)**	(325)
Equity	**(240)**	(325)

If Sterling had weakened against the US dollar by the percentage above retrospectively, then this would have had the following impact:

	US dollars	
	2016	2015
	£'000	£'000
Net result for the year	**240**	325
Equity	**240**	325

Exposure to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

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

13 Share capital

	2016	2015
	Number of shares	Number of shares
Issued and fully paid – ordinary shares of 0.5 pence each	**000**	000
At the beginning of the year	**194,175**	193,870
Issued for cash	**–**	305
At the end of the year	**194,175**	194,175

	£'000	£'000
At the beginning of the year	**971**	969
Issued for cash	**–**	2
At the end of the year	**971**	971

14 Share-based payments

Equity-settled share option scheme

The Group has four equity-settled share option schemes for employees and consultants. The normal earliest date for vesting is at least three years from the date of grant. The rules of the 2002 scheme provide that earlier vesting may occur in certain prescribed circumstances such as redundancy. The rules of all share option schemes provide for vesting in less than three years in the event of a change of control of the Group or for exceptional reasons at the absolute discretion of the Remuneration Committee. The latest date for exercise is ten years from the date of grant. The options are settled in equity once exercised. At the discretion of the Group the options may be settled in cash. Where share options are awarded, the fair value of the options at the date of grant is calculated using a pricing model and is charged to the income statement over the vesting period. Market related performance conditions are factored into the fair value of the options granted and a charge is made irrespective of whether the market related performance conditions are satisfied. In respect of awards with non market related performance conditions, an estimate of the proportion that will vest is made at the award date and this is trued up or down at each accounting period.

	2016 Number	**2016 Weighted average exercise price (p)**	2015 Number	2015 Weighted average exercise price (p)
Outstanding at the beginning of the year	**13,971,541**	**15.4**	12,452,241	14.6
Issued in the year	**4,695,604**	**1.1**	2,364,716	20.0
Forfeited during the year	**(6,915,061)**	**15.3**	(540,812)	18.5
Exercised during the year	**–**	**–**	(304,604)	12.8
Outstanding at the end of the year	**11,752,084**	**9.7**	13,971,541	15.4
Exercisable at the end of the year	**3,255,332**	**15.3**	4,085,215	16.1

Fair value is determined by reference to the fair value of the instrument granted. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. These fair values were calculated using a Black-Scholes option pricing model with the following assumptions:

	2016	2015
Weighted average shares price (p)	**11.2**	21.5
Weighted average exercise price (p)	**1.1**	20.0
Expected volatility	**46%**	36%
Expected life (years)	**4.0**	3.5
Risk free rate	**1.3%**	1.3%
Expected dividend yield	**–**	–

No options were exercised during the year. The weighted average exercise share price for options exercised during the year to January 2015 was 12.8p.

The expected volatility is based on the Group's historical share price averaged over a period equal to the expected life. The expected life is the average expected period to exercise. The risk free rate of return is based on UK Government gilts. The share options outstanding at the end of the year have exercise prices of between 0.5p and 22.75p per share and a weighted average remaining contractual life of 4.5 years.

Notes to the financial statements
continued

15 Capital commitments

At 31 January 2016 the Company had placed forward orders for the purchase of monitors and monitor components for inventory to the value of £82,000 (2015: £276,000). Delivery of these orders is scheduled between February 2016 and October 2016.

16 Contingent liabilities

There were no contingent liabilities at 31 January 2016 or 31 January 2015.

17 Leasing commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

Group	**2016 Land and buildings £'000**	**Other £'000**	2015 Land and buildings £'000	Other £'000
In one year or less	**152**	**109**	168	114
Between one and five years	**583**	**90**	763	165
	735	**199**	931	279

18 Related party transactions

During the year, no contracts of significance other than those disclosed within the directors' remuneration report were existing or entered into by the Group or its subsidiaries in which the directors had a material interest.

Key management compensation
Compensation for directors who are the only employees with responsibility for planning, directing and controlling the Group is set out in note 4 and disclosed in the directors' remuneration report.

Transactions between the Company and its subsidiaries which are related parties are eliminated on consolidation.

Independent auditor's report to the members of LiDCO Group Plc

We have audited the parent company financial statements of LiDCO Group Plc for the year ended 31 January 2016 which comprise the parent company balance sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company 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 directors and auditors
As explained more fully in the Directors' Responsibilities Statement on page 25, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the parent company financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 January 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the Group financial statements of LiDCO Group Plc for the year ended 31 January 2016.

Marc Summers, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
11 April 2016

Company balance sheet

At 31 January 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Investments	2	**16,849**	16,849
		16,849	16,849
Current assets			
Cash at bank and in hand		**130**	130
		130	130
Current liabilities			
Creditors: Amounts falling due within one year		**–**	–
Net current assets		**130**	130
Total assets less current liabilities		**16,979**	16,979
Net assets		**16,979**	16,979
Capital and reserves			
Called up share capital	3	**971**	971
Share premium account	4	**27,798**	27,798
Profit and loss account	4	**(11,790)**	(11,790)
Shareholders' funds		**16,979**	16,979

The financial statements were approved by the Board of Directors and authorised for issue on 11 April 2016.

Theresa Wallis
Director

Matthew Sassone
Director

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

Notes to the financial statements

For the year ended 31 January 2016

1 Principal accounting policies

Basis of preparation

These financial statements have been prepared in accordance with applicable accounting standards and in accordance with Financial Reporting Standard 101 – 'The Reduced Disclosure Framework' (FRS 101). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have all been applied consistently throughout the year unless otherwise stated. The financial statements have been prepared on a historical cost basis except for the revaluation of certain properties and financial instruments. The financial statements are presented in Sterling (£) and have been presented in round thousands (£'000).

Change in accounting policies

This is the first year in which the financial statements have been prepared in accordance with FRS 101. The date of transition to FRS 101 is 1 February 2014. An explanation of the transition is included in note 9 to the financial statements. The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) the requirement of paragraphs 45 and 46-52 of IFRS 2 Shared based payment,
b) the requirement of IFRS 7 Financial Instruments: Disclosures,
c) the requirements in paragraphs 91-99 of IFRS 13 Fair Value Measurement,
d) the requirements in paragraphs 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1; (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and (iii) paragraph 118(e) of IAS 38 Intangible Assets,
e) the requirement of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements,
f) the requirements of IAS 7 Statement of Cash Flows,
g) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Change in Account Estimates and Errors,
h) the requirements of paragraph 17 of IAS 24 Related Party Disclosures,
i) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member, and
j) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

Going concern

The Group's business activities, together with a review of the market and the Group's distribution channels are set out in the Strategic Report on pages 5 to 13. In addition, note 12 to the financial statements includes the Group's policies for managing its capital; its financial risk; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group has a number of customers across different geographic areas and considerable recurring revenue streams through the sales of disposables which represented 85% of its revenues in the year to 31 January 2016.

The Company finances its operations through shareholders' funds, short term borrowings such as overdrafts and medium term borrowings such as finance leases. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Investments

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

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 liabilities and equity

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Share-based payment charges

The Company has four equity-settled share-based remuneration schemes for employees. Where share options are awarded to employees, the fair value of the options at the date of grant is calculated using a pricing model and is charged to the income statement over the vesting period. Market related performance conditions are factored into the fair value of the options granted and a charge is made irrespective of whether the market related performance conditions are satisfied. In respect of awards with non market related performance conditions, an estimate of the proportion that will vest is made at the award date which is adjusted if the number of share options expected to vest differs from the previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. Where the Company issues share warrants in respect of distributor arrangements, the fair value of the options at the date of grant is calculated using a pricing model and is charged to the income statement over the vesting period.

Notes to the financial statements
continued

2 Investments

Company	Shares in subsidiary undertakings £'000
Cost and net book value	
At 1 February 2015 and at 31 January 2016	16,849

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

	Country of registration	Beneficial holding	Nature of business
LiDCO Limited	England and Wales	100%	Medical instruments and appliances
Cassette Analytical Systems Limited	England and Wales	100%	Dormant

3 Share capital

	2016 £'000	2015 £'000
Allotted, called up and fully paid 194,174,908 ordinary shares of 0.5p each	**971**	971

4 Reserves

	Share premium £'000	Other reserve £'000	Equity reserve £'000	Profit and loss account £'000
At 1 February 2015	27,798	–	–	(11,790)
Loss for the year	–	–	–	–
Shares Issued	–	–	–	–
At 31 January 2016	**27,798**	**–**	**–**	**(11,790)**

5 Reconciliation of shareholders' funds

	2016 £'000	2015 £'000
Loss for the year	**–**	(1)
Shares issued	**–**	2
Share premium account	**–**	38
	–	39
Opening shareholders' funds	**16,979**	16,940
Closing shareholders' funds	**16,979**	16,979

6 Loss for the financial year

In accordance with the exemption given by section 408 of the Companies Act 2006, the holding company has not presented its own profit and loss account. The loss for the year of the Company was £nil (2014/15: £1,000).

7 Related party transactions

Other than the charge for share-based payments, there were no transactions between the Company and its subsidiary, which are related parties. The Company has taken advantage of the exemption in Financial Reporting Standard 8 'Related Party Disclosures' as it transacts only with its wholly-owned subsidiary, not to disclose details of related party transactions required by the standard.

8 Transition to FRS 101

The Company has adopted FRS 101 for the first time having previously applied UK GAAP that was effective before periods commencing on or after 1st February 2015. The date of transition to FRS 101 was the 1st February 2014. There are no restatements of the comparatives for the year ended 31 January 2016, except that long term intercompany debtor balances are now presented as part of the non-current asset investment balance as this presentation is considered to more appropriately reflect the nature of these balances.

Company information

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2659005

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Directors and Secretary:

Ms T A Wallis	Non-Executive Chairman
Mr M Sassone	Chief Executive Officer
Mr I G Brown	Non-Executive Director
Mr P L Clifford	Finance Director
Mr D W Armour	Company Secretary

Advisers to the Company

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