

**This document is important.** If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services Act 1986 who specialises in the acquisition of shares and other securities.

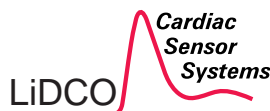
A copy of this document, which comprises a prospectus relating to LiDCO Group Plc (“the Company”) drawn up in accordance with the Public Offers of Securities Regulations 1995 (the “POS Regulations”), has been delivered for registration to the registrar of companies in England and Wales in accordance with paragraph 4(2) of those regulations.

**APPLICATION HAS BEEN MADE FOR THE WHOLE OF THE ISSUED AND TO BE ISSUED ORDINARY SHARE CAPITAL OF THE COMPANY TO BE ADMITTED TO TRADING ON THE ALTERNATIVE INVESTMENT MARKET OF THE LONDON STOCK EXCHANGE (“AIM”). AIM IS A MARKET DESIGNED PRIMARILY FOR EMERGING OR SMALLER COMPANIES TO WHICH A HIGHER INVESTMENT RISK TENDS TO BE ATTACHED THAN TO LARGER OR MORE ESTABLISHED COMPANIES. AIM SECURITIES ARE NOT OFFICIALLY LISTED. A PROSPECTIVE INVESTOR SHOULD BE AWARE OF THE RISKS OF INVESTING IN SUCH COMPANIES AND SHOULD MAKE THE DECISION TO INVEST ONLY AFTER CAREFUL CONSIDERATION AND, IF APPROPRIATE, CONSULTATION WITH AN INDEPENDENT FINANCIAL ADVISER. LONDON STOCK EXCHANGE PLC HAS NOT ITSELF EXAMINED OR APPROVED THE CONTENTS OF THIS DOCUMENT.**

It is expected that Admission will become effective and that dealings will commence on 5 July 2001.

The Existing and Proposed Directors of the Company, whose names appear on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Existing and Proposed Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Your attention is drawn to the risk factors set out in Part II of this document.



## LiDCO Group Plc

(incorporated under the Companies Act 1985 and registered in England and Wales with registered number 2659005)

### Placing by Teather & Greenwood Limited of 14,256,511 ordinary shares of 0.5p each at a price of 140p per ordinary share and admission to trading on AIM

#### SHARE CAPITAL IMMEDIATELY FOLLOWING ADMISSION

Authorised		ordinary shares of 0.5p each	Issued	
Number	Amount		Number	Amount
100,000,000	£500,000.00	70,844,561	£354,222.81	

Teather & Greenwood Limited, which is regulated by The Securities and Futures Authority Limited, is acting for the Company and for no one else in relation to the Placing and will not be responsible to anyone other than the Company for providing the protections afforded to customers or for providing advice to any other person on the Placing.

Teather & Greenwood Limited has not authorised the contents of any part of this document for the purposes of regulation 13(1)(g) of the POS Regulations. In particular Teather & Greenwood Limited owes certain responsibilities to London Stock Exchange plc which are not owed to the Company or its Existing or Proposed Directors or to any other person in respect of his decision to acquire Ordinary Shares in reliance on any part of this document. No liability is accepted by Teather & Greenwood Limited for the accuracy of any information or opinions contained in or for the omission of any material information from this document, for which the Company and the Existing and Proposed Directors are solely responsible.

The Subscription Shares to be issued by the Company under the Placing will, on Admission, rank *pari passu* in all respects with the existing issued ordinary shares of the Company and will rank in full for all dividends or other distributions which are declared, made or paid after the date of this document on the ordinary share capital of the Company.

The Placing Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or with any securities regulatory authority of any state or other jurisdiction of the United States of America (the “United States”) or under the applicable securities laws of Australia, Canada or Japan. Accordingly, the Placing Shares may not be offered, sold or delivered in or into the United States, Australia, Canada or Japan or to, or for the account or benefit of, any national, resident or citizen of Australia, Canada or Japan or any US persons (as such term is defined in Regulation S promulgated under the Securities Act) except in transactions which are exempt from the registration requirements of the Securities Act.

The distribution of this document outside the United Kingdom may be restricted by law and therefore persons outside the United Kingdom into whose possession this document comes should inform themselves about and observe any restriction as to the Placing of the Placing Shares and to the distribution of this document. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Any reproduction or distribution of this document in the United States or its territories in whole or part, or the disclosure of its contents in the United States or its territories, is prohibited without the Company’s prior written consent.

## Table of contents

	<i>Page</i>
Expected timetable of principal events	3
Placing statistics	3
Directors, secretary, registered and head office and advisers	4
Definitions	5
Key information	7
<b>Part I THE GROUP'S BUSINESS</b>	<b>8</b>
1. Overview of the Group	8
2. The cardiovascular monitoring market and the opportunity for the Group	8
3. The Group's products	12
4. Customers and distribution channels	13
5. Future growth opportunities	14
6. Intellectual property and proprietary position	15
7. Regulatory position	16
8. Manufacturing and quality assurance	17
9. Board, senior management, retained consultants and employees	17
10. Share schemes	19
11. Financial information	20
12. Current trading and prospects	20
13. Reorganisation	20
14. Changes to share capital on Admission	20
15. The Placing and use of proceeds	21
16. CREST	21
17. Corporate governance	22
<b>Part II RISK FACTORS</b>	<b>23</b>
<b>Part III PATENT AGENTS' REPORT</b>	<b>26</b>
<b>Part IV ACCOUNTANTS' REPORT ON THE GROUP</b>	<b>33</b>
<b>Part V UNAUDITED PRO FORMA STATEMENT OF NET ASSETS</b>	<b>49</b>
<b>Part VI ADDITIONAL INFORMATION</b>	<b>50</b>
APPENDIX Glossary of technical terms	77

### Expected timetable of principal events

Admission and expected commencement of dealings in Ordinary Shares	5 July 2001
Ordinary Shares credited to CREST accounts	5 July 2001
Share certificates despatched (where relevant)	12 July 2001

### Placing statistics

Placing Price	140p
Number of Subscription Shares being issued by the Company pursuant to the Placing	10,714,286
Number of Sale Shares being sold on behalf of the Selling Shareholders pursuant to the Placing	3,542,225
Number of Ordinary Shares in issue immediately following Admission	70,844,561
Market capitalisation of the Company on Admission at the Placing Price	£99.2 million
Percentage of enlarged Ordinary Share capital subject to the Placing	20.1%
Estimated net proceeds of the Placing receivable by the Company	£12.9 million

## Directors, secretary, registered and head office and advisers

### Existing and Proposed Directors

Bill Alexander*	Chairman
Dr Terry O'Brien	Chief Executive Officer
Dr David Band	Scientific Director
Richard Mills*	Finance Director
John Barry*	Sales and Marketing Director
Pascal Levensohn*	Non-Executive Director
Bert Wiegman*	Non-Executive Director

all of 16 Orsman Road, London N1 5QJ

\* will become a director of the Company on Admission

**Company secretary**  
Richard Mills\*

**Registered and head office**  
16 Orsman Road  
London N1 5QJ

\* will become secretary of the Company on Admission

**Nominated Adviser and Broker**  
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**Solicitors to the Company**  
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**Patent Agents**  
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**Auditors and Reporting Accountants**  
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**Registrars**  
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Kent BR3 4TU

**Principal Bankers**  
National Westminster Bank Plc  
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London SE1 1TT

## Definitions

The following definitions apply throughout this document unless the context requires otherwise. A glossary of technical terms is included in the Appendix at the end of this document.

“Act”	the Companies Act 1985, as amended
“Admission”	the admission of the Ordinary Shares to trading on AIM pursuant to the AIM Rules
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules contained in the booklet entitled “The AIM Rules” published by the London Stock Exchange
“Board” or “Existing and Proposed Directors”	together the Existing Directors and the Proposed Directors
“Bonus Issue”	the bonus issue to be effected by the Company on Admission on the basis of 9 Ordinary Shares for every 8 Ordinary Shares held, as referred to in paragraph 9 of Part VI of this document
“Company”	LiDCO Group Plc
“Combined Code”	the principles of corporate governance and code of best practice annexed to the Listing Rules of the UK Listing Authority
“Consideration Shares”	the Ordinary Shares to be issued by the Company pursuant to the Reorganisation, in consideration for the transfer to the Company of all the shares in LiDCO Limited which are not already owned by it
“CREST”	the system of paperless settlement of trades in securities of which CRESTCo Limited is the operator
“Equity Option”	the option granted by the Company to Teather & Greenwood Holdings Plc to subscribe for up to 1,416,891 Ordinary Shares, being two per cent of the Ordinary Shares in issue immediately following Admission
“EU” or “European Union”	the economic and political alliance established by the Treaty of Rome on 25 March 1957 as amended by the Single European Act 1986 and the Maastricht Treaty (which came into force on 1 November 1993)
“Existing Directors”	Dr Terry O’Brien and Dr David Band, the directors of the Company at the date of this document
“FDA”	the United States Food and Drug Administration
“Group”	the Company and its subsidiaries
“King’s College, London”	King’s College, London incorporating St Thomas’ Hospital Medical School and Guy’s Hospital (later the United Medical and Dental Schools)
“LiDCO System”	the lithium sensitive sensor (which is proprietary to the Group), connector and monitor which measure cardiac output by lithium chloride being injected via the venous system and arterial blood being drawn past an ion-selective electrode sensor and resulting data being displayed on the monitor as further described in Part I of this document (LiDCO <sup>®</sup> is a registered trade mark of the Group),
“London Stock Exchange”	London Stock Exchange plc

“MDA”	Medical Devices Agency
“Official List”	the official list of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 0.5p each in the share capital of the Company
“Placing”	the conditional placing of the Placing Shares by Teather & Greenwood, as described in this document
“Placing Price”	140p per Ordinary Share
“Placing Shares”	the Subscription Shares and the Sale Shares
“POS Regulations”	the Public Offers of Securities Regulations, 1995
“Proposed Directors”	Bill Alexander, Richard Mills, John Barry, Pascal Levensohn and Bert Wiegman, all of whom have agreed to become directors of the Company with effect from Admission
“PulseCO System”	the flat screen computer which hosts software proprietary to the Group and which, once calibrated with the LiDCO System, derives cardiac output from blood pressure data, as further described in Part I of this document (PulseCO <sup>®</sup> is a registered trade mark of the Group
“Reorganisation”	the acquisition by the Company of the shares in LiDCO Limited which are not already owned by it, in exchange for the issue of the Consideration Shares, upon the terms set out in the Reorganisation Offer Document
“Reorganisation Offer”	the offer by the Company to the shareholders of LiDCO Limited pursuant to which the Company offered, subject to certain terms and conditions, to acquire the issued share capital of LiDCO Limited not already owned by it, in exchange for the issue of the Consideration Shares, details of which are set out in Part VI of this document
“Reorganisation Offer Document”	the offer document published by the Company on 19 January 2001 containing, <i>inter alia</i> , the terms and conditions of the Reorganisation Offer
“Sale Shares”	the 3,542,225 Ordinary Shares already in issue to be sold by the Selling Shareholders pursuant to the Placing
“Selling Shareholders”	Terry O’Brien, David Band, Robert Linton, Jiri Kratochvil and King’s College, London, together being the founders of the Company
“Share Schemes”	the LiDCO Limited Unapproved Share Option Scheme and the LiDCO Group Plc Executive Share Option Scheme
“Shareholders”	the holders of Ordinary Shares
“Subscription Shares”	the 10,714,286 new Ordinary Shares to be issued by the Company pursuant to the Placing
“Teather & Greenwood”	Teather & Greenwood Limited
“UK Listing Authority”	the UK Listing Authority, a division of the Financial Services Authority
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“United States”, “US” or “USA”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia

## Key information

*The following information is extracted from, and should be read in conjunction with, the full text of this document.*

### The business of the Group

The Group researches, develops, manufactures and sells innovative medical devices primarily for critical care and cardiovascular risk hospital patients who require real-time cardiovascular monitoring. The Group currently has two principal products both of which are patent protected: the LiDCO System (disposable sensor product) and the PulseCO System (monitoring product). The Group's principal customers are hospitals.

### Key facts

- The Group's products are patent protected and registered for use by the regulatory authorities in the UK and USA, territories which the Board believes will constitute the Group's largest markets.
- The LiDCO and PulseCO Systems represent new ways of countering what the Board believes are a number of limitations of existing cardiovascular monitoring equipment. The LiDCO and PulseCO Systems are minimally invasive, operating via an existing arterial line, rather than via a more invasive catheter placed in the heart and the pulmonary artery.
- The Board believes that the Group's products can improve the standards of care in high risk surgery and monitoring of high risk patients, both during and after surgery, reduce the incidence of adverse events and also reduce costs.
- The LiDCO and PulseCO Systems have been extensively tested in a wide variety of critical care and surgery settings, and have been demonstrated to be accurate and reliable.
- The Group's products provide a means of monitoring patients undergoing "beating heart" surgery.
- The Board believes that the minimally invasive and real-time nature of the Group's products should enable it to develop potential future applications of its existing products, as well as to create new products in order to build future growth.

### Reasons for the Placing and use of proceeds

The Board believes that the Company has reached the size and stage of development at which it will benefit from Admission and the Placing. In particular, Admission will help to generate increased visibility for the Group, which is important in terms of both existing and prospective customers. The net proceeds available to the Company from the Placing will be used to finance the execution of the Group's sales strategy, invest in fixed assets to increase production capacity and build the organisational and marketing structure necessary to implement its plans.

### Summary of the Placing

The Placing comprises 10,714,286 Subscription Shares issued by the Company, and 3,542,225 Sale Shares. The Placing Shares have been conditionally placed by Teather & Greenwood with institutional and other investors. The Placing of the Subscription Shares will raise approximately £12.9 million for the Company (net of expenses).

The Company has granted to Teather & Greenwood Holdings Plc an option to subscribe at the Placing Price for up to two per cent of the enlarged ordinary share capital of the Company in issue following Admission. The Equity Option is exercisable in whole or in part at any time between six and 12 months after Admission and expires thereafter.

## PART I

### THE GROUP'S BUSINESS

#### 1. Overview of the Group

The Group researches, develops, manufactures and sells innovative medical devices primarily for critical care and cardiovascular risk hospital patients who require real-time cardiovascular monitoring while undergoing major surgery, intensive care or cardiology procedures. The Group's current principal products are a patent protected sensor product (the LiDCO System) and a patent protected monitoring product (the PulseCO System), which when used together provide a range of data concerning the performance of a patient's heart and blood circulation. The Group's products are designed for point-of-care use and is minimally invasive, portable and easy to use at a patient's bedside.

The Group, based in London, was founded in 1991 by Doctors David Band, Terry O'Brien, Robert Linton and Jiri Kratochvil and King's College, London. Since that time, the Group has developed inventions within the cardiovascular monitoring field resulting from research at the Applied Physiology Laboratory at King's College, London. The Group has a licence to exploit a range of inventions arising from research within this department. LiDCO Limited, the Group's principal trading subsidiary, has to date been funded predominantly by private equity funding raised from a number of institutional and other investors such as the Merlin Biosciences Fund LP, Finsbury Life Sciences Investment Trust Plc and Levensohn Capital Management LLC. Upon Admission, LiDCO Limited will become a wholly owned subsidiary of the Company.

The LiDCO and PulseCO Systems are registered for use in the United Kingdom, carrying the CE mark. In the USA, the LiDCO and PulseCO Systems have received clearance to market under the 510(k) system of the Food and Drug Administration. In continental Europe, similar approvals have been obtained (other than for the lithium chloride injectate element of the LiDCO System in respect of which approval is anticipated during 2002). The Group was granted the required European medical design and manufacturing approvals of ISO 9001 and EN 46001 in 1998 for its manufacturing facility in London and, in the USA, is a registered manufacturer with the Food and Drug Administration.

The Group's principal customers are hospitals and, to date, a number of sales, including some which are commercial as well as for trials, have been made to major teaching hospitals in the United Kingdom, continental Europe, the Far East and the USA. The Group has different distribution strategies for each of these territories. In the USA, the Group is establishing a sales and marketing presence through a combination of independent agents and direct sales staff. In the United Kingdom, it employs a direct sales force. In continental Europe, Japan and the Far East it intends to distribute through independent agents.

#### 2. The cardiovascular monitoring market and the opportunity for the Group

##### *Background*

The major causes of death in the developed world include circulatory diseases, ischaemic heart disease and cerebrovascular disease. The ageing of western populations (it is estimated that the over 65 age group in the US will increase by 78 per cent by 2015) and the advent of numerous therapeutics to improve the performance of the heart in older persons (drugs, transmyocardial revascularisation devices, balloon angioplasty, cardiovascular surgery, implantable pacemakers and ventricular support devices) indicate that the cardiovascular treatment market has significant prospects for growth. As a result of the risks which are perceived to be associated with conventional heart surgery, including, in particular, cognitive impairment, one of the key developments in this market is the more frequent use of less invasive "beating heart" surgery. As a result of increasing cardiovascular intervention, the Board believes that there is a considerable accompanying market need for the monitoring of



key cardiovascular parameters. The Board also believes that further improvements in minimally invasive surgery will continue to expand the use of cardiovascular monitoring of hospital patients.

The cardiovascular monitoring market comprises two segments: monitoring equipment and cardiac output disposable devices. In 2001, the worldwide market for the use of electronic processing and display equipment for cardiovascular monitoring is estimated to be worth approximately £1.5 billion per annum. In the cardiac output disposables market, the thermodilution pulmonary artery catheter is the current market leader with sales of approximately two million units per annum. The Board estimates that this accounts for an aggregate value of approximately £125 million per annum out of a total cardiac output disposables market of approximately £150 million per annum. Therefore, the Board estimates that the total annual market for its products is £1.65 billion.

### *Demand for cardiovascular monitoring*

During an average life span of 70 years, the human heart will pump more than 400 million litres of blood. Monitoring of the key cardiovascular parameters – blood pressure, cardiac output and oxygen delivery – can provide a practical, early warning of cardiovascular change and potential adverse events in surgery and critical care patients who are monitored both during and after surgery via an arterial line inserted in the radial artery. At least 10 million surgery and critical care patients per annum worldwide are involved in such monitoring procedures. However, a significant majority of these patients are currently monitored only for blood pressure and not for cardiac output or oxygen delivery.

The Group has developed a minimally invasive product, disposables and other equipment which, the Board believes, can: (a) improve the standards of care and monitoring of high risk patients, both during and after surgery; (b) reduce the incidence of adverse events in hospitals; and (c) also reduce costs.

#### *(a) Improving standards of care in high risk surgery*

The ageing population of the western world and the improving success rate of surgery place increasing demands on healthcare providers. In the United States, for example, over 30 million operations are performed annually, of which approximately 2.4 million are considered to be high risk. The mortality rate of high risk patients in the month after surgery is reported to be in the region of between 20 and 30 per cent. One of the principal risks for such patients is a reduction in global oxygen delivery during and following surgery. Analysis of 17 studies designed to evaluate the effects of peri-operative optimisation of high risk patients suggests that, for every 100 patients undergoing such surgery, 11 lives would have been saved if optimisation had taken place. The Board believes that effective cardiovascular monitoring is an important element of optimisation.

#### *(b) Reducing adverse events*

A recent UK study has shown that adverse events are currently estimated to affect approximately 10 per cent of hospital patients. It is estimated that approximately half of these adverse events are preventable and that at least one third of such events lead to disability or death. In the United Kingdom, the consequences of all hospital adverse events are estimated to lead to an extra three million bed days at a minimum cost of £1 billion per year. The Board believes that a significant number of those adverse events which relate to cardiovascular care could be prevented by improved cardiovascular monitoring.

#### *(c) Reducing costs*

On average, healthcare costs account for between seven and 14 per cent of gross domestic product (GDP) in a number of developed countries. For example in 1999, in the United States, 14 per cent of GDP was spent on healthcare, of which 10 per cent was committed to intensive or critical care patients. High staff-to-patient ratios, the equipment and personnel required to monitor patients and the drugs for treatment result in intensive and critical care patient costs which are significantly higher than those in a general ward. The Board believes

that these costs can be substantially reduced by improved cardiovascular monitoring which, if it is easy to use at the point of care, should reduce staffing costs and result in earlier discharge of patients from an ICU.

### *Current technologies and market trends*

As a result of the demands on healthcare resources and the costs of providing surgical and intensive care, one of the current trends in the medical industry is towards providing point-of-care healthcare treatment, that is, treatment which is minimally invasive, portable and easy to use. Point-of-care treatment is more efficient for both patients and healthcare providers, potentially reducing delays in treatment, mortality and costs.

The current market leader for the additional measurement of cardiac output (as opposed to merely blood pressure) is the traditional thermodilution pulmonary artery catheter, which measures thermal changes in the pulmonary artery blood temperature and which currently accounts for 85 per cent of measurements of cardiac output. However, the Board believes that a number of limitations apply to the existing market leading thermodilution pulmonary artery catheter, which result in cardiac output and oxygen delivery being measured in only a limited number of acute conditions in which these measurements would be beneficial. These limitations are believed by the Board to be as follows:

- ***Invasiveness*** – the insertion of a thermodilution pulmonary artery catheter requires an invasive procedure to place the catheter in the heart and pulmonary artery. The insertion and/or use of the catheter has been reported as resulting in increased patient morbidity.
- ***Procedural complexity*** – the insertion of a thermodilution pulmonary artery catheter is a complex procedure which can only be undertaken by a skilled clinician.
- ***Low reliability*** – the accuracy of a thermodilution pulmonary artery catheter is reduced in certain critical situations such as surgical operations where there are marked thermal changes in the pulmonary artery blood temperature. Moreover, the fact that the traditional thermodilution pulmonary artery catheter does not monitor the performance of the heart “beat to beat” may result in the clinician not being warned quickly of significant changes in cardiac output.
- ***Interpretation difficulties*** – published surveys of critical care staff show considerable difficulties in interpretation and appropriate use of information obtained from the thermodilution pulmonary artery catheter.

As a result of these limitations, a doctor will generally use the market leading thermodilution pulmonary artery catheter only in critically ill patients where the benefit to risk profile is justified. This does, however, mean that there is a large patient population for whom preventive cardiovascular monitoring would be beneficial but where the risks associated with the use of a thermodilution pulmonary artery catheter are too high.

In addition to the market leading thermodilution pulmonary artery catheter, a number of other cardiovascular monitoring technologies exist. These include the following:

- developments and refinements to the traditional thermodilution pulmonary artery catheter, which, whilst still having the disadvantage of invasiveness, have the potential to detect changes in cardiac output more rapidly than the traditional thermodilution pulmonary artery catheter;
- “Doppler” systems, which rely on a probe placed in the oesophagus close to the descending part of the aorta. The probe produces a continuous ultrasound signal from which cardiac output can, indirectly, be derived. This is minimally invasive but, due to the complexity with which measurements are derived, requires a significant amount of training and insertion by skilled clinicians;
- transpulmonary systems which rely on the injection of a cold indicator in the central venous system, from which cardiac output is measured through a catheter placed trans radially or in the femoral artery (and which are therefore regarded by clinicians as invasive systems);

- bioimpedance technology, which derives cardiac output by measuring the electrical impedance between electrodes on a patient's skin. Although non-invasive and potentially well suited to less acutely ill patients, the Board believes that, at its current stage of development, this technology is unlikely to be sufficiently reliable for widespread use in critical care patients;
- carbon dioxide re-breathing technology, which derives cardiac output from changes in expired carbon dioxide. Again, the Board believes that this technology, whilst minimally invasive, is unlikely, at its current stage of development, to be widely used in surgery because relatively long periods of cardiovascular stability are required for accurate measurements to be made.

In summary there are a number of competing technologies which are free of one or more of the limitations which the Board perceives in the traditional, market leading thermodilution pulmonary artery catheter. However, the Board believes that none of these technologies shares all of the competitive advantages of the Group's LiDCO and PulseCO Systems.

### *The Group's competitive strengths*

As a result of the current limitations inherent in the existing available cardiovascular monitoring technologies, the Board believes that a clear need exists for an improved monitoring system which is minimally invasive, easy to use, accurate and widely applicable in a number of critical care situations.

The Group has developed two products: the LiDCO System, which measures cardiac output, and the PulseCO System, which displays the data produced by the LiDCO System in a real-time and readily understandable form. These products can be expected to benefit a substantial proportion of the more than 10 million patients currently monitored with continuous blood pressure technology. Market predictions are that the US market for minimally invasive cardiovascular monitoring products will grow over the next four years by an average rate of approximately 30 per cent per annum.

The Board believes that the competitive strengths of the LiDCO and PulseCO Systems are as follows:

- ***Minimal invasiveness*** – the Group's cardiovascular monitoring products simply utilise the arterial catheter already inserted in the radial artery of patients undergoing surgery or in critical care. This contrasts with the thermodilution pulmonary artery catheter which is inserted directly into a patient's heart.
- ***Ease of use*** – the Group's cardiovascular monitoring products can be set up and applied by nurses as well as doctors and takes less than five minutes to set up and apply (compared to an average of an hour to set up the market leading thermodilution pulmonary artery catheter which can only be inserted by a skilled clinician).
- ***Ease of interpretation*** – the Group has developed user interface software that the Board believes provides data which can be collected and interpreted by nurses as well as doctors and will significantly aid the interpretation of complex real time cardiovascular information at a patient's bedside.
- ***Accuracy and reliability*** – the LiDCO and PulseCO Systems have been extensively tested in a wide variety of critical care and surgery settings, and have been demonstrated to be accurate and reliable.
- ***Comprehensive data*** – based on innovative sensor, electronics and software technology, the Group's continuous cardiovascular monitoring system allows the monitoring of the key physiological readings of blood pressure, oxygen delivery and cardiac output for the diagnosis and therapy of critical care and surgery patients.
- ***Clinical validation*** – the Group has invested in extensive and successful market testing of its products. The LiDCO and PulseCO Systems have been presented at in excess of 12 significant medical conferences; over 10 papers in international scientific and medical journals have been published on their methodology; and the Systems are being used (either

commercially or in trials) at 13 teaching hospitals worldwide. Following verification of the LiDCO and PulseCO Systems by the Group's accredited in-house testing procedure, the products underwent a further period of validation in hospitals. The purpose of this was to establish how the products performed in the clinical environment and whether any modifications were required prior to finalisation of product and/or software design.

- ***Widely applicable*** – the Group's products can be applied in a number of critical care situations including cardiac surgery, major surgery, post-operative monitoring, intensive care and high dependency units. The Group is currently investigating a number of other potential applications of the Group's products, including their use in the catheter laboratory, electrophysiology and in the emergency room.
- ***Intellectual property*** – the Group has pursued a policy of protecting its intellectual property and the Board believes that its patents will be a significant barrier to entry by new competitors into its markets.

### 3. The Group's products

The LiDCO System (disposable sensor product) and the PulseCO System (monitoring product) are marketed jointly. The Group has designed and manufactured ion-selective sensors, high impedance electronics for amplification of the sensor signal and computer software to acquire and transform physiological data into meaningful clinical information.

#### ***The LiDCO System – cardiac output measurement***

Arterial lines are routinely inserted in cardiac surgery, major surgery and critical care patients in order to monitor blood pressure and to measure blood gases. The LiDCO System consists of a proprietary disposable lithium sensitive sensor which is attached to that existing arterial line, a connector which sends a signal from the sensor to a monitor and a monitor which displays the computation of cardiac output. There is no requirement for insertion of a catheter into a patient's heart. A safe marker salt (lithium chloride) is injected via a vein and arterial blood is drawn past the ion-selective electrode sensor. The resultant lithium dilution curve is analysed and displayed with cardiac output being calculated as the dose of lithium divided by the area of the primary lithium curve. The LiDCO System measures a single point cardiac output with a high degree of accuracy and reliability and with, the Board believes, no incremental risk to patients.

#### ***The PulseCO System – continuous cardiovascular monitoring***

The PulseCO System provides a range of real-time cardiovascular data including blood pressure and cardiac output and allows the derivation of oxygen delivery. The PulseCO System, together with the LiDCO System, can be used in the more than 10 million patients per annum worldwide in whom arterial lines are currently inserted for blood pressure monitoring.

Following calibration by the LiDCO System, the PulseCO System derives cardiac output from blood pressure data and provides the necessary data for the derivation of oxygen delivery. With a measure for cardiac output, together with haemoglobin level and saturation, which are available as standard clinical data, it is relatively simple to calculate oxygen delivery. The PulseCO System consists of a flat screen monitor connected to an analogue pressure signal on the blood pressure monitor. The real-time blood pressure and cardiac output data is clearly presented in a format which facilitates clinical diagnosis and therapeutic intervention and which is designed to allow the interpretation of data by nurses as well as doctors.

#### ***Current clinical applications***

The Group's products have been validated by independent research centres for use in each of the following clinical situations:

- *Intra-operative use: cardiac surgery* – the Group’s products are able to provide the key cardiovascular parameters necessary in the monitoring of conventional heart surgery patients. In addition, in the rapidly growing area of “beating heart” surgery, the Group’s products provide a means of monitoring patients undergoing such surgery.
- *Intra-operative use: major non-cardiac surgery* – many patients with a clinical history of cardiac problems undergo major surgery, during which a cost-effective and safe means of monitoring their cardiac performance is important. Clinical experience suggests that the optimisation of these patients markedly influences outcome and cost.
- *Post-operative cardiovascular monitoring* – the Group’s products can be used by either doctors or nurses and allows traditional ICU monitoring to be carried out in alternative sites, such as high dependency units, which have a lower cost base than an ICU. Since the technology functions in both the operating theatre and post-operative settings, hospitals can invest in a single product for both of these environments. The Group’s products also provide a variety of user interfaces to account for the differing requirements of clinical staff in these environments.
- *Intensive care of non-surgical patients* – the Board believes that the Group’s technologies can be applied to intensive care patients undergoing non-surgical ICU treatment and in assisting in preventing adverse events for such patients.

#### 4. Customers and distribution channels

##### *Customers*

The Group’s principal customers in all regions are hospitals. The Group has supplied its products in Europe, the USA and Japan, in particular at leading academic centres and teaching hospitals such as St Thomas’ Hospital, St George’s Hospital, Royal Brompton Hospital and Southampton General Hospital (UK), the Berlin Heart Centre (Germany), Duke University, Northwestern University and the University of Chicago (USA), and Hamamatsu University (Japan). Following the receipt of a number of marketing approvals for the LiDCO and PulseCO Systems further details of which are set out in paragraph 7 below, the Group has recently begun to commercialise its products. Although relatively few sales have been made to date, the Group has made a number of sales to academic centres which, the Board believes, provide a valuable foundation upon which the Group can increase sales of its existing technologies. The Board has a policy of competitively pricing its products with the intention of ensuring early market penetration. Sales of the Group’s products will initially be weighted towards capital items. However, the Board believes that, over time, it is likely that the greater proportion of the Group’s sales will comprise disposables.

##### *Distribution channels*

The distribution of the Group’s products involves differing strategies according to region. In the United Kingdom, where the Group has strong links with teaching hospitals, the Group is establishing a direct sales force and has recently appointed a sales and marketing director and a sales manager. In the larger US market, the Group intends to distribute its products through a combination of direct sales personnel and independent agents. It has already begun to establish a direct sales and marketing force and to recruit independent agents. Despite having received approaches from a number of potential major US distributors, the Board has concluded that it is in the Group’s long term interest to pursue a largely independent strategy in the US. The Group has a sales and logistics agreement with Wren Medical Systems Inc. providing, among other things, use of a distribution centre located near Chicago, Illinois.

In Japan, the Group has licensed exclusive distribution rights to Nipro Corporation, a large organisation with operations including the supply of injection and infusion devices, renal dialysis, catheter systems, laboratory and diagnostic devices and medical equipment in the pharmaceuticals and medical sector. In other territories in the Far East, distribution of the Group’s products has been exclusively licensed to GM Medical Pacific Limited, a medical

distribution company which specialises in the supply of cardiovascular monitoring and other medical equipment to hospitals in the Near and Far East from a range of manufacturers. In continental Europe, the Group's products will be distributed principally through distributors which have established relationships with cardiovascular and critical care customers. Further details of the Group's distribution arrangements are set out in paragraphs 9.3 and 9.4 of Part VI of this document.

## **5. Future growth opportunities**

The Board believes that the minimally invasive and real-time nature of the Group's technologies should enable it to develop potential future applications of its existing products, as well as to create new products in order to build future growth.

### ***Potential applications of the Group's existing products***

The Board believes that there are a number of potential additional applications for its existing products. The Group's technologies are currently being tested in the following areas:

- *Cardiology* – the Board believes that the Group's products could provide cardiologists with both a diagnostic and a therapeutic option able to improve the safety and efficacy of cardiology procedures and that there is significant benefit to be gained from the application of the Group's technologies in the cardiology market. The overall market for cardiac treatment procedures is estimated at £1.8 billion per annum in the USA and £1.1 billion per annum in Europe. Significantly more patients are treated by cardiologists in a catheter laboratory via an angioplasty than are surgically treated with a coronary artery bypass. The Group's products could, therefore, be used both in investigative studies and in interventional cardiology undertaken in the catheter laboratory. Since there is substantially greater throughput of patients in the catheter laboratory compared with those in conventional critical care, the Board also believes that there is significant potential for use of the Group's sensor and lithium injectate.
- *Electrophysiology* – the Board believes that significant cost savings could be made if the Group's technologies were to be employed when assessing the need for and type of pacemaker. For example, the PulseCO System could be used to make an objective assessment between a single or dual chamber pacemaker, potentially resulting in lower costs for the healthcare provider.
- *Emergency room* – the Board believes that the time taken to apply the products (less than five minutes) makes them suitable for use in an emergency room. The Group's cardiovascular monitoring products may assist in rapidly restoring cardiac output and oxygen delivery in patients during the critical golden hour following trauma. The Group is currently testing this application in the USA.

### ***Product development opportunities***

Building on its experience to date, the Group is actively pursuing the following product development opportunities which relate primarily to software development and are not, therefore, capital intensive:

- *Automation of oxygen delivery calculation and display* – the Board intends to develop the PulseCO System software to incorporate the calculation of oxygen delivery, which can be derived from the data currently provided by the PulseCO System, so as to provide quicker and easier access to information on oxygen delivery for the hospital clinician.
- *Clinical information system* – the PulseCO System monitor includes a four gigabyte hard disc which allows the storage of up to one year of data. The Group intends to develop a clinical information system that allows clinicians and administrators access to this information. The Board believes that, as this information can be easily downloaded and is accessible at a patient's bedside, it has significant potential for use in physiological training and clinical audit.

- *Congestive heart failure* – management of congestive heart failure patients is a costly area of healthcare (estimated at £14.7 billion for 2001 in the USA) where there is a substantial unmet therapeutic need. The Board believes that improvements in the clinical management of such patients will have economic benefits to hospitals. The Group is evaluating providing additional cardiovascular measurements which should facilitate the diagnosis and treatment of these patients. These additional cardiovascular measurements (post arteriolar pressure measurement and the Starling ratio), in combination with existing technologies, may significantly facilitate the management of congestive heart failure patients.
- *Replacement of the primary patient monitor* – the Group is investigating the integration of primary arterial blood pressure, electrocardiogram and pulse oximetry into the PulseCO System. A peri-operative system of this nature would remove the need for a primary monitor at a patient’s bedside.

## 6. Intellectual property and proprietary position

### *Patents*

The Group regards the protection of its intellectual property as of paramount importance and, accordingly, has pursued a policy of applying to patent inventions arising from its relevant research.

The Group has acquired rights from King’s College, London to exploit a range of inventions resulting from work undertaken at the Applied Physiology Laboratory at King’s College, London. The department has been involved in the application of sensor technology to cardiovascular and respiratory monitoring for 35 years and has been responsible for the invention of sensor technologies that have facilitated the measurement of a number of critical care parameters. The experience and knowledge base of the Department has formed the basis for the product strategy of the Group.

The Group has four families of patents which have been granted in one or more territories. In territories where patents have been applied for but not yet granted, the Board has no reason to believe that these will not proceed to grant. The Group has actively sought and cited potentially relevant prior art when making patent applications, preferring to cite prior art against their applications in order to overcome such patents during prosecution.

The four patent families can be divided into two main groups:

- (i) *LiDCO System* – the lithium sensor and indicator dilution curve analysis patents protect the cation-sensitive electrode and method of analysing the results gathered by this electrode; and
- (ii) *PulseCO System* – the cardiac output measurement and PulseCO Fourier patent families protect the method and apparatus required to derive continuous cardiac output from the existing peripheral arterial pressure waveform.

To date, no “oppositions” have been filed and no “observations” have been made by third parties against the Group’s existing four patent families. Where patent applications have still to proceed to grant, the same prior art has been cited by the respective national offices as has already been cited during the prosecution of the patents in other territories. The Group has not received any notification from third parties that its products infringe any third party rights and neither has it had cause to notify any third party of infringement of its own intellectual property rights. The Group has published the results of its research in international scientific and medical journals for eight years and in the last three years its representatives have presented at numerous scientific conferences, thus increasing the likelihood of third parties having become aware of its activities. The Board is not, therefore, aware of any third party patent which the Group might infringe in commercialising its existing products.

### *Trade marks*

The Group has applied for the registration of the trade marks “LiDCO” in international classes 10 (medical apparatus and instruments; including parts and fittings for these goods) and 42 (medical services; medical research services and medical consultancy services) and “PulseCO” in international class 10 in the following jurisdictions: the USA, Australia, Canada, the UK, the EU, Japan and Switzerland. A number of these applications have proceeded to grant whilst others are still pending. The Board has no reason to believe that the pending applications will not proceed to grant.

**A report from Boulton Watt Tennant on the Group’s patents and other intellectual property rights is set out in Part III of this document.**

## **7. Regulatory position**

### *Regulatory background*

The regulatory bodies responsible for the Group’s products in its primary markets are: in the EU, the national Medical Devices Agency (MDA) and the Medicines Control Agency (MCA) in each country; in the USA, the Food and Drug Administration (FDA); and in Japan, the Pharmaceuticals Division of the Ministry of Health and Welfare.

### *Current regulatory position of the Group’s products*

#### *General*

In the United Kingdom the Group’s design, manufacture and quality management systems are certificated as being compliant with the requirements of ISO9001, ISO13485 and EN46001. Elsewhere manufacture and release of all devices and components is in accordance with the relevant European Directives and with the relevant parts of the US code of Federal Regulations.

#### *LiDCO System*

The LiDCO System consists of electromedical equipment, sterile medical disposable elements and a sterile injectate.

*EU.* The device components of the LiDCO System have been approved for manufacture and marketing in the EU following a satisfactory audit of the Company’s quality system used in manufacturing in accordance with ISO9001, ISO13485 and EN46001. In February 1998, the Group satisfied the auditor of the notified body that the LiDCO System met the essential requirements of the EU Medical Devices Directive, and the device aspects of the the LiDCO System have carried the CE mark since that date.

The lithium chloride injectate, the marker substance used in the LiDCO System, is regarded in the EU as a medicinal product and is subject to approval by the agency responsible for controlling medical devices in each member state. UK marketing authorisation was granted in February 2001. Marketing authorisation for the lithium chloride injectate in other EU countries is being pursued via the EU mutual recognition procedure and is anticipated during 2002.

*USA.* In May 1999, following a 510(k) premarket notification to the FDA, the LiDCO System (including the lithium chloride injectate) was approved for marketing in the USA.

*Japan.* Regulatory approvals in Japan are the responsibility of Nipro Corporation, the Group’s distribution partner in Japan. The Group will provide regulatory support as requested. Having completed pre-clinical trials, the LiDCO System is now undergoing clinical trials, and if the applications proceed according to expectations, regulatory approvals are expected by 2003.

#### *PulseCO System*

The PulseCO cardiovascular monitor comprises a flat screen computer hosting the proprietary PulseCO software.



*EU.* Following a full audit of the Group's quality management system and of the design file by the notified body, the PulseCO cardiovascular monitor obtained regulatory clearance to be marketed in the third quarter of 2000 and has carried the CE mark since that date.

*USA.* In June 2001, following a 510(k) premarket notification to the FDA, the PulseCO System was approved for marketing in the USA.

*Japan.* Registration of the PulseCO System for market is expected to be achieved by 2003.

## **8. Manufacturing and quality assurance**

The Group pursues a policy of outsourcing the manufacturing requirements for the LiDCO monitor, injectate, and the disposable components of the LiDCO and PulseCo Systems, all in accordance with specifications provided by the Group.

The Group has extensive experience in manufacturing the lithium sensor on a small scale and has developed plans to move to mass production. Since 1995, the Group has leased a manufacturing facility which has been approved in accordance with MDA standards and registered with the FDA.

The Group has recently tested increased production levels at its manufacturing facility and intends to move to two production shifts per day as demand increases. It is also the Group's intention to construct a larger clean room at adjacent premises and negotiations are currently at an advanced stage with its landlord. In addition, the Group is developing the automation of the production process, although this is not expected to impact on production capability in the short term.

## **9. Board, senior management, retained consultants and employees**

The Board and senior managers of the Group are as follows:

### *Existing Directors*

**Dr Terence Kevin O'Brien, Chief Executive Officer.** Age 45. Dr O'Brien co-founded the Group in 1991. Prior to that, he has held senior positions with biomedical companies including Sandoz SA, Pharmacia AB., Meadox Medical Inc., Novamedix Ltd., Enzymatix Ltd. and Surgicraft Ltd. Dr O'Brien was associate commercial director at Enzymatix, which subsequently listed on the London Stock Exchange as ChiroScience Plc.

**Dr David Marston Band, Scientific Director.** Age 64. Dr Band co-founded the Group in 1991 and is the co-inventor of the LiDCO System. He was seconded to the Company full-time in 1992 from St. Thomas' Hospital and is a specialist in the field of respiratory physiology, electrochemistry and ion-selective electrodes. He has degrees in both medicine and surgery, and is a Reader in Applied Physiology in the Division of Physiology, GKT School of Biomedical Sciences, St. Thomas' campus. Dr Band intends to retire from King's College in August 2001, when it is expected that he will become a direct full-time employee of the Group. He has accepted an appointment as an Honorary Reader in the Division of Physiology, GKT School of Biomedical Sciences with effect from October 2001.

### *Proposed Directors*

**Theodore William Alexander, Chairman.** Age 55. Mr Alexander joined the Group in 1995, as part-time executive Chairman. It is intended that he will become full-time executive Chairman on Admission. He has been involved in venture investing, acquisition finance and financial management for over 20 years. He has held executive positions with Energy Ventures, Inc., First Empire State Corporation and Canadian Imperial Bank of Commerce.

**Richard John Mills, Finance Director and Company Secretary.** Age 48. Mr Mills joined the Group in April 2001. He is a qualified chartered accountant with twenty years' experience in the medical diagnostics industry, with Corning Limited, Ciba Corning Diagnostics Limited, Chiron Diagnostics Limited and Bayer AG. He has considerable experience of assisting organisations through periods of growth and transition and establishing the financial and other systems required to successfully manage this.

**John Gerard Barry, Sales and Marketing Director.** Age 33. Mr Barry joined the Group in February 2001. He entered the medical industry working for Baxter Healthcare Inc. In 1997 he was appointed director of marketing for critical care in Europe and in 1999, when Baxter Healthcare sold Edwards Lifesciences Corporation, Mr Barry was appointed director of marketing for the cardiac surgery business of Edwards Lifesciences Corporation in Europe, the Middle East and Africa.

#### *Non-Executive Directors*

**Pascal Norman Levensohn, Non-Executive Director.** Age 40. Mr Levensohn is the founder, president and chief executive officer of Levensohn Capital Management LLC, a San Francisco based registered investment adviser which manages a group of partnerships investing in excess of \$200 million in public and private technology companies.

**Albert Edward Bernard Wiegman, Non-Executive Director.** Aged 49. Mr Wiegman was the founder of two private equity businesses, SPHG Equity Ventures and European Acquisition Capital Limited. The latter, founded in 1991, now has funds of approximately £200 million under management. He has over 25 years' experience in the private equity industry and was principally responsible for investments, among others, in Tom Cobleigh plc, a managed pub group listed on the London Stock Exchange in November 1995, and Stalwart Group Limited, the specialist insurer sold to GE Capital Inc. in 1997.

#### *Senior Management*

**Jon Pepper, Operations Manager.** Age 47. Mr Pepper has 20 years' experience in development and manufacture of technology electronic products. Prior to joining the Group in March 1998, he held the senior positions in VideoLogic Plc for 10 years. He was VideoLogic's first technical manager, and then became operations director with responsibility for manufacturing computer peripherals worldwide.

**Greg Speller, Quality and Regulatory Affairs Manager.** Age 44. Mr Speller joined the Group in 1998 as quality and regulatory affairs manager, and has over 20 years of experience of quality management. For the past 9 years this experience has included regulatory affairs in the medical manufacturing industry. He has overseen successful applications to the US Food and Drug Administration, the Medical Devices Agency and the Medicines Control Agency and has supervised numerous notified body surveillance visits.

**Lawrence Layman, US Vice-president, Operations.** Age 45. Mr Layman joined the Group in 2000 as vice president of US operations. He has worked in medical device sales and distribution in the USA for 24 years, 16 of which have been devoted to cardiovascular sales and distribution. He has held senior sales and management positions with American Hospital Supply Corporation, Abbott Laboratories, Somanetics Corporation and Deltex Medical Group Plc.

**Adrian Thomas, UK Sales Manager.** Age 35. Mr Thomas joined the Group in April 2001. He has 11 years experience of working in the field of medical equipment sales, with equipment ranging from large capital items such as blood chemistry analysers to haemofiltration equipment and disposables.

#### *Retained consultants*

The Group retains the following consultants to provide advice from time to time on medical and scientific matters relevant to the Group's technologies.

<i>Name</i>	<i>Position</i>	<i>Area of Expertise</i>
Professor Solomon Aronson	Professor, Department of Anaesthesia & Critical Care, University of Chicago	Major Surgery and Intensive Care Medicine

<i>Name</i>	<i>Position</i>	<i>Area of Expertise</i>
Professor William Peruzzi	Associate Professor of Anaesthesiology, Northwestern University Medical School & Medical Director of the Department of Respiratory Care, Northwestern Memorial Hospital	Neurosurgical Intensive Care
Dr Max Jonas	Consultant Anaesthetist, Southampton University Hospital	Medical Intensive Care
Dr Christopher Wolff	Honorary Clinical Pharmacologist, St Bartholomew's Hospital	Applied Physiology/ Medicine

### ***Employees***

The table below sets out the Group's workforce (including executive directors) by number and function for the years ending 31 December 1998, 1999 and 2000 and as at 31 May 2001:

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>31 May 2001</u>
<b>Function</b>				
Management	7	7	7	9
Sales	2	2	4	7
Production	2	7	8	9
Administration	1	1	1	1
<b>TOTAL</b>	<u>12</u>	<u>17</u>	<u>20</u>	<u>26</u>

## **10. Share Schemes**

The Group currently operates two employee share schemes: the LiDCO Limited Unapproved Share Option Scheme and the LiDCO Group Plc Executive Share Option Scheme.

Under the LiDCO Limited Unapproved Share Option Scheme, option holders have been given the opportunity to exchange their options to subscribe ordinary shares of LiDCO Limited for options to subscribe Ordinary Shares. Certain other arrangements in respect of particular directors and consultants will be put in place prior to but conditional upon Admission.

Senior executives will be granted options under the LiDCO Group Plc Executive Share Option Scheme on Admission. If the price of Ordinary Shares increases above the Placing Price, at any time during the three year period until the options vest, an employers' social security charge will arise on the increase in value of these options. This charge will be deducted in arriving at operating profit and will be spread in the Group's profit and loss account over the three year period until the options vest. The Group intends to hedge any additional employers' social security charge as a result of an increase in the value of the share price. Although there can be no assurance, the Existing and Proposed Directors expect that the income from this hedge will approximately equal the additional employers' social security charge arising on the exercise of unapproved share options. The income from this hedge will be shown in the profit and loss account after operating profit during any period in which there is an employers' social security charge.

It is also proposed that the LiDCO Group Plc Employee Benefit Trust (the “EBT”) be established. This will be a discretionary trust established for the benefit of all employees and former employees of the Group. It is currently envisaged that the principal purpose of the EBT will be to enable the Company to hedge its liabilities to employers’ social security charges arising on the exercise of unapproved share options.

Further details of these arrangements are set out in paragraph 7 of Part VI of this document.

#### **11. Financial information**

The results of the Group’s operations for the three years to 31 December 2000 are shown in the Accountants’ Report included in Part IV of this document.

The results for the period covered show minority interests. These represent the interests of LiDCO Limited shareholders other than the Company. As described below, previous rounds of fundraising, providing funds for the commercialisation of the LiDCO and PulseCO Systems, have been made directly into LiDCO Limited. These minority interests will be acquired by the Company upon Admission pursuant to the Reorganisation.

#### **12. Current trading and prospects**

The Group has established a fully operational manufacturing facility to produce the LiDCO and PulseCO Systems and related software. The Group’s principal customers to date, are leading UK and international teaching hospitals. The Group’s intention is to use the proceeds of the Placing to expand commercialisation of its products by developing its sales and marketing effort in the United Kingdom, the EU, the USA and Asia.

Based on the Group’s business plan, the Board believes that the Group’s operating losses will increase as commercialisation of its products expands. Over time however, the Group expects its revenues to exceed its operating costs.

Since 31 December 2000, the Group’s trading has been in line with the Board’s expectations. Given the Group’s expectations of growth in both the United Kingdom and overseas markets, the Board views the Group’s future prospects with confidence.

#### **13. Reorganisation**

LiDCO Limited is the Group’s main operating company and is currently a majority owned subsidiary of the Company.

In January 2001 the Company, which at the time held approximately 79 per cent of the ordinary shares in LiDCO Limited, offered to acquire all of the issued ordinary and preferred shares in LiDCO Limited not already owned by it in exchange for the issue to shareholders of LiDCO Limited of the Consideration Shares. This offer has been irrevocably accepted in full by the shareholders of LiDCO Limited. The Company will be liable to stamp duty at 0.5 per cent of the value of the shares in LiDCO Limited transferred to it pursuant to the Reorganisation.

The principal terms and conditions of the Reorganisation are summarised in paragraph 9 of Part VI of this document. The Reorganisation is conditional, upon *inter alia*, Admission. Upon the Reorganisation becoming unconditional, LiDCO Limited will become a wholly owned subsidiary of the Company.

#### **14. Changes to share capital on Admission**

Pursuant to a written resolution of the Shareholders dated 19 June 2001, conditional upon and with effect from Admission, each existing ordinary share of £1.00 in the Company will be sub-divided into two hundred ordinary shares of 0.5p each. In addition, upon completion of the Reorganisation Offer, a bonus issue will be effected whereby £159,168 (being part of the reserves of the Company) will be distributed among shareholders of the Company (not taking into account any Ordinary Shares to be issued in connection with the Placing) in the

proportion of 9 Ordinary Shares for every 8 Ordinary Shares held by Shareholders. The resolutions in relation to these changes are set out in full in paragraph 9 of Part VI of this document.

## 15. The Placing and use of proceeds

The Board believes that the Company has reached the size and stage of development at which it will benefit from Admission and the Placing. In particular, Admission will help to generate increased visibility for the Group, which is important in terms of both existing and prospective customers.

The net proceeds of the Placing receivable by the Company, together with the Group's existing resources, will be used for the following purposes:

- finance the execution of the Group's sales strategy;
- investing in fixed assets to increase production capacity;
- building the organisational and marketing structure necessary to implement its plans;
- investing in IT systems to help to manage and control the Group's growth; and
- financing working capital requirements.

### *The Placing*

The Placing of 14,256,511 Ordinary Shares at 140 pence per share comprises the issue and allotment of 10,714,286 Subscription Shares by the Company and the sale of 3,542,225 Sale Shares by the Selling Shareholders.

Pursuant to its obligations under the Placing Agreement, Teather & Greenwood has conditionally placed all the Placing Shares at the Placing Price with institutional and other investors. The Placing is expected to raise approximately £20 million before expenses, of which £15 million is receivable by the Company and £5 million is receivable by the Selling Shareholders. The Subscription Shares represent approximately 15.1 per cent of the enlarged issued share capital of the Company. At the Placing Price, the Company will have a market capitalisation of approximately £99.2 million. The Placing has not been underwritten by Teather & Greenwood or any other person.

The Placing Agreement is conditional, *inter alia*, upon the Reorganisation having become unconditional subject only to Admission, and upon Admission having taken place by not later than 8.00 a.m. on 5 July 2001 or such later time and date, being not later than 8.00 a.m. on 12 July 2001, as the Company and Teather & Greenwood shall agree.

The Selling Shareholders, the Existing and Proposed Directors and certain other persons, have undertaken to Teather & Greenwood, with certain exceptions, not to dispose of any Ordinary Shares owned by them at Admission:

- in the case of the Selling Shareholders and the Existing and Proposed Directors, for a period of 18 months from Admission; and
- in other cases, for a period of six months from Admission.

Further details of these arrangements are set out in paragraph 9.1.4 of Part VI of this document.

The Company has granted to Teather & Greenwood Holdings Plc, the Equity Option to subscribe at the Placing Price for up to two per cent of the enlarged ordinary share capital of the Company in issue following Admission. The Equity Option is exercisable in whole or in part at any time between six and 12 months after Admission and expires thereafter.

## 16. CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. The Board has applied for shares to be admitted to CREST with effect from Admission. Accordingly, it is expected that the Ordinary Shares will be enabled for settlement in CREST following Admission.

## 17. Corporate governance

The Board supports high standards of corporate governance and, following Admission, it intends to comply, so far as practicable and appropriate for a company of the Company's size, with the provisions of the Combined Code.

The committees of the Board, whose members are Bill Alexander (Chairman), Pascal Levensohn and Bert Wiegman, are described below.

### *Audit Committee*

The Audit Committee's remit is to examine and review, on behalf of the board, internal financial and other controls, financial and accounting policies and practices, the form and content of financial reports and statements, and the work of the external auditors. The executive directors may attend its meetings as required.

### *Remuneration Committee*

The Remuneration Committee's remit is to determine, on behalf of the board, the Group's policy for executive remuneration and the individual remuneration packages for the Group's executive directors. The Chief Executive may attend its meetings. The committee is entitled to have access to professional advice in support of its duties.

### *Nominations Committee*

The Nominations Committee has responsibility for proposing to the board, in the first instance, any new appointments of both executive and non-executive directors.

## PART II

### RISK FACTORS

Prospective investors should be aware that an investment in the Group involves a high degree of risk and should be made only by those with the necessary expertise to apprise the investment. The following are considered by the Board to be the main risk factors which could have a material adverse effect on the Group's business, results of operations and financial condition. In addition to the other information in this document, the following risk factors should be considered carefully in evaluating whether to make an investment in the Group.

#### 1. Risks relating to the Group's business

##### *Early stage of commercialisation; limited relevant operating history*

The Company was founded in 1991 and until recently has been engaged primarily in the research, development and testing of, and the development of manufacturing capabilities for, the LiDCO and PulseCO Systems. There is no assurance that the Group will be successful in making the transition to commercial scale manufacturing. The Group has limited experience in producing the LiDCO and PulseCO Systems in large commercial quantities.

##### *New products; uncertain market acceptance*

The LiDCO and PulseCO Systems represent a new approach to cardiac output monitoring and as such the Group is dependent upon acceptance of the LiDCO and PulseCO Systems by the medical community as reliable, accurate and cost-effective. Although the Board is confident that the Group's products are capable of successful application to a number of validated clinical applications, there is no assurance that clinicians will use the products in all of these areas.

##### *Dependence on LiDCO and PulseCO products*

The Group is currently entirely dependent on two products, the LiDCO and the PulseCO Systems, which have been sold to a relatively limited number of customers. The Group may not be able to substantially increase and widen the number and type of customers for its products. Although the Group is investigating potential future applications for its current products, these applications have not been validated and there can be no assurance that such validation will be obtained. In addition, the Group is researching and developing new products which may not receive the regulatory approvals and validations necessary for commercialisation.

##### *Absence of profitability; anticipated future losses*

The Group has incurred a consolidated loss on ordinary activities before taxation of £1.1 million for the year ended ended 31 December 2000 (year ended 31 December 1999: £0.9 million loss). The Group expects to incur substantial and increasing additional expenditures to further develop and commercialise its products. There is no assurance that the Group will be able to generate substantial revenues or achieve profitability.

##### *Dependence on contract manufacturers and suppliers*

The Group is dependent on the successful conclusion or continuation of arrangements with third parties as part of its strategy for development, manufacturing, commercialisation, distribution and marketing of its products. There can be no assurance that the Group will be able to negotiate or continue such arrangements on terms acceptable to the Group or that such relationships will be successful. Certain components of the LiDCO System and hardware components for the PulseCO System are respectively manufactured for the Group by single suppliers. Although the Group is seeking to broaden its sources of supply where appropriate, and the Board believes that alternative suppliers could be found for such components, any interruption in supply could have a material adverse effect on the Group.

The quality of the Group's products is controlled by regular checks and only regulated sub-contractors are chosen. However, sub-contracting involves a higher degree of risk than if manufacturing was carried out by the Group itself.

#### *Dependence on management and other key personnel*

The success of the Group and its business strategy are dependent to a large extent on its ability to attract and retain key management and operating personnel. In addition, as the Group commercialises its products, the Group will need to recruit additional management personnel and support staff. The loss of the services of one or more members of the management group or the inability to recruit additional personnel as needed may have an adverse effect on the Group.

#### *Intellectual property and proprietary technology*

The Group has already been granted a number of patents, details of which are set out in paragraph 6 of Part I of this document and in the report by Boulton Wade Tennant in Part III.

The Group's success will depend in part on its ability to maintain and uphold patent protection and copyright for its products and processes, to preserve its trade secrets and to operate without infringing the proprietary rights of third parties. No assurance can be given that any patents under pending patent applications or any future patent applications will be issued, that the scope of any patent or copyright protection will exclude competitors or provide competitive advantages to the Group, that any of the Group's patents or copyrights will be held valid if subsequently challenged or that third parties will not claim rights in or ownership of the patents and other proprietary rights held by the Group. Furthermore, there can be no assurance that others have not developed or will not develop similar products, duplicate any of the Group's products or, if patents are issued to the Group, design around such patents. In addition, whether or not the Group's patents are issued, others may hold or receive patents which contain claims having a scope that covers products developed by the Group. The Group also relies upon unpatented trade secrets to protect its proprietary technology, and no assurance can be given that others will not independently develop or otherwise acquire substantially equivalent techniques or otherwise gain access to the Group's proprietary technology or disclose such technology or that the Group can ultimately protect meaningful rights to such unpatented proprietary technology. Similarly, the Group relies on copyright and database rights to protect, amongst other things, the software and databases used in its products. These rights act only to prevent a competitor from copying the software or database and do not act to prevent a competitor from independently developing similar works.

#### *Product liability and insurance*

The Group's business exposes it to potential product liability and professional indemnity risks. Although the Group believes that based on its manufacturing experience to date, it will be able to achieve and maintain product accuracy and reliability when producing the LiDCO and PulseCO Systems in the quantities required for profitable operation, there can be no assurance that it will be able to do so. There can be no assurance that insurance cover will be available to the Group at an acceptable cost as it expands its operations or that, in the event of any claim, the level of insurance carried by the Group now or in the future will be adequate or that a product liability or other claim would not materially and adversely affect the business. The Group does not currently maintain key-person life insurance on any of its key personnel but intends to take out a policy on the life of Dr Terry O'Brien.

## **2. Risks relating to the cardiovascular monitoring market**

### *Competitors; risk of technological obsolescence*

The medical technology industry is characterised by rapidly evolving technology and intense competition. Many of the companies in the medical technology industry have substantially greater capital resources, research and development staff, facilities and experience than the Group. Such entities have developed, may be developing or could in the future attempt to develop additional products which are competitive with the LiDCO and PulseCO Systems.



There can be no assurance that the Group's competitors will not succeed in developing or marketing technologies and products that are more effective or less expensive than those developed or marketed by the Group or that would render its technology and products obsolete or non-competitive. Although the Board believes that the Group's products offer certain advantages over its competitors' currently-marketed products, earlier entrants in the market often obtain and maintain significant market share relative to later entrants. In the future, the Group may experience competitive pricing pressures which may adversely affect unit prices and sales levels.

#### *Uncertainty of government health care policy*

The willingness of hospitals to purchase the LiDCO and PulseCO Systems may depend on the extent to which hospitals restrict or otherwise limit their capital expenditures due to government regulation or re-ordering of spending priorities by governments, insurers and other health maintenance organisations, and general uncertainty relating to government health care policy in the Group's key markets. There can be no assurance that current levels of expenditure and capital expenditure in general, and on cardiovascular monitoring in particular, will not be decreased in the future, and that any such decrease will not reduce the demand for or the price of the Group's products. Measures adopted by governments in the Group's key markets could adversely affect the price of medical devices.

#### *Regulatory approvals*

The Group has regulatory approvals for the LiDCO and PulseCO Systems in the UK and the USA. Regulatory approval will be required in respect of all territories within which the Group intends to market its products (whether directly or through a partner) and there can be no assurance that, to the extent that such approvals have not yet already been obtained, any of the Group's products will successfully complete any clinical trial process or that regulatory approvals to manufacture and market these products will ultimately be obtained.

Where regulatory approvals are or have been obtained, the products are or will be subject to post-market surveillance and there can be no assurance that such approvals will not be withdrawn or restricted.

The Group's regulatory approvals are discussed further in paragraph 7 of Part I of this document.

### **3. Risks relating to Admission**

#### *Market liquidity*

Prior to Admission, there has been no public trading market for the Company's Ordinary Shares. The share prices of publicly traded biotechnology and emerging healthcare companies can be highly volatile. The value of the Ordinary Shares may go down as well as up and investors may not therefore recover their original investment. The market perception of publicly traded biotechnology and emerging healthcare companies may change and, accordingly, the value of the Ordinary Shares may decline. Furthermore, an investment in a share that is traded on AIM is likely to carry a higher risk than an investment in shares listed on the Official List. The market value of the Ordinary Shares may not necessarily reflect the underlying net asset value of the Company.

An active public market for the Company's shares may not develop or be sustained after the Placing, and the market price may fall below the Placing Price.

## PART III

### PATENT AGENTS' REPORT



Boulton Wade Tennant

European Patent and Trade Mark Attorneys  
Chartered Patent Attorneys

The Directors  
LiDCO Group Plc  
16 Orsman Road  
London,  
N1 5QJ

Teather & Greenwood Limited  
Beaufort House  
15 St Botolph Street  
London EC3A 7QR

Dear Sirs,

Boulton Wade Tennant has been instructed by the directors of LiDCO Group Plc (hereinafter referred to, together with its subsidiaries, as "the Group") to report on the patent strategy of the Group, the patent portfolio of the Group, the trade mark portfolio of the Group, third party patent issues and some general intellectual property matters. Our report is set out below.

#### 1. Introduction

Boulton Wade Tennant has acted as Patent and Trade Mark Agents for the Group since its foundation in 1991.

#### 2. Patent Strategy

##### (a) General

The Group has a portfolio of patents/patent applications and trade marks/trade mark applications in respect of the technology and the trade marks/names which the Company is using. We have had meetings with Dr. Terence O'Brien to discuss patent matters and with some of the inventors named in the various patent applications, as the need has arisen.

##### (b) Filing Policy

The patent procedure for each of the four inventions for which patent protection has been sought for the Group by us has commenced with the preparation and filing of a UK patent application by Boulton Wade Tennant, following discussion with Dr. Terence O'Brien and, in some instances, other inventors named in the patent application. A corresponding international application has been filed under the Patent Cooperation Treaty (PCT) within the required time limit. The PCT system enables the Group to apply for patents in what it regards as the key jurisdictions worldwide, taking priority from the original UK patent application. At this stage the original UK application has been allowed to lapse as the UK will ultimately be included in a European Patent application. Details of the various patents/applications filed are set out in section 7 of this report.

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2 July 2001

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It has been the Group's policy to actively cite prior art (such as related scientific journal articles or a competitor's patent application) in its own patent applications to ensure that the Patent Examiner considers such documents during the prosecution of its own patent applications.

The four PCT applications filed to date by Boulton Wade Tennant have all been filed through the UK Patent Office, which has meant that the International Search on each case has been carried out by the European Patent Office acting as the International Searching Authority. The purpose of this search is to identify the extent of related scientific knowledge at the date of application (the "prior art"). During the examination process, the patent application is then compared with the prior art to determine whether or not the invention described is novel or inventive. Our experience is that the standard of the searches carried out by the European Patent Office is generally very high. Therefore, within a few months of filing each PCT Application, a good indication of relevant prior art is provided by the International Search Report and we have been able to assess realistically the prospects of obtaining patent protection.

For each of the four cases for which we have filed PCT Applications we have then filed a Demand for International Preliminary Examination to enter what is known as Chapter II of the PCT phase. Examination has been carried out by the authority designated for the purpose of dealing with PCT applications filed at the UK Patent Office. In the case of the first PCT application which we filed (Lithium Sensor) it was the UK Patent Office. For all other PCT applications it has been the European Patent Office. This has given a clearer indication of the extent of patent protection likely to be obtained. Furthermore, proceeding via the Chapter II PCT route has had a further advantage in that it has deferred some of the expenditure on patent applications until the end of the PCT procedure is reached at 30 months from the original UK filing date.

On reaching the deadline for entering the National Phase of the PCT Application the Group has proceeded to file applications in what it regards as likely to be the most significant jurisdictions for its technology. National applications have therefore been filed in the European Patent Office (designating 10 and in some cases 11 countries), Japan, the United States of America, and in some cases, Australia, Canada and Israel. As with any current patent portfolio, the Group's portfolio contains granted patents and patent applications which have not yet proceeded to grant.

#### *(c) Prosecution Policy*

The Group's policy has been to prosecute applications vigorously. This is reflected by the fact that two US patents have been granted and one US application is in order for acceptance. One European patent has been granted. We have favourable indications from the International Examination reports on two of the three other PCT applications which lead us to believe that two of the other European patent applications should proceed to grant without difficulty. Additionally, a number of patents have been granted in other countries. Details are given in the schedule set out in section 7 of this report.

In Japan and Canada there is a system of deferred examination by which an application can remain pending and unexamined for up to 7 years from the original application date. The Group has adopted the strategy of deferring examination on its patent applications in Japan and Canada in order to defer expenditure.

#### *(d) Renewal Fees*

Boulton Wade Tennant deals with the payment of renewal fees on behalf of its clients. For the Group, we pay renewal fees in respect of the patents and patent applications which we have filed and prosecuted on their behalf, and no such fees remain outstanding. LiDCO then reimburses us for those renewal fees.

In addition to the applications which we have filed for the Group, the Group owns one series of patents, for a blood pH sensor, which we did not file or prosecute (that role having been undertaken for the Group by Marks & Clerk). Status details are set out in

section 7 of this report. This series of patents is renewed via Computer Patent Annuities (CPA). We have made enquiry of CPA who have confirmed that the renewal fees have been paid in respect of the blood pH sensor patents listed in section 7 of this report.

### **3. Components of the Group's Patent Portfolio**

The patent portfolio comprises two main parts relating to: a) the use of lithium as a marker for cardiac output measurement; and b) the derivation of beat-by-beat stroke volume, heart rate and cardiac output from transformation of data obtained from an arterial pressure waveform, respectively.

#### **(a) Lithium sensor technology:**

This consists of

- (i) the cation-selective electrode (Lithium Sensor); and
- (ii) a method of analysing the area of the primary dilution curve (in this case a lithium ion) via a log normal approach (Indicator Dilution Curve Analysis)

#### **(b) Cardiac output measurement**

This consists of

- (i) the derivation of beat-by-beat stroke volume, heart rate and cardiac output from an arterial pressure waveform using an autocorrelation and calibration technique (Cardiac Output Measurement); and
- (ii) the deviation of beat-by-beat stroke volume, heart rate and cardiac output from an arterial waveform using Fourier transformation (PulseCO Fourier).

The patent applications in respect of those two main aspects of the portfolio (comprising four patent series) were filed and prosecuted for the Group by Boulton Wade Tennant.

The Group patent portfolio also contains a single series of patents relating to a pH blood sensor (referred to at 2(d) above). That series was filed and prosecuted for the Group by Marks & Clerk. Four patents from the original series are still in force and are detailed in section 7.5.

### **4. Patent Ownership**

All of the patents and patent applications referred to herein are owned by Monitoring Technology Limited (now called LiDCO Group Plc).

### **5. Awareness of Third Party Activities**

The Group is not at the date hereof aware of any suspected infringement of the Group's patents by any third party. No specific patent watches have been carried out in order to ascertain their competitors' patenting activities in the field. However, the Group's own knowledge of this field does not lead it to believe that their competitors are using their proprietary technology.

### **6. Third Party Patents**

For the purposes of this report, Boulton Wade Tennant has not conducted any search for third party rights which the activities of the Group might infringe.

However, during the prosecution of the patent applications detailed in section 7 of this report, we have given consideration to the question of whether the activities of the Group might infringe any of the claims of the patents/patent applications which have been brought forward in the searches carried out by the various Patent Offices in relation to the Group's various patent filings.

We have not encountered any third party rights which in our considered opinion should give the Group cause for concern in this regard.

### **7. The Group's Patents and Patent Applications**

The order of the patent series follows the order set in paragraph 3 above. Where an application is pending, an estimated grant date has been given. No date is given for PCT applications, since such applications cannot proceed to grant as such, and have all been

used as precursors for subsequent applications in national and regional Patent Offices. In the case of European patent applications, we have based our estimate on our experience with other patent applications. The date for applications pending in all other Patent Offices are also based on our knowledge of the time to grant patent applications in the various jurisdictions. Where the projected grant date depends on when the Group chooses to take a procedural step, for example to file an examination request, a corresponding range of projected grant dates is indicated. It is to be understood that the dates given are necessarily approximate, and that the actual date of grant could differ substantially from the estimate. It is also to be understood that (in common with all patent applications) there is no guarantee that any particular application will proceed to grant at all.

In the time between application and acceptance, a patent application is said to be “pending”, the patent then becomes “accepted” for grant before finally being “granted”. The tables below use these terms to indicate the status of each of the Group patent applications.

### 7.1. Lithium Sensor

Applicant: Monitoring Technology Limited (now called LiDCO Group Plc)  
 Priority: GB 9123083.9 filed 31st October, 1991  
 Title: Cation-Selective Polymeric Electrodes  
 Inventors: David Marston BAND and Robert Anthony Fox LINTON

#### Abstract

*A cation-selective electrode which comprises an internal reference electrode, an internal reference solution and a cation-responsive membrane, characterized in that the internal reference solution contains a saturated solution of a salt of a cation other than the cation for which the cation-responsive membrane is primarily selective, the internal reference solution being formed in situ by hydration of a combination of the salt of the cation with a hygroscopic material, by absorption of water from the atmosphere and/or by hydration of the hygroscopic material when the electrode is put into use, thereby forming the internal reference solution. The cation-sensitive electrode may be used in a method of measuring cardiac output in a human being in which a cation which is not normally present in the blood is injected into a central vein and the dilution of the cation in the blood plasma measured using this electrode.*

Country	Application No.	Patent No.	Filing Date	Status	Grant Date
PCT	PCT/GB92/01979		29.10.92	National Phase	
Austria*	92922447.5	E155883	As of 29.10.92	Granted	
Belgium*	92922447.5	0610332	As of 29.10.92	Granted	
Canada	2122474		As of 29.10.92	Pending	2002
Denmark*	92922447.5	0610332	As of 29.10.92	Granted	
France*	92922447.5	0610332	As of 29.10.92	Granted	
Germany*	92922447.5	P69221153.5	As of 29.10.92	Granted	
Italy*	92922447.5	0610332	As of 29.10.92	Granted	
Japan	508236/1993	3093792	As of 29.10.92	Granted	
The Netherlands*	92922447.5	0610332	As of 29.10.92	Granted	
Spain*	92922447.5	0610332	As of 29.10.92	Granted	
Sweden*	92922447.5	0610332	As of 29.10.92	Granted	
Switzerland*	92922447.5	0610332	As of 29.10.92	Granted	
United Kingdom*	92922447.5	0610332	As of 29.10.92	Granted	
USA	08/211926	5395505	As of 29.10.92	Granted	

\*Granted via European Patent No.0610332

#### Remarks

The Canadian patent application is pending at the present time as examination of this case was deferred. The Canadian application will be brought into line with the corresponding US granted patent in due course.

## 7.2. Indicator Dilution Curve Analysis

Applicant: Monitoring Technology Limited (now called LiDCO Group Plc)  
Priority: GB 9503787.5 filed 24th February, 1995  
Title: A Method of and Apparatus for Analysing a Signal  
Inventors: David Marston BAND, Robert Anthony Fox LINTON and Nicholas William Fox LINTON

### Abstract

*A method of analysing a signal representing a physical parameter to obtain information from said signal and to extrapolate information contained in said signal and/or to ignore an interfering component in part of said signal, said signal representing either only a first portion of a skew distribution, or a first portion of a skew distribution and a second containing an interfering component, in which the area of a skew distribution, preferably a lognormal distribution is measured. The method is particularly applicable to the measurement of cardiac output. Apparatus for carrying out the method is also disclosed.*

Country	Application No.	Patent No.	Filing Date	Status	Grant Date
PCT	PCT/GB96/00402	N/A	22.2.96	National Phase	
Australia	47276/96	711226	As of 22.2.96	Granted	
Canada	2213353		As of 22.2.96	Pending	2003/5
Japan	525499/1996		As of 22.2.96	Pending	2003/5
USA	08/894571		As of 22.2.96	Accepted	2001
Europe*	96903131.9		As of 22.2.96	Pending	2002/3

\*Designating Austria, Belgium, Denmark, France, Germany, Italy, The Netherlands, Spain, Sweden, Switzerland and the United Kingdom.

### Remarks

The only prior art cited was in the search report on the original PCT application No. PCT/GB96/00402 from which all of the above applications are derived. Four documents were cited as category A documents, i.e. documents considered to be relevant only as technological background. The US application has recently been accepted and the Issue Fee paid. Examination of the Canadian and Japanese patent applications has not yet been requested. The deadline for requesting examination in these countries is 22nd February, 2003. A first examination report is awaited on the European patent application. This will probably be in the same terms as the International Preliminary examination report established in respect of the PCT application. The objections which were raised were of a formal nature and not based upon the prior art cited in the search report.

## 7.3. Cardiac Output Measurement

Applicant: Monitoring Technology Limited (now called LiDCO Group Plc)  
Priority: GB 9600209.2 filed 5th January, 1996  
Title: Improved Method and Apparatus for the Measurement of Cardiac Output  
Inventors: David Marston BAND, Robert Anthony Fox LINTON, Nicholas William Fox LINTON and Terence Kevin O'BRIEN

### Abstract

*A method for the measurement of cardiac output in a patient in which the arterial blood pressure waveform of a patient from a blood pressure monitoring device over a period of time is subjected to various transformation and corrections, including autocorrelation, whereby the pulsatility and heart rate of the patient are obtained. The nominal stroke volume is then calculated from the pulsatility and the nominal cardiac output obtained by multiplying the stroke volume by the heart rate.*

Country	Application No.	Patent No.	Filing Date	Status	Grant Date
PCT	PCT/GB97/00017	N/A	3.1.97	National Phase	
Israel	125158		As of 3.1.97	Pending	2002
Japan	524960/1997		As of 3.1.97	Pending	2003/6
USA	09/101420	6071244	As of 3.1.97	Granted	
Europe*	97900270.6		As of 3.1.97	Pending	2002/3

\*Designating Austria, Belgium, France, Germany, Italy, The Netherlands, Spain, Sweden, Switzerland and the United Kingdom.

### **Remarks**

The US patent application has recently been granted. During the examination of PCT application PCT/GB97/00017 by the International Preliminary Examining Authority all of the claims, (except claims 7 and 13 which were considered to be directed to a surgical method and thus not allowable), were considered to be both novel and inventive. The prosecution of the European patent applications should therefore be straightforward. An official letter has recently been issued on the Israeli patent application raising matters only of a formal nature. Examination of the corresponding Japanese application has not yet been requested. The deadline for requesting examination is 3rd January, 2004.

### **7.4. PulseCO Fourier**

Applicant: Monitoring Technology Limited (now called LiDCO Group Plc)  
Priority: GB 9714550.2 filed 10th July, 1997  
Title: Improved Method and Apparatus for the Measurement of Cardiac Output  
Inventors: David Marston BAND, Robert Anthony Fox LINTON, Nicholas William Fox LINTON and Terence Kevin O'BRIEN

### **Abstract**

*A method for the measurement of cardiac output in a patient in which the arterial blood pressure waveform of a patient from a blood pressure monitoring device over a period of time is subjected to various transformation and corrections, including a Fourier analysis in order to obtain the modulus of the first harmonic. The nominal stroke volume is then determined from the first harmonic and data relating to the arterial blood pressure and heart rate. The nominal cardiac output is then obtained from the nominal stroke volume.*

Country	Application No.	Patent No.	Filing Date	Status	Grant Date
PCT	PCT/GB98/01972	N/A	3.7.98	National Phase	
Australia	82306/98	729956	As of 3.7.98	Granted	
Canada	2295605		As of 3.7.98	Pending	2003/7
Japan	501691/2000		As of 3.7.98	Pending	2003/7
USA	09/462073		As of 3.7.98	Pending	2003
Europe*	98932369.6		As of 3.7.98	Pending	2003/4

\*Designating Austria, Belgium, Denmark, France, Germany, Italy, The Netherlands, Spain, Sweden, Switzerland and the United Kingdom.

### **Remarks**

During the Examination of PCT application PCT/GB98/01972 by the International Preliminary Examining Authority all of the claims were considered to be both novel and inventive. The prosecution of the European patent application should therefore be straightforward. Examination of the corresponding Canadian and Japanese patent applications has not yet been requested. The deadline for requesting Examination in these countries is 3rd July, 2005. A first Official Action has recently been received on the US patent application. The only objections raised are of a formal nature in respect of the language of some of the claims. No prior art has been cited against the claims of this application and some claims are considered allowable.

### **7.5. pH Blood Sensor**

Applicant: Monitoring Technology Limited (now called LiDCO Group Plc)  
Priority: GB 9100525 and GB 9121810  
Title: pH Electrode  
Inventors: David Marston BAND and David Gerard PENMAN

## Abstract

A pH electrode comprises an internal reference electrode, a layer of internal reference material and a pH sensitive polymer-based membrane in which the membrane has a limited range of pH response and the internal reference electrode has a pH outside the range of the pH response of the membrane. The pH electrode can be miniaturised and is useful for foetal blood monitoring during child birth.

Country	Application No.	Patent No.	Filing Date	Status
France*	92902080.8	0520053	9.2.92	Granted
Germany*	92902080.8	69208948.9	9.2.92	Granted
United Kingdom*	92902080.8	0520053	9.2.92	Granted
USA	927676	5354449	9.2.92	Granted

\*Granted via European Patent No. 0520053

## 8. Other Intellectual Property Issues

### 8.1. Information Technology

The cardiac output measurement system derives continuous cardiovascular parameters (blood pressure, cardiac output and oxygen delivery) from the blood pressure waveform of a patient. The system employs a flat screen monitor which is programmed to convert the measured patient data into the parameters which are of interest. The various computer programmes which run the cardiac output measurement system have been developed and written by the Group and the copyright in the computer programmes belongs to the Group.

The data obtained from the cardiac output measurement system is displayed on a series of flat screen displays. The design of the flat screen displays has been undertaken by the Group and any design rights or copyright in the individual displays belongs to the Group.

### 8.2. Trade Marks

Trade Mark applications in the name of LiDCO Limited (the user of the marks) were filed in respect of the trade mark LiDCO in International Classes 10 and 42 and the trade mark PulseCO in international class 10 in the following countries: Australia, Canada, European Community, Japan, Switzerland, the USA and the United Kingdom. Details are given below.

Country	Application No.	Serial No.	Mark and Class	Filing Date	Status
Australia	800052	800052	LiDCO 10 and 42	12.7.99	Granted
Australia	800053	800053	PulseCO 10	12.7.99	Granted
Canada	1022675		LiDCO 10 and 42	16.7.99	Pending
Canada	1022676		PulseCO 10	16.7.99	Accepted
EU Community	001239953	001239953	LiDCO 10 and 42	8.7.99	Granted
EU Community	001239995	001239995	PulseCO 10	8.7.99	Granted
Japan	99/63145	4457269	LiDCO 10 and 42	14.7.99	Granted
Japan	99/63144	4402984	PulseCO 10	14.7.99	Granted
Switzerland	06209/1999	470578	LiDCO 10 and 42	13.7.99	Granted
Switzerland	06205/1999	470577	PulseCO 10	13.7.99	Granted
USA	75/773286	77/773286	LiDCO 10 and 42	10.8.99	Accepted
USA	75/773418		PulseCO 10	10.8.99	Pending
United Kingdom	2202362	2202362	LiDCO 10 and 42	8.7.99	Granted
United Kingdom	2202404A	2202404A	PULSECO 10	8.7.99	Granted
United Kingdom	2202404B	2202404B	PulseCO 10	29.2.00 as of 8.7.99	Granted

Yours faithfully

BOULT WADE TENNANT



## PART IV

### ACCOUNTANTS' REPORT ON THE GROUP

The following is the full text of a report on the Group from Deloitte & Touche, the reporting accountants, to the directors and Teather & Greenwood.

**Deloitte  
& Touche**

Deloitte & Touche  
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LiDCO Group Plc  
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London N1 5QJ

The Directors  
Teather & Greenwood Limited  
Beaufort House  
15 St Botolph St  
London EC3A 7QR

2 July 2001

Dear Sirs

**LiDCO Group Plc (“the Company”) and its subsidiaries (“the Group”)**

We report on the financial information set out below. This financial information has been prepared for inclusion in Part IV of the Prospectus dated 2 July 2001 (“the Prospectus”) relating to the admission of the entire issued ordinary share capital of the Company to trading on the Alternative Investment Market of the London Stock Exchange (“Admission”).

#### **Basis of preparation**

The financial information for the year ended 31 December 2000 set out in this report is based on the audited consolidated financial statements of the Group for the year then ended. The financial information for the two years ended 31 December 1999 set out in this report, is based on the audited financial statements of the Company and its subsidiaries for the two years then ended. In respect of those two years, the Company was exempted from the requirement to prepare statutory consolidated financial statements, but such consolidated financial statements have been prepared for the purposes of this report. The adjustments, which we considered necessary and have made in preparing the financial information set out below, relate solely to the consolidation of the financial statements of the Group for the two years ended 31 December 1999.

#### **Responsibility**

The financial statements, upon which the financial information is based, are the responsibility of the directors of the Company (“the Directors”) who approved their issue.

The Directors and the proposed directors (whose appointment will become effective upon Admission) (“the Proposed Directors”) are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the financial information set out below gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of its losses, cash flows and recognised gains and losses for the three years then ended.

## CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	<i>Note</i>	<i>Year ended 31 December</i>		
		<i>1998</i>	<i>1999</i>	<i>2000</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Turnover</b>	1,2	252	317	634
Cost of sales		(200)	(113)	(204)
Gross profit		52	204	430
Administration expenses		(1,638)	(1,132)	(1,703)
<b>Operating Loss</b>		(1,586)	(928)	(1,273)
Exceptional profit on sale of shares	4	871	—	—
Interest receivable and similar income		99	90	145
Interest payable and other expenses		(172)	(42)	(6)
<b>Loss on ordinary activities before tax</b>	4	(788)	(880)	(1,134)
Tax on loss on ordinary activities	5	—	—	—
<b>Loss on ordinary activities after tax</b>		(788)	(880)	(1,134)
Equity minority interests	19	150	181	218
<b>Loss for the financial year</b>		(638)	(699)	(916)
Loss per share (p)	6	(31.9)	(35.0)	(45.8)

All amounts derive from continuing operations.

There are no recognised gains or losses for the current or preceding years other than as stated above.

## CONSOLIDATED BALANCE SHEETS

	Note	As at 31 December		
		1998 £'000	1999 £'000	2000 £'000
<b>Fixed assets</b>				
Intangible fixed assets	7	173	215	250
Tangible fixed assets	8	85	68	49
		<u>258</u>	<u>283</u>	<u>299</u>
<b>Current assets</b>				
Stocks	9	149	470	518
Debtors	10	6	75	41
Cash at bank and in hand		1,957	2,327	4,368
		<u>2,112</u>	<u>2,872</u>	<u>4,927</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(604)</u>	<u>(1,053)</u>	<u>(427)</u>
<b>Net current assets</b>		<u>1,508</u>	<u>1,819</u>	<u>4,500</u>
<b>Total Assets Less Current Liabilities</b>		<u>1,766</u>	<u>2,102</u>	<u>4,799</u>
<b>Creditors: amounts falling due after more than one year</b>	12	<u>(1,411)</u>	<u>(805)</u>	<u>(665)</u>
<b>Net assets</b>		<u>355</u>	<u>1,297</u>	<u>4,134</u>
<b>Capital and reserves</b>				
Called up share capital	14	—	—	—
Profit and loss account	20	(1,861)	(2,560)	(3,476)
<b>Equity shareholders' deficit</b>		<u>(1,861)</u>	<u>(2,560)</u>	<u>(3,476)</u>
Equity minority interests	19	197	16	(202)
Non-equity minority interests	19	2,017	3,841	7,812
		<u>355</u>	<u>1,297</u>	<u>4,134</u>

## CONSOLIDATED CASH FLOW STATEMENTS

	<i>Note</i>	<i>Year ended 31 December</i>		
		<i>1998</i>	<i>1999</i>	<i>2000</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Net cash outflow from operating activities	15	(1,582)	(1,137)	(1,585)
Returns on investment and servicing of finance	16	(73)	48	139
Capital expenditure and financial investment	16	(112)	(67)	(66)
Acquisitions and disposals	16	871	—	—
Cash outflow before financing		(896)	(1,156)	(1,512)
Financing	16	2,017	1,824	3,971
Increase in cash in the year		1,121	668	2,459

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	<i>Note</i>	<i>Year ended 31 December</i>		
		<i>1998</i>	<i>1999</i>	<i>2000</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Movement in cash in the year	17	1,121	668	2,459
Net funds at 1 January	17	120	1,241	1,909
Net funds at 31 December	17	1,241	1,909	4,368

## RECONCILIATION OF MOVEMENT IN CONSOLIDATED SHAREHOLDERS' DEFICIT

	<i>Year ended 31 December</i>		
	<i>1998</i>	<i>1999</i>	<i>2000</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Loss for the financial year	(638)	(699)	(916)
Opening shareholders' deficit	(1,223)	(1,861)	(2,560)
Closing shareholders' deficit	(1,861)	(2,560)	(3,476)

## Notes to the Financial Information

### 1. Accounting policies

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Advantage has been taken of the exemption under section 230 of the Companies Act 1985 not to disclose the profit and loss account of the company.

#### *Accounting convention*

The financial statements are prepared under the historical cost convention.

#### *Basis of consolidation*

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

#### *Turnover*

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

#### *Investments*

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

#### *Foreign exchange*

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

#### *Deferred taxation*

Deferred taxation is provided in full on timing differences arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future without replacement, calculated at the rates at which it is expected that tax will arise.

#### *Intangible fixed assets*

Software development costs on the LiDCO and PulseCO Systems have been capitalised and will be amortised in equal annual amounts over three years once the development is complete and sales are being made by the company. Sales are expected to begin in 2001.

#### *Tangible fixed assets*

Depreciation is provided on a straight line basis over the estimated useful economic lives of the assets. The annual rate of depreciation is as follows:

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

#### *Stocks*

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

#### *Leases*

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

### Capital instruments

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

## 2. Turnover

	1998	1999	2000
	£'000	£'000	£'000
<b>Turnover by class of business</b>			
Licence agreements	157	192	606
Product sales	95	125	28
	<u>252</u>	<u>317</u>	<u>634</u>

A licence agreement between the group and its distributor for a number of European territories for both the LiDCO and PulseCO Systems, Byk Gulden Lomberg Chemische Fabrik GmbH ("Byk Gulden"), was terminated in March 2000 by mutual agreement. Byk Gulden have decided to focus on the development of pharmaceuticals and have sold their medical device business. As a consequence of the termination the group has been able to recognise an additional £404,000 of income during 2000 which would otherwise have been deferred until future periods.

All turnover, operating profit and net assets originated within the United Kingdom. No analysis of turnover by destination has been given as, in the opinion of the Directors, such disclosure would be seriously prejudicial to the interests of the Group.

Cost of sales includes the development and manufacturing materials cost of products. Software development costs are capitalised where appropriate (see Note 7). Other development costs are expensed as research costs within administrative expenses.

## 3. Information regarding directors and employees

	1998	1999	2000
	£'000	£'000	£'000
<b>Directors' emoluments</b>			
Dr David Band	286	25	20
Dr Robert Linton	215	42	39
Dr. Terry O'Brien	360	101	100
	<u>861</u>	<u>168</u>	<u>159</u>

The emoluments of the highest paid director were £100,300 (1999 – £101,450, 1998 – £360,449). No pension contributions were payable by the group.

The average number of persons (including directors) employed by the group during the year was 20 (1999 – 17, 1998 – 12). Staff costs in respect of these employees were:

	1998	1999	2000
	£'000	£'000	£'000
Wages and salaries	1,174	536	674
Social security costs	106	49	55
	<u>1,280</u>	<u>585</u>	<u>729</u>

#### 4. Loss before tax

Operating loss is stated after charging/(crediting):

	1998	1999	2000
	£'000	£'000	£'000
Auditors' remuneration – audit fees	5	5	6
Research and development	97	42	206
Rentals under operating leases			
Hire of plant and machinery	3	7	7
Land and buildings	37	37	37
Depreciation – owned assets	39	42	50
Exceptional profit on sale of shares	(871)	—	—
	<u>          </u>	<u>          </u>	<u>          </u>

During 1998, the Company sold 87,561 shares in LiDCO Limited to third parties at £10 per share.

#### 5. Tax on loss on ordinary activities

No tax was payable in 2000, 1999 or 1998 as the Group is loss making.

#### 6. Loss per share

Loss per share is calculated by dividing the earnings attributable to ordinary shareholders by 20,000, being the 100 ordinary shares of £1 each in issue throughout the period, adjusted to reflect the proposed sub-division effective upon Admission.



## 7. Intangible fixed assets

	<i>Software development £'000</i>
<b>Cost</b>	
At 1 January 1998	88
Additions	85
	<hr/>
At 1 January 1999	173
Additions	42
	<hr/>
At 31 December 1999	215
Additions	35
	<hr/>
At 31 December 2000	250
<b>Accumulated depreciation</b>	
At 1 January 1998	—
Charge for the year	—
	<hr/>
At 1 January 1999	—
Charge for the year	—
	<hr/>
At 31 December 1999	—
Charge for the year	—
	<hr/>
At 31 December 2000	—
	<hr/> <hr/>
<b>Net book value</b>	
At 31 December 2000	250
	<hr/> <hr/>
At 31 December 1999	215
	<hr/> <hr/>
At 31 December 1998	173
	<hr/> <hr/>

Software development costs on the PulseCO and LiDCO Systems have been capitalised and will be amortised in equal annual amounts over three years once the development is complete and sales are being made by the Company. Sales are expected to begin in 2001.

## 8. Tangible fixed assets

	<i>Plant and Machinery £'000</i>	<i>Tools and Equipment £'000</i>	<i>Fixtures and fittings £'000</i>	<i>Computer equipment £'000</i>	<i>Total £'000</i>
<b>Cost</b>					
At 1 January 1998	113	7	20	13	153
Additions	8	3	3	13	27
At 1 January 1999	121	10	23	26	180
Additions	14	—	4	7	25
At 31 December 1999	135	10	27	33	205
Additions	23	4	—	4	31
At 31 December 2000	158	14	27	37	236
<b>Depreciation</b>					
At 1 January 1998	40	6	5	5	56
Charge for the year	24	3	5	7	39
At 1 January 1999	64	9	10	12	95
Charge for the year	27	1	5	9	42
At 31 December 1999	91	10	15	21	137
Charge for the year	36	2	5	7	50
At 31 December 2000	127	12	20	28	187
<b>Net book value</b>					
At 31 December 2000	31	2	7	9	49
At 31 December 1999	44	—	12	12	68
At 31 December 1998	57	1	13	14	85

## 9. Stocks

	<i>1998 £'000</i>	<i>1999 £'000</i>	<i>2000 £'000</i>
Finished goods	105	254	453
Raw materials and components	44	216	65
	149	470	518

## 10. Debtors

	<i>1998 £'000</i>	<i>1999 £'000</i>	<i>2000 £'000</i>
Other debtors	6	75	41

#### 11. Creditors: amounts falling due within one year

	1998	1999	2000
	£'000	£'000	£'000
Bank loans (see Note 18)	298	418	—
Trade creditors	—	42	108
Other creditors	136	89	121
Accruals and deferred income	170	504	198
	<u>604</u>	<u>1,053</u>	<u>427</u>

#### 12. Creditors: amounts falling due after more than one year

	1998	1999	2000
	£'000	£'000	£'000
Bank loans (see Note 18)	418	—	—
Deferred income	993	805	665
	<u>1,411</u>	<u>805</u>	<u>665</u>

#### 13. Deferred taxation

No deferred taxation was provided at 31 December 2000 (1999 – none, 1998 – none). The amounts of deferred taxation unprovided were:

	1998	1999	2000
	<i>Unprovided</i>	<i>Unprovided</i>	<i>Unprovided</i>
	£'000	£'000	£'000
Capital allowances	29	36	42
Other	(747)	(1,015)	(1,318)
	<u>718</u>	<u>(979)</u>	<u>(1,276)</u>

#### 14. Called up share capital

	1998	1999	2000
	£	£	£
Authorised, called up, issued and fully paid 100 ordinary shares of £1 each	<u>100</u>	<u>100</u>	<u>100</u>

#### 15. Net cash outflow from operating activities

	1998	1999	2000
	£'000	£'000	£'000
Operating loss	(1,586)	(928)	(1,273)
Depreciation and amortisation charges	39	42	50
Increase in stocks	(120)	(321)	(48)
Decrease/(increase) in debtors	214	(69)	34
(Decrease)/increase in creditors	(129)	—	(348)
Net cash outflow from operating activities	<u>(1,582)</u>	<u>(1,137)</u>	<u>(1,585)</u>

## 16. Analysis of cash flows for headings netted in the cash flow statement

	1998 £'000	1999 £'000	2000 £'000
<b>Returns on investment and servicing of finance</b>			
Interest received	99	90	145
Interest paid	(172)	(42)	(6)
	<u>(73)</u>	<u>48</u>	<u>139</u>
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets	(85)	(42)	(35)
Payments to acquire tangible fixed assets	(27)	(25)	(31)
	<u>(112)</u>	<u>(67)</u>	<u>(66)</u>
<b>Acquisitions and disposals</b>			
Receipts from sales of investments in subsidiaries	871	—	—
<b>Financing</b>			
Issue of preferred shares in LiDCO Limited	2,017	1,824	3,971

## 17. Analysis of net funds

	1998 £'000	<i>Cash flow</i> £'000	1999 £'000	<i>Cash flow</i> £'000	2000 £'000
Cash in hand and at bank	1,957	370	2,327	2,041	4,368
Overdrafts	(716)	298	(418)	418	—
<b>Net funds at 31 December</b>	<u>1,241</u>	<u>668</u>	<u>1,909</u>	<u>2,459</u>	<u>4,368</u>

## 18. Financial instruments

The group does not trade in financial instruments.

### 18.(a) Maturity profile of financial liabilities

	1998 <i>Bank</i> <i>borrowings</i> £'000	1999 <i>Bank</i> <i>borrowings</i> £'000	2000 <i>Bank</i> <i>borrowings</i> £'000
Within one year or less or on demand	298	418	—

18.(b) *Interest rate profile*

	<i>Floating rate financial liabilities</i> £'000	<i>Weighted average interest rate</i> %
At 31 December 2000		
Sterling	—	—
US\$	—	—
	<hr/>	<hr/>
Gross financial liabilities	—	—
	<hr/>	<hr/>
At 31 December 1999		
Sterling	—	—
US\$	418	8.5
	<hr/>	<hr/>
Gross financial liabilities	418	8.5
	<hr/>	<hr/>
At 31 December 1998		
Sterling	—	—
US\$	298	8.5
	<hr/>	<hr/>
Gross financial liabilities	298	8.5
	<hr/>	<hr/>

Interest on floating liabilities is based on the relevant national inter-bank rates. The group had no fixed rate financial liabilities at 31 December 2000 (31 December 1999 – none, 31 December 1998 – none).

	<i>Floating rate financial assets</i> £'000	<i>Fixed rate financial assets</i> £'000	<i>Total</i> £'000
At 31 December 2000			
Sterling	247	150	397
US\$	3,971	—	3,971
	<hr/>	<hr/>	<hr/>
Gross financial assets	4,218	150	4,368
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 1999			
Sterling	218	170	388
US\$	1,939	—	1,939
	<hr/>	<hr/>	<hr/>
Gross financial assets	2,157	170	2,327
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 1998			
Sterling	15	400	415
US\$	1,542	—	1,542
	<hr/>	<hr/>	<hr/>
Gross financial assets	1,557	400	1,957
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**18.(c) Fair values of financial assets and liabilities**

	1998		1999		2000	
	<i>Carrying amount</i>	<i>Estimated fair value</i>	<i>Carrying amount</i>	<i>Estimated fair value</i>	<i>Carrying amount</i>	<i>Estimated fair value</i>
	£'000	£'000	£'000	£'000	£'000	£'000
Cash at bank and in hand	1,957	1,957	2,327	2,327	4,368	4,368
Debtors	6	6	75	75	41	41
Gross financial assets	<u>1,963</u>	<u>1,963</u>	<u>2,402</u>	<u>2,402</u>	<u>4,409</u>	<u>4,409</u>
Bank loans	<u>716</u>	<u>716</u>	<u>418</u>	<u>418</u>	<u>—</u>	<u>—</u>

**18.(d) Hedging**

The group does not hedge its financial transactions.

**18.(e) Currency profile**

Sterling is the main functional currency of the group. The following analysis of net monetary assets and liabilities shows the group's currency exposures. The group did not use forward contracts or other derivatives to manage its currency exposure in the three years ended 31 December 2000. The amounts shown represent the transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the group that are not denominated in sterling.

	1998	1999	2000
	US\$'000	US\$'000	US\$'000
Sterling asset	<u>1,403</u>	<u>2,441</u>	<u>5,932</u>

**19. Minority interests**

The minority interests at 31 December 2000 comprise 1,848 (1999 – 1,848, 1998 – 1,848) ordinary shares of £1 each and 768,571 (1999 – 513,916, 1998 – 331,571) preferred shares of £1 each in the Company's consolidated subsidiary, LiDCO Limited which are held by third parties.

All of the preferred shares in LiDCO Limited issued in 1998, 1999 and 2000 were subscribed for by third parties.

Each preferred share in LiDCO Limited carries the right to conversion into ordinary shares on a flotation of LiDCO Limited at a rate of 18.07 preferred shares to one ordinary share.

	<i>Equity</i>		<i>Non-equity</i>	
	1999	2000	1999	2000
	£'000	£'000	£'000	£'000
Balance at 1 January	197	16	2,017	3,841
Preferred shares issued in LiDCO Limited	—	—	1,824	3,971
Loss for the financial year	<u>(181)</u>	<u>(218)</u>	<u>—</u>	<u>—</u>
Balance at 31 December	<u>16</u>	<u>(202)</u>	<u>3,841</u>	<u>7,812</u>

## 20. Profit and Loss Account

	1998 £'000	1999 £'000	2000 £'000
Balance at 1 January	(1,223)	(1,861)	(2,560)
Loss for the financial year	(638)	(699)	(916)
Balance at 31 December	<u>1,861</u>	<u>(2,560)</u>	<u>(3,476)</u>

## 21. Operating lease commitments

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

	1998 <i>Land and buildings</i> £'000	1999 <i>Land and buildings</i> £'000	2000 <i>Land and buildings</i> £'000	1998 <i>Other</i> £'000	1999 <i>Other</i> £'000	2000 <i>Other</i> £'000
Leases which expire						
Within one year	—	—	—	—	—	5
Within two to five years	—	—	—	5	7	2
After more than five years	37	37	37	—	—	—
	<u>37</u>	<u>37</u>	<u>37</u>	<u>5</u>	<u>7</u>	<u>7</u>

## 22. Related party transactions

The following transactions took place with related parties during the year ended 31 December 2000:

- Mr P Keen joined the Board of Directors of the Company's subsidiary undertaking LiDCO Limited as a non-executive director on 1 August 2000. Mr Keen also serves as a director of Merlin Biosciences Limited, an adviser to the general partner of Merlin Biosciences Fund LP, and a director of the Finsbury Lifescience Investment Trust, which held 133,000 preferred shares in LiDCO at 31 December 2000 (1999 – nil, 1998 – nil).
- Mr P Levensohn served as a non-executive director of LiDCO Limited throughout the year. Mr Levensohn also serves as president and chief executive officer of Levensohn Capital Management LLC, a registered investment adviser which manages a group of investment partnerships which invest in public private technology companies. One of the partnerships is Star Bay Partners LP, which held 89,930 preferred shares in LiDCO Limited at 31 December 2000 (1999 – 80,590 shares, 1998 – 53,765).
- Dr D Band is employed by King's College London and his payroll costs are reimbursed in full by the Group.

## 23. Subsidiary undertakings

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

	<i>Country of registration</i>	<i>Beneficial holding</i>	<i>Nature of business</i>
LiDCO Limited (79.1%)	England and Wales	7,002 Ordinary £1 shares 39,028 Preferred £1 shares	Surgical instruments and appliances
CAS Limited (100%)	England and Wales	2 Ordinary £1 shares	Surgical instruments and appliances

## 24. Controlling Parties

The Company is controlled by Dr D Band, Dr R Linton and Dr T O'Brien who respectively own 30 per cent, 20 per cent and 30 per cent of the issued share capital.

## 25. Post Balance Sheet Event

In order to restructure the group in preparation for the admission of the Company's shares to trading on the Alternative Investment Market of the London Stock Exchange the Directors presented the minority shareholders of LiDCO Limited with a share exchange offer in January 2001 pursuant to which Monitoring Technology Limited (now called LiDCO Group Plc) offered to acquire all of the existing ordinary and preferred shares in LiDCO Limited not owned by it in exchange for the issue of Ordinary Shares in the Company. The directors of LiDCO Limited recommended acceptance of this offer, which has now been accepted in full by those LiDCO Limited shareholders to whom it was made.

Yours faithfully

Deloitte & Touche

Chartered Accountants



## PART V

### UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

The following table sets out a pro forma statement of net assets of the Group following completion of the Placing. This table has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position or results of the Group. The pro forma statement is compiled from the consolidated balance sheet of LiDCO Group Plc as at 31 December 2000 as set out in the accountants' report in Part IV of this document.

	<i>As at</i>		<i>Pro forma</i>
	<i>31 December</i>	<i>Adjustments</i>	<i>Group</i>
	<i>2000</i>	<i>£'000</i>	<i>£'000</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Fixed assets</b>			
Intangible fixed assets	250	—	250
Tangible assets	49	—	49
	299	—	299
<b>Current assets</b>			
Stocks	518	—	518
Debtors	41	—	41
Cash	4,368	12,910	17,278
	4,927	12,910	17,837
<b>Creditors: amounts falling due within one year</b>	(427)	—	(427)
<b>Net current assets</b>	4,500	12,910	17,410
<b>Total assets less current liabilities</b>	4,799	12,910	17,709
<b>Creditors: amounts falling due after one year</b>	(665)	—	(665)
<b>Net (liabilities)/assets</b>	4,134	12,910	17,044

#### Notes

1. The proceeds of the Placing of £15.0 million, after deducting expenses payable by the Group of £2.1 million, have been added to cash at bank.
2. The pro forma statement of net assets does not reflect trading or other transactions of the Group since 31 December 2000.

## PART VI

### ADDITIONAL INFORMATION

#### 1. Incorporation and registered office

- 1.1 The Company was incorporated and registered in England and Wales under the Act on 31 October 1991, as a private company limited by shares under the name Monitoring Technology Limited, with registered number 2659005. On 12 March 2001 the Company changed its name to M Teck Limited. On 29 May 2001, the Company changed its name to LiDCO Group Limited and on 21 June 2001 the Company was re-registered as a public limited company.
- 1.2 The Company's registered office and principal place of business in the United Kingdom is 16 Orsman Road, London N1 5QJ.
- 1.3 The principal legislation under which the Company operates is the Act and the regulations made thereunder.

#### 2. Subsidiaries

- 2.1 As at the date of this document, the Company owns all of the share capital of each of Cassette Analytical Systems Limited and PulseCO Limited and is a majority shareholder in LiDCO Limited. Conditional, *inter alia*, on, and with effect from, Admission, LiDCO Limited will become a wholly owned subsidiary of the Company. Details of these companies are as follows:

<i>Name</i>	<i>Principal activity</i>	<i>Issued and fully paid share capital</i>
LiDCO Limited	The design, development and manufacture of cardiac sensors	8,940 ordinary shares of £1.00 each and 807,598 preferred shares of £1.00 each
Cassette Analytical Systems Limited	Non-trading	2 ordinary shares of £1.00 each
PulseCO Limited	Dormant	2 ordinary shares of £1.00 each

- 2.2 LiDCO Limited is incorporated in England and Wales under the Act with registered number 2736561 and its registered office is 16 Orsman Road, London N1 5QJ.
- 2.3 Cassette Analytical Systems Limited is incorporated in England and Wales under the Act with registered number 3042911 and its registered office is 16 Orsman Road, London N1 5QJ.
- 2.4 PulseCo Limited is incorporated in England and Wales under the Act with registered number 4169894 and its registered office is at 16 Orsman Road, London N1 5QJ.

#### 3. Share capital

##### 3.1 *LiDCO Limited*

- 3.1.1 LiDCO Limited was incorporated and registered in England and Wales under the Act on 3 August 1992 under the name Noticereward Limited with registered number 2736561. It changed its name to LiDCO Limited on 4 December 1992.
- 3.1.2 On incorporation the authorised share capital of LiDCO Limited was £1,000 divided into 1,000 ordinary shares of £1.00 each of which two were issued and paid to the subscribers to the memorandum of association, Instant Companies Limited and Swift Incorporation Limited. On 9 September 1992, Instant Companies Limited transferred 1 ordinary share to Lucy O'Brien for a consideration of £1.00 and Swift Incorporations Limited transferred 1 ordinary share to Terence O'Brien for a consideration of £1.00. On 11 March 1994, each of Lucy O'Brien and Terence O'Brien transferred their respective shares in LiDCO Limited to Monitoring Technology Limited for a consideration of £1.00 each.

- 3.1.3 On 11 March 1994, LiDCO Limited issued 94 ordinary shares of £1.00 each at par value, increasing the number of ordinary shares in issue to 96.
- 3.1.4 On 6 January 1994, LiDCO Limited issued 4 ordinary shares of £1.00 each at par value increasing the number of ordinary shares in issue to 100.
- 3.1.5 On 25 January 1996, pursuant to an ordinary resolution of the members of LiDCO Limited, the authorised share capital of LiDCO Limited was increased by £7,000 from £1,000 to £8,000 by the creation of 7,000 ordinary shares of £1.00 each.
- 3.1.6 On 12 March 1996:
- (i) 3,702 ordinary shares of £1.00 each were issued at par value;
  - (ii) 188 ordinary shares of £1.00 each were issued at a price of £1,315 per share; and
  - (iii) 10 ordinary shares of £1.00 each were issued at a price of £1,315 per share.
- These three issues increased the number of issued ordinary shares from 100 to 4,000.
- 3.1.7 Since 5 September 1997, there have been the following changes to the issued share capital of LiDCO Limited:
- (a) On 5 September 1997 (i) 3,615 ordinary shares of £1.00 each were issued at par value; (ii) 11 ordinary shares of £1.00 each were issued at par value; and (iii) 374 ordinary shares of £1.00 each were issued at a price of £625 per share. These three issues increased the number of issued ordinary shares from 4,000 to 8,000.
  - (b) On 13 October 1997 pursuant to an ordinary resolution of the members of LiDCO Limited, the authorised share capital of LiDCO Limited was increased by £342,000 from £8,000 to £350,000 by the creation of 2,000 ordinary shares of £1.00 each and 340,000 preferred shares of £1.00 each. In addition on the same date:
    - (i) 400 ordinary shares of £1.00 each were issued at par, 420 ordinary shares of £1.00 each were issued at US\$1,000 per share; and 30 ordinary shares of £1.00 each were issued at a combination of par value and US\$1,000 per share, increasing the number of issued ordinary shares from 8,000 to 8,850;
    - (ii) 160,000 preferred shares of £1.00 each were issued by way of a bonus issue pursuant to the capitalisation of an amount standing to the credit of LiDCO Limited's share premium account to all existing shareholders of LiDCO Limited at that date.
  - (c) On 12 January 1998 pursuant to an ordinary resolution of the members of LiDCO Limited the authorised share capital of LiDCO Limited was increased by £50,000 from £350,000 to £400,000 by the creation of 50,000 preferred shares of £1.00 each.
  - (d) On 13 March 1998 LiDCO Limited issued 141,190 preferred shares of £1.00 each at a price of £10.00 per share increasing the number of issued preferred shares from 160,000 to 301,190.
  - (e) On 1 October 1998, LiDCO Limited issued 59,543 preferred shares of £1.00 each at a price of £10.00 per share increasing the number of issued preferred shares from 301,190 to 360,733.
  - (f) On 1 October 1998, LiDCO Limited issued 9,866 preferred shares of £1.00 each at par value by way of a bonus issue to all existing shareholders of LiDCO Limited at that date increasing the number of issued preferred shares from 360,733 to 370,599.
  - (g) On 12 May 1999 pursuant to an ordinary resolution of the members of LiDCO Limited the authorised share capital of LiDCO Limited was increased by £200,000 from £400,000 to £600,000 by the creation of 200,000 preferred shares of £1.00 each.

- (h) On 3 September 1999, LiDCO Limited issued 161,248 preferred shares of £1.00 each at a price of £10.00 per share increasing the number of issued preferred shares from 370,599 to 531,847.
- (i) On 10 December 1999 LiDCO Limited issued 21,097 preferred shares of £1.00 each at a price of £10.00 per share increasing the number of issued preferred shares from 531,847 to 552,944.
- (j) On 13 March 2000, LiDCO Limited issued 4,654 preferred shares of £1.00 each at a price of £10.00 per share increasing the number of issued preferred shares from 552,944 to 557,598.
- (k) On 13 July 2000 pursuant to an ordinary resolution of the members of LiDCO Limited, the authorised share capital of LiDCO Limited was increased by £250,000 from £600,000 to £850,000 by the creation of 250,000 preferred shares of £1.00 each.
- (l) On 19 July 2000, LiDCO Limited issued 150,000 preferred shares of £1.00 each at a price of US\$23.50 per share increasing the number of issued preferred shares from 557,598 to 707,598.
- (m) On 6 September 2000 and 30 September 2000 LiDCO Limited issued a cumulative total of 100,000 preferred shares of £1.00 each at a price of US\$23.50 per share increasing the number of issued preferred shares from 707,598 to 807,598.
- (n) On 10 January 2001, LiDCO Limited issued 40 ordinary shares of £1.00 each at par value increasing the number of issued ordinary shares from 8,850 to 8,890.
- (o) On 30 April 2001, LiDCO Limited issued 50 ordinary shares of £1.00 each, increasing the number of issued ordinary shares from 8,890 to 8,940.

### 3.2 *Cassette Analytical Systems Limited*

3.2.1 Cassette Analytical Systems Limited was incorporated and registered in England and Wales under the Act on 6 April 1995 under the name Clarkhire Limited with registered number 3042911. It changed its name to Cassette Analytical Systems Limited on 7 June 1995. On incorporation, Cassette Analytical Systems Limited had an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1.00 each of which two were issued at par to the subscribers of Cassette Analytical Systems Limited memorandum of association, Instant Companies Limited and Swift Incorporations Limited. These shares were transferred for a consideration of £1.00 each to the Company on 9 June 1995.

### 3.3 *PulseCO Limited*

3.3.1 PulseCO Limited was incorporated and registered in England and Wales under the Act on 28 November 2000 under the name Precis (1997) Limited with registered number 4169894. It changed its name to PulseCO Limited on 12 June 2001. On incorporation, PulseCO Limited had an authorised share capital of £100 divided into 100 ordinary shares of £1.00 each, of which 2 were issued at par to Peregrine Secretarial Services Limited. These shares were transferred for a consideration of £1.00 each to the Company on 31 May 2001.

### 3.4 *The Company*

3.4.1 On incorporation, the Company had an authorised share capital of £100 divided into 100 ordinary shares of £1.00 each, of which two shares were issued at par to the subscribers to the memorandum of association of the Company Chettleburgh's Limited and Chettleburgh International Limited. On 31 October 1991 Chettleburgh's Limited transferred 1 ordinary share of £1.00 each in the Company to Dr David Band at par value and Chettleburgh International Limited transferred 1 ordinary share of £1.00 each in the Company to Dr Terry O'Brien at par value.

On 19 February 1992, the Company issued 98 ordinary shares of £1.00 each at par value increasing the number of issued shares from 2 to 100.

3.4.2 During the three years preceding the date of this document, there have been the following changes in the authorised and issued share capital of the Company:

- (a) On 18 January 2001, by way of a written resolution of the members of the Company, the Company:
  - (i) increased its authorised share capital from £100 to £145,500 by the creation of an additional 145,400 Ordinary Shares;
  - (ii) granted to the directors authority to allot the aggregate nominal amount of £145,400 representing the unissued relevant securities of the Company existing at that date pursuant to Section 80 of the Companies Act, 1985 provided that such powers of allotment were limited to:
    - (A) the allotment of 79,300 ordinary shares of £1.00 each by way of a bonus issue;
    - (B) the allotment of ordinary shares of £1.00 each of an aggregate nominal amount of £65,850 to the shareholders of LiDCO Limited in exchange for ordinary shares and preferred shares in LiDCO Limited; and
    - (C) the grant of options for Ordinary Shares up to an aggregate nominal amount of £4,440 to holders of options for ordinary shares in LiDCO Limited;
  - (iii) capitalised the sum of £79,300 standing to the credit of the accumulated reserves of the Company and applied it in paying up in full 79,300 additional ordinary shares of £1 each which shares were issued to the Company's holders of ordinary shares of £1.00 each as at 18 January 2001 by way of bonus issue at the rate of 793 new ordinary shares for every one existing ordinary share held by them and approved the allotment of such new ordinary shares to each of the shareholders of the Company.
- (b) On 19 January 2001 and following the bonus issue referred to in paragraph 3.3.2 the Reorganisation Offer Document was circulated to shareholders in LiDCO Limited and set out in full the terms of the conditional offer by the Company to acquire all of the issued ordinary and preferred shares in LiDCO Limited not previously owned by it in exchange for the issue to shareholders in LiDCO Limited of ordinary shares in the Company. Pursuant to the Reorganisation Offer, the Company conditionally offered to issue ten ordinary shares of £1.00 each for each ordinary share held in LiDCO Limited by shareholders in LiDCO Limited and one ordinary share of £1.00 each in the Company for every 18.07 preferred shares held in LiDCO Limited by shareholders in LiDCO Limited. The terms and conditions of the Reorganisation Offer are described in more detail in paragraph 9.1.1 below.
- (c) On 19 June 2001, pursuant to a written resolution of the Company, it was resolved:
  - (1) that:
    - (a) the Company be re-registered as a public limited company;
    - (b) the name of the Company be changed to "LiDCO Group Plc";
    - (c) subject to and conditionally upon the re-registration of the Company as a public limited company the Memorandum of Association of the Company be amended:
      - (i) by amending paragraph 1 to provide that the name of the Company is "LiDCO Group Plc"; and
      - (ii) by inserting a new paragraph 2 as follows:  
"The Company is a public limited company"  
and renumbering the subsequent paragraphs;
    - (d) subject to and conditionally upon the re-registration of the Company as a public limited company, the draft new articles of association annexed to and circulated with the written resolution and marked "Annex A"

(which are summarised in paragraph 4.2 of this Part VI) be adopted as the articles of association of the Company in substitution for the existing articles of association;

- (2) that conditional upon, but taking effect immediately prior to, the ordinary share capital of the Company then in issue or allotted being admitted to trading on the Alternative Investment Market of the London Stock Exchange (“Admission”) and Admission becoming effective not later than 31 July 2001:
- (a) the authorised share capital of the Company be and is hereby increased from £145,500 to £500,000 by the creation of 354,500 additional ordinary shares of £1.00 each;
  - (b) each of the issued and each of the authorised but unissued ordinary shares of £1.00 in the capital of the Company be and is hereby subdivided into two hundred ordinary shares of 0.5p (half a penny) each (“New Ordinary Shares”);
  - (c) upon the recommendation of the directors that it is desirable to capitalise the sum of £159,168 (being part of the reserves of the Company), that such sum be apportioned to the members who would be entitled thereto (including those persons entitled to be issued shares in the Company pursuant to the terms of an offer made by the Company on 19 January 2001 to the shareholders of LiDCO Limited (the “Reorganisation Offer”)) if it were distributed by way of dividend, and in the same proportions, immediately following completion of the Reorganisation Offer but without taking into account any other shares in the Company to be issued upon Admission in connection with a placing of such shares by Teather & Greenwood (the “Placing”) on condition that the same be not paid in cash but be applied in paying up in full 31,833,600 New Ordinary Shares to be allotted and distributed, credited as fully paid up, to and amongst such members in the proportion of 9 New Ordinary Shares for every 8 New Ordinary Shares held or to be held by them immediately; and that the directors be and are hereby authorised and directed to apply the said sum of £159,168 and to allot the said 31,833,600 New Ordinary Shares accordingly;
  - (d) the directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of that Act) up to an aggregate nominal amount of £357,620 provided that this authority shall expire on the date of the next general meeting of the Company, save that the Company shall be entitled to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the directors shall be entitled to allot relevant securities pursuant to any such offer or agreement as if this authority had not expired; and all unexercised authorities previously granted to the directors to allot relevant securities be and are hereby revoked;
  - (e) in substitution for all existing authorities, the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94(2) of that Act) for cash pursuant to the authority conferred by paragraph (d) of this resolution as if Section 89(1) of that Act did not apply to any such allotment, provided that this power shall be limited to:
    - (i) the allotment of up to 12,000,000 New Ordinary Shares in connection with the Placing;

- (ii) the allotment of New Ordinary Shares up to an aggregate nominal amount of £25,000 in connection with any options over New Ordinary Shares granted by the Company, whether under any employees' share scheme or otherwise, prior to Admission;
- (iii) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of the holders of ordinary shares in the Company on the register of members at such record dates as the directors may determine and other persons entitled to participate therein where the equity securities respectively attributable to the interests of the shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held on any such record dates, or deemed to be held by them, subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depository receipts or any matter whatever; and
- (iv) the allotment (otherwise than pursuant to sub-paragraphs (i), (ii) and (iii) above) to any person or persons of equity securities up to an aggregate nominal amount equal to £18,000 or, if less, the amount equal to 5 per cent of the issued share capital of the Company immediately following Admission;

and shall expire on the date of the expiry of the general authority conferred by (d) above, save that the Company shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot relevant securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

- 3.5 At the date of this document, the Company has an authorised share capital of £145,500 divided into 145,500 ordinary shares of £1.00 each of which 79,400 ordinary shares are issued and are fully paid or credited as fully paid.
- 3.6 On Admission, and taking into account the Reorganisation and the Bonus Issue but prior to the allotment of Ordinary Shares to be issued in connection with the Placing, the authorised share capital of the Company will be £500,000 divided into 100,000,000 Ordinary Shares of which 60,130,275 will be issued and fully paid or credited as fully paid.
- 3.7 The maximum number of Ordinary Shares under option (excluding the Equity Option) at Admission will be as follows:

<i>Category of rights</i>	<i>Number of Ordinary Shares under option excluding the Placing<sup>(1)</sup></i>	<i>Percentage of issued share capital under option on a diluted basis excluding the Placing (%)<sup>(2)</sup></i>	<i>Percentage of issued share capital under option on a diluted basis following the Placing (%)<sup>(3)</sup></i>
Options to Existing and Proposed			
Directors	3,187,500	4.90	4.21
Other outstanding options	1,717,000	2.64	2.27

- (1) Taking into account the Reorganisation, the Bonus Issue and the sub-division of the share capital of the Company.
- (2) Assuming exercise in full of all outstanding options over Ordinary Shares immediately following the Reorganisation and assuming 100 per cent exercise in full of all options (granted under the LiDCO Limited Unapproved Share Option Scheme) arising pursuant to an option exchange proposal sent to option holders dated 8 March 2001
- (3) Assuming exercise in full of all outstanding options over Ordinary Shares immediately following Admission

- 3.8 Save as disclosed in paragraphs 3.1 to 3.7 above and save for the Equity Option, during the three years immediately preceding the date of this document there has been no issue of share or loan capital of the Company or any of its subsidiaries fully or partly paid either for cash or other consideration and no such issues are proposed and no share or loan capital of the Company or any of its subsidiaries is under option or agreed, conditionally or unconditionally, to be put under option.
- 3.9 Save as disclosed in paragraph 3.4 above, no commissions, discounts, brokerages or other special terms have been granted by the Company or its subsidiaries in connection with the issue of any share or loan capital of the Company.
- 3.10 Other than pursuant to the Placing, no Ordinary Shares have been marketed or are available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to trading on AIM.
- 3.11 Section 89 of the Act confers on the holders of Ordinary Shares preferential rights in respect of equity securities (as defined in section 94(2) of the Act) of the Company issued for cash and applies to the balance of the authorised but unissued share capital of the Company to the extent not disapplied under the resolution referred to in paragraph 3.4.2(e) above. The statutory rights of pre-emption have been disapplied in order (i) to permit the directors to allot new Ordinary Shares pursuant to the Placing and (ii) to give the directors flexibility in relation to rights issues or other issues of Ordinary Shares involving up to five per cent of the issued ordinary share capital of the Company following the Placing.
- 3.12 No dividends will be paid by the Company until future operations have provided appropriate levels of distributable profits.

#### **4. Memorandum and articles of association**

##### **4.1 *Memorandum of association***

The memorandum of association of the Company provides that the Company's principal objects are to carry on business as a general commercial company. The objects of the Company are set out in full in clause 3 of the memorandum of association of the Company.

##### **4.2 *Articles of association***

The Articles, which were adopted pursuant to a written resolution dated 19 June, 2001, contain provisions, amongst others, to the following effect:

###### **4.2.1 *Voting rights***

Subject to disenfranchisement in the event of non-compliance with a statutory notice requiring disclosure of interests in any shares in certain circumstances and subject to any special terms for voting on which any shares of the Company may for the time being be held, at a general meeting on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative not being himself a member entitled to vote shall have one vote and, on a poll, every member so present in person or by proxy shall have one vote for every share of which he is the holder. In the case of joint holders the vote of the person whose name stands first in the register of members and who tenders a vote will be accepted to the exclusion of any votes tendered by the other joint holders.

###### **4.2.2 *Dividends***

Subject to the Act, the Company may, by ordinary resolution, declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the directors. Subject to the Act, the directors may pay interim dividends as appear to them to be justified by the profits of the Company available for distribution. Except as otherwise provided by the Articles or the rights attached to the shares, all dividends shall be declared and paid according to the amounts paid up on the



shares on which the dividend is paid and all dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the directors so resolve, be forfeited and cease to remain owing by the Company.

A general meeting declaring a dividend may, upon the recommendation of the directors, direct that it is satisfied wholly or partly by the distribution of assets. Where any difficulty arises in regard to the distribution, the directors may settle the same as they think fit and in particular (but without limitation) may issue fractional certificates (or ignore fractions) and fix the value for distribution of any assets, and may determine that cash shall be paid to any member upon the basis of that value so fixed in order to adjust the rights of members, and may vest any assets in trustees.

The directors may, with the authority of an ordinary resolution of the Company, offer any holders of Ordinary Shares the right to elect to receive Ordinary Shares, credited as fully paid, instead of cash in respect of the whole (or some part, to be determined by the directors) of any dividend specified in the ordinary resolution.

#### 4.2.3 *Distribution of assets on a winding up*

If the Company is wound up, the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by law, divide among the members in kind the whole or any part of the assets of the Company and, for that purpose, may value any assets and determine how such division shall be carried out as between the members or different classes of members. With the like sanction the liquidator may vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he may determine, but no member shall be compelled to accept any assets upon which there is a liability.

#### 4.2.4 *Transfer of shares*

Shares of the Company in certificated form may be transferred by an instrument of transfer which may be in any usual form or in any other form of which the directors approve. The instrument of transfer must be executed by or on behalf of the transferor and, where the share is not fully paid, by or on behalf of the transferee. Shares in uncertificated form may be transferred in accordance with the Uncertificated Securities Regulations 1995. Subject to the requirements of the UK Listing Authority or the London Stock Exchange, the directors may, in their absolute discretion and without giving any reason, refuse to register the transfer of a share in certificated form which is not fully paid. The directors may also so refuse to register the transfer of a share in certificated form unless the instrument of transfer is in respect of only one class of share, is in favour of no more than four transferees, is lodged, duly stamped, at the registered office of the Company or such other place as the directors may appoint and is accompanied by the share certificate relative to the share to be transferred and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer. Subject to the requirements of the UK Listing Authority or the London Stock Exchange, the directors may refuse to register a transfer of a share in uncertificated form in any circumstance permitted by the Uncertificated Securities Regulations 1995 or a transfer in favour of more than four persons jointly. Subject to the Uncertificated Securities Regulations 1995, the registration of transfers of shares or of any class of shares may be suspended at such times and for such periods (not exceeding 30 days in any year) as the directors may determine.

#### 4.2.5 *Variation of rights*

Subject to the Act, if at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class may be varied in such manner (if any) as may be provided by those rights or, in the absence of such provisions, with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class, but not otherwise. To every such separate meeting, the

provisions of the Articles relating to general meetings shall apply, except that the necessary quorum at any such meeting other than an adjourned meeting shall be two persons together holding or representing by proxy at least one third in nominal value of the issued share capital of the class in question. At an adjourned meeting, one person holding shares of the class in question or his proxy is a quorum.

The rights attached to any shares shall, unless otherwise expressly provided by the rights attached to any class of shares, be deemed not to be varied by the purchase by the Company of any of its shares.

#### 4.2.6 *Disclosure of interests*

If a member, or any other person appearing to be interested in shares held by that member, has been given a notice under section 212 of the Act and has failed in relation to any shares (the “default shares”) to give the Company the information thereby required within 14 days from the date of giving the notice, the directors may apply sanctions.

The sanctions available are the suspension of voting (either in person or by representative or proxy) and other rights conferred by membership in relation to meetings of the Company and, where the default shares represent at least 0.25 per cent of their class, the withholding of payment of any dividends on, and the restriction of transfer of, the relevant shares.

#### 4.2.7 *Alteration of capital*

The Company may, by ordinary resolution, increase its share capital, consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares, sub-divide (subject to the Act) its shares (or any of them) into shares of smaller amounts, determine that, as between the shares resulting from such a sub-division, any of them may have any preference or advantage as compared with the others, cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled. Subject to the Act, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account, in any way.

Subject to the Act and the requirements of the UK Listing Authority or the London Stock Exchange, the Company may purchase its own shares (including redeemable shares).

#### 4.2.8 *Issue of shares*

Subject to the Act and without prejudice to any rights attached to any existing shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine (or, if the Company has not so determined, as the directors may determine). Subject to the Act, any share may be issued which is, or is liable to be, redeemed at the option of the Company or the holder in accordance with the Articles. Subject to the Act and to the Articles, the unissued shares shall be at the disposal of the directors.

#### 4.2.9 *Directors*

Unless otherwise determined by the Company by ordinary resolution, the number of directors (other than alternate directors) shall not be subject to any maximum but shall not be less than two.

The directors need not be members of the Company.

Unless otherwise determined by the Company by ordinary resolution the directors (other than alternate directors) shall be paid such fees for their services in the office of director as the directors may determine (not exceeding in the aggregate an annual sum of £150,000 or such larger amount as the Company may by ordinary resolution decide) divided between the directors as they agree or, failing agreement, equally.

At each annual general meeting of the Company there shall retire from office by rotation all the directors who held office at the two preceding annual general meetings and did not retire together with such additional number of directors as are necessary to make that number up to one-third (or, if their number is not three or a multiple of three, the number which is nearest to but does not exceed one-third) of the directors (excluding alternates).

A director shall not be required to retire by reason of his age, nor shall this be a bar to his appointment or reappointment.

Without prejudice to the provisions of the Act, the Company may remove a director by extraordinary resolution.

A director shall not vote or be counted in the quorum present on any resolution concerning a matter in which he has, directly or indirectly, a material interest (other than an interest in shares, debentures or other securities of, or otherwise in or through, the Company) unless his interest arises only because the case falls within one of the following:

- (a) the resolution relates to the giving to him of a guarantee, security or indemnity in respect of money lent to, or an obligation incurred by him for the benefit of, the Company or any of its subsidiary undertakings;
- (b) the resolution relates to the giving to a third party of a guarantee, security or indemnity in respect of an obligation of the Company or any of its undertakings for which the director has assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
- (c) his interest arises by virtue of his being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of any shares in or debentures or other securities of the Company for subscription, purchase or exchange;
- (d) the resolution relates in any way to a retirement benefits scheme which has been approved by, or is conditional upon the approval of, the Board of the Inland Revenue for taxation purposes;
- (e) the resolution relates to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings including, but without being limited to, an employees' share scheme which does not accord to any director as such any privilege or advantage not generally accorded to the employees to whom the arrangement relates;
- (f) the resolution relates to a transaction or arrangement with any other company in which he is interested, directly or indirectly, provided that he is not the holder of, or beneficially interested in, one per cent or more of any class of the equity share capital of that company (or of any other company through which his interest is derived) and not entitled to exercise one per cent or more of the voting rights available to members of the relevant company; or
- (g) the resolution relates to the purchase or maintenance for any director or directors of insurance against any liabilities.

#### 4.2.10 *Gratuities and pensions*

The directors may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, for any director who has held but no longer holds any executive office or employment with the Company or with any body corporate which is or has been a subsidiary of the Company or a predecessor in business of the Company or of any such subsidiary and for any member of his family (including spouse and former spouse) or any person who is or was dependent on him and may (as well before as after he ceases to hold such office or employment) contribute to any fund and pay premiums for the purchase or the provision of any such benefit.

#### 4.2.11 *Borrowing powers*

The Directors may, save as the Articles provide otherwise, exercise all the borrowing powers of the Company. The directors shall restrict the borrowings of the Company and exercise all powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure (insofar as they can) that the aggregate principal amount (including any premium payable on final repayment) outstanding of all borrowings (as defined in the Articles) by the Group (exclusive of intra-Group borrowings other than as provided specifically in the Articles) shall not at any time, save with the previous sanction of an ordinary resolution of the Company, exceed an amount equal to three times the aggregate of (i) the amount paid up on the share capital of the Company; and (ii) the total of the capital and revenue reserves of the Group, including any share premium account, capital redemption reserve and credit balance on the profit and loss account, but excluding sums set aside for taxation and amounts attributable to outside shareholders in subsidiary undertakings of the Company and deducting any debit balance on the profit and loss account, all as shown in the then latest audited consolidated balance sheet and profit and loss account of the Group, and in each case adjusted as necessary to reflect capital or corporate changes since the date of the balance sheet.

#### 4.2.12 *Untraced shareholders*

The Company may, after advertising its intention in the manner and for such a period as is prescribed in the Articles (and having informed the London Stock Exchange of that intention), sell (at the best price reasonably obtainable) any shares if the shares have been held by a member for at least 12 years and during that period at least three dividends have become payable on them and no dividends have been claimed or satisfied and the Company has not received any communication during the relevant periods from the holder of the shares or any person entitled to them by transmission.

#### 4.2.13 *Notices*

A member whose registered address is not within the United Kingdom and who has not provided the Company with an address within the United Kingdom to which notices may be sent shall not be entitled to receive any notice from the Company.

### 5. Existing and Proposed Directors' shareholdings and other interests

5.1 Save for the interests of the directors in options set out in paragraphs 5.3 and 5.4 below, as at the dates identified in the following table, the interests in the share capital of the Company (all of which are beneficial, unless otherwise stated) of the Existing Directors, Proposed Directors and any persons connected with them (as defined in section 346 of the Act) which have been (i) notified to the Company pursuant to sections 324 and 328 of the Act; or (ii) are required to be shown in the register maintained under section 325 of the Act; or (iii) are interests of a Connected Person which would, if the Connected Person were a Director, be required to be disclosed under (i) or (ii) above and the existence of which is known or could with reasonable diligence be ascertained by the director are as follows:

<i>Name of director</i>	<i>Number of Ordinary Shares taking into account the Reorganisation but not the Placing<sup>(1)</sup></i>	<i>Percentage of Ordinary Shares taking into account the Reorganisation but not the Placing (%)<sup>(1)</sup></i>	<i>Number of Ordinary Shares following the Placing</i>	<i>Percentage of Ordinary Share capital following the Placing (%)</i>
Bill Alexander <sup>(2)</sup>	2,306,900	3.84	2,306,900	3.26
Dr. Terry O' Brien	10,124,350	16.84	9,061,682	12.79
Dr. David Band	10,123,500	16.84	9,060,832	12.79
Richard Mills	—	—	—	—
John Barry	—	—	—	—
Pascal Levensohn <sup>(3)</sup>	2,114,800	3.52	2,114,800	2.99
Bert Wiegman <sup>(4)</sup>	—	—	64,285	0.09

Notes:

- (1) This also takes into account the Bonus Issue and the sub-division of the ordinary share capital of the Company.
- (2) Includes shareholdings of CA Alexander, DW Alexander, JL Alexander and SW Alexander each of whom are Connected Persons to Mr Alexander.
- (3) Pascal Levensohn is the managing partner of the general partner of Star Bay Partners LP, which is therefore a Connected Person to Mr Levensohn.
- (4) This includes 10,000 Ordinary Shares held in the name of The Fleming Settlement Trust of which Mr Wiegman is a trustee.
- (5) All the Existing Directors and the executive Proposed Directors are deemed to have an interest in all of the Ordinary Shares to be held in the Employee Benefit Trust summarised in paragraph 7.3 below. It is intended that the Employee Benefit Trust will apply for approximately 262,118 Ordinary Shares at the Placing Price, such shares to be held as part of the hedging arrangements referred to in paragraph 10 of Part I above. The shares to be held in the Employee Benefit Trust have not been taken into account for the purpose of the above table.

5.2 Save as disclosed above and in paragraphs 5.3 and 5.4 below, none of the Existing Directors, Proposed Directors, nor any Connected Persons, has any interest in the shares or debentures of the Company or of any of its subsidiary undertakings and there is no such person to whom any capital of any member of the Group is under option or agreed unconditionally to be put under option.

5.3 The following Existing and Proposed Directors will be granted options over Ordinary Shares under the LiDCO Group Plc Executive Share Option Scheme, which shall be granted conditional on Admission:

<i>Name of Director</i>	<i>Number of Ordinary Shares under option</i>	<i>Exercise price</i>	<i>First date for exercise</i>
Bill Alexander	637,500	Placing Price	3 years from the date of grant
Dr Terry O'Brien	637,500	Placing Price	3 years from the date of grant
Dr David Band	637,500	Placing Price	3 years from the date of grant
Richard Mills	212,500	Placing Price	3 years from the date of grant
John Barry	637,500	Placing Price	3 years from the date of grant
Pascal Levensohn	—	—	—
Bert Wiegman	—	—	—

5.4 Under the pre-Admission option arrangements referred to in paragraph 7.1.2 below, the following Proposed Directors will be granted options over Ordinary Shares, which shall be granted conditional on Admission:

<i>Name of Director</i>	<i>Number of Ordinary Shares under option</i>	<i>Exercise price</i>	<i>Exercise date</i>
John Barry	318,750	nominal value	three equal tranches on: 1 January 2002 1 January 2003 1 January 2004
Richard Mills	106,250	nominal value	three equal tranches on: 1 April 2002 1 April 2003 1 April 2004

5.5 The Existing and Proposed Directors are aware of the following interests (within the meaning of Part VI of the Act) of the following persons (not being Existing or Proposed Directors and their families or Connected Persons) who are or will be interested, directly or indirectly, in three per cent or more of the share capital of the Company:

<i>Shareholder</i>	<i>Number of Ordinary Shares following the Reorganisation<sup>(1)</sup></i>	<i>Percentage of issued Ordinary Shares taking into account the Reorganisation but not the Placing (%)</i>	<i>Number of Ordinary Shares following the Placing</i>	<i>Percentage of issued Ordinary Shares following the Placing (%)</i>
Robert Linton	6,749,000	11.22	6,040,555	8.53
Jiri Kratochvil	3,374,500	5.61	3,020,278	4.26
King's College London	3,374,500	5.61	3,020,278	4.26
Merlin Biosciences Fund LP	3,128,000	5.20	3,128,000	4.42
Shan Padda	2,175,150	3.62	2,175,150	3.07

Notes:

- (1) Taking into account the Bonus Issue and the sub-division of the ordinary share capital of the Company.

- 5.6 Save as described in paragraphs 5.1 and 5.5 above, the Existing and Proposed Directors are not aware of any person who is or will, following Admission be interested, directly or indirectly (within the meaning of Part VII of the Act) in 3 per cent or more of the issued share capital of the Company.
- 5.7 No Existing or Proposed Director has or has had any interest, direct or indirect, in any transaction which is or was unusual in its nature or conditions or which is significant to the business of the Group which was effected by any member of the Group during the current or immediately preceding financial year or during any earlier financial year which remains in any respect outstanding and unperformed.
- 5.8 There are no loans or guarantees granted or provided by any members of the Group to or for the benefit of any of the Existing or Proposed Directors which are now outstanding.
- 5.9 Each of the Existing and Proposed Directors, having an interest in any securities of the Company has given an undertaking (subject to certain exceptions) not to dispose of any interest in the securities of the Company prior to the date following eighteen months after the date of Admission. Further details of these arrangements are set out in paragraph 9.1.4(f).
- 5.10 Other than the directorships of the Company and its subsidiaries, the Existing Directors and Proposed Directors are or have been directors or partners of the following companies or partnerships within the last five years:

<i>Name of Director</i>	<i>Current directorships and partnerships</i>	<i>Directorships and partnerships during past five years</i>
Bill Alexander	Lionheart Industries Inc. Intrepid Capital Partners, L.P. ICP, LLC Intrepid Capital Advisors, Inc.	Trimingham Advisors Inc.
Dr. Terry O' Brien	—	—
Dr. David Band	—	—
Richard Mills	Icon Creative Services Limited Garden of Art Limited C3 Cars Limited	Chiron Diagnostics Limited
John Barry	—	—
Pascal Levensohn	Levensohn Capital Management LLC Levensohn Capital Advisors LLC Star Bay Offshore Fund Teralogic Inc. Star Bay Partners LP Star Bay Technology Ventures IV, LP Star Bay Partners II, LP	IC Refreshment Co. Inc. Single Source IT
Bert Wiegman	—	Tom Cobleigh Limited GE Life Limited GE Life Group Limited Enskilda Ventures Ltd Gripperods Limited SEL LP Limited ADS Anker Holdings BV EAC Limited Franpin Holdings BV European Acquisition Capital Limited EAC Fund I GP Limited EAC Fund II GP Limited EAC (Nominees) Limited Leapfrog Day Nurseries Limited EAC (Scotland) GP Limited The Motor Group Limited

- 5.11 At the date of this document none of the Existing Directors or the Proposed Directors has:
- (a) had any unspent convictions in relation to indictable offences;
  - (b) been declared bankrupt or entered into an individual voluntary arrangement;
  - (c) been a director with an executive function of any company at the time or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors;
  - (d) been a partner in a partnership at the time of, or within 12 months preceding, any compulsory liquidation, administration or partnership voluntary arrangement of any such partnership;
  - (e) had his assets the subject of any receivership or has been a partner of a partnership at the time of or within the 12 months preceding, any assets thereof being the subject of a receivership; or
  - (f) been subject to any public criticism by any statutory or regulatory authority (including any recognised professional body) or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

## 6. Existing and Proposed Directors' service contracts and emoluments

- 6.1 The following executive Existing and Proposed Directors have entered into service agreements with the relevant Group or Company on 29 June 2001:

<i>Director</i>	<i>Salary (£)</i>	<i>Employing Entity</i>
Bill Alexander	130,000 <sup>(1)</sup>	the Company
Terry O'Brien	150,000	the Company
David Band	90,000	the Company
John Barry	135,000	the Company
Richard Mills	80,000	the Company

Notes:

- (1) Subject to variation as Mr Alexander's salary is converted into and paid in US dollars at a fixed exchange rate of US\$1.60 for each £1.00, such rate subject to annual review by the Board.

- 6.2 The service agreements of all the Existing and Proposed Directors are each terminable on 12 months' notice from either party. The service agreements contain provisions for early termination, *inter alia*, in the event of serious breach by the relevant director. The service agreements provide for a payment in lieu of benefits at the rate of 20% of salary. The service agreements provide for bonuses to be paid to the Existing and Proposed Directors as follows:

<i>Director</i>	<i>Maximum bonus as a percentage of salary (%)</i>
Bill Alexander	200
Terry O'Brien	200
David Band	75
John Barry	100
Richard Mills	75

In respect of the financial year ending 31 December 2001, the bonus will be a percentage of salary equal to any percentage increase in the Company's share price as at 31 December 2001 (calculated as an average of prices over the previous month) from 66p (being the value attributed to the Company's shares under the Reorganisation Offer). In respect of subsequent financial years, the bonus will be a percentage of salary equal to any percentage increase in the Company's share price as at 31 December in the relevant financial year only (calculated as an average of prices over the previous month) from the higher of such price

as at the previous 31 December and the Placing Price. There is provision for a possible renegotiation of these arrangements after 31 December 2001. The service agreements contain provisions for the grant of options to the Existing and Proposed Directors consistent with the arrangements set out in paragraphs 5.3 and 5.4 of this Part VI.

Each service agreement contains restrictive covenants applicable on termination of employment, preventing the individual from competing with the business or soliciting customers or senior employees of the Group for 12 months after termination. Each service agreement contains provisions which protect the Group's intellectual property and confidential information.

- 6.3 The following Existing and Proposed Directors signed letters of appointment (conditional upon Admission) with the Company on 2 July 2001 in respect of their services as non-executive directors, details of which are as follows:

<i>Director</i>	<i>Expiry of Initial Term</i>	<i>Fees per annum (£)</i>
Pascal Levensohn	30 June 2004	20,000
Bert Wiegman	30 June 2004	20,000

- 6.4 Save as mentioned above there are no service agreements between any Existing or Proposed Director and any member of the Group other than agreements expiring or determinable by the employing company without the payment of compensation (other than statutory compensation) within one year and no such contracts are proposed.
- 6.5 There is no arrangement under which any Existing or Proposed Director has agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.
- 6.6 The total aggregate remuneration (including benefits in kind) granted to the Existing and Proposed Directors by the Company or any member of the Group for the year ended 31 December 2000 was £170,560.
- 6.7 The estimated emoluments (including benefits in kind) payable to the Existing and Proposed Directors (including fees payable to non-executive directors) from the Group for the current financial year under arrangements in force at the date of this document or which are conditional on Admission will amount to approximately £659,000.

## 7. Employee share schemes

### 7.1 *Summary of the LiDCO Limited Unapproved Share Option Scheme*

#### 7.1.1 *General*

LiDCO Limited adopted the LiDCO Limited Unapproved Share Option Scheme on 13 October 1997 for the benefit of directors, employees, consultants and other individuals at the discretion of the board of directors of LiDCO Limited.

Option holders were given the opportunity pursuant to an option exchange proposal dated 8 March 2001 to exchange their old options over shares in LiDCO Limited for new options over Ordinary Shares but otherwise on the same terms as the old options.

Under the rules of the LiDCO Limited Unapproved Share Option Scheme, options cannot be exercised earlier than the first anniversary of the date of grant (or such earlier or later date as may have been specified at the date of grant). Options must be exercised prior to the tenth anniversary of the date of grant.

Where an option holder ceases to hold employment within the Group by reason of injury, ill health, disability, redundancy, retirement or the sale or transfer of his employing business or company out of the Group, then an option may be exercised



within six months, beginning with the date of cessation of employment but only to the extent to which the option has vested at that date. In the case of certain option holders who have already left employment, these provisions do not apply.

There are provisions for exercise of an option in the event of a take-over, demerger, reconstruction or winding up of the Company.

In the event of any alteration of the Company's share capital, the directors may make such adjustments as they consider appropriate to the number of shares subject to options and the price payable on exercise.

The Board may at any time amend the LiDCO Limited Unapproved Share Option Scheme provided that any such alteration or addition shall not prejudice any rights which have already accrued to an option holder.

#### *7.1.2 Pre-Admission Option Arrangements*

The following option arrangements will be put in place prior to but conditional upon Admission.

John Barry will be granted an option to acquire 318,750 Ordinary Shares and Richard Mills will be granted an option to acquire 106,250 Ordinary Shares, in both cases at an exercise price per Ordinary Share equal to the nominal value of an Ordinary Share. John Barry's options will vest and become exercisable in three equal tranches on 1 January 2002, 1 January 2003 and 1 January 2004 and Richard Mills' options will vest and become exercisable in three equal tranches on 1 April 2002, 1 April 2003 and 1 April 2004. If John Barry or Richard Mills ceases to be an employee or director of the Group, the relevant options must be exercised within six months to the extent that it has vested at the date of the cessation of employment and will thereafter lapse. To the extent that the option has not vested it shall immediately lapse upon the cessation of employment.

Professor Solomon Aronson will be granted an option to acquire 85,000 Ordinary Shares, at an exercise price per Ordinary Share equal to the nominal value of an Ordinary Share. The option will vest and become exercisable as to 8,500 Ordinary Shares on the date of grant, as to a further 17,000 Ordinary Shares on the first anniversary of the date of grant, as to a further 29,750 Ordinary Shares on the second anniversary of the date of grant and as to the final 29,750 Ordinary Shares on the third anniversary of the date of grant. If Solomon Aronson ceases to provide consultancy services to the Group, the option must be exercised within six months to the extent that it has vested at the date of Solomon Aronson ceasing to provide such consultancy services and will thereafter lapse. To the extent that the option has not vested it shall immediately lapse upon Solomon Aronson ceasing to provide such consultancy services.

Christopher Wolff will be granted an option to acquire 42,500 Ordinary Shares, at an exercise price per Ordinary Share equal to the nominal value of an Ordinary Share. The option will vest and become exercisable as to 4,250 Ordinary Shares on the first anniversary of the date of grant, as to a further 8,500 Ordinary Shares on the second anniversary of the date of grant, as to a further 14,875 Ordinary Shares on the third anniversary of the date of grant and as to the final 14,875 Ordinary Shares on the fourth anniversary of the date of grant. If Christopher Wolff ceases to provide consultancy services to the Group, the relevant option must be exercised within six months to the extent that it has vested at the date of his ceasing to provide such consultancy services and will thereafter lapse. To the extent that the option has not vested it shall immediately lapse upon his ceasing to provide such consultancy services.

No performance conditions will be set in respect of any of the options described above and Ordinary Shares issued on exercise of these options will be excluded from calculation of the limit on the number of Ordinary Shares that may be issued under the LiDCO Group Plc Executive Share Option Scheme summarised in section 7.2.4 below.

## 7.2 *Summary of the LiDCO Group Plc Executive Share Option Scheme (the “Executive Scheme”)*

### 7.2.1 *General*

The Executive Scheme is divided into three parts. The Company intends to seek Inland Revenue approval of the “approved part” under the Income and Corporation Taxes Act 1988 (which will confer certain tax reliefs on UK participants). The second part of the Executive Scheme is not designed for Inland Revenue approval. The third part is intended to allow the grant of incentive stock options in the US.

### 7.2.2 *Eligibility*

Employees and full-time directors (that is, those obliged to devote at least 25 hours a week to the Group) of the Company and its subsidiaries who are not otherwise excluded by the relevant legislation will be eligible to participate in the Executive Scheme.

### 7.2.3 *Grant of Options*

Options (which may relate to new and/or existing shares) may be granted at any time prior to Admission, and thereafter within the six weeks following either Admission or (in the case of Revenue-approved options) the approval of the Executive Scheme by the Inland Revenue or the announcement by the Company of its results for any period. They may also be granted at other times during which the Remuneration Committee considers there to be sufficiently exceptional circumstances.

No options may be granted later than ten years after Admission.

No payment will be required for the grant of an option. Options are not transferable other than where, by virtue of a participant’s death, they may be exercised by his personal representatives.

### 7.2.4 *Limit on the Issue of Shares under the Executive Scheme*

No options may be granted under the Executive Scheme in any year which would cause the number of Ordinary Shares issued or issuable under all share options granted in any ten year period, or issued in that period otherwise than in pursuance of options, under the Executive Scheme or any other employees’ share scheme or option arrangement adopted by the Company or LiDCO Limited, to exceed ten per cent of the Company’s issued Ordinary Share capital at that time provided that for the purposes of this limit no account shall be taken of options over 3.5 per cent of the Company’s issued ordinary share capital granted up to the seventh day following Admission.

### 7.2.5 *Limit on Individual Participation*

Following Admission, no person may in a calendar year be granted options over Ordinary Shares worth more than 200 per cent of annual remuneration, except that the Remuneration Committee will have discretion to increase this in the case of options granted to an individual in exceptional circumstances e.g. shortly following his recruitment.

The aggregate market value (as at the date of grant) of Ordinary Shares under option to an individual at any given moment pursuant to the Inland Revenue-approved part of the Executive Scheme or any other approved executive share option scheme established by the Company or an associated company may not exceed £30,000.

### 7.2.6 *Option Price*

The price per Ordinary Share payable on the exercise of an option will not be less than the higher of:

- (a) in the case of options granted prior to Admission, the Placing Price; or
- (b) in the case of options granted after Admission, the market value of an Ordinary Share (which, in the case of Inland Revenue approved options, shall be as agreed with the Inland Revenue); and
- (c) the nominal value of an Ordinary Share (if the option is expressed to relate solely to new Ordinary Shares).

### 7.2.7 *Exercise of Options*

An option will not normally be exercisable until three years from its grant. Options will lapse ten years from the date of grant.

The Remuneration Committee intends to set performance conditions on the exercise of options granted in connection with the Placing.

The options will normally only be exercisable to the extent that a specified share price growth target has been satisfied over a period of at least three years. In particular, no option will vest unless the Company's share price (measured from the Placing Price) has achieved 15 per cent compound growth per annum after three years and not later than five years. At that point, one third of the option vests. Vesting then increases progressively for further share price growth until full vesting occurs where there is 22.5 per cent compound growth per annum after three years and not later than five years. These hurdles rise from the fifth anniversary of the date of grant at compound rates of growth of 15 per cent and 22.5 per cent of the Placing Price per annum respectively.

For the purposes of measuring performance, the Company's share price will be averaged over the 30 dealing days prior to the third anniversary of grant. In addition, performance can be measured at monthly intervals thereafter (using an average share price over the 30 dealing days prior to the measurement date), but the option lapses to the extent that the performance target has not been satisfied by the tenth anniversary of grant.

For future option grants, the Remuneration Committee's present intention is to set targets having regard to prevailing market practice and the prevailing circumstances at the time of grant.

Options normally lapse on cessation of employment. However, exercise is permitted:

- (a) following cessation of employment in certain compassionate circumstances such as death, ill-health, injury, redundancy, retirement or on a sale of the employing company or business out of the Group;
- (b) otherwise only at the Remuneration Committee's discretion.

Early exercise is permitted on a reconstruction, takeover or winding-up of the Company.

In such cases the performance targets cease to apply, except that they continue to apply in the case of retirement and that the Remuneration Committee has discretion as to whether they shall continue to apply in the case of a reconstruction, takeover or winding-up. In the case of retirement, the option may only be exercised if it has been held for at least two years.

### 7.2.8 *Rights Attaching to Shares*

All Ordinary Shares allotted under the Executive Scheme will rank equally with all other Ordinary Shares for the time being in issue (except for any rights arising by reference to a record date before the date of allotment).

### 7.2.9 *Variation of Capital*

In the event of any variation of share capital, or (except in the case of Revenue-approved options) of any increase of share capital or the payment of a capital or special dividend or of any other circumstances similarly affecting options, the Remuneration Committee may make such adjustments as it considers appropriate to the number of shares subject to options and the price payable on their exercise.

### 7.2.10 *Alterations to the Executive Scheme*

The Remuneration Committee may at any time alter or add to the Executive Scheme in any respect, provided that the prior approval of the Company in general meeting is obtained for alterations or additions to the advantage of participants to the rules governing eligibility, limits on individual or overall participation, terms of exercise, non-assignability of options and adjustment of options. Such prior approval is not required for minor amendments for administrative advantage, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or Group companies; nor for any amendments to take account of local tax, exchange control or securities laws in overseas territories, provided (in this latter case) that any shares made available by virtue of such amendments are treated as counting against the limits on individual or overall participation in the Executive Scheme. The Remuneration Committee also has the ability to adjust performance conditions to take account of supervening events (e.g. a variation of share capital).

The Remuneration Committee may make such amendments and additions to the Executive Scheme as they consider appropriate up to Admission, provided these do not conflict in any material respect with this summary of the rules.

### 7.2.11 *Pensionability*

Benefits received under the Executive Scheme will not be pensionable.

## 7.3 *Summary of the LiDCO Group Plc Employee Benefit Trust (the “EBT”)*

The EBT will be a discretionary trust capable of benefiting all employees and former employees of the Company and its subsidiaries and certain of their dependants. It will be empowered to acquire Ordinary Shares by purchase or subscription and to distribute these on such terms as it thinks fit.

The EBT will not be empowered to make an acquisition such that its holding of Ordinary Shares would exceed five per cent of the Ordinary Shares in issue, except with the prior consent of the Company in general meeting.

Any Ordinary Shares subscribed by the EBT will count towards the limit on the issue of Ordinary Shares set out in paragraph 7.2.4 above.

The trustee of the EBT will be an independent professional offshore trustee company.

It is presently envisaged that the principal purpose of the EBT will be to enable the Company to hedge its liabilities to employers' social security charges arising on the exercise of unapproved share options.

## 8. **Pensions**

The Group does not have any group pension arrangements.

## 9. **Material Contracts and other commercial information**

9.1 The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by a member of the Group either within the period of two years immediately preceding the date of this document or earlier and which contain any outstanding obligation or entitlement which is, or may be, material:

9.1.1 an offer document dated 19 January 2001 issued by the Company to the shareholders of LiDCO Limited (the “Reorganisation Offer Document”) pursuant to which the Company offered, subject to and upon certain terms and conditions set

out below, to acquire the entire issued share capital of LiDCO Limited not already owned by it in exchange for the issue by the Company of 10 Ordinary Shares for every 1 ordinary share held in LiDCO Limited and 1 Ordinary Share for every 18.07 preferred shares held in LiDCO Limited (the “Reorganisation Offer”).

The Reorganisation Offer is conditional upon (i) LiDCO Limited shareholders accepting the Reorganisation Offer in respect of not less than 585,500 preferred shares in LiDCO Limited, (ii) the Articles of Association of LiDCO Limited being amended to disapply the pre-emption rights that would otherwise be triggered by the proposed transfer of shares in LiDCO Limited to the Company, (iii) the pre-IPO value of the Company being at least US\$100 million, and (iv) admission of the ordinary share capital of the Company to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange or to trading on AIM (the “IPO”) taking place within twelve months of the date of the Reorganisation Offer Document.

If the IPO does not take place before 19 January 2002, the Reorganisation Offer will lapse. The Company may withdraw the Reorganisation Offer at any time and has agreed to withdraw the Reorganisation Offer if the IPO Committee (as defined in paragraph 9.1.3 below) determines that there is no reasonable prospect of effecting the IPO before 19 January 2002. In addition, under the terms of a side letter agreement dated 19 January 2001 and entered into between the Company and LiDCO Limited (the “Offer Letter Agreement”), LiDCO Limited may require the Company to withdraw the Reorganisation Offer if LiDCO Limited determines prior to Admission that there has been a material breach of any of the warranties or the undertakings given by the Company to LiDCO Limited and its shareholders and set out in the Reorganisation Offer Document and in the Offer Letter Agreement.

The warranties given by the Company to the shareholders of LiDCO Limited include, *inter alia*, warranties in relation to the Company’s shareholding in LiDCO Limited, preparation of the Company’s accounts, carrying on of the business in the ordinary course, compliance with laws and regulations and ownership of intellectual property. In addition and save with the prior approval of the IPO Committee, the Company has given the following undertakings to the LiDCO Limited shareholders in connection with the Reorganisation Offer which are effective until Admission:

- (a) it shall conduct its affairs in the ordinary and normal course;
- (b) it shall not enter into, amend or terminate any contract or arrangement with any of its directors or shareholders or any person connected with any such persons which may give rise to any liability on its part or which is otherwise material in the context of the Reorganisation Offer or the IPO;
- (c) it shall not issue or agree to issue, or grant any rights to subscribe for, any shares save pursuant to or as contemplated by the Reorganisation Offer Document or as approved by the remuneration committee of LiDCO Limited;
- (d) it shall not enter into any material agreement or accept any obligation or liability otherwise than in the ordinary course of its business;
- (e) it shall not appoint any additional Directors;
- (f) it shall not make any distribution by way of declaration of dividend or otherwise to its shareholders;
- (g) it shall not sell, transfer or otherwise dispose of its businesses, undertaking or assets or any part thereof otherwise than in the ordinary course of its business and in particular shall not sell, transfer or otherwise dispose of any of its intellectual property;
- (h) it shall inform LiDCO Limited of any matter which may have a material effect on the business or financial position of the Company; and

- (i) it shall procure that Cassette Analytical Systems Limited shall comply with the above undertakings as if references to the Company were replaced by references to Cassette Analytical Systems Limited.

The Reorganisation Offer Document provides that the Company shall have no liability to the LiDCO Limited shareholders for breach of warranty or undertaking (in relation to (ii) to (iv) below (i) in respect of any matter relating to LiDCO Limited which is disclosed in the Reorganisation Offer Document and which has been previously disclosed to LiDCO Limited's shareholders, (ii) in circumstances where the Reorganisation Offer is withdrawn or if the IPO does not take place on or before 19 February 2002, (iii) to LiDCO Limited shareholders who do not accept the Reorganisation Offer, or (iv) unless a LiDCO Limited shareholder gives notice of a claim within one year of Admission and then only to the extent that the aggregate amount of all its liability in respect of all claims made pursuant to the warranties and undertakings exceeds £250,000. In any event, the Company's aggregate liability to LiDCO Limited shareholders pursuant to the warranties and undertakings shall not exceed £25,000,000.

9.1.2 the Offer Letter Agreement between the Company and LiDCO Limited referred to in paragraph 9.1.1 above, pursuant to which it was agreed *inter alia* that:

- (a) in order to facilitate the process of the IPO, that a joint committee (the "IPO Committee") would be established comprising one representative of the Company (Dr Terry O'Brien) and two representatives of LiDCO Limited (Peter Keen and Bill Alexander). The IPO Committee is vested with principal responsibility for managing the IPO process including *inter alia* studying market conditions, interviewing investment bankers and other advisers, considering timing and valuation issues, discussing the terms of lock-up or similar agreements with underwriters or shareholders and all other related matters. The IPO Committee has the power to make recommendations to the boards of directors of the Company and LiDCO Limited regarding any such matters providing all such recommendations are unanimous. It is noted that the IPO Committee shall not have the power or authority to bind either the Company or LiDCO Limited in relation to any matter or otherwise act in the name of either the Company or LiDCO Limited.
- (b) the Company would provide the same undertakings to LiDCO Limited as to the LiDCO Limited shareholders which are set out in the Reorganisation Offer Document. The undertakings do not apply to the extent that any matters contemplated therein have been previously approved by the IPO Committee. It is further agreed that if there is any material breach of the undertakings contained in the Offer Letter Agreement, or of the warranties contained in the Reorganisation Offer Document, then LiDCO Limited shall be entitled (but not obliged) to require the Company by written notice to withdraw the Reorganisation Offer (which it shall then be required to do). The Company is obliged to notify LiDCO Limited of any breach of the warranties or the undertakings and to provide such information as LiDCO Limited may reasonably require in relation thereto. LiDCO Limited shall notify the Company if it considers any such breach to be material whereupon the Company shall have a period of ten days (or longer if agreed) to rectify such breach and if it is unable to do so, LiDCO Limited shall thereafter be entitled to exercise its right to require further withdrawal. The Company further agrees to withdraw the Reorganisation Offer if the IPO Committee determines that there is no reasonable prospect of effecting the Placing before 19 January 2002. The Company further reserves the right to withdraw the Reorganisation Offer at any time.
- (c) any and all fees, expenses and professional costs relating to the IPO shall be incurred and borne by LiDCO Limited except if the IPO takes place, in which case the Company agrees that it shall be responsible for all such costs.

9.1.3 the undertakings dated 19 January 2001 provided to the Company by each of Dr David Band, Dr Jiri Kratochvil, Dr Robert Linton, Dr Terry O'Brien and King's College London, being all of the shareholders in the Company at that date in connection with the proposed Reorganisation Offer (as defined in paragraph 9.1.1 above) and the restructuring of the Company prior to implementation of the IPO (the "Shareholders' Undertakings"). The principal terms of the Shareholders' Undertakings are as follows:

- (a) termination of the existing Shareholders' Agreement between the shareholders of the Company on Admission;
- (b) each of the shareholders irrevocably and unconditionally undertakes:
  - (i) to vote in person, and to procure all votes attaching to his or its shareholding in the Company are cast in favour of such ordinary or special resolutions of the Company as may be envisaged by the Reorganisation Offer Document and as may be reasonable and equitable between the shareholders;
  - (ii) to consent to any annual or general meeting convened in connection with the Reorganisation Offer or the IPO being held at short notice; and
  - (iii) to waive any pre-emption rights arising on the allotment of Ordinary Shares to the LiDCO Limited shareholders pursuant to the Reorganisation Offer.

These undertakings are expressed to lapse and be of no further effect if the IPO has not taken place before 19 January 2002.

9.1.4 a placing agreement dated 2 July 2001 between Teather & Greenwood (1), the Company (2), the Existing Directors and the Proposed Directors (3) and the Selling Shareholders (4), which is, conditional on, *inter alia*, the Reorganisation having been completed in full, subject only to Admission and on Admission having become effective on or before 5 July 2001 or such later date (not being later than 8 a.m. on 12 July 2001) as the Company and Teather & Greenwood may agree and the principal terms of which are as follows:

- (a) Teather & Greenwood agrees to use its reasonable endeavours to procure placees to subscribe for the Subscription Shares and to purchase the Sale Shares, in each case at the Placing Price. Under these arrangements, Teather & Greenwood has procured placees pursuant to placing letters which were dated 26 June 2001 and the forms of confirmation issued in response to those letters and such placees have undertaken to purchase or subscribe all of the Placing Shares. The commitments entered into by placees are conditional on Admission becoming effective on or before 8 a.m. on 5 July 2001 or such later date (not being later than 8.00 a.m. on 12 July 2001) as the Company and Teather & Greenwood may agree;
- (b) the Company has agreed to pay Teather & Greenwood a corporate finance fee and the Company and the Selling Shareholders have each agreed to pay Teather & Greenwood a commission of three per cent of the value, at the Placing Price of the Subscription Shares or, as the case may be the Sale Shares;
- (c) the Company has agreed to pay all of the costs and expenses of and incidental to the Placing and related arrangements (other than stamp duty or stamp duty reserve taxes payable on the transfer of the Sale Shares) together with value added tax and all such costs and expenses and on the fees and commissions referred to in sub-paragraph (b) above;
- (d) the Company and the Existing and Proposed Directors have given certain warranties to Teather & Greenwood as to the accuracy of the information in this document and as to other matters relating to the Group. The liability of the Existing and Proposed Directors under these warranties is limited in time

and amount. The Company has given an indemnity to Teather & Greenwood against any losses or liabilities arising out of the proper performance by Teather & Greenwood of its duties under the Placing Agreement.

- (e) Teather & Greenwood may terminate the agreement in certain circumstances prior to Admission;
- (f) the Selling Shareholders and the Existing and Proposed Directors have agreed that, subject to certain limited exceptions, they will not before a period of twelve months from Admission dispose of any of their interests of the shares of the Company held by them, nor will they dispose of any such shares within the six months following the expiry of this twelve month period without the prior written consent of Teather & Greenwood, such consent not to be unreasonably withheld or delayed;
- (g) the Selling Shareholders have agreed to sell the Sale Shares to placees (conditional upon Admission taking place by the time specified above) as follows:

<i>Name</i>	<i>Number of Ordinary Shares</i>
Terry O'Brien	1,062,668
David Band	1,062,668
Robert Linton	708,445
Jiri Kratochvil	354,222
King's College, London	354,222

- 9.1.5 an option agreement dated 2 July 2001 between the Company and Teather & Greenwood Holdings Plc pursuant to which the Company has granted to Teather & Greenwood Holding Plc, an option to subscribe for up to 1,416,891 Ordinary Shares, being 2 per cent of the Ordinary Shares in issue immediately following Admission.
- 9.2 Save as disclosed in paragraph 9.1 above, there are no contracts, not being contracts entered into in the ordinary course of business, entered into by a member of the Group which contain any provisions under which the Group has any obligation or entitlement which is material to the Group as at the date of this document.
- 9.3 Pursuant to an agreement dated 6 January 1995 between the Company and Advanced Technology Management Limited ("ATM"), it was agreed *inter alia* that ATM would receive 4 per cent of any licence fee payable by Nissho Corporation (now Nipro Corporation) pursuant to the terms of a Distribution Agreement entered into between Nissho Corporation (now Nipro Corporation) and LiDCO Limited dated 14 November 1994. Two further payments remain to be made to ATM pursuant to this Agreement which are dependent on certain milestones being reached.
- 9.4 Pursuant to an Agreement dated 2 November 1993 (and amended on 8 February 1994) between the Company and KD Company Limited ("KD"), KD is entitled to receive a percentage of all funds received from Nissho Corporation (now Nipro Corporation) pursuant to the terms of the Distribution Agreement referred to in 9.3 above. The sums receivable by KD under these arrangements are on a sliding scale whereby KD would receive five per cent of any royalties received up to £700,000 and 50 per cent of any royalties received in excess of £1,003,001.
- 9.5 Pursuant to a Settlement and Termination Agreement dated 1 March 2000 between LiDCO Limited (1) and BYK Gulden Lomberg Chemische Fabrik GmbH ("BYK") it was agreed *inter alia* that should LiDCO Limited enter into any agreement with a third party granting rights in connection with the LiDCO and PulseCO System in certain European countries LiDCO Limited agrees to pay BYK 50 per cent of all such payments by such



third party to LiDCO Limited together with a royalty of 2.5 per cent of the net invoice price of all such systems. The amount payable to BYK under these arrangements is capped at DM 2,330,000.

## **10. Litigation**

There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened or of which the Company is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the Group's financial position.

## **11. Principal Establishments**

The Group's head office is located at 16 Orsman Road, London N1 5QJ. It also has access to and use of a laboratory at St Thomas' Hospital, London.

## **12. Taxation**

### **12.1 General**

The statements set out below are intended only as a general guide to certain aspects of current United Kingdom ("UK") tax law and practice and apply only to certain Shareholders. The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding Ordinary Shares. Prospective purchasers of Ordinary Shares are advised to consult their own tax advisers concerning the consequences under UK tax law of the acquisition, ownership and disposition of Ordinary Shares. This summary is based on UK law and Inland Revenue practice which may be subject to change perhaps with retrospective effect.

The statements are not applicable to all categories of Shareholders, and in particular are not addressed to (i) Shareholders who do not hold their Ordinary Shares as capital assets, (ii) Shareholders who own (or are deemed to own) ten per cent or more of the voting power of the Company, (iii) special classes of Shareholders such as dealers in securities, broker-dealers, insurance companies and investment companies, (iv) Shareholders who hold Ordinary Shares as part of hedging or commercial transactions, (v) Shareholders who hold Ordinary Shares in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency or otherwise) or (vi) Shareholders who are not resident or ordinarily resident in the UK for tax purposes (unless express reference is made to non-UK resident Shareholders).

### **12.2 Taxation of dividends and distributions**

#### **12.2.1 UK resident Shareholders**

The Company will not be required to withhold tax at source when paying a dividend.

An individual Shareholder who is resident in the UK (for tax purposes) and who receives a dividend from the Company will generally be entitled to a tax credit which such Shareholder may set off against his total income tax liability on the dividend. The tax credit will be equal to ten per cent of the aggregate of the dividend and the tax credit (the "gross dividend"), which is also equal to one-ninth of the cash dividend received. A UK resident individual Shareholder who is liable to income tax at the starting or basic rate will be subject to tax on the dividend at the rate of ten per cent of the gross dividend, so that the tax credit will satisfy in full such Shareholder's liability to income tax on the dividend. A UK resident individual Shareholder who is liable to income tax at the higher rate will be liable to tax on the gross dividend at the rate of 32.5 per cent. After taking into account the 10 per cent tax credit, such an individual will have to account for additional tax equal to 22.5 per cent of the gross dividend (which is also equal to 25 per cent of the cash dividend received).

UK resident taxpayers who are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Company, although charities will be entitled to limited compensation in lieu of repayable tax credits until 5 April 2004.

Subject to certain exceptions for traders in securities, a shareholder which is a company resident for tax purposes in the UK and which receives a dividend paid by another company resident for tax purposes in the UK will not generally have to pay corporation tax in respect of it. Such shareholders will not be able to claim repayment of tax credits attaching to dividends.

#### 12.2.2 *Non-UK resident Shareholders*

Certain to subject exceptions for individuals who are Commonwealth citizens, citizens of the Republic of Ireland, residents of the Isle of Man or the Channel Islands, nationals of States which are part of the European Economic Area and certain others, non-UK resident Shareholders will not generally be able to claim repayment from the Inland Revenue of any part of the tax credit attaching to dividends paid by the Company. A Shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law. A Shareholder who is not resident in the UK (for tax purposes) should consult his own tax adviser concerning his tax liabilities on dividends received from the Company.

#### 12.3 *Taxation of capital gains*

A disposal of Ordinary Shares by a Shareholder who is either resident or, in the case of individuals, ordinarily resident for tax purposes in the UK may, depending on the shareholder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or allowable loss for the purposes of the taxation of chargeable gains. Broadly, Shareholders who are not resident or ordinarily resident for tax purposes in the UK will not be liable for UK tax on capital gains realised on the disposal of their Ordinary Shares unless such Ordinary Shares are used, held or acquired for the purposes of a trade, profession or vocation carried on in the UK through a branch or agency or for the purpose of such branch or agency. Such Shareholders may be subject to foreign taxation on any gain under local law. A Shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five years and who disposes of the Ordinary Shares during that period may also be liable to UK taxation of chargeable gains (subject to any available exemption or relief) as if, broadly, the disposal was made in such Shareholder's year of return to the UK.

#### 12.4 *Inheritance and gift taxes*

The Ordinary Shares will be assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or on the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) be a transfer of value chargeable to UK inheritance tax even if the holder is neither domiciled in the UK nor deemed to be domiciled there under certain rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a chargeable transfer of value. Special rules apply to gifts where the donor reserves or retains some benefit which, in general, could give rise to a liability to UK inheritance tax on the death of the donor. Special rules also apply to close companies (and companies which would be close if they were resident in the UK), to partnerships and to trustees of certain settlements who hold Ordinary Shares under which the individual shareholder, partner or trustee (as the case may be) may be brought within the charge to inheritance tax in respect of Ordinary Shares. Shareholders should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any Ordinary Shares through trust arrangements. Gifts to individuals or to certain settlements where such gifts are made more than seven years before the death of the donor are generally exempt from inheritance tax.

#### 12.5 *UK stamp duty and stamp duty reserve tax ("SDRT")*

12.5.1 A liability to stamp duty and/or SDRT will arise in relation to the sale of Sale Shares by the Selling Shareholders under the Placing. The Selling Shareholders have agreed to meet such liability.

- 12.5.2 Any subsequent transfer of Ordinary Shares not held through CREST will generally be liable to stamp duty at the rate of 0.5 per cent of the amount or value of the consideration given (rounded up to the nearest £5). An unconditional agreement to transfer Ordinary Shares will generally be subject to SDRT at 0.5 per cent of the amount or value of the agreed consideration. However, if within the period of six years of the date of the agreement an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any SDRT already paid will be repaid and any liability to SDRT will be cancelled. The liability to stamp duty or SDRT is generally satisfied by the purchaser or transferee.
- 12.5.3 No stamp duty or SDRT will arise on a transfer of Ordinary Shares into CREST, unless such transfer is made for a consideration in money or money's worth, in which case a liability to SDRT will arise, usually at the rate of 0.5 per cent of the amount or value of the consideration.
- 12.5.4 A transfer of Ordinary Shares effected on a paperless basis within CREST will generally be subject to SDRT at the rate of 0.5 per cent of the amount or value of the consideration.
- 12.5.5 Where Ordinary Shares are transferred (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT may be payable at a rate of 1.5 per cent of the amount or value of the consideration payable or, in certain circumstances, the amount or value of the Ordinary Shares.

## 12.6 *ISA's*

Ordinary Shares are not qualifying investments and may not be held in a PEP or the ISA stocks and shares component.

## 13. **Consents**

- 13.1 Deloitte & Touche has given and not withdrawn its written consent to the inclusion herein of its report and the references to such report and to its name in the form and the context in which they respectively appear and has authorised the contents of Part IV of this document for the purposes of Regulation 13(1)(g) of the POS Regulations.
- 13.2 Boulton Wade Tennant has given and not withdrawn its written consent to the issue of this document with the inclusion herein of its report and the references to such report and to its name in the form and the context in which it appears and has authorised the contents of Part III of this document for the purposes of Regulation 13(1)(g) of the POS Regulations.
- 13.3 Teather & Greenwood has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and the references to its name in the form and context in which they appear.

## 14. **Working Capital**

- 14.1 In the opinion of the Existing and Proposed Directors, having made due and careful enquiry, taking into account the net proceeds of the Placing receivable by the Company, the working capital available to the Company is sufficient for the Group's present requirements, that is for 12 months from the date of Admission.

## 15. **General**

- 15.1 The existing ordinary share capital of the Company is, and the Subscription Shares will be, in registered form. Prior to the despatch of definitive share certificates in respect of the Subscription Shares which are the subject of the Placing and which are not to be settled in CREST, transfers will be certified against the register of members of the Company.
- 15.2 The Placing Price represents a premium of 139.5p over the nominal value of 0.5p per Placing Share being placed or offered under the Placing and is payable in full on application.

- 15.3 There has been no significant change in the financial or trading position of the Company since 31 December 2000, the date to which the latest audited accounts of the Company were prepared.
- 15.4 The financial information concerning the Company contained in this document does not constitute full statutory accounts as referred to in section 240 of the Act. Statutory accounts for each of the two financial years ending 31 December 1999 and 1998 have been delivered to the Registrar of Companies pursuant to section 242 of the Act.
- 15.5 The auditors of the Company are Deloitte & Touche, chartered accountants and registered auditors, whose address is Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR. The auditors of LiDCO Limited are Deloitte & Touche.
- 15.6 The expenses of, or in connection with, the Placing which are payable by the Company are estimated to amount to approximately £2.1 million (excluding recoverable value added tax, if any). The estimated net cash proceeds of the Placing to the Company are £12.9 million. Included within this estimate are commissions of £450,000 payable to Teather & Greenwood.

## **16. Documents for inspection**

Copies of the following documents will be available for inspection at the Company's registered office and at the offices of Herbert Smith, Exchange House, Primrose Street, London, EC2A 2HS during usual business hours on any weekday (Saturdays and public holidays excepted) for a period of 14 days from the date of this document:

- 16.1 the memorandum and the articles of association of the Company referred to in paragraph 4 above;
- 16.2 the audited accounts of the Company and LiDCO Limited for the two financial years ended 31 December 2000;
- 16.3 the accountants' report set out in Part IV of this document;
- 16.4 the report prepared by Boulton Wade Tennant set out in Part III of this document;
- 16.5 the executive directors' service contracts and non-executive directors' appointment letters referred to in paragraphs 6.1 to 6.3 above;
- 16.6 the rules of the LiDCO Limited Unapproved Share Option Scheme, deeds of option grant entered into by the Company in favour of Solomon Aronson, Christopher Wolff, John Barry and Richard Mills, the LiDCO Group Plc Executive Share Option Scheme and the LiDCO Group Plc Employee Benefit Trust referred to in paragraph 7 above;
- 16.7 the material contracts referred to in paragraph 9.1 above;
- 16.8 the lock up agreements referred to in paragraph 9.1.4(f) above;
- 16.9 the letters of consent referred to in paragraph 13 above; and
- 16.10 this document.

Dated : 2 July 2001

## APPENDIX

### Glossary of technical terms

Terms in italics will be found as individual entries in the Glossary.

abdominal aorta	the part of the <i>aorta</i> which extends from below the diaphragm to where it finally divides into two branches that go down into the pelvis and, ultimately, into the lower limbs
adverse event	unintended injuries caused by medical management rather than the disease process
aneurysm	an outpouching of an <i>artery</i>
ancillary disposable devices	devices used as aids to the performance of a procedure that are not intended for re-use afterwards
angioplasty	a procedure for the relief of blood vessel narrowing. Typical techniques are the insertion of a tiny balloon that is inflated; the use of a drill-like device; or the application of a laser beam.
aorta	the body's biggest blood vessel, which starts at the heart and sends out branches to take oxygenated blood to all the tissues in the body. The first branches to come off are the <i>coronary arteries</i> .
arterial line	a section of tubing inserted into an <i>artery</i>
artery	any vessel taking blood away from the heart. In the lesser circulation (from the heart to the lungs), arteries carry "spent" (deoxygenated) venous blood; in the systemic circulation (throughout the body), arteries carry "fresh" (oxygenated) arterial blood.
atrium	either of the two smaller chambers of the heart. The right atrium receives the "spent" (deoxygenated) venous blood from the body and passes it into the right ventricle. The left atrium receives the "fresh" (oxygenated) arterial blood from the lungs, and passes it into the left ventricle.
balloon angioplasty	<i>angioplasty</i> performed with a tiny balloon on the tip of a <i>catheter</i> , which is passed to the narrowing in the vessel and inflated to restore the <i>lumen</i>
"beating-heart" surgery	surgery performed on a heart that is not stopped, but allowed to go on beating throughout the procedure. (In conventional open-heart surgery, the heart's function is taken over by a <i>cardiopulmonary bypass</i> system, while the heart itself is stopped during surgery, and restarted at the end of the procedure.)
bioimpedance	changes in electrical conductivity at the interface between tissues of different composition
cardiac output	the amount (in litres) of blood pumped out by the heart in unit time (usually given in minutes)

cardiology	the medical speciality concerned with the diagnosis and treatment of diseases of the heart. While cardiology is a non-surgical speciality, cardiologists may perform procedures involving the heart, e.g. <i>angioplasty</i> . These procedures are known as <i>interventional cardiology</i> .
catheter	a flexible tubular device inserted into a body cavity or into a blood vessel
catheter laboratory	a special room in a hospital where procedures involving the use of <i>catheters</i> are performed – see: <i>interventional cardiology</i>
cardiopulmonary bypass	the use of a “heart-lung machine” to take over the functions of the heart (pumping of blood) and of the lungs (putting oxygen into blood)
cardiovascular monitoring	the continuous observation of cardiac output, arterial blood pressure and oxygen delivery
cation	an <i>ion</i> with a positive electrical charge
cerebrovascular	of or relating to the blood vessels of the brain; of or relating to the blood supply to the brain
CCO	continuous <i>cardiac output</i> monitoring
CE marking	the application to a product, its packaging, and the associated documentation, of the letters CE. It indicates that the product complies with the harmonised EU requirements for safety and health, and may therefore be freely placed on the market within the European Union.
chamber of the heart	any one of the four cavities within the heart. The two smaller ones are known as the atria (singular: <i>atrium</i> ); the two larger ones are known as the <i>ventricles</i> .
congestive heart failure	inadequate pumping action of the heart, leading to the accumulation of fluid in the body (oedema)
coronary artery	an artery that supplies the heart muscle with blood.
coronary artery bypass	a graft inserted to get around a site of blockage in a <i>coronary artery</i> , in order to enable blood to get to the part of the heart muscle normally supplied by that coronary artery. The procedure is referred to as coronary artery bypass grafting
critical care	the care of very severely ill or injured patients. The term is often used in the same sense as intensive care.
disposables	“one-way” items; items that will not be re-used subsequently
dual-chamber pacemaker	a <i>pacemaker</i> with two leads, one in the <i>ventricle</i> and one in the <i>atrium</i>
electrocardiogram (ECG)	a record in graph form of the electrical activity of the heart
electrophysiology	the study of the electrical phenomena associated with the working of the body. The term is also used in the sense of procedures to restore correct functioning, e.g. the insertion of a <i>pacemaker</i> .
femoral catheter	a <i>catheter</i> inserted into the femoral artery (the <i>artery</i> whose pulse can be felt in the groin)

“golden hour”	the span of time after a patient has been injured or taken ill within which treatment stands the best chance of a successful outcome
haemodynamic performance	the performance of the heart and the blood vessels in terms of the forces generated and movement produced
haemoglobin	the protein contained within red blood cells which binds with oxygen in the lungs and releases it in the tissues
haemoglobin level	the quantity of haemoglobin measured in blood
heart rate	the number of heart beats per minute
heart valve	an arrangement of membranous folds at the inlet and the outlet of each <i>ventricle</i> in the heart, which prevents backward flow of the blood pumped out of or into the ventricle concerned
high-dependency unit	a hospital unit intermediate between an <i>ICU</i> and a general ward, intended for patients who require more intensive care and monitoring than would normally be provided on a general ward, but who are not so ill as to need ICU-level care
high-risk patient	a patient who is at greater than normal risk of developing complications or of dying. Typical risk factors are age over 70 years, previous heart disease, co-existing kidney disease, poor lung function, and acute abdominal aortic <i>aneurysm</i> .
hydrodynamic performance	the performance of the heart and the blood vessels in terms of blood flow
ICG	impedance cardiography. This technique provides a non-invasive, bedside means of measuring resistance to the flow of electricity in the chest, to allow monitoring of <i>haemodynamic performance</i> .
ICU	intensive care unit; a hospital unit with high-technology equipment and high staffing levels that specializes in the care of very severely ill or injured patients
interventional cardiology	a general term that encompasses such procedures as <i>angioplasty</i> or the insertion of <i>stents</i> . These procedures (interventions) are performed by cardiologists, whereas heart surgery is performed by surgeons.
intubation	the insertion (through the mouth, the nose or a specially made opening) of a tube into the patient’s windpipe, for such purposes as getting air into the lungs or administering anaesthesia
ion	an atom or group of atoms carrying an electrical charge (either negative or positive)
ionophore	a substance that makes it easier for an <i>ion</i> to get across a membrane
ion-selective electrode	an electrode capable of detecting and measuring a specific ion
ischaemic heart disease	heart disease produced by an inadequate supply of blood to the heart muscle. Most, but not all, ischaemic heart disease is caused by <i>coronary artery</i> blockage.

LiDCO Flow-Through-Cell Electrode Assembly	the part of the LiDCO system that contains the actual sensing system
LiDCO Blood Withdrawal Pump/Regulator	the part of the LiDCO system that controls the amount of blood to be let into the measuring chamber, and introduces the blood into the chamber
LiDCO Sterile Indicator Injectate	a sterile injection solution used in the LiDCO System to produce the <i>lithium dilution curve</i>
lithium	a chemical element
lithium chloride injectate	a compound of <i>lithium</i> , in a form suitable for injection
lithium dilution curve	a graphic representation of the way in which the <i>lithium chloride injectate</i> is “watered down” in the bloodstream
lumen	the channel in the centre of a blood vessel through which the blood flows
morbidity	the frequency of, or (more generally) the occurrence of, complications after surgical or other treatments
notified body	a body appointed by a national government in the EU to carry out conformity assessment procedures and to provide a certification service, as a prerequisite for <i>CE marking</i>
optimisation	when applied to a patient ( <i>peri-operative</i> optimisation), the term means making sure – by the intravenous administration of fluids, and by other appropriate measures – that the patient is in optimal condition for surgery and stands the best possible chance of a good outcome
outreach ICU care	intensive care measures provided outside an <i>ICU</i> setting, e.g. on an ordinary ward
pacemaker	a device that takes over the function of the natural pacemaker (a zone of specialised tissue in the heart that controls the heart rhythm) to make the heart beat regularly
peri-operative	relating to the time immediately preceding, during, and after surgery; around the time of surgery
point-of-care (POC)	a term used to denote a device that allows the doctor and/or nurses to perform diagnostic tests at the patient’s bedside, in the A&E department, in the GP surgery, in theatre, etc., without the need for sending samples off to a laboratory and then waiting for the results to come back; or without the need for the patient being transferred to a different department for invasive testing
post arteriolar pressure	the blood pressure at the capillary bed following release of oxygen to the tissues from the arterial blood
pulmonary artery	the artery that takes blood from the right <i>ventricle</i> of the heart to the lungs, to pick up more oxygen
pulmonary artery catheter	a <i>catheter</i> introduced into the <i>pulmonary artery</i> (via the veins going to the heart, the right <i>atrium</i> , the right <i>ventricle</i> , and out through the <i>pulmonary valve</i> )



pulmonary valve	the <i>heart valve</i> at the exit of the right <i>ventricle</i> ; it prevents blood that has been pumped into the <i>pulmonary artery</i> from flowing back into the ventricle
pulse oximetry	a non-invasive technique using light absorption for the determination of the oxygen saturation of the blood
radial artery	an <i>artery</i> in the forearm; its pulse can be felt at the wrist
saturation	the percentage of haemoglobin carrying oxygen in blood
single-chamber pacemaker	a <i>pacemaker</i> with only one lead, placed in a <i>ventricle</i> or an <i>atrium</i>
Starling ratio	a method of analysing the performance of the heart in relation to the Starling Curve, which describes the efficiency of the heart's musculature relative to the filling pressure
stent	a tubular support placed inside a blood vessel, to maintain the <i>lumen</i> and keep the blood flowing freely
stroke volume	the amount of blood pumped out by the heart at each beat of the heart
systemic vascular resistance	the opposition to the flow of blood offered by the blood vessels in the body. The pumping action of the heart has to be strong enough to overcome this resistance.
thermodilution	a method of assessing <i>cardiac output</i> by injecting a liquid of a temperature different from that of the blood, and measuring the change in the temperature of the blood produced by this manoeuvre
transpulmonary	across the lungs – applies to a method of measuring cardiac output where a marker substance is administered before the circulation reaches the lungs and is measured in the blood after the marker has passed through the pulmonary circulation
triage	the screening of patients to establish priorities for treatment; the sorting of patients into priority groups
theranostic	a combination of a diagnostic tool with a therapeutic agent; a medicine developed together with its own diagnostic tool
ventricular support device	a device intended to take over the pumping action of the heart; popularly known as an artificial heart

