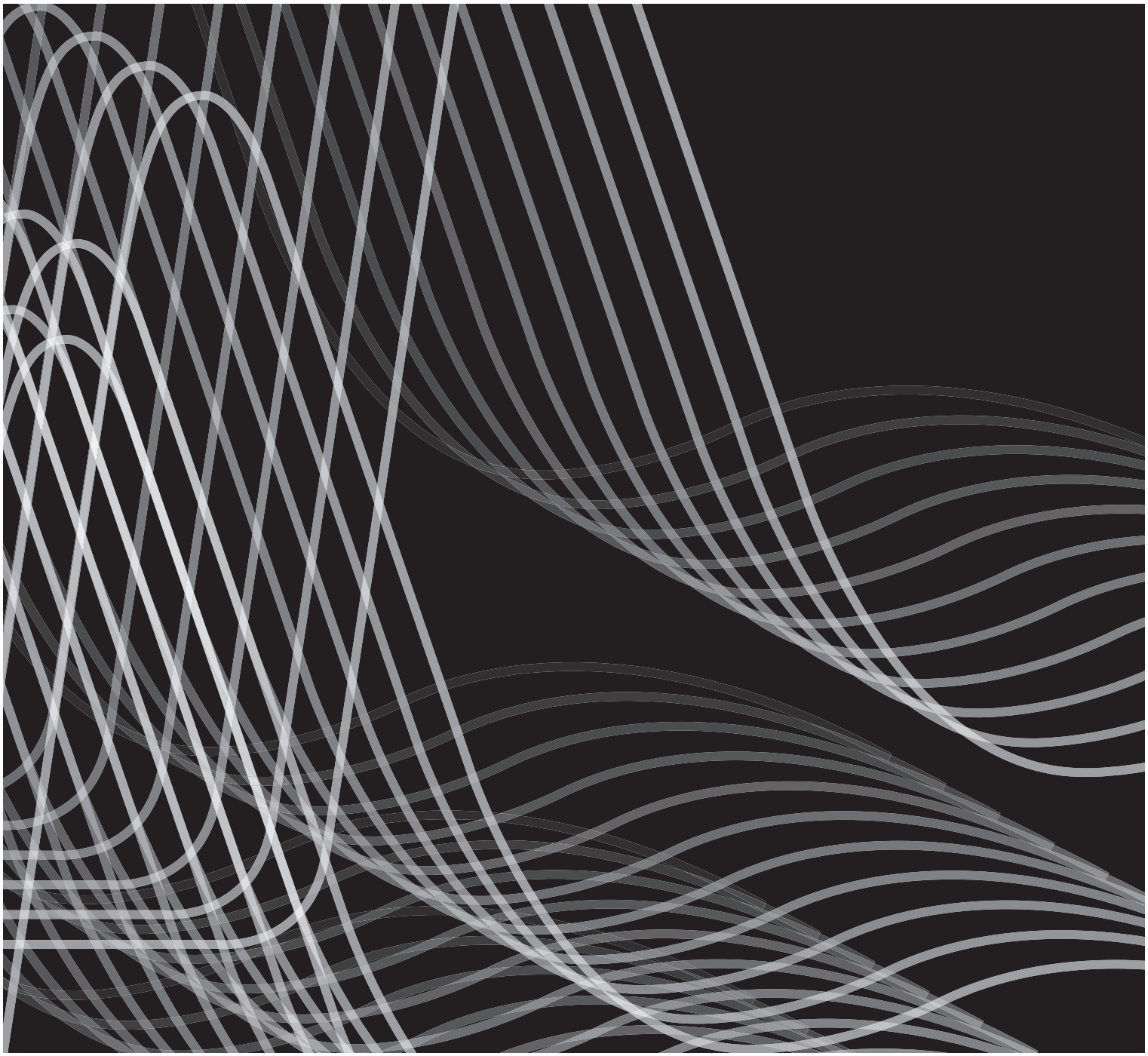
LiDCO Cardiac Sensor Systems

2006/7

LiDCO Group Plc

Annual Report and Accounts

for the year ended 31 January 2007



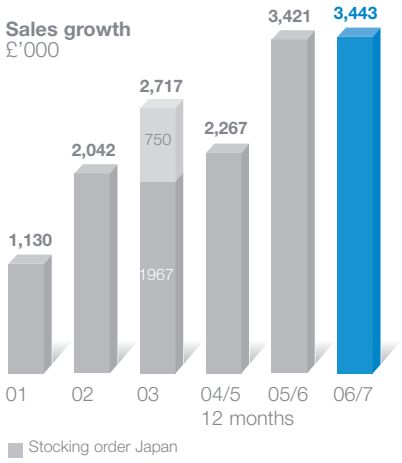
Contents

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

HIGHLIGHTS

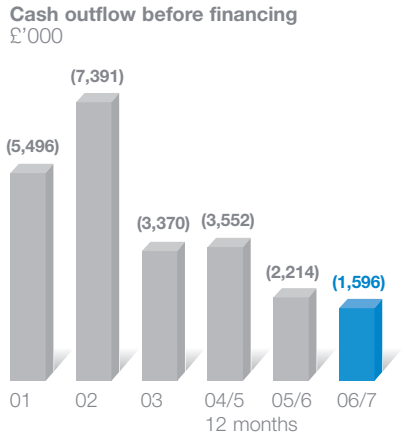
FINANCIAL HIGHLIGHTS

- Despite tough trading conditions **turnover** remains steady at £3.44m (2005/6: £3.42m)
- **Gross margin** unchanged at 77% (excluding fees paid for monitors through financing arrangements)
- **Cash outflow** before financing improved 28% at £1.60m (2005/6: £2.21m)
- **Cash balance** up 55% from £0.95m to £1.47m excluding the convertible loan of £1m
- **Pre-tax operating loss** up 17% at £2.59m (2005/6 £2.21m)
- **Loss per share** 2.10p (2005/6: 2.04p)



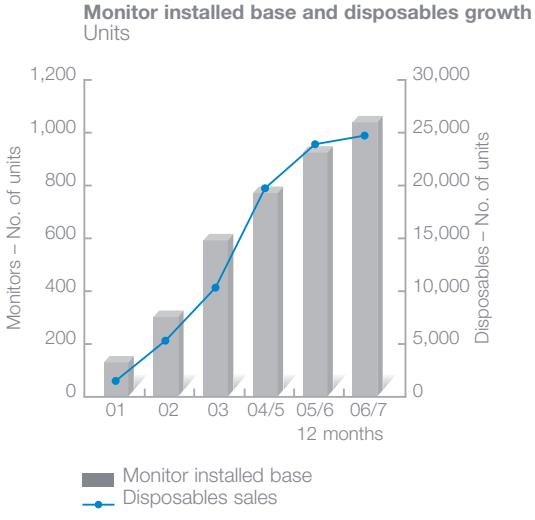
CORPORATE HIGHLIGHTS

- Roll-out begun of the LiDCO*plus* monitor version 4.0 software with **enhanced fluid management platform** and **intra-thoracic blood volume parameter**
- Launch of the **LiDCO*view* PC based software** for clinical research and audit applications
- First successful demonstration of the **LiDCO*live*** – remote monitoring product in Japan and the Czech Republic
- Regulatory approval for the **lithium injection** in Switzerland
- **Placing** of 17,500,000 new Ordinary Shares at 20p to raise £3.5 million before expenses in May



COMMERCIAL HIGHLIGHTS

- **Sensors sales**: volumes up 8% to 24,316 units; sales value up 14% at £1.93 million
- **Installed monitors worldwide base**: up 12% from 923 to 1,035 units
- Slowness in export markets revenue **balanced by 31% growth** in domestic UK sales
- **Med-Dynamix**: contract signed to distribute technically-leading complementary urine monitoring product



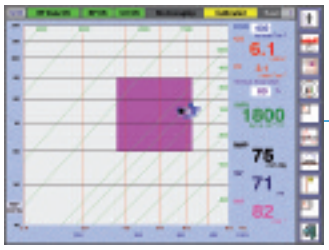
The investor presentation 'LiDCO's Preliminary Results – Twelve months ended 31st January 2007' is available on the LiDCO website (www.lidco.com).

R&D PROGRESS

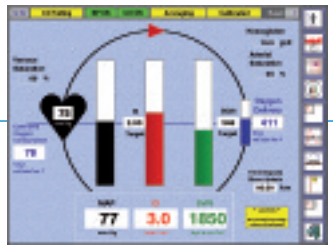
PRODUCTS

LiDCO*plus* 4th Generation Software and New PC-based Software Products

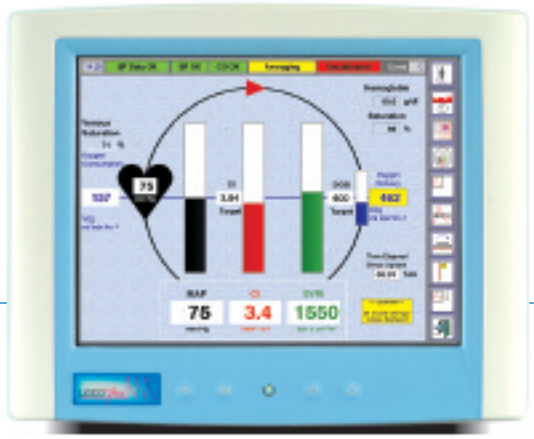
Improvements to the LiDCO*plus* Monitor – The V4.0 Software



Oxygen delivery target for EGDT.



Oxygen delivery and consumption.



At-a-glance easy to read screens.

Features and Benefits of the V4.0 Software

- Enhanced fluid management
- Targeting of oxygen delivery
- Improvements are designed to help in the implementation of **Early Goal Directed Therapy** (EGDT) to aid high risk surgery and other patients requiring fluids and drug support.


Predicted response to fluids.


Actual response to fluids.

STRATEGY

Business Model

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

Customers

Major hospitals in developed and fast developing countries

Hospital market segments:

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

LiDCO*view* and **LiDCO*live*:**
PC applications that transform any PC into a remote hemodynamic monitor and clinical audit tool.

Data download to memory stick

LiDCO*view* SE and LiDCO*view* Pro Features:

- Graphical display on any PC of downloaded hemodynamic data
- Simplifies data analysis for clinical audit or research purposes
- LiDCO*view* SE available now
- LiDCO*view* Pro coming soon

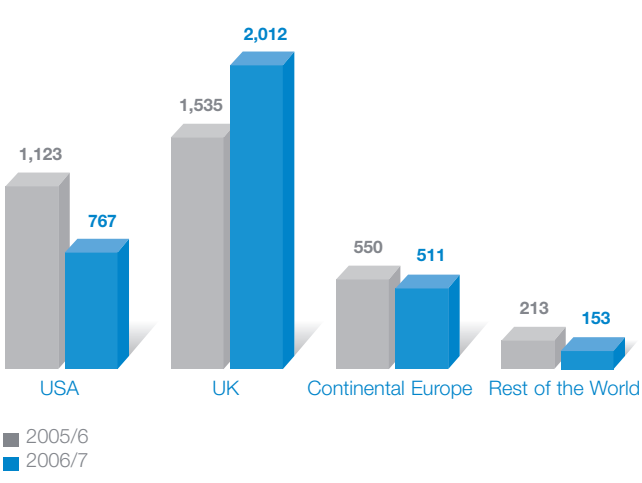
Real-time data via ethernet

LiDCO*live* Features:

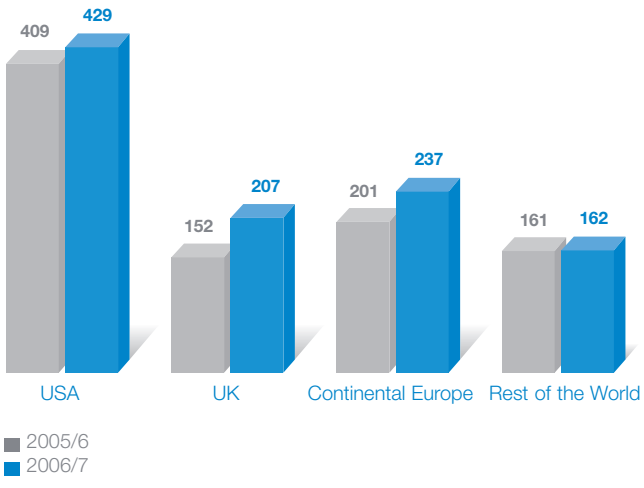
- Transforms any PC into a hemodynamic monitor
- Patient's hemodynamics can be reviewed remotely on or off site
- Improved monitoring
  - shows physician exactly what is happening real-time on the ward
  - reduces time delays for clinical decisions
  - improves efficiency of clinical staff
  - no additional hardware required
  - works on an existing PC or Laptop
- Demonstrated at meetings in Japan and Europe.

INTERNATIONAL SALES

Sales by region
£'000



Monitor installed base
Units



Validation studies by leading centres continued to endorse the strengths of our technology within the medical community and our products continued to win accolades from key opinion leaders.

During the year ended 31 January 2007 we continued to pursue our strategy of strengthening the Company's position by marketing our highly accurate, IP-protected minimally invasive hemodynamic monitoring products in territories across the world.

Our products are developed, manufactured and assembled under strict quality standards in our facility at Hoxton, London and sold through our direct sales force in the UK and US, and via distributors in 15 other countries. Product development continued, both incrementally in response to market feedback and more substantially on product innovations, to expand further the use and applicability of our products in a range of hospital settings. Validation studies by leading centres continued to endorse the strengths of our technology within the medical community and our products continued to win accolades from key opinion leaders.

Overall sales for the year were at a similar level to the previous year, at £3.44 million, split 44% and 56% between capital and disposables/annuity sales. Growth in sales, especially in the first half of the year, was hindered by competitor activity, particularly in the US, and in the UK by the NHS freeze on capital expenditure which lasted until well into the year. However, cash outflow before financing was 28% better than the prior year and UK sales continued their trend of strong annual growth, increasing by 31% to £2.01 million. At the year-end the Group's cash position stood at £1.47 million; in addition, approximately £1 million remains available for draw-down under the Laurus convertible loan facility.

In May 2006, the Company raised £3.5 million (£3.2 million after expenses) to finance the strengthening of its direct sales force and further product development, repay substantially all the outstanding Laurus loan (approx £1.1 million) and provide working capital. On behalf of the Board I would like to thank our investors for their continued support of the Company.

In September 2006, an agreement was signed with Med-Dynamix, whereby their urine monitoring products are sold in the UK through LiDCO's high quality sales team. Our respective products are complementary in potentially enabling more complete fluid monitoring information in the critical care environment.

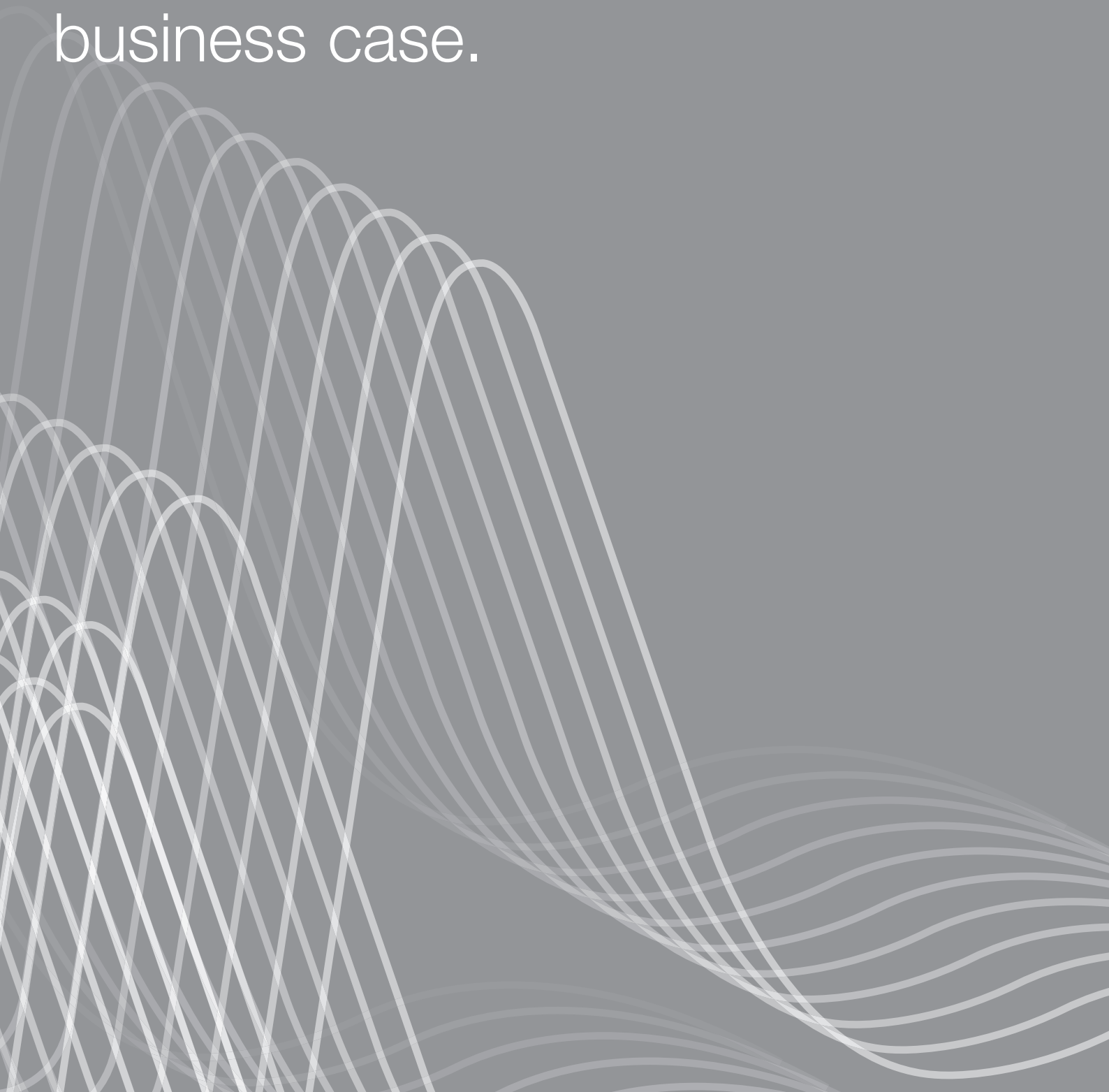
The Group's finance director, Hugh McGarel-Groves resigned in January. Interim arrangements have been made until a replacement is appointed.

Looking ahead, we will continue to pursue our current strategy of strengthening the value of the Company through further growing revenues, both through our strengthened sales force and existing distribution network as well as through new collaborative and distribution arrangements. In addition, we will continue to invest in the development of new products, namely LiDCO*live* and our anesthesia offering. In managing these activities and the business generally, we will continue to maintain careful control of costs.

Finally, I would like to thank all the Group's staff and Directors for their dedication and hard work during the year and our Clinical Advisory Board for their continuing support and enthusiasm.

Theresa Wallis
Chairman
LiDCO Group Plc

Hospitals purchasing our technology are buying into a proven strong clinical case coupled to a very compelling business case.



Introduction

Expectations for last year were high following on from 2005/2006 in which revenues increased by more than 50% (annualised). Disappointingly however, sales progress was slowed by a combination of disruptive competition and a temporary capital equipment freeze in the UK. As a result, turnover for the year was virtually unchanged from the previous year, while losses increased marginally, mostly due to non-recurring items. Nevertheless, LiDCO still made substantial progress and a healthy growth rate has now resumed at the beginning of 2007. Of particular note, despite the NHS capital freeze for a substantial part of the year, the Company increased UK sales revenue by 31%. This growth was supported by further outcome studies like the St George's study – which continue to influence positively the presentation of our clinical and business cases. Last year our world-wide installed base of monitors increased from 923 to 1,035 units with a substantial increase in placements seen in the second half of the year that are now contributing to growing disposable sales.

Prior year and current trading

Given LiDCO's continuing revenue growth in the UK, the slowing of sales experienced during the period was confined to our export markets. The majority of the sales shortfall against expectations related to delayed revenue from our installed base and sales pipeline in the US market. Sensor sales from our existing installed base and new evaluations of our products were delayed and prolonged by a major US competitor seeking the trialing of its products. This had the effect of both slowing the completion of new equipment sales and temporarily suppressing disposable sales in existing accounts while customers evaluated the new product offering.

I am pleased to say that, although disruptive to our business in 2006, these activities have not resulted in the permanent loss of a material amount of our US business. Indeed, by the end of the year US sensor unit sales were only down 5% over the prior period. Looking beyond the US, despite experiencing similar delays in monitor sales/placements, sensor disposable sales revenues were significantly up in all other territories (17% UK, 23% Europe and 53% ROW). Pricing remained strong over the period with gross margin maintained at 77% (excluding fees paid for monitors placed through financing arrangements).

The Company expects the factors that held back growth in 2006/7 to be of less significance in 2007/8 and has already seen a substantial increase in monitor placements feeding through to growth in the recurring disposable income.

Trading in the first two months of this year has seen a 62% increase in total revenue compared to February and March in 2006.

Monitor consumables revenue over the same period are up by 35% and sales growth in the USA has increased 68%, admittedly a figure which flatters because of the disappointment of the prior year. Although it is just a little early to know whether these trends will continue throughout the year - LiDCO starts the current year on an optimistic note. A clearer picture should emerge by the time of our Annual General Meeting.

Market trends and LiDCO's response

In 2004 the USA spent $1.9 trillion on healthcare or 16% of GDP (Rothschild's market report). Healthcare spending is estimated to be $4.0 trillion by 2015. This is $6,300 per person in 2004 and predicted to be $12,300 by 2015. In 2004 US healthcare provided 13.5 million jobs and 19% or 3.6 million new employment positions will be in healthcare - more than any other industry. The ageing population, coupled to physician and nursing shortages means that hemodynamic monitoring will benefit from this increasing expenditure as a growing number of monitored beds will be required by hospitals. In tandem we are seeing demand for integrated clinical information and patient management solutions to increase efficiency of staff, reduce hospital errors and facilitate clinical review and audit.

Customers are also beginning to request further improvements in the functionality of the LiDCO*plus* Monitor and associated software products that allow patient monitoring by a physician at a site remote from the intensive care unit.

Given the above macroeconomics it is not surprising that overall the transition to minimally invasive hemodynamic monitoring is continuing apace. During the year, we estimate the minimally invasive cardiovascular monitoring market grew by more than 50%, from US$40 million to approximately US$67 million per annum (summary of company published data). The underlying market dynamics, therefore, remain very encouraging for sales of our leading-edge minimally invasive hemodynamic monitoring technology.

The clinical and business case for adoption of our products continues to grow. This past year has seen the conclusion and subsequent presentation of two additional clinical outcome studies using LiDCO's technology. These studies showed reductions in mortality, length of stay and complications in surgery and shock patients. Given the market dynamics it is not surprising that the market leader for the declining traditional invasive catheter based approach has responded with its own minimally invasive product and that customers would at least want to evaluate this technology.

We know from our own experience that this first phase of the roll-out of a new technology will be crucial as customers compare the new technology to existing standards of care. We believe that accuracy is crucial to the care of both critically ill patients and the provision of Early Goal Directed Therapy (EGDT) to surgery patients.

LiDCO has the only calibrated arterial pressure waveform monitor that has been shown to improve outcomes and reduce hospital stay in high risk surgery patients.

This is a crucial and increasingly important marketing edge. Avoiding complications in this group of patients can drastically reduce a hospital's costs. Complications from critically ill patients can cost hospitals a disproportionate amount. The LiDCO system helps reduce those complications and costs. This is important as we are now living in an era when hospital revenues are largely fixed, so the costs and complications of surgery have necessarily come under considerable scrutiny.

A case in point is St George's Hospital, London who showed that they had saved on average £4,800 per patient treated using LiDCO products to implement EGDT and are now treating all such patients through use of our technology. We have worked hard to provide an accurate and effective product that can materially lower a hospital's costs when treating high-risk surgery patients.

Hospitals purchasing our technology are buying into a proven strong clinical case coupled with a very compelling business proposition. It is for the competition to match the existing standards set by our technology.

Development and sales / marketing strategy

Our development strategy continues to be to respond quickly to market opportunities providing solutions that differentiate ourselves from the competition through providing the most highly evolved hemodynamic monitoring products. The development of the version 4.0 software and the new LiDCO PC products LiDCO*view* (launched) and LiDCO*live* (in development) are LiDCO's response to these customer-led market requirements.

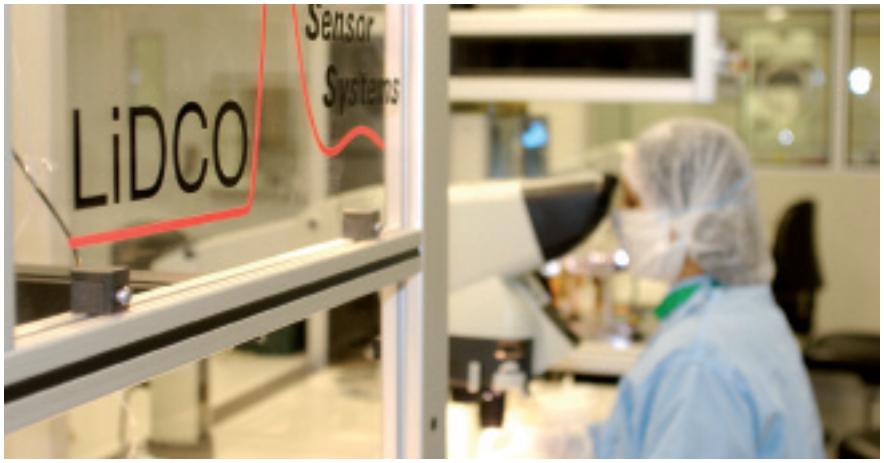
The LiDCO*plus* Monitor consequently has always commanded a premium price and we expect that our product developments will ensure that this continues to be the case.

Our challenges and risks for 2007/8 are therefore not so much on the technical front but rather to ensure that we participate in the revenue that is increasingly being spent as the market transitions to minimally invasive hemodynamic monitoring. We have spent significant energies in 2006/7 securing business, building our sales pipeline and developing new software products. In 2007/8, we should see the fruits from our investment in our business and existing relationships to both grow existing business and expand into new hospitals. However, we do not have the same sales and marketing resources as our larger competitors so we have to be more efficient and targeted in our activities. While recognizing we need additional sales resource in our export territories, last year 58% of our sales came from the UK market, where we have a strong direct sales force. We estimate the market for hemodynamic monitoring products in the UK to be around £7m per annum. We have annual UK sales of £2m so there is a very significant amount of existing business for us to take in a territory where we compete on a more equal footing with the competition.

In the USA we are clearly still under resourced to fully access the market opportunity. Nevertheless, the US is our second biggest market and we expect to make good progress this year. We have to be highly focused on regions where we have sales people and where we can expect that our established base of opinion leading university hospital accounts will have the maximum impact. Of course we will continue to seek sales partnerships in this most important market.

CASE STUDY

IMPROVING OUTOMES IN SURGERY AND SHOCK PATIENTS



Background

Previous findings on the use of LiDCO's technology in high-risk surgery patients have shown that achieving and maintaining increased oxygen delivery immediately after major surgery significantly reduces the patients' risk of post-operative complications by more than one third and also reduces the length of time spent in hospital by an average of 12 days (St George's Hospital, London study). Implementation of a similar strategy in other hospitals across the NHS could result in estimated savings of £500 million annually.

Two further studies from investigators in the USA and Brazil show that use of LiDCO's technology improves clinical outcomes in both high-risk surgery patients and patients admitted to intensive care for treatment for shock. In high-risk surgery patients use of LiDCO for the application of early goal

In European export markets we are seeing increasing commitment from our distribution partners. In most cases they are gaining confidence as the market grows and a number are employing extra sales staff specifically to promote our products. We still have weaknesses in some European territories – notably in Germany where we and our distributor partner are under-resourced to compete in such a large market against a heavily entrenched local competitor. In the rest of the world we expect the main development during the coming year to be the appointment of more distributors in the Middle East, where we expect to find significant demand in the considerable hospital expansion that is occurring.

Product quality

Commercial success has to be underpinned by manufacturing excellence. Once again I am delighted to report that our product quality and customer feedback continues to be first-rate.

Furthermore, our in-house manufacturing automation and partnerships with our component suppliers will continue to reduce the cost of sales and help improve margins.

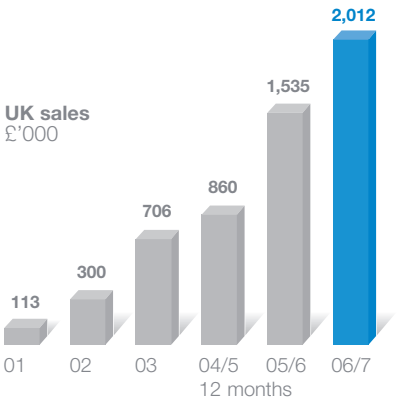
Trading review

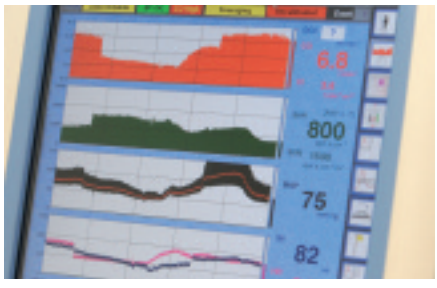
UK

Overall sales revenue up 31% to £2,012,000 (2005/6: £1,535,000)
Monitor sales revenue up 53% to £921,000 (2005/6: £603,000)
Sensor, fee for use & rental sales up 17% to £1,091,000 (2005/6: £932,000)
Sensor, fee for use units up 16% at 11,041 (2005/6: 9,521)

As in the USA, sales in the UK continue to be made by our direct sales force. 2006/7 was a particularly challenging year for NHS finances so achieving an increase in revenues of 31% was an excellent result. A number of university hospitals converted to our technology. In particular, we were delighted that in September 2006 the new cardiothoracic surgery department at Southampton University Healthcare Trust Hospital chose to purchase six of our LiDCO*plus* monitors, taking the total number of monitors at this hospital to 14.
Despite the UK being one of the most developed and hence competitive markets for hemodynamic monitoring we remain optimistic that the UK market will continue to grow at a brisk pace within both the high risk surgery and intensive care settings.

+31% UK Sales growth





directed therapy both during and immediately post surgery reduces hospital length of stay by over 50% (13 to 6 days) and reduces mortality from 27% to 6%.

In shock patients it reduces the mortality rate of patients from 32% to 12%, when compared to patients treated with the older more traditional invasive technology (pulmonary artery catheter).

'The use of a therapeutic approach guided by oxygen delivery calculated by the LiDCO*plus* Monitor, intra-operatively and post-operatively, is a feasible and practical approach to guide oxygen delivery optimization therapy during major surgeries in high-risk patients. Better perfusion of vital organs resulting in a much lower rate of complications, mortality and duration of hospital stay were seen in the optimized patients.'
Dr Susan Lobo, São José do Rio Preto

'We were impressed by the difference in both mortality and length of stay among the various monitors. This is an important finding which deserves further study. Since the introduction of LiDCO, the number of patients monitored has increased due to its less invasive nature while the rate of pulmonary artery catheter usage has reduced.'
Professor Steve Hata, University of Iowa

USA

Overall sales revenue down 32% to £767,000 (2005/6: £1,123,000)

Monitor sales revenue down 54% to £263,000 (2005/6: £572,000)

Sensor, fee for use & rental sales down 9% to £504,000 (2005/6: £551,000)

Sensor, fee for use units down 6% at 8,250 (2005/6: 8,741)

Our sales in the US are made through a direct sales force of six people. The market was clearly very competitive in the US in 2006/7. Sales in the US were delayed by more protracted evaluations as a result of targeted defensive action by our main US-based competitor demanding that their products should also be evaluated by our prospective customers. This is the inevitable consequence of both a developing market opportunity and our successes in the US market. We are still the only non - US company to make any significant headway in the market while competing against a very strong domestic market leader. As mentioned we have had a good start to monitor sales and placements since January and we have not lost any significant customer. We expect to see a return of US sales growth in 2007.

Continental Europe

Overall sales revenue down 7% to £511,000 (2005/6: £550,000)

Monitor sales revenue down 29% to £225,000 (2005/6: £317,000)

Sensor, fee for use & rental sales up 23% to £286,000 (2005/6: £233,000)

Sensor, fee for use units up 17% at 4,260 (2005/6: 3,650)

The reduction in monitor sales was mostly a consequence of variances in capital stocking orders to distributors between the periods. We are still effectively rolling out the product in Europe, so revenue variances will arise. Additionally, as in the US, competitive activities effectively held back sales by a few months. Nevertheless, the disposable sales increase demonstrates good usage from the installed base of monitors. Our distributors are motivated and excited by the revenue possibilities that our technology offers them. We have more work to do in Europe in particular in Germany, Holland and Belgium where we would like to improve on our distribution support. We expect 2007 will see a return to significant revenue growth in the European market.

Rest of the World ('ROW')

Overall sales revenue down 28% to £153,000 (2005/6: £213,000)

Monitor sales revenue down 69% to £34,000 (2005/6: £111,000)

Sensor, fee for use & rental sales up 53% to £49,000 (2005/6: £32,000)

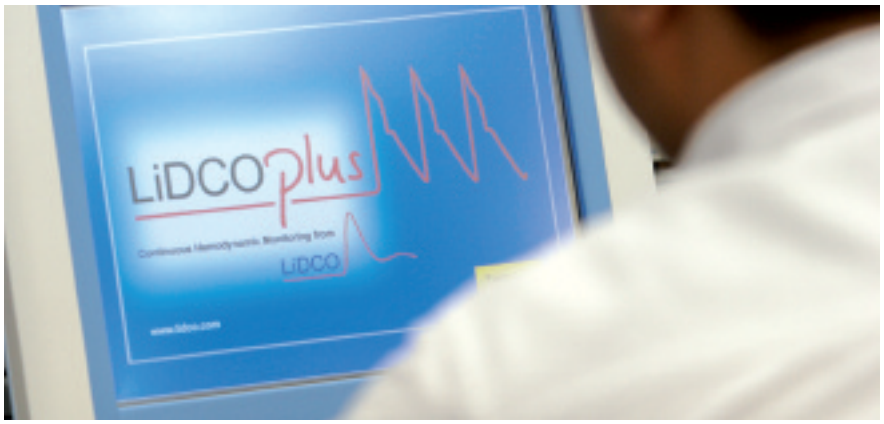
Sensor, fee for use units up 21% at 765 (2005/6: 630)

This is our smallest territory and is highly influenced by the phasing of monitor sales to distributors. We anticipate growth in this territory both through sales to existing partners and the appointment of additional distributors in 2007.

Sales progress in Japan through our distributor has been disappointing. Japan is the second biggest market in the world for hemodynamic monitoring products. Crucial to success in this territory is achieving hospital reimbursement for our product. Our distributor is selling or renting/leasing our product to hospitals without this benefit at the moment. Whilst there has been some adoption of LiDCO technology and a favorable technical reception we are in discussions on ways to resolve this slow progress.

CASE STUDY

INTRODUCTION OF A NEW MEASUREMENT, NAMELY THE INTRA-THORACIC BLOOD VOLUME (ITBV)



Background

Accurately measuring the volume of blood in the thorax could be of significant benefit to patients and should widen the attraction of its system to doctors working in intensive care. Importantly, this development will take away the need to insert an invasive catheter into the central venous system, and heart or major artery, which is the currently established technique for taking this measurement.

The ITBV measurement is part of the product improvements and new features introduced in the version 4.0 software. The lithium ion injection is currently used by LiDCO as a marker substance to measure cardiac output. Combining this existing measurement with the time taken for the lithium marker to transit from the injection point to the LiDCO sensor provides a new measurement – the ITBV.

Clinical Outcome Data

In March, the University of Iowa presented the results of their clinical outcome audit, where our technology's effects on patient outcome were compared to those achieved with more traditional monitoring products. The results of this study were presented at the International Society of Intensive Care and Emergency Medicine (ISICEM) meeting in Brussels in March.

When compared to the outcome for patients treated with the older more traditional invasive technology (pulmonary artery catheter) the use of our technology reduced the mortality rate of patients in shock treated in intensive care from 32% to 12%.

This result is a demonstration of the potential of our technology to not only improve results in surgical patients but also in shock patients, who are a much more complex and difficult to treat group. This study will be of great interest to the intensive care community in the USA and further afield.

Also in March at the ISICEM we announced that a surgery patients study was presented by the Division of Critical Care, Faculdade de Medicina de são José do Rio Preto, Brazil. LiDCO's technology was used to optimise hemodynamics both during the surgery itself, as well as for eight hours post operatively. The additional surgical period of optimisation was undertaken in order to see if the excellent results seen in the previous UK St George's study could be taken one step further by even earlier intervention. This study demonstrated that LiDCO*plus* monitor mediated EGDT reduced hospital length of stay by half (6 days versus 13) in the control group and also reduced mortality, only two patients (6%) dying against seven (27%) in the non treated historical controls. Complications in the EGDT treated patients were also halved.

The results of this trial and the Iowa data are very supportive to our US and other export markets, showing, as already demonstrated in the UK, that use of our accurate and minimally invasive monitoring product will produce considerable clinical and cost benefits for the patient and hospital. The benefits of hemodynamic monitoring clearly outweigh the investment required to adopt this approach.

Physicians endeavour to increase the thoracic blood volume in order to rehydrate patients in surgery, trauma and intensive care locations. Correct fluid management improves cardiac performance and critically the oxygen delivery to vital organs that has been shown to reduce hospital bed stay. The ITBV is a much more sensitive guide to the fluid management of patients than the traditional invasive catheter based measurement of pulmonary artery wedge pressure. LiDCO expects that this new measurement will have widespread application in the improved fluid management of patients.

'The lithium ion based measurement of ITBV significantly augments the utility of the LiDCO*plus* Monitor. I believe this parameter will prove to be highly useful in the management of cardiac performance to optimise oxygen delivery in patients requiring fluid replacement. The availability of this measurement should substantially increase the market potential for use of our patent protected lithium based technology.'

Dr Terry O'Brien,
Chief Executive of LiDCO

Research and Development and Product Applications

LiDCO*plus* Monitor Software Version 4.0, LiDCO*view*, LiDCO*live* & LiDCO*lite*

2006 to March 2007 was a very productive period for us. At our research day at St Thomas' Hospital we demonstrated our new version 4.0 software and clinical research / clinical audit software (LiDCO*view*).

This version comprises an enhanced fluid management platform and enables measurement of a new parameter, intra thoracic blood volume (ITBV). This and our other new software products are designed to increase usability within the existing intensive care patient market, and also enhance use within an emerging high risk surgery patient market where fluid management and the targeting of oxygen delivery is important.

In order to help hospitals implement Early Goal Directed Therapy (EGDT), St George's Hospital's high risk surgery protocol, the clinician/nurse is now able to set a visual and patient specific oxygen delivery target on the monitor's Graph Screen.

Following implementation of the treatment protocol, the patient's LiDCO*view* file can then be downloaded and used on a PC with Windows software to fully evaluate the treatment given. This has the benefit of allowing hospitals implementing EGDT to achieve a quantitative analysis/audit of the hemodynamic parameters, in particular the time taken to achieve the oxygen delivery goals and average oxygen delivery achieved post operatively. Achieving specific goals for oxygen delivery has been shown to reduce hospital stay by an average of 12 days.

LiDCO*live* remote patient viewing software allows hemodynamic data to be exported real-time to a computer at a remote location via the internet. In March we demonstrated that the LiDCO*plus* Monitor can export real-time hemodynamic data via the internet direct to a computer at a remote location.

A patient being treated at Frimley Park Hospital in England was monitored in real time by physicians attending a meeting in Kobe, Japan and similarly a patient in the University Hospital in Olomouc, Czech Republic, was remotely monitored at a meeting in Brno.

The doctors attending the meetings could see exactly the same data and trending data display via our product LiDCO*live* as did the nurses looking after the patient. The ability of a senior physician to see the same data as the nurse, without having to always attend the ward, is a much more efficient use of a highly trained and increasingly stretched clinical resource. Potentially this enables a physician to monitor the hemodynamic status of several patients in different locations. The LiDCO*live* software product will be of great interest to hospitals that are looking to find ways of coping with the growing shortage of critical care staff. We expect that this product will be ready for launch towards the end of 2007 to early 2008.

LiDCO's anesthesia offering

Hospitals can now start to see the additional advantages of an investment in the LiDCO*plus* monitor and the associated LiDCO software products. These are targeted at producing both clinical and productivity improvements that are not available from our competitors. The majority of our customers are working in intensive care locations, however, we are increasingly seeing requests and actual usage during anesthesia. Accordingly, we are developing a new product that is specifically designed for use in the operating room by anesthetists. The objective is to produce a simple to set up product with new user screens that focus on fluid management and optimisation of blood flow. We will keep the market informed of developments in this anesthesia market.

CASE STUDY

DEMONSTRATION OF A NEW REMOTE HEMODYNAMIC MONITORING PRODUCT – LIDCO*live*

Background

The number of monitored beds in hospitals is steadily increasing and now represents 10% of all in-patient beds and approximately 30% of a hospital's revenues. Hemodynamic monitoring guided fluid and drug therapy enables the maintenance of key physiological parameters such as cardiac output and oxygen delivery, thereby significantly reducing complications and costs associated with treatment of high-risk patients. The growing shortage of the highly skilled intensive care staff necessary to care for these patients has created a requirement for a monitoring technology that not only provides real time hemodynamic data but also allows the more efficient use of existing clinical staff's expertise.

The LiDCO*live* Product – towards the 'virtual ICU'. One way of achieving this is to take both the patient data and monitor display to the clinician irrespective of physical location. LiDCO is therefore developing a software product called LiDCO*live* that can display the LiDCO*plus* Monitor trend screen and real time patient data on any PC or laptop anywhere - in or out of the hospital.
The requirement is that the customer has a LiDCO*plus* Monitor at the patient's bedside that is connected to the hospital network and then on to the internet. The clinician can then log on externally to the hospital's server with a standard PC and see exactly the same data and screen display as the nurse at the

Further applications for LiDCO's Minimally Invasive Monitoring System

Important progress has been made in taking LiDCO's technology into a number of niche markets. During the year a number of presentations and papers were published on the LiDCO technology in the obstetric and veterinary arenas.

In January 2007, LiDCO announced the publication of a study conducted by the Department of Pediatrics at Baylor College of Medicine, Texas. The study investigated the accuracy of the LiDCO arterial waveform power approach (LiDCO's PulseCO software) to continuously measure cardiac output in children undergoing cardiac catheterization.

This technique had not been previously validated in pediatric patients. The study, published in Pediatric Critical Care Medicine 2006 (Volume 7: Issue 6 Pages 532-535) stated that: 'Arterial pulse wave analysis by the PulseCO system provided a novel, minimally invasive method of determining real-time cardiac output in children'. Until now it has been difficult and risky to measure cardiac output in sick children.

This study therefore demonstrates a new clinical application for our technology and we are very excited about the possibility of our technology being used to enable EGDT in children. Our technology is licensed to be used in children above the weight of 40 kgs but this paper has encouraged us to consider a US application for extension of our technology's use to children below 40kgs in weight.

Regulatory affairs

In June 2006, approval of the LiDCO System lithium chloride injection was received from the Swiss regulatory body Swissmedic. This latest registration now provides LiDCO with full marketing approval in 14 European countries.

Dr Terry O'Brien

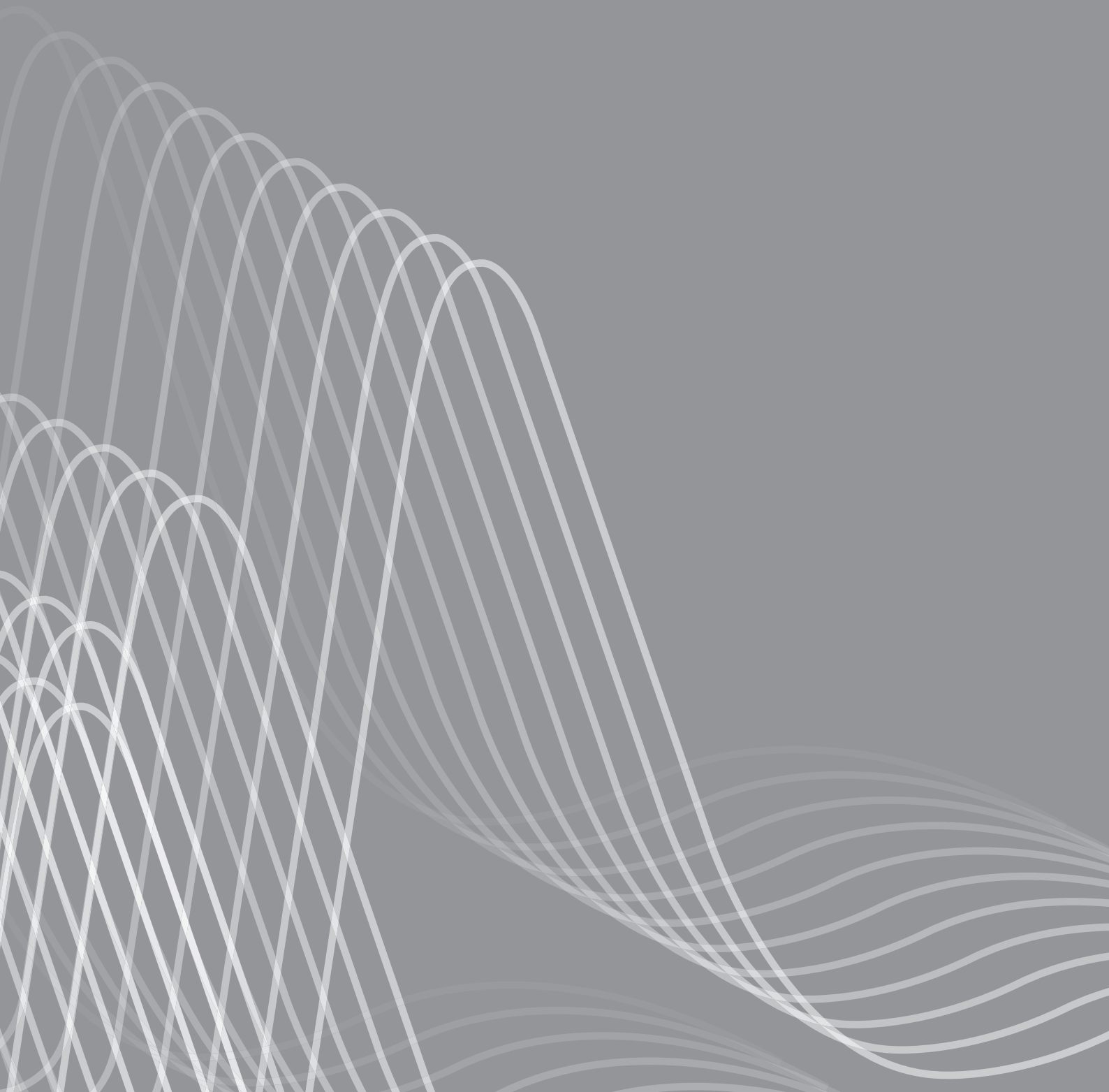
Chief Executive Officer

bedside. The clinician and nurse can then discuss potential treatment approaches and both immediately and simultaneously see the effects of their agreed change in fluid or drug therapy. This 'virtual ICU' approach using LiDCO's technology has the potential to considerably improve the care of high-risk patients and make savings to hospitals budgets. The LiDCO*live* was demonstrated both in Japan (Kobe) during the Japanese Intensive Care Society meeting and in a critical care meeting in Brno, Czech Republic during the first week of March. At both meetings patients were monitored remotely, with live patient data being sent via the internet from the University Hospital in Olomouc, Moravia and Frimley Park Hospital, Surrey, UK.

'We are delighted to be the first hospital to implement the LiDCO*live* remote patient viewing software. In the critical care environment the ability to remotely monitor a patient's hemodynamic data represents a significant step forward. With remote access to LiDCO's advanced minimally invasive monitoring technology we are able to assist colleagues at the bedside to make the best treatment decisions for our patients. Clearly the ability to see LiDCO's advanced user interfaces from a remote PC as if one were at the bedside makes treatment decisions much more meaningful. One now has the ability to solicit remote expert opinion as if they were with you in the intensive care unit. In terms of patient care the impact of time and distance on the delivery of experience and expert knowledge, to the bedside are considerably diminished.'

Dr. Loua Shaikh
Department of Critical Care Medicine,
Frimley Park Hospital, UK

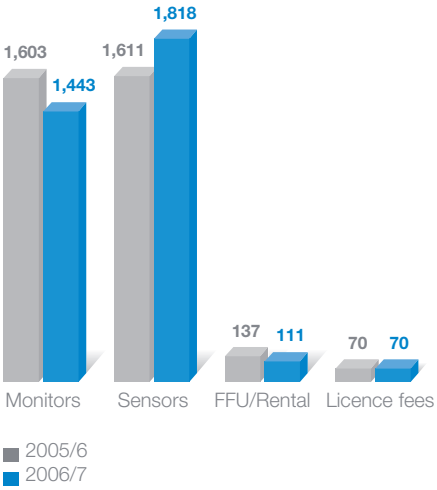
Group cash balances at 31 January 2007 are £1,474,000 as compared with £951,000 at 31 January 2006.



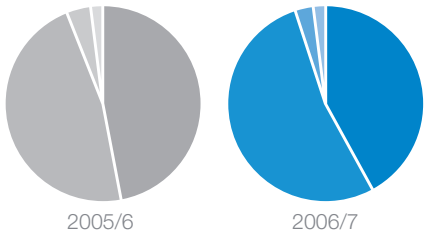
Turnover was steady at £3,443,000, up 1% on the previous 12 months (2005/6: £3,421,000). Within this total, sales of monitors through financing arrangements, for placements in hospitals reduced by 9% to £399,000 in 2006/7 down from £437,000 sold in 2005/06.

The gross profit margin excluding fees paid for monitors sold through financing arrangements remained constant at 77% for both 2006/7 and 2005/6.

Sales by type
£'000



Sales as percentages



2005/6		2006/7	
Monitors	47%	Monitors	42%
Sensors	47%	Sensors	53%
FFU/Rental	4%	FFU/Rental	3%
Licence Fees	2%	Licence Fees	2%

Total costs of monitors sold through financing arrangements and placed in hospitals were £314,000, up from £62,000 in 2005/6. This has contributed to a reduction in the gross profit margin (including financing costs) to 67% in 2006/7 from 75% in 2005/6.

Administration expenses at £4,939,000 in 2006/7 increased moderately by 4% from £4,771,000 in 2005/6. The increase is mainly attributable to a non-cash FRS 20 Share Option charge of £66,000, and one off premises costs of £65,000 and professional fees of £90,000. Underlying administration expenses have not increased over the previous year.

Loss per share for the 12 month period is 2.10p up 3% from 2.04p in 2005/6. Loss on ordinary activities after taxation is £2,385,000 up 17% on the previous 12 months (2005/6: £2,035,000).

The tax charge continues to be nil, whilst the Group remains at the pre-profit stage. Substantial tax losses have been accumulated both in the UK and USA, which will permit significant deferral of future tax charges once profitability is reached. In the UK, the Group qualifies for research and development (R&D) tax credits and these are reported within the tax line in the profit and loss account. The year under review included R&D tax credits of £142,000 relating to 2006/7 and £62,000 relating to prior years.

The proceeds of the May 2006 Placing have been used in part to increase expenditure on R&D after capitalisation by 15% to £247,000 (2005/6: £215,000)

Cash outflow before financing of £1,596,000 represents a reduction in net outflow of 28% from £2,214,000 in 2005/6. This is partly due to an improvement of 28% in debtors' collection days, down from 160 days in 2005/6 to 115 days in 2006/7. This contributed to a reduction in trade debtors' balances to £1,088,000 in 2006/7 from £1,508,000 in 2005/6.

Creditors' payment days have reduced to 45 days in 2006/7 down from 55 days in 2005/6, while trade creditors' balances have reduced 7% to £415,000 in 2006/7, down from £444,000 in 2005/6.

Stock as a percentage of turnover has reduced to 31% in 2006/7 from 33% in 2005/6.

Group cash balances at 31 January 2007 are £1,474,000 as compared with £951,000 at 31 January 2006.

On 26 May 2006, the Company announced it had placed 17,500,000 shares at a price of 20p per share raising £3.5m before expenses with Institutions and a number of private investors.

A drawdown of £1,074,000 against the Laurus loan facility was repaid on 26 May 2006 out of proceeds of the 2006 placing. The Group saved interest payable on the loan and made an exchange gain of £64,000. The amount currently outstanding is £51,000 and the balance of up to £1 million of the loan facility remains available to meet future cash requirements.

The placement of monitors increased by 12% to 1,035 units in 2006/7 up from 923 units in 2005/6. This increase is below the budgeted increase, partly due to intense competition in the USA and further exacerbated by an increase in number of returned monitors from US distributors who were taken over or merged during the year.

For the future, we do not expect significant changes to stock balances, debtors' collection days and creditors' payment days. Cash balances will reduce whilst we remain pre-profit and we expect to drawdown the Laurus loan facility sometime during the current trading year.

A key performance indicator ('KPI') is the maintenance of margins. Over the past year, excluding fees for sale of monitors through financing arrangements, profit margins have been held steady at 77% for both years and we expect this to continue throughout 2007/8.

A second KPI is to maintain pricing and this was also achieved over the past year in comparison to 2005. The average sterling sales price of a monitor and sensor was constant comparing 2006/7 to 2005/6.

Payments of fees through the financing arrangement are expected to peak in 2007/8 and thereafter reduce significantly by 2009/10.

Accounting policies

International Financial Reporting Standards (IFRS) are not mandatory for the Group, as an AIM-quoted Company, until the interim results for the six months to 31 July 2007 are reported. The Group has decided not to implement IFRS earlier than the mandatory date and therefore these results are produced in accordance with existing UK Accounting Standards. The Company will prepare its Interim accounts due to be published in October 2007 in accordance with IFRS.

Dr Terry O'Brien
Chief Executive Officer

BOARD OF DIRECTORS

1. Dr Terence O'Brien
Chief Executive Officer

2. Theresa Wallis
Chairman

3. Dr David Band
Scientific Director

4. John Barry
Sales and Marketing Director

5. Ian Brown
Non-Executive Director

CLINICAL ADVISORY BOARD

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

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

1. Dr Terence O'Brien
Chief Executive Officer

Dr O'Brien co-founded the Group in 1991. Prior to that, he has held senior positions with biomedical companies including Sandoz SA, Pharmacia AB, Meadox Medical Inc, Novamedix Ltd, Enzymatix Ltd and Surgicraft Ltd. Dr O'Brien was associate commercial director at Enzymatix, which subsequently listed on the London Stock Exchange as ChiroScience Plc. Over the last 25 years Dr O'Brien has been involved in the research and development and subsequent marketing of a number of medical device technologies that are now standards of care in the anesthesia, critical care and surgery markets.

2. Theresa Wallis
Chairman

Ms Wallis has worked most of her career in financial services, moving into the technology commercialisation sector in 2001. She worked for the London Stock Exchange for 13 years, where from 1995 she was chief operating officer of the Alternative Investment Market (AIM), having managed the market's development and launch in 1994/5. From 2001 to end 2006 she was a principal executive of ANGLE plc, a venture management and consulting business focusing on the commercialisation of technology and development of technology-based industry. She is currently a non-executive director of Noble Income & Growth VCT plc. She is also a member of the Quoted Companies Alliance's Executive Committee and Chairman of its Markets and Regulations Committee. During her early career, from 1979 to 1988, she was with Hambros Bank and then Canadian Imperial Bank of Commerce.

3. Dr David Band
Scientific Director

Dr Band co-founded the Group in 1991 and is the co-inventor of the LiDCO System. He is a specialist in the field of respiratory physiology, electrochemistry and ion-selective electrodes. He has a degree in medicine, and was a reader in applied physiology in the Division of Physiology,
GKT School of Biomedical Sciences,
St Thomas' campus.

4. John Barry
Sales and Marketing Director

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

5. Ian Brown
Non-Executive Director

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

Professor Michael Pinsky

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

Professor William (Bill) Peruzzi

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

Dr Christopher Wolff

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

Compliance with the Combined Code

Companies that have shares traded on the Alternative Investment Market (AIM) of the London Stock Exchange are not required to comply with the disclosures of the Combined Code on Corporate Governance which is appended to the Listing Rules of the Financial Services Authority ('the 2006 FRC Code'). However, the Board is committed to maintain the highest standards of corporate governance, where appropriate for a company of this size.

The Board of Directors – Board Composition

The Board currently consists of three executive directors and two non-executive directors. The non-executive directors are free from any relationship with the executive management of the Company and the Board considers that both non-executive directors, other than through their shareholding, are independent directors. The non-executive directors bring a wide range of skills and experience to the Board and fulfil a vital role in corporate accountability. The finance director, Hugh McGarel-Groves resigned on 22 January 2007.

Mr Brown is the Senior Independent non-executive director.

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

Board evaluation and performance

The Board completed a Board evaluation during the year, when the functioning and composition of the Board and each Committee was assessed. It is the Board's intention to continue to review annually its performance and that of its Committees.

Company Secretary

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

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

Independent professional advice

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

Re-election of directors

Under the Company's Articles of Association, all new directors are required to resign and seek re-election at the first Annual General Meeting following their appointment. All directors are required to seek re-election at intervals of no more than three years.

Each of the executive directors has a service contract, which contains a notice period of one year. The non-executive directors do not have service contracts with the Company but have letters of appointment.

Board information

Board members are given appropriate documentation in advance of each Board and Committee meeting. Senior executives below Board level are invited to attend Board meetings for the purpose of making presentations on their areas of responsibility.

Committees of the Board

Audit Committee

The members of the Committee are Ms Wallis (Chairman) and Mr Brown. The external auditors also attend meetings. The Committee considers financial reporting and internal controls. It also reviews the scope and results of the external audit and the independence and objectivity of the auditors. It meets at least twice a year and reviews the interim and annual accounts before they are submitted to the Board. The Committee met twice during the year. The Committee considers annually whether the auditors remain independent for the purposes of the audit. This year the fee for non-audit work is £34,000 against an audit fee of £37,000. The Committee is satisfied that the auditors remain independent for the purposes of the annual audit. The Committee consider that for the size of the Company and at its current stage of development that a separate internal audit function cannot be justified, but the matter is re-considered annually by the Committee.

Remuneration Committee

The members of the Committee are Ms Wallis (Chairman) and Mr Brown. The Committee reviews and sets the remuneration of the executive directors. It reviews and recommends policy for the salaries and bonuses of all other staff. It advises on share schemes and approves the granting of share options. The Committee met nine times during the year.

Nominations Committee

The members of the Committee are Ms Wallis (Chairman), Mr Brown and Dr O'Brien. The Committee considers, at the request of the Board, candidates for new appointments to the Board and advises on all matters relating to Board appointments. The Committee did not meet during the year.

Attendance record at Board meetings and Committees

Name	Position	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Ms T Wallis	Non-executive Chairman	**22 (22)**	**2 (2)**	**9 (9)**	**0 (0)**
Dr T K O'Brien	Chief Executive Officer	**20 (22)**	n/a	n/a	**0 (0)**
Mr H McGarel-Groves*	Finance director	**16 (22)**	n/a	n/a	n/a
Dr D Band	Scientific director	**14 (22)**	n/a	n/a	n/a
Mr J Barry	Sales & Marketing director	**20 (22)**	n/a	n/a	n/a
Mr I Brown	Non-executive director	**19 (22)**	**2 (2)**	**9 (9)**	**0 (0)**

Numbers in brackets denote the total number of meetings during the year.
*Mr H. McGarel-Groves resigned on 22 January 2007.

Relations with shareholders

The Company seeks to maintain and enhance good relations with its shareholders. The Company's interim and annual reports are supplemented by published updates to investors on technical and commercial progress. All investors have access to up-to-date information on the Company via its website, www.lidco.com which also provides contact details for investor relations enquiries. All shareholders are invited to make use of the Company's Annual General Meeting to raise any questions regarding the management of the Company.

The Chief Executive and Chairman meet regularly with shareholders and the investing community and report to the Board feedback from those meetings. Both non-executive directors have the opportunity to attend shareholder meetings. The Board is kept informed on market views about the Company at all times.

Accountability and audit – Going concern

As discussed in the accounting policies and on the basis of current financial projections, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal control and risk management

During the year the Board completed a full and thorough risk and controls analysis. The Board has an established and formal process for the assessment of key risks to the business. The risk assessment is updated on an ongoing basis and reviewed bi-annually at Board meetings.

Further details may be found in the Directors' Report.

Monitoring of effectiveness

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

DIRECTORS' REMUNERATION REPORT

The directors present their Remuneration Report which covers the remuneration of both the executive and non-executive directors. The report will be subject to shareholder vote at the forthcoming Annual General Meeting (AGM) in June 2007.

Committee membership

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

T Wallis (Chairman)
I G Brown

None of the Committee members has any day to day involvement in the running of the Company, nor do they have any business or other relationship that could affect, or appear to affect, the exercise of their independent judgement, other than as shareholders. No director plays a part in any discussion about his or her own remuneration.

Remuneration policy of the executive directors

The Committee determines on behalf of the Board, the remuneration for the Executive directors and reviews remuneration policies for all staff. Remuneration levels are set in order to attract high calibre recruits and to retain and motivate those directors and employees once they have joined the Company to ensure the future success of the business and to deliver both short and long-term shareholder value. This is achieved by a combination of base salary, bonuses and share options, which are offered to executive directors and to employees at all levels.

The Committee met nine times in the year. During the year the Committee sought advice from New Bridge Street Consultants LLP who has no connection with the Company other than having provided previous remuneration advice to the Company, on the framework for executive directors' bonuses. The Committee is assisted by the Company Secretary.

Base salary

All three executive directors receive a base salary and allowance in lieu of benefits. The salary reflects the experience and level of competence of the individual to whom it applies, as judged by the Committee, taking into account salary levels in the market.

Annual bonus

The executive directors who served during the year are members of the Company's Senior Management Bonus Scheme. Under the terms of the scheme, the Remuneration Committee assesses the directors' individual performances soon after the end of the financial year, judged against pre-determined benchmarks.

The criteria for awarding bonuses during the year included Corporate and personal objectives. Corporate objectives included sales performance, the Company's cash position, long-term debtor receipts and share price. Bonuses are capped at 50% of base salary.

Remuneration policy of the non-executive directors

The Board determines the remuneration of the non-executive directors.

The non-executive directors do not participate in the Company's share option schemes and are not eligible for annual incentive payments or benefits in kind.

All non-executive directors are reimbursed for travel and related business expenses reasonably incurred in performing their duties.

Remuneration of directors

	Year ended 31 Jan 2007				
	Salary and fees £'000	**Allowance in lieu of benefits £'000**	**Bonus £'000**	**Total £'000**	2005/6 £'000 (Restated)*
T A Wallis[1]	**44**	**–**	**–**	**44**	40
T K O'Brien	**174**	**37**	**26**	**237**	238
H M J McGarel-Groves[2]	**173**	**23**	**–**	**196**	90
J G Barry	**161**	**35**	**26**	**222**	214
D M Band	**42**	**8**	**8**	**58**	58
A E B Wiegman	**–**	**–**	**–**	**–**	13
I G Brown	**28**	**–**	**–**	**28**	11
Total	**622**	**103**	**60**	**785**	664

[1] For the first eleven months of the year Ms Wallis' fees were payable to ANGLE Technology Limited, thereafter the fees were paid directly to her.
[2] Mr McGarel-Groves was employed for part of the year until 22 January 2007, the date of his resignation. Included in his salary and fees is the sum of £66,000 which together with 239,130 shares issued to him at 11.5p per share was paid as part of settlement arrangements on resignation. His employment commenced in May 2005.
*The remuneration for 2005/6 has been restated to include the bonuses paid to directors after the year end.

Contracts of service

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

Executive directors

The service contracts of Dr O'Brien, Dr Band and Mr Barry are dated 29 June 2001 and are not set for a specific term but include a rolling 12 month notice period. Mr McGarel-Groves, who resigned on 22 January 2007, had a service contract with the Company dated 5 April 2005 which included a rolling 6 months' notice period.

DIRECTORS' REMUNERATION REPORT
Continued

Non-executive directors

The non-executive directors do not have service contracts with the Company. The letter of appointment for each non-executive director states that they are appointed for an initial period of three years. At the end of the initial period the contract may be renewed for a further period if the Company and the director agree. In keeping with best practice, these appointments are terminable without notice by either party.
The Chairman's appointment was renewed in 2006 to the period ending 19 December 2008.

In addition, all directors retire by rotation at the Company's Annual General Meeting and, where appropriate, offer themselves for re-election.

Directors' interests in share options

The non-executive directors do not participate in the Company's share incentive plans. Options were granted to the executive directors as follows:

	Option type	Options at 31 January 2006	Options granted during 2006	Lapsed during the year	**Options at 31 January 2007**	Exercise price	Exercisable from	Expiry Date
T O'Brien	EMI	750,000			**750,000**	13p	Dec-05	Dec-12
	EMI	11,627			**11,627**	21.5p	Apr-08	Apr-15
	2001 ESOS	265,768			**265,768**	21.5p	Apr-08	Apr-15
H McGarel-Groves	EMI	250,000			**250,000**	20.75p	See note 2	
	EMI		229,166		**229,166**	21p	See note 2	
	Unapproved		20,834		**20,834**	21p	See note 2	
D Band	EMI	750,000			**750,000**	13p	Dec-05	Dec-12
	EMI	11,627			**11,627**	21.5p	Apr-08	Apr-15
	2001 ESOS	53,489			**53,489**	21.5p	Apr-08	Apr-15
J Barry	1997 ESOS	106,250			**106,250**	5p	July-01	July-11
	2001 ESOS	211,000			**211,000**	13p	Dec-05	Dec-12
	EMI	539,000			**539,000**	13p	Dec-05	Dec-12
	2001 ESOS	90,000			**90,000**	28.25p	Nov-06	Nov-13
	2005 ESOS	356,844			**356,844**	21.5p	Apr-08	Apr-15
	2005 ESOS	1,177,878			**1,177,878**	22p	See note 1	
	EMI	136,045			**136,045**	22p	See note 1	
	2006 ESOS		45,000		**45,000**	21p	June-09	June-16
Total		4,709,528			**5,004,528**			

Note 1
In April 2005 Mr Barry was granted share options with accelerated vesting as follows:
- 192,436 Unapproved share options vesting 31/12/05 exercisable at 22p
- 328,481 Unapproved share options vesting 30/04/06 exercisable at 22p
- 656,961 Unapproved share options vesting 30/09/06 exercisable at 22p
- 136,045 EMI share options vesting 31/12/05 exercisable at 22p

Each tranche remains exercisable for a period of 10 years from date of grant

Note 2
Mr McGarel-Groves resigned on 22 January 2007. His share options remain exercisable for a period of 6 months from date of resignation.

The share prices were 19.75p on 1 February 2006 and 10.5p on 31 January 2007, with a high and low during the year of 24.25p and 10.50p respectively.

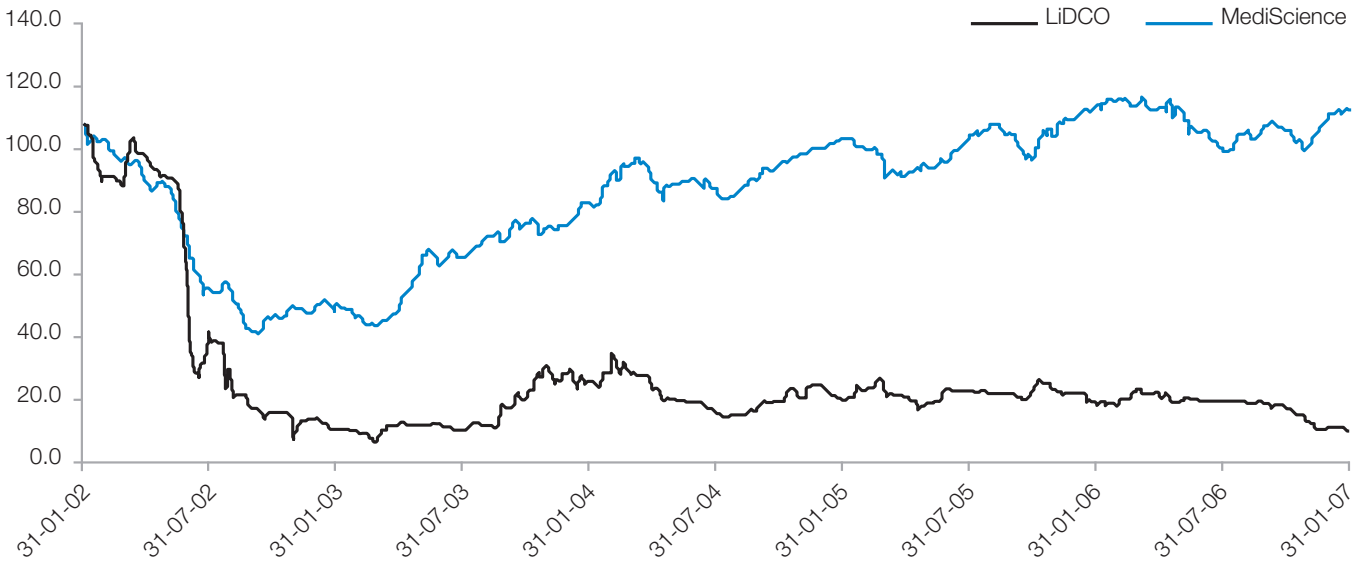
Pensions

No pension contributions were payable by the Group during the year (2005: £nil).

Shareholder return

The graph below shows the share price performance since 31 January 2002, using the FTSE TechMARK Mediscience Index as a comparator, which the directors consider to be the most suitable bench mark index.

Relative price scale



T Wallis
Chairman of the Remuneration Committee
April 2007

DIRECTORS' REPORT

For the year ended 31 January 2007

The directors of Lidco Group plc present their annual report and audited financial statements (Annual Report) for the year ended 31 January 2007.

Principal activities

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

Results and Dividends

The Group's turnover for the year was £3,443,000 (2005/6: £3,421,000). The Group made a consolidated loss after taxation of £2,385,000 (2005/6: £2,035,000). The directors do not recommend the payment of a dividend. (2005/6: £nil).

The Company's share price at 31 January 2007 was 10.5p (31 January 2006: 19.75p).

Research and Development

The Group continued to develop the LiDCO*plus*™ system during the year, as set out in the Chief Executive Officer's Review. Expenditure excluding capitalised costs on research and development amounted to £247,000 (2005/6: £215,000) in addition to clinical trials costs of £18,000 (2005/6: £Nil), product registration costs of £178,000 (2005/6: £191,000) and software development costs of £214,000 (2005/6: £170,000) which are capitalised on the balance sheet and amortised.

Share Capital and Share Premium Account

Full details of the authorised and issued share capital of the Company, together with details of the movements in the Company's issued share capital and the share premium accounts during the year, are shown in notes 12 and 15 to the financial statements. The Company placed in May 2006, 17.5m shares at a price of 20p, raising £3.5m before expenses.

Directors

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

Theresa Wallis	Non-Executive Chairman
Terry O'Brien	Chief Executive Officer
Hugh McGarel-Groves*	Finance director
John Barry	Sales and Marketing director
David Band	Scientific director
Ian Brown	Non-executive director

*Mr McGarel-Groves resigned on 22 January 2007.

Dr O'Brien retires by rotation and, being eligible, offers himself for re-election. Dr Band retires by rotation and, being eligible, offers himself, for re-election at the forthcoming Annual General Meeting.

Directors' remuneration

The Remuneration Report which includes information regarding directors' service contracts, appointment arrangements and interests in share options can be found on pages 20 to 23.

Directors' interests in shares

The directors who held office at 31 January 2007 had beneficial interests in the ordinary shares of the Company as shown below:

Directors' shareholdings

	Ordinary shares of 0.5p each	
	31 January 2007 Number	31 January 2006 Number
T A Wallis	**108,000**	108,000
T K O'Brien	**10,109,577**	10,109,577
J G Barry	**379,642**	379,642
D M Band	**7,060,832**	7,060,832
I G Brown	**100,000**	100,000

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

Directors' indemnities and Directors and Officers' insurance

The Company has exercised the power given by shareholders at the 2006 Annual General Meeting to extend the indemnities to Directors and Officers against liability to third parties. The directors also have Directors and Officers insurance cover in place in respect of personal liabilities which may be incurred by directors and officers in the course of their service with the Company.

Employment policy

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

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

Supplier payment policy

It is and will continue to be the policy of the group to negotiate with suppliers so as to obtain the best available terms taking account of quality, delivery, price and period of settlement and, having agreed those terms, to abide by them. The total amount of the Group's trade creditors falling due within the year ended 31 January 2007 represents 45 day's worth (2005/6: 55 days) as a proportion of the total amount invoiced by suppliers during the period.

Significant shareholdings

In accordance with sections 198 to 208 of the Companies Act 1985, the Company has been notified that the following shareholders, other than directors, had a beneficial interest in 3% or more of the Company's ordinary share capital as at 31 March 2007.

Shareholder	Number of shares in which there is an interest	Percentage notified*
R M Greenshields	9,042,407	7.64%
H J Leitch	7,376,571	6.23%
Cheviot Asset Management	6,892,183	5.82%
P A Brewer	6,822,221	5.76%
AXA Framlington	6,500,000	5.49%
Liontrust Investment Services Ltd	6,014,439	5.08%

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

Charitable and political donations

The Group made no charitable or political donations in the year (2006: £nil).

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

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

In so far as the directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

DIRECTORS' REPORT
Continued
For the year ended 31 January 2007

Going concern
After making reasonable enquiries and performing analysis, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has access to adequate resources to continue in operational existence for the foreseeable future. On the basis of the anticipated levels of sales, costs and cash flow, the directors have satisfied themselves that the level of cash and other financing facilities available to the business is sufficient for at least the next 12 months. For these reasons, the directors continue to adopt the going concern basis in preparing the financial statements.

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

International Financial Reporting Standards (IFRS)
The Company will prepare its Interim Accounts for the 6 months' period to 31 July 2007 in accordance with IFRS.

Business review
A review of the Group's performance during the financial year, its product development and market position is contained in the Chief Executive Officer's Review and Financial Report which should be read as part of the Directors' Report.

Principal risks and uncertainties
The management of the business and the implementation of the Group's strategy are subject to a number of risks. The key business risks affecting the Group are:
- financial – financial risks are referred to above;
- development of competing products - this can restrict the Group's ability to make further progress in improving its share of the minimally invasive hemodynamic monitoring market. The Group addresses this by consistently seeking independent validation of its products and introducing further product developments and enhancements, as referred to in the Chief Executive Officers' Review;
- healthcare spending – the Group's performance is affected by hospitals' expenditure and budgetary restraints which the Group mitigates by targeting its efforts and resources according to specific opportunities and market expansion in different territories;
- competition activity from market leaders in the US and Japan. The group is competing against established market leaders. The progress in these markets achieved by the Company is more fully described in the Chief Executive Officer's Review.

Key Performance Indicators (KPIs)
The Board monitors progress of the Group's strategy and by reference to KPIs, specifically revenue growth, gross margin, price maintenance, working capital levels and market positions. These KPIs have been addressed in the Chief Executive Officers' Review and the Financial Review.

Internal control and risk management
During the year the Board completed a full and thorough risk and controls analysis. The Board has an established and formal process for the assessment of key risks to the business. The risk assessment is updated on an ongoing basis.

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

Control environment
The Company's control environment is the responsibility of the directors and individual managers at all levels. The Board has implemented an organisational structure with clearly-defined responsibilities and lines of accountability. New financial authority limits have been reviewed and implemented during the year.

Information systems and controls
Detailed budgets and forecasts are prepared annually and progress against expectations is reviewed monthly by the Board. Underpinning these budgets is a system of internal financial control, based on authorisation procedures. As a medical device Company, LiDCO also has a system of Regulatory controls, to ensure compliance with all requirements of the Medicines and Healthcare Products Regulatory Agency (MHRA), the US Food & Drug Administration (FDA) and other medical bodies. Three inspections took place during the year, from MHRA, FDA and the ISO 9000 inspecting Notified Body. All audits and inspections were passed and licences and certificates renewed.

Risk controls
The Board review risk within the Company formally on a bi-annual basis. The process is conducted by the Company Secretary based on input from all departments in the business and covering all types of risk. Risks are then collated in a report and ranked according to priority. Movements in risk priority are also reviewed against the last review and trends are investigated. Actions to mitigate risks are identified and agreed and progress on these actions is monitored throughout the year.

Actions following risk reviews
A new committee was set up during the year to review risk in the IT area where the Company-wide review identified some areas where additional improvements would be made and to make recommendations to the Board to resolve matters requiring attention. New internal financial controls were implemented during the year. In particular the revenue recognition policy was reviewed and strengthened. A disaster recovery policy was approved during the year.

Environmental, social and governance matters

The Company reviews environmental, social and governance matters as part of its bi-annual risk assessment. Part of that review is to ensure that the Company has in place effective systems for managing these risks.

Environmental policy

The Company has signed up with a compliance scheme to recycle and dispose of electrical waste in accordance with the requirements of the Waste Electrical and Electronic Equipment Directive. The Company has also conducted a due diligence exercise and risk assessment and does not expect to generate any significant electrical waste. Where possible, products are recycled within the Company.

All the Company's materials suppliers have confirmed that they comply with The Restrictions on use of Hazardous Products Directive. For the future, the Company will continue to monitor environmental risk but has not identified any significant risk to the Company's short or long term value.

Ethical policy

The Company is committed to and expects its employees to attain the highest standards of business and personal ethics. As a world wide seller of medical equipment, we respect the laws of the countries in which we operate.

As a medical equipment supplier, the Company operates under a highly regulated environment and it is the Company' policy and a key performance indicator that the Company complies with relevant regulations at all times.

Social policy

Within the Company, there is a responsibility to promote the welfare of its staff particularly in their development and retention. An HR manager was appointed last year with responsibilities including the promotion of welfare of staff. Annual appraisals have been introduced to help identify strengths and weaknesses with a view to structuring programmes to aid staff in their long term development.

Within the community, the Company, by supplying life saving equipment to hospitals, makes a valuable contribution to the welfare and recovery of sometimes very sick hospital patients most of whom are in intensive care and to the improvement of their quality of life. The St Georges' Hospital study* demonstrates that the use of Early Goal Directed Therapy in conjunction with the LiDCO system reduces complications and saves 12 bed days per patient. Patients can return to their normal lives more quickly. We maintain a strong investment in Research and Development to try to enhance the contribution we make to saving lives. The Company is committed to conducting its business in a socially responsible way in relation to all the stakeholders in the business including the communities in which we operate.

Auditors

In accordance with section 388 of the Companies Act 1985, a resolution to re-appoint Grant Thornton UK LLP will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Notice to convene the Annual General Meeting (AGM) of the Company to be held on 21 June 2007, is set out on Pages 43 and 44 of this Annual Report which includes an explanation of the resolutions together with an enclosed form of proxy.

By order of the Board

Director
April 2007

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

We have audited the Group and Parent Company financial statements (the financial statements) of LiDCO Group PLC for the year ended 31 January 2007 which comprise the principal accounting policies, the Consolidated profit and loss account, the Consolidated and Company balance sheets, the Consolidated cash flow statement and related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

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

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Parent Company's affairs as at 31 January 2007 and of the Group's loss for the year then ended,
- have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements for the year ended 31 January 2007.

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants

PRINCIPAL ACCOUNTING POLICIES

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

The principal accounting policies of the Company have remained unchanged from the previous year and are set out below. The effect of FRS 20 'share based payment', introduced this year, on prior year results, was £129,000.

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

Going concern
The financial statements have been prepared on the going concern basis, which assumes that the Company will have sufficient funds to continue in operational existence for the foreseeable future. The Company has continued to invest in the development of its operations and as a result has continued to trade at a loss in the in the year ended 31 January 2007.

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

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

The directors consider that the relative rights of the shareholders have in substance remained unchanged during the re-organisation. Merger accounting was therefore adopted as the accounting treatment for the re-organisation. No purchased goodwill is created in the transaction and the assets and liabilities of LiDCO Limited are not adjusted to reflect their market value.

Turnover
Turnover represents amounts receivable from product sales, including monitors, sensors, fees for use and rentals, service contracts, carriage, warranty repairs and income from licence agreements granted, excluding value added tax. The basis of recognition is on the delivery of products. For income from licences, the basis of recognition is from the date that the licence is granted, recognised in equal instalments over the licence period.

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

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

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

PRINCIPAL ACCOUNTING POLICIES
Continued

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

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

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

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

Capital instruments
Capital instruments are accounted for and classified as share capital and debt according to their form.

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

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 January 2007

	Note	**Year ended 31 January 2007 £'000**	Year ended 31 January 2006 £'000 (Restated)
Turnover	1	**3,443**	3,421
Cost of sales		**(1,127)**	(871)
Gross profit		**2,316**	2,550
Administrative expenses		**(4,939)**	(4,771)
Operating loss		**(2,623)**	(2,221)
Interest receivable		**69**	42
		(2,554)	(2,179)
Interest payable		**(35)**	(35)
Loss on ordinary activities before taxation	1	**(2,589)**	(2,214)
Tax on loss on ordinary activities	3	**204**	179
Loss on ordinary activities after taxation	15	**(2,385)**	(2,035)
Loss per share (basic and diluted) (p)	14	**(2.10)**	(2.04)

All transactions arise from continuing operations.

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

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

CONSOLIDATED BALANCE SHEETS

At 31 January 2007

		Group		Company	
		2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Fixed assets					
Intangible assets	4	**656**	473	**–**	–
Tangible assets	5	**854**	1,038	**–**	–
Investments	6	**–**	–	**65**	65
		1,510	1,511	**65**	65
Current assets					
Stocks	7	**1,080**	1,140	**–**	–
Debtors	8	**1,421**	1,995	**70**	115
Amounts due from subsidiary undertaking	8	**–**	–	**20,101**	18,742
Cash at bank and in hand		**1,474**	951	**1,304**	367
		3,975	4,086	**21,475**	19,224
Creditors: amounts falling due within one year	9	**(846)**	(759)	**–**	–
Net current assets		**3,129**	3,327	**21,475**	19,224
Total assets less current liabilities		**4,639**	4,838	**21,540**	19,289
Creditors: amounts falling due after more than one year	10	**(51)**	(1,177)	**(51)**	(1,125)
Net assets		**4,588**	3,661	**21,489**	18,164
Capital and reserves					
Called up share capital	12	**592**	503	**592**	503
Share premium account	15	**20,723**	17,566	**20,723**	17,566
Merger reserve		**8,513**	8,513	**–**	–
Other reserve		**–**	(88)	**–**	(88)
Profit and loss account	15	**(25,240)**	(22,833)	**174**	183
Shareholders' funds		**4,588**	3,661	**21,489**	18,164

The financial statements were approved by the Board of Directors on 18 April 2007.

Ms Theresa Wallis
Director

Dr Terence O'Brien
Director

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 January 2007

	Note	Year ended 31 January 2007 £'000	Year ended 31 January 2006 £'000
Net cash outflow from operating activities	17	**(1,366)**	(1,804)
Returns on investments and servicing of finance			
Interest received		**69**	42
Interest paid		**(35)**	(35)
Net cash inflow from returns on investments		**34**	7
Taxation		**283**	–
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(137)**	(55)
Purchase of intangible fixed assets		**(410)**	(362)
Net cash outflow from capital expenditure and financial investment		**(547)**	(417)
Net cash outflow before financing		**(1,596)**	(2,214)
Financing			
Issue of ordinary share capital		**3,245**	203
Convertible loan drawdowns		**(1,126)**	1,355
Net cash inflow from financing		**2,119**	1,558
Increase/(decrease) in cash		**523**	(656)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 January 2007

1. Turnover and loss on ordinary activities before taxation

Turnover by destination is analysed as follows:

	2007 £'000	2006 £'000
United States	**767**	1,123
United Kingdom	**2,012**	1,535
Continental Europe	**511**	550
Rest of World	**153**	213
	3,443	3,421

Turnover by type

	2007 £'000	2006 £'000
Monitor sales	**1,443**	1,603
Sensor sales	**1,818**	1,611
Fee per use	**111**	137
Licence fees	**70**	70
	3,443	3,421

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

The loss on ordinary activities before taxation is stated after:

	2007 £'000	2006 £'000
Auditors' remuneration:		
Fees payable to the Company auditors for the audit of the Group accounts	**14**	11
Fees payable to the Company auditors for other services:		
Audit of the Company's subsidiaries	**23**	22
Other services relating to tax	**24**	15
Other services	**10**	6
Research and development	**247**	215
Depreciation of tangible fixed assets	**185**	238
Amortisation of intangible fixed assets	**227**	202
Rental of land and buildings	**233**	306

2. Directors and employees

Staff costs during the year were as follows:

Group	2007 £'000	2006 £'000 (Restated)
Wages and salaries	**2,269**	2,034
Social security costs	**188**	181
Share based payments charge	**95**	129
	2,552	2,344

The average number of employees (including executive directors) of the Company during the year was:

	2007	2006
Production	**11**	13
Sales	**16**	16
Administration	**11**	7
	38	36

Fees payable for directors' services are set out in the Directors' Remuneration Report on pages 20-23.

3. Tax on loss on ordinary activities

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

	2007 £'000	2006 £'000
United Kingdom corporation tax at 30% (2006: 30%)	**–**	–
Adjustments in respect of prior year	**(62)**	(69)
Tax credit	**(142)**	(110)
	(204)	(179)
Loss on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30% (2006: 30%)	**(777)**	(626)
Effect of:		
Expenses not deductible for tax purposes	**211**	162
Capital allowances for the period in excess of depreciation	**44**	16
Increase in tax losses	**543**	469
Other timing differences	**(21)**	(21)
Research and development tax credits	**(142)**	(110)
Current tax credit for period	**(142)**	(110)

4. Intangible fixed assets

Group	Clinical trials £'000	Product registration £'000	Software development £'000	Total £'000
Cost				
At 1 February 2006	74	191	1,064	1,329
Additions	18	178	214	410
At 31 January 2007	**92**	**369**	**1,278**	**1,739**
Amortisation				
At 1 February 2006	74	22	760	856
Provided in the year	3	56	168	227
At 31 January 2007	**77**	**78**	**928**	**1,083**
Net book amount at 31 January 2007	**15**	**291**	**350**	**656**
Net book amount at 31 January 2006	–	169	304	473

5. Tangible fixed assets

Group	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Office equipment £'000	Computer equipment £'000	Total £'000
Cost						
At 1 February 2006	541	408	115	39	970	2,073
Additions	14	3	5	2	113	137
Disposals	–	–	–	–	(136)	(136)
At 31 January 2007	**555**	**411**	**120**	**41**	**947**	**2,074**
Depreciation						
At 1 February 2006	187	217	76	35	520	1,035
Provided in the year	57	28	10	2	88	185
Disposals	–	–	–	–	–	–
At 31 January 2007	**244**	**245**	**86**	**37**	**608**	**1,220**
Net book amount at 31 January 2007	**311**	**166**	**34**	**4**	**339**	**854**
Net book amount at 31 January 2006	**354**	**191**	**39**	**4**	**450**	**1,038**

NOTES TO THE FINANCIAL STATEMENTS
Continued
For the year ended 31 January 2007

6. Investments

Company	Shares in subsidiary undertakings £'000
Cost and net book value	
At 1 February 2006 and at 31 January 2007	**65**

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

	Country of registration	Holding	Nature of business
Lidco Limited	England and Wales	100%	Surgical instruments and appliances
Cassette Analytical Systems Limited	England and Wales	100%	Dormant

7. Stocks

Group	2007 £'000	2006 £'000
Raw materials and consumables	**152**	212
Finished goods and goods for resale	**928**	928
	1,080	1,140

8. Debtors

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Trade debtors	**1,088**	1,508	**–**	–
Prepayments and accrued income	**149**	256	**70**	112
Other debtors	**184**	231	**–**	3
Inter-Company debt	**–**	–	**20,101**	18,742
	1,421	1,995	**20,171**	18,857

The Inter-Company debt relates to the on-going funding provided to the principal trading subsidiary, Lidco Limited, whilst it continues to be loss-making. This debt has been reviewed by the directors of the Company, who consider there is no impairment, though the full amount may not be recoverable within one year.

9. Creditors: amounts falling due within one year

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Trade creditors	**415**	444	**–**	–
Other creditors	**78**	59	**–**	–
Accruals and deferred income	**353**	256	**–**	–
	846	759	**–**	–

10. Creditors: amounts falling due after more than one year

	Group		Company	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Deferred income	**–**	52	**–**	–
Convertible loan	**51**	1,125	**51**	1,125
	51	1,177	**51**	1,125

A US$2 million 3 year convertible loan agreement was entered into with Laurus Master Fund Ltd ('Laurus') on 10 August 2005. This is convertible into ordinary shares of the Company at any time during the 3 year period at a price of 24p, or at 85% of the average closing price over the preceding 10 trading days, if lower and if the conversion has been requested by the Company. Interest is payable at 1.5% above New York Journal Prime, which has resulted in an effective interest rate of circa 9.75%.

A total drawdown of $2,445,000 was made in 2005 against the Laurus loan facility, of which all but $100,000 was subsequently repaid on 26 May 2006 out of the proceeds of the 2006 Placing. A conversion of $445,000 into 1,166,920 ordinary shares in the Company was made on 17 November 2005. The balance of the Laurus loan at 31 January 2007 was £51,000 (2005/6: £2,000,000).

11. Deferred taxation

	Group		Company	
Unprovided	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000
Accelerated capital allowances	**144**	506	**–**	–
Other	**(6,276)**	(5,927)	**–**	–
	(6,132)	(5,421)	**–**	–

12. Share capital

	2007 £'000	2006 £'000
Authorised 150,000,000 ordinary shares of 0.5p each	**750**	750
Allotted, called up and fully paid 118,096,850 ordinary shares of 0.5p each	**592**	503

17,764,130 new shares were issued during the year of which, on 26 May 2006, 17,500,000 ordinary shares at a price of 20p each were issued following a Placing on 26 May 2006. 25,000 shares were issued on the exercise of a share option on 21 September 2006 for a total consideration of £3,250 and 239,130 shares were issued to a former finance director who resigned on 22 January 2007 at a price of 11.5p each.

NOTES TO THE FINANCIAL STATEMENTS
Continued
For the year ended 31 January 2007

13. Share based payments
Equity-settled share option scheme
The Company has a share option scheme for selected employees and directors of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is over a variable period up to 3 years.

	2007		2006	
	Number	Weighted average exercise price (p)	Number	Weighted average exercise price (p)
Outstanding at the beginning of the year	**7,714,673**	**15.9**	6,652,250	35.6
Issued in the year	**825,250**	**21.0**	4,431,440	21.7
Forfeited during the year	**(281,299)**	**24.1**	(2,871,017)	58.9
Exercised during the year	**(25,000)**	**13.0**	(498,000)	23.3
Outstanding at the end of the year	**8,233,624**	**15.5**	7,714,673	15.9
Exercisable at the end of the year	**4,317,173**	**16.0**	3,180,731	13.1

These fair values were calculated using a Black-Scholes option pricing model as follows:

	2007	2006
Weighted average share price (p)	**19.0**	19.0
Weighted average exercise price (p)	**19.0**	19.0
Expected volatility	**40%**	40%
Expected life	**3.5**	3.5
Risk free rate	**5%**	5%
Expected dividend yield	**–**	–

The expected volatility is based on the Group's historical volatility averaged over a period equal to the expected life.
The expected life is the average expected period to exercise. The risk free rate of return is based on the UK Government gilts.

14. Loss per share
Loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares during the year. Share options are regarded as dilutive if the exercise price was below the market price at 31 January 2007.

	Year ended 31 January 2007 £'000	Year ended 31 January 2006 £'000 (Restated)
Loss after tax for the financial year (£'000)	**(2,385)**	(2,035)
Weighted average number of ordinary shares ('000)	**113,836**	99,572
Effect of dilutive share options ('000)	**–**	2,996
Adjusted weighted average number of ordinary shares ('000)	**113,836**	102,307
Loss per share – basic and diluted (p)	**(2.10)**	(2.04)

15. Reserves

Group	Share premium account £'000	Merger reserve £'000	Other reserve £'000	Equity reserve £'000	Profit and loss account £'000
At 1 February 2006	17,566	8,513	(88)	–	(22,833)
Issue of share capital	3,157	–	–	–	–
Transfer	–	–	88	–	(88)
FRS 20 charge	–	–	–	–	66
Loss for the financial year	–	–	–	–	(2,385)
At 31 January 2007	**20,723**	**8,513**	**–**	**–**	**(25,240)**

Company

Company	Share premium account £'000	Other reserve £'000	Equity reserve £'000	Profit and loss account £'000
At 1 February 2006	17,566	(88)	–	183
Issue of share capital	3,157	–	–	–
Transfer	–	88	–	(88)
Profit for the financial year	–	–	–	79
At 31 January 2007	**20,723**	**–**	**–**	**174**

In accordance with the exemptions given by section 230 of the Companies Act 1985, the holding Company has not prepared its own profit and loss account. The profit for the year of the Company was £79,000 (2005/6: £8,000).

The other reserve relates to the former investment in shares in the Employee Share Ownership Trust.

16. Reconciliation of movements in shareholders' funds

Group	2007 £'000	2006 £'000
Loss for the financial year	**(2,385)**	(2,035)
Share based payments	**66**	129
Issue of shares	**3,246**	432
	927	(1,474)
Opening shareholders' funds	**3,661**	5,135
Closing shareholders' funds	**4,588**	3,661

17. Net cash outflow from operating activities

	2007 £'000	2006 £'000 (Restated)
Operating loss	**(2,622)**	(2,221)
Depreciation and amortisation charges	**412**	440
Share based payments	**66**	129
Decrease in stock	**196**	25
Decrease/(increase) in debtors	**495**	(307)
Increase in creditors	**87**	130
Net cash outflow from operating activities	**(1,366)**	(1,804)

NOTES TO THE FINANCIAL STATEMENTS
Continued
For the year ended 31 January 2007

18. Reconciliation of net cash flow to movement in net debt

Group	2007 £'000	2006 £'000
Cash movement in the year	**523**	(656)
Increase in loan	**1,125**	(1,355)
Change in net cash in the year	**1,648**	(2,011)
Conversion of loan into share capital	**–**	230
	1,648	(1,781)
Net opening (debt)/cash at 1 February 2006	**(174)**	1,607
Net closing cash/(debt) at 31 January 2007	**1,474**	(174)

19. Analysis of changes in net debt

Group	At 1 Feb 2006 £	Cash flow £	At 31 Jan 2007 £
Cash in hand	951	523	**1,474**
Convertible loan	(1,125)	1,074	**(51)**
Net cash	(174)	1,597	**1,423**

20. Capital commitments
The Company had no capital commitments at 31 January 2007 or 31 January 2006.

21. Contingent liabilities
At 31 January 2007, the group registered a rent deposit deed dated 24 July 2006 with Companies House in favour of HB Sawston No1 Ltd and HB Sawston No 2 Ltd to secure rent obligations on the sales office at Sawston Cambridgeshire in the sum of £14,870. The Bank guarantee (£118,116) for the previous sales office at Granta Park Cambridge has been fully discharged.

There were no other contingent liabilities at 31 January 2007 or 31 January 2006.

22. Leasing commitments
Operating lease payments amounting to £280,000 (2006: £231,000) are due within one year. The leases to which these amounts relate expire as follows:

	2007		2006	
	Buildings £'000	Land and Other £'000	Buildings £'000	Land and Other £'000
In one year or less	**123**	**47**	97	48
Between one and five years	**110**	**–**	86	–
	233	**47**	183	48

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

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

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

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

24. Interest rate profile

Group

Financial assets at 31 January 2007	Floating rate: Cash current bank accounts £'000	Floating rate: Deposit and return account £'000	Fixed rate: Cash current bank accounts £'000	Fixed rate: Deposit and return account £'000	Total £'000
Currency					
Sterling	70	1,304	–	–	1,374
US dollars	100	–	–	–	100
At 31 January 2007	**170**	**1,304**	**–**	**–**	**1,474**

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

Financial Liabilities	Floating rate: **2007 £'000**	Floating rate: 2006 £'000	Fixed rate: **2007 £'000**	Fixed rate: 2006 £'000
Currency				
US dollars	**51**	1,125	**–**	–

Interest on the Laurus convertible loan agreement is payable at 1.5% above New York Journal Prime, which has resulted in an effective interest rate of circa 9.75%.

The Group did not have any financial liabilities at 31 January 2006.

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

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

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 excluding trade debtors and trade creditors. The Group did not use forward contracts or other derivatives to manage its currency exposure in the year ended 31 January 2007. 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.

Group

Financial assets	**Deposit account 2007 £'000**	Deposit Account 2006 £'000
Currency		
US dollars	**100**	35

Financial liabilities	**Convertible loan 2007 £'000**	Convertible loan 2006 £'000
Currency		
US dollars	**51**	1,125

25. Transactions with related parties

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

There are no other related party transactions.

COMPANY INFORMATION

Company registration number
2659005

Registered office
16 Orsman Road
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Company website
www.lidco.com

Directors

Ms T Wallis	Non-executive Chairman
Dr T K O'Brien	Chief Executive Officer
Mr J G Barry	Sales and Marketing director
Dr D Band	Scientific director
Mr I G Brown	Non-executive director

Secretary
Mr R Lamb

ADVISERS TO THE COMPANY

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Registered Auditors
Chartered Accountants
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Solicitors
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Scientific advisory panel

Professor Solomon Aronson	Professor, Department of Anaesthesia & Critical Care, University of Chicago, specialising in major surgery and intensive care medicine.
Dr William Peruzzi	Associate Professor of Anaesthiology, Northwestern University Medical School & Director of Respiratory Care, Northwestern Memorial Hospital, specialising in neurosurgical intensive care.
Dr Max Jones	Consultant Anaesthetist, Southampton University Hospital, in medical intensive care.
Dr Christopher Wolff	Honorary Clinical Pharmacologist, St. Bartholomew's Hospital, in Applied Physiology.
Professor Michael Pinsky	Professor of Critical Care Medicine, Bioengineering and Anesthesiology at the University of Pittsburgh School of Medicine, USA.
Professor David Bennett	Professor of Intensive Care Medicine at St George's Hospital London.

Notice is hereby given that the Annual General Meeting (the 'Meeting') of Lidco Group plc (the 'Company') will be held at the offices of Buchanan Communications at 45 Moorfields, London EC2Y 9AE on 21 June 2007 at 11 am to transact the following business. Resolutions 1 to 6 inclusive will be proposed as ordinary resolutions. Resolution 7 will be proposed as a special resolution.

Resolution 1
To receive the audited financial statements of the Company and the Directors' report and the Auditors' report thereon for the year ended 31 January 2007.

Resolution 2
To receive and approve the Directors' remuneration report for the year ended 31 January 2007.

Resolution 3
To re-elect Dr Terry O'Brien as a Director who retires by rotation and offers himself for re-election.

Resolution 4
To re-elect Dr David Band who is 70 as a Director who retires by rotation and offers himself for re-election.

Resolution 5
To re-appoint Grant Thornton UK LLP, as auditors of the Company and to authorise the Directors to determine their remuneration.

Resolution 6
That the Directors be and they are generally and unconditionally authorised in accordance with S80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (as defined in S80 (2) of that Act) up to an aggregate nominal amount of £197,000 provided that this authority shall expire on the date of the next Annual General Meeting of the Company or 15 months from the date of this meeting, whichever is the earlier, 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.

Resolution 7
That the Directors be and they are hereby empowered pursuant to S95 of the Companies Act 1985 to allot equity securities (within the meaning of S94 of that Act) for cash pursuant to the authority conferred by Resolution 6 above or by way of sale of treasury shares (as defined in S162 of that Act) as if S89 (1) of that Act did not apply to any such allotment provided that this power shall be limited to:

(i) 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 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 ordinary shareholders are proportionate (as nearly as maybe) to the respective numbers of ordinary shares held or deemed to be held by them on any such record dates, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares, 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 the shares being represented by depository receipts or any other matter whatever; and

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) to any person or persons of equity securities up to an aggregate nominal amount of £59,000;

and shall expire upon the expiry of the general authority conferred by Resolution 6 above, save that the Company shall be entitled to make offers or arrangements before the expiry of such power which would or might require equity securities to be allotted or treasury shares sold after such expiry and the Directors shall be entitled to allot equity securities or sell treasury shares pursuant to any such offer or arrangement as if the power conferred hereby had not expired.

Explanatory notes on resolutions

Resolution 1

The Companies Act 1985 ('the Act') requires the Directors to lay the before the Company in a general meeting copies of the Company's annual accounts and the reports of the Directors and Auditors on those accounts.

Resolution 2

This resolution seeks approval of the Directors' Remuneration report.

Resolutions 3 and 4

Article 88 (a) of the Articles of Association of the Company specifies the conditions under which Directors must retire and offer themselves for re-election. Dr O'Brien and Dr Band are due to retire by rotation and approval is sought for their re-election. Dr Band was 70 on 1st August 2006 but the Company's Articles provide that no director shall be disqualified from re-election as a director solely by reason of his age.

Resolution 5

Section 385 of the Act requires that every public company at each meeting at which accounts are laid to appoint an auditor to hold office until the conclusion of the next Annual General Meeting at which accounts are to be laid. Section 390 A requires that the remuneration of the Auditors appointed under section 385 is to be fixed by the Company in general meeting. This resolution proposes the re-appointment of Grant Thornton UK LLP and authorises the Directors to fix their remuneration.

Resolution 6

Resolution 6 seeks authority under section 80 of the Act for the Directors to allot un-issued shares or other relevant securities up to an amount equal to approximately one third of the anticipated nominal amount of the Company's current issued share capital. This equates to 39,400,000 ordinary shares of 0.5p each having an aggregate nominal value of £197,000. The Company's issued share capital at the date of this notice is 118,335,980 ordinary shares. The authority will expire on the earlier of the 2008 Annual General Meeting and the date 15 months from the date of this Annual General Meeting.

Resolution 7

Resolution 7 seeks authority for the Directors to allot equity securities for cash,

(i) in connection with a rights issue or other offer of securities to existing shareholders subject to such arrangements as the Directors deem expedient to deal with such matters as fractional entitlements and legal and practicable problems arising in overseas jurisdictions and

(ii) otherwise free of shareholders' normal statutory pre-emptive rights under S89 of the Act up to an aggregate nominal amount of £59,000, representing 11,800,000 shares of 0.5 pence or an amount equal approximately to 10% of the Company's anticipated issued share capital at the date of the Annual General Meeting.

The Directors consider that the Company should have a reasonable degree of flexibility to allot equity securities for cash if an opportunity arises which they consider to be in the Company's best interests.

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