LiDCO Group Plc
Annual Report & Accounts
For the year ended 31 January 2010

LiDCO Group Plc
www.lidco.com

During an average life span of 70 years, the human heart will pump more than 400 million litres of blood. Monitoring of the key hemodynamic parameters – blood pressure, cardiac output, oxygen delivery and fluid status – can provide a practical, early warning of cardiovascular change.

LiDCO is a manufacturer of minimally invasive hemodynamic monitoring equipment and disposables. LiDCO's products are the result of a multi-disciplinary developmental approach that combines physiological expertise, sensor and computing technology with novel graphical user software. The transformation of raw and complex physiological data into more useable and effective information has been a key objective throughout the development of the Company's products.

Our monitors are designed to display this key data in a way that clearly, quickly and simply identifies the underlying drivers (blood flow, arterial tone and fluid status) underlying the hemodynamic changes. Following an appropriate intervention by the user the LiDCO monitor then measures the response of the patient to a drug or fluid intervention. Early intervention to avoid such potentially dangerous and life threatening hemodynamic events has been demonstrated to reduce complications and length of stay in high risk surgery patients.

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Financial Highlights

Revenue up 18% to £5.37m (2008/09: £4.53m)

Export sales £3.54m now 66% of income and up by 50% (2008/09: £2.36m)

USA sales biggest contributor up by 121% to £2.28m (2008/09: £1.03m)

Recurring revenue up 22% to £3.13m (2008/09: £2.57m) – now 58% of revenue

Operating loss reduced by 14% to £1.54m (2008/09: £1.80m)

Loss per share reduced to 0.87p (2008/09: 1.16p)

Strengthened balance sheet – cash balance £1.85m (2008/09: £0.49m)

Borrowings repaid and £3.02m of equity raised in the year

Operational Highlights

LiDCO products now distributed by Covidien in the USA, the Group's biggest market

Highest single year increase in installed monitor base. LiDCO*plus* & LiDCO*rapid* monitors installed base up 37% to 2,075. 565 monitors sold or placed in the period (2008/9: 326)

Sensors, smartcard and fees-per-use volumes up 26% to 37,918 units (2008/09: 30,125 units)

Selected as sole technology for OPTIMISE – UK Government sponsored multi-centre clinical outcomes study

Second generation LiDCO*rapid* v1.02 software launched

Work commenced to integrate Covidien's depth of anesthesia Bispectral Index (BIS) product onto LiDCO*rapid* platform monitor

LiDCO*rapid* Japanese registration progressing - launch expected in 2011

Revenue

	Million	
	£5.37	2009/10
	£4.53	2008/09
	£4.05	2007/08
	£3.44	2006/07
	£3.42	2005/06

Loss from operations

	Million	
	£1.5	2009/10
	£1.8	2008/09
	£2.0	2007/08
	£2.6	2006/07
	£2.2	2005/06

Administration and distribution expenses

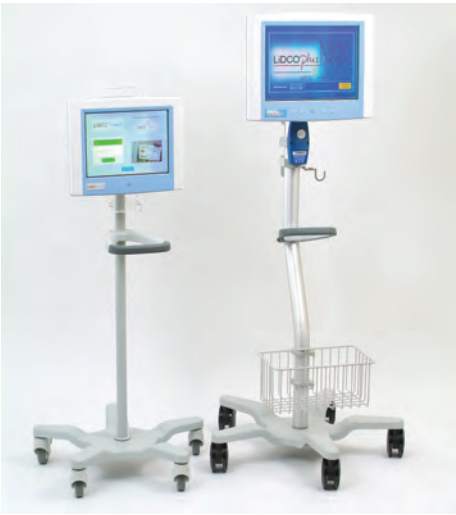
	Million	
	£4.83	2009/10
	£4.82	2008/09
	£4.62	2007/08
	£4.94	2006/07
	£4.77	2005/06

Net cash outflow before financing

	Million	
	£1.0	2009/10
	£1.8	2008/09
	£1.7	2007/08
	£1.6	2006/07
	£2.2	2005/06

Products, Access to Markets and Evidence

LiDCO is a manufacturer of minimally invasive hemodynamic monitoring equipment and disposables for use in hospitals. These products are used primarily for the management of adult hospital patients requiring critical care and those at major cardiovascular risk during surgery.



Products

LiDCO*plus* is a computer-based platform monitor used in the Intensive Care Unit for real-time continuous display of hemodynamic parameters.

LiDCO*rapid* is our new hemodynamic monitor designed specifically for use in the Operating Theatre for fluid and drug management.

LiDCO single-patient-use disposables is used in conjunction with the LiDCO*plus* and LiDCO*rapid*.

Distribution network

The Company sells via its own direct sales force to hospitals in the UK, and in export markets predominantly through a worldwide network of speciality critical care and anesthesia distributors. LiDCO's distributors for the USA and Japan are Covidien and Becton Dickinson respectively – both multi billion dollar medical device corporations.

Evidence

Globally there is a growing body of clinical evidence that the monitoring and targeting of optimal hemodynamic levels can improve the standard of care and clinical outcome of high-risk surgery patients. Such improved care reduces the incidence of complications, reduces bed days and costs. The use of LiDCO's technology to target oxygen levels in high-risk surgery patients has been shown to reduce bed stay by an average of 12 days per patient. National guidelines have been written to encourage the expansion of the use of hemodynamic monitoring in certain surgical procedures. It is estimated that the worldwide market for hemodynamic monitoring will grow to $800m per annum over the coming years.

International Sales

Sales by region £'000	**2009/10**	2008/09
USA	**2,273**	1,027
UK	**1,822**	2,161
Continental Europe	**990**	1,093
Rest of the World	**282**	251
Monitor installed base (Units)		
USA	**892**	546
UK	**313**	266
Continental Europe	**589**	458
Rest of the World	**281**	240

66%

Exports represented 66% of sales (2008/09: 52%).

32M

In the USA, new legislation will extend healthcare cover to an additional 32 million people.

349%

USA showed strong growth where monitors sold/placed and revenue were up 349% and 121% respectively.

Chairman's Statement

Healthcare is expected to remain one the most defended expenditures in developed countries.

As hospitals seek to improve efficiency by reducing costly surgical complications, demand for minimally invasive hemodynamic monitoring products is likely to grow.

I am pleased to report another very good year for LiDCO and we have made excellent progress on our strategy for growth. Revenues grew by 18%, our installed base of monitors increased by a record 37% and disposables unit sales rose 26%. We ended the year with important new distribution partnerships in place, a strengthened cash position and no borrowings. Against a background of the banking crisis, currency fluctuations, and subsequent recession, we believe that this is a considerable achievement.

Our strategy for growth remains clearly focused on three key areas: products, market access and evidence and awareness.

Products

We create high value, high margin products that are innovative and have strong intellectual property protection.

Our products are developed in close consultation with leading clinicians and assembled at our London facility, under strict quality standards. Our portfolio of integrated products enables measurement, analysis, audit, training and sharing of real-time and historic hemodynamic data, in both critical care units and the operating theatre. Demand for other older, invasive catheter-based hemodynamic monitoring is declining due to concerns over associated risks. LiDCO's products not only help improve patient outcomes by significantly reducing infections and length of hospital stays, they also save money as a result.

Launched in 2008, the LiDCO*rapid* monitor and disposables meet the needs of the growing high-risk surgery market and other applications where quick and easy set-up is required and continuous trend information is important. During the year we continued to focus our sales resources on establishing the LiDCO*rapid* in the market.

Market access

LiDCO's sales and distribution operations focus on specific types of patient within target clinical settings.

Until 2008, our market was mainly intensive and critical care units, but the launch of the LiDCO*rapid* gave us access to the high-risk surgery market potentially worth US$800m. Furthermore, the product's ease of use has attracted a wide range of distributors in both new and existing territories. In 2009/10, two thirds of our sales were exports. We significantly improved the Group's access to two of the world's biggest markets, the USA and Japan through distribution partnerships with Aspect Medical Systems, Inc (now part of Covidien) and Becton, Dickinson and Company (BD).

Evidence and awareness

We recognise that continued sales growth depends on a growing appreciation in the acute care community of the clinical and economic benefits of making the use of hemodynamic monitoring part of normal protocol. We will increasingly promote knowledge and understanding of our products, highlighting their advantages to clinicians, administrators and healthcare policy makers.

Scientific evidence is increasingly linking the optimisation of patients' hemodynamic status with better outcomes and reduced hospital stays. LiDCO has been selected as the sole technology for two multi-centre government-funded studies in the UK and US. OPTIMISE is sponsored by the UK Government for optimising cardiovascular management in high-risk abdominal surgery patients and in the US, MOnIToR is a transplantation donor organ optimisation study.

Financial position

To strengthen the Group's balance sheet and reduce exposure to potentially uncertain banking facilities, £3.02m (net) was raised through the issue of 31,916,000 ordinary shares last summer to existing investors, new institutional funds and management. This, together with the licence fees received, enabled the Group to repay its borrowings.

The Group's cash balance at the year end was £1.8m. Our robust position, coupled with our partners' strong balance sheets, means we have the capital structure to address the growing market, if necessary, through placing (rather than selling) of monitors and deriving income from recurring disposable sales.

Prospects

Healthcare is expected to remain one of the most defended expenditures in developed countries. As hospitals seek to improve efficiency by reducing costly surgical complications, demand for minimally invasive hemodynamic monitoring products is likely to grow. The addition of the LiDCO*rapid* to our portfolio and the expansion of our distributor network will enable us to take full advantage of future opportunities.

I would like to thank our shareholders for their continued support over the past year. I am also grateful to my fellow directors for their wise counsel, our staff for their dedication and hard work and our Clinical Advisory Board for their valuable contribution. We look forward with confidence to delivering our first profit this year.

Theresa Wallis
Chairman
23 April 2010

37%

Our installed base of monitors increased by a record 37% and disposables unit sales rose 26%.

$800M

Potential size per annum of the high risk surgery market addressed by the LiDCO*rapid*.

Chief Executive Officer's Statement

The installed base increased in all regions by between 17% and 63%. The strongest growth was in the USA where monitors sold/placed and revenue were up 349% and 121% respectively including distributor stocking sales.

Overview

This was another productive year during which the Group maintained growth, repaid its borrowings and reduced distribution costs whilst significantly expanding its route to market. Sales increased by 18% to £5.4m, split between 42% capital (including licence fees) and 58% recurring revenue. We are in a strong position to generate continued growth, with the right products, a strengthened balance sheet and increasing sales resources.

The worldwide recession and the requirement for universal healthcare coverage in the USA means that hospital finances are under increasing stress. Reducing complications, wound and central line infections and length of stay in high-risk surgery patients has become a prime objective. During the year we accumulated new clinical data and improved customer awareness of the potential savings from using LiDCO's products. Abstracts and papers on the use of our technology in: organ transplantation, major and bariatric surgery, intensive care and cardiology were published by investigators in Europe, the USA and Asia. Customers have an increasingly strong evidence-based business case for the adoption of advanced hemodynamic monitoring.

Outlook and prospects

The global market for hemodynamic monitoring products will continue to grow. We estimate worldwide sales revenues for minimally invasive hemodynamic monitoring products grew by less than the average 30% seen in the previous two years. We believe this was a consequence of global economic disruption coupled with what proved to be reduced, or in some cases entirely absent capital and disposable revenue budgets. However, market drivers remain and have become more relevant. Customers will continue to move away from the use of the older, invasive catheter products. Medicare in the USA is no longer prepared to pay hospitals for treatment of catheter and surgery related complications and infections.

The focus is shifting from hospitals increasing the number of surgeries undertaken towards improving the quality of care. In the UK, NHS expenditure at 7.7% of GDP is forecast to be ring fenced to the extent possible given the deficit and economy. So it is likely that the NHS will need to make annual efficiency savings of more than £4bn by 2012-13. Expectations regarding hospital efficiency savings are outlined in a new national programme: QIPP – Quality, Innovation, Productivity and Prevention. A key element of this programme is pathway redesign. In particular, the increasing adoption of 'enhanced' surgical pathways is encouraged. Elements of the pathways include better pre-operative assessment and planning; the goal being to reduce the stress of the operation with post-operative care structured around achieving the earliest recovery. Better intra-operative fluid management and, if necessary, continued hemodynamic monitoring and targeted post-operative oxygen delivery are necessary to achieve the best results.

The use of LiDCO technology on high-risk surgery patients can reduce complications by more than a third, costs by £4,800 per patient and hospital stay by up to 12 days[1]. The LiDCO*rapid* monitor can be used to optimise fluids and blood flow both in or outside of surgery and in conscious or ventilated patients. Other products that are incrementally invasive and/or that can only be easily used in ventilated patients, are often less practical for the management of the whole surgical pathway.

In the USA, new legislation will extend healthcare cover to an additional 32 million people. This programme is also trying to lower costs through a series of public policy mechanisms within Medicare and Medicaid and is likely over time to fundamentally change the way doctors are reimbursed and will encourage the adoption of the safest, cheapest and most effective medical procedures. The USA is currently spending 15.3% of GDP on healthcare – about double that of the UK.

Medicare has decided not to reimburse healthcare providers for treatment of hospital-acquired infections. We believe this will encourage use of LiDCO products to implement fluid optimisation strategies in high-risk patients.

Worldwide, there looks to be a general need to improve the efficiency of treatments for high-risk patients, and ultimately there is likely to be convergence on what is "best practice". Companies that are proven to provide the best, most cost-effective and most widely adoptable technology will prosper. Hospitals will also require training in the adoption of new technology and "best practice"; this is why we are developing further training materials and a hemodynamic workshop in conjunction with St George's Hospital, London.

Markets

In April 2009 an exclusive sales and marketing licence for the LiDCO*rapid* was granted to BD in Japan. In July, Aspect Medical was appointed as distributor for the LiDCO*rapid* for the USA. BD and Covidien, – who acquired Aspect in October – are major global medical technology groups. The combined up-front licence fees from these distribution agreements amounted to £940,000.

The Group had a record year in terms of the number of monitors sold and placed in hospitals; the lower priced LiDCO*rapid* was the key driver behind this. Capital sales, excluding Med One sales, are reflective of the increased numbers sold and were up by £210,000 (13%).

LiDCO's strategy is to sell directly to hospitals in the UK and work with existing third party distributors in export territories. The new US arrangements materially improved sales force representation while significantly reducing our US distribution costs by about £650,000 per annum. The integration of Covidien's Nellcor critical care and Aspect's surgery sales teams took place this February. The enlarged team, which we believe to be the largest monitoring equipment sales force in the USA gives us a far greater reach into the USA than was originally envisaged with Aspect.

Sales in the USA doubled across the period through the above changes in the distribution channel. All sales staff have now had at least their initial training and are incentivised through a sales commission plan. Further training is an on-going process. New accounts have already been secured and we expect the sales pipeline to grow substantially during 2010.

We anticipate that BD's sales in Japan will start in 2011.

In the UK we expect the hemodynamic monitoring market to continue to grow, and we have a developing pipeline of new accounts. There is a growing expectation that hospitals will adopt hemodynamic monitoring as part of their plans to re-engineer surgical pathways. We have recruited a new UK sales manager and are looking to add to our sales and nurse educator team in the year. We are also excited about our collaboration with the St George's Hospital simulation centre in London, where we will be running regular courses that deal with the practical implementation of our technology. The staff there who have used our technology for many years and have experience of saving up to 12 bed days per high-risk surgery patient undergoing LiDCO-directed therapies.

A study was conducted using LiDCO's products that assessed the value of simultaneous brain and hemodynamic monitoring during major peripheral vascular surgery in high-risk patients. The technical synergies between Covidien's depth of anesthesia monitoring (BIS) and LiDCO's technology have great potential to deliver the market's most evolved fluid and hemodynamic monitoring product. Combining these technologies into a monitor on the LiDCO*rapid* platform is an exciting and commercially valuable project that is now underway.

£5.4M

Sales increased by 18% to £5.4m, split between 42% capital (including license fees) and 58% recurring revenue.

13%

The Group had a record year in terms of the number of monitors sold and placed in hospitals. Capital sales, excluding Med One sales, were up by £210,000 (13%).

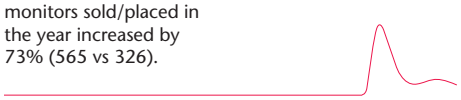
[1]Early goal-directed therapy after major surgery reduces complications and duration of hospital stay. A randomised, controlled trial, Critical Care 2005, 9:R687-R693 doi:10.1186/cc3887.

Chief Executive Officer's Statement continued

We are optimistic about sales in 2010, although still concerned about the economy and the return to economic growth. We expect good disposables sales revenue growth in all territories, as monitors installed in the latter part of 2009 begin to contribute to disposables revenues, augmented by additional income generated by our expanded sales force.

73%

The number of LiDCO monitors sold/placed in the year increased by 73% (565 vs 326).



£3.13M

Recurring revenues from sales of disposables, service contracts and fees for use increased by 21% from £2.57m to £3.13m.

Sales and trading

Revenues were up 18% to £5.37m (2008: £4.53m), with a 73% increase in the number of LiDCO monitors sold / placed in the year (565 up vs 326). Disposables numbers were up 26% at 37,918 and associated income was also up, by 21% at £3.13m. Export sales now represent 66% of income – up from 52%. Disposable revenue growth and the higher numbers of monitors placed have been driven by demand for the LiDCO*rapid* through our expanded distribution network. Monitor sales, excluding Med One sales, are more reflective of the increased numbers sold and were in fact up by £210,000 (13%). Paradoxically, total capital income (including Med One income) was down £104,000. This was a consequence of the higher number of lower priced LiDCO*rapid* monitors sold coupled to prior period capital revenues being improved by the sales of monitors placed in the UK (£314,000) to Med One. Although sales of placed monitors to Med One have been useful in the past to improve cash flow and to reduce risk, our stronger capital base means that we are now in a position to finance this ourselves – hence there were no such sales in the period.

The installed base at the year end stands at 2075 units, an increase of 37% in the year. The LiDCO*rapid* portion of this grew by 514 units, an increase of 84% over the previous year and now represents 38% of the installed base. This has been achieved within 21 months of launch and across a turbulent economic period. As previously reported, the focus necessary to launch and promote the LiDCO*rapid* had a knock-on effect on the growth and capital revenues from sales of our calibrated product – the LiDCO*plus* monitor.

The lack of capital budgets in hospitals delayed product sales for most of the year. The disposables revenues almost certainly underplay the full impact the increase in installed base is likely to have on future disposables sales. As monitors are transferred from distributors into hospitals, LiDCO*rapid* smart card sales should produce further growth in this income stream.

Geographic segmental sales reporting

The installed base increased in all regions by between 17% and 63%. The strongest growth was in the USA where monitors sold/placed and revenue were up 349% and 121% respectively including distributor stocking sales. In the UK, despite a severe slowdown in activity by the NHS, particularly in the first half of the year, the number of monitors sold/placed increased modestly 47 vs 43. However, overall revenues were affected negatively by hospitals moving to the placing model of acquisition, rather than capital purchase (16 vs 8), and greater numbers of lower priced LiDCO*rapid* monitors in the mix of monitors sold. In continental Europe, distributor stocks moved more slowly than expected to their respective customers, resulting in a general destocking of monitors occurring during the period. We expect sales of monitors to European distributors to improve in 2010. However, there are continuing issues for some territories as distributors have to fund cash flow issues stemming from increasingly delayed payment times.

Review of revenue and units sold and placed
Summary Table

	Year to 31 Jan 2010	Year to 31 Jan 2009	Increase/ (decrease)	% Increase/ (decrease)
Revenue by type (£'000)				
Monitors	**1,855**	1,959	(104)	(5)
Excluding Med One	**1,855**	1,645	210	13
Sensors/cards/use fees	**3,125**	2,573	552	21
Licence fees	**387**	–	387	
Total revenues	**5,367**	4,532	835	18
Monitors (Units)	**565**	326	239	73
Sold	**536**	310	226	
Placed	**29**	16	13	
Sensor, smart card and fee per use sales Sales (Units)	**37,918**	30,125	7,793	26
Installed base (year-end)	**2,075**	1,510	565	37

Disposables units sold increased in all regions with income up in UK, USA and ROW cumulatively up by £0.6m (29%). Although disposables unit numbers in the EU rose by 4%, income was down £40,000 due to a mix shift towards the lower transfer price of the LiDCO*rapid* smart card. Some cannibalisation of higher priced LiDCO*plus* sensor sales by lower price LiDCO*rapid* disposables, at both hospital and distributor levels, has clearly occurred in the year. Whilst this may continue, it should be increasingly diluted by the growing LiDCO*rapid* sales into new accounts where LiDCO*plus* monitors have not been purchased.

We are optimistic about sales in 2010, although still concerned about the economy and the return to economic growth. We expect good disposables sales revenue growth in all territories, as monitors installed in the latter part of 2009 begin to contribute to disposables revenues, augmented by additional income generated by our expanded sales force.

USA
- Total sales revenue up by 121% to £2.28m (2008/09: £1.03m)
- Monitor sales up 96% to £0.88m (2008/09: £0.45m)
- Sensors, smart card, fee for use sales up 96% at £1.12m (2008/09: £0.57m)
- Installed base up by 346 (63%) to 892 (2008/09:546)

Continental Europe
- Total sales revenue down 9% to £0.99m (2008/09: £1.09m)
- Monitor sales down 10% to £0.53m (2008/09: £0.59m)
- Sensors, smart card sales down 8% to £0.46m (2008/09: £0.50m)
- Installed base up by 131 (29%) to 589 (2008/09: 458)

UK
- Total sales revenue excluding Med One steady at £1.82m (2008/09: £1.85m) Med One revenues nil in period (2008/09: £0.314m)
- Monitor sales revenue down 16% to £0.33m (2008/09: £0.396m)
- Sensors, smart card and fee for use sales up 3% to £1.49m (2008/09: £1.45m)
- Installed base up by 47 (18%) to 313 (2008/09: 266)

Rest of World and Other Income
- Total sales revenue up 12% to £0.28m (2008/09: £0.25m)
- Monitor sales down 40% to £0.12m (2008/09: £0.20m)
- Sensor and Smart Card sales up 22% to £61,000 (2008/09: £50,000)
- Licence fees income £0.10m (2008/09: £nil)
- Installed base up by 41 (17%) to 281 (2008/09: 240)

Financial Review

LiDCO has entered into three significant partnerships giving us fuller access to the three largest markets in the world – United States, Japan and Germany. There is a growing demand worldwide or minimally invasive monitoring technology and the clinical community is showing an increasing recognition for the LiDCO brand.

Operating results

Turnover increased by 18% to £5.37m (2008/09: £4.53m). Operating losses decreased by 14% to £1.54m (2008/09: £1.80m) and the loss per share was reduced to 0.87 pence (2008/09: 1.16 pence). Exports represented 66% of sales (2008/09: 52%).

The installed base of monitors increased in the year by 565 units (2008/09: 326 units) to 2,075 units (2008/09: 1,510 units), representing an increase of 37%. The increase in the installed base comprised 514 LiDCO*rapid* monitors and 51 LiDCO*plus* monitors with 536 (2008/09: 310) of the monitors being sold and 29 (2008/09: 16) being placed.

Recurring revenues from sales of disposables, service contracts and fees for use increased by 21% from £2.57m to £3.13m.

The average margin across all products against external procurement costs fell during the period from 81% to 75%. This was partly a consequence of higher monitor costs due to exchange rate movements and partly due to reduced margins achieved on sales of LiDCO*rapid* monitors to distributors. Future profitability will significantly depend on margins achieved on disposables. These remained high during the year, albeit with a small reduction in margins on smart cards due to the increased proportion sold to distributors. Margins achieved on LiDCO*plus* sensors remained steady at 86% and on smart cards fell by 3% to 92%.

Sales of LiDCO*rapid* smart cards are expected to be an important revenue stream in future. It is too early to establish the average smart card usage per monitor but in the UK customers using it for more than 12 months we have seen rates in individual hospitals as high as 11 cards per monitor per month.

Overall gross margin on sales including Med One costs was 61%, down from 67% last year. Med One payments in the period amounted to £688,000 (2008/09: £587,000). There were no sales to Med One during the year (2008/09 £314,000) and as a result Med One payments have now peaked and should reduce to nil over the next two years, increasing the overall gross margin.

The effect of the movement in foreign exchange rates during the year was to increase administration expenses by £223,000 in comparison to the previous year. In addition, non-US related sales and marketing costs increased £127,000. Thus, although the bulk of the US sales force was transferred to Aspect in July 2009 (which reduced costs in the second half by about £325,000), administrative expenses increased by £16,000. A significant element of the adverse fluctuations in exchange rates was the sales and marketing overhead in the USA.

Taxation

As the Group is still at the pre-profit stage there was no tax charge for the year. The Group has a potential deferred tax asset of £6.4m although this has not been recognised in the accounts. In the UK, the Group qualifies for research and development tax credits, which are estimated as £120,000 in 2009/10 and are shown in the income statement.

Cash, financing and working capital

The net cash outflow before financing activities was £1.044m (2009: £1.8m), with an outflow of £743,000 in the first half and £301,000 in the second. Historically the Group has used bank loans, overdrafts and invoice discount financing facilities as a means of providing working capital. To reduce our dependence on such facilities in future, the Group issued 31,916,000 new ordinary shares at 10p to existing investors, including management and to new institutional investors raising £3.02m net of costs. This allowed the Group to repay overdraft and invoice discount balances of £608,000 outstanding at the start of the year. The Group was also in receipt of £940,000 in up-front licence fees from Aspect and BD. As well as strengthening the balance sheet, these funds will more readily help the Group to adopt a placing model for its monitors with its UK customer base. Cash balances at 31 January 2010 amounted to £1.85m. The Board anticipate this will be sufficient to see the Group through to profitability and positive cash flow. In addition the Group has an unutilised overdraft facility of £500,000.

Inventory at the year end was £1.09m, an increase of £41,000, but as a percentage of turnover reduced from 23% to 20%. Expenditure on fixed and intangible assets in the year of £606,000 was broadly similar to the previous year and below the charge for depreciation and amortisation of £672,000. Expenditure on fixed and intangible assets is not expected to rise significantly in the foreseeable future.

The Group issued warrants to Aspect over 13,915,324 ordinary shares. The warrants are exercisable in two stages, provided Aspect achieves its sales minimums in the first two years of the agreement. The warrants are exercisable at 14.3 pence per share.

The Group continues to monitor overheads and cash carefully and is expecting to achieve its maiden profit in the current financial year.

Product development

The first half of 2010 will see us continue to refine the LiDCO*rapid* graphical user interface whilst improving and simplifying customer use and connectivity to our monitors. The first phase of these changes was completed in July 2009 when we announced the launch of the LiDCO*rapid* version 1.02. This new software added user-adjustable timescales for trending fluid parameters, and two extra screens (History and Data charting). These enhancements are being seamlessly added to our installed monitor base and have been well received by our UK and export customers in the six months since launch.

The next revision of the LiDCO*rapid* software – version 1.03 will be available later this summer and will have a number of new features:

- **Universal pressure waveform module:** This – and associated LiDCO*rapid* software changes – will allow wider market adoption by making it easier to access arterial blood pressure data where, to date, access has been difficult, or where the primary patient monitor does not provide the necessary analogue arterial pressure output.
- **LiDCO Monitor language localisation:** This converts the information on the LiDCO*rapid* monitors' screens from English into 22 languages. Users can select from the appropriate language menu on the start-up screen.
- **RS232 Communication changes:** This will allow the LiDCO*rapid* monitor to communicate with a wider range of hospital information systems – one current project is to connect to GE's information system. Hospitals increasingly require that hemodynamic monitors can pass data to their information systems. A configurable output makes this an easier process.

Platform evolution – the LiDCO & BIS Combination Monitor

There is considerable interest from customers in producing a combined product that can realise the synergies between Aspect's (now Covidien) Bispectral Index (BIS) product and the LiDCO*rapid* monitor. The former ensures the correct depth of anesthesia is achieved, and the latter is used while the patient remains in surgery to restore blood pressure and cardiac output to pre-surgery levels.

To quantify the value of a LiDCO and BIS combination, we supported a prospective study at King's College Hospital, London. This study has now concluded successfully and some of the results have been submitted for presentation. The results demonstrate that their simultaneous availability produces a unique insight into the underlying factors driving the large blood pressure changes occurring when a patient is anesthetized.

Evidence – development of supportive clinical and business cases

Our growth strategy is clearly focused on providing minimally invasive hemodynamic monitoring products that can be effectively sold through our direct sales force and distribution channel partners. Increasingly our customers are demanding that such products are supported with higher levels of evidence that their use will be cost-effective. Helpfully as time moves on, more and more customers are documenting how our products have helped with the care of their patients. Over the last year valuable insights into specific uses have been demonstrated in the fields of: organ transplantation, major and bariatric surgery, intensive care and cardiology.

At the start of this year the UK's National Technology Adoption Centre (NTAC) reported UK Hospital's Trusts experiences using/adopting the technique of hemodynamic intra-operative goal directed fluid management. NTAC's role is to work with NHS organisations to understand and overcome the barriers to the implementation of evidence based technologies that will deliver improved patient outcomes and effective use of NHS resources. The result of that work was the development of a business case template that is intended to be tailored by NHS Trusts to facilitate the implementation of this technique with the goal of improving clinical outcomes following major surgery, leading to reduced hospital stay driving improved efficiency and productivity. Customers have an increasingly strong evidence-based business case for the adoption of advanced hemodynamic monitoring that coincides with a strong imperative to reduce costs and improve productivity.

Regulatory affairs and quality

During the year LiDCO was successfully audited against the requirements of ISO13485:2003, ISO9001:2000, the EU Medical Devices Directive and the Health Canada Medical Device Regulations. Our activities and products comply with the requirements of all recently published EU Directives – the Waste Electrical & Electronic Equipments (WEEE) regulations; the Restrictions of the use of certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) regulations; the Registration, Evaluation and Authorisation of Chemicals (REACH) regulations; the Waste Batteries and Accumulators regulations; the Batteries and Accumulators (Placing on the Market) regulations; the Machinery Directive and the Eco Design Directive.

LiDCO's products are registered in a number of major territories and registration of LiDCO products is ongoing in Japan, China, Colombia, Russia and Argentina.

Dr Terence O'Brien
Chief Executive Officer
23 April 2010

Board of Directors and Company Secretary

Theresa Wallis
Non-Executive 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 AIM, the market for smaller growing companies, having managed the market's development and launch in 1994/5. From 2001 to end 2006 she was a principal executive of ANGLE plc, a venture management and consulting business focusing on the commercialisation of technology. Since 2001, she has held a number of non-executive directorships and is currently a non-executive director of Special Products Limited. She is also a member of the Quoted Companies Alliance's Executive Committee and its Markets and Regulations Committee.

John Barry
Sales & 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.

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

Paul Clifford
Finance Director
Mr Clifford qualified as a chartered accountant with Touche Ross (now Deloittes) in 1975. He joined the Group in April 2008 having spent 28 years in finance positions in technology companies. In 1991 he co-founded BCS Computing Limited, a private equity backed concern investing in computer software companies. He became finance director of software group, Comino in 1996, prior to its flotation on AIM in 1997. In 2006, Comino was acquired by AIM quoted Civica plc and Mr Clifford became finance director of Civica UK Limited, its £80m turnover main operating subsidiary, leaving in 2008. Mr Clifford is also a non-executive director of AIM quoted Prologic plc.

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.

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

John Rowland
Company Secretary (right)
Mr Rowland joined the Group in October 2007 qualifying as a Chartered Secretary in 1983. Prior to joining the Group he was Group Company Secretary of Robert Dyas, the high street retailer, between 2000 and 2007 and remains a trustee of their pension scheme. He has also served as Company Secretary of Aegis Group plc and The Birkdale Group plc both media companies and as an Assistant Company Secretary of National Westminster Bank PLC. Mr Rowland has also held senior positions with Gestetner Holdings plc and Raybeck plc.

Clinical Advisory Board

Dr Max Jonas
Dr Jonas is a consultant intensivist and senior lecturer in critical care working at Southampton University and Hospitals. He has responsibility for a 28 bed intensive care unit and has specific interests in hemodynamics and the assessment of monitoring equipment. He is currently deputy chairman of the technology assessment section of the European Society of Intensive Care Medicine and ex-president of the Society of Critical Care Technologists.

Professor David Bennett
David Bennett is visiting Professor of Intensive Care Medicine at King's College Hospital, London and was formerly 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 Anesthesia and Analgesia.

Professor Michael Pinsky
Professor Pinsky is Professor of Critical Care Medicine, Bioengineering, Cardiovascular Diseases and Anesthesiology at the University of Pittsburgh School of Medicine, USA and is a member of the editorial board of the Journal of Critical Care and Critical Care Forum. He is editor-in-chief of the eMedicine textbook Critical Care Medicine.
He was awarded Docteur hooris causa from the Université de Paris V (Le Sorbonne). He has a wide range of research interests – among them being the study of heart-lung interactions, hemodynamic monitoring, cardiovascular physiology, sepsis and outcomes research. He is a world leading authority on the application of both existing invasive, and the more recent introduced minimally invasive, monitoring technologies.

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

Corporate Governance Report

The Combined Code

Companies that have shares traded on the AIM market of the London Stock Exchange are not required to comply with the disclosures of the Combined Code on Corporate Governance. However, the Board is committed to maintaining the highest standards of corporate governance, where appropriate for a company of its size.

The Board of Directors

The Board currently consists of four executive directors and two non-executive directors. The non-executive directors are free from any relationship with the executive management of the Company and the Board considers that both non-executive directors, other than through their shareholdings, 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 Chairman of the Board is Ms Wallis and Mr Brown is the senior independent non-executive director. Directors' biographies are provided on pages 12 and 13.

There were 12 Board meetings during the year. The attendance of the individual directors at the Board Meetings and the Audit and Remuneration Committee Meetings was as follows:

Attendance record at Board Meetings and Committees

Name	Position	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Ms T A Wallis	Non-executive Chairman	12(12)	2(2)	6(6)	n/a
Dr T K O'Brien	Chief Executive Officer	12(12)	n/a	n/a	n/a
Mr P L Clifford	Finance Director	12(12)	n/a	n/a	n/a
Dr D M Band	Scientific Director	11(12)	n/a	n/a	n/a
Mr J G Barry	Sales & Marketing Director	11(12)	n/a	n/a	n/a
Mr I G Brown	Non-executive Director	12(12)	2(2)	6(6)	n/a

Numbers in brackets denote the total number of meetings during the year.

All the directors have access to the advice and services of the Company Secretary, whose appointment and removal is a matter for the Board as a whole. All directors are able to take independent advice in the furtherance of their duties, if necessary, at the Company's expense. The Company Secretary supports both the Board and the Committees.

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.

Board evaluation and performance

In February 2010, the Board carried out an evaluation of the performance, functioning and composition of the Board and its Committees. This involved each director completing an evaluation, the results of which were then collated and discussed by the Board and actions were agreed. It is the Board's intention to continue to review annually its performance and that of its Committees.

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 financial statements before they are submitted for approval by the Board. The Committee met twice during the year. The Committee considers annually whether the auditors remain independent for the purposes of the audit. This year the fee for non-audit work is £10,000 against an audit fee of £42,000. The Committee is satisfied that the auditors remain independent for the purposes of the annual audit. The Committee considers that given the size of the Company and its current stage of development 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 also reviews the 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 six times during the year.

Nomination 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.

Relations with shareholders

The Company seeks to maintain and enhance good relations with its shareholders. The Company's interim and annual reports are supplemented by public announcements to the market on technological 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 or performance of the Company.

The Chief Executive, Chairman and Finance Director 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.

Corporate Social Responsibility Statement

The Company recognises the importance of Corporate Social Responsibility.

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

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

Employees

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

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

Environment

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

- In accordance with the requirements of the Waste Electrical and Electronic Equipment Regulations (WEEE), the Company has signed up to a compliance system to recycle and dispose of electrical equipment waste.
- Where possible, other products are recycled within the Company.
- Paper, cardboard and ink cartridge recycling collection facilities are in place in London and Cambridge.
- Redundant computer equipment is offered to employees or disposed of in accordance with good practice.
- Company purchased vehicles are run on diesel fuel for fuel efficiency.
- The Company continually reviews the chemicals it uses in its manufacturing processes with the aim of using the least toxic and most environmentally friendly products commensurate with producing high quality products.

Ethics and Values

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

Health and Safety

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

Shareholders

The Company aims to treat its stakeholders in a responsible manner. It maintains regular contact with its major shareholders to explain developments in the business and all shareholders are invited to question management at the Annual General Meeting. See also "Relations with Shareholders" in the Corporate Governance Report on page 15.

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 in June 2010.

Committee membership

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

T A Wallis (Chairman)
I G Brown

Neither of the Committee members has any day-to-day involvement in the running of the Company, nor do they have any business or other relationship that could affect, or appear to affect, the exercise of their independent judgement, other than as shareholders. No director plays a part in any decision about his or her own remuneration.

Remuneration policy

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

Base salary

All four executive directors receive a base salary and, if appropriate, an 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 targets.

The criteria for awarding bonuses during the year included corporate and individual objectives. Corporate objectives included sales performance and operating loss. 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 Group's share option schemes and are not eligible for annual incentive payments or benefits in kind.

Remuneration of directors

	Year ended 31 January 2010					
	Salary and fees £'000	**Allowance in lieu of benefits £'000**	**Benefits £'000**	**Bonus £'000**	**Total £'000**	2009 £'000
T A Wallis	**44**	–	–	–	**44**	44
T K O'Brien	**185**	**37**	–	**37**	**259**	252
J G Barry	**171**	**34**	**3**	**33**	**241**	238
P L Clifford*	**72**	**7**	–	**13**	**92**	44
D M Band	**45**	**9**	–	**7**	**61**	62
I G Brown	**28**	–	–	–	**28**	28
Total	**545**	**87**	**3**	**90**	**725**	668

*Mr Clifford was appointed on a part-time basis on 23 April 2008, increasing the number of days worked in September 2009.

Directors' Remuneration Report
continued

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 months' notice period. Mr Clifford has a service contract with the Company dated 21 April 2008; as with the other executive directors, this is not for a specific term, but includes a rolling six months' notice period.

Non-executive directors
The non-executive directors do not have service contracts with the Company. The letter of appointment for each non-executive director states that they are appointed for an initial period of three years. At the end of the initial period, the appointment may be renewed for a further period if the Company and the director agree. In keeping with best practice, these appointments are terminable without notice by either party. The Chairman's appointment is for a term ending 19 December 2011 and Mr Brown's appointment for a term ending 11 October 2011.

Directors' interests in share options
Options were granted to the executive directors as follows:

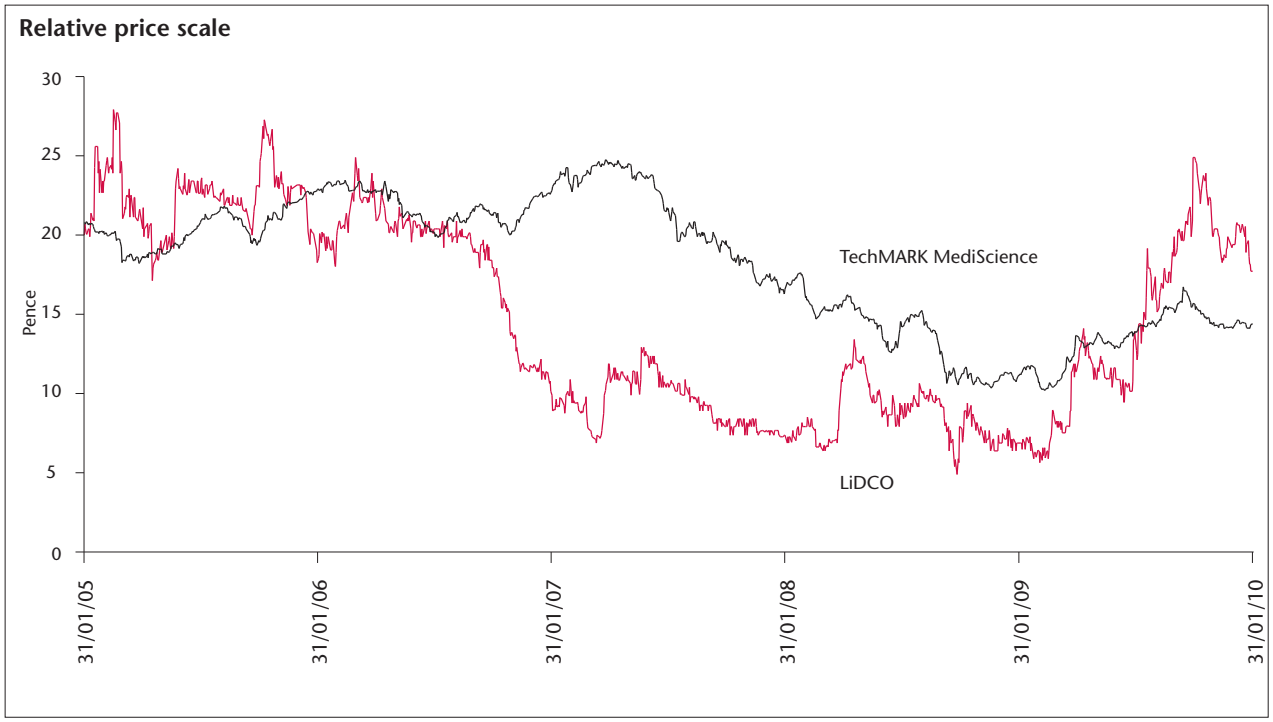
	Option type	Options at 31 Jan 2009	Date of grant	Options granted during 2009	Lapsed during the year	**Options at 31 Jan 2010**	Exercise price	Exercisable from	Expiry date
T K O'Brien	EMI	750,000	Dec-02			**750,000**	13.00p	Dec-05	Dec-12
	EMI	11,627	Apr-05			**11,627**	21.50p	Apr-08	Apr-15
	Unapproved	265,768	Apr-05			**265,768**	21.50p	Apr-08	Apr-15
	EMI	–	May-09	150,000		**150,000**	12.67p	May-12	May-19
		1,027,395		150,000	–	**1,177,395**			
D M Band	EMI	750,000	Dec-02			**750,000**	13.00p	Dec-05	Dec-12
	EMI	11,627	Apr-05			**11,627**	21.50p	Apr-08	Apr-15
	Unapproved	53,489	Apr-05			**53,489**	21.50p	Apr-08	Apr-15
		815,116		–	–	**815,116**			
J G Barry	Unapproved	106,250	July-01			**106,250**	0.5p	July-04	Dec-11
	Unapproved	211,000	Dec-02			**211,000**	13.00p	Dec-05	Dec-12
	EMI	539,000	Dec-02			**539,000**	13.00p	Dec-05	Dec-12
	Unapproved	90,000	Nov-03			**90,000**	28.25p	Nov-06	Nov-13
	Unapproved	356,844	Apr-05			**356,844**	21.50p	Apr-08	Apr-15
	Unapproved	192,436	Apr-05			**192,436**	22.00p	Dec-05	Apr-15
	Unapproved	328,539	Apr-05			**328,539**	22.00p	Apr-06	Apr-15
	Unapproved	656,903	Apr-05			**656,903**	22.00p	Sep-06	Apr-15
	EMI	136,045	Apr-05			**136,045**	22.00p	Dec-05	Apr-15
	Unapproved	45,000	Jun-06			**45,000**	21.00p	Jun-09	Jun-16
	Unapproved	75,000	Jun-07			**75,000**	12.50p	Jun-10	Jun-17
	Unapproved	83,333	Apr-08			**83,333**	7.50p	Apr-11	Apr-18
	EMI	266,667	Apr-08			**266,667**	7.50p	Apr-11	Apr-18
	Unapproved	–	May-09	150,000		**150,000**	12.67p	May-12	May-19
		3,087,017		150,000	–	**3,237,017**			
P L Clifford	Approved	66,000	Apr-08		–	**66,000**	7.50p	Apr-11	Apr-18
	Approved	–	May-09	75,000		**75,000**	12.67p	May-12	May-19
		66,000		75,000	–	**141,000**			
Totals		4,995,528		375,000	–	**5,370,528**			

The share price was 7.00p on 1 February 2009 and 18.25p on 29 January 2010, with high and lows during the year of 26.00p and 6.00p respectively.

Pensions
No pension contributions were payable by the Group during the year. (2008/9: £nil)

Shareholder return

The graph below shows the share price performance since January 2005, using the FTSE TechMARK Mediscience Index as a comparator, which the directors consider to be the most suitable benchmark index.



Theresa Wallis
Chairman of the Remuneration Committee
23 April 2010

Directors' Report

The directors of LiDCO Group Plc present their annual report and audited financial statements (Annual Report) for the year ended 31 January 2010.

Principal activities, business review and business risks

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

The business review is included in the Chairman's Statement, the Chief Executive Officer's Statement and Corporate Social Responsibility Statement which should be read as part of this Directors' Report.

The key commercial risks associated with the business are:

- healthcare spending – the Group's performance is affected by hospitals' expenditure and any, or developing, capital budgetary constraints, which the Group mitigates by targeting its efforts and resources according to sales opportunities where budgets are likely to be available and a wider geographic sales growth predominantly through an expanding specialist distributor network;
- competitive activity from other producers of hemodynamic monitors who sell competing products which may restrict the Group's ability to maintain or make further progress in increasing its share of the growing minimally invasive hemodynamic monitoring market. The Group addresses this by encouraging independent clinical validation of its products, introducing product developments/enhancements and sponsoring clinical studies that focus on patient outcome improvement; and
- the Group relies on distributors for its sales and marketing activities outside of the UK. The Group mitigates the risk of distributor underperformance by selecting distributors with the requisite resources, skills, access to customers and creditworthiness and by providing training programmes and extensive support both in the initial phase following appointment and on an ongoing basis.

The key financial risk is the management and maintenance of sufficient cash balances to support the ongoing development, supply and marketing of the LiDCO products.

Results and dividends

The Group's revenue for the year was £5,367,000 (2008/9: £4,532,000). The Group made a consolidated loss after taxation of £1,427,000 (2008/9: £1,650,000). The directors do not recommend the payment of a dividend (2007/8: £nil).

The Company's share price at 29 January 2010 was 18.25p (2009: 7.00p)

Research and development

The Group continued to develop the LiDCO systems during the year. Details of the costs expended on research and development are set out in Notes 3 and 8 to the financial statements on pages 32 and 35 respectively.

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 14 on page 40 and 4 on page 45 to the financial statements.

Directors

The directors of the Company who served during the year are set out below; short biographies are set out on pages 12 and 13.

T A Wallis	Non-Executive Chairman
T K O'Brien	Chief Executive Officer
P L Clifford	Finance Director
D M Band	Scientific Director
J G Barry	Sales and Marketing Director
I G Brown	Non-Executive Director

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

Directors' remuneration

The Remuneration Report, which includes information regarding directors' service contracts, appointment arrangements and interests in share options, can be found on pages 17 and 18.

Directors' interests in shares

The directors who held office at 31 January 2010 had beneficial interests in the ordinary shares of the Company as shown below:

Directors' shareholdings

	Ordinary shares of 0.5p each	
	31 January 2010 Number	31 January 2009 Number
T A Wallis	**301,037**	201,037
T K O'Brien	**11,516,563**	11,035,461
P L Clifford	**500,000**	188,000
D M Band	**7,160,832**	7,060,832
J G Barry	**429,642**	379,642
I G Brown	**200,000**	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 briefed on the Group's activities through meetings and discussions with management and all employees are encouraged to give their views on matters of common concern through the line management. A significant number of employees have share options.

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 Group's average creditor payment period as at 31 January 2010 was 25 days (2008/9:42days).

Significant shareholdings

As at 16 April 2010, the Company has been notified that the following shareholders, other than directors, had the following interest of 3% or more of the Company's ordinary share capital:

Shareholder	Number of shares in which there is an interest	Percentage notified*
Ingalls & Snyder Llc	26,828,972	15.42%
Cheviot Asset Management Limited	13,415,748	7.71%
H J Leitch	13,177,489	7.58%
P A Brewer	11,724,727	6.74%
R M Greenshields	9,042,407	5.20%
Liontrust Intellectual Capital Trust	8,738,639	5.02%
Octopus Investments Limited	5,634,200	3.24%

*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 (2008/9: £nil).

Directors' responsibilities for the financial statements accounts

The directors are responsible for preparing the Annual Report and group financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union. The parent company financial statements have been prepared 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 Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

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

Directors' Report
continued

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 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors 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.

Going concern
The financial statements have been prepared on the going concern basis, which assumes that the Group will have sufficient funds to continue in operational existence for the foreseeable future. The Group has continued to invest in the development of its operations and in particular its direct and indirect sales channels during the year. As a result the Group has continued to trade at a loss during the year ended 31 January 2010.

The Group finances its operations through shareholders funds and an overdraft facility. The directors have approved forecasts for the foreseeable future, which indicate that the Group will have sufficient funds to trade during that period. In May and June 2009, 31,916,000 new ordinary shares were issued at 10 pence per share to existing investors, management and new institutional funds raising £3.02m (net). During the year the Group appointed a new distributor in the USA. As part of the agreement, the Group transferred the bulk of its US sales force to the distributor reducing US sales costs by about £650,000 in a full year. The financial statements do not include any adjustments that would be required in the event that the Company had insufficient funding available.

Accountability and audit – Going concern
As noted in the accounting policies and the basis of current financial projections, the directors have a reasonable expectation that the Company has access to 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 financial statements.

Financial risk management
The Financial Risk Management objectives and policies of the Group, including the exposure to interest rate risk, liquidity risk and currency risk are set out in note 13 to the financial statements on pages 37 to 39.

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

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

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

The adequacy of internal controls and the internal control structures was reviewed by the Board in April 2010.

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. During the year the Company was compliant with ISO13485 (Medical Devices – Quality Management Systems) and ISO 9001 (Quality Management Systems).

The Board has established a process involving all departments for the comprehensive assessment of key risks to the business. The risk register is updated on an ongoing basis and reviewed by the Board four times a year. Actions to mitigate risks are identified and agreed.

Auditors
A resolution to re-appoint Grant Thornton UK LLP as auditors and to authorise the directors to set their remuneration will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting
The Notice to convene the Annual General Meeting of the Company to be held on Tuesday 29 June 2010 is set out on pages 5 to 6 of the separate circular, which includes an explanation of each resolution.

By order of the Board

John Rowland
Company Secretary
23 April 2010

Independent Auditor's Report to the members of LiDCO Group Plc

We have audited the Group financial statements of LiDCO Group Plc for the year ended 31 January 2010 which comprise the consolidated comprehensive income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in shareholders equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 January 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the parent company financial statements of LiDCO Group Plc for the year ended 31 January 2010.

David Miller
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
23 April 2010

Consolidated Comprehensive Income Statement
For the year ended 31 January 2010

	Note	**Year ended 31 January 2010 £'000**	Year ended 31 January 2009 £'000
Revenue	2	**5,367**	4,532
Cost of sales		**(2,074)**	(1,512)
Gross profit		**3,293**	3,020
Administrative expenses		**(4,832)**	(4,816)
Loss from operations	3	**(1,539)**	(1,796)
Finance income		**5**	57
Finance expense		**(11)**	(31)
Loss before tax		**(1,545)**	(1,770)
Income tax	5	**118**	120
Loss and total comprehensive expense for the year attributable to equity holders of the parent		**(1,427)**	(1,650)
Loss per share (basic and diluted) (p)	6	**(0.87)**	(1.16)

All transactions arise from continuing operations.

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

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

Consolidated Balance Sheet
At 31 January 2010

	Note	2010 £'000	2009 £'000
Non-current assets			
Property, plant and equipment	7	**587**	671
Intangible assets	8	**764**	746
		1,351	1,417
Current assets			
Inventory	9	**1,094**	1,053
Trade and other receivables	10	**1,649**	1,686
Current tax		**120**	120
Cash and cash equivalents		**1,846**	487
		4,709	3,346
Current liabilities			
Trade and other payables	11	**(603)**	(905)
Deferred income	11	**(614)**	(37)
Borrowings	11	**(10)**	(618)
		(1,227)	(1,560)
Net current assets		**3,482**	1,786
Total assets less current liabilities		**4,833**	3,203
Equity attributable to equity holders of the parent			
Share capital	14	**869**	710
Share premium		**25,393**	22,531
Merger reserve		**8,513**	8,513
Retained earnings		**(29,956)**	(28,575)
Total equity		**4,819**	3,179
Non-current liabilities			
Finance lease liability	12	**14**	24
Total non-current liabilities		**14**	24
Total equity and non-current liabilities		**4,833**	3,203

The financial statements were approved by the Board of Directors on 23 April 2010.

Theresa Wallis
Director

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 2010

	Year ended 31 January 2010 £'000	Year ended 31 January 2009 £'000
Operating loss	**(1,539)**	(1,796)
Depreciation and amortisation charges	**672**	688
Share based payments	**46**	91
Increase in inventories	**(41)**	(214)
Decrease/(increase) in receivables	**37**	(357)
(Decrease)/increase in payables	**(302)**	294
Increase in deferred income	**577**	–
Finance expense	**(11)**	(31)
Income tax credit received	**118**	121
Net cash outflow from operating activities	**(443)**	(1,204)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(132)**	(208)
Purchase of intangible assets	**(474)**	(447)
Interest received	**5**	57
Net cash used in investing activities	**(601)**	(598)
Net cash outflow before financing	**(1,044)**	(1,802)
Cash flows from financing activities		
Repayment of finance lease	**(10)**	–
Issue of ordinary share capital	**3,021**	–
Convertible loan repayment	**–**	(553)
Invoice discounting financing facility	**(364)**	364
Net cash inflow/(outflow) from financing activities	**2,647**	(189)
Net increase/(decrease) in cash and cash equivalents	**1,603**	(1,991)
Opening cash and cash equivalents	**243**	2,234
Closing cash and cash equivalents	**1,846**	243

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

Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 January 2010

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 February 2008	710	22,550	8,513	(27,016)	4,757
Issue of share capital	–	(19)	–	–	(19)
Share based payment expense	–	–	–	91	91
Loss and total comprehensive expense for the year	–	–	–	(1,650)	(1,650)
At 31 January 2009	**710**	**22,531**	**8,513**	**(28,575)**	**3,179**
Issue of share capital	159	2,862	–	–	3,021
Share based payment expense	–	–	–	46	46
Loss and total comprehensive expense for the year	–	–	–	(1,427)	(1,427)
At 31 January 2010	**869**	**25,393**	**8,513**	**(29,956)**	**4,819**

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

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

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

Notes to the Financial Statements
For the year ended 31 January 2010

1 Principal accounting policies

The Group's principal activity is the development, manufacture and sale of cardiac monitoring equipment. LiDCO Group Plc is the Group's ultimate parent company. It is incorporated and domiciled in England & Wales and situated at the address shown on page [1]. The Group's shares are listed on the Alternative Investment Market of the London Stock Exchange.

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

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

The accounting policies have been applied consistently throughout all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 January 2010.

In the current year, the Group has adopted IFRS 1 (revised) 'Presentation of Financial Statements', IFRS 7 'Financial Instruments: Improving disclosures about financial instruments' and IFRS 8 'Operating segments'. IAS 1 (revised) brings new disclosure requirements regarding owner and non-owner changes in equity which are now required to be shown separately. These financial statements have been prepared under the revised disclosure requirements which requires the presentation of a comparative balance sheet at the start of the comparative period. Management consider this is unnecessary since the 2007 balance sheet is the same as that previously published. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board. IFRS 7 requires enhanced disclosures about fair value measurement and liquidity risk.

The forthcoming standards may affect the preparation of the Group's financial statements in the future:
IFRIC 16: Hedges;
IFRS 3: Business combinations;
IAS 39: Financial instruments.

These standards are effective but the Group has not adopted them early.

IFRS standards and interpretations not yet adopted
As of 31 January 2010, the following standards and interpretations are in issue but not yet adopted by the EU:
- IFRS 9 Financial Instruments (effective 1 January 2013)
- Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14 (effective 1 January 2011)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)
- Improvements to IFRSs (issued 16 April 2009)
- Group Cash-settled Share-based Payment Transactions – Amendment to IFRS 2 (effective 1 January 2010)
- Amendment to IFRS 1 Additional Exemptions for First-time Adopters (effective 1 January 2010)
- IAS 24 (revised 2009) Related Party Disclosures (effective 1 January 2011)

Going concern
The financial statements have been prepared on the going concern basis, which assumes that the Group will have sufficient funds to continue in operational existence for the foreseeable future. The Group has continued to invest in the development of its operations and in particular its direct and indirect sales channels during the year. As a result the Group has continued to trade at a loss during the year ended 31 January 2010.

The Group finances its operations through shareholders' funds and an overdraft facility. The directors have approved forecasts for the foreseeable future, which indicate that the Group will have sufficient funds to trade during that period. During the year the Group appointed a new distributor in the USA. As part of the agreement, the Group transferred the bulk of its US sales force to the distributor reducing US sales costs by about £650,000 in a full year.

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

Basis of consolidation
The Group's consolidated financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 January 2010. Subsidiary undertakings are all entities over which the Group has the power to control the financial and operating policies so as to obtain economic benefits from its activities. The Group obtains and exercises control through voting rights.

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

Revenue recognition

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

Sale of goods

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

The Group has an arrangement for the placing of monitors in hospitals with Med One Capital Funding, LLC, a US company that has trading relationships with the majority of US hospitals and provides a number of deferred payment arrangements together with product support and advice. The Group sells monitors to Med One and recognises the revenue as a sale. Title to the monitors passes to Med One, as do the significant risks and rewards of ownership and there is no obligation for the Group to re-purchase the monitors. The full revenue arising from any subsequent sale of consumables relating to these monitors is recognised as revenue by the Group. Med One is entitled to a portion of the monthly revenue from the sale of consumables for a period of three years and payments made to Med One in this way are included within cost of sales.

Licence fees

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

Delivery of services

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

Interest income

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

Other income

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

Research and development

Research expenditure is charged to the income statement in the period in which it is incurred.

Development costs are capitalised when all the following conditions are satisfied:

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

Capitalised development costs which comprise cost of materials, labour and attributable overheads are amortised over a period of three to five years.

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

Intangible assets – development costs

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

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The amortisation periods generally applicable are:

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

Property, plant and equipment

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

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

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

Notes to the Financial Statements
continued

1 Principal accounting policies continued

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

All other leases are regarded as operating leases and the payments made under them are charged to the income statements account on a straight-line basis over the lease term.

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

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

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

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

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

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

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

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

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

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

Financial liabilities
The Group's financial liabilities include borrowings, trade and other creditors. Financial liabilities are measured at amortised cost using the effective interest rate method.

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

Where the Group issues share warrants in respect of distributor arrangements, the fair value of the options at the date of grant is calculated using a pricing model and is charged to the income statement over the vesting period.

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

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

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

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

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

Revenue recognition
The recognition of sales to Med One, as fully explained in the accounting policy on revenue recognition above, is considered to be a key judgment. The monitors are judged to have been sold to Med One when title and the significant risks and rewards of ownership have passed. Regarding the sale of consumables, the obligation to pay Med One is judged to arise when the consumables have been sold to the end user customer.

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

2 Revenue and segmental information

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

Turnover and result by geographical region

Group Revenue	**Year ended 31 January 2010 £'000**	Year ended 31 January 2009 £'000
USA	**2,273**	1,027
UK	**1,822**	2,161
Continental Europe	**990**	1,093
Rest of World	**282**	251
	5,367	4,532
Result		
USA	**459**	(329)
UK	**113**	565
Continental Europe	**402**	477
Rest of World	**127**	92
Total	**1,101**	805
Unallocated costs	**(2,640)**	(2,601)
Loss from operations	**(1,539)**	(1,796)

Notes to the Financial Statements
continued

2 Revenue and segmental information continued

Products and services

	Year ended 31 January 2010 £'000	Year ended 31 January 2009 £'000
Monitor sales	**1,855**	1,959
Consumables sales and recurring revenues	**3,125**	2,573
Licence fees	**387**	–
	5,367	4,532

Sales of monitors to Med One as detailed in Note 1 under revenue recognition during the year amounted to £nil (2008/09: £314,000). Payments to Med One relating to consumables and included within cost of sales amounted to £688,000 (2008/09: £587,000) during the year.

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

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

Material customers

During the year a customer, based in the USA accounted for more than 10% of the Group's total revenue. Revenue recognised during the year is as follows:

	2010 £'000	2010 % revenue	2009 £'000	2009 % revenue
Revenue recognised	**1,526**	**28%**	–	–

3 Loss from operations

The loss on operations before taxation is stated after:

	Year ended 31 January 2010 £'000	Year ended 31 January 2009 £'000
Auditors' remuneration:		
– Fees payable to the Company auditors for the audit of the Group accounts:	**17**	16
Fees payable to the Company auditors for other services:		
– Audit of the Company's subsidiaries	**25**	25
– Other services relating to the interim review*	**9**	7
– Other services*	**1**	5
Research and development	**109**	149
Depreciation of property, plant and equipment	**216**	241
Amortisation of intangible assets	**456**	447
Operating leases – rental of land and buildings	**165**	149
Share-based payment charge in respect of distributor arrangements	**63**	–
Write down of inventories	**46**	54
Exchange rate losses/(gains)	**23**	(84)

The cost of goods sold during the year amounted to £1,224,000 (2009: £765,000)

* Non-audit services comprise £9,000 for interim review services. The Board considers it cost effective for the auditors to provide these services.

4 Staff costs

Staff costs during the year were as follows:

Group	Year ended 31 January 2010 £'000	Year ended 31 January 2009 £'000
Wages and salaries	**1,970**	2,099
Social security costs	**179**	183
Share-based payments charge	**(97)**	91
	2,052	2,373

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

	2010 Number	2009 Number
Production	**10**	10
Sales	**16**	17
Administration	**13**	11
	39	38

Remuneration of directors is shown in the Directors' Remuneration Report.

5 Tax on loss on ordinary activities

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

	Year ended 31 January 2010 £'000	Year ended 31 January 2009 £'000
United Kingdom corporation tax at 28% (2009: 28%)	**–**	–
United States income taxes	**4**	–
Research and development expenditure tax credits – current year	**(120)**	(120)
– prior year	**(2)**	–
Total tax	**(118)**	(120)

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

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

Loss on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 28% (2009: 28%)	**(433)**	(496)
Effect of:		
Expenses not deductible for tax purposes	**24**	17
Depreciation for the period in excess of capital allowances	**50**	52
Prior year adjustment	**(2)**	–
Increase in tax losses	**217**	264
Other temporary differences	**13**	25
Additional deduction for research and development expenditure	**(99)**	(85)
Losses surrendered for research and development tax credit	**231**	223
United States income taxes	**3**	–
Research and development expenditure tax credits	**(122)**	(120)
Total tax	**(118)**	(120)

The above table reconciles the income tax credit with the accounting loss at the standard rate of UK corporation tax. 2009 figures have been restated to comply more nearly with the requirements of IAS12.

Notes to the Financial Statements
continued

5 Tax on loss on ordinary activities continued

The current year research and development tax credit of £120,000 (2009: £120,000) represents 24.5% (2009: 24.2%) of the Group's qualifying research and development spend.

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

	Year ended 31 January 2010 £'000	Year ended 31 January 2009 £'000
Unused losses (available indefinitely)	**23,408**	21,422
Temporary differences (available indefinitely)	**427**	263
	23,835	21,685

The related deferred tax asset of approximately £6.7m (2009: £6.4m) has not been recognised due to the uncertainty of future taxable profits.

6 Loss per share

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

	Year ended 31 January 2010 £'000	Year ended 31 January 2009 £'000
Loss after tax for the financial year	**(1,427)**	(1,650)

	Number ('000)	Number ('000)
Weighted average number of ordinary shares	**164,597**	141,983
Effect of dilutive share options	**–**	–
Adjusted weighted average number of ordinary shares	**164,597**	141,983
Loss per share – basic and diluted (p)	**(0.87)**	(1.16)

7 Property, plant & equipment

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Medical monitors £'000	Total £'000
Cost						
At 1 February 2008	555	428	161	549	523	2,216
Additions	–	3	23	6	101	133
Disposals	–	–	(13)	(105)	(147)	(265)
At 31 January 2009	555	431	171	450	477	2,084
Additions	–	5	1	47	81	134
Disposals	–	–	(3)	(21)	(66)	(90)
At 31 January 2010	**555**	**436**	**169**	**476**	**492**	**2,128**
Accumulated depreciation						
At 1 February 2008	302	275	135	478	193	1,383
Charge for the year	53	33	16	43	96	241
Disposals	–	–	(13)	(105)	(93)	(211)
At 31 January 2009	355	308	138	416	196	1,413
Charge for the year	53	32	15	28	88	216
Disposals	–	–	(3)	(19)	(66)	(88)
At 31 January 2010	**408**	**340**	**150**	**425**	**218**	**1,541**
Carrying amount at 31 January 2010	**147**	**96**	**19**	**51**	**274**	**587**
Carrying amount at 31 January 2009	200	123	33	34	281	671

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

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

The carrying amount of the Group's plant and equipment includes £24,000 (2009: £34,000) in respect of assets held under finance leases.

8 Intangible assets

	Clinical trials £'000	Product registration £'000	Product development £'000	Total £'000
Cost				
At 1 February 2008	116	459	1,631	2,206
Additions	–	97	349	446
At 31 January 2009	116	556	1,980	2,652
Additions	–	73	401	474
At 31 January 2010	**116**	**629**	**2,381**	**3,126**
Accumulated amortisation				
At 1 February 2008	86	148	1,225	1,459
Charge for the year	15	112	320	447
At 31 January 2009	101	260	1,545	1,906
Charge for the year	15	119	322	456
At 31 January 2010	**116**	**379**	**1,867**	**2,362**
Carrying amount at 31 January 2010	**–**	**250**	**514**	**764**
Carrying amount at 31 January 2009	15	296	435	746

Intangible assets includes assets that are internally generated and amortised over their estimated useful lives. Amortisation costs are included in administrative expenses. The rates of amortisation are shown in Note 1.

Notes to the Financial Statements
continued

9 Inventory

	2010 £'000	2009 £'000
Raw materials and consumables	**246**	250
Finished goods and goods for resale	**848**	803
	1,094	1,053

At 31 January 2010, inventories stated net of allowances for obsolete or slow moving items was £106,000 (2009: £117,000).

10 Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables	**1,473**	1,537
Other receivables	**51**	48
Prepayments	**125**	101
	1,649	1,686

All amounts are short term and the directors consider that the carrying amount of trade and other receivables approximates to their fair value. All of the Group's trade and other receivables have been reviewed for indicators of impairment. At 31 January 2010, trade receivables of £1.10m (2009: £1.24m) were fully performing. In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of trade receivables past due but not impaired is as follows:

	2010 £'000	2009 £'000
Not more than three months	**182**	50
More than three months but not more than six months	**94**	30
More than six months but not more than one year	**15**	106
More than one year	**79**	111
	370	297

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

	2010 £'000	2009 £'000
Opening balance	**95**	100
Provision for receivables impairment	**94**	44
Receivables written off in year	**(183)**	(24)
Unused amounts reversed	**–**	(25)
Closing balance	**6**	95

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

11 Current liabilities

	2010 £'000	2009 £'000
Trade payables	**332**	560
Social security and other taxes	**65**	92
Accruals	**206**	253
Deferred income	**614**	37
Bank overdraft	**–**	244
Invoice discount financing facility	**–**	364
Finance leases	**10**	10
	1,227	1,560

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

The Group has overdraft facilities that are provided by a UK bank. The bank has a charge over the assets of the Group but excluding any intellectual property rights.

12 Non-current liabilities

	2010	2009
	£'000	£'000
Finance leases	**14**	24

13 Financial instruments

Financial risks

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

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

Credit risk

The Group's credit risk is primarily attributable to trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimates by management based on prior experience of customers which is typified by a small number of high value accounts and their assessment of the current economic environment. The maximum exposure is £3,370,000 (2009: £2,072,000).

The credit risk on liquid funds is limited because the counterparties are reputable international banks.

Liquidity risk

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

Liquidity risk analysis

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis.

The Group maintains cash and marketable securities to meet its liquidity requirements. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

As at 31 January 2010, the Group's liabilities have contractual maturities which are summarised below:

	Current		Non Current	
	Within 6 months	6 to 12 months	1 to 5 years	Over 5 years
31 January 2010	£'000	£'000	£'000	£'000
Finance lease obligations	5	5	14	–
Trade payables	603	–	–	–
	608	5	14	–

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

	Current		Non Current	
	Within 6 months	6 to 12 months	1 to 5 years	Over 5 years
31 January 2009	£'000	£'000	£'000	£'000
Invoice discount financing facility	–	364	–	–
Bank overdraft	–	244	–	–
Finance lease obligations	7	7	24	–
Trade payables	905	–	–	–
	912	615	24	–

Notes to the Financial Statements
continued

13 Financial instruments continued

Market risks

Interest rate risk

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

Currency risk

The Group manages currency risk by assessing the net exposure in each non-sterling currency in which exposure arises. The only significant exposure relates to US dollars. The Group accepts the risk attached to fluctuations in the US dollar exchange rate as the US dollar based loan liability and US dollar payables are party mitigated by US dollar receivables from sales. This risk reduced significantly during the year with the transfer of the bulk of the US sales force to Aspect Medical Systems Inc.

Group interest rate profile

		Floating rate	
Financial assets at 31 January 2010	Cash current bank accounts £'000	Deposit and reserve account £'000	Total £'000
Currency			
Sterling	46	1,405	1,451
US dollars	394	–	394
Euro	1	–	1
	441	1,405	1,846

Summary of financial assets and liabilities by category

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

	2010	2009
Current assets	**£'000**	£'000
Loans and receivables:		
– Trade and other receivables	**1,524**	1,585
– Cash and cash equivalents	**1,846**	487
	3,370	2,072

	2010	2009
Non-current liabilities	**£'000**	£'000
Finance lease obligations	**14**	24
	14	24

	2010	2009
Current liabilities	**£'000**	£'000
Financial liabilities measured as amortised cost:		
– Borrowings	**10**	618
Trade payables and other short term financial liabilities	**332**	560
	342	1,178

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through an optimal balance of debt and equity.

The Board reviews the capital structure, including the level of indebtedness and interest cover as required. As part of this review, the Board considers the cost of capital and the risk associated with each class of capital.

The Group is exposed to translation and transaction foreign exchange risk. The currency where the Group is most exposed to foreign currency volatility is US dollars.

Transactions and balances of the subsidiaries are denominated in the local currency and had the following balances denominated in US dollars:

	US Dollars	
	2010	2009
	£'000	£'000
Trade and other receivables	**79**	576
Cash and cash equivalents	**394**	79
Invoice discounting financing facility	**–**	(97)
Trade and other payables	**(37)**	(253)
	436	305

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

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

	US Dollars	
	2010	2009
Currency fluctuation	**11%**	25%

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

	US Dollars	
	2010	2009
	£'000	£'000
Net result for the year	**(76)**	(12)
Equity	**(76)**	(12)

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

	US Dollars	
	2010	2009
	£'000	£'000
Net result for the year	**76**	12
Equity	**76**	12

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

Fair values of financial assets and liabilities

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

Notes to the Financial Statements continued

14 Share capital

	2010 £'000	2009 £'000
Authorised – 200,000,000 ordinary shares of 0.5 pence each	**1,000**	1,000

Issued and fully paid – ordinary shares of 0.5 pence each	2010 Number of shares 000	2009 Number of shares 000
At the beginning of the year	**141,983**	141,983
Issued for cash	**31,916**	–
At the end of the year	**173,899**	141,983

	£'000	£'000
At the beginning of the year	**710**	710
Issued for cash	**159**	–
At the end of the year	**869**	710

On 19 May 2009 14,020,000 shares were issued at 10p per share. On 26 June 2009 17,896,000 shares were issued at 10p per share.

On 11 August 2005, the Group issued share warrants to Laurus Master Fund Limited as part of the Group's loan arrangements with that company. The warrants are over 936,330 ordinary shares at an exercise price of 30 pence. The last date of exercise is 11 August 2010.

On 28 July 2009, the Group issued share warrants in respect of arrangement with a distributor. (See note 15).

15 Share-based payments

Equity-settled share option schemes

The Group has two share option schemes for employees and directors of the Group. Options are exercisable at a price equal to the average quoted market price of the Group's shares on the date of grant. The vesting period is over a period of three years.

	2010		2009	
	Number	Weighted average exercise price (p)	Number	Weight average exercise price (p)
Outstanding at the beginning of the year	**9,353,872**	**15.9**	7,962,277	17.5
Issued in the year	**1,309,000**	**13.3**	1,601,120	7.8
Forfeited during the year	**(94,293)**	**18.4**	(209,525)	16.3
Exercised during the year	**(42,500)**	**0.5**	-	-
Outstanding at the end of the year	**10,526,079**	**15.8**	9,353,872	15.9
Exercisable at the end of the year	**7,377,079**	**18.0**	6,855,872	13.8

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

	2010	2009
Weighted average share price (p)	**13.3**	7.8
Weighted average exercise price (p)	**13.3**	7.8
Expected volatility	**50%**	40% – 45%
Expected life	**3.5**	3.5
Risk free rate	**3.0%-3.5%**	3.0%-3.5%
Expected dividend yield	**–**	–

The expected volatility is based on the Group's historical share price averaged over a period equal to the expected life. The expected life is the average expected period to exercise. The risk free rate of return is based on the UK Government gilts. The share options outstanding at the end of the year have exercise prices of between 0.5p and 28.25p per share. The weighted average remaining contractual life of the outstanding options was 5.45 years.

Share warrants in respect of distributor arrangements

During the year the Group issued share warrants in respect of an arrangement with Aspect Medical Systems Inc. Warrants were issued over a total of 13,915,324 shares at an exercise price of 14.3 pence which represented a 20% premium over the mid market price for a period of 10 days before and 10 days after the date of the distributor agreement. The fair value of the warrants at the date of grant has been calculated using the same pricing model as that used for the equity-settled share option schemes and will be charged to the income statement over the vesting period. The distributor may exercise the warrants subject to purchasing certain minimum quantities of monitors and disposables during the first and second years of the distribution agreement.

16 Capital commitments

The Group had no capital commitments at 31 January 2010 or 31 January 2009.

17 Contingent liabilities

There were no contingent liabilities at 31 January 2010 or 31 January 2009.

18 Leasing commitments

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

	2010		2009	
Group	**Land and buildings £'000**	**Other £'000**	Land and buildings £'000	Other £'000
In one year or less	**45**	**73**	164	56
Between one and five years	**15**	**46**	60	70
	60	**119**	224	126

19 Related party transactions

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

Key management compensation

Compensation for directors who are the only employees with responsibility for planning, directing and controlling the Group is disclosed in the Directors' Remuneration Report.

Transactions between the Company and its subsidiaries which are related parties are eliminated on consolidation. There were no transactions between the Company and its subsidiaries.

Independent Auditor's Report to the members of LiDCO Group Plc

We have audited the parent company financial statements of LiDCO Group Plc for the year ended 31 January 2010 which comprise the parent company balance sheet, the parent company reconciliation of movements in shareholders' funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the Group financial statements of LiDCO Group Plc for the year ended 31 January 2010.

David Miller
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
23 April 2010

Company Balance Sheet
At 31 January 2010

	Note	**2010 £'000**	2009 £'000
Fixed assets			
Investments	2	**65**	65
		65	65
Current assets			
Debtors	3	**5**	5
Amount due from subsidiary undertakings	3	**14,338**	10,955
Cash at bank		**11**	371
		14,354	11,331
Current liabilities			
Creditors: Amounts falling due within one year		**–**	–
		–	–
Net current assets		**14,354**	11,331
Total assets less current liabilities		**14,419**	11,396
Net assets		**14,419**	11,396
Shareholders' funds			
Share capital	4	**869**	710
Share premium	5	**25,393**	22,531
Retained earnings	5	**(11,843)**	(11,845)
Shareholders' funds		**14,419**	11,396

The financial statements were approved by the Board of Directors on 23 April 2010.

Theresa Wallis
Director

Terence O'Brien
Director

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

Notes to the Financial Statements
For the year ended 31 January 2010

1 Principal accounting policies

Basis of preparation
The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with all applicable United Kingdom accounting standards. The principal accounting policies of the Company are set out below.

The financial statements have been prepared on the historical cost basis.

Going concern
The financial statements have been prepared on the going concern basis, which assumes that the Group will have sufficient funds to continue in operational existence for the foreseeable future. The Group has continued to invest in the development of its operations and in particular its direct and indirect sales channels during the year. As a result the Group has continued to trade at a loss during the year ended 31 January 2010.

The Group finances its operations through shareholders' funds and an overdraft facility. The directors have approved forecasts for the foreseeable future, which indicate that the Group will have sufficient funds to trade during that period. During the year the Group appointed a new distributor in the USA. As part of the agreement, the Group transferred the bulk of its US sales force to the distributor reducing US sales costs by about £650,000 in a full year.

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

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

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

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

Where the Group issues share warrants in respect of distributor arrangements, the fair value of the options at the date of grant is calculated using a pricing model and is charged to the income statement over the vesting period.

2 Investments

Company	Shares in subsidiary undertakings £'000
Cost and net book value	
At 1 February 2009 and at 31 January 2010	65

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

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

3 Debtors

	2010 £'000	2009 £'000
Other debtors	**5**	5
Amount due from subsidiary	**14,338**	10,955
	14,343	10,960

The amount due from subsidiary relates to the ongoing funding provided to the principal trading subsidiary, LiDCO Limited, whilst it continues to be loss-making. The directors made a provision for impairment of £12m in the year to 31 January 2008, and consider that no further impairment provision is necessary at 31 January 2010. The timing of the repayment of this debt is uncertain and unlikely to be within one year.

4 Share capital

	2010 £'000	2009 £'000
Authorised		
200,000,000 ordinary shares of 0.5p each	**1,000**	1,000
Allotted, called up and fully paid		
173,899,054 ordinary shares of 0.5p each	**869**	710

5 Reserves

	Share premium £'000	Other reserve £'000	Equity reserve £'000	Profit & loss account £'000
At 1 February 2009	22,531	–	–	(11,845)
Issue of share capital	2,862	–	–	–
Profit for the year	–	–	–	2
At 31 January 2010	**25,393**	**–**	**–**	**(11,843)**

6 Reconciliation of shareholders' funds

	2010 £'000	2009 £'000
Profit for the year	**2**	8
Shares issued	**159**	–
Share premium account	**2,862**	(19)
	3,023	(11)
Opening shareholders' funds	**11,396**	11,407
Closing shareholders' funds	**14,419**	11,396

7 Loss for the financial year

In accordance with the exemptions given by section 408 of the Companies Act 2006, the holding company has not prepared its own profit and loss account. The profit for the year of the Company was £2,000 (2008/9: £8,000).

8 Related party transactions

There were no transactions between the Company and its subsidiary, which are related parties.

Company Information

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2659005

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Company website:
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Directors and Company Secretary:

Ms T A Wallis	Non-Executive Chairman
Dr T K O'Brien	Chief Executive Officer
Dr D M Band	Scientific Director
Mr J G Barry	Sales and Marketing Director
Mr P L Clifford	Finance Director
Mr I G Brown	Non-Executive Director
Mr J P Rowland	Company Secretary

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Notes

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ckd

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FSC
Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
www.fsc.org Cert no. SGS-COC-003349
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