LiDCO Group Plc annual report & accounts for the year ended 31 January 2011

2010/11

LiDCO Cardiac Sensor Systems

LiDCO Group Plc
www.lidco.com

Early intervention to avoid potentially dangerous and life threatening events has been proven to reduce complications and length of hospital stay in high risk surgery patients.

LiDCO manufactures minimally invasive hemodynamic monitoring equipment and disposables. Our products are the result of a multi-disciplinary developmental approach that transforms complex physiological data into useable and effective information.

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Financial highlights

Total revenue increased by 16% to £6.24m (2009/10: £5.37m)

Traded profitably in second half of the year

UK sales increased 29% to £2.36m (2009/10: £1.82m)

Recurring revenues of £3.68m, representing 59% of total revenues

Gross profit up 28% to £4.22m; gross margin 68% (2009/10: 61%)

Operating loss reduced 68% to £498,000 (2009/10: £1.54m)

Lowest ever annual cash outflow before financing of £433,000 (2009/10: £1.04m)

Cash balance of £1.40m (2009/10: £1.85m)

Loss per share 0.22p (2009/10: 0.87p)

Operational highlights

524 monitors sold/placed – installed base of 2001 units at year end

Disposable sales of 47,948 units – up 26% (2009/10: 37,918)

Study shows use reduces mortality in shock patients

LiDCO*rapid* v1.03 and blood pressure module completed in September

LiDCO monitors now have connectivity to Philips and GE hospital information systems

LiDCO study day receives Royal College of Nursing accreditation

Post period end

Argon appointed LiDCO as UK distributor for their critical care products with distribution commencing in May 2011

Revenue
(million)

Loss from operations
(million)

Net cash outflow before financing
(million)

Products

LiDCO researches, develops, manufactures and sells innovative medical devices, primarily for critical care and cardiovascular risk hospital patients who require real-time hemodynamic monitoring while undergoing major surgery, intensive care and cardiac procedures. LiDCO's products provide critical hemodynamic data regarding the performance of a patient's heart and effectiveness of the blood circulation in delivering oxygen to the body's tissues. Improved hemodynamic monitoring reduces length of stay and complications in high risk surgery patients.

Patent protected

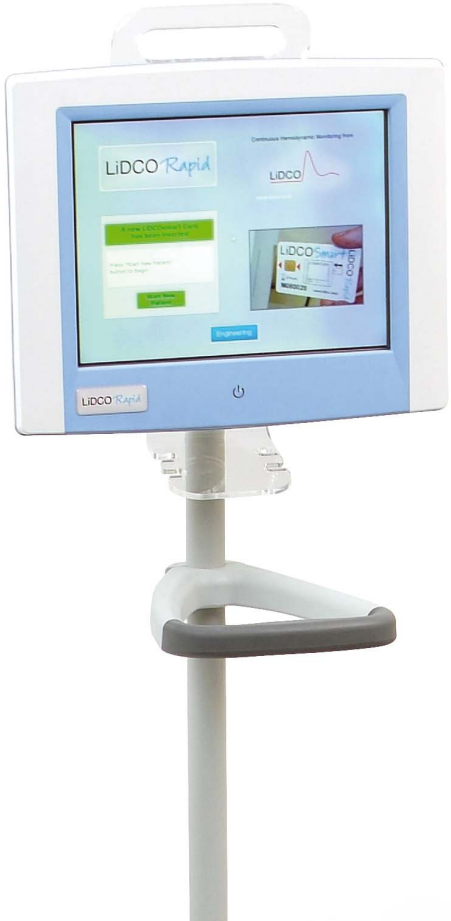
LiDCO products are innovative and unique. They are protected as strongly as possible by proprietary intellectual property rights – patents, copyright, trademarks and confidentiality/secrecy arrangements (know-how).

Large and growing market opportunity

They are designed for point-of-care use and are minimally invasive, portable and easy to use at a patient's bedside. They address a potential worldwide market opportunity of US$1.2 billion per annum.

R&D activities

LiDCO has a product development programme of incremental product improvement/evolution improving ease of use and enabling convergence and integration of multiple monitoring parameters, either on LiDCO monitor screens or third party monitors via software licensing.



Market access

LiDCO's distribution strategy is to put effective arrangements in place in order to access the market opportunity at a cost which allows the Company to meet its strategic goals and meet market expectations. LiDCO targets territories that are developing in terms of hemodynamic monitoring, where strong distribution networks are available that can be supported from LiDCO's UK base.

UK sales summary

- Total revenue up 29% at £2.36m (2009/10: £1.82m)
- Monitor revenue up 52% to £0.50m (2009/10: £0.33m)
  - ICU: LiDCO*plus* monitor revenue up 49% to £0.30m
  - Surgery: LiDCO*rapid* monitor revenue up 118% to £0.20m
- Disposables sales of £1.80m up 21% (2009/10: £1.49m)
- Other income £55,000 (2009/10: nil)

29%
increase in UK total sales

USA sales summary

- Distribution revenue up 26% to £1.89m (2009/10: £1.50m)
- LiDCO*rapid* monitor revenue steady at £0.68m (2009/10: £0.68m)
- LiDCO*rapid* smart card sales up 54% to £0.83m (2009/10: £0.54m)
- Licence fee and other income of £0.38m up 35% (2009/10: £0.28m)

26%
increase in US distribution revenue

Continental Europe sales summary

- Total revenue down by 13% to £0.86m (2009/10: £0.99m)
- Monitor sales revenue of £0.32m down 40% (2009/10: £0.53m)
- Sensor/smart card sales up 17% to £0.54m (2009/10: £0.46m)

17%
increase in sales of sensor/smart card sales in continental Europe

Rest of World and licence fee income

- Total revenue up 135% at £0.66m (2009/10: £0.28m)
- Monitor revenue up 225% to £0.39m (2009/10: £0.12m)
- Sensor/smart card sales up by 117% to £0.13m (2009/10: £0.06m)
- Licence fee and other income of £0.14m (2009/10: £0.10m)

225%
increase in monitor revenues from Rest of World

Evidence and awareness

Complications from major surgery in patients undergoing emergency surgery, or surgery in patients with limited cardiovascular reserves are common. Not only are complications such as infections costly to treat and necessitate longer hospital stay, they also have long-term consequences negatively influencing both survival and quality of life in survivors.

We now know that these complications are potentially avoidable with the use of a pre-emptive 'enhanced recovery' strategy that involves better monitoring through use of advanced hemodynamic monitors such as those provided by LiDCO.

Sufficient evidence has now been accumulated to demonstrate that the relatively inexpensive upfront costs of hemodynamic monitoring are easily outweighed by the short-term benefits to the patient and hospital in terms of reduced length of stay.

The 'body of clinical evidence' has resulted in the emergence and availability in the UK of guidelines on fluid management, a 'How To, Why To' guide and more recently a Commission for Quality and Innovation (CQUIN) payment that links a proportion of the hospital's income to the adoption of improved practice.

More than 100 published papers and presentations have been given on LiDCO's technology, with 25 abstracts and papers during the last year alone. Positive outcome data is available for both high risk surgery and shock patients with LiDCO being the sole technology used in two current large multi-centre outcome trials:

- MOnITorR USA transplantation study donor
- OPTIMISE UK high risk surgery study

Hospital departmental strategy and use of advanced hemodynamic monitors is heavily influenced by the accumulated body of clinical evidence. Adoption incentives have followed resulting in the expectation that the minimally invasive hemodynamic monitoring market will grow to a value of US$1.2 billion per annum worldwide and in the UK – where a lot of the research was pioneered – by 17% per annum.

Factors that influence the decision to implement fluid optimisation/enhanced recovery

92.1%
Body of clinical evidence

50%
Departmental/clinical strategy

36.3%
Professional body guidance

12%
Hospital policy

6.8%
CE/senior management decision

2.6%
Other

Top requirements for cardiac output monitor

78%
ease of use

71%
accuracy

46%
suitable for broadest application of use

45%
size of body of evidence

Source: UK Intensive Care Society market survey 2010

Translational skills

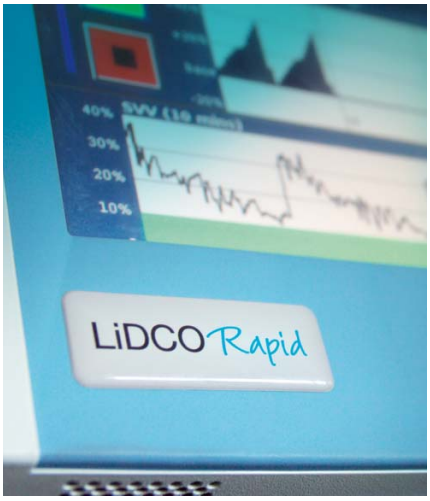
Productive use of LiDCO's hemodynamic monitoring products has to be supported by excellence in clinical education. In April 2010 LiDCO established a Hemodynamic Workshop in collaboration with doctors at St George's Hospital in London, aimed at teaching hemodynamic optimization techniques to senior physicians. This course is accredited by the UK's Royal College of Anaesthetists for continuing medical education points.

Dr Maurizio Cecconi presenting at St George's Hospital at LiDCO's Hemodynamic Monitoring Workshop

The course has been very well received by all attendees and we have seen a high degree of participation both domestically and by European doctors for the courses organised for this year.

In July 2010 LiDCO received accreditation from the UK Royal College of Nursing (RCN) for its LiDCO*plus* monitor competency-based study day. The course is designed for all critical care nurses, nurse educators, professional development nurses, nurse consultants and junior doctors.

Our plans are to considerably expand both of these educational activities. We are highly committed to helping our hospital customers to translate these skills into practice.



Chairman's statement

2010/11 was another good year for LiDCO. Continuing with our strategy for growth, we saw revenues increase by 16% and the number of disposables sold grow by 26%. Despite returning a profit in the second half of the year, the difficult economic climate experienced in our target markets impeded us from recording a profit for the year as a whole, though we were able to record an EBITDA of £141,000.

Theresa Wallis
Chairman

We have ended the year with a robust cash position and no debt. LiDCO's strategy for growth continues to be focused on the three key areas of products, market access and evidence and awareness.

Products

Concern over associated risks means that demand for invasive catheter-based hemodynamic monitoring products continues to decline. LiDCO's minimally invasive technology enables measurement, analysis, audit and sharing of real-time and historic hemodynamic data, both in critical care units (LiDCO*plus*) and the operating theatre (LiDCO*rapid*). Both the LiDCO*plus* and the LiDCO*rapid* are high value, high margin products with strong intellectual property protection.

We continued to improve our products during the year with software upgrades and additional features that improve delivery of data to the clinician. Compatibility with other healthcare systems and technologies has further enhanced our products' appeal, and LiDCO monitors now have connectivity to Philips' and GE's hospital information systems.

The marketing collaboration signed with Argon Medical in the UK in March of this year will provide our UK sales force with additional, well established products complementing and strengthening our own offering.

Market access

Minimally invasive hemodynamic monitoring is the fastest growing segment within the European patient monitoring market, and the UK is leading Europe in terms of its rate of adoption of the technology. In the UK we have a direct sales and nurse educator team successfully increasing our installed base in this major market and growing sales by 29% in the year.

In the USA, our partner is Covidien: a leading global healthcare products company. In 2010 Covidien strengthened its sales team, surgery franchise and combination technology offering, enhancing LiDCO's access to this lucrative market.

The pressures on hospitals to cut costs and improve efficiency present significant opportunities for LiDCO.

16%
increase in revenues this year

26%
growth in unit sales of disposables

Evidence and awareness

An increasing body of evidence shows improved patient outcomes from the use of less invasive hemodynamic monitoring technologies. In 2010, clinicians demonstrated the effectiveness of LiDCO products in a variety of fields including: major and bariatric surgery, obstetrics, intensive care and cardiology. Studies have also been published showing reduced mortality in shock patients as well as reduced length of stay and complications in surgery patients that have been hemodynamically monitored using LiDCO's products.

Financial position

LiDCO's operating loss for the year reduced from £1.54m to £498,000, on turnover of £6.24m. With its cash usage reaching its lowest level ever, at £433,000, the Group ended the year with £1.40m in cash.

Dr David Band

In April, Dr David Band, the Group's co-founder and Scientific Director resigned from the Board after many years of service. We are very grateful for his important contribution to the Group. I am delighted he has agreed to continue advising LiDCO with regard to product development.

Prospects

Hospitals are under increasing pressure to cut costs and improve efficiency and patient outcomes. These challenges present significant opportunities for LiDCO, as our products can reduce costly patient complications and hospital stay lengths, while providing significant improvements to quality of care. We have worked hard to position ourselves to respond to the escalating demand.

I am grateful to our shareholders for their continuing loyalty to LiDCO in 2010/11 and my fellow directors for their support. I would also like to acknowledge the valuable contribution made by our Clinical Advisory Group. Finally I wish to thank our staff for their enthusiasm and commitment throughout the year. The year ahead will be another challenging one but we are well placed to continue our progress.

Theresa Wallis
Chairman
15 April 2011

Chief Executive Officer's statement

LiDCO had another very good year. The monitor base increased by a net 233 units (13%) to 2001 units, with 524 units sold or placed during the year. Disposables income increased in our intensive care and surgery markets by 8% and 39% respectively. Overall revenues were up 16% on the previous year to £6.24m with gross profit up 28% to £4.22m. Expenses were kept under tight control resulting in administration costs reducing by 2%. Average product margins were maintained at 76%. Cash outflows before financing were at a record low with the Group trading profitably during the second half of the year. Over the prior year the loss fell by over £1m with the loss per share reducing by 75% to 0.22p.

Dr Terence O'Brien
Chief Executive Officer

The market

The directors estimate that the potential number of patients in Europe who could benefit from hemodynamic monitoring is six times the number currently being monitored. The cost of critical care continues to grow. Heightened awareness of the benefits from the use of LiDCO's technology such as reductions in infections, length of stay and costs are all contributing to increased sales.

The market for minimally invasive hemodynamic monitors breaks down into three categories: intensive care (ICU), high risk surgery and alternate sites such as trauma and 'outreach' (i.e. outside the ICU) care sites. LiDCO monitors have the potential to play major roles in each of these arenas.

Reducing surgical complications such as infections is a key growth driver for our business. In the US, it is estimated that surgical site infections alone cost US$10bn per annum. The need to prevent central line infection and septic complications has led to a drive to reduce the use of invasive central venous catheters. Use of LiDCO's technology can reduce central venous catheter use by up to 80% in high risk surgery *(Green D, Paklet L (2010) Latest developments in peri-operative monitoring of the high-risk major surgery patient. International Journal of Surgery 8 90-99)*.

With a US$1.2bn market potential in surgery and intensive care, the global market for minimally invasive hemodynamic monitoring products is large and growing. The experience level of clinicians in the ICU is declining due to the retirement of staff experienced in the use of older invasive catheter based technologies. Consequently there is a growing need for reliable, accurate and easily adoptable products that can deliver more cost effective care. The minimally invasive market now represents 53% of the European hemodynamic monitoring market value, followed by the invasive and non-invasive markets which represent 42% and 5% of sales respectively.

It is projected that the European minimally invasive hemodynamic monitoring market will grow at a compound rate of 12% per annum; from US$51m today to US$112m by 2017 *(iData 2011 patient monitoring research report)*. The UK represents the biggest European market for, and fastest rate of adoption of, minimally invasive technology. Sales in the UK are projected to grow by an average of 17% per annum from US$14m in 2010 to US$42m in 2017. The NHS in the UK is now the largest healthcare organisation in the world, with an annual spend of £100bn. LiDCO has a direct sales force in the UK where our sales revenues increased last year by a noteworthy 29%. We are resourced to take advantage of this fast growing domestic market opportunity. Acquiring the sales and marketing rights to the Argon critical care products has further broadened and strengthened our hemodynamic offering to our UK customers.

Evidence and awareness

The minimally invasive hemodynamic market is documented as the fastest growing sector in the European hospital monitoring field. The potential size of the market, its growth rate and the increasing presence of clinical guidelines for adoption of hemodynamic monitoring is inevitably resulting in an increasing appetite from the major corporate players to participate in providing these advanced products.

The pressure on hospitals to reduce costs while improving efficiency is intensifying. In the UK, the NHS QIPP (Quality, Innovation, Productivity and Prevention) and ERAS (Enhanced Recovery After Surgery) programmes have resulted in a higher focus on adopting advanced hemodynamic monitoring technology. For example, in a 2010 survey of UK hospitals by the British Intensive Care Society, 77% of hospitals had, or were planning to implement, fluid-optimisation of their colorectal cancer surgery patients. The three most important issues determining their choice of technology were ease of use/adoption,

US$10bn
annual estimated cost of surgical site infections in the US

US$1.2bn
global market potential in surgery and intensive care for minimally invasive hemodynamic products

trending accuracy and suitability of use for the broadest variety of patients. The LiDCO*rapid* was specifically designed to be easy to set up and usable in the fluid and drug management of any patient with arterial line access. Our surgical product is proving very adoptable, with UK sales of LiDCO*rapid* disposables increasing by 137% in the year.

Cumulatively more than 100 publications are in print referencing our technology. During 2010 alone 25 research abstracts and papers on the use of LiDCO monitors were presented and published. Using LiDCO technology for high-risk surgery patients has been shown to help reduce complications – particularly infections – by more than a third, reducing hospital stay by an average of 12 days per patient and costs by £4,800 per patient *(Pearse et al. Early goal-directed therapy after major surgery reduces complications and duration of hospital stay. A randomized, controlled trial. Crit. Care 2005, 9 (6) 687-693)*.

In September 2010, the Journal of Critical Care published the findings of a study from the University of Iowa, showing that using the LiDCO*plus* monitor significantly reduced the mortality rate in patients treated for shock *(Hata et al. Reduced mortality with non invasive hemodynamic monitoring of shock, Journal of Critical Care, 26:2, pages 224.e1-224.e8)*. Treatment of patients using LiDCO's monitor significantly reduced the observed mortality rate to 13% against 32% and 20% in the two invasively monitored groups and 37% in the unmonitored patient groups. These results add to the previous findings of Pearse *et al* who reported that supportive care guided by LiDCO's lithium dilution and arterial waveform assessments of cardiac output was associated with reduced peri-operative morbidity compared with conventional assessment.

Two further large multi-centre outcome trials are progressing well. In the UK, the LiDCO*rapid* cardiac output monitor was chosen as the sole monitoring system to be used in OPTIMISE, a government-supported trial which aims to improve surgical outcomes by optimising a patient's cardiovascular management. The trial, covering 12 centres, is the largest of its type to date; it is underway and currently recruiting patients.

The LiDCO*plus* is the sole hemodynamic monitor used in a 960 patient US-Government funded multi-centre trial – MOnIToR (Monitoring Organ donors to Improve Transplantation Results). The results of earlier studies using LiDCO*plus* to monitor and develop a treatment protocol designed to improve the hemodynamic status of donors generated considerable interest within the US transplantation community. As with the OPTIMISE trial, the MOnIToR trial is progressing well.

To facilitate adoption and productive use of its equipment, LiDCO's monitoring products are also supported by excellence in clinical education. In April 2010 LiDCO established a Hemodynamic Workshop in collaboration with doctors at St George's Hospital in London aimed at teaching hemodynamic optimisation techniques to senior physicians. This course is accredited by the UK's Royal College of Anaesthetists for continuing medical education points. The course has been very well received by all the consultant level attendees and we have seen a high degree of participation and take up by our European distributors of places for courses held this year. In July LiDCO received accreditation from the Royal College of Nursing (RCN) for its LiDCO*plus* monitor competency-based study day. The course is designed for all critical care nurses, nurse educators, professional development nurses, nurse consultants and junior doctors. Our plans are to considerably expand both of these educational activities.

Products and applications

LiDCO applies several common criteria to its products. They must be innovative, protectable, and applicable to significant clinical applications. They must have a large addressable market and deliver significant margins. The manufacturing process must also be low cost with very high reliability.

Each LiDCO monitor addresses a particular market. Launched in 2008, the LiDCO*rapid* principally focuses on high risk surgery patients with arterial lines, but also addresses alternate site use – for example in trauma, obstetrics and shock. The LiDCO*plus* is used mainly in the intensive care arena.

During the year several new product developments were introduced, for example:

- a software upgrade to the LiDCO*rapid*, including a module to expand access to blood pressure data;
- a translation facility to convert information from English into 22 languages; and
- improved communication with Philips and GE hospital information systems.

Sales and distribution

Revenue was up 16% to £6.24m (2009/10: £5.37m). A similar number of LiDCO monitors were sold or placed in the year (524 vs. 565 units in 2009/10) with monitor capital income up 5%. The monitor base at the year end was 2,001 units, with a net increase of 233 units (13%) in the year. As explained in the Financial Review, from this year we are now reporting our installed base as the net number of sold and placed units over the last seven years. Our monitors have an expected life of seven years in use, so we have decided to assume all monitors over seven years old will no longer be disposable income generating. From here on the installed base will only increment by the difference between those monitors sold in the year and those retired i.e. that were sold eight years ago. The LiDCO*rapid* portion of the installed base grew by 474 units and now represents in excess of 50% of the monitor base.

Chief Executive Officer's statement continued

Disposables income was higher for both our intensive care and surgery markets by 8% and 39% respectively and by 18% overall. Disposables numbers were also up 26% at 47,938 units (2009/10: 37,918 units). Export sales represent 62% of total income – slightly down from 66% in the prior period, reflecting the very strong UK sales growth seen in the period as well as economic weakness in some parts of continental Europe.

LiDCO's strategy is to sell directly to the high value, high growth UK hospital market via its strong, direct sales force and is expecting to take a significant share of the domestic market growth. In export territories we are focusing on addressable markets i.e. those where we expect good growth and where we have access to specialist distribution partners with the attributes and commitment to sell our products and develop our market within their territory. These include the US, Japan, Scandinavia, Eastern Europe, the Middle East and Latin America.

In the US there are almost 5,000 hospitals performing surgery and within these hospitals there are over 100,000 intensive care beds. In addition to the challenge of selling to this large and geographically spread out hospital market, there are a significant number of regional and/or national accounts to work with. Once sales traction is gained in the US, these hospital groups and group purchasing organisations (such as Premier and Novation) become increasingly important customers.

Over the years it is clear that fully accessing the growing USA hemodynamic monitoring market has become logistically and financially impossible for the smaller and even larger sized companies. Therefore, in order to address a significant share of this opportunity we have established a distribution agreement in the US with the Respiratory and Monitoring division of Covidien plc ('Covidien'). Covidien has a long standing and substantial existing oximetry monitoring business and more recently made significant investment in the monitoring market, acquiring two additional US monitoring companies (Aspect and Somanetics) with a very significant total investment of US$460m.

Review of revenue and units sold and placed

	Year to 31 Jan 2011	Year to 31 Jan 2010	Increase/ (decrease)	% Increase/ (decrease)
Revenue by type (£'000)				
– Monitors	**1,953**	1,855	98	5%
– Sensors/smart cards/use fees	**3,681**	3,125	556	18%
– Licence fees and other income	**603**	387	216	56%
– Total revenues	**6,237**	5,367	870	16%
Monitors (units)	**524**	565	(41)	(7%)
Sold	**515**	536	(21)	
Placed	**9**	29	(20)	
Sensor, smart card and fee per use sales (units)	**47,938**	37,918	10,020	26%
Monitor base (7 year net)	**2,001**	1,768	233	13%

Collectively the Respiratory and Monitoring division now has one of the largest monitoring equipment sales forces available today in the US. Importantly this group sells into over 80% of operating rooms in the major hospitals. In the US Covidien is now able to offer customers a suite of monitoring systems that can collectively monitor respiratory function, brain oxygenation and through the LiDCO*rapid* the underlying hemodynamic status. These products are a natural fit together and offer, in particular, advantages to the management of high risk surgery patients. Accordingly, we believe that the commitment by Covidien to promoting LiDCO's LiDCO*rapid* monitor along side their own products is strong.

Covidien achieved the first year's minimum sales requirements and our business with them grew 26% over the prior year. This was a good result, as inevitably amalgamations of this scale take a lot of effort and time out from the field. Indeed, training of the new members of the consolidated sales force and internal national accounts sales teams on LiDCO's product is still taking place. We expect the number of evaluations and pipeline to continue to build as the recently trained representatives also start to contribute to the sales efforts. Clearly Covidien has made a significant investment in the monitoring field and has the interest, infrastructure, resources and products necessary to access in particular a significant share of the high risk surgery hemodynamic monitoring market.

Geographic sales and trading

UK sales summary

- Total revenue up 29% at £2.36m (2009/10: £1.82m)
- Monitor revenue up 52% to £0.50m (2009/10: £0.33m)
  - ICU: LiDCO*plus* monitor revenue up 49% to £0.30m
  - Surgery: LiDCO*rapid* monitor revenue up 118% to £0.20m
- Disposables sales of £1.80m up 21% (2009/10: £1.49m)
- Other income £55,000 (2009/10: nil)

Our focus last year was to maintain our ICU business and grow our LiDCO*rapid* surgery interest. Our direct sales force had a very good year achieving both these goals. Total income was up 29% to £2.36m, with the UK representing 38% of our total worldwide sales. Monitor and disposables income increased across both the ICU and surgery markets. As expected the greatest growth was experienced in the surgery segment where LiDCO*rapid* monitor sales were up 118% and smart card disposables up 137%. The monitor base increased by a net 24 units (9%) to 300 units in the UK, with 61 units sold placed during the year. The total number of disposables sold increased from 14,055 to 17,605.

In the UK there will be intense pressure on the NHS in terms of revenue and capital spend in the new financial year starting this month. We believe this will continue to drive hospitals to focus on reducing costs while improving efficiency. ERAS programmes within the NHS will most likely continue to be prioritized, despite the

73%
reduction in post-tax losses

US$285m
potential annual value of Japanese high risk surgery market for hemodynamic monitoring

worsening economic conditions. We expect these conditions will deliver sales growth of our surgery product in particular. Fluid and hemodynamic monitoring is already adopted, or planned in the majority of UK hospitals. Additional sales growth should come from increasing use in a number of surgical procedures.

We announced in March 2011 that LiDCO was appointed by Argon Medical Devices Inc. ('Argon') to take over their existing UK critical care sales. Argon acquired the critical care business of Becton Dickinson ('BD') in late 2010. We are delighted that Argon has decided to extend the relationship we previously established with BD's Japanese critical care group. We expect to start selling Argon's products from May 2011. UK customers will then be able to buy an expanded and related group of critical care and surgery products including the arterial pressure transducer necessary for use with our monitors.

USA sales summary
- Distribution revenue up 26% to £1.89m (2009/10: £1.50m)
- LiDCO*rapid* monitor revenue steady £0.68m (2009/10: £0.68m)
- LiDCO*rapid* smart card sales up 54% to £0.83m (2009/10: £0.54m)
- Licence fee and other income of £0.38m up 35% (2009/10: £0.28m)

Sales to Covidien were up 26% during the period. Comparisons across the period are complicated by the stocking orders taken in both periods and the subsequent temporary sales disruption from acquisition and integration of the Aspect and Somanetics sales forces. We are pleased to report that Covidien has achieved the minimum sales in the first year of our contract. Overall Covidien has purchased 657 LiDCO*rapid* monitors representing both sales stock and a demonstration/ evaluation pool. Covidien has shown a high level of commitment to developing the high risk surgical market opportunity and is putting a significant amount of time into training and incentivising the sales force.

LiDCO has retained sales responsibility for the ICU-focused LiDCO*plus* product sales in the US with our direct sales force. Direct sales have decreased to £464,000 (2009/10: £773,000) with £111,000 of the fall the inevitable result of the transfer to Covidien of LiDCO*rapid* sales in accounts that were previously a direct sales business. Capital revenues (i.e. new monitor sales) from the LiDCO*plus* fell from £184,000 to £83,000 due to the reduced sales effort as four of the LiDCO sales team transferred to Covidien. LiDCO*plus* sensor sales declined from £422,000 to £341,000, a consequence of some customers now purchasing the LiDCO*rapid* – where previously they would have purchased the LiDCO*plus* – and reduced geographic sales coverage outside our key accounts.

LiDCO*plus* consumable sales to our key accounts (i.e. accounts where we can support the business) declined modestly – by only £43,000. Most of this decline was due to product substitution in a small number of accounts towards use of the LiDCO*rapid*. Going forward we expect the core key account direct business to be supportable and maintainable while we focus on the bigger and more addressable surgery opportunity for the LiDCO*rapid*. We continue to believe there is a significant ICU market in the US for our more precise and sensor calibrated monitor.

Continental Europe sales summary
- Total revenue down by 13% to £0.86m (2009/10: £0.99m)
- Monitor sales revenue of £0.32m down 40% (2009/10: £0.53m)
- Sensor/smart card sales up 17% to £0.54m (2009/10: £0.46m)

We reported at the interim stage that the economic climate in Europe had been weak, delaying capital and disposable purchases in some countries. Where economic conditions have been poor this has affected our distributors' business. In contrast, where finances are stronger, e.g. in Eastern Europe, we have seen a very significant increase in sales. The results are therefore very mixed; ranging from increases of 71% in Slovenia to an 82% fall in business in Italy, previously our best performing territory. Despite the challenging conditions, underlying disposable income was up by 17%. We expect sales to increase modestly in 2011 as the economic climate gradually improves.

Rest of World and licence fee income
- Total revenue up 135% at £0.66m (2009/10: £0.28m)
- Monitor revenue up 225% to £0.39m (2009/10: £0.12m)
- Sensor/smart card sales up by 117% to £0.13m (2009/10: £0.06m)
- Licence fee and other income of £0.14m (2009/10: £0.10m)

Sales in the ROW were up 135%, reflecting increases across the board in licence fees, monitor and disposable revenues. This was a good performance with particularly good results seen in Brazil and the Middle East.

Minimally invasive hemodynamic monitoring is becoming well established in Japan. We believe the Japanese hemodynamic monitoring high risk surgery market has a potential market value of US$285 million per annum, with reimbursement currently available. With respect to our distribution arrangements in Japan, in October 2010 Argon announced that it had acquired the critical care division of BD. LiDCO had signed a distribution agreement with BD in April 2009 for sales of the LiDCO*rapid* in Japan and a registration application file for product approval has been prepared for submission. We expect registration and reimbursement to be approved late 2011/early 2012. Negotiations with distribution parties in Japan are well advanced and a Heads of Agreement has been signed – we expect to be able to further update shareholders in the near future.

Chief Executive Officer's statement continued

Financial review

Turnover increased by 16% to £6.24m (2009/10: £5.37m). Losses after tax decreased significantly by 73% to £390,000 (2009/10: £1,427,000) and the loss per share was reduced to 0.22 pence (2009/10: 0.87 pence). Exports rose by 9% to £3.88m but with a strong increase in sales in the UK represented 62% of sales, down from 66% the previous year.

During the year a total of 524 monitors (2009/10: 565 monitors) were sold or placed. Historically the reported installed base has represented the total monitors sold or placed since the first sales in 2001. It is inevitable that some of the earlier monitors will now have been replaced by newer models or may simply be no longer in use and in common with some other companies in our sector, the installed base has been restated based on the number of units sold or placed within the last seven years. The restated installed base of monitors at the year end was 2,001 (2009/10: 1,768) representing a net increase in the year of 233 monitors. Some of the installed base will be demonstration and evaluation monitors sold to distributors. The monitors sold/placed in the year comprised 474 LiDCO*rapid* monitors and 50 LiDCO*plus* monitors with 515 (2009/10: 536) of the monitors being sold and nine (2009/10: 29) being placed.

Recurring revenues from the sales of disposables, service contracts and fees for use increased by 18% to £3.68m (2009/10: £3.13m) and represent 59% of total revenues. The number of disposables sold increased by 26% to 47,938 (2009/10: 37,918).

The average product margin across all products after external procurement costs increased slightly during the period from 75% to 76%. Future profitability will significantly depend on margins achieved on disposables and these have remained high during the year. Margins achieved on LiDCO*plus* sensors remained steady at 86% and on LiDCO*rapid* smart cards increased marginally to 93% (2009/10: 92%).

Sales of LiDCO*rapid* smart cards which rose by 39% will be an important growth revenue stream in future years. In the UK where hemodynamic output monitoring has been demonstrated to help to reduce hospital costs and where we have detailed usage information, we have seen the average use rate increase from 3.5 to 4.7 uses per monitor per month, with use in some hospitals as high as 15 uses per monitor per month.

The overall gross margin on sales was 67%, up from 61% in the previous year largely due to reduced Med One payments in the period which amounted to £526,000 (2009/10: £688,000). Med One payments are expected to reduce to about £230,000 in 2011/12 and be minimal in the following year. Total overheads fell by £118,000 (2%) compared with the previous year. As noted previously, the comparative effect of transferring most of the US sales force to Aspect (now Covidien) in July 2009 was to reduce costs by about £325,000. This reduction was offset most significantly by additional sales and marketing costs in the UK where sales increased by 29%.

Taxation

As the Group is still at the pre-profit stage there was no tax charge for the year and in addition the Group has a deferred tax asset of £5.6m although this has not been recognised in the accounts. The Group qualifies for research and development tax credits, which are estimated as £109,000 (2009/10: £122,000) and are shown in the income statement.

Cash, financing and working capital

The net cash outflow before financing activities was £433,000 (2009/10: £1,044,000), its lowest rate since flotation in July 2001. Cash balances at 31 January amounted to £1,404,000 and the Company has no bank borrowings. The Board anticipates this will be sufficient to see the Company through to profitability and positive cashflow.

Stock at the year end decreased slightly to £1.05m and represents 18% (2009/10: 22%) of non-licence fee revenue. Expenditure on fixed and intangible assets in the year of £556,000 compares with £608,000 the previous year and is below the charge for depreciation and amortisation of £639,000. Expenditure on fixed and intangible assets is not expected to rise significantly in the foreseeable future.

Product development

New product development

The latest revision of the LiDCO*rapid* software, version 1.03 and the development of the universal pressure waveform module were completed in the year. The new software release introduced a number of features focused on further developing the LiDCO*rapid* graphical user interface and simplifying use of, and connectivity to, our monitors.

Summary of developments concluded during 2010

Universal pressure waveform module
This allows wider hospital use of our technology by allowing a broader range of arterial blood pressure catheters to be accessed.

LiDCO monitor language localisation
Converts the information on the LiDCO*rapid* monitors' screens from English into 22 languages.

RS232 communication changes
Allowing the LiDCO*rapid* monitor to communicate with a wider range of hospital information systems. One such communication project, announced in October, was to connect to GE's Centricity Clinical Information Systems in Europe, the Middle East and Africa. This follows our previous software development enabling a link between LiDCO's proprietary stand-alone monitoring system and Philips' patient monitors via the Philips VueLink.

LIDCO software evolution

Given the growing interest in fluid management and hemodynamic monitoring, we are exploring further refining the graphical user interface and core algorithm software architecture to allow for potential OEM solutions, whereby elements of the software could be more easily licenced to third parties. Research is also underway into the performance of the core algorithm with alternate, often less high fidelity, signal sources with the objective of widening the patient applications and thereby increasing the addressable market for our technology.

Regarding our intensive care product the LiDCO*plus* we intend to update the LiDCO*plus* monitor software to v 4.02. This will involve updating the operating system, adding the blood pressure module option and further improving ease of use and calibration methodology.

We believe that there is a significant market for a combined graphical user interface that can realise the clinical synergy between Covidien's Bispectral Index (BIS) depth of anesthesia product and the LiDCO*rapid* monitor. The former ensures the correct depth of anesthesia is achieved, and the LiDCO*rapid* is used to restore and maintain blood pressure and cardiac output to appropriate levels after anesthesia induction and during surgery. A prospective study at King's College Hospital, London, strongly suggested that this combination display could significantly improve the management of patients' levels of anesthesia, fluid and hemodynamic status. The project to develop a combined graphical user interface (GUI) is advancing with a communication interface already developed. Work is now progressing to finalise the screen design. This development project is expected to conclude around the last quarter of 2011. Patent applications have been filed on both the basic structure of the LiDCO*rapid* monitor GUI and this has been followed by a second application on the combined hemodynamic and depth of anesthesia GUI display.

Regulatory and quality review

During the year LiDCO Limited was successfully audited against the requirements of ISO13485:2003, ISO9001:2008, the EU Medical Devices Directive and the Health Canada Medical Device Regulations, allowing continued certification of the Company and our products. Also during the year, LiDCO was successfully inspected by the UK MHRA, to ensure continued compliance with Good Distribution Practice requirements.

Our activities and products comply with the requirements of all relevant EU Directives – the Waste Electrical and Electronic Equipment (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.

Outlook and prospects

We are pleased to be reporting another year of considerable progress. Looking ahead, independent research shows that cardiac output monitoring is now the fastest growing sector within the European monitoring market with the minimally invasive products now representing more than 50% of sales (source: *2011 iData Research*). With our pressure waveform based technology, international distribution partners and increasing evidence and awareness, we are confident of continuing commercial progress. We traded profitably in the second half of the year and for the full year on an EBITDA basis. We look forward to building on this and making further progress in 2011 and beyond.

On a personal note my co-founder and Scientific Director, Dr David Band, has retired from the Board this month. David has worked with me on the Board since the Company's foundation and has contributed enormously to bringing the Company to its current position. His many contributions to medical science over the last 50 years have had a profound impact on the management of high risk patients. We thank David for all he has done. I am delighted to say he will be staying with us and continue advising LiDCO with regards to product development.

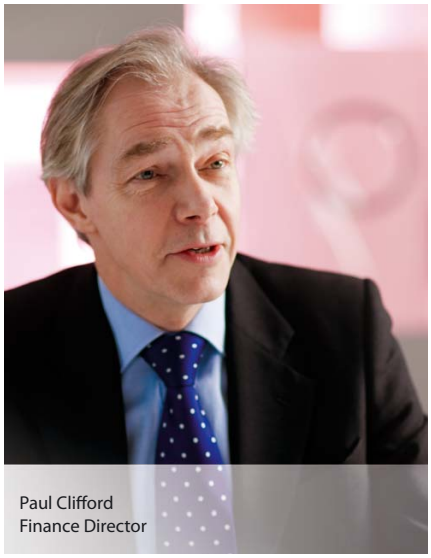
Dr Terence O'Brien
Chief Executive Officer
15 April 2011

Board of Directors and Company Secretary

Theresa Wallis
Non-Executive Chairman

Dr Terence O'Brien
Chief Executive Officer

John Barry
Sales and Marketing Director



Paul Clifford
Finance Director

Ian Brown
Non-Executive Director

John Rowland
Company Secretary

Clinical Advisory Group

Theresa Wallis
Non-Executive Chairman
Ms Wallis has spent 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 she is currently a non-executive director of Special Products Limited. She is also a member of the Quoted Companies Alliance's Executive Committee.

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.

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

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.

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
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 previously held senior positions with Gestetner Holdings plc and Raybeck plc.

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

Professor David Bennett
David Bennett is visiting Professor of Intensive Care 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 honoris 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.

Dr David Band
Dr Band was appointed to the Clinical Advisory Group in April 2011. He co-founded LiDCO in 1991, is the co-inventor of the LiDCO system and until April 2011 was the Group's Scientific Director. He is a specialist in the field of respiratory physiology, electrochemistry and ion-selective electrodes. He has a degree in medicine and was a reader in applied physiology in the Division of Physiology, GKT School of Biomedical Sciences, St Thomas' campus.

Corporate Governance report

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

The Board of Directors
The Board currently consists of three executive directors and two non-executive directors. The non-executive directors are free from any relationship with the executive management of the Company and the Board considers that both non-executive directors, other than through their shareholdings, are independent directors. The non-executive directors bring a wide range of skills and experience to the Board.

The Chairman of the Board is Ms Wallis and Mr Brown is the senior independent non-executive director. Directors' biographies are provided on page 15.

There were 10 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	10 (10)	2(2)	6(6)	n/a
Dr T K O'Brien	Chief Executive Officer	9 (10)	n/a	n/a	n/a
Mr P L Clifford	Finance Director	10 (10)	n/a	n/a	n/a
Dr D M Band	Scientific Director	6 (10)	n/a	n/a	n/a
Mr J G Barry	Sales & Marketing Director	9 (10)	n/a	n/a	n/a
Mr I G Brown	Non-executive Director	10(10)	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 2011, the Board carried out an evaluation of the performance, functioning and composition of the Board and its Committees. This involved the Chairman having a discussion with each director individually following which the findings were 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 £13,000 against an audit fee of £43,000. 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, Finance Director and Chairman meet regularly with shareholders and the investing community and report to the Board feedback from those meetings. Both non-executive directors have the opportunity to attend shareholder meetings. The Board is kept informed on market views about the Company.

Corporate social responsibility statement

The Company recognises the importance of corporate social responsibility.

At the core of LiDCO are its medical products for hemodynamic monitoring which have been developed over a number of years 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. Thus the Company's commitment to corporate social responsibility is dynamic and is reviewed when considered appropriate.

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

- Effective communication is essential to ensure its employees are fully engaged with the business. The senior management team meets regularly throughout the year as a forum to discuss 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.

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 matters 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 17.

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 2011.

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

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. The principal corporate objective on which the directors are judged is operating profit/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 2011					
	Salary and fees £'000	Allowance in lieu of benefits £'000	Benefits £'000	Bonus £'000	Total £'000	2010 £'000
T A Wallis	44	–	–	–	44	44
T K O'Brien	185	38	1	22	246	259
J G Barry	175	35	4	19	233	241
P L Clifford	96	20	1	11	128	92
D M Band	46	9	–	3	58	61
I G Brown	29	–	–	–	29	28
Total	575	102	6	55	738	725

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 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, who is part-time, 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' remuneration report
continued

Directors' interests in share options

Options were granted to the executive directors as follows:

Name	Option type	Options at 31 Jan 2010	Date of grant	Options granted during the year	Lapsed during the year	**Options at 31 Jan 2011**	Exercise price (p)	Exercisable from	Expiry date
T K O'Brien	EMI	750,000	Dec-2002			**750,000**	13.00	Dec-2005	Dec-2012
	EMI	11,627	Apr-2005			**11,627**	21.50	Apr-2008	Apr-2015
	Unapproved	265,768	Apr-2005			**265,768**	21.50	Apr-2008	Apr-2015
	EMI	150,000	May-2009			**150,000**	12.67	May-2012	May-2019
		1,177,395		Nil	Nil	**1,177,395**			
D M Band	EMI	750,000	Dec-2002			**750,000**	13.00	Dec-2005	Dec-2012
	EMI	11,627	Apr-2005			**11,627**	21.50	Apr-2008	Apr-2015
	Unapproved	53,489	Apr-2005			**53,489**	21.50	Apr-2008	Apr-2015
		815,116		Nil	Nil	**815,116**			
J G Barry	Unapproved	106,250	July-2001			**106,250**	0.50	July-2004	Jul-2011
	Unapproved	211,000	Dec-2002			**211,000**	13.00	Dec-2005	Dec-2012
	EMI	539,000	Dec-2002			**539,000**	13.00	Dec-2005	Dec-2012
	Unapproved	90,000	Nov-2003			**90,000**	28.25	Nov-2006	Nov-2013
	Unapproved	356,844	Apr-2005			**356,844**	21.50	Apr-2008	Apr-2015
	Unapproved	192,436	Apr-2005			**192,436**	22.00	Dec-2005	Apr-2015
	Unapproved	328,539	Apr-2005			**328,539**	22.00	Apr-2006	Apr-2015
	Unapproved	656,903	Apr-2005			**656,903**	22.00	Sep-2006	Apr-2015
	EMI	136,045	Apr-2005			**136,045**	22.00	Dec-2005	Apr-2015
	Unapproved	45,000	Jun-2006			**45,000**	21.00	Jun-2009	Jun-2016
	Unapproved	75,000	Jun-2007			**75,000**	12.50	Jun-2010	Jun-2017
	Unapproved	83,333	Apr-2008			**83,333**	7.50	Apr-2011	Apr-2018
	EMI	266,667	Apr-2008			**266,667**	7.50	Apr-2011	Apr-2018
	Unapproved	150,000	May-2009			**150,000**	12.67	May-2012	May-2019
	Unapproved	–	Jun-2010	100,000		**100,000**	19.92	Jun-2013	Jun-2020
		3,237,017		100,000	Nil	**3,337,017**			
P L Clifford	Approved	66,000	Apr-2008			**66,000**	7.50	Apr-2011	Apr-2018
	Approved	75,000	May-2009			**75,000**	12.67	May 2012	May-2019
	EMI	–	Jun-2010	100,000		**100,000**	19.92	Jun-2013	Jun-2020
		141,000		100,000	Nil	**241,000**			
Totals		5,370,528		200,000	Nil	**5,570,528**			

The share price was 18.25p on 1 February 2010 and 18.75p on 31 January 2011, with high and low during the year of 24.50p and 16.50p respectively.

Pensions
No pension contributions were payable by the Group during the year (2009/10: £nil).

Shareholder return
The graph below shows the share price performance since January 2006, using the FTSE TechMARK Mediscience Index as a comparator, which the directors consider to be a suitable benchmark index.

Theresa Wallis
Chairman of the Remuneration Committee
15 April 2011

Directors' report

The directors of LiDCO Group Plc present their annual report and audited financial statements (Annual Report) for the year ended 31 January 2011.

Principal activities, business review and business risks
The principal activity of the Group is the development, manufacture and sale of cardiac monitoring equipment.

The Chairman's statement, the Chief Executive Officer's Statement and Corporate Social Responsibility Statement form part of this business review.

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 its 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 supporting clinical studies that focus on patient outcome improvement and economic benefits; and
- the Group relies on distributors for its sales and marketing activities outside 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 £6,237,000 (2009/10: £5,367,000). The Group made a consolidated loss after taxation of £390,000 (2009/10: £1,427,000). The directors do not recommend the payment of a dividend (2009/10: £nil).

The Company's share price at 29 January 2011 was 18.75p (2010: 18.25p).

Research and development
The Group continued to develop the LiDCO products during the year. Details of the costs expended on research and development are set out in notes 3 and 8 to the financial statements on pages 39 and 42 respectively.

Share capital and share premium account
Full details of the 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 47 and 4 on page 52 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 page 15.

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

Mr Brown and Mr Clifford retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Dr Band resigned as a director on 18 April 2011 and joined the Clinical Advisory Group.

Directors' remuneration
The Remuneration Report, which includes information regarding directors' service contracts, appointment arrangements and interests in share options, can be found on pages 21 and 22.

Directors' interests in shares
The directors who held office at 31 January 2011 had beneficial interests in the ordinary shares of the Company as shown below:

Directors' shareholdings

	Ordinary shares of 0.5p each	
	31 January 2011 Number	31 January 2010 Number
T A Wallis	**301,037**	301,037
T K O'Brien	**11,516,563**	11,516,563
P L Clifford	**575,000**	500,000
D M Band	**7,160,832**	7,160,832
J G Barry	**429,642**	429,642
I G Brown	**200,000**	200,000

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

Directors' indemnities and Directors' and Officers' insurance
The Company has exercised the power given by shareholders at the 2006 Annual General Meeting to extend the indemnities to directors and officers against liability to third parties. The directors also have Directors' and Officers' insurance cover in place in respect of personal liabilities which may be incurred by directors and officers in the course of their service with the 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 Company's policy 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 2011 was 41 days (2010: 25 days).

Directors' report
continued

Significant shareholdings
As at 11 April 2011, 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	27,878,594	16.02%
Cheviot Asset Management Limited	13,956,163	8.02%
H J Leitch	13,177,489	7.57%
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.

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.

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 Group'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 Company's business activities, together with a review of the market and the company's distribution channels are set out in the Chief Executive Officer's Statement on pages 8 to 13. In addition, note 13 to the financial statements includes the Company's policies for managing its capital; its financial risk; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Company has a number of customers across different geographic areas and considerable recurring revenue streams through the sales of its disposable sensors and smart cards which represented 59% of its total revenues in the year to 31 January 2011.

The Group finances its operations through shareholders' funds and has no borrowings. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future based on forecasts for the two years to 31 January 2013. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Financial risk management
The Financial Risk Management objectives and policies of the Group, including the exposure to interest rate risk, liquidity risk and currency risk are set out in note 13 to the financial statements on pages 44 to 46.

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 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 during the year.

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 and 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 regularly reviewed by the Board. Actions to mitigate risk 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 Wednesday 29 June 2011 is set out on page 3 of the separate circular which includes an explanation of each resolution.

By order of the Board

John Rowland
Company Secretary
15 April 2011

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 2011 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 and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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/private.cfm.

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 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the 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:
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Other matter
We have reported separately on the parent company financial statements of LiDCO Group Plc for the year ended 31 January 2011.

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
15 April 2011

Consolidated comprehensive income statement

For the year ended 31 January 2011

	Note	Year ended 31 January 2011 £'000	Year ended 31 January 2010 £'000
Revenue	2	**6,237**	5,367
Cost of sales		**(2,021)**	(2,074)
Gross profit		**4,216**	3,293
Administrative expenses		**(4,714)**	(4,832)
Loss from operations	3	**(498)**	(1,539)
Finance income		**8**	5
Finance expense		**–**	(11)
Loss before tax		**(490)**	(1,545)
Income tax	5	**100**	118
Loss and total comprehensive expense for the year attributable to equity holders of the parent		**(390)**	(1,427)
Loss per share (basic and diluted) (p)	6	**(0.22)**	(0.87)

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 2011

	Note	2011 £'000	2010 £'000
Non-current assets			
Property, plant and equipment	7	**513**	587
Intangible assets	8	**755**	764
		1,268	1,351
Current assets			
Inventory	9	**1,047**	1,094
Trade and other receivables	10	**1,607**	1,649
Current tax		**109**	120
Cash and cash equivalents		**1,404**	1,846
		4,167	4,709
Current liabilities			
Trade and other payables	11	**(767)**	(603)
Deferred income	11	**(74)**	(614)
Borrowings	11	**(10)**	(10)
		(851)	(1,227)
Net current assets		**3,316**	3,482
Total assets less current liabilities		**4,584**	4,833
Equity attributable to equity holders of the parent			
Share capital	14	**870**	869
Share premium		**25,393**	25,393
Merger reserve		**8,513**	8,513
Retained earnings		**(30,196)**	(29,956)
Total equity		**4,580**	4,819
Non-current liabilities			
Finance lease liability	12	**4**	14
Total non-current liabilities		**4**	14
Total equity and non-current liabilities		**4,584**	4,833

The financial statements were approved by the Board of Directors on 15 April 2011.

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 2011

	Year ended 31 January 2011 £'000	Year ended 31 January 2010 £'000
Loss before tax	(490)	(1,545)
Net finance (income)/costs	(8)	6
Depreciation and amortisation charges	639	672
Share-based payments	150	46
Decrease/(increase) in inventories	47	(41)
Decrease in receivables	42	37
Increase/(decrease) in payables	164	(302)
Decrease/(increase) in deferred income	(540)	577
Interest paid	–	(11)
Income tax credit received	111	118
Net cash inflow/(outflow) from operating activities	115	(443)
Cash flows from investing activities		
Purchase of property, plant and equipment	(127)	(132)
Purchase of intangible assets	(429)	(474)
Interest received	8	5
Net cash used in investing activities	(548)	(601)
Net cash outflow before financing	(433)	(1,044)
Cash flows from financing activities		
Repayment of finance lease	(10)	(10)
Issue of ordinary share capital	1	3,021
Invoice discounting financing facility	–	(364)
Net cash (outflow)/inflow from financing activities	(9)	2,647
Net (decrease)/increase in cash and cash equivalents	(442)	1,603
Opening cash and cash equivalents	1,846	243
Closing cash and cash equivalents	1,404	1,846

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 2011

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 February 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
Transactions with owners	159	2,862	–	46	3,067
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
Issue of share capital	1	–	–	–	1
Share-based payment expense	–	–	–	150	150
Transactions with owners	1	–	–	150	151
Loss and total comprehensive expense for the year	–	–	–	(390)	(390)
At 31 January 2011	**870**	**25,393**	**8,513**	**(30,196)**	**4,580**

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 2011

1 Principal accounting policies

The Group's principal activity is the development, manufacture and sale of cardiac monitoring equipment. LiDCO Group Plc is the Group's ultimate parent company. It is incorporated and domiciled in England & Wales and situated at the address shown on page 53. The Group's shares are quoted on the AIM section 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 2011.

The Group's consolidated financial statements are prepared in accordance with the principal accounting policies adopted by the Group as set out below and International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations (IFRIC) as adopted for use in the European Union (EU), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.
The following standards have been amended or implemented during the year. The Group's consolidated financial statements have been prepared in accordance with these changes where relevant.

- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', incorporates IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', and expands on the guidance in IFRIC 11 to address the classification of group arrangements.
- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations', clarifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.
- IAS 1 (amendment), 'Presentation of financial statements', clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.
- IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses.
- IAS 36 (amendment), 'Impairment of assets', clarifies that the largest cash generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments'.
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category.
- IFRIC 16, 'Hedges of a net investment in a foreign operation', states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied.
- IFRIC 17, 'Distribution of non-cash assets to owners', provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.
- IFRIC 18, 'Transfers of assets from customers' clarifies the requirements of IFRSs for agreements in which an entity receives an item of property, plant and equipment from a customer.

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

Notes to the financial statements
continued

IFRS standards and interpretations not yet adopted

Standard issued but not yet effective

The following standards and interpretations are in issue but not yet adopted by the EU:

- IFRS 9 Financial Instruments (effective 1 January 2013)
- Improvements to IFRS issued May 2010 (some changes effective 1 July 2010, others effective 1 January 2011)
- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (effective 1 July 2011)
- Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12 Income Taxes (effective 1 January 2012)
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards (effective 1 July 2011)

The current endorsement status is listed on the EFRAG website under 'Endorsement Status': http://www.efrag.org/homepage.asp

Going concern

The Company's business activities, together with a review of the market and the Company's distribution channels are set out in the Chief Executive Officer's Statement on pages 8 to 13. In addition, note 13 to the financial statements include the Company's policies for managing its capital; its financial risk; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Company has a number of customers across different geographic areas and considerable recurring revenue streams through the sales of its disposable sensors and smart cards which represented 59% of its total revenues in the year to 31 January 2011.

The Group finances its operations through shareholders' funds and has no borrowings. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future based on forecasts for the two years to 31 January 2013. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Accounting convention

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

Basis of consolidation

The Group's consolidated financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 January 2011. 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. When the Group has sold monitors to Med One they are entitled to a portion of the monthly revenue from the sale of consumables relating to those monitors for a period of three years. The full revenue arising from the sale of such consumables is recognised as revenue by the Group 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 benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Capitalised development costs which comprise cost of materials, labour and attributable overheads are amortised over a period of 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

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

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

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

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

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

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

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

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 and 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 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).

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

Notes to the financial statements
continued

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

	Year ended 31 January 2011 £'000	Year ended 31 January 2010 £'000
Group revenue		
UK	**2,356**	1,822
USA	**2,358**	2,273
Continental Europe	**859**	990
Rest of World	**664**	282
	6,237	5,367
Result		
UK	**495**	113
USA	**965**	459
Continental Europe	**449**	402
Rest of World	**373**	127
Total	**2,282**	1,101
Unallocated costs	**(2,780)**	(2,640)
Loss from operations	**(498)**	(1,539)

Products and services

	Year ended 31 January 2011 £'000	Year ended 31 January 2010 £'000
Monitor sales	**2,009**	1,855
Consumables sales and recurring revenues	**3,681**	3,125
Licence fees and other income	**547**	387
	6,237	5,367

Payments to Med One as detailed in note 1 under revenue recognition relating to consumables and included within cost of sales amounted to £526,000 (2009/10: £688,000) 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:

	2011 £'000	**2011 % revenue**	2010 £'000	2010 % revenue
Revenue recognised	**1,894**	**30%**	1,526	28%

3 Loss from operations

The loss on operations before taxation is stated after:

	Year ended 31 January 2011 £'000	Year ended 31 January 2010 £'000
Auditors' remuneration:		
– Fees payable to the Company auditors for the audit of the Group accounts	**18**	17
Fees payable to the company auditors for other services:		
– Audit of the Company's subsidiaries	**25**	25
– Other services relating to the interim review*	**8**	9
– Other services*	**5**	1
Research and development expenditure	**146**	109
Depreciation of property, plant and equipment	**201**	216
Amortisation of intangible assets	**438**	456
Operating leases – rental of land and buildings	**165**	165
Share-based payment charge in respect of distributor arrangements	**120**	63
Write down of inventories	**47**	46
Exchange rate (gains)/losses	**(9)**	23

The cost of goods sold during the year amounted to £1,225,000 (2009: £1,224,000).

*Non-audit services comprise £8,000 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 2011 £'000	Year ended 31 January 2010 £'000
Wages and salaries	**2,019**	1,970
Social security costs	**209**	179
Share-based payments charge	**30**	(97)
	2,258	2,052

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

	2011 Number	2010 Number
Production	**11**	10
Sales	**14**	16
Administration	**12**	13
	37	39

The remuneration of directors and key management personnel is set out below. Additional information on directors' and key management remuneration, share option, long-term incentive plans, pension contributions and entitlements can be found in the audited section of the Directors' Remuneration Report on pages 21 to 23 and forms part of these accounts.

	2011 £'000	2010 £'000
Short-term employee benefits	**738**	725
Share-based payments	**10**	(22)

Notes to the financial statements
continued

5 Tax on loss on ordinary activities

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

	Year ended 31 January 2011 £'000	Year ended 31 January 2010 £'000
United Kingdom corporation tax at 28% (2010: 28%)	**–**	–
United States income taxes	**9**	4
Research and development expenditure tax credits – current year	**(109)**	(120)
– prior year	**–**	(2)
Total tax	**(100)**	(118)

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% (2010: 28%)	**(137)**	(433)
Effect of:		
Expenses not deductible for tax purposes	**13**	24
Depreciation for the period in excess of capital allowances	**(20)**	50
Prior year adjustment	**–**	(2)
(Decrease)/increase in tax losses	**(5)**	217
Other temporary differences	**39**	13
Additional deduction for research and development expenditure	**(111)**	(99)
Losses surrendered for research and development tax credit	**221**	231
United States income taxes	**9**	3
Research and development expenditure tax credits	**(109)**	(122)
Total tax income	**(100)**	(118)

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

The current year research and development tax credit of £109,000 (2010: £120,000) represents 14% (2010: 24.5%) 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 2011 £'000	Year ended 31 January 2010 £'000
Unused losses (available indefinitely)	**24,149**	23,408
Temporary differences (available indefinitely)	**304**	427
	24,453	23,835

The related deferred tax asset of approximately £5.6m (2010: £6.7m) in respect of trading losses of the subsidiary have not been recognised as it is unlikely to be recognisable in the foreseeable future.

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 2011 £'000	Year ended 31 January 2010 £'000
Loss after tax for the financial year	**(390)**	(1,427)

	Number ('000)	Number ('000)
Weighted average number of ordinary shares	**173,963**	164,597
Loss per share – basic and diluted (p)	**(0.22)**	(0.87)

7 Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Medical monitors £'000	Total £'000
Cost						
At 1 February 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
Additions	1	6	4	21	95	127
At 31 January 2011	**556**	**442**	**173**	**497**	**587**	**2,255**
Accumulated depreciation						
At 1 February 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
Charge for the year	53	34	8	27	79	201
At 31 January 2011	**461**	**374**	**158**	**452**	**297**	**1,742**
Carrying amount at 31 January 2011	**95**	**68**	**15**	**45**	**290**	**513**
Carrying amount at 31 January 2010	147	96	19	51	274	587

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 £14,000 (2010: £24,000) in respect of assets held under finance leases.

Notes to the financial statements
continued

8 Intangible assets

	Clinical trials £'000	Product registration £'000	Product development £'000	Total £'000
Cost				
At 1 February 2009	116	556	1,980	2,652
Additions	–	73	401	474
At 31 January 2010	116	629	2,381	3,126
Additions	–	77	352	429
At 31 January 2011	**116**	**706**	**2,733**	**3,555**
Accumulated amortisation				
At 1 February 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
Charge for the year	–	88	350	438
At 31 January 2011	**116**	**467**	**2,217**	**2,800**
Carrying amount at 31 January 2011	**–**	**239**	**516**	**755**
Carrying amount at 31 January 2010	–	250	514	764

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.

9 Inventory

	2011 £'000	2010 £'000
Raw materials and consumables	**310**	246
Finished goods and goods for resale	**737**	848
	1,047	1,094

At 31 January 2011, inventories stated net of allowances for obsolete or slow moving items, was £85,000 (2010: £106,000).

10 Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	**1,432**	1,473
Other receivables	**12**	51
Prepayments	**163**	125
	1,607	1,649

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 2011, trade receivables of £1.07m (2010: £1.10m) 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:

	2011 £'000	2010 £'000
Not more than three months	**195**	182
More than three months but not more than six months	**31**	94
More than six months but not more than one year	**30**	15
More than one year	**104**	79
	360	370

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

	2011 £'000	2010 £'000
Opening balance	**6**	95
Provision for receivables impairment	**32**	94
Receivables written off in year	**(9)**	(183)
Closing balance	**29**	6

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

11 Current liabilities

	2011 £'000	2010 £'000
Trade payables	**534**	332
Social security and other taxes	**67**	65
Accruals	**166**	206
Deferred income	**74**	614
Finance leases	**10**	10
	851	1,227

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

Notes to the financial statements
continued

12 Non-current liabilities

	2011 £'000	2010 £'000
Finance leases	4	14

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 £2,848,000 (2010: £3,370,000).

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 2011, the Group's liabilities have contractual maturities which are summarised below:

	Current		Non-current	
31 January 2011	Within 6 months £'000	6 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000
Finance lease obligations	5	5	4	–
Trade payables	767	–	–	–
	772	5	4	–

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

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

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 US dollar payables are partly mitigated by US dollar receivables from sales.

Group interest rate profile

	Floating rate		
	Cash current bank accounts	Deposit and reserve account	Total
Financial assets at 31 January 2011	£'000	£'000	£'000
Currency			
Sterling	**75**	**1,272**	**1,347**
US dollars	**28**	**–**	**28**
Euro	**29**	**–**	**29**
	132	**1,272**	**1,404**

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.

	2011	2010
Current assets	**£'000**	£'000
Loans and receivables:		
– Trade and other receivables	**1,444**	1,524
– Cash and cash equivalents	**1,404**	1,846
	2,848	3,370

	2011	2010
Non-current liabilities	**£'000**	£'000
Finance lease obligations	**4**	14
	4	14

	2011	2010
Current liabilities	**£'000**	£'000
Financial liabilities measured as amortised cost:		
– Borrowings	**10**	10
Trade payables and other short term financial liabilities	**601**	332
	611	342

Notes to the financial statements
continued

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 the optimal use of equity.

The Board reviews the capital structure, including the level of indebtedness and foreign currency holdings as required whether included as cash or other working capital balances.

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

The Group had the following balances denominated in US dollars:

	US Dollars	
	2011	2010
	£'000	£'000
Trade and other receivables	**46**	79
Cash and cash equivalents	**28**	394
Trade and other payables	**(30)**	(37)
	44	436

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	
	2011	2010
Currency fluctuation	**11%**	11%

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

	US Dollars	
	2011	2010
	£'000	£'000
Net result for the year	**(67)**	(76)
Equity	**(67)**	(76)

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

	US Dollars	
	2011	2010
	£'000	£'000
Net result for the year	**67**	76
Equity	**67**	76

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.

14 Share capital

Issued and fully paid – ordinary shares of 0.5 pence each	2011 Number of shares 000	2010 Number of shares 000
At the beginning of the year	173,942	141,983
Issued for cash	42	31,959
At the end of the year	173,984	173,942

	£'000	£'000
At the beginning of the year	869	710
Issued for cash	1	159
At the end of the year	870	869

On 23 August 2010 42,500 shares were issued at 0.5p per share on exercise of share options.

15 Share-based payments

Equity-settled share option schemes

The Group has three equity-settled share option 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 and this is trued up or down at each accounting period.

	2011 Number	2011 Weighted average exercise price (p)	2010 Number	2010 Weighted average exercise price (p)
Outstanding at the beginning of the year	10,526,079	15.8	9,353,872	15.9
Issued in the year	751,000	19.9	1,309,000	13.3
Forfeited during the year	(259,500)	13.9	(94,293)	18.4
Exercised during the year	(42,500)	0.5	(42,500)	0.5
Outstanding at the end of the year	10,975,079	16.4	10,526,079	15.8
Exercisable at the end of the year	7,334,579	18.0	7,377,079	18.0

Fair value is determined by reference to the fair value of the instrument granted to the employee. 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 were calculated using a Black-Scholes option pricing model with the following assumptions:

	2011	2010
Weighted average share price (p)	19.9	13.3
Weighted average exercise price (p)	19.9	13.3
Expected volatility	50%	50%
Expected life (years)	3.5	3.5
Risk free rate	2%	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 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 and a weighted average remaining contractual life of 4.5 years.

Notes to the financial statements
continued

Share warrants in respect of distributor arrangements
On 28 July 2009 the Group issued share warrants in respect of an arrangement with a distributor. 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

At 31 January 2011 the Company had placed forward orders for the purchase of monitors and monitor components to the value of £1,382,000 (2010: £390,000). Delivery of these orders is scheduled between February 2011 and June 2013.

17 Contingent liabilities

There were no contingent liabilities at 31 January 2011 or 31 January 2010.

18 Leasing commitments

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

	2011		2010	
Group	**Land and buildings £'000**	**Other £'000**	Land and buildings £'000	Other £'000
In one year or less	**11**	**39**	45	73
Between one and five years	**–**	**37**	15	46
	11	**76**	60	119

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 2011 which comprise the parent company balance sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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/private.cfm.

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 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

Other matter
We have reported separately on the Group financial statements of LiDCO Group Plc for the year ended 31 January 2011.

Christopher Smith
Senior Statutory Auditor for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
15 April 2011

Company balance sheet

At 31 January 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Investments	2	**65**	65
		65	65
Current assets			
Debtors	3	**5**	5
Amount due from subsidiary undertakings	3	**14,339**	14,338
Cash at bank		**66**	11
		14,410	14,354
Current liabilities			
Creditors: Amounts falling due within one year		**–**	–
		–	–
Net current assets		**14,410**	14,354
Total assets less current liabilities		**14,475**	14,419
Net assets		**14,475**	14,419
Shareholders' funds			
Share capital	4	**870**	869
Share premium	5	**25,393**	25,393
Retained earnings	5	**(11,788)**	(11,843)
Shareholders' funds		**14,475**	14,419

The financial statements were approved by the Board of Directors on 15 April 2011.

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 2011

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 Company's business activities, together with a review of the market and the Company's distribution channels are set out in the Chief Executive Officer's Statement on pages 8 to 13. In addition, note 13 to the financial statements include the Company's policies for managing its capital; its financial risk; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Company has a number of customers across different geographic areas and considerable recurring revenue streams through the sales of its disposable sensors and smart cards which represented 59% of its total revenues in the year to 31 January 2011.

The Group finances its operations through shareholders' funds and has no borrowings. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future based on forecasts for the two years to 31 January 2013. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Investments

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

Foreign currency

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

Financial liabilities and equity

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

Share-based payment charges

The Group has three 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 2010 and at 31 January 2011	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

Notes to the financial statements
continued

3 Debtors

	2011 £'000	2010 £'000
Other debtors	**5**	5
Amount due from subsidiary	**14,339**	14,338
	14,344	14,343

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 2011. The timing of the repayment of this debt is uncertain and unlikely to be within one year.

4 Share capital

	2011 £'000	2010 £'000
Allotted, called up and fully paid		
173,984,054 ordinary shares of 0.5p each	**870**	869

On 23 August 2010 42,500 shares were issued at 0.5p per share on exercise of share options.

5 Reserves

	Share premium £'000	Other reserve £'000	Equity reserve £'000	Profit & loss account £'000
At 1 February 2010	25,393	–	–	(11,843)
Profit for the year	–	–	–	55
At 31 January 2011	**25,393**	**–**	**–**	**(11,788)**

6 Reconciliation of shareholders' funds

	2011 £'000	2010 £'000
Profit for the year	**55**	2
Shares issued	**1**	159
Share premium account	**–**	2,862
	56	3,023
Opening shareholders' funds	**14,419**	11,396
Closing shareholders' funds	**14,475**	14,419

7 Loss for the financial year

In accordance with the exemption given by section 408 of the Companies Act 2006, the holding company has not presented its own profit and loss account. The profit for the year of the Company was £55,000 (2009/10: £2,000).

8 Related party transactions

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

Company information

Company registration number:
2659005

Registered office:
16 Orsman Road
Hoxton
London, N1 5QJ

Company website:
www.lidco.com

Directors and 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 I G Brown	Non-Executive Director
Mr P L Clifford	Finance Director
Mr J P Rowland	Company Secretary

Advisers to the Company

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Auditors:
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Registered Auditors
Chartered Accountants
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