



**2019/20**

**LiDCO Group Plc**  
Annual Report & Accounts  
for the year ended  
31 January 2020

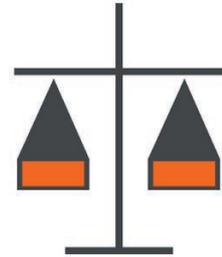
# LiDCO Group Plc



**75%\*** of  
annual revenues come from  
**RECURRING REVENUE**



**HIGH GROSS PROFIT  
MARGIN @ 67%\***  
Scalable business model



**£5.6m NET ASSETS**  
STRONG balance sheet  
CASH @ £1.4m



**No.1 in UK**  
Used in over 50% of NHS hospitals.  
Excellent base for  
geographic expansion



**5  
X**  
**PATENTED  
TECHNOLOGY**  
detects blood loss 5 TIMES FASTER  
than major competitors



**200+**  
**CLINICAL  
EVIDENCE**  
Wealth of evidence showing benefits  
of hemodynamic technology

\* Excludes distributed third-party disposables

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## Financial highlights

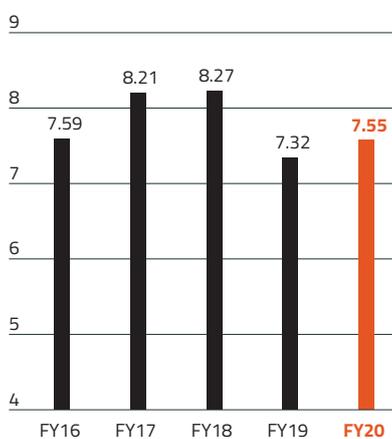
- LiDCO product revenue (excluding third-party products) up **19%** to **£7.36m** (FY19: £6.19m)
- Total revenue increased by **3%** to **£7.55m** (FY19: £7.32m)
- HUP revenues of **£1.9m** up **101%** (FY19: £0.9m)
- Gross margin increased to **65.2%** (FY19 restated<sup>^</sup>: 58.7%) due to larger proportion of high-margin LiDCO product revenues
- Adjusted EBITDA\* improved by **£1.20m** to **£0.04m** (FY19: loss £1.16m)
- Adjusted loss before tax\* of **£1.12m** (FY19: loss £1.99m)
- Loss and total comprehensive expense for the year of **£1.03m** (FY19: £1.94m)
- Loss per share of **0.42p** (FY19: 0.80p)
- Net cash outflow before financing of **£0.15m** (FY19: £1.51m)
- Debt free with cash at year-end of **£1.36m** (FY19: £1.72m)
- In the second half of the year the Group made an adjusted EBITDA\* of **£0.23m** (H2 FY19: EBITDA loss of £0.34m) and increased net cash by **£0.17m** (H2 FY19: decrease of £0.34m)

## Operational highlights

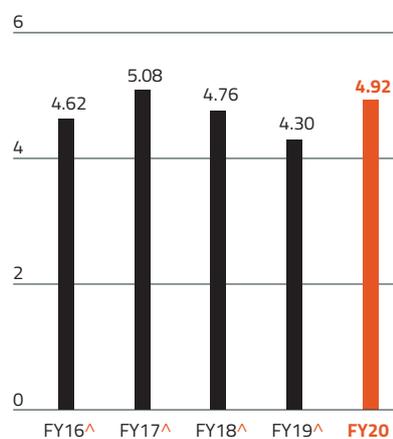
- Global contracted base of **286** HUP monitors (FY19: 164), generating total annualised contracted license revenues of **£2.2m** (FY19: £1.4m) an increase of **57%**
- In FY20 annualised license revenues represented **30%** of the Group's total revenues. An estimated further **9%** (FY19: 9%) of revenues were also underpinned by contractual agreements
- Exports increased **44%** to **£3.8m** (FY19: £2.6m)
- Sales outside the UK now represent just over half (FY19: 43%) of LiDCO product sales
- Regulatory approval and successful launch of latest monitor in China
- New exclusive distributors signed in Poland, Saudi Arabia, Chile, Argentina, Mexico and Venezuela
- US distribution agreement with Xavant
- Strengthened Board with the appointment of Tim Hall as CFO in March 2019 and of James Wetrich as Non-executive Director in August 2019

## Post year end

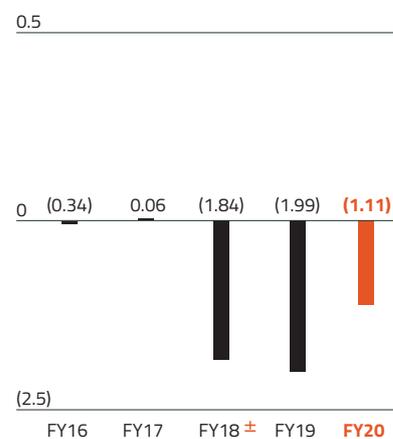
- Significant increased demand as a result of COVID-19, with **195** monitors sold to date, predominantly to the UK market, compared with 219 monitors sold in the whole of FY20
- Board expects that sales in the three months ending 30 April 2020 will significantly exceed total sales of **£3.5m** achieved in H1 FY20
- Registration for latest monitor received in Colombia
- Leases signed for new administration office and manufacturing facility, as well as contract to outsource cleanroom activities



Revenue  
£million



Gross profit  
£million



Adjusted operating profit/(loss)\*  
£million

\* adjusted for share-based payments

<sup>^</sup> restated for re-classification of certain labour and overhead costs (see note 1 to the financial statements)

<sup>±</sup> adjusted for a one-off stock write down of £0.3m

# Strategic report

## Chairman's statement

For the year ended 31 January 2020

On behalf of the Board, I am pleased to present the Company's Annual Report and Accounts for the year ended 31 January 2020 (FY20).

The Group has continued to make headway with its differentiated High Usage Programme ("HUP") business model which has grown to a £2.22m recurring revenue base in two and a half years since launch in July 2017. HUP contracts are typically long-term with annual payments in advance. This gives good cash generation as well as better forward visibility of related revenues. In FY20 the number of monitors under HUP increased 74% to 286 (31 January 2019: 164) worth £2.22m (31 January 2019: £1.38m) of annualised revenues.

LiDCO product revenues for FY20 were up 19% to £7.36m (FY19: £6.19m), in line with management expectations. The growth in LiDCO product revenues more than outweighed the expected reduction in low margin third-party product sales. As a result, total revenues (including third-party products) were up by 3% to £7.55m (FY19: £7.32m). The increased proportion of higher margin LiDCO product revenues led to an increase in overall gross margin.

The 19% growth in FY20 LiDCO product sales reflects growth in all regions compared with the prior year. LiDCO product sales grew by 28% in the USA to £1.77m (FY19: £1.38m), by 1% in the UK to £3.58m (FY19: £3.56m) and sales outside of the Company's direct markets were up 60% to £2.01m (FY19: £1.26m). The significant growth outside the UK included £0.42m growth in China from the launch of the new monitor and, as a result, in FY20, sales outside the UK represented just over half (FY19: 43%) of LiDCO product sales.

The Group recorded a positive adjusted EBITDA (adjusting for share-based payments) in the year of £0.04m (FY19: adjusted EBITDA loss of £1.16m).

In the second half of the year there was a net cash inflow of £0.17m, compared with a net cash outflow in H1 of £0.53m. The balance sheet remains strong with cash balances at 31 January 2020 of £1.36m (2019: £1.72m) and the Company remains debt free.

During the year, the Board was strengthened with the appointment, on 11 March 2019, of Tim Hall as Chief Financial Officer and Company Secretary and, on 15 August 2019, Jim Wetrich as Non-executive Director. Tim is a Chartered Accountant with extensive finance leadership within the med-tech sector and Jim brings a wealth of experience in the US healthcare industry having worked both in the medical device and healthcare provider sectors.



Since the year end, the COVID-19 pandemic has spread around the world and has had two key impacts on LiDCO:

- (i) There has been a spike in demand for hemodynamic monitoring equipment from many existing customers, with substantial short-term heightened demand from UK hospitals and an increased demand in a number of other countries, including a small number of monitors sold in Wuhan, China. However, as yet, there has been no increase in demand from customers in the US despite it being the country with the highest number of COVID-19 cases.
- (ii) Normal activities have been disrupted by most employees having to work from home, with the exception of production staff. The restrictions on travel and the focus of customers on tackling COVID-19 have prevented normal business development and commercial activities other than training.

The Board has prioritised the health, safety and well-being of the Group's employees and essential support for our customers. The Board is grateful that its employees and suppliers have responded admirably to the challenge of meeting the sudden spike in demand from the many LiDCO customers which recognise the clinical benefits of advanced hemodynamic monitoring of patients in intensive care.

I would like to also take this opportunity to thank shareholders, employees, customers and partners for their support during the year. Despite the short-term challenges around the world as a result of the COVID-19 pandemic, we continue to look forward with confidence.

**Peter Grant**  
Chairman

20 April 2020

## Strategic report continued

### Chief Executive Officer's report

For the year ended 31 January 2020

The Group's strategy is to expand geographically from its leadership position in its home UK market by gaining market share with its differentiated business model and market leading technology. In the year ended 31 January 2020 good progress was made with this expansion with sales outside the UK representing just over half (FY19: 43%) of LiDCO product sales.

A large part of the growth has come from the continuing transition to LiDCO's differentiated Software as a Service (SaaS) model, the High Usage Programme (HUP), which has the potential to substantially increase the adoption of hemodynamic monitoring and provide greater forward visibility of revenues and cash flows. Through this transition the Board believes that the Group will be positioned for sustained growth in the medium term.

HUP is differentiated from its main competitors by not having a charge per patient use, which encourages hospitals to use hemodynamic monitoring more widely by removing concerns about budgetary constraints. Numerous studies have shown that the use of hemodynamic monitoring improves patient outcomes, reduces length of stay and healthcare costs. The Board believes that these benefits provide healthcare providers with a strong justification to adopt the HUP model.

LiDCO's differentiated SaaS model is focused on attracting the larger more established users of hemodynamic monitoring to convert to LiDCO technology and for the Company's larger existing customers to extend the adoption of hemodynamic monitoring to a wider patient base.

The University of Texas MD Anderson Cancer Center in Houston USA recently presented at American Society of Anaesthesia Practice Management Conference. They clearly demonstrated that switching to LiDCO's HUP offering reduced costs by 68% whilst the number of patients treated with hemodynamic monitoring increased by 33%. The authors summarised "*applying this value-based marketing strategy to provide our protocolized hemodynamic monitoring within our ERAS (Enhanced Recovery After Surgery) pathways has enabled greater access of the technology to our surgical patients and improved their outcomes while simultaneously reducing costs*".

The USA is the largest market for hemodynamic monitoring, representing nearly half of the current global market by value. The Board believes that the USA market offers the Group the greatest opportunity to grow and this has been the main focus of investing in an expanded local commercial presence. Whilst highly competitive and with a long sales cycle, early indications are that the market is responding well to LiDCO's differentiated pricing approach.

As at 31 January 2020 the Group had a total global installed base of 286 HUP monitors (31 January 2019: 164 units) generating £2.22m (31 January 2019: £1.38m) of annualised revenues.

The Board has identified a number of key geographies where it believes that the Company can gain a more significant market share. The Group is investing with carefully selected partners to achieve the necessary registrations in these markets and



Matthew Sassone  
Chief Executive Officer

develop promotional activities that will increase LiDCO's market penetration and widen the adoption of hemodynamic monitoring.

### OUTLOOK

The Group has seen a spike in demand for hemodynamic monitoring equipment from existing customers, with substantial short-term heightened demand from UK hospitals and an increased demand in a number of other countries, including a small number of monitors sold in Wuhan, China as a direct response to the COVID-19 virus outbreak. Based on orders received to date and the Group's recurring revenue base, the Board expects that sales in the three months ending 30 April 2020 will exceed total sales of £3.5m achieved in H1, FY20 and the sales budget for H1 FY21.

At the same time, travel and marketing costs have been substantially reduced as a result of the various restrictions around the world.

These factors combined mean that the Board expects that the Group will benefit from strong cash inflows in the first half of the year.

A proportion of COVID-19 patients develop complications like sepsis and need intensive care, and there is significant clinical evidence that the use of advanced hemodynamic monitoring leads to improved outcomes for such patients. On this basis, the Board expects that the base of recurring revenues from HUP and consumables should continue to be earned at levels achieved in the latter part of FY20 and there may be an increased awareness in healthcare systems and at government level of the importance of advanced hemodynamic monitoring.

Whilst there are initial signs that normal activities in China may be beginning to resume, it remains difficult to predict the length and depth of the global impact of COVID-19 on the Group's markets, distributors and customers and hence the net effects on management's expectations for the full year cannot readily be estimated at this stage.

However, given the recurring revenue base (which represented three-quarters of total Group sales in FY20) and the strong revenue generation in the first three months of the year, the Board remains confident that LiDCO will well placed when markets return to normal.

## Strategic report continued

### OPERATIONAL REVIEW

#### Revenue performance by product and key geographies

	12 months to January 2020				12 months to January 2019			
	Monitors £'000	Recurring revenues £'000	Other £'000	Total £'000	Monitors £'000	Recurring revenues £'000	Other £'000	Total £'000
<b>LiDCO products</b>								
UK	498	3,035	47	3,580	378	3,108	73	3,559
USA	165	1,591	10	1,766	102	1,267	7	1,376
Europe	165	452	14	631	152	304	11	467
Rest of World	967	406	6	1,379	419	361	8	788
	<b>1,795</b>	<b>5,484</b>	<b>77</b>	<b>7,356</b>	<b>1,051</b>	<b>5,040</b>	<b>99</b>	<b>6,190</b>
<b>Third-party products</b>								
UK	–	191	–	191	–	1,134	–	1,134
Total sales	<b>1,795</b>	<b>5,675</b>	<b>77</b>	<b>7,547</b>	<b>1,051</b>	<b>6,174</b>	<b>99</b>	<b>7,324</b>
% total revenues	<b>24%</b>	<b>75%</b>	<b>1%</b>	<b>100%</b>	<b>14%</b>	<b>84%</b>	<b>1%</b>	<b>100%</b>

Note: excluding the discontinued third-party sales in respect of the terminated low-margin Merit Medical distribution contract for Argon products, recurring revenues in FY20 represented 75% of sales (FY19: 81%).

#### HUP performance and recurring revenues

LiDCO continues to make progress with its HUP offering, since its launch in July 2017, with revenues recognised in the year growing at 101% to £1.87m (FY19: £0.93m). At 31 January 2020 the Group had a total global installed base of 286 HUP monitors (31 January 2019: 164 units) generating £2.22m (31 January 2019: £1.38m) of annualised revenue.

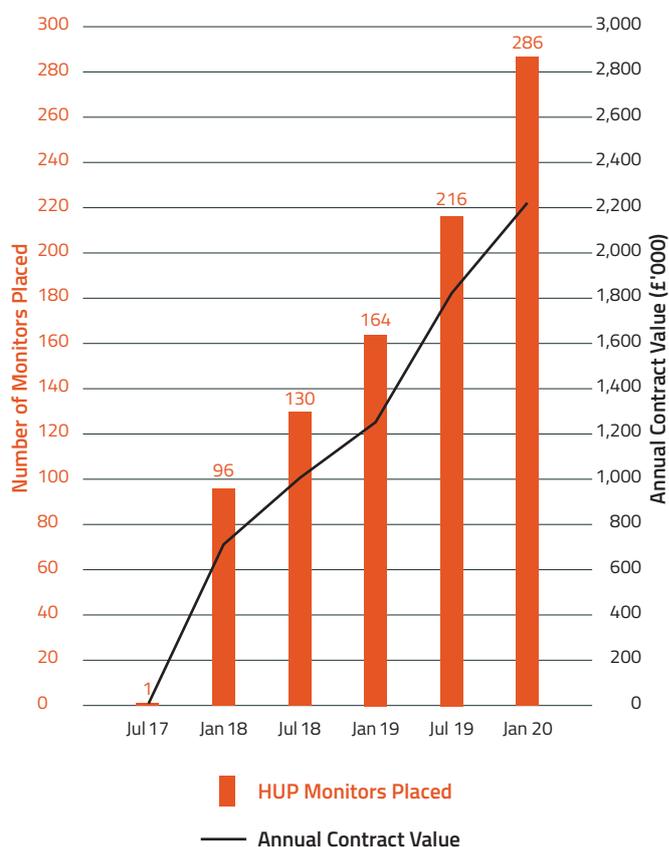
In FY20 annualised license revenues represented 30% of the Group's total revenues. An estimated further 9% of revenues were also underpinned by contractual agreements which normally roll forward on a continuing basis.

The remaining recurring revenues, primarily from the sale of disposables (including smart cards) represented 36% of the Group's total revenues,

Total recurring revenues in FY20 represented 75% of the Group's total revenues.

The growth of the HUP business is illustrated in the adjacent chart:

#### HUP Monitors Placed and Annual Contract Value



## Strategic report continued

### Alternative performance measures

Throughout the Annual Report we use a range of financial and non-financial measures to assess our performance. A number of the financial measures, including Adjusted loss before tax, EBITDA and Adjusted EBITDA are not defined under IFRS, so they are termed "Alternative Performance Measures" (APMs). Management use these measures to monitor the Group's financial performance alongside IFRS measures because they help illustrate the underlying performance of the Group.

Alternative performance measures	FY20 £'000	FY19 £'000
Loss before tax	(1,214)	(2,137)
Share-based payments charge	96	143
Adjusted loss before tax	(1,118)	(1,994)
Operating loss	(1,202)	(2,138)
Depreciation and amortisation	1,146	832
EBITDA	(56)	(1,306)
Share-based payments charge	96	143
Adjusted EBITDA	40	(1,163)

### UK

In the UK, LiDCO has made good progress with converting its largest customers to the HUP business model. The Company first evaluated this approach with its largest UK account in January 2018 and, encouragingly, the customer was able to treat more patients and has increased its investment in hemodynamic monitoring. Following this success, the Company has now converted eight of its largest customers to multi-year HUP contracts, meaning that the Company has annualised UK HUP contracts worth £0.77m. When combined with the value of contracted per patient disposable usage, the UK now has 50% of its recurring revenues covered by long-term contracts.

Despite the challenging NHS procurement environment, in FY20, the Company has maintained its UK revenues. LiDCO also remains the UK market leader. Demand for capital monitor purchases increased 32% to £0.50m (FY19: £0.38m) whilst recurring revenues declined 2% to £3.04m (FY19: £3.11m). The decline of recurring revenues was impacted by the effect of customers destocking the traditional per patient disposables ahead of converting to HUP.

As expected, there was a significant reduction in low margin third-party product sales, due to the previously announced termination of the low-margin Merit Medical distribution contract for Argon products. As a result, third party sales declined 83% to £0.19m (FY19: £1.13m). The Company has sourced a number of complementary third-party products and LiDCO now distributes Maicuff, Antmed and Xavant products in the UK.

### USA

As the business grows its installed base of HUP monitors it is generating strong year-on-year growth of license fee revenues. As a result, recurring revenues in the USA grew by 26% to £1.59m (FY19: £1.27m). Overall US sales increased by £0.39m to £1.77m (FY19: £1.38m) due to the increase in recurring revenues and a 62% increase in monitor sales to £0.17m (FY19: £0.10m) as the local sales team sought access to customers' capital funds in order to accelerate the purchasing process.

Since 31 January 2019, the US installed base of HUP monitors has increased to 156 units (January 2019: 95 units) with an annualised contract value of £1.28m (January 2019: £0.80m) representing the second year of over 50% year-on-year growth.

The team continues to work through a strong pipeline of prospective HUP customer opportunities, but the Board recognises that the greatest limiting factor to faster growth is the size of our commercial presence in the market. The current strategy is to invest on a self-funded basis, but the Board continues to consider when the time would be right to increase investment in this important market.

## Strategic report continued

### Continental Europe

Revenues in Europe grew by 35% to £0.63m (FY19: £0.47m) driven by strong license fee revenues as a number of HUP contracts entered the second year of their term. Over the last few years, the Company has been focused on rebuilding its business in Europe by signing new distributors. Whilst efforts to gain share in the largest European markets has been slower than desired, new markets such as Poland show good promise.

LiDCO has a strong position in a few selected markets within Europe and continues to work on expanding its presence in some of the larger countries in the region by partnering with the appropriate distributors. The Board recognises the challenges of finding the right distributor in the largest European countries and is prepared to consider investing in direct operations where the business case for doing so be appropriate.

### Rest of World

Strong growth in China and Japan contributed to LiDCO's business in Rest of World markets growing 75% to £1.38m (FY19: £0.79m). In November 2019, the Company announced that following approval by the Chinese Food and Drug Administration of the LiDCO *rapid*<sup>vs</sup> monitor in July 2019, its distribution partner, Beijing Gloryway Medical Co., Ltd had launched the product at the 27th Annual Meeting of the Chinese Society of Anesthesiology. The Company received a number of orders in preparation for the launch and was able to fulfill some immediate demand in the year.

Sales to Japan grew 31% to £0.41m (FY19: £0.31m) as the business continued to build market share in the world's second largest hemodynamic market, having appointed a new distributor two years ago.

LiDCO continues to invest in geographical expansion, during the year applying for several regulatory registrations in key target markets in South East Asia and Latin America, which are expected to benefit future years. New exclusive distributors were signed during the year in Saudi Arabia, Chile, Argentina, Mexico and Venezuela.

### Product Developments

During the year the Company through its own resources and utilising external contractors further developed the graphical user interface of its monitors to add additional clinical guidance, improved start-up processes and further customisation for individual customers. Significant progress was made in expanding the software licencing functionality to incorporate more commercial modes and flexibility.

As a result of the work commenced during 2019, the Company anticipates launching improved non-invasive monitoring in 2020. The main new features with this latest software development include:

- faster set-up, significantly reducing the time to start monitoring, meaning that clinicians can be monitoring their patients in less than a minute;
- automatically recognising if an incorrect sensor size is attached,

- ensuring an error-free application that gives notice to the user if finger sensor size does not fit;
- improved signal optimisation, for more reliable short- and long-term blood pressure tracking, featuring a new automated signal quality check that analyses blood pressure on a beat-to-beat basis to ensure better tracking of quick blood pressure changes.

### Change of Premises

The landlord of the Company's premises at Orsman Road, in North London, wishes to redevelop the site and as a result of this the Company has entered into a new lease agreement for the residual period of the lease that has benefits to both parties. Under the terms of the new lease LiDCO is incentivised to leave the premises before the end of the lease on 23 June 2021 and may terminate the lease from 23 June 2020 on a month's notice. Leases have recently been signed on new premises both for the administration functions, which are moving to serviced offices near to central London, and for the logistics and production activities which are moving to a facility in North London. Management aim to vacate the existing premises by 23 June 2020 in order to maximise the compensation received, however the COVID-19 pandemic may delay the planned timetable.

Linked to the move the Company has entered into an agreement to outsource the clean room activities currently performed at its Orsman Road facility.

## FINANCIAL REVIEW

### Revenues

LiDCO product revenues for the year ended 31 January 2020 increased by 19% to £7.36m (FY19: £6.19m) driven by strong export growth. Sales of third-party products declined by 83% to £0.19m (FY19: £1.13m) as anticipated following termination of the low-margin Merit Medical distribution contract for Argon products. Overall sales increased by 3% to £7.55m (FY19: £7.32m).

In the year ended 31 January 2020 recurring revenues equated to 75% of LiDCO product sales (FY19: 81%).

The amount of revenue invoiced but not yet recognised at 31 January 2020 increased by 47% to £1.23m (FY19: £0.84m). This relates primarily to HUP licenses and is recorded on the balance sheet as deferred income.

Further comment on revenues by territory is provided in the operational review.

### Gross profit and margin

The Board has decided that it would be more accurate and consistent with the reporting of other company results if certain labour and direct overhead costs were reported within cost of sales rather than administration expenses. The prior year figures have been adjusted to reflect this change and details of this adjustment that reduces both gross profit and administration costs are shown in note 1 to the financial statements.

## Strategic report continued

Gross profit on LiDCO product revenues increased by 21% to £4.91m (FY19: £4.07m) as a result of the strong sales growth and an increase in gross margin to 66.8% (FY19: 65.8%). The improvement in gross margin occurred despite the provision for obsolete/damaged stock having doubled to £0.37m (FY19: £0.18m) and was primarily due to labour and overhead cost efficiencies. Gross profit on third-party sales decreased to just £8,000 (FY19: £224,000) due to the reduction in third-party sales and costs relating to the termination of the Merit distribution contract.

Overall gross profit increased by 14% to £4.92m (FY19: £4.30m) and the gross margin increased to 65.2% (FY19: 58.7%).

### Overheads

Overheads before share-based payments decreased 4% to £6.03m (FY19: £6.29m). The decrease was primarily due to cost reductions implemented in the second half of FY19 that are reflected in a reduction in the average number of employees during the year to 44 (FY19: 50).

Share-based payments resulted in a charge of £96,000 (FY19: £143,000).

### EBITDA

The Group recorded a positive adjusted EBITDA (adjusting for share-based payments) in the year of £0.04m (FY19: EBITDA loss of £1.16m), an increase of £1.20m of which £0.22m came from the introduction of IFRS 16 "Leases".

### Earnings and tax

The Group made an adjusted loss before tax (adjusting for share-based payments) of £1.12m (FY19: £1.99m). After charging for share-based payments and receiving the benefit of £0.19m of research and development tax credits, the Group made a net loss for the year of £1.03m (FY19: £1.94m), equating to a loss per share of 0.42p (FY19: 0.80p).

### Cash flow, borrowings and cash balances

The positive adjusted EBITDA along with reductions in working capital of £0.71m (primarily decreases in stock and increases in deferred income) and an R&D tax credit receipt of £0.19m resulted in a net cash inflow from operating activities of £0.95m (FY19: outflow of £0.51m). Net cash used in investing activities increased by 10% to £1.10m (2019: £1.00m) as the Group invested in a new ERP system and net cash outflow from financing activities increased to £0.20m (FY19: £nil) as a result of the adoption of IFRS 16, details of which are shown in note 1 to the financial statements. Overall net cash reduced by £0.36m in the year to £1.36m at the year end (FY19: £1.51m reduction to £1.72m).

In the second half of the year the Group made an adjusted EBITDA of £0.23m (H2 2019: EBITDA loss of £0.34) and increased net cash by £0.17m (H2 2019: decrease of £0.34m).

The Group remains debt free and the Board continues to believe that LiDCO retains the appropriate strength in its balance sheet to deliver incremental growth.

### Property plant and equipment

Investment in property, plant and equipment in the year decreased by £0.04m to £0.31m (FY19: £0.35m). Medical monitors, which comprise of HUP monitors, those on loan to hospitals purchasing agreed levels of disposables each year, and those being used for demonstration purposes or in clinical trials, continued to be the largest area of investment in the year totaling £0.26m (FY19: £0.32m).

### Intangible assets

Expenditure on intangible assets in the period increased by £0.14m to £0.79m (FY19: £0.65m) of which £0.52m (FY19: £0.59m) was spent on product development, £0.21m (FY19: £nil) on computer software and a further £0.06m (FY19: £0.06m) on new product registrations in overseas territories. Most of the product development expenditure was to develop version 2.05 of the LiDCOunity software utilised in LiDCO's hemodynamic monitors, which will be launched later this year. This software contains new tools and enhancements to the graphical user interface to improve the user experience and ensures compatibility with the latest continuous non-invasive arterial pressure ("CNAP") module due to be launched later in 2020.

The investment in computer software related to the purchase of enterprise resource planning (ERP) software to replace several old existing systems. The new ERP system went live on 1 February 2020 and in due course is expected to improve levels of management information and increase back office efficiency.

### Inventory

Inventory was reduced by £0.34m in the year to £1.55m (FY19: £1.88m) with £0.19m of the reduction arising from an increase in the provision for obsolete or damaged stock. Although inventory levels may reduce further in the current financial year, traditional rates of inventory turn cannot always be applied to the Group as it relies on several single-source key suppliers and strategically maintains high levels of inventory in respect of such supplies.

## Strategic report continued

### BUSINESS MODEL, STRATEGY AND PERFORMANCE

#### How LiDCO creates value: the Group's business model

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

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

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

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

#### The key features of LiDCO's business model:

LiDCO has developed a new generation of hemodynamic monitoring products designed to address a large and growing hemodynamic monitoring market opportunity - internally estimated to be potentially \$2 billion per annum.

- The Group generates revenues principally through the sale of single-use disposables and/or the sale of usage licenses into a growing installed base of LiDCO-enabled monitors.
- Sales of LiDCO's products are supported by over 250 clinical studies and an ever-growing body of evidence to satisfy purchaser requirements for clinical and cost effectiveness.
- The Group protects its recurring revenue income stream through having patented products with high levels of proprietary intellectual property which are subject to ongoing development.
- LiDCO provides first-class training and education to its customers. This helps entrench the Group's technology and reduce hospitals costs, with a focus on providing LiDCO with a sustainable recurring income.

#### Delivering the Board's objectives: strategy

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

Geographical expansion is key to LiDCO's capacity to address the worldwide opportunity for sales of our technology. The Group's sales and distribution model has three elements:

- Direct sales into hospitals in the UK and USA.
- Outside of the Group's two direct markets, sales are via distribution partners. The depth of margin on disposable sales allows LiDCO to attract quality specialist distribution partners on an exclusive and non-exclusive basis. In addition, where appropriate, the Group sometimes work through regional master distribution organisations to manage distributors on its behalf.
- LiDCO's core technologies are patented and the Board sees licensing the Group's technology as another way to access the market. The LiDCO algorithm has been licensed on a non-exclusive basis to a major corporate partner in the USA in return for future royalty payments.

## Strategic report continued

### Measuring the Group's performance: Key Performance Indicators (KPIs)

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

Key Performance Indicators	FY20	FY19
Revenue growth of LiDCO products	<b>19%</b>	-10%
Gross profit margin on LiDCO products (restated)	<b>66.8%</b>	65.8%
LiDCO product revenue per FTE sales employee	<b>£0.75m</b>	£0.44m
% LiDCO product overseas revenue	<b>51%</b>	43%
% of recurring revenue (of LiDCO product revenues)	<b>75%</b>	81%
Monitors sold/placed in the year	<b>319</b>	236
Installed base of HUP monitors	<b>286</b>	164
Annualised value of HUP contracts	<b>£2.22m</b>	£1.38m

The KPIs are linked to the Group's strategic initiative of commercial expansion and measuring the success of its differentiated HUP pricing model. LiDCO product revenues were higher due to the transition to HUP, and success expanding sales outside of UK home market. LiDCO gross margin percentage improved due to labour and overhead cost efficiencies. The success of HUP in the US and the relaunch of LiDCO in China has positively influenced the regional revenue split. Recurring revenues grew 9% versus the prior year but despite this the percentage of recurring revenue was reduced by growing capital sales as the team targeted capital funds in order to accelerate HUP conversions. HUP success was in the USA, UK and selected distributor markets.

### PRINCIPAL RISKS AND UNCERTAINTIES

The Group maintains a comprehensive risk register and considers risk management an important part of the management process. Regular reviews are undertaken at all levels of the business to assess the nature and magnitude of risks and the means by which they may be mitigated. The Directors consider the key commercial risks currently associated with the business are as follows (these are not necessarily listed in order of seriousness):

#### COVID-19

The worldwide outbreak of COVID-19, although, in the short-term boosting sales of the Group's monitors poses a number of risks to the Group's business including:

- Production staff – in order to ship product, the Group is dependent upon a small number of employees who are trained to configure, assemble, pack and ship the Group's products. If any of these staff became ill with COVID-19 or are unable to travel to work due to self-isolation or travel restrictions for a prolonged period of time it could impact the Group's ability to fulfil orders. In order to mitigate this risk, management has restricted access to the Group's facility to all but essential staff who are not in "high risk" category.

Furthermore, the production team has been split into two teams each working three long days in succession in order to further reduce interaction and ensure that an infection of one staff member does not result in the isolation of all production staff. Management has also decided to pay for taxis to work for those essential staff who can't drive to work to reduce the risk of infection from the use of public transport;

- Other staff – wherever possible, other staff have been set up to work from home. Sales and customer training staff are continuing to support customers, but following government guidelines for social distancing, using personal protective equipment and conducting business where possible by telephone or video conference;
- Supply chain – currently the Group has not experienced any significant interruptions to its supply chain, however the risk increases daily with the worldwide increase in COVID-19 cases. This risk is mitigated to some extent by the Group holding strategic stocks of certain key components and accessories and management have sought to further mitigate this risk by ordering more stock. However, the long lead times for many stock items and the dependence on a number of sole suppliers means that there remains a significant risk of delivery times to customers being longer than normal;
- Promotion – the vast majority of hospitals have barred access to sales representatives and are not performing evaluations of hemodynamic monitors during the outbreak making it very difficult for the Group to build a pipeline of prospective business and win new customers. This could constrain sales growth later in the year.

## Strategic report continued

### Change of premises

There are plans in place to vacate the Company's current premises in Orsman Road, North London by 23 June 2020, and two replacement premises have been leased – one for office staff and one for production staff. Restrictions which are in place due to the COVID-19 pandemic, mean that the organisation of the moves to two new locations is more complex and the timing less certain than it otherwise would be. The risk of significant disruption is mitigated by having considerable flexibility to defer the move from the existing premises if necessary and by close attention by management to respond to the changing circumstances as they arise.

### Employees, forecasting and performance

The Group relies on a small number of senior management with a wide range of relevant skills and specialist sector knowledge. The Group employs about 47 people and recognises that its success depends on the calibre of all its employees, retaining their knowledge and ensuring that their productivity is maximised. The Group therefore maintains programmes for appraising, incentivising, training and recruiting employees. The risk of underperformance is mitigated by adopting systems and processes to develop realistic plans and budgets and then closely monitoring performance against those plans. Such systems and processes provide a level of resilience and the ability to take corrective actions should a potential risk of underperformance be identified. The Group also pays close attention to safeguarding the health and safety of employees and reports on health and safety matters are regularly reviewed by the Board.

### Intellectual property

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

### Supply chain management

The manufacture of the Group's products relies on the supply of components from third parties; therefore, the failure of suppliers or subcontractors to continue in business or meet their commitments constitutes a risk to continuity of supply. This is mitigated by maintaining good relationships with key suppliers in order to understand their capabilities and maintaining contracts and technical agreements as appropriate. In addition, we work with all of our suppliers to ensure that they meet the latest regulatory requirements. Where the Group uses small volumes of critical components or where there are single sources suppliers, the Group generally maintains appropriate buffer levels of inventory to mitigate any risks and where possible and economic to do so seeks to identify further sources of supply. In addition, the Group continues to invest in the maintenance of its manufacturing equipment and review its disaster recovery plans to mitigate any potential interruptions to supply.

### Distributors and corporate partnerships

The Group relies on distributors for its sales and marketing activities outside the UK and US. The Company mitigates the risk of distribution/licensing partner underperformance by selecting partners with the requisite resources, skills, access to customers and creditworthiness. In addition, the Group provides ongoing training programmes and closely monitors partner activity to ensure that contracts with them continue to be effective and up to date. The Group seeks to enter appropriate length contracts on reasonable terms with its corporate partners to ensure continuity of business.

### Health service budgets and introduction of online/e-procurement

The Group's performance is affected by governments' and hospitals' expenditure and associated budgetary constraints. The Group mitigates this risk by targeting a wide geographical area for its products and reducing its overall reliance on one market as well as by educating customers as to the value proposition of its products. In addition, in its direct markets it offers flexible models for purchasing. The Group has committed and effective distribution partners in many markets and focuses its efforts on sales opportunities where budgets are likely to be available. The introduction by the UK Department of Health of online procurement in September 2017 has increased pricing transparency within the NHS, and the Group aims to mitigate this by continuing to offer products and services with tangible health outcome and economic benefits to its customers. In selected instances the introduction of HUP will benefit both customers and LiDCO by extending the use of hemodynamic monitoring and its associated benefits.

### Liquidity

The key financial risk is the management and maintenance of sufficient cash balances to support the ongoing development, supply and marketing of the LiDCO products. The Group mitigates this risk by seeking to maintain a high level of recurring disposable income, which reduces its reliance on the sale of capital equipment to its customers together with, when appropriate the use of shareholders' funds. The introduction of HUP will also mitigate this risk by moving the customer base onto medium-term contracts with payments in advance. The Group has in place a system of internal financial controls to protect against unauthorised use of funds.

## Strategic report continued

### Product liability and litigation

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

### Competition

Whilst the number of direct competitors is small, some of these are large companies with greater resources than LiDCO. In addition, new competitor technologies may appear, and some clinicians may favour alternative approaches to the use of hemodynamic monitoring. These risks are mitigated by ensuring continued improvement of the Group's products to keep at the forefront of developments and pursuing technology leadership. Through both differentiation from competitors, and continually drawing clinicians' attention to the advantages of LiDCO technology, and referencing numerous clinical studies the Group demonstrates the positive outcome benefits of hemodynamic monitoring using LiDCO solutions. The HUP offers a differentiated pricing model which enables LiDCO to offer solutions not currently offered by its competition.

### Brexit

In preparation for Brexit, LiDCO Limited has changed its notified body to a European-based organisation and made plans to transfer its market authorisations for Lithium Chloride in key European markets to its subsidiary in the Netherlands. If no deal is agreed with the EU prior to the end of the transition period then the Group will incur tariffs that it may not be able to recover through higher sales prices, however, due to the actions implemented in the last year, is expected to be able to continue to sell its products in the EU.

### DIRECTORS' DUTIES – S172 COMPANIES ACT 2006

#### Directors' duties to promote the long-term success of the Company

The Directors behave and carry out their activities to promote long-term success of the Group for the benefit of the Company's shareholders, employees, customers, suppliers and other stakeholders.

They engage with shareholders, employees, customers, suppliers and other stakeholders to reflect their insights and views when making decisions on strategy; delivering operational effectiveness; making plans; driving initiatives; and committing to deliver outcomes that enhance social value.

The culture and values promoted by the Directors creates a focus across the Group on observing and maintaining the highest standards of business conduct whilst promoting the long-term success of the Company.

The narratives in the Chairman's Corporate Governance Statement highlight how the Directors observe these principles for the long-term success of the Company.

## Board of Directors



**Peter Grant**  
Non-executive Chairman

Peter Grant joined the Board as Non-executive Chairman Designate on 6 March 2017 and was elected Chairman of the Board and Audit and Nomination Committees on 10 May 2017. Mr Grant was Chief Executive Officer of Skyepharma PLC from January 2012 to June 2016, until its merger with Vectura Group plc. He joined Skyepharma as Chief Financial Officer in November 2006. Prior to Skyepharma, Mr Grant was Interim Chief Executive Officer of Voice Commerce Group, Group Finance Director at Eurodis Electron PLC, Chief Financial Officer at WorldPay Group plc, Group Chief Executive at Molins PLC and Finance Director at Molins PLC. Prior to this he held a variety of senior commercial, financial and general management roles in the General Electric Company PLC group of companies. He holds an MA in Mathematics from the University of Oxford and is a Chartered Accountant. Mr Grant is Chairman and Chair of the Finance and Audit Committee and member of the Remuneration Committee of Microsaic Systems plc and a Non-Executive Director of Labatec Pharma SA, a private Swiss company. Mr Grant is Chairman of the Audit and Nomination Committees and a member of the Remuneration Committee.



**Matthew Sassone**  
Chief Executive Officer

Mr Sassone took over the role of Chief Executive Officer during August 2015 following the retirement the business' founder Dr Terry O'Brien. He has over 20 years' experience in the medical industry having started his career in sales for Quintiles in 1996. He spent 12 years at Smiths Medical in various sales, marketing and business development roles achieving the role of Regional Managing Director, Northern and Eastern Europe and Russia in 2010. In 2012 he moved to ArjoHuntleigh, a division of the Getinge Group, as Senior Vice President Global Marketing and was subsequently appointed Chief Marketing Officer of Maquet, also a division of Getinge. Mr Sassone has a degree in biochemistry with microbiology. Mr Sassone is a member of the Group's Nomination Committee.



**Tim Hall**  
Chief Financial Officer

Tim Hall joined the Board on 11 March 2019 as Chief Financial Officer and Company Secretary. Tim is a Chartered Accountant with 30 years' experience in financial roles in the life science industry. Prior to joining LiDCO, Tim was Chief Financial Officer of Oxford Gene Technology IP Ltd ("OGT") from 2012 to 2018 during which time he helped to grow the business substantially through both geographic expansion and M&A activity before its successful sale to Sysmex Corporation in 2017. Before moving to OGT, Tim was Finance Director at AIM-listed Lombard Medical Technologies PLC for six years and previously had senior finance roles in UCB S.A, Celltech Group plc and Medeva PLC. Tim's early career included finance and project management roles at Glaxo Wellcome plc/Wellcome plc. Tim qualified as a Chartered Accountant with Touche Ross & Co, now Deloitte.

## Board of Directors continued



**Phil Cooper**  
Non-executive Director

Phil Cooper was appointed in August 2016. He has more than 30 years of experience in the medical device industry and grown businesses through geographical expansion, introduction of new products and concepts and the creation of new customer channels and segments. Having gained experience in sales, sales management and logistics he was appointed UK Marketing Director for the Clinical Division of SCA Molnlycke and subsequently, on its sale to private equity in 1998, UK Managing Director of Molnlycke Health Care. In 2001 he joined the Group Executive Board and initiated the Customer Procedure Tray business for Molnlycke, now the European market leader. From 2005 he focused on the Wound Care Division business and was appointed President in 2007. In his tenure as President from 2007 to 2014, Molnlycke became the global leader for advanced wound dressings and the market leader in the US and Europe, also entering directly in a number of key Asia-Pacific territories. Phil is a Non-Executive Director and member of the Remuneration Committee of Alesi Surgical Limited, a Non-Executive Director of the Supervisory Board of Soest Medical Group (Netherlands) and a Non-Executive Director of Guard Medical SAS (France). He is also a Governor of Taunton School Educational Charity where he is Chair of the Marketing and Admissions Panel. He is also a Director of PSMC Consultancy Limited and PSMC Holdings Limited. Mr Cooper is the Chair of the Remuneration Committee and a member of the Audit and Nomination Committees.



**James Wetrich**  
Non-executive Director

James Wetrich was appointed in August 2019. James brings with him over 35 years of experience in the US healthcare industry having worked both in the medical device and healthcare provider sectors, including companies such as Abbott Laboratories, Molnlycke Healthcare, Premier Inc, and Providence Health & Services. In the mid-1980s, James played an instrumental role in the formation of the University HealthSystem Consortium, now part of Vizient. This extensive work in the US healthcare supply chain has resulted in expert knowledge of the purchasing cycle including value analysis, strategic sourcing, supply chain relationship building and procurement logistics. Mr Wetrich is a member of the Remuneration and Nomination Committees.

## Clinical Advisory Group

### Dr Max Jonas

Dr Jonas is a Consultant Intensivist, Senior Lecturer and Tutor in critical care working at Southampton University and Hospitals. He is currently a senior consultant on the 28-bed general intensive care unit and has specific interests in hemodynamics and health technology assessment.

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. He has recently been appointed to the council of governors at UHS and is the clinician in charge of a £25M rebuild of the ICU.

### Dr Terry O'Brien

Terry O'Brien has thirty-five years executive and consultancy experience within the Healthcare Industry. As the co-founder and ex CEO of LiDCO Group Plc, he has extensive knowledge of cardiovascular physiology and the application of hemodynamic monitoring technology to improve outcomes in high-risk acute care patients. A subject on which he has written or co-written several peer reviewed articles published in major medical and scientific journals.

The co-inventor of several innovations in the fields of sensor technology and physiological signal processing he is named on five patent families that have been granted in all major territories.

Dr O'Brien has a PhD in Stem Cell Transplantation from Westminster Medical School (now Imperial College, London), a Bachelors in Human Biology from Surrey University and is a fellow of the Royal Society of Medicine, London.

## Chairman's Corporate Governance statement

The Board is committed to maintaining high standards of corporate governance.

The Board is led by the Chairman who is responsible for its overall effectiveness in directing the Company. He manages the Board agenda and ensures that all Directors receive accurate, timely and clear information and effectively contribute their various talents and experience in the development and implementation of the Company's strategy. He ensures that the nature and extent of the significant risks the Company is willing to embrace in the implementation of its strategy are challenged and determined by the Board. The Chairman is responsible for ensuring that the Board implements, maintains and communicates effective corporate governance processes and for promoting a culture of openness and debate designed to foster a positive governance culture throughout the Company.

The Board adheres to the Quoted Companies Alliance's (QCA) Corporate Governance Code for small and mid-size quoted companies (the "Code"). The Code sets out ten broad principles of corporate governance, states what are considered to be appropriate corporate governance arrangements for growing companies and requires companies to provide an explanation about how they are meeting the principles through certain prescribed disclosures.

The Board has considered how each principle is applied and provides below an explanation of the approach taken in relation to each and how they support the Company's medium to long-term success.

The Board considers that it does not depart from any of the principles of the QCA Code.

The full corporate governance statement is published and maintained up to date on the Company's website at [www.lidco.com/investors/corporate-governance-anti-bribery-statement](http://www.lidco.com/investors/corporate-governance-anti-bribery-statement). This extract from that statement is included in the Annual Report & Accounts as required by the Code.

### Principle 1: Establish a strategy and business model which promote long-term value for shareholders

LiDCO aims to capitalise on its market-leading position in hemodynamic monitoring in the UK by growing revenues and profitability in the sale of medical devices and related accessories in the US, Europe and selected markets in Asia. The Group's strategy is to seek to grow the available market for its products as well as its market share, by providing leading differentiated commercial and technical solutions to its customers.

#### Commercial strategy

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

The key features of the business model:

- Revenues are principally generated through the sale of single-use consumables and/or the sale of usage licenses into a growing installed base of LiDCO-enabled monitors.
- The recurring revenue income stream is protected through having patented products with high levels of proprietary intellectual property which are subject to on-going development.
- LiDCO customers are provided with first-class training and education. This helps entrench the technology and reduce hospitals costs, with a focus on providing LiDCO with a sustainable recurring income.
- Sales of LiDCO products are supported by over 200 clinical studies and an ever-growing body of evidence to satisfy purchaser requirements for clinical and cost effectiveness.
- LiDCO single-use products are produced in high volume with low cost manufacturing processes and have a high margin.

Incorporated in the latest monitor platform is LiDCO's highly differentiated High Usage Programme (HUP).

HUP is a software license fee offering that enables customers to use LiDCO's non-invasive and minimally invasive technology for a fixed flat fee without limiting patient numbers. The HUP mode enables the monitor to function without any requirement for dedicated consumables, meaning that the Group can provide unlimited usage whilst maintaining high gross margins.

Until HUP was introduced by LiDCO, all hemodynamic monitoring was charged on a per patient basis, either through fees or through charging for consumables. The Directors believe that this has limited the use of monitoring, despite multiple studies having demonstrated its significant benefits to patients and reduction of overall healthcare costs. The Board believes that

## Chairman's Corporate Governance statement continued

LiDCO's HUP proposition to the customer is simple and compelling, allowing hospitals to treat more patients for a reduced cost per patient and for a known fixed cost.

### Technology strategy

LiDCO's technology, coupled with the Group's low-cost manufacturing and product sourcing skills, combine to produce a highly differentiated, patent-protected monitor with a recurring income stream either from the sale of dedicated high margin single patient use disposables and/or usage licenses.

LiDCO monitors are 'platform' in design. This means they can be easily and cost-effectively upgraded to add new software features and parameters by the addition of USB-connected modules.

### Challenges to executing the strategy

The key challenges to executing the strategy are as follows:

- **Health service budgets** – the Group's performance is affected by governments' and hospitals' expenditure and any associated or developing, budgetary constraints. The Group mitigates this risk by targeting a wide geographical area for its products and reducing its overall reliance on one market as well as by educating customers about the value proposition of its products. In addition, in the Group's direct markets, it offers flexible models for purchasing. The Group focuses its efforts on sales opportunities where budgets are likely to be available. The Group aims to mitigate the effect of overall healthcare budgetary constraints by continuing to offer products and services with tangible health outcomes and economic benefits to its customers. In selected instances the introduction of HUP will benefit both customers and LiDCO by extending the use of hemodynamic monitoring and its associated benefits.
- **Competitive environment** – Whilst the number of direct competitors is small, some of these are large companies with greater resources than LiDCO. These risks are mitigated by ensuring continued improvement of the Group's products to keep them at the forefront of developments and pursuing technology leadership. Through both differentiation from competitors, and continually drawing clinicians' attention to the advantages of LiDCO's technology, the positive outcome benefits of hemodynamic monitoring using LiDCO solutions can be demonstrated through clinical studies. The HUP offers a differentiated pricing model which enables LiDCO to offer solutions not currently offered by its competition.

### Principle 2: Seek to understand and meet shareholder needs and expectations

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See website at [www.lidco.com/investors/corporate-governance-anti-bribery-statement](http://www.lidco.com/investors/corporate-governance-anti-bribery-statement)

### Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success.

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See website at [www.lidco.com/investors/corporate-governance-anti-bribery-statement](http://www.lidco.com/investors/corporate-governance-anti-bribery-statement)

## Chairman's Corporate Governance statement continued

### **Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation**

The Directors recognise their responsibility for the Group's system of internal control and have established systems to ensure that an appropriate and reasonable level of oversight and control is provided. The Group's systems of internal control are designed to help the Group meet its business objectives by appropriately managing, rather than eliminating, the risks to those objectives. The controls can only provide reasonable, not absolute, assurance against material misstatement or loss.

Executive Directors and senior management meet bi-annually to review both the risks facing the business and the controls established to minimise those risks and their effectiveness in operation on an ongoing basis. The aim of these reviews is to provide reasonable assurance that material risks and problems are identified and appropriate action taken at an early stage. From this review the Company maintains its internal risk register which forms the foundation of the Audit Committee and Board review processes.

The risk register includes commercial, operational and financial internal and external risks that are assessed according to nature and magnitude and given a score based on the seriousness of the risk and the likelihood of the risk occurring. Those ranked in the highest category which are considered both serious and more likely to occur are managed by the Executive Directors and reviewed by the Board including monitoring actions to mitigate the risks. The senior management team manages the remainder of the risks and reviews them as part of the management meeting cycle. Twice a year the risk register is presented for review by the Board and is annually discussed in an Audit Committee meeting. New potentially material risks which arise between reviews, such as Brexit and the impact of the COVID-19 pandemic, are added to the risk register, discussed at Board level as they arise and followed up by the Board as appropriate.

The annual budget is reviewed and approved by the Board. Financial results, with comparisons to budget and latest forecasts are reported on a monthly basis to the Board together with a report on operational achievements, objectives and issues encountered. Significant variances from plan are discussed at Board meetings and actions set in place to address them.

Approval levels for authorisation of expenditure are at set levels throughout the management structure with any expenditure in excess of pre-defined levels requiring approval from the Executive Directors and selected senior managers.

Measures continue to be taken to review and embed internal controls and risk management procedures into the business processes of the organisation and to deal with areas of improvement which come to the management's and the Board's attention. Metrics and quality objectives continue to be actively implemented and monitored as part of a continual improvement programme.

The Company's auditors are encouraged to raise comments on internal control in their management letter following their audit, and the points raised and actions arising are monitored through to completion by the Audit Committee.

### **Principle 5: Maintain the Board as a well-functioning, balanced team led by the Chair**

The Board currently consists of two Executive and three Non-executive Directors all of whom are male.

The Chairman is responsible for the effective leadership, operation and governance of the Board and its Committees. He ensures that all Directors contribute effectively in the development and implementation of the Company's strategy whilst ensuring that the nature and extent of the significant risks the Company is willing to embrace in the implementation of its strategy are determined and challenged. The Chief Executive Officer is responsible for the management of the Group's business and for implementing the Group's strategy

Each of the Non-executive Directors is considered independent of management and free of any relationship that could materially interfere with the exercise of their independent judgement. The Chairman was considered independent upon his appointment.

The Board has established Audit, Remuneration and Nomination Committees – details and links to their terms of reference are set out under Principle 9 below.

Details of Directors and their time commitment is set out under Principle 6 below.

The number of Board and Committee meetings and attendance records of Directors is set out in the Annual Report & Accounts and under Principle 9 below.

## Chairman's Corporate Governance statement continued

### Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

#### **Peter Grant, Independent Chairman**

*Term of office:* Appointed Non-executive Director and Chairman Designate on 6 March 2017. On 10 May 2017, he was appointed Chairman of the Board and was also appointed Chairman of the Audit and Nomination Committees and member of the Remuneration Committee.

*Background and suitability for the role:* Peter Grant had an executive career spanning 40 years, nearly half at listed company board level spanning the healthcare, electronics, software and engineering industries. His executive career included CEO of Skyepharma PLC, CFO of Skyepharma PLC, Group Finance Director at Eurodis Electron PLC, CFO at WorldPay Group plc, Group Chief Executive at Molins PLC and Finance Director at Molins PLC. Prior to this he held a variety of senior commercial, financial and general management roles in the General Electric Company PLC group of companies. He holds an MA in Mathematics from the University of Oxford and is a Chartered Accountant. He brings a combination of listed company and financial expertise, experience of developing, manufacturing and distributing electronic and software products and experience of the healthcare sector.

*Current external appointments:* Peter is Chairman and Chair of the Finance and Audit Committee and member of the Remuneration Committee of Microsaic Systems plc, and a Non-Executive Director of Labatec Pharma SA, a private Swiss company. In addition to chairing the Board of the Company, Peter chairs the Audit and Nomination Committees and is a member of the Remuneration Committee of the Company.

*Time commitment:* Approximately two to four days a month. Peter estimates that his current appointments, including that with the Company, comprise about eight days a month, and he considers that he would have the time to be able to step up the commitment to the Company should temporary circumstances require him to do so.

#### **Matt Sassone, Chief Executive Officer**

*Term of office:* Mr Sassone was appointed in August 2015 and is a member of the Nomination Committee.

*Background and suitability for the role:* Matt Sassone has been in the healthcare industry for the last 22 years and holds a degree in biochemistry with microbiology from Leeds University. Matt spent 12 years at Smiths Medical in various sales, marketing and business development roles achieving the role of Managing Director, Northern and Eastern Europe and Russia in 2010 where he had full P&L responsibility for 300 employees and £150m of revenue. In 2012 he moved to ArjoHuntleigh, a division of the Getinge Group, as Senior Vice President Global Marketing and was then appointed Chief Marketing Officer of Maquet (turnover £1.1 billion in intensive care, surgery and anaesthesia systems), also a division of Getinge. During his career Matt has been involved with products used in surgery and intensive care. His knowledge of the market for LiDCO's products and customers, coupled to a broad management and international sales skill set, ideally positions him to execute on the Company's sales expansion in the UK and overseas.

*Current external appointments:* None

*Time commitment:* Full time

#### **Tim Hall, Chief Financial Officer and Company Secretary**

*Term of office:* Appointed Chief Financial Officer and Company Secretary on 11 March 2019.

*Background and suitability for the role:* Tim Hall is a Chartered Accountant with over 30 years' experience of financial roles in the life science industry. He was previously CFO of Oxford Gene Technology IP Ltd and Finance Director of AIM-listed Lombard Medical Technologies PLC. Prior to these positions Tim held senior finance roles in UCB S.A, Celltech Group plc and Medeva PLC.

Tim is also Company Secretary and is responsible for legal, statutory and regulatory matters and assists the Chairman and the Board Committee Chairs in preparing for meetings.

*Current external appointments:* None

*Time commitment:* Nine out of every ten working days.

## Chairman's Corporate Governance statement continued

### **Phil Cooper, Independent Non-executive Director**

**Term of office:** Phil Cooper was appointed as a Non-executive Director in August 2016. He is Chair of the Remuneration Committee and a member of the Audit and Nomination Committees.

**Background and suitability for the role:** Phil has more than 30 years' experience in the medical device industry and has Executive Board experience of more than 17 years, having been involved in senior sales, marketing, logistics and general management positions. He has grown businesses through geographical expansion in North America, Europe and Asia-Pacific; introduced new products and created new customer channels and segments; and grown businesses through mergers and acquisitions.

In his last Executive Board role from 2007 – 2014 he was Executive President of the Wound Care Division for Molnlycke Health Care AB. He had full P&L responsibility for 1,700 employees and €600m of revenue. In this period the Division achieved global market leadership; more than doubled sales revenue; improved significantly profitability; moved from number six market position to number one in the US; led direct sales investments in China, Japan and India; acquired and integrated three companies in the US and Germany.

During his career Phil has been involved with products used in the operating theatre and the acute care setting. His knowledge of both the UK market and that of international markets, particularly US, Europe and Asia, coupled to a broad management and international sales skill set, ideally positions him to provide strategic level input on the Company's sales expansion in the UK and overseas.

Phil has a BA (Hons) in Business Studies and a MSc in Logistics.

**Current external appointments:** Phil is a Non-executive Director and member of the Remuneration Committee of Alesi Surgical Limited, a Non-executive Director of the Supervisory Board of Soest Medical Group and a Non-executive Director of Guard Medical. He is also a Governor of Taunton School Educational Charity where he is Chair of the Marketing and Admissions Panel. He is also a Director of PSMC Consultancy Limited and PSMC Holdings Limited.

**Time commitment:** Approximately one to two days a month. Phil estimates that his current appointments, including that with the Company, comprise about ten days a month, and he considers that he would have the time to be able to step up the commitment to the Company should temporary circumstances require him to do so.

### **James G. Wetrich, Non-executive Director**

**Term of office:** James G. Wetrich was appointed as a Non-executive Director on the 15th August 2019. He is a member of the Remuneration and Nomination committees.

**Background and suitability for the role:** James G. Wetrich has over 35 years of experience in the US healthcare industry combined with proven financial management, strategic sourcing and transformational leadership expertise. His experience includes 11 years at Abbott Laboratories, where James developed a deep knowledge of sales, marketing and supply chain operations from the manager's perspective and worked his way up through a succession of promotions to the role of Divisional Vice President, where he managed the Novation account, with sales in excess of \$1Billion, achieving a 30% increase in sales over three years. At Molnlycke Health Care he had direct P&L responsibility for all Molnlycke commercial operations in the United States and Latin America and, in eight years, his team grew sales nearly 10X and EBITA over 20X, creating over \$1bn in incremental enterprise value. Other Companies included in James's extensive portfolio are the University HealthSystem Consortium, Premier Inc and Providence Health & Services.

James has a Bachelor of Science in Biological Sciences from the University of Southern California, a Master's in Health Administration as well as a Master's in Business Administration.

**Current external appointments:** The Wetrich Group LLC, The Wetrich Group SCO LLC and Reaplix US, where he serves as the US President.

**Time commitment:** Approximately one to two days a month. James estimates that his current appointments, including that with the Company, comprise about 20 days a month, and he considers that he would have the time to be able to step up the commitment to the Company should temporary circumstances require him to do so.

## Chairman's Corporate Governance statement continued

### Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The Board believes that, in addition to dealing with any matters as they arise, it is appropriate to carry out a formal evaluation of the performance of the Board and its Committees each year. This is intended to ensure that the Board remains effective, well-informed and able to make high quality and timely decisions for the benefit of all stakeholders in the Company.

In February 2020 the Board carried out an evaluation of the performance of the Board and its Committees. This involved each Director completing an evaluation questionnaire which covered effectiveness from multiple angles including: Board structure and Committees; Board arrangements, frequency and time; content of Board meetings; Board culture; Board evaluation and succession; and Individual contributions. The completed questionnaires were provided to the Company's independent company secretarial service where they were anonymised and collated independently into a summary. All comments and any areas of concern were highlighted, and the Chairman led an open discussion of these with the whole Board.

This process is similar to that adopted in previous years and the Board plans to review annually its performance and that of its Committees. To supplement the evaluation process Non-executive Directors meet at least once per annum without the Executive Directors to discuss their performance and the Board meet at least once per annum without the Chairman to discuss the Chairman's effectiveness.

In general, no major concerns were identified with the evaluation carried out in February 2020 but a number of matters were felt to be worth consideration as follows:

**The Board evaluation process.** The Board continues to consider the questionnaire method with an anonymised summary as an appropriate approach for evaluating Board performance and will continue with this method in future years. A discussion was held on the fact that there was no meeting at which the performance of Non-executive Directors, other than the Chairman, could be discussed and it was decided that in future a meeting would be held at which the performance of each Director in turn would be discussed with the Director under discussion leaving that part of the meeting so that 360° feedback could be provided. The Chairman would also have a one-to-one discussion with each Director at least once a year.

**Succession Planning** – As is common with many small companies, the Company does not have internal candidates to succeed existing Directors. This will be kept under review, especially when recruiting for senior roles as vacancies arise. However, the Board did not believe it is appropriate to recruit additional Directors or senior personnel solely for the purpose of succession planning.

**Strategy Discussions** – In 2019, due to other priorities, the time spent on strategic discussions was less than originally planned. The Board has set aside dedicated time in the Board calendar to ensure that the strategic direction and associated risk appetite is fully discussed during FY21.

Matters raised for consideration in the previous evaluation exercise carried out in January 2020 have been dealt with as follows:

- An additional Non-executive Director to strengthen the Boards' knowledge of the US marketplace
- The Board implemented regular monitoring of actions coming out of the annual strategy review
- The Board had planned to spend more time considering the level of risk the Company should take to achieve its strategic objectives, but, due to other priorities, the time spent on strategic discussions was less than originally planned. This matter is carried forward as noted above. During FY21, the Board did review risks generally as disclosed in the Strategic Report.

## Chairman's Corporate Governance statement continued

### Principle 8: Promote a culture that is based on ethical values and behaviours

LiDCO's medical products for hemodynamic monitoring are used in hospitals in many parts of the world 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. The Company's good reputation is key to continuing to grow its business in existing markets and penetrate new markets.

In addition, as a highly innovative Company, LiDCO's medium and long-term success depends on maintaining a supportive and innovative culture with strongly embedded ethical values in dealing with customers and suppliers throughout the world.

The Group's long-term growth is underpinned by the Group's employees and its corporate culture. Based on a companywide process in 2015, the Company culture is based on the following themes:

- Motivated staff with a positive attitude. Supported by the mantra "Today is going to be a good day because I am going to make it a good day"
- Agile methodology. Supported by the mantra "Will it make the boat go faster?"
- Teamwork and working as one. Supported by the mantra "A boat only goes forward if everyone rows in the same direction"

The Company operates a very flat structure with all staff having the ability to discuss matters with the Executive Directors. The management team meets weekly to promote communication, teamwork and agility.

The culture is monitored through an engagement survey that is operated on a biennial basis and to which all permanent staff are invited to contribute.

The Board reviews the findings of the survey and determines whether any action is required. An incentivised staff suggestion scheme is operated with ideas being recognised at Company-wide briefings

In whatever the Group does, the Directors believe that it will always be the Group's people that make the greatest difference, therefore there is a keen focus on the Group's employee culture, reward and recognition.

## Chairman's Corporate Governance statement continued

### Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

See website for further disclosures.

The Group normally conducts about eight regular Board Meetings a year. In addition, the Board meets routinely to approve financial statements, the allotment of shares and to approve significant commercial agreements or transactions. Ad hoc meetings are called as required to discuss specific topics.

The attendance of the individual Directors at the Regular Board Meetings and the Audit and Remuneration Committee Meetings during the year to January 2020 were as follows:

Name	Position	Regular Board Meetings	Audit Committee	Remuneration Committee
Mr P W Grant	Non-executive Chairman	10 (10)	3 (3)	4 (4)
Mr M G Sassone	Chief Executive Officer	10 (10)		
Mr T R Hall <sup>1</sup>	Chief Financial Officer	9 (9)		
Mr P M Cooper	Non-executive Director	10 (10)	3 (3)	4 (4)
Mr J G Wetrich <sup>2</sup>	Non-executive Director	6 (6)		– (1)
Ms J A McGregor <sup>3</sup>	former Chief Financial Officer	2(2)		

<sup>1</sup> Mr Hall was appointed on 11 March 2019

<sup>2</sup> Mr Wetrich was appointed on 15 August 2019

<sup>3</sup> Ms McGregor resigned on 22 March 2019

Numbers in brackets denote the total number of meetings that each Director was eligible to attend during the year.

### Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The following Committee reports are included in these Annual Report & Accounts as shown below. They include details of the work of each Committee.

The Audit Committee Report – pages 28 to 29.

The Remuneration Committee Report – pages 22 to 27.

See website for further disclosures.

## Directors' remuneration report

### Dear Shareholder

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

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

In respect of year FY20 the main decisions the Committee made were:

### Bonus

The bonuses for the year were 27.7% and 27.6% of annual salary respectively for Mr Sassone and Mr Hall, which was below the maximum bonus opportunity of 60% of salary. The bonuses related to performance against pre-determined personal and corporate targets as follows.

	Bonus as a percentage of base salary	
	Mr Sassone	Mr Hall
Corporate target performance	22.7%	22.7%
Personal target performance	5.0%	8.0%
Total	27.7%	30.7%
Percentage of year employed	100%	90%
<b>Net bonus as percentage of annual base salary</b>	<b>27.7%</b>	<b>27.6%</b>

The corporate targets related to LiDCO product sales, operating profit (EBIT) and cash flow. The stretch corporate targets related to LiDCO product sales and cash flow. The personal targets for the CEO related to continued successful expansion of HUP, in particular in the USA; accelerated expansion of growth in current and new markets in East Asia; growth of strategic partner sales in the UK and the expansion of strategic corporate alliances. For the CFO the focus was on the implementation of a new ERP system; evaluation and development of corporate infrastructure and delivering supply chain efficiencies.

In April 2020, in light of the COVID-19 pandemic, the Remuneration Committee discussed whether it was still appropriate to pay the FY20 bonuses to the Executive Directors. The Committee concluded that the payment was appropriate as it related to performance for the previous year ended 31 January 2020 and, since then, LiDCO had been in a position to support its customers by supplying additional advanced hemodynamic monitoring equipment to treat the increased number of patients in intensive care.

### Share options

On 9 April 2019 Mr Sassone was awarded Unapproved options over 2,000,000 shares and Mr Hall was awarded EMI options over 2,000,000 shares. These options are exercisable, subject to performance conditions, at nominal value i.e. at 0.5 pence per Ordinary Share. The closing mid-market price on 9 April 2019 was 4.65p and at that date each option grant had a gross value of £29,883 which represented 14% and 18% respectively of the CEO's and CFO's annual base salary.

These options are subject to the following share price conditions, based on the Group's average share price over the three-month period ending on the proposed vesting date, which will be the third anniversary of the grant date:

Average share price	% vesting
Below 6.00p	0%
6.00p	15%
Between 6.00p and 10.00p	15% to 100% pro rata
10.00p or higher	100%

In setting the above share price targets the Remuneration Committee had regard to the closing price just prior to issue as well as the December 2016 fund raise share price of 6.00p. Achieving the threshold vesting share price of 6.00p would represent share price growth of 29% over the share price at the date of grant. In the event of certain circumstances such as a takeover, the takeover share price would apply instead of the average over three months.

Upon vesting the options may be exercised for a period of two years i.e. the latest date of exercise will be the fifth anniversary of the grant date. The Group has been advised by its remuneration consultants that it is regarded as best practice to implement a shortened exercise period such as this for these types of share option awards.

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

## Directors' remuneration report continued

### Salaries

Executive Directors' salaries are normally reviewed with effect from 1 February each year. As a result of the review undertaken in February 2020 Mr Sassone's salary was increased by 3% and Mr Hall's salary by 3%.

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

Name	Salary	% increase
Mr M G Sassone	£215,373	3%
Mr T R Hall	£169,950	3%

### Bonus

The Executive Directors' maximum bonus opportunity for FY21 remains unaltered and is 60% of base salary and the award for on-target performance is 30%.

#### Executive Directors Corporate and Personal Bonus Targets FY21

On-target Corporate Targets are focused on LiDCO Product Sales, Operating Profit (EBIT) and Cash Flow. The stretch corporate targets are focused on LiDCO Product Sales and Cash Flow.

For the CEO his personal targets are focused upon the continued successful expansion of HUP, in particular in the USA; driving growth in South East Asia; and the expansion of strategic corporate alliances.

For the CFO his personal targets are focused upon successful completion of the move to new premises, improving liquidity and the expansion of strategic corporate alliances.

### Options for Executive Directors

The Remuneration Committee has reviewed the options which are held by the Executive Directors, their potential expiry and the exceptional volatility in the Company's share price as a result of the COVID-19 pandemic.

In these exceptional circumstances the Committee has concluded that it should exercise its discretionary powers under the LiDCO Option Plan Rules to amend certain existing options issued to Mr Sassone in April 2017, as all, or a substantial part of the measurement period for vesting, includes a time when the share price is likely to have been and continue to be materially affected by the pandemic. The changes, which have been implemented, are as follows:

Options issued to Matt Sassone in April 2017

- 1,248,262 EMI options – the measurement period for normal vesting will be changed to the average share price over the 3 months to 15 June 2021 (currently 12 months to 15 June 2020)
- 949,540 Unapproved options – the measurement period for normal vesting will be changed to the average share price over the 3 months to 15 June 2021 (currently 12 months to 15 June 2020)
- 2,000,000 EMI options – the measurement period for normal vesting will be changed to the average share price over the 3 months to 11 April 2021 (currently 3 months to 11 April 2020).

In light of the above changes, the Remuneration Committee does not intend to issue any further options at this time to Mr Sassone.

The Remuneration Committee does intend to issue further options to Mr Hall. In principle the intention is to issue the following:

- EMI options over 2,000,000 shares, exercisable at nominal value i.e. at 0.5 pence per Ordinary Share. The vesting dates and performance conditions will be determined at the time of award; however, the Remuneration Committee's current thinking is that they will be based on share price targets and follow a similar structure to share options granted to Mr Hall in 2019.

## Directors' remuneration report continued

### *Non-executive Directors*

The Executive Directors met to consider the remuneration policy of the Non-executive Directors. The Executive Directors proposed and the Board, in each case excluding the affected Director, agreed that, with effect from 1 February 2020, there should be a recognition of the additional roles and responsibilities of Chairmanship for both the Audit and Remuneration Committees. Thereby the remuneration of Peter Grant should be increased from £46,000 to £49,000 per annum and the remuneration of Phil Cooper should be increased from £30,000 to £33,000 per annum respectively. The remuneration of Peter Grant and Phil Cooper have not previously been reviewed since they joined the Board several years ago.

In addition, the Executive Directors proposed a policy and the Board agreed, that, in future, Non-executive Directors remuneration should ordinarily be reviewed every three years, hence the next review would normally be 1 February 2023. The Board reserves the right to review Non-executive Directors remuneration at other times if deemed appropriate in exceptional circumstances.

Approval to this report will be sought at the forthcoming Annual General Meeting.

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



### **Phil Cooper**

Chairman of the Remuneration Committee

20 April 2020

### **Committee membership**

The membership of the Remuneration Committee is made up of the following Non-executive Directors:

Mr P M Cooper (Chairman)

Mr P W Grant

Mr J G Wetrich (appointed 15 August 2019)

None of the Committee members have any day-to-day involvement in the running of the Group, nor do they have any business or other relationship that could affect, or appear to affect, the exercise of their independent judgement, other than as shareholders. No director votes on any decision about his or her own remuneration.

The Committee met four times in the year.

### **Remuneration policy**

The Committee determines on behalf of the Board, the remuneration for the Executive Directors and such other members of the senior management as it is designated to consider and oversees any major changes in employee benefit structures throughout the Group. 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 Group 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 other senior employees.

The Committee has received advice from remuneration advisors MM&K on matters relating to the Group's share option schemes in relation to FY20 and FY21.

## Directors' remuneration report continued

### Future remuneration policy table

The following table summarises details of the Group's future remuneration policy for the Executive Directors.

	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes in policy for FY21
<b>Base salary</b>	<p>Help recruit and retain employees.</p> <p>Reflects individual experience and role.</p>	<p>All Executive Directors receive a base salary. The salary reflects the experience, level of competence and days worked of the individual to whom it applies, as judged by the Committee, taking into account salary levels in the market.</p> <p>Reviewed annually and fixed for 12 months commencing 1 February. Decision influenced by:</p> <ul style="list-style-type: none"> <li>– role, experience and performance</li> <li>– average change in broader workforce salary</li> <li>– total organisational salary budgets.</li> </ul> <p>Salaries have been benchmarked against companies of similar size and complexity in similar sectors.</p>		None	<p>M G Sassone £215,373 (3% increase)</p> <p>T R Hall £169,950 (3% increase)</p>
<b>Benefits and pension</b>	Help recruit and retain employees.	<p>Directors are entitled to permanent health insurance in common with all other employees. In addition, Directors are entitled to an allowance in lieu of pensions and/or car and other benefits. However, from 1 March 2019, M G Sassone has also been entitled to benefit from the Group's auto enrolment pension scheme.</p>	<p>Benefit allowance is 20% of base salary. Full cost of the annual PHI policy:</p> <p>M G Sassone £1,142 T R Hall £901</p> <p>The cost of M G Sassone's participation in the Group's auto enrolment pension scheme is 3% of base salary.</p>	None	None
<b>Annual bonus</b>	<p>Rewards the achievement of annual targets, delivery of personal objectives and strategic business targets if appropriate.</p>	<p>The Executive Directors who served during the year are members of the Group'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.</p> <p>The criteria for awarding bonuses include corporate and personal objectives. The principal corporate financial objectives on which the Directors are currently judged are LiDCO product sales growth, profitability and cash management and include stretch targets for higher level awards. Bonuses are capped at 60% of base salary. Targets are renewed annually and relate to trading performance. If appropriate, there are gate conditions that apply to the payment of bonuses.</p> <p>Bonus level is determined by the Committee after the year end, based on performance against targets.</p> <p>There is no deferral of bonus, nor any clawback provisions as the Committee thinks such complexity is unnecessary where the bonus maximum is 60% of salary in a business environment like LiDCO's.</p>	<p>Target % of salary: 30%</p> <p>Maximum % of salary: 60%</p>	<p>The majority of the bonus is based on achievement of specific targets of profitability and sales as well as partly on the achievement of other financial or non-financial objectives which may be relevant for the year in question:</p> <ul style="list-style-type: none"> <li>– maximum 50% salary for corporate targets</li> <li>– maximum 10% salary for personal objectives.</li> </ul>	No change to policy.
<b>Share options</b>	<p>Incentivises Executive Directors to achieve returns for shareholders over a longer time frame.</p>	<p>LiDCO has four share option plans including EMI, HMRC Approved, Unapproved Options and consultants.</p> <p>Awards of share options are made with vesting dependent on the achievement of performance conditions over at least the three subsequent years.</p> <p>The Committee is of the opinion that clawback provisions are an unnecessary complication for a company of the size of LiDCO.</p>	<p>Fair value of awards in FY20:</p> <p>M G Sassone £29,800 T R Hall £29,800</p>	<p>In normal circumstances, the release of an award is dependent upon the individual's continued employment for at least a three-year holding period from the date of grant. Executives only benefit when the share price increases. Awards will have performance conditions.</p>	<p>No change to policy.</p> <p>Note re FY21 awards: future award levels will depend on headroom capacity under the 10% dilution rule.</p>

## Directors' remuneration report continued

### Remuneration policy of the Non-executive Directors

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

### Remuneration of directors

Year ended 31 January 2020

	Salary and fees £'000	Allowance in lieu of benefits £'000	Benefits £'000	Bonus £'000	Total £'000	2019 £'000
P W Grant	46	–	–	–	46	45
M G Sassone	209	42	8	58	317	262
J A McGregor <sup>1</sup>	21	5	–	–	26	188
T R Hall <sup>2</sup>	147	29	1	46	223	–
P M Cooper	30	–	–	–	30	30
J G Wetrich <sup>3</sup>	14	–	–	–	14	–
<b>Total</b>	<b>467</b>	<b>76</b>	<b>9</b>	<b>104</b>	<b>656</b>	<b>525</b>

### Notes

<sup>1</sup> Ms J A McGregor resigned on 22 March 2019

<sup>2</sup> Mr T R Hall was appointed on 11 March 2019

<sup>3</sup> Mr J G Wetrich was appointed on 15 August 2019

### Contracts of service

Details of the service contracts for the Directors are as follows:

#### Executive Directors

The service contract of Mr Sassone is dated 20 April 2015 and is not set for a specific term but includes a rolling six months' notice period. Mr Hall has a service contract dated 11 March 2019 which is not for a specific term but includes a rolling six months' notice period.

#### Non-executive Directors

The Non-executive Directors do not have service contracts with the Group. 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 Group and the Director agree. In keeping with best practice, these appointments are terminable without notice by either party.

The Non-executive Director appointments are for terms ending on the following dates:

P W Grant	5 March 2021
P M Cooper	7 August 2020
J G Wetrich	14 August 2022

## Directors' remuneration report continued

### Directors' interests in share options

Options granted to the Executive Directors are as follows:

Name	Option type	Options at 31 Jan 2019	Date of grant	Options granted during FY20	Exercised during FY20	Lapsed during FY20	Options at 31 Jan 2020	Exercise price (p)	Exercisable from	Expiry date
M G Sassone	EMI	1,248,262	Apr-2017				<b>1,248,262</b>	0.5	Jun-2018	Jun-2025
	Unapproved	949,540	Apr-2017				<b>949,540</b>	0.5	Jun-2018	Jun-2025
	Unapproved	2,197,802	Apr-2017				<b>2,197,802</b>	0.5	Jun-2019	Jun-2025
	EMI	2,200,000	Apr-2017				<b>2,200,000</b>	0.5	Apr-2020	Apr-2022
	Unapproved	1,000,000	Apr-2017				<b>1,000,000</b>	0.5	Apr-2021	Apr-2023
	Unapproved		Apr-2019	2,000,000			<b>2,000,000</b>	0.5	Apr-2022	Apr-2024
		7,595,604					<b>9,595,604</b>			
J A McGregor <sup>1</sup>	EMI	1,500,000	Jul-2017		(1,500,000)		–	0.5	Jun-2020	Jun-2022
		1,500,000			(1,500,000)		–			
T R Hall	EMI	–	Apr-2019	2,000,000			<b>2,000,000</b>	0.5	Apr-2022	Apr-2024
		–		2,000,000						
Totals		9,095,604		4,000,000	(1,500,000)		<b>11,595,604</b>			

<sup>1</sup> J A McGregor's options lapsed on 22 March 2019 being the date of her resignation.

The closing share price was 4.35 pence on 1 February 2019 and 4.65 pence on 31 January 2020, with high and low during the year of 5.625 pence and 3.40 pence respectively. Between 1 February 2020 and 14 April 2020 the closing share price has ranged from 3.75 pence to 10.00 pence.

### Pensions

Pension contributions of £6,900 were paid by the Group in respect of M G Sassone during the year (FY19: £nil)

### Shareholder return

The graph below shows the share price performance since January 2015, using the FTSE TechMARK Mediscience Index as a comparator, which the Directors consider to be a suitable benchmark index.



**Phil Cooper**

Chairman of the Remuneration Committee

20 April 2020

## Audit Committee report

For the year ended 31 January 2020

### Introduction

This report details how the Audit Committee (“the Committee”) has met its responsibilities under its terms of reference. The Committee is a sub-committee of the Board and the ultimate responsibility for reviewing and approving the Annual Report and Accounts and interim financial statements remains with the Board. The Committee does not believe it is appropriate to have an internal audit function at this point in time as the Group is relatively small and not sufficiently complex.

### Members

The members of the Audit Committee are Peter Grant (Chairman) and Phil Cooper. The Executive Directors and the external auditors attend the meetings by invitation. The Board considers that the Committee has an appropriate and experienced blend of commercial, financial and industry expertise to enable it to fulfil its duties, and that the Committee Chairman, Peter Grant, a Chartered Accountant, has appropriate recent and relevant financial experience.

### Committee Meetings

The Committee met three times in FY20. One meeting related to the FY19 Annual Report and Accounts, the second meeting was to review and sign off the 2019 Interim Financial Statements and the third meeting was to plan the FY20 audit. The external auditors attended all meetings.

### Role and Responsibilities

The Board has established an Audit Committee to monitor the integrity of the Group’s financial statements and the effectiveness of the Group’s internal financial controls. The Committee’s role and responsibilities are set out in the terms of reference which are available from the Group’s website (<http://www.lidco.com/investors/governance> – refer to Principle 9). The Terms of Reference are reviewed annually and amended where appropriate. During the year the Committee worked with management, the external auditors, and other members of the senior management team in fulfilling these responsibilities. 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 considers annually whether the auditors remain independent for the purposes of the audit and whether a separate internal audit function is required.

The Committee report deals with the key areas in which it plays an active role and has responsibility. These areas are as follows:

- i) Financial reporting and related primary areas of judgement;
- ii) The external audit process;
- iii) Risk management and Internal controls; and
- iv) Whistleblowing procedures

### Annual Report and Accounts

#### General

The Committee has satisfied itself that the FY20 Annual Report and Accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, are fair, balanced and provide the information necessary for shareholders to assess the Group’s performance, business model and strategy. The Committee reviewed the key risk areas as identified in the Audit Plan document including: revenue recognition; management override of controls and recoverability of investment in LiDCO Limited (parent company risk). The Committee understand that the auditors have followed their procedures for reviewing these risks and have undertaken detailed testing as appropriate. In addition, the Committee has considered key audit matters affecting the Company and the potential for any material misstatement. The key audit matter for 31 January 2020 is the level of credit provision against the amount owed to the parent company by its subsidiary LiDCO Limited. This is a parent company risk that does not affect the consolidated financial statements.

The Committee, having reviewed a calculation of probability weighted credit losses in relation to inter-company loans which are repayable on demand, concluded that a prior year adjustment and an impairment was necessary. Further information is given in notes 1 and 3 to the Company accounts on pages 62 to 64.

### Going Concern

The Committee reviewed the going concern analysis prepared by management including detailed monthly financial forecasts up to 31 July 2021, related assumptions, sensitivities, areas for mitigation and contingency plans. Based on this review, the Committee has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being the period of 12 months from the date of signing the financial statements for 2019/20. Accordingly, the Committee concluded that it is appropriate to adopt the going concern basis in preparing the annual financial statements.

## Audit Committee report continued

### Internal Control Systems

Another key responsibility of the Committee is to review the Group's internal control systems, including internal financial controls. During the year, management, with the help of specialist consultants, have customised and tested a modern Enterprise Resource Planning (ERP) system to meet the Company's needs. The new ERP system, which went live on 1 February 2020, addresses several inherent control weaknesses in the various legacy systems it replaces. As there had been no changes to the internal control systems in the year it was decided to postpone the next review of the Group's internal controls until after the new ERP system had been implemented.

### Risk Management

The main risks facing the business are highlighted in the Strategic Report and Directors' Report. Management maintain a risk register which includes commercial, operational and financial internal and external risks to ensure that significant risks are appropriately managed. The register is reviewed and updated by the senior management team twice a year before being presented for review by the Board and is annually discussed in an Audit Committee meeting. Key actions arising from these reviews are recorded in the papers accompanying each Board meeting until the action has been completed to the satisfaction of the Board. New potentially material risks which arise between reviews, such as the impact of the COVID-19 pandemic, are added to the risk register and discussed at Board level as they arise.

### Board Conduct and Effectiveness Review

As reported in the Chairman's Corporate Governance Statement, a review of the Board's conduct and effectiveness was undertaken by the Board in January 2020, involving each Director completing a questionnaire. The results were anonymised and collated by an independent person. As part of this exercise the effectiveness of the Audit Committee was reviewed. On a scale of 1 to 5, with 5 being "strongly agree" the Board ranked the Committee as follows:

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The Audit Committee gives appropriate attention to:

<i>Regulatory compliance</i>	<b>4.4</b>
<i>Financial controls</i>	<b>4.4</b>
<i>Risk management</i>	<b>4.0</b>
<i>Audit processes</i>	<b>4.4</b>
The Audit Committee is effective in its role, composition, chairmanship and performance	<b>4.4</b>
The Audit Committee evaluates the performance and independence of its outside auditors after adequate review	<b>4.0</b>
The outside auditors provide you with sufficient information, particularly with regard to areas of judgement in the financial statements, for you to fulfil your obligations	<b>4.2</b>
The Audit Committee evaluates the significant risks to the Group adequately	<b>4.0</b>

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### Auditors Fees and Non-Audit Services

The Committee reviewed the estimated fee proposed by the Auditors in the Audit Plan document of £51,500. This is an increase of £1,500 over 2019. Other advisory fees incurred with the Auditors during the year amount to £2,500 relating to the review of 2019 interims and £3,000 for IFRS 15 audit work.

### Auditor Independence

The Committee satisfied itself on the auditors' independence. Mr Marc Summers has been the senior statutory auditor for five years and, as a result, will rotate off the audit for FY21.

### Whistleblowing

The Committee had no whistleblowing incidents reported directly or indirectly during the year to 31 January 2020.

The Report of the Audit Committee was approved by the Board of Directors on 20 April 2020 and signed on its behalf by:

### Peter Grant

Chairman of the Audit Committee

## Directors' report

The Directors of LiDCO Group Plc present their annual report and audited financial statements (Annual Report) for the year ended 31 January 2020.

### Results and dividends

The Group's revenue for the year was £7,547,000 (FY19: £7,324,000). The Group made a consolidated loss after taxation of £1,029,000 (FY19: loss £1,941,000). The Directors do not recommend the payment of a dividend (FY19: £nil).

### Research and development

The Group continued to develop the LiDCO products during the year. Details of the costs expended on research and development are set out in Notes 3 and 9 to the financial statements.

### Share capital and share premium account

Full details of the authorised and issued share capital of the Group, together with details of the movements in the Company's issued share capital and the share premium accounts during the year, are shown in note 14 on page 56 and note 4 on page 64.

### Directors

The Directors of the Group who served during the year are set out below; short biographies are set out on pages 12 to 13.

P W Grant	Non-executive Chairman
M G Sassone	Chief Executive Officer
T R Hall	Chief Financial Officer (appointed 11 March 2019)
J A McGregor	Chief Financial Officer (resigned 22 March 2019)
P M Cooper	Non-executive Director
J G Wetrich	Non-executive Director (appointed 15 August 2019)

Mr Grant retires by rotation and Mr Wetrich retires being his first Annual General Meeting since appointment. The retiring Directors being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

### Directors' remuneration

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

### Directors' interests in shares

The Directors who held office at 31 January 2020 had beneficial interests in the ordinary shares of the Group as shown below:

### Directors' shareholdings

	Ordinary shares of 0.5p each	
	31 January 2020 Number	31 January 2019 Number
P W Grant	944,163	500,000
M G Sassone	250,000	250,000
P M Cooper	2,666,667	1,666,667
T R Hall	100,000	–
J G Wetrich	19,900	–

The Directors have no interests in the shares of the Group's subsidiary undertakings.

### Directors' indemnities and Directors' and Officers' insurance

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

### Employment policy

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

The Group's policy is to encourage the involvement of all employees in the development and performance of the Group. The Group's employees are briefed on the Group's activities through meetings and informal discussions and all employees are encouraged to give their views on matters of common concern through their line management.

## Directors' report continued

### Significant shareholdings

As at 31 March 2020 the Group was aware of the following shareholdings in excess of 3% of the Group's ordinary share capital:

Shareholder	Number of shares in which there is an interest	Percentage notified*
Eiffel Investment Group (formerly Alto Invest)	24,475,319	10.02%
Ingalls & Snyder LLC	17,125,579	7.01%
Joseph Leitch	16,806,183	6.88%
Herald Investment Management	16,666,667	6.83%
P A Brewer	15,884,747	6.51%
James Ede-Golightly	12,300,000	5.04%
R M Greenshields	8,899,550	3.64%
T K O'Brien	8,251,563	3.38%

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

### Share not in public hands

In accordance with the terms of the AIM rules and insofar as it is aware, as at 31 March 2020, 11.6% of the Group's AIM securities were not in public hands.

### Directors' responsibilities for the financial statements

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

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

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

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

To the best of the Directors' knowledge:

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

## Directors' report continued

the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

### Business activities

The Group's business activities, together with a review of the market and the Group's distribution channels are set out in the Strategic Report on pages 2 to 11. In addition, note 13 to the financial statements include the Group's policies for managing its capital; its financial risks; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group has a number of customers across different geographic areas and considerable recurring revenue through the sales of its smartcards, sensors, software licenses (including HUP) and service contracts, which represented 75% of its revenues in the year to 31 January 2020.

### Going concern

The Group finances its operations through shareholders' funds. As set out in note 1 to the financial statements, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being the period of 12 months from the date of signing the financial statements for 2019/20. On this basis, the Board continues to adopt the going concern basis of accounting in preparing the annual financial statements.

### Events after the reporting period

Significant events affecting the Company which have occurred since the end of the financial year are reported in note 19 to the financial statements on page 57.

### Future developments

The likely future development of the business is discussed in the Strategic Report on pages 2 to 11 and in particular in the Outlook section on page 7 and in the Business Model, Strategy and Performance section on pages 8 to 9.

### 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 53 to 56.

### Internal controls, regulation and risk management

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

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

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

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

The adequacy of internal controls and the internal control structures are reviewed annually by the Board and were last reviewed in February 2020.

### 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 Group is set out in a separate circular including an explanation of each resolution.

On behalf of the Board

### Peter Grant

Director  
20 April 2020

Company Registration Number: 2659005

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

### Opinion

#### *Our opinion on the Group financial statements is unmodified*

We have audited the Group financial statements of LiDCO Group Plc for the year ended 31 January 2020, 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 notes to the Group financial statements, including a summary of significant accounting policies. 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.

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 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the Group financial statements' section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group associated with these particular events.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the Group's business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the Group's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group will continue in operation.

### Overview of our audit approach

- Overall materiality: £132,000, which represents 1.75% of the Group's revenue;
- The key audit matter identified for the Group audit was revenue recognition;
- The key audit matter identified for the parent company audit was the valuation of amounts owed by LiDCO Limited in both the prior and current year; and
- We performed a full scope audit of the financial statements of the parent company and of the financial information of its only trading subsidiary LiDCO Limited.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

### Key Audit Matter – Group

#### Revenue recognition

Revenue is recognised by the Group as the fair value of the consideration earned in respect of the sale of goods, license fees and the delivery of services in accordance with IFRS 15 'Revenue from Contracts with Customers'.

The Group has entered into a number of different types of agreements with customers in relation to High Usage Programmes ('HUP') for the provision of goods and advanced haemodynamic monitoring services.

As a result of the significant judgement made by management in the application of IFRS 15 to the recognition of different types of HUP revenues, we identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.

### How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- challenging and assessing the appropriateness of management's accounting policy for the recognition of revenue in accordance with the financial reporting framework, including IFRS 15;
- testing the point in time (i.e. license activation) from which standard HUP revenues are recognised by reference to licenses renewed during the year; and
- testing a sample of HUP revenue transactions to obtain evidence that they were supported by appropriate contractual agreements.

The Group's accounting policy on revenue recognition is shown in note 1 to the Group financial statements and related disclosures are included in note 2.

#### Key observations

Based on our audit work we are satisfied that the judgements made, and assumptions used by management in accounting for revenues in accordance with IFRS 15, are reasonable by reference to the evidence obtained from our audit testing.

### Key Audit Matter – Parent company

#### Valuation of amounts owed by LiDCO Limited in both the prior and current year

The Company's loan to its subsidiary undertaking, LiDCO Limited, is held at amortised cost less provision for expected credit losses following a prior year adjustment to correct its classification.

Management has prepared a probability weighted expected credit loss calculation, in accordance with International Financial Reporting Standard 9 'Financial Instruments', estimated by reference to observable market data having previously measured impairment in accordance with IAS 36 'Impairment of Assets'.

As a result of the prior year adjustment and the complexities of IFRS 9, we identified the valuation of amounts owed by LiDCO Limited in both the prior and current year as a significant risk, which was one of the most significant assessed risks of material misstatement.

### How the matter was addressed in the audit – Parent company

Our audit work included, but was not restricted to:

- Assessing the methodology and data inputs to the expected credit loss model and testing the calculations of the probability weighted expected credit loss; and
- Assessing the sufficiency and appropriateness of disclosures relating to key judgements and estimates concerning the prior year classification adjustment and expected credit loss.

The parent company's accounting policy on estimates and the carrying value of amounts owned by group companies is shown in note 1 to the parent company financial statements and related disclosures are included in note 3.

#### Key observations

Based on our audit work we are satisfied that the judgements made, and assumptions used by management in assessing the probability weighted expected credit loss of the loan to LiDCO Limited are reasonable by reference to the evidence obtained from our audit testing.

### Our application of materiality

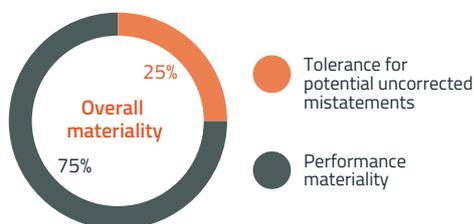
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the Group financial statements as a whole to be £132,000, which represents 1.75% of the Group's revenue. This benchmark is considered the most appropriate because revenue best reflects a key area of interest to the users of the financial statements.

Materiality for the current year is lower than the level that we determined for the year ended 31 January 2019 to reflect the higher preliminary assessment of the Group's revenue on which materiality was based last year.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the Group financial statements.

### Overall materiality



The graph above illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the audit committee to be £6,600. In addition, we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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

### An overview of the scope of our audit

Our audit approach was a risk-based approach based on a thorough understanding of the Group's business, its environment and risk profile and in particular included:

- meetings with management to gain an update on the business and trade during the year; and
- evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality; and
- a full scope audit of the financial statements of LiDCO Group Plc and of the financial information of LiDCO Limited, which represents coverage of 100% of consolidated revenue and 100% of the consolidated loss before tax.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report & Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Group financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Group financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the Group financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

### Matters on which we are required to report by exception

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

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

### Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on pages 31 to 32, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of Group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the Group financial statements

Our objectives are to obtain reasonable assurance about whether the Group financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Group financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Other matter

We have reported separately on the parent company financial statements of LiDCO Group Plc for the year ended 31 January 2020. That report includes details of the parent company key audit matters; how we applied the concept of materiality in planning and performing our audit; and an overview of the scope of our audit.

### Use of our report

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.

### Marc Summers

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

20 April 2020

## Consolidated comprehensive income statement

For the year ended 31 January 2020

	Note	Year ended 31 January 2020 £'000	Year ended 31 January 2019 £'000
<b>Revenue</b>	2	<b>7,547</b>	7,324
Cost of sales		<b>(2,627)</b>	(3,026)
Gross profit		<b>4,920</b>	4,298
Administrative expenses		<b>(6,026)</b>	(6,293)
Operating loss before share-based payments		<b>(1,106)</b>	(1,995)
Share-based payments charge		<b>(96)</b>	(143)
Operating loss	3	<b>(1,202)</b>	(2,138)
Finance income		<b>1</b>	1
Finance expense		<b>(13)</b>	–
Loss before tax		<b>(1,214)</b>	(2,137)
Income tax	5	<b>185</b>	196
Loss and total comprehensive expense for the year attributable to equity holders of the parent		<b>(1,029)</b>	(1,941)
<b>Loss per share (basic and diluted) (pence)</b>	6	<b>(0.42)</b>	(0.80)

All transactions arise from continuing operations.

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

The figures for the year ended 31 January 2019 have been restated for a change in the classification of certain expenses from administrative expenses to cost of sales. Further details of this restatement can be found in note 1 to the accounts.

## Consolidated balance sheet

At 31 January 2020

	Note	2020 £'000	2019 £'000
<b>Non-current assets</b>			
Property, plant and equipment	7	867	949
Right-of-use assets	8	224	–
Intangible assets	9	2,342	2,083
		<b>3,433</b>	3,032
<b>Current assets</b>			
Inventory	10	1,545	1,880
Trade and other receivables	11	1,986	1,928
Current tax		183	188
Cash and cash equivalents		1,360	1,717
		<b>5,074</b>	5,713
<b>Current liabilities</b>			
Trade and other payables	12	(1,556)	(1,374)
Deferred income	12	(1,230)	(837)
		<b>(2,786)</b>	(2,211)
<b>Net current assets</b>		<b>2,288</b>	3,502
<b>Non-current liabilities</b>			
Lease liabilities	8	(120)	–
		<b>(120)</b>	–
<b>Net assets</b>		<b>5,601</b>	6,534
<b>Equity attributable to equity holders of the parent</b>			
Share capital	14	1,221	1,221
Share premium		30,342	30,342
Merger reserve		8,513	8,513
Retained loss		(34,475)	(33,542)
<b>Total equity</b>		<b>5,601</b>	6,534

The financial statements for LiDCO Group Plc (company registration number 2659005) were approved by the Board on 20 April 2020.

**Matthew Sassone**  
Director

**Timothy Hall**  
Director

## Consolidated cash flow statement

For the year ended 31 January 2020

	Year ended 31 January 2020 £'000	Year ended 31 January 2019 £'000
<b>Loss before tax</b>	<b>(1,214)</b>	(2,137)
Finance income	(1)	(1)
Finance expenses	13	–
Depreciation and amortisation charges (note 3)	1,146	832
Share-based payments	96	143
Decrease/(increase) in inventories	335	(526)
(Increase)/decrease in receivables	(81)	1,318
Increase/(decrease) in payables	66	(442)
Increase in deferred income	393	169
Income tax received	192	135
<b>Net cash inflow/(outflow) from operating activities</b>	<b>945</b>	(509)
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(306)	(351)
Purchase of intangible assets	(794)	(651)
Finance income	1	1
<b>Net cash used in investing activities</b>	<b>(1,099)</b>	(1,001)
<b>Net cash outflow before financing activities</b>	<b>(154)</b>	(1,510)
<b>Cash flows from financing activities</b>		
Finance expenses	(13)	–
Principal elements of lease payments	(190)	–
<b>Net cash outflow from financing activities</b>	<b>(203)</b>	–
<b>Net decrease in cash and cash equivalents</b>	<b>(357)</b>	(1,510)
Opening cash and cash equivalents	1,717	3,227
Closing cash and cash equivalents	1,360	1,717

There were no changes in liabilities arising from financing activities during the year except for those related to the adoption of IFRS 16 (see notes 1 and 8).

## Consolidated statement of changes in shareholders' equity

For the year ended 31 January 2020

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained loss £'000	Total equity £'000
At 1 February 2018	1,221	30,342	8,513	(31,744)	8,332
Share-based payment expense	–	–	–	143	143
Transactions with owners	–	–	–	143	143
Loss and total comprehensive expense for the year	–	–	–	(1,941)	(1,941)
<b>At 31 January 2019</b>	<b>1,221</b>	<b>30,342</b>	<b>8,513</b>	<b>(33,542)</b>	<b>6,534</b>
Share-based payment expense	–	–	–	96	96
Transactions with owners	–	–	–	96	96
Loss and total comprehensive expense for the year	–	–	–	(1,029)	(1,029)
<b>At 31 January 2020</b>	<b>1,221</b>	<b>30,342</b>	<b>8,513</b>	<b>(34,475)</b>	<b>5,601</b>

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.

## Notes to the financial statements

For the year ended 31 January 2020

### 1 Principal accounting policies

The Group's principal activity is the development, manufacture and sale of hemodynamic 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 65. The Group's shares are listed on the Alternative Investment Market of the London Stock Exchange.

#### Basis of preparation

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

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.

Except as disclosed below, 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 ended on 31 January 2020.

#### Changes in accounting policies – new IFRS

On 1 February 2019 the Group adopted IFRS 16 "Leases", which has been issued by the IASB to replace IAS 17 "Leases". The Group has used the "modified retrospective approach" to the implementation of IFRS 16 under which a lessee does not have to restate comparative information.

IFRS 16 changes lease accounting for lessees in that:

- lease agreements give rise to an asset representing the right to use the leased item and a liability for future lease payments. Previously under IAS 17, a liability was not recorded for future operating lease payments, which were disclosed as commitments;
- lease costs are recognised in the form of depreciation of the right to use asset and interest on the lease liability which will be discounted at either the interest rate implicit in the lease or, when this is not determinable, the expected incremental borrowing rate for the Group for the item under lease. Under IAS 17, operating lease rentals were expensed on a straight-line basis over the lease term within operating expenses; and
- net cash inflows from operating activities and payments classified within the cash flow from financing activities both increase, as, under IFRS 16, payments made at both the lease inception and subsequently are characterised as repayments of lease liabilities and interest. Net cash flows are not impacted by IFRS 16.

The adoption of IFRS 16 does not affect revenue recognition of the Group.

The Group's incremental borrowing rate was estimated at 4.0% for property and 5.9% for vehicles at the date of adoption of IFRS 16.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 February 2019.

	Reason for change	1 February 2019 under IAS 17 £'000	IFRS 16 adjustments £'000	1 February 2019 under IAS 16 £'000
Right-of-use assets	Recognition of right to use asset for rented items previously classed as operating leases	–	482	482
Current assets	Adjustment for previously recognized prepayment relating to property lease	23	(23)	–
Current liabilities	Recognition of current portion of lease liability for rented items	–	(222)	(222)
Non-current liabilities	Recognition of lease liability due greater than one year for rented items	–	(237)	(237)

## Notes to the financial statements continued

The following is a reconciliation of total operating lease commitments at 31 January 2019 (as disclosed in the financial statements to 31 January 2019) to the lease liabilities recognised at 1 February 2019.

	Land and buildings £'000	Other £'000	Total £'000
<b>Total operating lease commitments disclosed at 31 January 2019</b>	<b>303</b>	<b>175</b>	<b>478</b>
Error in previously disclosed property lease commitment	12	-	12
Exempt low value or short-term leases	-	(2)	(2)
Effect of discounting using incremental borrowing rate	(14)	(15)	(29)
<b>Total lease liability recognised under IFRS 16 at 1 February 2019</b>	<b>301</b>	<b>158</b>	<b>459</b>

The impact of the adoption of IFRS 16 on the Group consolidated balance sheet as at 31 January 2020 is shown in the table below.

Reason for change		31 January 2020 under IAS 17 £'000	IFRS 16 adjustments £'000	31 January 2020 as reported £'000
Non-current assets	Recognition of right to use asset for rented items previously classed as operating leases	3,182	224	<b>3,406</b>
Current assets	Adjustment for previously recognised prepayment relating to property lease	5,084	(10)	<b>5,074</b>
Current liabilities	Recognition of current portion of lease liability for rented items	(2,643)	(116)	<b>(2,759)</b>
Non-current liabilities	Recognition of lease liability due greater than one year for rented items	-	(120)	<b>(120)</b>

The impact of the adoption of IFRS 16 on the Group consolidated comprehensive income statement, EBITDA and the Group consolidated cash flow statement are shown in the table below.

Reason for change		Year ended 31 January 2020 under IAS 17 £'000	Reversal of IAS 17 entries £'000	IFRS 16 adjustments £'000	Year ended 31 January 2020 as reported £'000
Operating loss	Removal of IAS 17 lease costs and recording of depreciation of right to use assets	(1,195)	216	(223)	<b>(1,202)</b>
Finance expense	Recording of interest on lease liability	-	-	(13)	<b>(13)</b>
Loss before tax	Net of above changes	(1,194)	216	(236)	<b>(1,214)</b>
EBITDA	Removal of lease costs from operating expenses	(272)	216	-	<b>(56)</b>
Net cash inflow from operating activities	Lease cost payments recorded within financing activities	715	203	-	<b>918</b>
Net cash used in financing activities	Recognition of lease payments	-	-	(203)	<b>(203)</b>

### Changes in accounting policies – prior year reclassification

Previously the Group has reported labour and direct overhead costs related to the following activities within administration expenses:

- the production of manufactured products;
- the testing of bought-in products;
- the repair of products;
- goods inwards and warehousing of raw material and finished goods stock; and
- the assembly, packaging and dispatch of products.

## Notes to the financial statements continued

The Board now considers that it would provide more meaningful information and be more comparable with the reporting of other companies if the labour and direct overhead costs related to these activities were reported within cost of sales. The impact of this change to the reported figures for the year ended 31 January 2019 is shown in the table below.

Year ended 31 January 2019	As previously reported	Adjustment to labour and overhead allocation	As reported in these financial statements
Cost of goods sold (£'000s)	(1,830)	(537)	(2,367)
Cost of sales (£'000s)	(2,489)	(537)	(3,026)
Gross profit (£'000s)	4,835	(537)	4,298
Gross margin (%)	66%	(7%)	59%
Administration costs (£'000s)	(6,830)	537	(6,293)

### New accounting pronouncements to be adopted on 1 February 2020

The following pronouncements which have been issued by the IASB are effective for annual periods beginning on or after 1 January 2020. These new standards are not expected to have a material impact on the consolidated results, financial position or cash flows of the Group, from 1 February 2020.

- Amendments to IFRS 9, IAS 39 and IFRS 7 – “Interest Rate Benchmark Reform”
- Amendments to IFRS 3 – “Definition of a Business”
- Amendments to IAS 1 and IAS 8 – “Definition of Material”
- “Amendments to References to the Conceptual Framework in IFRS Standards”.

### Going concern

The Group's business activities, together with a review of the market and the Group's distribution channels are set out in the Strategic Report on pages 2 to 11. In addition, note 13 to the financial statements includes the Group's policies for managing its capital; its financial risk; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group has customers in several different geographic areas and considerable recurring revenue streams through the sales of smartcards, sensors, software licenses (including HUP) and service contracts which together represented 75% of total revenues in the year to 31 January 2020. These recurring revenue streams help to give forward visibility of revenues and an underpin to revenue projections for the business.

The Board has considered detailed monthly financial forecasts for the next financial year as well as longer-term forecasts for the next five years along with the related assumptions, risks and opportunities, sensitivities, areas for mitigation and contingency plans. The COVID-19 pandemic is currently leading to increased sales of the Group's hemodynamic monitors but the Board is aware of the potential risks to the business from the outbreak (see page 9 of the Strategic Report) and these have been considered in the sensitivity analysis. In light of mitigating actions put in place during FY20, the Board expects that the Group will be able to continue to sell its products in the EU even if no deal is agreed by the end of the transition period set out in the EU Withdrawal Agreement.

Based on its review, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being the period of 12 months from the date of signing the financial statements for FY20. Accordingly, the Directors believe that it is appropriate 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 2020. The Company controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated on the date control ceases.

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

## Notes to the financial statements continued

### Revenue recognition

#### *Capital sales*

Capital sales revenue comprises revenue earned (net of returns, discounts and allowances) from the sale of monitors including peripherals to entities outside the consolidated entity. The performance obligation is recognised at a point in time when control of the goods pass to the customer, which is normally upon shipment and when the amount of revenue can be measured reliably.

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

#### *Recurring revenues*

Recurring revenues consist of software license fees, sales of goods, license fees and revenues from service contracts.

#### **Software License Fees (HUP Agreements)**

Arrangements between LiDCO and its customers are assessed on a case-by-case basis, considering the terms of the contract and the various performance obligation(s) identified. Revenues related to the identified performance obligation(s) are recognised either over time if they meet the relevant criteria set out in IFRS 15 or at a point in time. Typically, HUP agreements with hospitals in markets in which LiDCO sells direct are considered to consist of a package of goods and services to provide "advanced hemodynamic monitoring" over the period of the contract. The most valuable element of this package is considered to be the licence to the software/algorithm that calculates the hemodynamic parameters, however this element is not considered to be distinct from the other goods and services provided, such as the rental of equipment, training of staff, 24/7 support, provision of software updates etc., without which the customer could not enjoy the benefits of the licence. Therefore, even though the software licence is a 'right-of-use' licence, detailed guidance, which refers to ASC 606-10-55-57, on the implementation of IFRS 15 indicates that the revenue should be recognised over time and as such invoiced revenues from these HUP agreements are spread over the invoiced period of the contract. Conversely, sales of HUP licences to distributors are not sold as part of a contract to supply a range of goods and services that amount to the supply of "advanced hemodynamic monitoring", and hence are recognised at the point in time at which control of the licence is transferred to the distributor. As HUP licenses sold via distributors are renewable each year, the related revenue is included in recurring revenue, and the number of monitors placed is included in the total number of monitors licenced under HUP agreements.

#### **Sale of goods**

Sale of goods comprises revenue earned (net of returns, discounts and allowances) from the provision of consumables including smartcards and sensors to entities outside the consolidated entity.

The performance obligation is recognised at a point in time when control of the goods passes to the customer, which is normally upon shipment and when the amount of revenue can be measured reliably.

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

#### **Service Contracts**

The performance obligation from the provision of services is recognised over the period in which the service is provided which is typically on a straight-line basis over a 12-month period.

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

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

## Notes to the financial statements continued

### Intangible assets – development costs

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

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

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

### Property, plant and equipment

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

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

Medical monitors include equipment on long term loan to hospitals for active use where the hospital pays for smartcards, sensors and software licenses (including HUP). Also included in this category is equipment for demonstration purposes, clinical trials and testing. Such monitors remain the Group's property, under its control and can be substituted at its discretion.

### Leases

#### *Group as a lessor*

Arrangements between LiDCO and its customers are assessed on a case-by-case basis, taking into account the terms of the contract, the fair value and the estimated residual life of the product.

#### *Finance leases*

Arrangements between LiDCO and the customer where substantially all of the risks and rewards of ownership have transferred to the customer are classified as finance leases. The Group makes this assessment at the inception of the lease or at the date of contract extension, on the basis of one or more of the following factors:

- the lease transfers ownership of the product to the customer at the end of the lease term;
- the customer has the right to buy the product at a price that is expected to be sufficiently lower than the fair value and it is reasonably certain that they will exercise that option;
- the lease term is for the major economic life of the underlying asset even if title is not transferred;
- the present value of the lease payments amounts to at least substantially all of the fair value of the asset; and/or
- the customer can continue the lease for a secondary period at a rent that is substantially lower than the market rent.

An amount equal to the fair value of the asset, or if lower, the present value of the minimum lease payments is recognised as revenue in the income statement and as an asset in balance sheet. Finance income is recognised on the basis of a constant monthly rate of return on the net investment in the finance lease which is equivalent to the incremental borrowing rate charged to the Group. During the year to 31 January 2020 the Group did not sell any products on finance leases (2019: nil).

#### *Operating leases*

Arrangements between LiDCO and the customer where substantially all of the risks and rewards of ownership have not transferred to the customer are classified as operating leases. The Group makes this assessment based on the following factors:

- ownership of the asset does not transfer to the customer at the end of the lease term and there is no advantageous acquisition option for the customer at the end of the lease;
- the estimated useful life of the asset is in excess of the lease term; and/or
- at the inception of the lease the present value of the minimum lease payments is significantly less than the fair value of the asset.

## Notes to the financial statements continued

The supply of monitors for a period of time under an HUP contract is considered to be part of an overall performance obligation to provide “advanced haemodynamic monitoring” of which the software/algorithm license is regarded as the most valuable element and hence under IFRS 15 the revenue is recognised over-time on the same basis as the license (see Software License Fees (HUP Agreements) above).

### *Group as a lessee*

Following the adoption of IFRS 16 with effect from 1 February 2019 a right-of-use asset has been recognised for all significant leases previously designated operating leases under IAS 17 along with the associated lease liability. In the year ended 31 January 2019 all the Group’s lease liabilities were regarded as operating leases and payments made under them were charged to the income statement on a straight-line basis over the lease term. Further information on the adoption of IFRS 16 is given in the “Changes in accounting policies” section to this note.

### **Inventories**

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

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

### **Income tax**

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

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

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

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

### **Foreign currency**

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

### **Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recorded at transaction price, less expected credit loss provisions. Considering the relatively small number of trade receivable balances, expected credit losses are considered on an account basis with provision being made when there is an expectation of a shortfall in contractual cash flows from an account. The amount of the expected credit loss is determined as the difference between the asset’s carrying value and the present value of estimated future cash flows.

### **Cash and cash equivalents**

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

### **Financial liabilities and equity**

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

### **Financial liabilities**

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

## Notes to the financial statements continued

### Share-based payments

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

### Impairment

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

### Key judgements in applying the entity's accounting policies

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

#### *Estimates – Useful lives of intangible assets and property, plant and equipment*

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the income statement in specific periods (notes 7 and 9).

#### *Estimates – 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 10).

#### *Judgements – Revenue recognition*

Revenue recognition under IFRS 15 is complex and necessitates the significant use of management judgement in consideration of such matters as:

- whether goods and services supplied under a customer contract are distinct;
- what the most valuable element is in a basket of goods and services that together provide a single performance obligation;
- whether the performance obligation should be recognised over time or at a point in time; and
- whether the requisite criteria for recognising revenue from a Bill and Hold sale have been met.

The conclusion of management's consideration of such matters for various revenue streams is detailed in the Accounting Policies under revenue recognition.

#### *Judgements – Capitalisation of development costs*

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

## 2 Revenue and segmental information

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

## Notes to the financial statements continued

### Revenue and result by geographical region

	Year ended 31 January 2020 £'000	Year ended 31 January 2019 £'000
<b>Group Revenue</b>		
UK – LiDCO products	3,580	3,559
UK – third-party products	191	1,134
USA	1,766	1,376
Continental Europe	631	467
Rest of World	1,379	788
	<b>7,547</b>	<b>7,324</b>
<b>Result</b>		
UK – LiDCO products	1,362	1,305
UK – third-party products	38	227
USA	(461)	(779)
Continental Europe	266	132
Rest of World	533	163
Total	1,738	1,048
Unallocated costs	(2,940)	(3,186)
Loss from operations	(1,202)	(2,138)

### Products and services

	Year ended 31 January 2020 £'000	Year ended 31 January 2019 £'000
Capital revenue	1,795	1,051
Recurring revenue	5,484	5,040
Distributed third party disposables	191	1,134
Total product revenue	7,470	7,225
Other income	77	99
	<b>7,547</b>	<b>7,324</b>

The Group's revenue disaggregated by pattern of revenue recognition is as follows:

	Capital revenue £'000	Recurring revenue £'000	Third party disposables £'000	Other income £'000	Total £'000
<b>Year ended 31 January 2020</b>					
Transferred at a point in time	1,795	3,671	191	77	5,734
Transferred over time	–	1,813	–	–	1,813
<b>Total</b>	<b>1,795</b>	<b>5,484</b>	<b>191</b>	<b>77</b>	<b>7,547</b>

Year ended 31 January 2019

Transferred at a point in time	1,051	4,022	1,134	99	6,306
Transferred over time	–	1,018	–	–	1,018
<b>Total</b>	<b>1,051</b>	<b>5,040</b>	<b>1,134</b>	<b>99</b>	<b>7,324</b>

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. Service contract income is included within recurring revenue.

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

## Notes to the financial statements continued

### Material customers

During the year there were no customers that accounted for more than 10% of the Group's total revenue (2019: Nil).

### 3 Operating loss

The operating loss before taxation is stated after:

	Year ended 31 January 2020 £'000	Year ended 31 January 2019 £'000
<b>Fees payable to the Company auditors:</b>		
– Audit of the Group accounts	20	20
– Audit of the Company's subsidiaries	35	30
– Audit-related assurance services*	3	3
<b>Depreciation and amortisation:</b>		
– Depreciation of property, plant and equipment – owned assets	388	314
– Depreciation of property, plant and equipment – leased assets	223	–
– Amortisation of intangible assets	535	518
Depreciation and amortisation	1,146	832
Research and development expenditure	169	205
Operating leases – rental of land and buildings	–	168
Operating leases – motor vehicles and other	7	113
Write down of inventories	186	83
Exchange rate losses	16	6

The cost of goods sold during the year amounted to £1,299,000 (2019: £1,830,000).

\*Audit-related assurance services comprise £3,000 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 2020 £'000	Year ended 31 January 2019 £'000
Wages and salaries	3,284	3,336
Social security costs	376	367
Pension contributions	50	75
Share-based payments charge	96	143
	3,806	3,921

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

	2020 Number	2019 Number
Production	9	9
Sales	21	27
Administration	14	14
	44	50

The remuneration of Directors is set out below. Additional information on Directors' remuneration, share options, long-term incentive plans, pension contributions and entitlements can be found in the Directors' Remuneration Report on pages 22 to 26 and forms part of these accounts.

## Notes to the financial statements continued

	2020 £'000	2019 £'000
Short-term employee benefits	661	525
Employers' NI	91	72
Share-based payments charge	53	81
	<b>805</b>	<b>678</b>

### 5 Tax on loss on ordinary activities

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

	Year ended 31 January 2020 £'000	Year ended 31 January 2019 £'000
United Kingdom corporation tax at 19% (2019: 19%)	-	-
United States income taxes	(2)	1
Research and development expenditure tax credits – current year	(183)	(188)
– prior year	-	(9)
<b>Total tax</b>	<b>(185)</b>	<b>(196)</b>

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 the standard rate of corporation tax in the United Kingdom of 19% (2019: 19%)	(231)	(406)
Effect of:		
Expenses not deductible for tax purposes	7	4
Deferred tax not recognised	93	3
United States income taxes	(2)	1
Increase in unused tax losses	27	292
Additional deduction for research and development expenditure	(136)	(139)
Losses surrendered for research and development tax credit	240	246
Research and development expenditure tax credits – current year	(183)	(188)
– prior year	-	(9)
<b>Total tax income</b>	<b>(185)</b>	<b>(196)</b>

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 £183,000 (2019: £188,000) represents 33% (2019: 33%) 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 2020 £'000	Year ended 31 January 2019 £'000
Unused losses (available indefinitely)	27,116	26,976
Temporary differences (available indefinitely)	338	242
	<b>27,454</b>	<b>27,218</b>

The potential deferred tax asset related to losses carried forward (calculated at 19%) of £5.2m (2019: £4.6m calculated at 17%) has not been recognised, but will be considered for recognition in whole or in part in the accounts when a trend of forward visibility of profits has been established.

## Notes to the financial statements continued

### 6 Earnings per share

The calculation of basic earnings or loss per share is based on the earnings or loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. The calculation of diluted earnings per share is based on the calculation described above adjusted to allow for the issue of shares on the assumed conversion of all dilutive options. Share options are regarded as dilutive when, and only when, their conversion to ordinary shares would decrease earnings or increase the loss per share. For FY20 and FY19 there were no differences between the basic and diluted loss per share amounts since the result was a loss and as a result, all potential shares from share options are anti-dilutive.

	Year ended 31 January 2020 £'000	Year ended 31 January 2019 £'000
Loss after tax for the financial year	(1,029)	(1,941)
	Number ( <sup>'000</sup> )	Number ( <sup>'000</sup> )
Weighted average number of ordinary shares	244,175	244,175
Loss per share – basic and diluted (p)	(0.42)	(0.80)

### 7 Property, plant & equipment

	Land and buildings £'000	Plant, fixtures and fittings £'000	Computer equipment £'000	Medical monitors £'000	Total £'000
<b>Cost</b>					
At 1 February 2018	549	594	730	2,509	4,382
Additions	–	26	9	316	351
Retirements	–	–	–	(434)	(434)
At 31 January 2019	549	620	739	2,391	4,299
Additions	–	38	7	261	306
Retirements	–	–	(24)	(1,249)	(1,273)
<b>At 31 January 2020</b>	<b>549</b>	<b>658</b>	<b>722</b>	<b>1,403</b>	<b>3,332</b>
<b>Accumulated depreciation</b>					
At 1 February 2018	546	532	682	1,710	3,470
Charge for the year	1	24	25	264	314
Retirements	–	–	–	(434)	(434)
At 31 January 2019	547	556	707	1,540	3,350
Charge for the year	1	25	23	339	388
Retirements	–	–	(24)	(1,249)	(1,273)
<b>At 31 January 2020</b>	<b>548</b>	<b>581</b>	<b>706</b>	<b>630</b>	<b>2,465</b>
<b>Carrying amount at 31 January 2020</b>	<b>1</b>	<b>77</b>	<b>16</b>	<b>773</b>	<b>867</b>
Carrying amount at 31 January 2019	2	64	32	851	949

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 smartcards, sensors and software licenses (including HUP). Also included in this category is equipment for demonstration purposes, clinical trials and testing.

## Notes to the financial statements continued

### 8 Leases

As set out in note 1, the Group has used the “modified retrospective approach” to the implementation of IFRS 16 under which a lessee does not have to restate comparative information. Accordingly, no comparatives are stated in the notes below.

#### Amounts recognised in the balance sheet

	2020 £'000	2019 £'000
<b>Right-of-use assets</b>		
Buildings	162	–
Vehicles	62	–
	<b>224</b>	–
<b>Lease liabilities</b>		
Current	116	–
Non-current	120	–
	<b>236</b>	–

On 15 January 2020 the Company surrendered its existing lease and completed a new lease with the landlord of its Orsman Road premises which was effective from 23 September 2019. The main changes to the lease terms were as follows:

- the new lease is not covered by the Landlord and Tenant Act 1954 (“the Act”);
- the Company does not have to pay for dilapidations under the new lease;
- the Company may terminate the new lease from 23 June 2020 on one month’s written notice;
- the rent payable to the end of the lease (23 June 2021) is reduced by 12.5%;
- the Company will receive compensation at the end of the new lease comparable to that which it would have received from the old lease under the Act; and
- the Company will receive further compensation for each month before 23 June 2021 that it vacates the premises.

The compensation receivable on termination of the new lease has been excluded from the calculation of the lease liability and will be accounted for in the financial year in which the Company vacates the Orsman Road facility. The decrease in the lease liability related to the reduction in rent was adjusted against the right-of-use asset.

During the year additions to the right-of-use assets were £nil (2019: £nil) and reductions in right-of-use assets due to lease modifications were £35,000 (2019: £nil).

#### Amounts recognised in the consolidated comprehensive income statement

	Year ended 31 January 2020 £'000	Year ended 31 January 2019 £'000
<b>Depreciation charge of right-of-use assets</b>		
Buildings	129	–
Vehicles	94	–
	<b>223</b>	–

Interest expenses incurred in the year in respect of finance leases were £13,000 (2019: £nil).

## Notes to the financial statements continued

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised on the balance sheet.

Right-of-use asset	No. of right-of-use assets leased	Range of remaining terms	Average remaining lease term	No. of leases with extension options	No. of leases with options to purchase	No. of leases with variable payments linked to an index	No. of leases with termination option
Buildings	1	17 months	17 months	–	–	–	1
Vehicles	12	1-21 months	9 months	–	–	–	–

The lease liabilities are secured by the related underlying assets. Future minimum lease payments as at 31 January 2020 are as follows:

	Minimum lease payments due			Total £'000
	Within 1 year £'000	1-2 years £'000	2-3 years £'000	
<b>31 January 2020</b>				
Lease payments	123	122	–	245
Finance charges	(7)	(2)	–	(9)
Net present values	116	120	–	236
<b>31 January 2019</b>				
Lease payments	238	196	47	481
Finance charges	(16)	(6)	–	(22)
Net present values	222	190	47	459

### Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis and the expense recorded in the year relating to such leases was £7,000.

## 9 Intangible assets

	Clinical trials £'000	Product registration £'000	Product development £'000	Computer software £'000	Total £'000
<b>Cost</b>					
At 1 February 2018	283	1,209	6,380	–	7,872
Additions	–	61	590	–	651
At 31 January 2019	283	1,270	6,970	–	8,523
Additions	–	64	521	209	794
<b>At 31 January 2020</b>	<b>283</b>	<b>1,334</b>	<b>7,491</b>	<b>209</b>	<b>9,317</b>
<b>Accumulated amortisation</b>					
At 1 February 2018	283	975	4,664	–	5,922
Charge for the year	–	63	455	–	518
At 31 January 2019	283	1,038	5,119	–	6,440
Charge for the year	–	118	417	–	535
<b>At 31 January 2020</b>	<b>283</b>	<b>1,156</b>	<b>5,536</b>	<b>–</b>	<b>6,975</b>
<b>Carrying amount at 31 January 2020</b>	<b>–</b>	<b>178</b>	<b>1,955</b>	<b>209</b>	<b>2,342</b>
Carrying amount at 31 January 2019	–	232	1,851	–	2,083

Intangible assets include assets that are internally generated and amortised over their estimated useful lives. Amortisation costs are included in administrative expenses. Additions for the year included internally generated assets of £343,000 (2019: £310,000), and externally purchased assets of £209,000 (2019: £341,000). The rates of amortisation are shown in note 1.

## Notes to the financial statements continued

### 10 Inventory

	2020 £'000	2019 £'000
Raw materials and consumables	484	428
Finished goods and goods for resale	1,061	1,452
	<b>1,545</b>	<b>1,880</b>

### 11 Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	1,645	1,516
Other receivables	110	242
Prepayments	231	170
	<b>1,986</b>	<b>1,928</b>

All the above amounts are short term and are shown at transaction price less expected credit loss provisions. All of the Group's trade and other receivables have been reviewed on an account basis with a provision for expected credit losses made if a shortfall in contractual cash flows was anticipated. The amount of the expected credit loss was determined as the difference between the asset's carrying value and the present value of the estimated future cash flows. At 31 January 2020, trade receivables of £1.37m (2019: £1.09m) were within their agreed payment terms.

Movements in Group provisions for expected credit losses from trade receivables are as set out below. The movements are included within administrative expenses in the income statement.

	2020 £'000	2019 £'000
Opening balance	26	68
Provision for expected credit losses	(12)	28
Receivables written off in year	(9)	(70)
Closing balance	5	26

At 31 January 2020, there were no expected credit losses within the other classes of receivables (2019: £nil).

### 12 Current liabilities

	2020 £'000	2019 £'000
Trade payables	536	513
Social security and other taxes	171	236
Accruals and other creditors	733	625
Deferred income	1,230	837
Lease liabilities	116	–
	<b>2,786</b>	<b>2,211</b>

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

100% (2019: 100%) of the opening deferred income balance of £837,000 (2019: 668,000) was recognised as revenue in the period.

### 13 Financial instruments

#### Capital risk management

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

## Notes to the financial statements continued

### Financial risks

The Group's financial instruments comprise cash and liquid resources 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 expected credit losses, as estimated by management based on their prior experience of specific customers and their assessment of the current economic environment. The maximum exposure to trade and other receivables is £1,755,000 (2019: £1,758,000).

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

#### Liquidity risk

Liquidity needs are monitored on a month-to-month basis. Management ensure that sufficient cash reserves and, if necessary, credit facilities are maintained to meet foreseeable needs. Surplus cash is held on deposit with the Company's bank that has an A-1 credit rating.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2020 Less than 1 year £'000	2020 Between 2 and 5 years £'000	2019 Less than 1 year £'000	2019 Between 2 and 5 years £'000
Lease obligations	110	12	238	263
Trade and other payables excluding lease liabilities	1,440	–	1,374	–
	<b>1,550</b>	<b>12</b>	<b>1,612</b>	<b>263</b>

The Group has no financial liabilities due in more than five years.

### Market risks

#### Interest rate risk

The Group currently finances its operations through shareholders' funds and has no borrowings at present.

#### Currency risk

The Group manages currency risk by assessing the net exposure in each non-Sterling currency in which exposure arises. The main exposure relates to US dollars, although the effect of fluctuations in the US dollar exchange rate on US dollar payables is largely offset by the impact on US dollar receivables.

### Group interest rate profile

Financial assets at 31 January 2020	Floating rate		Total £'000
	Cash current bank accounts £'000	Deposit and reserve account £'000	
<b>Currency</b>			
Sterling	717	338	1,055
US dollars	284	–	284
Euro	21	–	21
	<b>1,022</b>	<b>338</b>	<b>1,360</b>

Financial assets at 31 January 2019	Floating rate		Total £'000
	Cash current bank accounts £'000	Deposit and reserve account £'000	
<b>Currency</b>			
Sterling	717	787	1,504
US dollars	157	–	157
Euro	56	–	56
	<b>930</b>	<b>787</b>	<b>1,717</b>

## Notes to the financial statements continued

### 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.

<b>Current assets</b>	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Financial assets:		
– Trade and other receivables	<b>1,755</b>	1,758
– Cash and cash equivalents	<b>1,360</b>	1,717
	<b>3,115</b>	3,475

<b>Current liabilities</b>	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Trade payables and other short-term financial liabilities	<b>707</b>	749
	<b>707</b>	749

### Currency risk management

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

	US dollars	
	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Trade and other receivables	<b>142</b>	132
Cash and cash equivalents	<b>284</b>	157
Trade and other payables	<b>(92)</b>	(115)
	<b>334</b>	174

No hedging instruments are used. Management keep under review the extent of the Group's exposure to currency fluctuations, which relate entirely to trading transactions, and non-speculative hedging of transactions would be considered if the exposure was material.

The following tables illustrate the sensitivity of the net result for the year and equity (in terms of the Group's financial assets and financial liabilities) to the Sterling to US dollar exchange rate. 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	
	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Currency fluctuation	<b>7%</b>	11%

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

	US dollars	
	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Net result for the year	<b>(29)</b>	(48)
Equity	<b>(29)</b>	(48)

## Notes to the financial statements continued

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

	US dollars	
	2020 £'000	2019 £'000
Net result for the year	29	48
Equity	29	48

Exposure to foreign exchange rates varies 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

	2020 Number of shares '000	2019 Number of shares '000
<b>Issued and fully paid – ordinary shares of 0.5 pence each</b>		
At the beginning of the year	244,175	244,175
Issued for cash	–	–
At the end of the year	244,175	244,175
	'000	'000
At the beginning of the year	1,221	1,221
Issued for cash	–	–
At the end of the year	1,221	1,221

## 15 Share-based payments

### Equity-settled share option scheme

The Group has four equity-settled share option schemes for employees and consultants. The normal earliest date for vesting is at least three years from the date of grant. The rules of the 2002 scheme provide that earlier vesting may occur in certain prescribed circumstances such as redundancy. The rules of all share option schemes provide for vesting in less than three years in the event of a change of control of the Group or for exceptional reasons at the absolute discretion of the Remuneration Committee. The latest date for exercise is ten years from the date of grant. The options are settled in equity once exercised. At the discretion of the Company the options may be settled in cash. Where share options are awarded, the fair value of the options at the date of grant is calculated using appropriate pricing models and is charged to the income statement over the vesting period.

	Number	2020 Weighted average exercise price (p)	Number	2019 Weight average exercise price (p)
Outstanding at the beginning of the year	16,953,376	4.3	16,099,178	5.2
Issued in the year	5,025,000	0.5	2,050,000	0.5
Forfeited during the year	(2,610,036)	5.3	(1,195,802)	9.8
Exercised during the year	–	–	–	–
<b>Outstanding at the end of the year</b>	<b>19,368,340</b>	<b>3.2</b>	<b>16,953,376</b>	<b>4.3</b>
<b>Exercisable at the end of the year</b>	<b>4,547,736</b>	<b>10.6</b>	<b>2,924,977</b>	<b>14.0</b>

No options were exercised during the year or the prior year.

## Notes to the financial statements continued

All options granted during the year and prior year have performance conditions based on the average Company share price in the three months prior to the vesting date of the options being the third anniversary of the date of grant. If the average share price is below a trigger price then none of the options vest, if it reaches the trigger price 15% of the options vest and if it reaches a target price 100% of the options vest. In between the trigger and target price the number of options vesting increases on a straight-line basis with the increase in average share price. Monte-Carlo simulations were used to estimate the fair value of the share options granted during the year based on the following assumptions:

	Unapproved	EMI	Weighted average
Number of shares	2,600,000	2,425,000	5,025,000
Weighted average share price at date of grant (p)	4.65	4.65	4.65
Weighted average exercise price (p)	0.50	0.50	0.50
Weighted average trigger share price at which 15% of shares vest (p)	6.00	6.00	6.00
Weighted average target share price at which 100% of shares vest (p)	10.00	10.00	10.00
Expected volatility	39.0%	39.0%	39.0%
Expected life (years)	3.5	3.5	3.5
Risk free rate	0.87%	0.87%	0.87%
Expected dividend yield	0%	0%	0%

The expected volatility was 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 was based on UK Government gilts. The share options outstanding at the end of the year have exercise prices of between 0.5p and 21.5p per share and a weighted average remaining contractual life of 7.30 years.

### 16 Capital commitments

At 31 January 2020 the Company had placed forward orders for the purchase of monitors, monitor components and disposables for inventory to the value of £437,000 (2019: £530,000). Delivery of these orders is scheduled between February 2020 and July 2020.

### 17 Contingent liabilities

There were no contingent liabilities at 31 January 2020 or 31 January 2019.

### 18 Related party transactions

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

#### Key management compensation

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

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

### 19 Events after the reporting period

The impact on the Group of the COVID-19 pandemic that has spread around the world since the end of the reporting period is discussed on pages 3 and 9 of the Strategic Report. Although the Group is currently seeing an increase in sales arising from the COVID-19 pandemic, its longer-term impact on the Group's performance cannot be reasonably assessed at this point in time.

Since the end of the reporting period the Group has entered into the following material contracts:

- a three-year lease of office space in central London;
- a ten-year lease of a manufacturing/distribution facility in the northern outskirts of London;
- a ten-year contract manufacturing arrangement for the Group's current clean room activities; and
- to fit-out the new manufacturing/distribution facility with a mezzanine, kitchen and various work rooms.

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

### Opinion

#### *Our opinion on the parent company financial statements is unmodified*

We have audited the parent company financial statements of LiDCO Group Plc for the year ended 31 January 2020, which comprise the Company balance sheet, the Company statement of changes in shareholders' equity and notes to the parent company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 January 2020;
- 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.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the parent company financial statements' section of our report. We are independent of the parent company in accordance with the ethical requirements that are relevant to our audit of the parent company financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the parent company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a parent company associated with these particular events.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the parent company's business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the parent company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the parent company will continue in operation.

### Overview of our audit approach

- Overall materiality: £99,000, which represents 0.5% of the parent company's gross assets;
- The key audit matter identified was the parent company audit was the valuation of amounts owed by LiDCO Limited in both the prior and current year;
- The key audit matter identified for the Group audit was revenue recognition; and
- We performed a full scope audit of the financial statements of the parent company.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

### Key Audit Matters – Parent company

#### Valuation of amounts owed by LiDCO Limited in both the prior and current year

The Company's loan to its subsidiary undertaking, LiDCO Limited, is held at amortised cost less provision for expected credit losses following a prior year adjustment to correct its classification.

Management has prepared a probability weighted expected credit loss calculation, in accordance with International Financial Reporting Standard 9 'Financial Instruments', estimated by reference to observable market data having previously measured impairment in accordance with IAS 36 'Impairment of Assets'.

As a result of the prior year adjustment and the complexities of IFRS 9, we identified the valuation of amounts owed by LiDCO Limited in both the prior and current year as a significant risk, which was one of the most significant assessed risks of material misstatement.

### How the matter was addressed in the audit – Parent company

Our audit work included, but was not restricted to:

- Assessing the methodology and data inputs to the expected credit loss model and testing the calculations of the probability weighted expected credit loss;
- Assessing the sufficiency and appropriateness of disclosures relating to key judgements and estimates concerning the prior year classification adjustment and expected credit loss.

The parent company's accounting policy on estimates and the carrying value of amounts owned by group companies is shown in note 1 to the parent company financial statements and related disclosures are included in note 3.

#### Key observations

Based on our audit work we are satisfied that the judgements made, and assumptions used by management in assessing the probability weighted expected credit loss of the loan to LiDCO Limited are reasonable by reference to the evidence obtained from our audit testing.

### Key Audit Matter – Group

#### Revenue recognition

Revenue is recognised by the Group as the fair value of the consideration earned in respect of the sale of goods, license fees and the delivery of services in accordance with IFRS 15 'Revenue from Contracts with Customers'.

The Group has entered into a number of different types of agreements with customers in relation to High Usage Programmes ('HUP') for the provision of goods and advanced haemodynamic monitoring services.

As a result of the significant judgement made by management in the application of IFRS 15 to the recognition of different types of HUP revenues, we identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.

### How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- challenging and assessing the appropriateness of management's accounting policy for the recognition of revenue in accordance with the financial reporting framework, including IFRS 15;
- testing the point in time (i.e. license activation) from which standard HUP revenues are recognised by reference to licenses renewed during the year; and
- testing a sample of HUP revenue transactions to obtain evidence that they were supported by appropriate contractual agreements.

The Group's accounting policy on revenue recognition is shown in note 1 to the Group financial statements and related disclosures are included in note 2.

#### Key observations

Based on our audit work we are satisfied that the judgements made, and assumptions used by management in accounting for revenues in accordance with IFRS 15, are reasonable by reference to the evidence obtained from our audit testing.

### Our application of materiality

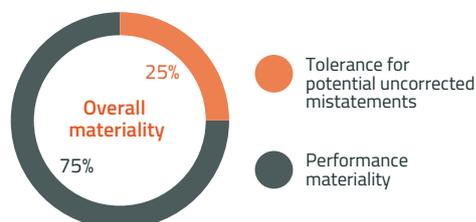
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

We determined materiality for the audit of the parent company financial statements as a whole to be £99,000, which represents 0.5% of the parent company's gross assets. This benchmark is considered the most appropriate because the parent company is a holding company and does not trade.

Materiality for the current year is the same as that which we determined for the year ended 31 January 2019.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality.

### Overall materiality



The graph above illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the audit committee to be £4,950. In addition, we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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

### An overview of the scope of our audit

Our audit approach was a risk-based approach based on a thorough understanding of the parent company's business, its environment and risk profile. We performed a full scope audit of the financial statements of the parent company, including audit testing on cash, share based payments and the valuation of amounts owed by LiDCO Limited.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report & Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the parent company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the parent company financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the parent company financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

### Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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.

### Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on pages 31 to 32, 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, and for such internal control as the directors determine is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company financial statements, the directors are responsible for assessing the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the parent company financial statements

Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

A further description of our responsibilities for the audit of the parent company financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Other matters

We have reported separately on the group financial statements of LiDCO Group Plc for the year ended 31 January 2020. That report includes details of the group key audit matters; how we applied the concept of materiality in planning and performing our audit; and an overview of the scope of our audit. The opinion in that report is unqualified.

### Use of our report

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.

### Marc Summers

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

20 April 2020

## Company balance sheet

At 31 January 2020

	Note	2020 £'000	2019 restated £'000
<b>Non-current assets</b>			
Investments	2	455	359
		<b>455</b>	359
<b>Current assets</b>			
Amounts owed by Group companies	3	10,647	9,915
Cash at bank and in hand		707	707
		<b>11,354</b>	10,622
<b>Net assets</b>		<b>11,809</b>	10,981
<b>Capital and reserves</b>			
Called up share capital	4	1,221	1,221
Share premium account		30,342	30,342
Profit and loss account		(19,754)	(20,582)
<b>Shareholders' funds</b>		<b>11,809</b>	10,981

The result for the year of the Company was £732,000 (2019 restated loss: £6,470,000).

The financial statements were approved by the Board of Directors and authorised for issue on 20 April 2020.

**Matthew Sassone**  
Director

**Timothy Hall**  
Director

## Company statement of changes in shareholders' equity

For the year ended 31 January 2020

	Share capital £'000	Share premium £'000	Retained loss £'000	Total equity £'000
At 1 February 2018 as originally stated	1,221	30,342	(11,787)	19,776
Prior year adjustment – IFRS 2	–	–	215	215
Prior year adjustment – IFRS 9	–	–	(2,683)	(2,683)
At 1 February 2018 restated	1,221	30,342	(14,255)	17,308
Transactions with owners – share based payments	–	–	143	143
Total comprehensive loss for the year	–	–	(6,470)	(6,470)
At 31 January 2019 restated	1,221	30,342	(20,582)	10,981
Transactions with owners – share based payments	–	–	96	96
Total comprehensive income for the year	–	–	732	732
<b>At 31 January 2020</b>	<b>1,221</b>	<b>30,342</b>	<b>(19,754)</b>	<b>11,809</b>

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

The accompanying accounting policies and notes on pages 62 to 64 form an integral part of these financial statements.

## Notes to the financial statements

For the year ended 31 January 2020

### 1 Principal accounting policies

#### Basis of preparation

These financial statements have been prepared in accordance with applicable accounting standards and in accordance with Financial Reporting Standard 101 – ‘The Reduced Disclosure Framework’ (FRS 101). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have all been applied consistently throughout the year unless otherwise stated.

The financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments.

The financial statements are presented in Sterling (£) and have been presented in round thousands (£'000).

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirement of paragraphs 45 and 46-52 of IFRS 2 Shared based payment,
- the requirement of IFRS 7 Financial Instruments: Disclosures,
- the requirements in paragraphs 91-99 of IFRS 13 Fair Value Measurement,
- the requirements in paragraphs 38 of IAS 1 ‘Presentation of Financial Statements’ to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1; (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and (iii) paragraph 118(e) of IAS 38 Intangible Assets,
- the requirement of paragraphs 10(d), 10(f), 39(c), 40A and 134-136 of IAS 1 Presentation of Financial Statements,
- the requirements of IAS 7 Statement of Cash Flows,
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Change in Account Estimates and Errors,
- the requirements of paragraph 17 of IAS 24 Related Party Disclosure,
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and,
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

#### Correction of prior year amounts – prior year adjustment

The Company has funded the trading activities of its principal subsidiaries by the way of inter-company loans. The amounts advanced did not have any specific terms relating to their repayment, were unsecured and were interest free. In the financial statements for the year ended 31 January 2019 these amounts were incorrectly shown as an investment in subsidiaries in accordance with IAS 27, ‘Separate Financial Statements’, whereas following the adoption of IFRS 9, ‘Financial Instruments’, from 1 February 2019 all inter-company loans such as these that are accounted for by the subsidiary as a liability are within the scope of IFRS 9 and should have been accounted for as a financial instrument and not an investment by the parent company. As there are no contractual terms for the inter-company loans, they are legally repayable on demand and as such are included in the Company balance sheet in these financial statements as a current asset, net of probability weighted expected credit losses. Under IFRS 9, as the loan is repayable on demand, the expected credit loss has to be calculated without allowing for payment over time. The Company’s Board has, therefore, decided to use the Company’s share price as at the relevant balance sheet dates as a reference to calculate the probability weighted expected credit loss, as the share price is observable market data. This change has been implemented as a prior year adjustment, with the inter-company loan reallocated from investment in subsidiaries to current receivables, and the probability weighted expected credit losses calculated as at 31 January 2019. The difference between the expected credit loss and the previous impairment provision calculated in accordance with IAS 27 has been taken to the profit and loss account.

Previously no adjustment was made to the ‘Investment in subsidiary undertakings’ in the Company’s accounts for share options over Company shares made to employees of its principal subsidiary in accordance with IFRS 2 “Share-based payment” on the grounds of materiality. As the number of share options issued has increased over the years the impact on the carrying value of investments in the Company accounts has become material and as such an adjustment has been made to reflect the increase in investment related to share options in issue as at 1 February 2018 by £215,000 and as at 31 January 2019 as below.

The impact of these changes to the reported figures as at 31 January 2019 are shown in the table below.

As at 31 January 2019	As previously reported £'000s	Adjustment for subsidiary share- based payments £'000s	Reclassification of inter-company loan £'000s	As reported in these financial statements £'000s
Investments	19,069	358	(19,068)	359
Amounts owed by Group companies	–	–	9,915	9,915
Current assets	707	–	9,915	10,622
Total equity	19,776	358	(9,153)	10,981

## Notes to the financial statements continued

### Going concern

The Group's business activities, together with a review of the market and the Group's distribution channels are set out in the Strategic Report on pages 2 to 11. In addition, note 13 to the financial statements includes the Group's policies for managing its capital; its financial risk; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group has customers in several different geographic areas and considerable recurring revenue streams through the sales of smartcards, sensors, software licenses (including HUP) and service contracts which represented 75% of total revenues in the year to 31 January 2020. These recurring revenue streams give some underpinning to revenue projections for the business.

The Board has considered detailed monthly financial forecasts for the next financial year as well as longer-term forecasts for the next five years along with the related assumptions, risks and opportunities, sensitivities, areas for mitigation and contingency plans. Based on this review, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being the period of 12 months from the date of signing the financial statements for 2019/20. Accordingly, the Directors believe that it is appropriate to adopt the going concern basis of accounting in preparing the annual financial statements.

### Judgements and keys sources of estimation uncertainty

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

#### *Estimates – Carrying value of amounts owed by Group companies*

The carrying value of amounts owed by Group companies are tested for potential credit losses each year. In accordance with IFRS 9, to the extent that the subsidiary does not have sufficient liquid assets at the balance sheet date to repay the amount outstanding. The Board has estimated the probability weighted expected credit loss primarily by reference to the Company's share price at the relevant balance sheet dates as this is observable market data. The use of more sophisticated valuation methods would be expected to give rise to different values, but would involve significantly more judgement. The carrying value of amounts owed by Group companies is considered in note 3 to the financial statements.

#### *Judgements*

In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than that involving estimation.

### 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 consolidated comprehensive income statement.

### Financial liabilities and equity

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

### Share-based payment charges

The Company has four equity-settled share-based remuneration schemes for Group employees. Where share options over Company shares 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 of the employer company over the vesting period. Any cumulative adjustment prior to vesting is recognised in the current period. Where the employer company is a subsidiary, the Company's investment in that subsidiary undertaking is adjusted for the re-charge of share-based payments incurred in the subsidiary entity.

## Notes to the financial statements continued

### 2 Investments

Company	2020 £'000	2019 restated £'000
<b>Cost and net book value</b>		
Investment in subsidiary undertakings	455	359

The increase in the year of £96,000 related to the re-charge of share-based payments incurred in the subsidiary undertakings (2019: £143,000).

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
LiDCO Netherlands B.V.	Netherlands	100%	Dormant

The registered office of both LiDCO Limited and Cassette Analytical Systems Limited is 16 Orsman Road, London, N1 5QJ. The registered office of LiDCO Netherlands B.V. is Van Goedhartlaan 935A, 1181 LD Amstelveen, Netherlands.

### 3 Amounts owed by Group companies

	2020 £'000	2019 restated £'000
Gross amount owed by Group companies	30,999	30,999
Credit provision	(20,352)	(21,084)
	10,647	9,915

The above amount is owed by the Company's main subsidiary, LiDCO Limited through which all the Group's sales are made. There are no contractual repayment terms to the loan, and it bears no interest. The credit provision has been reviewed in accordance with IFRS 9 as LiDCO Limited did not have sufficient liquid assets to repay the loan as at the relevant balance sheet dates. As there are no contractual terms for the inter-company loans, they are legally repayable on demand and as such are included in the Company balance sheet in these financial statements as a current asset, net of probability weighted expected credit losses. Under IFRS 9, as the loan is repayable on demand, the expected credit loss has to be calculated without allowing for payment over time. The Company's Board has, therefore, decided to use the Company's share price as at the balance sheet date as a reference to calculate the probability weighted expected credit loss, as the share price is observable market data.

### 4 Share capital

	2020 £'000	2019 £'000
Allotted, called-up and fully paid		
244,174,908 ordinary shares of 0.5p each (2019: 244,174,908 ordinary shares)	1,221	1,221

### 5 Result 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 result for the year of the Company was £732,000 (2019 restated loss: £6,470,000).

### 6 Related party transactions

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

## Company information

**Company registration number:**  
02659005

**Registered office:**  
16 Orsman Road  
London  
N1 5QJ

**Company website:**  
[www.lidco.com](http://www.lidco.com)

### Directors and Secretary:

Mr P W Grant	Non-executive Chairman
Mr M G Sassone	Chief Executive Officer
Mr T R Hall	Chief Financial Officer
Mr P M Cooper	Non-executive Director
Mr J G Wetrich	Non-executive Director
Mr T R Hall	Company Secretary

## Advisers to the Company

### Auditor:

Grant Thornton UK LLP  
Registered Auditors  
Chartered Accountants  
30 Finsbury Square  
London  
EC2A 1AG

### Registrar:

Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent, BR3 4TU

### Nominated adviser and stockbroker:

N+1 Singer  
1 Bartholomew Lane  
London  
EC2N 2AX

### Banker:

NatWest Bank Plc  
63-65 Piccadilly  
London  
W1J 0AJ



## LiDCO Group Plc

### Head Office:

16 Orsman Road  
London  
N1 5QJ  
T: + 44 (0)20 7749 1500  
F: + 44 (0)20 7749 1501

### US Office:

500 Park Avenue  
Suite 103  
Lake Villa  
IL, 60046  
T: + 1 (0) 847 265 3700  
F: + 1 (0) 847 264 3737

[www.lidco.com](http://www.lidco.com)