LiDCO Cardiac Sensor Systems

2012/13

LiDCO Group Plc Annual Report & Accounts for the year ended 31 January 2013

LiDCO Group Plc
www.lidco.com

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

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

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Financial highlights

- Total revenue increased to **£7.21m** (2011/12: £7.12m)
- Product sales (excluding non-recurring license fees and support fees) were up **£0.59m**, an increase of **9%**
- Disposables revenue up **15%** to **£5.6m**, representing **78%** of total revenues (2011/12: 68%)
- Revenue in the UK increased by **33%** to **£4.93m** (2011/12: £3.70m)
- Gross profit up **2%** to **£4.82m** (2011/12: £4.75m)
- Gross margins excluding third party products up from **76%** to **82%**
- Operating loss **£0.22m** (2011/12: profit £0.05m), EBITDA* of **£0.60m** (2011/12 £0.61m)
- Cash balance of **£2.06m** (2011/12: £1.55m)
- Loss per share **0.07pence** (2011/12: earnings 0.01pence)

* EBITDA is the loss from operations before the charge for depreciation and amortisation.

Operational highlights

- Development, CE mark and commercial launch in EU of new LiDCO*rapid*v2 with Unity software non-invasive blood pressure and level of consciousness modules
- UK surgical disposables revenue growth of 79%
- Registration, reimbursement and market expansion into Japan with the appointment of Nihon Kohden
- Re-establishment of direct sales operation in US & purchase of US monitor installed base – discussions with potential US distribution partners ongoing
- Fundraising of £2.21m (net) in November 2012 strengthening the balance sheet to be better able to pursue growth opportunities
- 276 monitors (2011/12: 364) sold/placed. Rolling seven year total of monitors sold/placed is 2,312 (2011/12: 2,189)

Post year end

- Patent granted in Japan for LiDCO*rapid* monitor graphical user interface
- US FDA clears for sale LiDCO*rapid*v2 with level of consciousness display – with non-invasive module registration expected mid-year

Revenue
£million

Loss from operations
£million

Cash in bank
£million

Market shift to multi parameter monitors

The hemodynamic monitoring market
is maturing and projected
to grow from
$200m to $2bn per annum in surgery.
To fully address this market a multi parameter monitor is required.
LiDCO*rapid*v2 with Unity software
is the first such monitor.

LiDCO*plus*

2002
A computer-based platform monitor used in the Intensive Care Unit for real-time continuous display of hemodynamic parameters including cardiac output, oxygen delivery and fluid-volume responsiveness (PPV% and SVV%).

LiDCO*rapid*

2008
A cardiac output monitor designed specifically for use in the operating theatre for fluid and drug management.

However, LiDCO*rapid* requires an arterial line to be inserted.

LiDCO*rapid*v2 with Unity software

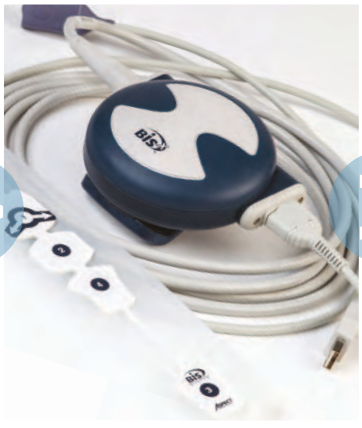
2013
First monitor in the world to be designed specifically for multi parameter monitoring of both depth of anesthesia and fluids.

Currently allows the connection of two modules to the LiDCO*rapid*v2 to co-display Covidien's depth of anesthesia parameter (BIS™) and CNSystems' continuous non-invasive blood pressure monitoring (CNAP™).

Applicable to the needs of a broad range of surgery patients without the need for an arterial line.

* BIS and Bispectral Index are trademarks of Covidien LP registered in the US and foreign countries.
CNAP is a trademark of CNSystems.

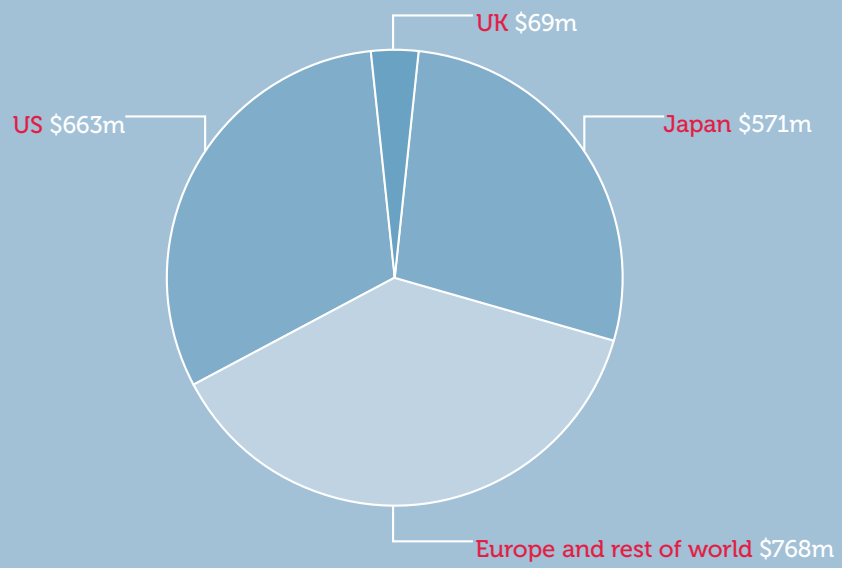
Parameter convergence
LiDCO*rapid* **plus** BIS™ depth of anesthesia **plus** CNAP™ continuous non-invasive BP **equals** the new LiDCO*rapid*v2 with Unity software.



Market opportunities and strategy for growth

Total market for disposables addressed by LiDCO*rapid*v2 is

$2,071m



UK

- NHS England drive for hemodynamic monitoring of up to a further 760,000 surgery patients
- Market set to double over the next 12-24 months
- Payment incentives in place from April 2013
- LiDCO grew surgical disposables revenue by 79% over the prior year

US

- World's largest existing market for minimally invasive hemodynamic monitoring
- LiDCO has mutli parameter surgical platform
- Largest existing market for BIS™ (depth of anesthesia)

Japan

- Second largest market in the world
- LiDCO are second in the Japanese market after Edwards LifeSciences
- Focus for LiDCO's distributors is $420 per patient reimbursement

We expect
significant
sales growth in 2013,
driven by higher levels of sales in the UK,
our stronger position in the US,
and our first full year of sales in Japan

Poised for growth of installed base and increased frequency of use

- Grow domestic and international sales
- Non-invasive option will increase disposable use in existing monitor installed base
- Potential to broaden applications to non-surgical patients
- Continue to integrate more parameters to maintain technology lead

Chairman's statement

During the year, LiDCO made significant progress, marked in particular by strong sales growth in the UK. We also gained access to the Japanese market and successfully completed the development of our new generation hemodynamic monitor. Overall the Group made a small loss after tax of £117,000, although EBITDA remained positive.

Theresa Wallis
Chairman

Products

The completion of the LiDCO*rapid*v2 with Unity software, both on time and on budget, was a key milestone. The product – including the continuous non-invasive blood pressure module – achieved a CE mark within a week of the year-end, allowing sales in Europe to commence. In March the FDA cleared the LiDCO*rapid*v2 with Unity software and depth of anesthesia display for sale in the US.

This new generation monitor platform is instrumental to full realisation of the hemodynamic monitoring opportunity. It enables completely non-invasive patient monitoring, with integration and co-display of complementary parameters supplied by third parties. As a result, usability of LiDCO's monitors is extended to a wider spectrum of surgery patients. This development enables improved quality of care while reducing the number of monitors required and lowering costs for care providers.

The first of the third party parameters to have been incorporated is depth of anesthesia and we are working to integrate additional complementary parameters. Importantly, the existing installed base of LiDCO*rapid* monitors can be upgraded to provide the new functionality.

Access

Our strategy is to sell to – and service – our UK customers directly. We operate predominantly via distributors overseas; in the smaller territories through independent distributors and in the major markets such as USA and Japan, through larger medical device corporations.

During the year, we finalised the arrangements necessary to access the Japanese market. These included registration and reimbursement approval and signing an exclusive distribution arrangement with Nihon Kohden and Argon Medical. Our partnership arrangements in Japan now give our LiDCO*rapid* monitor and disposables access to the world's second biggest market for hemodynamic monitoring.

We have taken back direct responsibility for sales in the US, following the negotiated termination of our distribution partnership with Covidien. Discussions are ongoing with a number of potential partners in this market.

Evidence and awareness

Hemodynamic monitoring is a part of an effective and standardised clinical pathway to optimise high risk surgery patients. During the year, the NHS published its Intraoperative Fluid Management Technologies Adoption Pack. In the UK, demand for our surgery product is increasingly being driven by the NHS's promotion of advanced fluid management in up to a further 760,000 surgery patients per annum.

Governance

John Barry, Sales & Marketing Director, left the Company in August. We are grateful for his contribution to the Company over his 11 years of service, during which he helped establish our technology in the critical care and high-risk surgery arenas. Terry O'Brien has taken over direct responsibility for the management of the Company's sales and marketing activities.

Prospects

In 2013 we expect sales to be driven by the increased appreciation of the clinical and economic benefits of hemodynamic monitoring, particularly in the UK where it is estimated that full adoption could save the NHS £400 million per annum.

The extension of LiDCO's product offering to include non-invasive monitoring will further increase the number and range of accessible surgery patients, initially in the UK and Europe.

We expect sales of both monitors and disposables to be driven increasingly by their use in measuring complementary parameters sourced from third party sensors – and from a broader population of patients requiring non-invasive access. In addition, we expect sales to be further driven by the opening up of the Japanese market, estimated at US$285 million for arterial line patients. In the US, the outcome of current discussions with potential partners will inform the nature of our approach to this market over the longer term. In the meantime, selling directly in the US will generate higher margins.

The fundraising in November enabled us to acquire the US installed base of LiDCO*rapid* surgery monitors following the changes to our US distribution arrangements. It also facilitates faster access to the non-invasive opportunity in the UK and other territories and the Company's overdraft was repaid. Cash at the year-end was £2 million.

I would like to thank our shareholders for their continued support, my fellow directors and the staff at LiDCO for their hard work and our Clinical Advisory Group for their valuable insights and feedback. 2012/13 was a challenging year, but the Company finished the year in a position of strength.

Theresa Wallis
Chairman
22 April 2013

Chief Executive Officer's statement

I am pleased to report the results of a very productive twelve months where we have grown revenues, launched a new product that doubles our addressable market to a $2 billion recurring revenue opportunity, and commenced sales of LiDCO*rapid* into the Japanese market. We reinforced our position in the US through acquiring the installed base of 230 monitors; raised £2.21 million (net), part of which funded the US purchases; saw further clinical data published showing that LiDCO*rapid* improves patient outcomes; and have been active in further securing a global intellectual property portfolio to protect our technology. We are also seeing in the UK strong commitment and progress towards an NHS objective of doubling the number of surgical patients receiving fluid monitoring.

Dr Terence O'Brien
Chief Executive Officer

Overview

Our new product development has been achieved at considerable pace – we have completed this project on budget, within twelve months and produced a product that is truly innovative. LiDCO believe that the LiDCO*rapid*v2 with Unity software is game-changing in that now all surgery patients can be non-invasively monitored, allowing the user to achieve optimal blood pressure and fluid management, while simultaneously finely titrating the level of anesthesia. We will initially market our new integrated monitor to address the 10 million high-risk surgical patients worldwide that would benefit most. Our customers are already energised about both the surgical use and the potential utility of the product beyond surgery, into what could prove to be widespread use in non-surgical settings. We will explore these additional applications and expect in time these could add considerably to what we see as the current market opportunity.

In February of this year we announced the registration and launch in Europe of the new LiDCO*rapid*v2 monitor with Unity software. This is the world's first non-invasive multi parameter monitor specifically designed for continuous non-invasive blood pressure, fluid and consciousness monitoring of high-risk surgery patients. We believe our innovative monitor sets a new standard through displaying in an integrated fashion a number of the more recent advances in peri-operative care monitoring. Through the addition of the non-invasive option our technology can now be used in many more locations within the hospital. Initial customer response to the product has been extremely encouraging and sales have been made to both UK and European hospitals. First generation LiDCO*rapid* customers can access the technology through a software upgrade and addition of the non-invasive and level of consciousness modules. Our expectation is that the additional utility that the LiDCO*rapid*v2 brings will significantly increase disposable revenues from both existing and new customers.

During the period we have achieved registration, reimbursement and the first monitor sales into the world's second biggest market for hemodynamic monitoring – Japan – for the LiDCO*rapid*. We are only the second technology to achieve cardiac output reimbursement in Japan and also announced during the year that we had signed a strong Japanese distribution partner, Nihon Kohden.

Furthermore, in protecting our intellectual property, we were delighted to report last month that the Japanese Patent Office had granted a patent protecting the Graphical User Interface ("GUI") of the LiDCO*rapid* monitor in Japan. The distinctive display of hemodynamic parameters by LiDCO's GUI makes the touch-screen monitor unique and easier to interpret than traditional displays. This GUI forms the structure of the screen displayed by the new LiDCO*rapid*v2 with Unity software. A patent protecting our LiDCO*rapid* GUI was granted in the EU in September 2011 and is currently pending in the US. We vigorously pursue patent protection and have a number of other patents pending that we believe cover both core aspects of our signal processing technology and the integration and display of additional parameters in the LiDCO*rapid*v2.

The US is our largest export territory and represents our second largest installed base of monitors and disposable sales (after the UK). Having reviewed sales progress in the US, we felt that although our distribution partner, Covidien, had made some progress, they were unwilling to give the LiDCO products sufficient dedicated sales time to achieve their contractual minimum purchase obligations. After discussion, we agreed to continue working collaboratively with Covidien on an OEM licensing relationship, with LiDCO integrating Covidien's level of consciousness technology into the LiDCO*rapid*v2.

During the period we have achieved registration, reimbursement and the first monitor sales into the world's second biggest market for hemodynamic monitoring – Japan – for the LiDCO*rapid*.

LiDCO re-assumed direct responsibility for LiDCO*rapid* sales and subsequently purchased back the remaining inventory, the US monitor installed base, and their associated high margin disposable sales income. These distribution changes inevitably negatively affected US sales in the second half. We are now growing our own direct US sales force to drive sales growth through increasing disposable use and establishing additional accounts. Our expectation is that we will further improve our market access for US sales of the LiDCO*rapid*v2 through the appointment of one or more distribution partners, and we are progressing discussions with a number of parties.

In the UK, the surgical monitoring market continues to grow strongly. We are delighted to report excellent progress with surgical disposables revenue growth of 79% over the prior year. This growth is expected to continue as, over the next twelve months, the NHS in England is committed to driving adoption and is providing payment incentives aimed to double the numbers of surgery patients receiving fluid monitoring.

Furthermore, in November new guidance from the UK's National Institute for Health and Clinical Excellence ("NICE") recommended the use of level of consciousness monitors during general surgery for higher risk surgery patients. Such technology is now accessible through the new LiDCO*rapid*v2 monitor, which uses Covidien's Bispectral Index ("BIS™"). BIS was highlighted in the NICE report as showing the strongest evidence of clinical benefit.

This recommendation built on the previous guidance from NICE and the Commissioning for Quality and Innovation ("CQUIN") payment framework, both of which support intra-operative fluid management monitoring for high risk surgery patients. The LiDCO*rapid*v2 with Unity software is therefore a single monitor solution that satisfies both NICE recommendations and CQUIN requirements for high risk surgery patients. Combining these features into a single monitor makes use of the LiDCO*rapid*v2 highly appealing compared to our competitors' older, single parameter technologies.

The main territories for us are the UK, which we believe is the fastest growing market for surgical monitoring in Europe, and the major export markets of the US and Japan. The global market for hemodynamic monitoring disposable sales into the high risk surgery patient population represents a potential recurring revenue stream of $2 billion per annum. We believe that our technology is now best-in-class and capable of taking a very significant share of this growing surgical monitoring market.

Worldwide, hospitals are coming under increasing pressure to adopt fluid management monitoring, as it both increases the quality of healthcare provision, and reduces the costs of post-operative care. As LiDCO's technology can now be used completely non-invasively, it has become a more broadly applicable and easy way of delivering such care.

The last 20 years have seen the emergence of a number of other complementary monitoring parameters that are increasingly used in surgical and intensive care settings. Going forward LiDCO strongly believes the convergence of all of these parameters into an integrated monitor capable of simultaneous and integrated display is a fast developing and key customer requirement.

As such it is our intention to continue with our strategy of converging additional parameters into the LiDCO*rapid*v2 platform - thus allowing other important modalities to be monitored through a common hardware platform and co-displayed for greater impact. Our next target parameters are those that when integrated should enhance the utility of our monitor in both cardiac surgery and for the monitoring of shock and sepsis patients.

Alongside the integration of multiple parameters, the use of less invasive hemodynamic monitoring has generated a hard-to-refute body of clinical evidence regarding cost effectiveness that underpins ever wider non-invasive clinical usage. Now available with a simple to use non-invasive option, we believe that LiDCO*rapid*v2 will find ever wider applications, both in and outside of surgery, and we hope will become commonplace in the management of any patient requiring acute care.

The introduction of LiDCO*rapid*v2 providing a non-invasive, multi parameter monitoring platform is a significant technological advance. We expect this will result in these measurements taking an increasingly strong role in the anesthetic management of a much larger population of high-risk general surgical patients. Even wider scale adoption of LiDCO's technology will, we believe, significantly improve clinical outcomes for high risk patients undergoing surgery, while providing major cost savings to hospitals.

Chief Executive Officer's statement continued

Revenue and trading

Revenues for the full year were £7.21 million (2011/12 £7.12 million). LiDCO received no license fees during this financial year (2011/12: £540,000) therefore excluding license fees, product revenues increased by approximately 9% – driven by a strong performance in the UK. Top line revenue growth was negatively affected by the disruption around the distribution changes in the US (referred to above). We also had to see out a degree of destocking by distributors in the EU. Both the US and EU territories are expected to return to growth in 2013 together with increasing revenue contribution from Japan. Sales in the UK are expected to continue to grow strongly, particularly in high risk surgical monitoring as more hospitals comply with NICE and CQUIN requirements for fluid and level of consciousness monitoring.

Markets breakdown

Global markets

The priority markets for LiDCO at this time are the UK, US and Japan. The latter two are the world's first and second largest markets by size (estimated at $650m and $420m respectively) representing a total of around 5 million high risk surgery patients per annum.

UK markets

In our domestic UK market sales continued to grow strongly, up by 33% to £4.93 million (2011/12: £3.70 million). This was the result of increases in both our third party distributed revenues (up £520,000) and excellent growth in both LiDCO monitors and disposables sales (up £651,000). Total (surgery and critical care) UK disposable unit sales increased 29% from 21,045 to 27,155 units and sold/placed LiDCO*rapid* monitors were up 57% at 77 (2011/12: 49 units). Growth of unit sales of surgical disposables was particularly significant at 70% up on the prior year, a reflection of both the increased installed base and average use up from 4.7 to 5.1 disposables per month. LiDCO*plus* monitor sales/placements of 14 units were marginally lower than the prior year (2011/12: 17 units), however disposables units were stable at 12,300 with sales value up 10% to £1.47 million (2011/12: £1.33 million).

UK market dynamics

The NHS drive for adoption of fluid monitoring looks set to continue to underpin growth in our surgery monitoring business. In the UK around 40,000 patients a year currently undergo surgery with the guidance of hemodynamic and fluid monitoring technologies. Under its latest initiatives, the NHS is seeking to increase this figure to 80,000 patients per year starting in April 2013, with the eventual aim of managing up to 800,000 patients a year. The Company expects to see significant growth in the UK in 2013 for the LiDCO*rapid* and the LiDCO*rapid*v2 product range, with our intensive care LiDCO*plus* business showing more modest increases.

US markets

In the US LiDCO has now acquired the existing LiDCO*rapid* customer base from Covidien and has taken back direct responsibility for the sales and marketing of all LiDCO*rapid* products. Product sales of £1.10 million were down from £1.49 million in 2011/12; this was predominantly as a consequence of the previously announced change in distribution arrangements to direct sales. LiDCO*rapid* sales were disrupted for several months in the latter part of the year. Revenue comparisons between the periods are further complicated by greater stocking orders taken into inventory by the distributor in the prior year. However, the underlying sales into hospitals across the period shows a better and clearer picture. Disposable unit sales of Smartcards increased by 8% to 6,095 (2011/12: 5,630). Prior to the change to direct sales the monthly run rate was growing and standing at 550 per month compared to 480 per month in the same period in 2011.

US market dynamics

The installed base of LiDCO*rapid* monitors in the US now stands at 230 units in 70 hospitals. This is a substantial installed base and one that is equivalent to our installed base in the UK into which we sold 14,855 disposables last year. The disposables sold in the US as noted above were 6,095.

Having assessed the US LiDCO*rapid* business, we believe there is an immediate opportunity to grow use rates and revenues in the existing installed base through providing more in-service support to existing customers. In order to do so we are increasing our own US sales and nurse educator presence and expect to see significant sales growth in 2013 both through increasing monthly disposable use rates and also incrementing the installed base. We continue to have discussions with potential distribution partners for the US market, who are appropriately positioned and resourced to implement the sales model developed in the UK, which is focused on increased and wider adoption of the LiDCO*rapid* monitors, to drive disposables consumption.

Continental Europe

The Company also has an active sales and marketing program in Europe. Sales were down 27% in this territory to £622,000 (2011/12: £853,000). This was anticipated as European states, especially those in southern Europe, have cut back healthcare expenditure at the governmental level. In detail, this was reflected as lower monitor unit sales (19 vs. 60 in 2011/12) coupled to a lower average transfer price for disposables. Despite the financial pressures, total unit disposable sales were down only slightly to 9,350 (2011/12: 9,445) due to a fall-off in critical care sensor disposable sales. Encouragingly, surgery disposable units were up 14%. Although this was not a growing market last year, we do expect growth going forward starting this year. Our distributors have substantially destocked during the year and have shown strong interest in committing to upgrading to the new LiDCO*rapid*v2 monitor.

Japan and Rest of World

The LiDCO*rapid* monitor and associated disposable products were launched in Japan in August 2012 after obtaining registration and reimbursement. Japan is the second biggest market after the US for minimally-invasive hemodynamic monitoring and has the highest disposable pricing with a reimbursement of $420 per patient monitored. After Edward's Vigileo/FloTrac, LiDCO*rapid* is the second product to be granted reimbursement. LiDCO's commercial partners in Japan are Argon and Nihon Kohden. Nihon Kohden has 120 branch offices and around 1,000 sales representatives and is a potent sales organization in Japan. Nihon Kohden

Business review – summary table

	Year to 31 Jan 2013	Year to 31 Jan 2012	Increase/ (decrease)	Increase/ (decrease) %
Revenue by type (£'000)				
– Monitors	**1,337**	1,501	(164)	(11%)
– LiDCO disposables	**3,881**	3,651	230	6%
– Third party disposables	**1,726**	1,206	520	43%
– License fees	**–**	540	(540)	–
– Other income	**269**	224	45	20%
– Total revenues	**7,213**	7,122	91	1%
Monitors (units)	**276**	364	(88)	(24%)
Sold	**244**	353	(109)	(31%)
Placed	**32**	11	21	191%
Sensors and Smartcards (units)	**49,413**	50,595	(1,182)	(2%)
Rolling 7 year total of monitors sold/placed	**2,312**	2,189	123	6%

also sells BIS™ (level of consciousness monitoring) for Covidien and has rights to sell the combined monitor (LiDCO*rapid*v2 with Unity software) when registered. Eighty LiDCO*rapid* monitors and 2,000 disposables were sold during the period. This year will mark our first full year of trading and we expect good commercial progress will be made. We hope to be submitting the LiDCO*rapid*v2 with Unity software and BIS™ option for Japanese registration later this year. Approval is anticipated in the second half of 2014. During the year a patent was granted in Japan for the LiDCO*rapid* monitor graphical user interface. This is important as the structure of the monitor screen is novel and is used in our multi parameter LiDCO*rapid*v2 monitor. Product sales to Japan in the year were £330,000 (2011/12: £44,000).

Product sales to the ROW territories including Japan were up 8% to £564,000 (2011/12: £523,000). Monitor sales units were strong with 99 units sold (2011/12: 50 units) and monitor revenue up 12% £265,000 (2011/12: £236,000) – reflecting higher sales of the lower priced LiDCO*rapid* monitors (97 compared with 35 in the prior year). Sensor/Smartcard sales revenue was up by 4% to £299,000 (2011/12: £287,000). No license fees were paid during the period. Moving forward we are building sales capability through distribution partnerships in the Middle East and we recently signed a distributor for China.

Regional sales performance summary

UK

- Total revenue up 33% to £4,928,000 (2011/12: £3,701,000)
- Monitor units sold: 59 with revenue of £527,000 (2011/12: 55 units; £438,000)
- Sensor and Smartcard revenue £2,441,000 up 30% (2011/12: £1,879,000)
- Sensor (12,300) and Smartcard (14,855) unit sales up 0% and 70% respectively
- Third party disposable sales up 43% to £1,726,000 (2011/12: £1,206,000)
- Other income up 31% to £234,000 (2011/12: £178,000)
- LiDCO disposables as a percentage of LiDCO product sales: 82% (2011/12: 81%)

US

- Product revenue down 27% to £1,087,000 (2011/12: £1,491,000)
- Revenue fall predominantly due to disruption stemming from termination and transition of the Covidien distribution back to LiDCO
- Monitor revenue down 25% to £430,000 (2011/12: £571,000)
- Sensor and Smartcard sales down 29% to £657,000 (2011/12: £920,000)
- Licence fee income of £nil (2011/12: £290,000)

Continental Europe

- Total revenue down 27% to £622,000 (2011/12: £853,000)
- Monitor units sold: 19 with revenue of £115,000 (2011/12: 60 units: £256,000)
- Sensor/Smartcard sales revenue down 14% at £484,000 (2011/12: £565,000)
- Sensors/Smartcard units 9,350 (2011/12: 9,445) down 1%, sensors down 14%, Smartcards up 14%
- Other income up 28% to £23,000 (2011/12: £32,000)

Japan and Rest of World

- Total revenue up 7% to £567,000 (2011/12: £530,000)
- Monitor units sold 99 (2011/12: 50) with revenue up 6% £239,000 (2011/12: £226,000)
- Sensor/Smartcard sales revenue up by 4% to £299,000 (2011/12: £287,000)
- Sensors/Smartcard units 5,870 (2011/12: 5,700) up 3%, sensors up 18%, Smartcards down 1%
- License fee income of £nil (2011/12: £250,000)
- Other income up 71% at £29,000 (2011/12: £17,000)

Chief Executive Officer's statement continued

FINANCIAL REVIEW

Operating results

Overall turnover increased by 1% to £7.21m (2011/12: £7.12m) with an excellent performance in the UK more than mitigating the £390,000 reduction in US product sales caused by the change in sales and marketing arrangements in that region. Details of sales performance by region are provided above. The Group made a loss after tax of £117,000 (2011/12: profit £15,000) but remained comfortably EBITDA positive at £595,000 (2011/12: £609,000) The loss per share was 0.07 pence (2011/12: earnings 0.01 pence). Cash at the year-end was £2.06m.

Revenues from the sales of LiDCO disposables increased by 6% to £3.88m (2011/12: £3.65m) with a notable increase of 79% in revenue from UK surgery disposables and excluding license fees, overall revenues increased by 10%. License fees are normally received in respect of significant corporate distribution or licensing arrangements and are irregular. No such fees were received in the year (2011/12: £540,000).

During the year a total of 276 monitors (2011/12: 364 monitors) were sold or placed including 91 (2011/12: 66) sold or placed in the UK. The 7 year rolling base of sold/placed monitors at the year-end was 2,312 (2011/12: 2,189). Some of the monitors sold to distributors are for demonstration use and evaluation purposes.

Unit sales of LiDCO*rapid* Smartcards rose by 1% overall with a 70% increase in the UK offset by a 57% drop in US sales. In the UK total disposable unit sales of sensors and Smartcards increased by 29%. In the UK where the Group has detailed usage information, the average use rates for surgery disposables increased to 5.1 (2011/12: 4.7) uses per monitor per month with individual hospital use as high as 19 Smartcards per monitor per month.

Gross profit margins (which are calculated before any allocation of overheads) remain high. The margin across all LiDCO products (i.e. excluding third party product sales) increased during the period from 80% to 82%. Future profitability will significantly depend on margins achieved on disposables and these have remained high during the year. Margins achieved on LiDCO*plus* sensors remained steady at 86% and LiDCO*rapid* Smartcards increased slightly to 95% (2011/12: 94%).

The overall gross profit increased by £74,000 to £4.82 million. The loss of margin resulting from the lack of license fees and the reduction in LiDCO based product sales, was offset by the margin from additional third party product sales and negligible Med One cost of sales compared with £227,000 in the comparative period. The overall gross margin remained static at 67%.

Total overheads increased by £242,000 (5%) to £5.04m (2011/12: £4.80m). Sales and marketing costs increased by £198,000 including the costs of re-engaging direct sales representation for the LiDCO*rapid* in the US. During the year there was a write back of £123,000 of share-based payment charges as a result of the lapse of share warrants granted to the former US distributor.

The operating loss increased by £168,000 to £217,000. As a result of a three year sale and leaseback arrangement taken out in January 2012, the Group incurred net interest costs of £42,000 (2011/12: income £4,000). After net tax credits of £142,000 (2011/12: £60,000) the Group made a small loss after tax of £117,000 (2011/12: profit £15,000).

Taxation

The Group continues to benefit from research and development tax credits which may be recovered in cash while the Group makes an operating loss. The Group has a deferred tax asset of £4.8m although this has not been recognised in the accounts as it is not considered to meet the criteria laid down in IAS 12.

Cash, financing and working capital

The net cash outflow before financing activities in the period was £1.56 million (2011/12: £582,000) compared with a loss after tax of £117,000. As noted in the annual report to 31 January 2012, expenditure on intangible assets increased significantly as a result of the continuous non-invasive blood pressure module and Unity software development. External expenditure including technology licenses for this development in the year was £564,000. The product was launched in February 2013 and residual development and licensing costs in the year to January 2014 are expected to be circa £200,000.

79%

Growth in revenue from UK surgery disposables

As also noted in the results to 31 January 2012, larger than normal forward orders of monitors had to be placed in order to mitigate against the effect of end of life notices issued by the manufacturers on some monitor components. The Group's software is written specifically to work with the existing hardware platform, allowing back integration into the installed base. It was therefore considered necessary to ensure that the Group had an unchanged hardware platform for the next few years. As a result of these forward orders and the buy-back of the customer base and inventory from its former US distributor, inventories increased in the year by £922,000. Remaining outstanding forward orders for monitors amount to £220,000 and will be received in the year to January 2014. Inventory levels should thus fall in the current financial year.

In November 2012 the Group issued 17,423,000 new ordinary shares at 13.5 pence per share in a placing and subscription to both new and existing investors, including management raising £2.21 million net of costs. Some of the proceeds have been used to buy back inventory and the installed base of monitors from the former US distributor. The additional funds will also allow the Group to accelerate the retro-fit of its UK installed base of LiDCO*rapid* monitors with the new product, to strengthen the Group's balance sheet and position the Group so as to be able to better pursue other growth opportunities as and when they arise. In addition, a further 1,997,000 shares were issued in respect of share options exercised during the year for a total of £225,000.

Net cash balances at 31 January 2013 amounted to £2.06 million (2011/12: £1.34 million).

PRODUCT DEVELOPMENT

We are very excited about the distributor and customer reception for our recently developed and launched new LiDCO*rapid*v2 with Unity software. This is the first monitor in the world to be designed specifically for multi parameter monitoring of both depth of anesthesia and fluids for patients undergoing high risk surgery. This development allows the connection of two modules to the LiDCO*rapid*v2 allowing the co-display of Covidiens' depth of anesthesia parameter (BIS™) and CNSystems' continuous non-invasive blood pressure monitoring (CNAP™). We have registered this product for sale in Europe and have FDA approval for sale of the new Unity software and depth of anesthesia module option. We expect the non-invasive blood pressure option (LiDCO CNAP™ module) to also be available for sale in the US market around the summer of 2013.

New development activities for 2013 include the language localization of the new Unity software and clinical evaluation of additional parameters for integration into the LiDCO*rapid*v2 monitor. The new Unity software has been structured in such a way that more measurements can be added quickly and cost effectively. We are particularly interested in parameters whose addition will give enhanced utility not only in the high risk surgery market but also in the cardiac surgery arena and shock/sepsis patients. We will keep investors appraised on progress and expect to be able to announce more details of further parameter integration later this year.

Looking to other development projects these will include an update to the LiDCO*plus* software that will bring the operating system up to date and will improve ease of use and connection to third party monitors. LiDCOview, our easy-to-use graphical display of historical LiDCO*plus* and LiDCO*rapid* hemodynamic data, is a unique research tool that is used for the review of historical data for research and education purposes. This will also be updated with the addition of BIS™ (depth of anesthesia) to the download, analysis and display. Both projects will be completed and released in the next few months.

Outlook

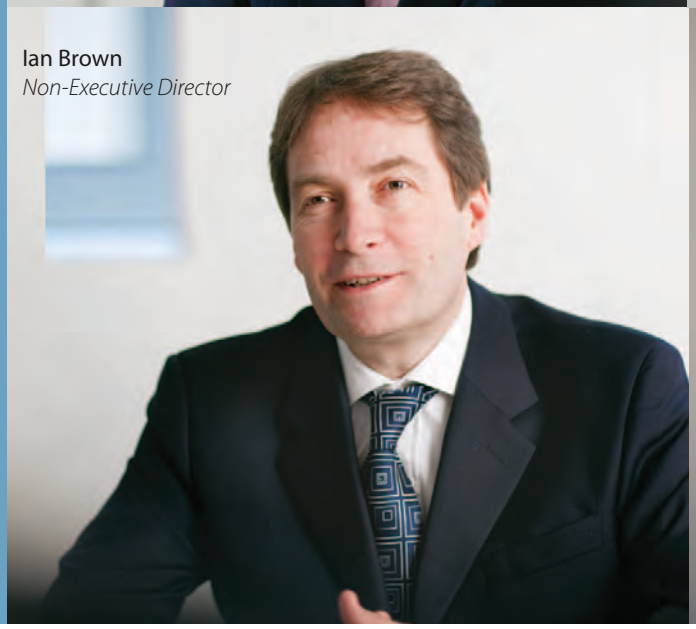
We expect significant sales growth in 2013, driven by higher direct sales revenues in both the US and the UK, a full year of sales in Japan and a return of sales growth in the EU. Our new widely applicable LiDCO*rapid*v2 monitor with non-invasive and level of consciousness options will contribute significantly to our revenues. Costs and margins will be kept under control. The Board anticipates further growth in 2013 and expects to be both cash generative and profitable.

Terry O'Brien
Chief Executive Officer
22 April 2013

Board of Directors

Theresa Wallis
Non-Executive Chairman

Dr Terence O'Brien
Chief Executive Officer



Ian Brown
Non-Executive Director

Paul Clifford
Finance Director

Theresa Wallis
Non-Executive Chairman
Ms Wallis was appointed in December 2002. She has worked most of her career in financial services, moving into the technology commercialisation sector in 2001. She worked for the London Stock Exchange for 13 years, where from 1995 she was chief operating officer of AIM, the market for smaller growing companies, having managed the market's development and launch in 1994/5. From 2001 to end 2006 she was a principal executive of ANGLE plc, a venture management and consulting business focusing on the commercialisation of technology. Since 2001 she has held a number of non-executive directorships and she is currently a non-executive director of Special Products Limited and the Quoted Companies Alliance.

Ian Brown
Non-Executive Director
Mr Brown was appointed in October 2005. He has over 25 years' experience in the medical devices industry and has extensive experience of developing and introducing new medical devices to the market in the UK and overseas. Between 1986 and 2003, he was an executive director and shareholder in a medical device start-up company (Novamedix Group), initially as sales and marketing director and later as managing director. The company was progressively sold to a major US healthcare group (Ofix). In his early career, Mr Brown worked in a number of UK and international sales and marketing positions for Johnson & Johnson, Smiths Industries and Pharmacia AB.

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

Paul Clifford
Finance Director
Mr Clifford was appointed in April 2008. He qualified as a chartered accountant with Touche Ross (now Deloitte) in 1975. He joined the Group in April 2008 having spent 28 years in finance positions in technology companies. In 1991 he co-founded BCS Computing Limited, a venture capital backed concern investing in computer software companies. He became finance director of software group, Comino in 1996, prior to its flotation on AIM in 1997. In 2006, Comino was acquired by AIM quoted Civica plc and Mr Clifford became finance director of Civica UK Limited, its main operating subsidiary, leaving in 2008. Mr Clifford was a non-executive director of AIM quoted Prologic plc until its takeover in 2012.

Clinical Advisory Group

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

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

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

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

Corporate Governance report

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

The Board of Directors
The Board currently consists of two executive and two non-executive directors. Biographies of the directors are provided on page 15. There is a clear division of responsibilities between the Chairman and the Chief Executive Officer and their roles have been set out in writing and agreed by the Board.

The non-executive directors are Theresa Wallis (Chairman) and Ian Brown (Senior Independent Director). The non-executive directors bring a wide range of skills and experience to the Board. The Board considers that the non-executive directors are independent although Ms Wallis's term now exceeds ten years and therefore does not comply with independence criterion regarding length of service specified in section B 1.1 of the UK Corporate Governance Code (she was appointed in December 2002). Nevertheless following a performance review the rest of the Board believes that she remains both independent in character and judgement and that she continues to be effective and demonstrate commitment to her role as Chairman of the Board and its three committees. Further, no institutional investor has raised concerns over her independence. Ms Wallis will be standing for re-election at the next AGM and thereafter annually for so long as she remains on the Board.

During the year, the Board reviewed the organisational structure of the business. This review is ongoing and is expected to be influenced by the outcome of the discussions relating to US partners. In addition the Board reviewed its composition and concluded that having considered the skills, experience and attributes of the directors, the Board's composition should continue unchanged. The Board will continue to review its composition annually.

The Group normally conducts eight Regular Board Meetings a year. In addition the Board meets to approve financial statements, the allotment of shares and to approve significant commercial agreements. The attendance of the individual directors at the Regular Board Meetings and the Audit and Remuneration Committee Meetings were as follows:

Attendance record at Board Meetings and Committees

Name	Position	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Ms T A Wallis	Non-executive Chairman	8(8)	2(2)	6(6)	n/a
Dr T K O'Brien	Chief Executive Officer	8(8)	n/a	n/a	n/a
Mr P L Clifford	Finance Director	8(8)	n/a	n/a	n/a
Mr I G Brown	Non-executive Director	8(8)	2(2)	6(6)	n/a
Mr J G Barry*	Sales and Marketing Director	5(5)	n/a	n/a	n/a

*Mr Barry resigned as Sales and Marketing Director on 24 August 2012.

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

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

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

Board evaluation and performance
In February 2013, the Board carried out an evaluation of the performance, functioning and composition of the Board and its Committees. This involved each director reviewing information and completing an evaluation questionnaire, the results of which were collated and discussed by the Board and actions were agreed. It is the Board's intention to continue to review annually its performance and that of its Committees.

Committees of the Board

Audit Committee

The members of the Committee are Ms Wallis (Chairman) and Mr Brown. The executive directors and the external auditors attend the meetings by invitation. The Committee considers financial reporting and internal controls. It also reviews the scope and results of the external audit and the independence and objectivity of the auditors. It meets at least twice a year and reviews the interim and annual financial statements before they are submitted for approval by the Board. The Committee met twice during the year. The Committee considers annually whether the auditors remain independent for the purposes of the audit. This year the fee for non-audit work is £10,000 against an audit fee of £44,000. The Committee is satisfied that the auditors remain independent for the purposes of the annual audit. The Committee considers that given the size of the Company and its current stage of development a separate internal audit function is not required, but the matter is reconsidered annually by the Committee.

Remuneration Committee

The members of the Committee are Ms Wallis (Chairman) and Mr Brown. The Committee reviews and sets the remuneration of the executive directors. The Board considers overall annual pay awards for all staff as part of the budgeting process. The Committee advises on share schemes and approves the granting of share options. The Committee met six times during the year.

Nomination Committee

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

Relations with shareholders

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

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

Corporate Social Responsibility statement

The Company recognises the importance of Corporate Social Responsibility.

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

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

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

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

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

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

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

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

Shareholders
The Company aims to treat its stakeholders in a responsible manner. It maintains regular contact with its major shareholders to explain developments in the business and all shareholders are invited to question management at the Annual General Meeting. See also 'Relations with Shareholders' in the Corporate Governance Report on page 17.

Directors' remuneration report

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, which are offered to executive directors and employees at all levels.

In respect of year 2012/13, the main decisions the Committee made were:

P L Clifford
P L Clifford increased his number of working days to four days per week and received a pro-rata increase in salary and benefits.

Bonus
The bonuses for the year were 15% and 19% of salary respectively for T O'Brien and P Clifford, which was below the maximum bonus opportunity of 50% of salary.

Options
EMI share options over 76,833 shares in April 2012 and 145,448 shares in July 2012 were made to P Clifford in line with Company policy. No options were awarded to T O'Brien. The awards made in May 2009, with an exercise price of 12.67p vested on 27 May 2012, when the share price was 18.9p.

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

Salaries
Executive Directors' salaries were increased with effect from 1 February 2013, by similar percentages to other employees in the Group. The new salaries are as follows:

Name	Salary from 1 April 2013	% increase
T K O'Brien	£201,497	2.5%
P L Clifford	£138,955	2.5%

Options
The Board have approved a new share option plan which is similar in structure and maximum award limits to the previous one, which expired in 2012. It is our intention to make awards this year over shares to the value of 300% salary to T K O'Brien and 100% salary to P L Clifford, with performance conditions linked to future profits targets.

We have changed the format of the Remuneration Report this year to reflect the new draft Directors Remuneration Reporting Regulations that were recently issued. The main changes we have included are this summary of key activities in the year and the table showing remuneration policy on page 21. We hope that this will meet shareholders' requirements for information and demonstrate how our remuneration policies support the Group's strategic objectives.

We will be seeking approval to this Report at our Annual General Meeting on 12 June 2013.

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

Theresa Wallis
Chairman of the Remuneration Committee
22 April 2013

Directors' remuneration report
continued

The directors present below their Remuneration Report which covers the remuneration of both the executive and non-executive directors. The report will be subject to shareholder vote at the forthcoming Annual General Meeting in June 2013.

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

T A Wallis (Chairman)
I G Brown

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

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

The Company believes that the QCA Remuneration Committee Guide for Smaller Quoted Companies (the Guide) is more appropriate for the Company than the UK Corporate Governance Code (which is designed primarily for the largest listed companies). The Company has followed the Guide in determining its remuneration policy.

Future remuneration policy table
The following table has been prepared in accordance with the guidance provided by the Government (BIS) for compliance with the new reporting regulations.

Future remuneration policy for Executive Directors – key elements of remuneration

	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes in policy for 2013/14
Base salary	Help recruit and retain employees. Reflects individual experience and role.	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. Reviewed annually and fixed for 12 months commencing 1 February. Decision influenced by: – role, experience and performance – average change in broader workforce salary – total organisational salary budgets. Salaries are benchmarked against companies of similar size and complexity in similar sectors.		None	Directors salaries increased on 1 February 2013: – T K O'Brien £201,497 (2.5%) – P L Clifford £138,955(2.5%)
Benefits and pension	Help recruit and retain employees.	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, car and other benefits.	Benefit allowance is 20% of base salary. Full cost of annual PHI policy: T O'Brien £1,770 P Clifford £1,005	None	None
Annual bonus	Rewards the achievement of annual targets, delivery of personal objectives and strategic business targets if appropriate.	The executive directors who served during the year are members of the Company's Senior Management Bonus Scheme. Under the terms of the Scheme, the Remuneration Committee assesses the directors' individual performances soon after the end of the financial year, judged against pre-determined targets. The criteria for awarding bonuses includes corporate and personal objectives. The principal corporate financial objective on which the directors are currently judged is operating profit/loss. Bonuses are capped at 50% 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. Bonus level is determined by the Committee after the year end, based on performance against targets. There is no deferral of bonus, nor any clawback provisions as the Committee thinks such complexity is unnecessary where the bonus maximum is 50% of salary in a business environment like LiDCO's.	Target % of salary: 25% Maximum % of salary: 50%	The majority of the bonus is based on achievement of specific targets of operating profit as well as partly on as the achievement of other non-financial objectives which may be relevant for the year in question: – maximum 40% salary judged by performance of Group operating profit – maximum 10% salary for personal objectives.	No change has been made to weighting of the measures or to the policy of setting targets.
Share options	Incentivises executive directors to achieve returns for shareholders over a longer time frame.	LiDCO has four share option plans including EMI, HMRC unapproved options and overseas plans. Awards of share options are made annually with vesting dependent on the achievement of performance conditions over the three subsequent years. The Committee is of the opinion that clawback provisions are an unnecessary complication for a company of the size of LiDCO.	Awards in 2012: T O'Brien £nil P Clifford £40,563	The release of an award is dependent upon the individual's continued employment for a three-year holding period from the date of grant. Executives only benefit when the share price increases. Awards will have performance conditions linked to profit targets.	Policy for 2013/14: awards over shares to the value of 300% of salary to T O'Brien and 100% of salary to P Clifford. Note re 2014/15 awards: future award levels will depend on headroom capacity under the 10% dilution rule.

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 2013

	Salary and fees £'000	Allowance in lieu of benefits £'000	Benefits £'000	Bonus £'000	Total £'000	2012 £'000
T A Wallis	46	–	–	–	46	44
T K O'Brien	197	39	2	29	267	264
P L Clifford	133	27	1	25	186	147
I G Brown	29	–	–	–	29	29
J G Barry*	105	21	2	–	128	253
D M Band	–	–	–	–	–	29
Total	510	87	5	54	656	766

* Mr Barry resigned as Sales and Marketing Director on 24 August 2012.

Contracts of service
Details of the service contracts for the directors are as follows:

Executive directors
The service contract of Dr O'Brien is dated 29 June 2001 and is not set for a specific term but includes a rolling 12 months' notice period. Mr Clifford has a service contract with the Company dated 21 April 2008 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 Company. The letter of appointment for each non-executive director states that they are appointed for an initial period of three years. At the end of the initial period, the appointment may be renewed for a further period if the Company and the director agree. In keeping with best practice, these appointments are terminable without notice by either party. The Chairman's appointment is for a term ending 19 December 2013 and Mr Brown's appointment for a term ending 11 October 2013.

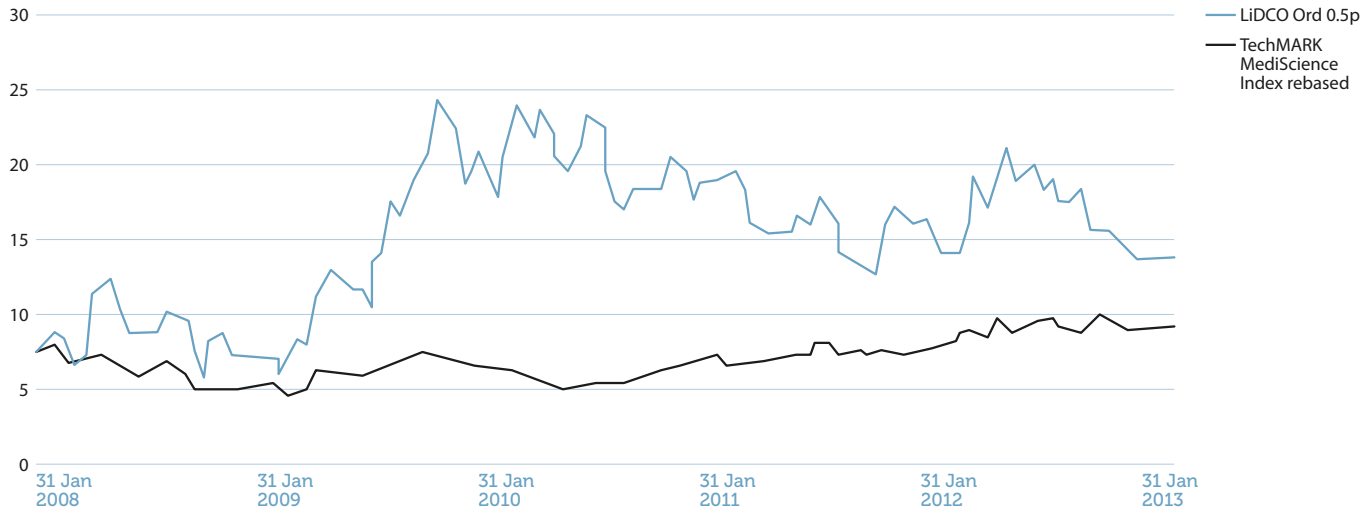
Directors' interests in share options
Options were granted to the executive directors as follows:

Name	Option type	Options at 31 Jan 2012	Date of grant	Options granted during 2012	Exercised during 2012	Lapsed during the year	Options at 31 Jan 2013	Exercise price (p)	Exercisable from	Expiry date
T K O'Brien	EMI	750,000	Dec-2002			(750,000)	Nil	13.00	Dec-2005	Dec-2012
	EMI	11,627	Apr-2005				11,627	21.50	Apr-2008	Apr-2015
	Unapproved	265,768	Apr-2005				265,768	21.50	Apr-2008	Apr-2015
	EMI	150,000	May-2009				150,000	12.67	May-2012	May-2019
		1,177,395		Nil	Nil	(750,000)	427,395			
P L Clifford	Approved	66,000	Apr-2008				66,000	7.50	Apr-2011	Apr-2018
	Approved	75,000	May-2009				75,000	12.67	May-2012	May-2019
	EMI	100,000	Jun-2010				100,000	19.92	Jun-2013	Jun-2020
	EMI	478,650	Apr-2011				478,650	15.00	Apr-2014	Apr-2021
	EMI		Apr-2012	76,833			76,833	18.00	Apr-2015	Apr-2022
	EMI		Jul-2012	145,448			145,448	18.38	Jul-2015	Jul-2022
		719,650		222,281	Nil	Nil	941,931			
Totals		1,897,045		222,281	Nil	(750,000)	1,369,326			

The share price was 14.00p on 1 February 2012 and 13.88p on 31 January 2013, with high and low during the year of 21.00p and 13.38p respectively.

Pensions
No pension contributions were payable by the Group during the year. (2011/12: £nil).

Shareholder return
The graph below shows the share price performance since January 2007, using the FTSE TechMARK Mediscience Index as a comparator, which the directors consider to be a suitable benchmark index.



Theresa Wallis
Chairman of the Remuneration Committee
22 April 2013

Directors' report

The directors of LiDCO Group Plc present their annual report and audited financial statements (Annual Report) for the year ended 31 January 2013.

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

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

The directors consider the key commercial risks and uncertainties associated with the business are:

Employees 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 40 people and recognises that its success depends on the calibre of all its employees and ensuring that their productivity is maximised. The Group therefore maintains programmes for recruiting, appraising, incentivising and training 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.

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. Where possible, but with regard to cost, each type of component is obtained from multiple sources. The amount of critical components and materials held in stock is determined according to risk-based lead times which are regularly reviewed. Particular attention is paid to component availability where new products are introduced and the scale of demand is uncertain.

Distributors
The Group relies on distributors for its sales and marketing activities outside the UK. The Company mitigates the risk of distributor underperformance by selecting distributors with the requisite resources, skills, access to customers and creditworthiness. In addition, the Group provides ongoing training programmes and support and closely monitors distributor activity.

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 the use of shareholders' funds, overdrafts and finance facilities. In addition the Group seeks to maintain a high level of disposable income which reduces its reliance on the sale of capital equipment to its customers.

Health service budgets
The Group's performance is affected by hospitals' expenditure and any, or developing, capital budgetary constraints. The Group mitigates this risk by targeting a wide geographical area for its products where the Group has committed and effective distribution partners and by targeting sales opportunities where budgets are likely to be available.

Product use
As noted above the Group relies on a high level of disposable income. The Group therefore seeks to ensure that customers are familiar with the use of the Group's products, their current benefits, potential enhancements arising from the ongoing product development activities and are properly trained in their use.

Results and dividends
The Group's revenue for the year was £7,213,000 (2011/12: £7,122,000). The Group made a consolidated loss after taxation of £117,000 (2011/12: profit £15,000). The directors do not recommend the payment of a dividend (2011/12: £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 8 to the financial statements.

Share capital and share premium account
Full details of the authorised and issued share capital of the Company, together with details of the movements in the Company's issued share capital and the share premium accounts during the year, are shown in note 14 on page 47 and note 4 on page 52.

Directors
The directors of the Company who served during the year are set out below; short biographies are set out on page 15.

T A Wallis	Non-Executive Chairman
T K O'Brien	Chief Executive Officer
P L Clifford	Finance Director
I G Brown	Non-Executive Director
J G Barry *(resigned 24/08/2012)*	Sales and Marketing Director

Dr O'Brien retires by rotation and Ms Wallis having served more than nine years retires in line with section B 7.1 of the UK Corporate Governance Code. Both 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 19.

Directors' interests in shares
The directors who held office at 31 January 2013 had beneficial interests in the ordinary shares of the Group as shown below:

Directors' shareholdings

	Ordinary shares of 0.5p each	
	31 January 2013 Number	31 January 2012 Number
T A Wallis	**331,037**	331,037
T K O'Brien	**11,516,563**	11,516,563
P L Clifford	**659,660**	600,000
I G Brown	**200,000**	200,000

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

Directors' indemnities and Directors' and Officers' insurance
The Company has exercised the power given by shareholders at the 2006 Annual General Meeting to extend the indemnities to directors and officers against liability to third parties. The directors also have Directors' and Officers' insurance cover in place in respect of personal liabilities which may be incurred by directors and officers in the course of their service with the 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 Company's policy is to encourage the involvement of all employees in the development and performance of the Group. Employees are briefed on the Group's activities through meetings and discussions with management and all employees are encouraged to give their views on matters of common concern through the line management. A significant number of employees have share options.

Supplier payment policy
It is and will continue to be the policy of the Group to pay its suppliers in line with agreed credit terms. The Group's average creditor payment period as at 31 January 2013 was 45 days. (2012: 30 days).

Directors' report
continued

Significant shareholdings
As at the date of this Annual Report the Company is aware of the following shareholdings in excess of 3% of the Company's ordinary share capital:

Shareholder	Number of shares in which there is an interest	Percentage notified*
Ingalls & Snyder LLC	27,469,262	14.19%
H J Leitch	14,481,183	7.48%
Liontrust Intellectual Capital Trust	14,456,803	7.47%
Octopus Investments Limited	14,239,993	7.35%
Cheviot Asset Management Limited	13,649,930	7.05%
P A Brewer	13,884,747	6.65%
R M Greenshields	9,042,407	4.67%
D M Band	7,160,832	3.70%
Hargreave Hale & Co	5,849,924	3.02%

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

Directors' responsibilities for the financial statements accounts
The directors are responsible for preparing the Annual Report and Group financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union. The parent company financial statements have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Going concern
The Group's business activities, together with a review of the market and the Group's distribution channels are set out in the Chief Executive Officer's Statement on pages 8 to 13. In addition, note 13 to the financial statements include the 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 a number of customers across different geographic areas and considerable recurring revenue streams through the sales of its disposable sensors and Smartcards which represented 56% of its total revenues in the year to 31 January 2013.

The Group finances its operations through shareholders' funds, short term borrowings such as overdrafts and medium term borrowings such as finance leases. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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

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

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

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

The adequacy of internal controls and the internal control structures was reviewed by the Board in April 2013.

As a medical device Company, LiDCO also has a system of regulatory controls, to ensure compliance with all requirements of the Medicines and Healthcare products Regulatory Agency (MHRA), the US Food & Drug Administration (FDA) and other medical bodies. During the year the Company was compliant with ISO13485 (Medical Devices – Quality Management Systems) and ISO 9001 (Quality Management Systems).

The Board has established a process involving all departments for the comprehensive assessment of key risks to the business. The risk register is regularly updated and reviewed by the Board. Actions to mitigate risk are identified and agreed.

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

Annual General Meeting
The Notice to convene the Annual General Meeting of the Company to be held on Wednesday 12 June 2013 is set out on page 3 of the separate circular including an explanation of each resolution.

By order of the Board

Douglas Armour
Company Secretary
22 April 2013
Company registration number: 2659005

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

We have audited the Group financial statements of LiDCO Group plc for the year ended 31 January 2013 which comprise the consolidated comprehensive income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in shareholders equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement on page 26, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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

Opinion on financial statements
In our opinion the group financial statements:
- give a true and fair view of the state of the Group's affairs as at 31 January 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the parent company financial statements of LiDCO Group plc for the year ended 31 January 2013.

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

London
22 April 2013

Consolidated comprehensive income statement

For the year ended 31 January 2013

	Note	Year ended 31 January 2013 £'000	Year ended 31 January 2012 £'000
Revenue	2	**7,213**	7,122
Cost of sales		**(2,389)**	(2,372)
Gross profit		**4,824**	4,750
Administrative expenses		**(5,041)**	(4,799)
Loss from operations	3	**(217)**	(49)
Finance income		**4**	4
Finance expense		**(46)**	–
Loss before tax		**(259)**	(45)
Income tax	5	**142**	60
(Loss)/profit and total comprehensive (expense)/income for the year attributable to equity holders of the parent		**(117)**	15
(Loss)/earnings per share (basic and diluted) (p)	6	**(0.07)**	0.01

All transactions arise from continuing operations.

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

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

Consolidated balance sheet

At 31 January 2013

	Note	2013 £'000	2012 £'000
Non-current assets			
Property, plant and equipment	7	**1,055**	1,055
Intangible assets	8	**1,338**	775
		2,393	1,830
Current assets			
Inventory	9	**2,271**	1,349
Trade and other receivables	10	**2,360**	2,367
Current tax		**146**	60
Cash and cash equivalents		**2,060**	1,553
		6,837	5,329
Current liabilities			
Trade and other payables	11	**(1,573)**	(1,210)
Deferred income	11	**(263)**	(266)
Borrowings	11	**(183)**	(388)
		(2,019)	(1,864)
Net current assets		**4,818**	3,465
Long term liabilities			
Finance lease liabilities	12	**(183)**	(346)
Deferred income	12	**(158)**	(317)
		(341)	(663)
Net assets		**6,870**	4,632
Equity attributable to equity holders of the parent			
Share capital	14	**968**	871
Share premium		**27,741**	25,403
Merger reserve		**8,513**	8,513
Retained earnings		**(30,352)**	(30,155)
Total equity		**6,870**	4,632

The financial statements were approved by the Board of Directors on 22 April 2013.

Theresa Wallis
Director

Terence O'Brien
Director

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

Consolidated cash flow statement

For the year ended 31 January 2013

	Year ended 31 January 2013 £'000	Year ended 31 January 2012 £'000
Loss before tax	**(259)**	(45)
Net finance expense/(income)	**42**	(4)
Depreciation and amortisation charges	**812**	658
Share based payments	**(80)**	26
Increase in inventories	**(922)**	(302)
Decrease/(increase) in receivables	**7**	(760)
Increase in payables	**363**	443
(Decrease)/increase in deferred income	**(162)**	34
Income tax credit received	**56**	109
Net cash (outflow)/inflow from operating activities	**(143)**	159
Cash flows from investing activities		
Purchase of property, plant and equipment	**(360)**	(292)
Purchase of intangible assets	**(1,015)**	(453)
Net interest (paid)/received	**(42)**	4
Net cash used in investing activities	**(1,417)**	(741)
Net cash outflow before financing	**(1,560)**	(582)
Cash flows from financing activities		
Repayment of finance lease	**(156)**	(10)
Issue of ordinary share capital	**2,435**	11
Cash inflow from sale and leaseback	**–**	518
Net cash inflow from financing activities	**2,279**	519
Net increase/(decrease) in cash and cash equivalents	**719**	(63)
Opening cash and cash equivalents	**1,341**	1,404
Closing cash and cash equivalents	**2,060**	1,341
Closing cash and cash equivalents comprises:		
Cash balances	**2,060**	1,553
Overdraft	**–**	(212)
Closing cash and cash equivalents	**2,060**	1,341

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

Consolidated statement of changes in shareholders' equity

For the year ended 31 January 2013

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 February 2011	870	25,393	8,513	(30,196)	4,580
Issue of share capital	1	10	–	–	11
Share based payment expense	–	–	–	26	26
Transactions with owners	1	10	–	26	37
Profit and total comprehensive income for the year	–	–	–	15	15
At 31 January 2012	871	25,403	8,513	(30,155)	4,632
Issue of share capital	97	2,338	–	–	2,435
Share based payment credit	–	–	–	(80)	(80)
Transactions with owners	97	2,338	–	(80)	2,355
Loss and total comprehensive expense for the year	–	–	–	(117)	(117)
At 31 January 2013	**968**	**27,741**	**8,513**	**(30,352)**	**6,870**

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

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

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

Notes to the financial statements

For the year ended 31 January 2013

1 Principal accounting policies

The Group's principal activity is the development, manufacture and sale of cardiac monitoring equipment. LiDCO Group plc is the Group's ultimate parent company. It is incorporated and domiciled in England & Wales and situated at the address shown on page 53. The Group's shares are listed on the Alternative Investment Market of the London Stock Exchange.

Basis of preparation

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

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

The accounting policies have been applied consistently throughout all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 January 2013.

The following standards have been amended or implemented during the year. The Group's consolidated financial statements have been prepared in accordance with these changes where relevant.

- Amendments to IAS 1 Presentation of Financial Statements (amended June 2011)
- Amendments to IFRS 7 Financial Instruments: Disclosures
- Amendments to IAS 12 Income Taxes

Application of these standards did not result in any impact on the financial statements for 2013.

IFRS standards and interpretations not yet adopted

Standard issued but not yet effective

The following standards and interpretations are in issue but not yet effective:

- IFRS 10: Consolidated financial statements (effective 1 January 2014)
- IFRS 11: Joint arrangements (effective 1 January 2014)
- IFRS 12: Disclosure of interests in other entities (effective 1 January 2014)
- IAS 1 Amendment: Presentation of other items of comprehensive income (effective 1 January 2013)
- IAS 19 Amendment: Defined benefit plans (effective 1 January 2013)
- IAS 27 Amendment: Separate financial statements (effective 1 January 2014)
- IAS 28 Amendment: Investments in associates and joint ventures (effective 1 January 2014)
- IAS 32 Amendment: Offsetting financial assets and financial liabilities (effective 1 January 2014)

In addition, the following is a list of standards that are in issue but were not effective in 2012, and have not yet been endorsed for use in the EU, together with the effective date of application to the group:

- IFRS 9: Financial Instruments (effective 1 January 2015)
- Improvements to IFRSs (effective 1 January 2013)

The directors do not anticipate that the adoption of these standards will have a material impact on the Group's reported results.

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

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 Chief Executive Officer's Statement on pages 8 to 13. In addition, note 13 to the financial statements include 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 a number of customers across different geographic areas and considerable recurring revenue streams through the sales of its disposable sensors and Smartcards which represented 54% of its total revenues in the year to 31 January 2013.

The Group finances its operations through shareholders' funds, short term borrowings such as overdrafts and medium term borrowings such as finance leases. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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

Basis of consolidation
The Group's consolidated financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 January 2013. Subsidiary undertakings are all entities over which the Group has the power to control the financial and operating policies so as to obtain economic benefits from its activities. The Group obtains and exercises control through voting rights.

Business combinations are dealt with by the 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.

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

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

Where delivery 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 delivery will be made, the goods are on hand and ready for delivery, the buyer acknowledges the deferred delivery and usual payment terms apply.

The Group had an arrangement for the placing of monitors in hospitals with Med One Capital Funding, LLC, a US company that has trading relationships with the majority of US hospitals. When the Group sold monitors to Med One they were entitled to a portion of the monthly revenue from the sale of consumables relating to those monitors for a period of three years. The full revenue arising from the sale of such consumables was recognised as revenue by the Group and payments made to Med One in this way were included within cost of sales. These arrangements ceased in February 2012.

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

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

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

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

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

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

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

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

Intangible assets – development costs
Intangible assets represent costs relating to product registration in new countries, 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. The amortisation periods generally applicable are:

Clinical trials	Three years
Product registration costs	Five years
Product development	Three to 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 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% to 33% per annum

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

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

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Profits generated on the sale and leaseback of fixed assets are deferred and recognised over the period of the lease.

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.

Notes to the financial statements
continued

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. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss statement.

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

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand, 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.

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

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

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

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

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 8).

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

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

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

Bill and Hold sales
The Group recognises Bill and Hold sales where delivery is delayed at the buyers request. The recognition of these sales require management's judgement of certain criteria as detailed in the Accounting Policies under revenue recognition.

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.

Notes to the financial statements
continued

2 Revenue and segmental information

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

Revenue and result by geographical region

	Year ended 31 January 2013 £'000	Year ended 31 January 2012 £'000
Group revenue		
UK	**4,928**	3,701
USA	**1,096**	1,788
Continental Europe	**622**	853
Rest of World	**567**	780
	7,213	7,122
Result		
UK	**1,504**	842
USA	**551**	947
Continental Europe	**313**	492
Rest of World	**276**	485
Total	**2,644**	2,766
Unallocated costs	**(2,861)**	(2,815)
Loss from operations	**(217)**	(49)

Products and services

	Year ended 31 January 2013 £'000	Year ended 31 January 2012 £'000
Monitor sales	**1,337**	1,501
Disposable sales	**3,881**	3,651
Distributed third party disposables	**1,726**	1,206
Total product revenue	**6,944**	6,358
Licence fees	**–**	540
Other income including service contracts	**269**	224
	7,213	7,122

Payments to Med One as detailed in note 1 under revenue recognition relating to consumables and included within cost of sales amounted to £3,000 (2012: £227,000) during the year.

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

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

Material customers

During the year a customer, based in the UK (2011/12: based in the USA), accounted for more than 10% of the Group's total revenue. Revenue recognised during the year is as follows:

	2013 £'000	2013 % revenue	2012 £'000	2012 % revenue
Revenue recognised	**870**	**12%**	1,426	20%

3 Loss from operations

The loss on operations before taxation is stated after:

	Year ended 31 January 2013 £'000	Year ended 31 January 2012 £'000
Auditors' remuneration:		
– Fees payable to the Company auditors for the audit of the Group accounts:	**18**	18
Fees payable to the company auditors for other services:		
– Audit of the Company's subsidiaries	**26**	26
– Other services relating to the interim review*	**10**	8
Research and development expenditure	**142**	186
Depreciation of property, plant and equipment	**360**	226
Amortisation of intangible assets	**452**	433
Operating leases – rental of land and buildings	**168**	167
Share based payment charge in respect of distributor arrangements	**(123)**	(32)
Write down of inventories	**70**	42
Exchange rate (gains)/losses	**(20)**	21

The cost of goods sold during the year amounted to £2,151,000 (2012: £1,889,000).

* Non-audit services comprise £10,000 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 2013 £'000	Year ended 31 January 2012 £'000
Wages and salaries	**2,370**	2,154
Social security costs	**258**	216
Share based payments charge	**43**	26
	2,671	2,396

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

	2013 Number	2012 Number
Production	**11**	11
Sales	**18**	17
Administration	**13**	13
	42	41

The remuneration of directors and key management personnel is set out below. Additional information on directors' remuneration, share option, long-term incentive plans, pension contributions and entitlements can be found in the audited section of the Directors' Remuneration Report on pages 19 to 23 and forms part of these accounts.

	2013 £'000	2012 £'000
Short-term employee benefits	**744**	856
Share-based payments	**11**	17
	755	873

Notes to the financial statements
continued

5 Tax on loss on ordinary activities

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

	Year ended 31 January 2013 £'000	Year ended 31 January 2012 £'000
United Kingdom corporation tax at 24.33% (2012: 26.32%)	–	–
United States income taxes	–	–
Research and development expenditure tax credits – current year	(146)	(60)
Total tax	(146)	(60)

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

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

Loss on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 24.33% (2012: 26.32%)	(63)	(12)
Effect of:		
Expenses not deductible for tax purposes	10	13
Depreciation for the period in excess of capital allowances	(3)	(41)
Disposals of fixed assets over cost	–	59
Other temporary differences	(42)	7
Additional deduction for research and development expenditure	(218)	(149)
Losses surrendered for research and development tax credit	316	123
Research and development expenditure tax credits	(146)	(60)
Total tax income	(146)	(60)

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 £146,000 (2012: £60,000) represents 11% (2012: 14%) 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 2013 £'000	Year ended 31 January 2012 £'000
Unused losses (available indefinitely)	24,149	24,149
Temporary differences (available indefinitely)	94	58
	24,243	24,207

The related deferred tax asset (calculated at 22%) of £4.8m (2012: £5.3m calculated at 22%) has not been recognised as it is not considered to meet criteria laid down in IAS 12.

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.

	Year ended 31 January 2013 £'000	Year ended 31 January 2012 £'000
(Loss)/profit after tax for the financial year	**(117)**	15

	Number ('000)	Number ('000)
Weighted average number of ordinary shares	**179,434**	174,084
(Loss)/earnings per share – basic and diluted (p)	**(0.07)**	0.01

The dilutive effect of share options in 2011/12 is considered immaterial for reporting purposes.

7 Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Medical monitors £'000	Total £'000
Cost						
At 1 February 2011	556	442	173	497	587	2,255
Additions	2	8	1	71	686	768
Retirements	–	–	–	(28)	(168)	(196)
At 31 January 2012	558	450	174	540	1,105	2,827
Additions	3	40	4	67	246	360
Retirements	–	(27)	(80)	(25)	–	(132)
At 31 January 2013	**561**	**463**	**98**	**582**	**1,351**	**3,055**
Accumulated depreciation						
At 1 February 2011	461	374	158	452	297	1,742
Charge for the year	54	34	5	38	95	226
Retirements	–	–	–	(28)	(168)	(196)
At 31 January 2012	515	408	163	462	224	1,772
Charge for the year	39	30	6	53	232	360
Retirements	–	(27)	(80)	(25)	–	(132)
At 31 January 2013	**554**	**411**	**89**	**490**	**456**	**2,000**
Carrying amount at 31 January 2013	**7**	**52**	**9**	**92**	**895**	**1,055**
Carrying amount at 31 January 2012	43	42	11	78	881	1,055

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

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

The carrying amount of the Group's plant and equipment includes £nil (2012: £4,000) in respect of assets held under finance leases.

During the year to 31 January 2012, the Group sold a number of medical monitors and then leased back on a three year financing lease basis. The net book value of the assets at the time of sale was £43,000 and are shown as a disposal. The monitors have been included as additions at their fair value of £518,000 and will be depreciated over three years. The depreciation charge for the year of the leased assets was £173,000 (2012: nil), and the net book value at 31 January 2013 was £345,000.

Notes to the financial statements
continued

8 Intangible assets

	Clinical trials £'000	Product registration £'000	Product development £'000	Total £'000
Cost				
At 1 February 2011	116	706	2,733	3,555
Additions	53	62	338	453
At 31 January 2012	169	768	3,071	4,008
Additions	74	93	848	1,015
At 31 January 2013	**243**	**861**	**3,919**	**5,023**
Accumulated amortisation				
At 1 February 2011	116	467	2,217	2,800
Charge for the year	1	91	341	433
At 31 January 2012	117	558	2,558	3,233
Charge for the year	30	80	342	452
At 31 January 2013	**147**	**638**	**2,900**	**3,685**
Carrying amount at 31 January 2013	**96**	**223**	**1,019**	**1,338**
Carrying amount at 31 January 2012	52	210	513	775

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

9 Inventory

	2013 £'000	2012 £'000
Raw materials and consumables	**821**	450
Finished goods and goods for resale	**1,450**	899
	2,271	1,349

At 31 January 2013, inventories stated net of allowances for obsolete or slow moving items, was £13,000 (2012: £47,000).

10 Trade and other receivables

	2013 £'000	2012 £'000
Trade receivables	**2,106**	2,093
Other receivables	**70**	99
Prepayments	**184**	175
	2,360	2,367

All amounts are short term and the directors consider that the carrying amount of trade and other receivables approximates to their fair value. All of the Group's trade and other receivables have been reviewed for indicators of impairment. At 31 January 2013, trade receivables of £1.44m (2012: £1.56m) were materially within their agreed payment terms. In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of trade receivables past due but not impaired is as follows:

	2013 £'000	2012 £'000
Not more than three months	**468**	230
More than three months but not more than six months	**99**	64
More than six months but not more than one year	**70**	78
More than one year	**32**	159
	669	531

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

	2013 £'000	2012 £'000
Opening balance	**92**	29
Provision for receivables impairment	**48**	63
Receivables written off in year	**(10)**	–
Closing balance	**130**	92

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

11 Current liabilities

	2013 £'000	2012 £'000
Trade payables	**979**	796
Social security and other taxes	**276**	155
Accruals	**318**	259
Bank overdraft	**–**	212
Deferred income	**263**	266
Finance leases	**183**	176
	2,019	1,864

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

The lease is repayable in equal monthly instalments over three years, and is denominated in US dollars.

Notes to the financial statements
continued

12 Non-current liabilities

	2013 £'000	2012 £'000
Finance leases due within 2 to 5 years (see note 7)	183	346
Deferred Income	158	317
	341	663

The finance lease liability is repayable in equal monthly instalments over three years, and the lease is denominated in US dollars.

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), borrowings (as disclosed in the note below) and equity (as disclosed in the consolidated statement of changes in shareholders' equity) attributable to the shareholders of the parent as disclosed in the consolidated statement of changes in equity.

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

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

Credit risk
The Group's credit risk is primarily attributable to trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimates by management based on prior experience of customers which is typified by a small number of high value accounts and their assessment of the current economic environment. The maximum exposure to trade receivables is £2,176,000 (2012: £2,192,000).

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

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

Liquidity risk analysis
The Group manages its liquidity needs by carefully monitoring scheduled finance lease payments for long term financial liabilities as well as cash-outflows due in month-to-month business. Liquidity needs are monitored in various time bands, on a month-to-month basis.

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

As at 31 January 2013, the Group's financial liabilities have contractual maturities which are summarised below:

	Current		Non Current	
31 January 2013	Within 6 months £'000	6 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000
Bank overdraft	–	–	–	–
Trade payables	1,573	–	–	–
Finance lease liabilities	92	91	183	–
	1,665	91	183	–

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

	Current		Non Current	
31 January 2012	Within 6 months £'000	6 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000
Bank overdraft	212	–	–	–
Trade payables	1,210	–	–	–
Finance lease liabilities	90	86	346	–
	1,512	86	346	–

Market risks

Interest rate risk

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

Currency risk

The Group manages currency risk by assessing the net exposure in each non-sterling currency in which exposure arises. The only significant exposure relates to US dollars. The Group accepts the risk attached to fluctuations in the US dollar exchange rate as US dollar payables are partly mitigated by US dollar receivables from sales.

Group interest rate profile

	Floating rate		
Financial assets at 31 January 2013	Cash current bank accounts £'000	Deposit and reserve account £'000	Total £'000
Currency			
Sterling	**104**	**1,874**	**1,978**
US dollars	**72**	**–**	**72**
Euro	**10**	**–**	**10**
	186	**1,874**	**2,060**

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.

	2013	2012
Current assets	**£'000**	£'000
Loans and receivables:		
– Trade and other receivables	**2,176**	2,192
– Cash and cash equivalents	**2,060**	1,553
	4,236	3,745

	2013	2012
Current liabilities	**£'000**	£'000
Trade payables and other short term financial liabilities	**1,480**	1,443
	1,480	1,443

Notes to the financial statements
continued

Capital 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	
	2013	2012
	£'000	£'000
Trade and other receivables	**196**	37
Cash and cash equivalents	**72**	528
Trade and other payables	**(400)**	(33)
	(132)	532

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

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

	US dollars	
	2013	2012
	£'000	£'000
Currency fluctuation	**5%**	8%

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

	US dollars	
	2013	2012
	£'000	£'000
Net result for the year	**(80)**	(30)
Equity	**(80)**	(30)

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

	US dollars	
	2013	2012
	£'000	£'000
Net result for the year	**80**	30
Equity	**80**	30

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

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

14 Share capital

Issued and fully paid – ordinary shares of 0.5 pence each	2013 Number of shares 000	2012 Number of shares 000
At the beginning of the year	174,220	173,984
Issued for cash	19,420	236
At the end of the year	193,640	174,220

	£'000	£'000
At the beginning of the year	871	870
Issued for cash	97	1
At the end of the year	968	871

On 16 November 2012, 17,423,000 shares were issued by share placing and subscription agreements at 13.5p per share. In addition during the year a further 1,997,000 shares were issued on the exercise of share options.

15 Share-based payments

Equity-settled share option scheme

The Group has four equity-settled share option schemes for employees. Where share options are awarded to employees, the fair value of the options at the date of grant is calculated using a pricing model and is charged to the income statement over the vesting period. Market related performance conditions are factored into the fair value of the options granted and a charge is made irrespective of whether the market related performance conditions are satisfied. In respect of awards with non market related performance conditions, an estimate of the proportion that will vest is made at the award date and this is trued up or down at each accounting period.

	2013 Number	2013 Weighted average exercise price (p)	2012 Number	2012 Weighted average exercise price (p)
Outstanding at the beginning of the year	12,747,329	16.7	11,002,579	17.7
Issued in the year	1,422,847	18.0	2,070,500	15.0
Forfeited during the year	(5,464,758)	18.3	(104,500)	3.3
Exercised during the year	(1,997,000)	11.3	(221,250)	4.6
Outstanding at the end of the year	6,708,418	15.7	12,747,329	16.9
Exercisable at the end of the year	3,114,526	14.4	8,785,329	16.7

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

	2013	2012
Weighted average shares price (p)	18.0	15.0
Weighted average exercise price (p)	18.0	15.0
Expected volatility	40%	40%
Expected life (years)	3.5	3.5
Risk free rate	0.5%	2%
Expected dividend yield	–	–

The weighted average share price for options exercised during the year was 11.3p (2012: 4.55p)

The expected volatility is based on the Group's historical share price averaged over a period equal to the expected life. The expected life is the average expected period to exercise. The risk free rate of return is based on UK Government gilts. The share options outstanding at the end of the year have exercise prices of between 0.5p and 28.25p per share and a weighted average remaining contractual life of 4.6 years.

Notes to the financial statements
continued

Share warrants in respect of distributor arrangements
On 28 July 2009 the Group issued share warrants in respect of an arrangement with a distributor. These warrants all lapsed during the year and the fair value of the warrants previously charged to the income statement has been written back during the year.

16 Capital commitments

At 31 January 2013 the Company had placed forward orders for the purchase of monitors and monitor components to the value of £251,000 (2012: £1,015,000). Delivery of these orders is scheduled between February 2013 and June 2013.

17 Contingent liabilities

There were no contingent liabilities at 31 January 2013 or 31 January 2012.

18 Leasing commitments

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

Group	**2013 Land and buildings £'000**	**Other £'000**	2012 Land and buildings £'000	Other £'000
In one year or less	**168**	**88**	168	84
Between one and five years	**930**	**58**	1,098	106
	1,098	**146**	1,266	190

19 Related party transactions

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

Key management compensation
Compensation for directors who are the only employees with responsibility for planning, directing and controlling the Group is disclosed in the directors' remuneration report.

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

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

We have audited the parent company financial statements of LiDCO Group plc for the year ended 31 January 2013 which comprise the parent company balance sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement on page 26, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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

Opinion on financial statements
In our opinion the parent company financial statements:
- give a true and fair view of the state of the company's affairs as at 31 January 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

Other matter
We have reported separately on the Group financial statements of LiDCO Group plc for the year ended 31 January 2013.

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

London
22 April 2013

Company balance sheet

At 31 January 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Investments	2	**65**	65
		65	65
Current assets			
Debtors: amount due from subsidiary undertakings	3	**16,784**	14,344
Cash at bank		**71**	75
		16,855	14,419
Current liabilities			
Creditors: Amounts falling due within one year		**–**	–
Net current assets		**16,855**	14,419
Total assets less current liabilities		**16,920**	14,484
Net assets		**16,920**	14,484
Capital and reserves			
Called up share capital	4	**968**	871
Share premium account	5	**27,741**	25,403
Profit and loss account	5	**(11,789)**	(11,790)
Shareholders' funds		**16,920**	14,484

The financial statements were approved by the Board of Directors on 22 April 2013.

Theresa Wallis
Director

Terence O'Brien
Director

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

Notes to the financial statements

For the year ended 31 January 2012

1 Principal accounting policies

Basis of preparation

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

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

Going concern

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

The Company has a number of customers across different geographic areas and considerable recurring revenue streams through the sales of its disposable sensors and Smartcards which represented 54% of its total revenues in the year to 31 January 2013.

The Company finances its operations through shareholder's funds, short term borrowings such as overdrafts and medium term borrowings such as finance leases. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Investments

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

Foreign currency

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

Financial liabilities and equity

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

Share-based payment charges

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

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

2 Investments

Company	Shares in subsidiary undertakings £'000
Cost and net book value	
At 1 February 2012 and at 31 January 2013	65

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

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

Notes to the financial statements
continued

3 Debtors

	2013 £'000	2012 £'000
Amount due from subsidiary	**16,784**	14,344

The amount due from subsidiary relates to the ongoing funding provided to the principal trading subsidiary, LiDCO Limited, whilst it continues to be loss-making. The directors made a provision for impairment of £12m in the year to 31 January 2008, and consider that no further impairment provision is necessary at 31 January 2013. The timing of the repayment of this debt is uncertain and unlikely to be within one year.

4 Share capital

	2013 £'000	2012 £'000
Allotted, called up and fully paid 193,640,304 ordinary shares of 0.5p each	**968**	871

On 16 November 2012, 17,423,000 shares were issued by share placing and subscription agreements at 13.5p per share. In addition during the year a further 1,997,000 shares were issued on the exercise of share options.

5 Reserves

	Share premium £'000	Other reserve £'000	Equity reserve £'000	Profit and loss account £'000
At 1 February 2012	25,403	–	–	(11,790)
Profit for the year	–	–	–	1
Shares Issued	2,338	–	–	–
At 31 January 2013	**27,741**	**–**	**–**	**(11,789)**

6 Reconciliation of shareholders' funds

	2013 £'000	2012 £'000
Profit/(loss) for the year	**1**	(2)
Shares issued	**97**	2
Share premium account	**2,338**	9
	2,436	9
Opening shareholders' funds	**14,484**	14,475
Closing shareholders' funds	**16,920**	14,484

7 Loss for the financial year

In accordance with the exemption given by section 408 of the Companies Act 2006, the holding company has not presented its own profit and loss account. The profit for the year of the Company was £1,000 (2011/12: £2,000 loss).

8 Related party transactions

There were no transactions between the Company and its subsidiary, which are related parties. The Company has taken advantage of the exemption in Financial Reporting Standard 8 'Related party disclosures' as it transacts only with it's wholly owned subsidiary, not to disclose details of related party transactions required by the standard.

Company information

Company registration number:
2659005

Registered office:
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N1 5QJ

Company website:
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Directors and Secretary:

Ms T A Wallis	Non-Executive Chairman
Dr T K O'Brien	Chief Executive Officer
Mr I G Brown	Non-Executive Director
Mr P L Clifford	Finance Director
Mr D W Armour	Company Secretary

Advisers to the Company

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Registered Auditors
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