LiDCO Cardiac Sensor Systems

# 2013/14


## LiDCO Group Plc

Annual Report & Accounts for the year ended 31 January 2014


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# About LiDCO

LiDCO is a supplier of non-invasive and minimally invasive hemodynamic monitoring equipment to hospitals. Our products are used principally in the treatment of high-risk patients in both critical care units and in the operating theatre. They monitor the amount of blood flowing around the body and help to ensure that vital organs are adequately oxygenated.

Clinical studies show that the optimisation of hemodynamic status in high-risk patients produces better outcomes. LiDCO's computer-based technology is proven to significantly reduce morbidity and complications, length of stay and overall costs associated with major surgery.

With few competitors, there is a large and growing market for LiDCO's products. They generate high recurring revenues and our recent successes have established LiDCO as a cash generative and profitable company.

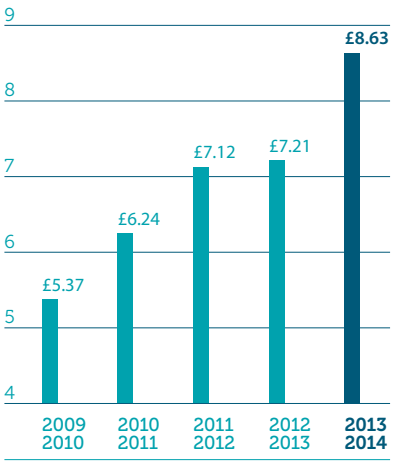
## Financial highlights

- Total revenue up **20%** to **£8.63m** (2012/13: £7.21m)
- LiDCO product revenue (excluding third party products) up **25%** to **£6.87m** (2012/13: £5.49m)
- LiDCO disposables revenue up **33%** to **£5.15m** (2012/13: £3.88m), representing **75%** of LiDCO product revenues
- UK revenue (excluding third party sales) up **37%** to **£4.40m** (2012/13: £3.20m)
- Gross profit up **£1.08m** to **£5.90m** (2012/13: £4.82m)
- Maiden profit before tax* **£0.28m** (2012/13: loss £0.34m)
- Earnings per share **0.15pence** (2012/13: loss 0.07pence)
- Cashflow positive with cash of **£2.37m** at period end (2012/13: £2.06m)

* before share-based payments

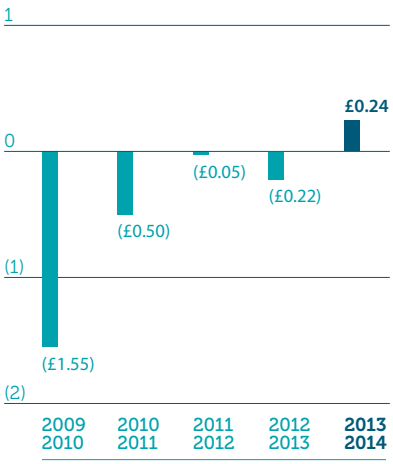
## Operational highlights

- 303 monitors installed in the year (2012/13: 276); 120 surgical monitors (2012/13: 77) installed in the UK
- Disposable unit sales up 23% to 60,857 (2012/13: 49,413) with surgical disposables up 39%
- UK surgical disposables unit sales up 59% to 23,570 (2012/13: 14,855)
- LiDCO*rapid*$^{v2}$ with Unity software including continuous non-invasive blood pressure monitoring registered for use in both the EU and USA
- Grant of patent in US and Japan for LiDCO*rapid* graphical user interface
- Growing body of evidence supports increasing clinical use of hemodynamic monitoring technology




Revenue
£million


Gross profit
£million



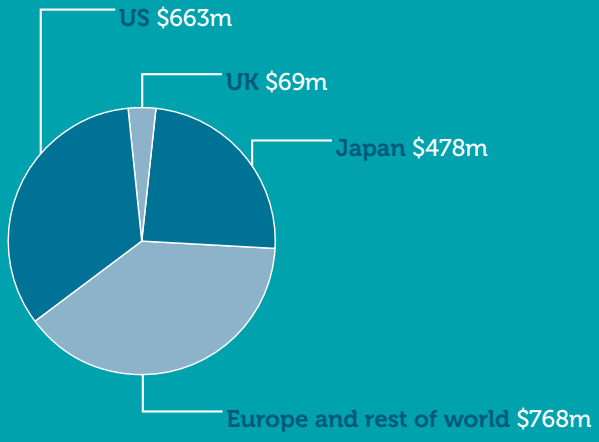

Profit/(loss) from operations
£million

# Positioned for growth

We aim to deliver long term, sustainable growth. Our strategy is to sell directly to hospitals in the UK and USA and through a network of specialty critical care and anesthesia distributors in Japan and the rest of the world.

As well as growing both domestic and international sales, we will develop and add more functions to our LiDCO*rapid* platform, building adoption through clinical studies and demonstrations, as well as increasing the use of disposables in the installed monitor base.

We will also look to extend the applications for our technology beyond the current peri-operative environment to additional surgical and medical settings.




Total potential market for disposables addressed by LiDCO*rapid*$^{v2}$ is

**$2 billion**

**UK**
- Largest ever increase in installed base
- LiDCO grew surgical disposables by 59% – a clear sign of increasing use of LiDCO technology in the NHS
- Association of Anaesthetists of Great Britain and Ireland recommends multimodal monitoring
- In first year after launch 23% of installed base of surgery monitors have non invasive modules

**US**
- World's largest existing market for minimally invasive hemodynamic monitoring
- Re-established direct US sales force and strengthened team to five including three clinical specialists
- Received FDA clearance in September 2013 for non-invasive module
- Seeking national and regional distribution and licensing arrangements

**Japan**
- Second largest market in the world
- Partners are Argon Medical Devices and Nihon Kohden with 120 branch offices and +1,000 sales representatives

# Our products

The increasing use of our products in the UK is a direct result of the accelerated adoption of fluid monitoring by the NHS. We have broadened our patent position in our key export markets and gained regulatory clearance for our new combined monitor in the US.

The growing market acceptance of the benefits of fluid monitoring offers significant opportunities for LiDCO's innovative, leading-edge products. They are easy to use in a variety of clinical settings and are under continual development. They require a low level of in-service resourcing and deliver recurring high margins. All our monitors use single-patient disposables that deliver an ongoing revenue stream. Furthermore, our business model provides us with the opportunity to scale-up sales with minimal increase in headcount.

We have a strong track record of regulatory approval and hold multiple patents with long remaining lives. We also benefit from several routes to market including direct sales, a distributor network, licence fees and royalties.


LiDCO*plus* 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* a cardiac output monitor designed specifically for use in the operating theatre for fluid and drug management. The monitor enables anaesthetists to obtain immediate accurate feedback on a patient's fluid and hemodynamic status – a key measure of overall wellbeing before, during and after surgery.

LiDCO*view* an easy-to-use graphical display of historical LiDCO*plus* and LiDCO*rapid* hemodynamic data used for research and education purposes

LiDCO*rapid*$^{v2}$ with Unity software the world's first monitor designed specifically for multi-parameter monitoring of both depth of anesthesia and fluids. The Unity software incorporated into LiDCO*rapid*$^{v2}$ allows the monitor to co-display Covidien's level of consciousness parameter and add the convenience of CNSystems' continuous non-invasive blood pressure (CNAP™*) monitoring. This addresses the growing requirement for more comprehensive non-invasive monitoring solutions that can effectively replace multiple single-parameter monitors.

* CNAP™ is a trademark of CNSystems Medizintechnik AG.

# Chairman's statement

Theresa Wallis
*Chairman*

The year to 31 January 2014 saw LiDCO achieve its first operating profit of £235,000 on turnover which, at £8.63 million, was 20% higher than the previous year. Net cash inflow before financing of £0.51m meant that the net cash balance at the year end grew to £2.37 million.

Driven by strong growth in the UK, this performance once again reflects the increasing adoption of intraoperative fluid management technology in England for high-risk surgery patients, in line with NHS guidance.

## Products

LiDCO supplies hemodynamic monitors and disposables used in hospitals for managing the care and helping improve outcomes of high-risk surgery and critical care patients. The Company combines clinical, engineering and IT expertise to develop and enhance its market-leading products. In close cooperation with clinicians, we have evolved our core products in recent years to expand their application within the hospital setting, thus allowing a broader range of patients to benefit from their use.

To this end, recent developments of our technology platform have focused on enhancements to our system architecture. These are needed to facilitate connectivity with hospital information systems, integrate complementary parameters derived from third-party sensors and maintain a leading position in terms of ease of interpretation of the GUI screen displays as new parameters are added. Through two corporate partnerships, we have already added depth of anesthesia and non-invasive hemodynamic monitoring capability.

The year saw the launch and first sales of our new completely non-invasive hemodynamic monitoring product; initially in the UK and EU at the start of the year, and in the US in the last quarter, following clearance for sale by the FDA. LiDCO now supplies hemodynamic products which can be used either minimally invasively (with an arterial catheter) or non-invasively, thus increasing the number and type of patients that can be accessed – and extending the patient pathway over which they can be used.

## Access

LiDCO generates revenues through a mix of direct sales, distribution and intellectual property licensing arrangements. We continued to work towards accessing our target markets as cost-effectively as possible to enable the Company to grow profitably. We access the UK and US markets directly, which provides us with valuable insight into the needs of patients and those who care for them.

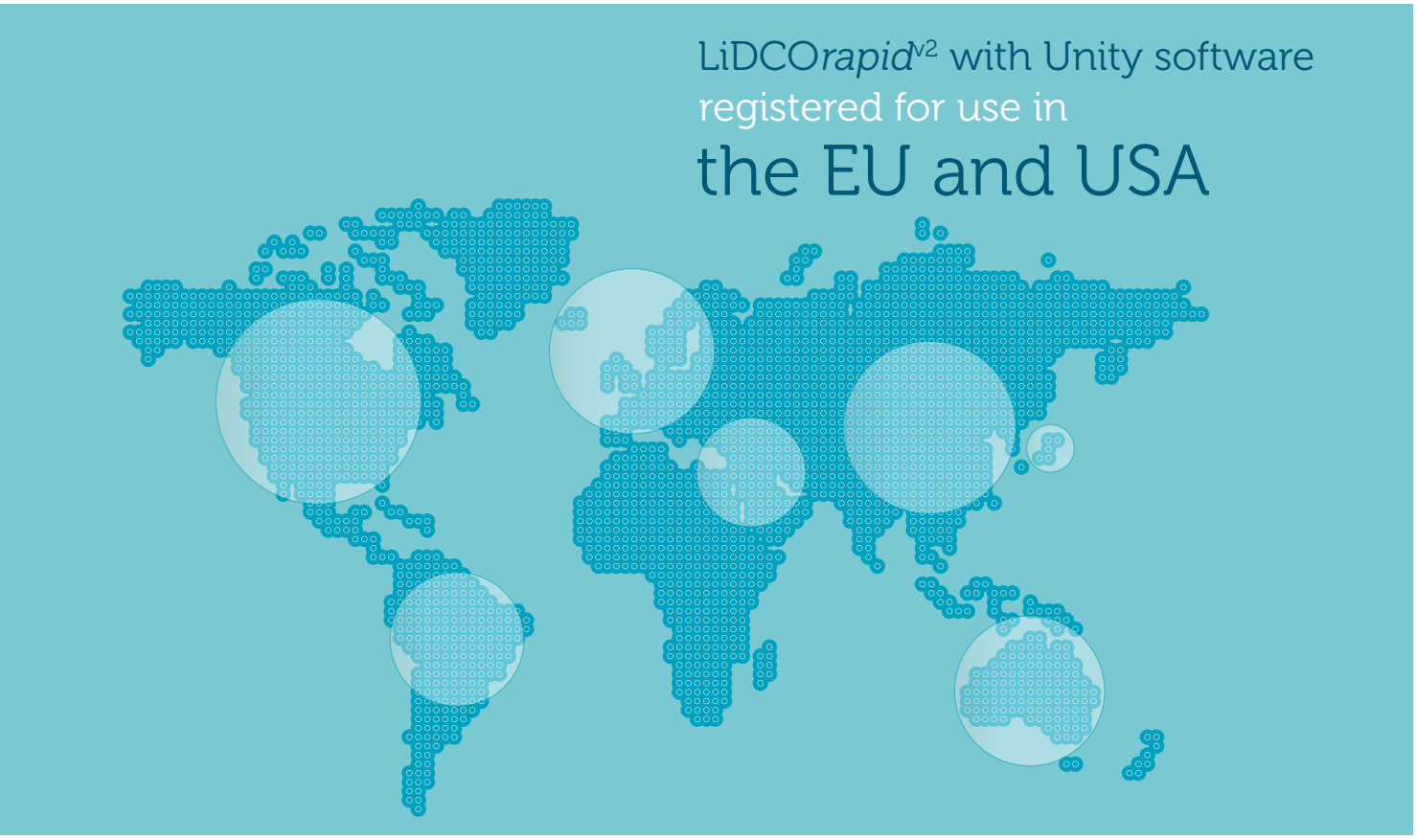
Following the negotiated termination of our US distribution arrangement in 2012, the year was one of transition as we reassessed the US markets, defined our priorities and approach, recruited personnel and re-established direct sales. Discussions occurred with several US companies with whom partnership arrangements might potentially be developed and we continue to maintain a dialogue with a number of these.

In Japan, early stage sales activities continued and support was provided to our Japanese partners to help them establish their sales approach and enhance their understanding of the products and their applications.

In Europe and the Rest of the World, where we target selected markets through a network of distributors, we saw good overall growth in sales.

## Evidence and awareness

Further positive outcome studies and guidelines relevant to LiDCO's products were published during the year, adding to the body of performance and clinical and economic evidence supporting their use.




## Corporate Governance

The composition of the Board remained unchanged during the year. Dr Terry O'Brien continued to be directly responsible for the management of LiDCO's sales and marketing activities, in addition to his role as Chief Executive.

Information regarding our corporate governance arrangements is set out on pages 18 to 19. In determining these arrangements the Board took into account the small size of the Company and the need to carefully focus and manage resources to grow the business profitably.

## Strategic Report

Following the introduction of new narrative reporting legislation, we are presenting our review of the financial year to 31 January 2014 in a slightly different way. Rather than the Chief Executive Officer's statement there is a Strategic Report in which we have provided the usual review of the year, in terms of both financial performance and operational performance, as well as an overall outlook for the business. The report also includes a section outlining our business model, strategy, key performance indicators, overall objectives of the business and principal risks.

## Prospects

Our objective going forward is to increase shareholder value by growing sales profitably in the UK and internationally. Our focus this year is on building further on the strong performance achieved last year in the UK. We will also continue to consolidate and strengthen the Company's position in its two largest target markets: the USA and Japan, whilst broadening the Company's reach through additional distributors in new territories. In the US we will continue to seek suitable partnership arrangements.

We will work towards achieving full integration of our systems with hospitals' information systems and integrating additional complementary third party parameters, with the aim of further expanding and broadening adoption within hospitals.

The global potential opportunity for hemodynamic monitoring is estimated to be US$2 billion, with our home UK market estimated at approximately £45 million. We believe that our access to these opportunities has been further enhanced by development of the new and widely applicable LiDCO*rapid*v2 monitor, with non-invasive and depth of anesthesia options and its advanced system architecture.

I would like to thank our shareholders for their continued support, my fellow directors and the staff of LiDCO for their hard work and dedication – and our clinical advisers for their helpful advice and feedback.

*Theresa Wallis*
*Chairman*
*28 April 2014*

# Strategic report

The last year has seen considerable achievements against our objectives. The business is now profitable, cash generative, has a strong net cash position and will be debt free by the end of the current financial year. Growing sales have been underpinned by a mounting body of clinical evidence that demonstrates both the clinical and cost effectiveness of our technology. EU and US approvals were obtained for LiDCO*rapid*$^{v2}$ with Unity software and were followed by a publication from the Association of Anaesthetists of Great Britain and Ireland**[1] ('AAGBI') recommending the use of multi-modal monitoring technology such as provided by the LiDCO*rapid*$^{v2}$ monitor.

The best and clearest endorsement of our products is the increasing use of LiDCO monitors by clinicians. Worldwide, disposable unit sales were very significantly up (23%) with around 60,000 surgical and intensive care patients being monitored with our technology. Strong growth in surgical disposables was the main driver. Growth of the surgery business is important, as a key performance indicator for the business is the growth in unit sales of surgical disposables. Domestically we clearly benefited from the increasing adoption of fluid monitoring within the NHS in England. As you will see below, the number of UK surgical disposables sold grew by 59% to 23,570 units from 14,855 units the previous year – a clear sign of the increasing use of our technology in the NHS.

## FINANCIAL REVIEW

### Revenues

Total revenues for the year increased 20% to £8.63m (2012/13: £7.21m) including sales of third party products of £1.77m (2012/13: £1.73m). Revenues from LiDCO's own product sales increased by 25% to £6.87m (2012/13: £5.49m), driven by a particularly strong performance in the UK. Total UK sales (excluding third party sales) increased by 37% to £4.40m (2012/13: £3.20m), with UK surgical disposables sales up 41% to £3.44m (2012/13: £2.44m).

Revenue in the US continues to reflect the transition of sales to our direct sales force from the third party distribution arrangements prevailing for most of the previous year. As a consequence, direct sales in the US have grown significantly, nearly tripling to £0.86m (2012/13: £0.29m). Whilst this remains lower than the combined direct and distribution sales in the US seen in the previous year of £1.1m, these sales represent higher margins than those achieved through the previous distribution model. Elsewhere, export sales, excluding the US increased by 35% to £1.61m (2012/13: £1.19m).

### Gross profit and margin

Overall gross profit increased by 22% to £5.90m (2012/13: £4.82m). The gross profit margin, excluding third party products, reduced slightly from 82% to 81%, affected by some low margin sales to distributors aimed at encouraging the adoption of non-invasive technology and to refresh the installed customer base of older LiDCO*plus* monitors. Future profitability will be driven mainly by the margins achieved on our disposable products and these have remained steady with margins of 86% on LiDCO*plus* sensors and 95% on LiDCO*rapid* Smartcards. The margin achieved on the sale of third party products was 20%.

### Overheads

Total overheads increased by £619,000 to £5.66m. The comparative period benefited from the write back of £123,000 of share-based payment charges relating to the expiry of share warrants. Excluding share-based payment charges, overheads increased by £479,000 (+9%) to £5.12m.

Compared to the previous year, there was an increase in US sales costs of £386,000 relating to the recommencement of a direct sales effort, which was partially offset by a reduction in general sales management costs. In addition during the year the Group undertook a review and re-organisation of its customer services department resulting in non-recurring costs of approximately £100,000.
The average headcount (excluding non-executive directors) increased from 40 to 43. Near term increases in headcount will be largely sales-related.

### Earnings

The Group made an operating profit of £235,000 (2012/13: £217,000 loss). As noted above, the comparative period benefited from a write back of share-based payment charges. Before share-based payment charges, the Group made an operating profit of £295,000 (2012/13: loss £297,000), an improvement of £592,000 over the previous year.

After the net finance expense of £18,000 (2012/13: £42,000) the Group made a profit before tax of £217,000 (2012/13: £259,000 loss).

Depreciation and amortisation for the year of £856,000 (2012/13: £812,000) is effectively reduced by the release of

Dr Terry O'Brien
*Chief Executive Officer*

£158,000 (2012/13: £158,000) of deferred income relating to the three year sale and leaseback of monitors, giving adjusted depreciation and amortisation of £698,000 (2012/13: £654,000). Using the adjusted value, EBITDA for the year increased by 114% to £933,000 (2012/13: £437,000). Earnings were 0.15p per share (2012/13: 0.07p loss per share).

Although the Group made a profit before tax, it benefits from research and development tax credits of £83,000. The Group has a deferred tax asset of £4.8m, recognition of which will be considered as the trend of profits is established.

## Cash flow, borrowings and cash balances

During the year the business generated a net cash inflow before financing of £0.51m (2012/13: outflow £1.51m).

The Group's only significant borrowings relate to a sale and leaseback arrangement commenced in January 2012, whereby the Group sold a number of placed monitors and then leased them back on a three year financing lease basis. Capital repayments in the period in respect of this lease amounted to £190,000. The remaining balance on this lease is £175,000, which will be repaid in monthly instalments during the current year.

Cash balances at 31 January 2014 amounted to £2.37m (31 January 2013: £2.06m).

## Property, plant and equipment

There was a net increase in property, plant and equipment in the year of £10,000 with additions of £342,000 offset by deprecation of £332,000. The most significant additions are in respect of medical monitors that comprise monitors used for demonstration purposes, clinical trials and development in addition to placed monitors on long term loan to hospitals in the UK and USA for active use where the hospital pays for disposables. As noted below, there has been an increase in the number of monitors placed compared with the previous year and we expect this pattern will continue.

## Intangible assets

Expenditure on intangible assets in the period was £723,000 (2012/13: £1,015,000) of which £621,000 (2012/13: £848,000) was spent on product development with a further £102,000 (2012/13: £167,000) spent on clinical trials and product registration. The product development expenditure included the final technology licence payment relating to the non-invasive technology. With the exception of the significant expenditure on the LiDCO*rapid*$^{N2}$ with Unity software during the last two years, expenditure on product development has been fairly level, averaging £360,000 in the previous five years. We expect product development expenditure of less than £500,000 in the current financial year.

## Inventory

Inventory was reduced by £220,000 during the year. As noted in the results to 31 January 2013, the Group was holding a larger than normal inventory of monitors to mitigate against the effect of end of life notices issued by the manufacturers on some monitor components. Although we expect inventory levels to further reduce in the current financial year, the Group relies on a number of single source key suppliers and strategically maintains high levels of inventory in respect of such suppliers.

# Strategic report
continued

## OPERATIONAL REVIEW

We saw good progress across the Company in the year with revenue from LiDCO products up 25%. We are particularly pleased with the excellent progress made in the UK, where LiDCO product revenues have grown by 37%, as well as the increase seen in our total export revenues which were up by 8% in the period. Our main geographical targets remain the UK, the US and Japan, reflecting the value of these three territories in the worldwide hemodynamic monitoring market.

During the period a total of 303 monitors (2012/13: 276 monitors) were sold or placed, with total disposable unit sales up 23% to 60,857 (2012/13: 49,413). In revenue terms this translated into an increase of 7% in revenues from monitors to £1.43m (2012/13: £1.34m) and total disposable revenues (excluding third party products) of £5.15m, up 33% (2012/13: £3.88m). Total disposable revenues now represent 75% of total LiDCO product revenues (2012/13: 71%).

### UK

The success of the last year is characterised by growing sales in our home UK market. Sales of LiDCO products grew strongly over the year, particularly in the high-risk surgical area, as NHS hospitals fulfilled local commissioning requirements that NICE* and CQUIN* requirements for fluid monitoring were provided for a growing number of targeted high-risk surgery patient populations. Total UK revenues for LiDCO disposable and monitor products increased by 37% to £4.40m (2012/13: £3.20m). UK disposable revenues, excluding distributed third party products, increased by 40% to £3.44m (2012/13: £2.44m).

We achieved our largest ever increase in the installed base with a total of 139 monitors (2012/13: 91) installed. The increase in the proportion of placed monitors noted at the interims has continued with capital sales of 63 monitors and 76 placed monitors. The installed base of LiDCO*rapid* surgery monitors increased by 120 to 345 and importantly includes 78 LiDCO*rapid*$^{v2}$ monitors equipped with the non-invasive module launched in February 2013. Unit sales of surgery disposables increased by 59% to 23,570 (2012/13: 14,855) driven by the non-invasive technology, the larger installed base and average use increasing from 5.1 to 5.7 disposables per monitor per month.

UK sales in 2013/14 benefited from the immediate sales related to the launch of the LiDCO*rapid*$^{v2}$ and the NTAC/CQUIN* initiatives. Increasingly we are seeing greater acceptance generally of the benefits derived from better monitoring and intra operative fluid management. We expect to see another year of strong growth in the UK surgery business with our ICU business remaining steady. The surgery business will be driven forward by the combined full year effects of the 120 monitors established in 2013/14, new monitor installations and the effects of the CNAP™ non-invasive monitoring option to broaden card usage per hospital. While these factors should continue to generate sales in 2014/15, we will also adopt a wider strategic approach to UK sales that includes targeting new hospital customers who wish to take advantage of the wider applicability of our new multimodal non-invasive monitor.

### US

Following the purchase back from our US distribution partner of the installed base of surgery monitors in late 2012, it has been necessary to re-establish a direct US sales force. Initial priorities were to assess the status of LiDCO*rapid* monitor installed base, identify the major and medium surgical use accounts and restore the surgical monitor sales pipeline. In parallel the sales team was bolstered by two further clinical educators and were progressively focused on the growth of disposable sales into our LiDCO*rapid*$^{v1}$ installed base. We now have a sales and clinical educator team of five.

In September 2013 we announced that we had received clearance from the US Food and Drug Administration ('FDA') for sales of the CNSystems' continuous non-invasive blood pressure monitoring ('CNAP™') module with the LiDCO*rapid*$^{v2}$ monitor and Unity software. LiDCO's Unity software allows the connection to the LiDCO*rapid*$^{v2}$ of modules to co-display CNSystems' continuous non-invasive blood pressure monitoring with Covidien's depth of anesthesia parameter ('BIS™'). The Company estimates that 3.4 million patients are suitable for peri-operative hemodynamic monitoring in the US. With FDA clearance now received, the commercial opportunity for LiDCO to gain presence in the non-invasive monitoring market in the US is substantial.

Total revenue for the year was £857,000 (2012/13: £1.1m). Due to the transition to direct sales there are no like-for-like comparisons with the previous year. In this first full year of direct sales we installed 23 surgical monitors and sold 5,650 surgical disposables. Importantly, sales were profitable (before unallocated central costs). Going forward, we expect the US sales of surgical disposables to grow significantly in 2014 as our sales and education sales force starts to impact disposable use in existing accounts, install new monitors and upgrade existing accounts to the new non-invasive options.

In parallel with our direct sales effort, we continue to explore national and regional distribution and licensing arrangements in the US to help access this market.

### Japan

Nihon Kohden, a pioneer and global market leader in monitoring technology, was appointed in August 2012 as the exclusive distributor for the LiDCO*rapid* monitor and disposable kit in Japan. Nihon Kohden collaborates with LiDCO and its existing partner Argon Medical Devices, to market and sell LiDCO*rapid* products in Japan. Sales of the LiDCO*rapid* disposable kit (including Argon's blood pressure transducer) are reimbursed in the Japanese market. Japan is the second largest market for hemodynamic monitoring in the world after the US. Our product is being progressively rolled out by Nihon Kohden to its extensive Japanese sales network consisting of over 1,000 direct sales staff in over 120 branch offices. It is still early days in the roll out. Japan is a conservative market and one in which use of hemodynamic monitoring is still largely restricted to intensive care patient populations. Our strategy for Japan is to work with our Japanese partners to establish the LiDCO brand name in Japan while introducing and actively marketing the concept of proactive use of the LiDCO*rapid* monitor to reduce complications in high-risk surgical populations.

At this stage revenue comparisons are still affected by stocking orders variances between the periods with revenue for the year being £269,000 (2012/13: £332,000),

## Revenues performance by product and key geographies

| | Year to January 2014 | | | | Year to January 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Monitors £'000** | **Disposables £'000** | **Other £'000** | **Total £'000** | Monitors £'000 | Disposables £'000 | Other £'000 | Total £'000 |
| **LiDCO sales** | | | | | | | | |
| UK | **708** | **3,435** | **259** | **4,402** | 527 | 2,441 | 234 | 3,202 |
| US – direct | **84** | **766** | **7** | **857** | 19 | 273 | 2 | 294 |
| US – distributor | **–** | **–** | **–** | **–** | 411 | 384 | 7 | 802 |
| Japan | **165** | **104** | **–** | **269** | 232 | 100 | – | 332 |
| Europe | **309** | **631** | **19** | **959** | 115 | 484 | 23 | 622 |
| Rest of World | **167** | **209** | **3** | **379** | 33 | 199 | 3 | 235 |
| | **1,433** | **5,145** | **288** | **6,866** | 1,337 | 3,881 | 269 | 5,487 |
| **Third party sales** | | | | | | | | |
| UK | **–** | **1,765** | **–** | **1,765** | – | 1,726 | – | 1,726 |
| Total sales | **1,433** | **6,910** | **288** | **8,631** | 1,337 | 5,607 | 269 | 7,213 |

The most significant component of the revenue labelled as 'Other' above is monitor service contracts in the UK which increased 23% to £196,000 (2012/13: £160,000).

## Unit sales performance by category in key geographies

| **Unit sales** (including placed monitors) | Year to January 2014 | | Year to January 2013 | |
|---|---|---|---|---|
| | **Monitors units** | **Disposables units** | Monitors units | Disposables units |
| **LiDCO products** | | | | |
| UK – Surgical | **120** | **23,570** | 77 | 14,855 |
| UK – Critical care | **19** | **13,655** | 14 | 12,300 |
| **UK Total** | **139** | **37,225** | 91 | 27,155 |
| US – direct | **27** | **7,022** | 2 | 3,108 |
| US – distributor | **–** | **–** | 65 | 3,930 |
| Japan | **55** | **2,000** | 80 | 2,000 |
| Europe | **49** | **10,650** | 19 | 9,350 |
| Rest of World | **33** | **3,960** | 19 | 3,870 |
| **Total** | **303** | **60,857** | 276 | 49,413 |

down due to a small reduction in monitor sales. Disposables sales made to our partners were steady, however, importantly underlying sales of disposables to hospitals grew during the period. We expect to make further progress with the Japanese business during this year and are pursuing registration of the LiDCO*rapid*$^{v2}$ with Unity software non-invasive blood pressure module option. Overall, our partners are working hard with us to establish LiDCO in Japan and we are cautiously excited about the prospects in this important territory.

### Continental Europe

We were pleased to see a significant increase in revenues from our European distributors after the cut backs in healthcare expenditure we have seen in recent years. Total sales increased 54% to £959,000 (2012/13: £622,000) with monitor sales of 49 units (2012/13: 19 units) and disposables up 14% to 10,650 units (2012/13: 9,350 units).

We attained CE marking in February for the LiDCO*rapid*$^{v2}$ with Unity software and the period saw the first sales through our European distributor network. We are focusing on helping existing distributors to build a sustainable growing disposable income from their installed base of monitors. The LiDCO*rapid*$^{v2}$ upgrade option should help distributors improve frequency of use and hence revenue per monitor. The new product has attracted interest from a number of potential distribution partners and new distributors were appointed in Italy, Romania and Serbia. We recorded good progress in 2013/14, despite a lack of growth in many European economies, however we remain cautious about sales prospects in continental Europe in our planning.

### Rest of World

Like Europe, we saw a similar growth in sales from our distributors, albeit from a low base with total sales increasing 61% to £379,000 (2012/13: £235,000). Sales were predominantly from the Middle East, China and Brazil. We expect to make further distributor appointments in the emerging markets and expect good growth from these territories going forwards.

Details of the Company's performance, in terms of revenues and unit sales by key geographies, are given in the tables above.

# Strategic report
continued

## Global markets
We estimate the global revenue opportunity for minimally invasive and non-invasive hemodynamic monitoring disposables to be potentially about $2 billion per annum and estimate current revenues at about $300m. The priority markets for LiDCO are the UK, US and Japan with the latter two being the world's first and second largest markets by size (estimated at $650m and $480m respectively) representing a total of around 5 million high risk surgery patients per annum.

## New products launched
During the year we registered and launched in the EU and USA our new integrated non-invasive multi modal monitor - the LiDCO*rapid*$^{v2}$ with Unity software. This product initiative provides customers with two additional non-invasive monitoring options – continuous arterial blood pressure and depth of anesthesia. LiDCO's technology now addresses a far bigger market. The multimodal nature of the LiDCO*rapid*$^{v2}$ further distinguishes us from the competition, allowing the customer choice regarding the degree of invasiveness while adding the option of continuous brain function monitoring. Patients can now benefit from continuous blood pressure and hemodynamic monitoring at any stage of their treatment and in all of the hospital locations where such care is required. We estimate that this non-invasive capability has doubled the potential size of the market opportunity for sale of our products which is now projected to be capable of growing to $2 billion per annum in disposables sales.

## Patents
Underpinning our technology and revenue streams are strong patents that provide us with a protectable product and market position. Our development team continues to take the initiative in advances in physiological signal processing and intelligent graphical user interfaces. We were pleased to report progress in the patent portfolio during the year, with patent grants regarding our unique monitor user interfaces in two of our key markets - the US and Japan.

## Clinical evidence and support
Technologies introduced into mainstream practice have to be shown to be both clinically and cost effective. We believe new technology will be adopted more quickly and widely if proven to be affordable. Ultimately, use of the technology ideally would be incorporated into recommended standards of care. Accordingly I have been delighted to report in a number of press releases the excellent progress demonstrating LiDCO's effectiveness and the incorporation of multimodal monitoring into professional standards published by the AAGBI.

In May we announced that our new monitor, the LiDCO*rapid*$^{v2}$ with Unity software, was used as part of an enhanced recovery programme ('ERP') for patients undergoing major bowel cancer surgery at Ashford and St Peter's Hospital. As a result of the programme, the hospital reported that patients returned home following surgery almost a week earlier than previously. Then, in June, the Royal Surrey County Hospital published a paper showing that an ERP that included goal directed fluid therapy ('GDFT') monitored by the LiDCO*rapid* system, reduced the length of stay by three days for patients undergoing open liver resection**[2]. Post-operative complications were reduced from 27% to 7% resulting in a significant improvement in patient short-term quality of life.

In January of this year, researchers at King's College Hospital London reported the outcome of a trial of 120 high-risk elderly vascular surgery patients**[3]. Multimodal monitoring with the LiDCO*rapid* monitor, combined with depth of anesthesia, was used as part of a pre-emptive hemodynamic strategy to optimally deliver anesthesia, drugs and fluids. These high-risk patients had a predicted mortality rate of 9%, the mortality rate of the LiDCO monitored patients was much lower at 0.8% (one patient). The authors reported that multimodal monitoring "reduces dramatically the requirement for post-operative high dependency management of the patient." Post-operatively, only a small number of patients (10) needed to be taken to a costly high dependency unit with the majority of patients being able to be nursed post-operatively on less costly general wards, lowering the hospital's expenditure on post-operative care. January also saw the publication of the AAGBI guidelines for the perioperative care of the elderly in and around surgery. An increasing number of elderly patients are undergoing surgery and it is critical that they receive the right monitoring to reduce costs, mortality and complication rates. The AAGBI guidelines included recommendations for the simultaneous measurement and monitoring of several physiological parameters – these included continuous arterial blood pressure, hemodynamic response to fluids and depth of anesthesia. The LiDCO*rapid*$^{v2}$ monitor with Unity software can be used to invasively (using an arterial line), or completely non-invasively (without insertion of an arterial line) monitor these three recommended parameters. The use of LiDCO's multimodal monitor (LiDCO*rapid*$^{v2}$) allows the hospital to provide this necessary advanced level of care to all high-risk elderly patients without the use of invasive catheters.

After the year end, in March we saw the publication of a cost effectiveness analysis**[4] from clinicians at St George's Hospital, London. These doctors have been delivering goal directed therapy ('GDT'), using the LiDCO*plus* monitor, for high-risk surgery patients in the postoperative period for the last 8 years. In the short-term, GDT decreased costs by £2,631 per patient and by £2,134 per hospital survivor. In the long term, GDT was projected to prolong quality-adjusted life expectancy by 9.8 months and to bring incremental cost savings of £1,285 per patient. The cost-effectiveness analysis concluded that the implementation of GDT is both clinically sound and cost-effective, commenting that additional monitoring expense can be offset after less than two months when 100 patients per year receive GDT through savings due to reduced costs accrued from a reduction in complication rates and hospital length of stay.

## Outlook
We start the new financial year with a solid platform to deliver further growth. The business is now profitable and cash generative and we hold a strong market position with our clinically proven, cost-effective and patented core technology. This has been most clearly demonstrated in the strong take up of LiDCO monitors by the NHS over the last year. This bodes well for future performance as we see the benefit of increasing disposable usage from a growing base of installed monitors.

With much of the business costs now covered by predictable income from higher margin disposable sales there is a great opportunity to drive further profit growth

# 25%

## increase in LiDCO product revenue

through additional monitor sales in our key markets, the completion of distribution and licensing arrangements in the US, further geographical expansion in the Far East and Middle East, and increasing usage within our existing customer base by widening the application of our monitors, particularly in locations where our non-invasive technology is best suited.

We believe that LiDCO monitors have the potential to become the 21st century standard for the fluid and hemodynamic monitoring of high-risk patient populations in hospitals and we expect 2014 to be another strong year of growth for the Company.

### How we create value: our business model

LiDCO is a UK-based manufacturer and supplier of monitoring equipment and associated single patient use disposables to hospitals. LiDCO monitors are "platform" in design, which means that they can be easily and cost-effectively upgraded to add both new software features and new parameters by the addition of USB connected modules. Our technology, coupled to our low cost manufacturing and product sourcing skills, combine to produce a highly differentiated, patent protected monitor with a recurring income stream from the sale of high margin single patient use disposables.

Our monitors continuously display a number of crucial physiological parameters that include: arterial blood pressure, the effects of anesthesia on the level of consciousness of the brain, the requirement for intravenous fluids and the amount of blood and oxygen supplied to the body's tissues and organs. We provide this crucial data via an easy to interpret monitor user interface that helps clinicians and nurses ensure that vital organs are adequately perfused and that patients are not over anesthetised or sedated.

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

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

### The key features of our business model are as follows:

- We have developed a new generation of hemodynamic monitoring products that are designed to address a developing disposable market opportunity - estimated to be potentially $2 billion per annum.
- Our disposable products are produced in high volume with low cost manufacturing processes and have a high margin.
- Sales of our products are supported with a growing body of evidence to satisfy purchaser requirements for clinical and cost effectiveness data.
- We generate revenues principally through the sale or licensing of the sale of single use disposables into a growing installed base of LiDCO-enabled monitors.
- We protect our disposable income stream through having patented products with high levels of proprietary intellectual property and that are subject to on-going development.
- We provide first-class training and education to our customers. This helps entrench our technology and reduce hospitals costs, thereby providing LiDCO with a sustainable recurring income.

### Delivering our objectives: our strategy

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

It is our strategy to derive revenue growth predominantly from increasing use of our technology and high margin disposables into a growing installed base of LiDCO-enabled monitors. This is achieved by adding further functionality to the monitor, the development of USB-enabled modules and by increasing the size of the world-wide monitor installed base.

Having multiple sale and distribution options is key to LiDCO's capacity to address the worldwide opportunity for sales of our technology. Our sales and distribution model to the market has three elements. Firstly, we have direct sales into hospitals in the UK and USA. Elsewhere we sell via distribution partners. Our depth of margin on disposable sales allows us to attract quality specialist distribution partners on an exclusive and non-exclusive

# Strategic report
## continued

basis. Our direct sales experience in the UK and USA has allowed us to develop a distribution business and sales model. In effect this forms a distributor "franchise". Finally, our core technologies are patented and have been licensed in part on a non-exclusive basis to a major corporate partner in the US in return for future royalty payments. We continued to explore further arrangements to help access the US market.

### Measuring our performance: KPIs

The KPIs (see table right) are some of the indicators used by management to measure performance during the year:

### Key performance indicators

| | Year to January 2014 | Year to January 2013 |
|---|---|---|
| Revenue growth of LiDCO products | **25%** | (7%) |
| LiDCO product revenue per employee | **£160,000** | £137,000 |
| Monitors sold/placed in the year | **303** | 276 |
| Unit sales of surgical disposables | **40,660** | 29,235 |
| Average uses per surgery monitor per month (UK) | **5.7 uses** | 5.1 uses |
| Gross profit margin on LiDCO products | **81%** | 82% |

### Business objectives

Our financial objectives are to continue to profitably grow the business with cash generation. Revenue growth is expected to predominantly come from increased sales of our surgical disposables. We expect growth of surgical disposable sales in both of our direct markets of the UK and USA and also in the distribution territories. Clearly, one factor central to growth this year in the UK, Europe and the USA will be how we maximise the impact of the LiDCO*rapid*$^{v2}$ both in the existing surgical monitor installed base and in acquiring new hospital accounts. Work is already in place seeking to expand use into new hospital areas, for example emergency medical and non-elective surgical patients. These are exciting high volume new applications where our technology is capable of improving outcomes and reducing costs.

Our corporate collaborations are an important element of our business. There are a number of these in place ranging from OEM module licensing-in (Covidien and CNSystems), distribution provisions (Nihon Kohden and Argon) through to royalty-based licensing-out arrangements (ICU Medical). We expect to see these commercial relationships developing further during the year and having an increasing positive impact on revenue.

During the year we will be further developing the marketing and educational support materials for use of our product in the peri-operative arena. We expect that 2014 will see the publication of additional clinical effectiveness data supporting use of LiDCO's technology in products designed to optimise the body's circulation.

Overseas, we are targeting opening new distributor accounts in a number of the fast growing emerging markets. Following on from approval of the LiDCO*rapid*$^{v2}$ for sale in the USA and Europe, we are now pursuing the registration of the new software and non-invasive blood pressure and brain monitoring modules in both Japan and China.

Further development work will continue to focus on optimising the LiDCO*rapid*$^{v2}$ to maintain our initiative in non-invasive multi modal monitoring by further refining our products. We expect to launch a number of software upgrades during the year. After our financial year end we launched the new version of LiDCO*rapid*$^{v2}$ Unity software – version 2.03. This was launched in March at the 34th ESICEM Meeting in Brussels. This new version of the Unity software added further functionality that significantly reduces the equipment's set-up time and number of steps. Additionally, all LiDCO monitors are now compatible with the newly released Philips IntelliBridge patient data interface. IntelliBridge connects to LiDCO monitors via a specific Philips Intellibridge module and cable. In combination these new features make the LiDCO*rapid*$^{v2}$ system even easier to use and importantly integrates the data into the hospital's patient information system.

Longer term we expect to enhance our products by integrating additional parameters into the LiDCO*rapid* platform. We are currently assessing a number of promising opportunities which would benefit from our expertise in integrating parameters via USB modules and the associated product registrations. Our agile software development allows us to fast track the integration of new parameters. We look to add parameters that make sense from a physiological monitoring point of view to complement our existing displays. Our product strategy is to continue to grow the significance of the LiDCO monitor in terms of more comprehensive monitoring of the acute care patient.

### *Glossary of terms

NICE – National Institute for Health and Care Excellence
CQUIN – Commissioning for Quality & Innovation
NTAC – NHS Technology Adoption Centre (now part of NICE)

### **Clinical papers referenced in text

1. The AAGBI Guidelines can be found here: http://onlinelibrary.wiley.com/doi/10.1111/anae.12524/full
2. Jones C, Kelliher L, Dickinson M, Riga A, Worthington T, Scott M J, Vandrevala T, Fry C H, Karanjia N and Quiney N. Randomized clinical trial on enhanced recovery versus standard care following open liver resection. Br J Surg 2013 Jul;100(8):1015-24. Doi: 10.1002/bjs.9165
3. Green D, Bidd H, Rashid H. Multimodal intraoperative monitoring: An observational case series in high risk patients undergoing major peripheral vascular surgery. International Journal of Surgery (2014) 1-6 doi.org/10.1016/j.ijsu.2013.12.016
4. Ebm C, Cecconi M, Sutton L, Rhodes A (2014) A Cost-Effectiveness Analysis of Postoperative Goal-Directed Therapy for High-Risk Surgical Patients DOI: 10.1097/CCM0000000000000164

# 59%

increase in UK surgical disposables

**PRINCIPAL RISKS**

The Group maintains a comprehensive risk register and risk management is an important part of the management process. Regular reviews are undertaken to assess the nature and magnitude of risks and the means by which they may be mitigated.

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

### 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 50 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 and US. 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, 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.

*Terry O'Brien*
*Chief Executive Officer*
*28 April 2014*

# Board of Directors

Theresa Wallis
*Non-Executive Chairman*

Dr Terry 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 G. 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 Terry 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, Clinical and Translational Research 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 (Dr hc) from the Université de Paris V (La Sorbonne) and Master of Critical Care Medicine (MCCM) from the Society for Critical Care Medicine. He has a wide range of research interests – among them being the study of heart-lung interactions, hemodynamic monitoring, cardiovascular physiology, sepsis and outcomes research. He is a world leading authority on the application of both existing invasive, and the more 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 ('the Code'). Whilst the Group does not adhere to the Code, the Board is committed to maintaining high standards of corporate governance, and draws on best practice including those aspects of the Code it considers to be appropriate and practicable for a company of this size.

LiDCO is a small company that has recently achieved its first operating profit. In line with a focus on cost-effectiveness across the Group, the corporate governance processes in place balance the need to ensure that the Board carries out its responsibilities effectively with the need to do so cost-effectively.

**The Board of Directors**
The Board currently consists of two executive and two non-executive directors. Biographies of the directors are provided on page 17. 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. However, Ms Wallis's term now exceeds nine years and therefore does not meet the independence criterion regarding length of service specified in section B 1.1 of the UK Corporate Governance Code (she was appointed in December 2002) although she meets the other independence criteria. 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 with the company 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.

**Board processes**
There is a list of the types of decisions reserved for the Board, which is reviewed annually by the Board. In addition, an agenda plan is prepared with the aim of ensuring that the Board considers all the matters that it should, whilst allowing for the unexpected. The agenda plan is reviewed regularly.

The Group normally conducts about 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 | Regular Board Meetings | Audit Committee | Remuneration Committee |
|---|---|---|---|---|
| Ms T A Wallis | Non-executive Chairman | 7 (7) | 2 (2) | 4 (4) |
| Dr T K O'Brien | Chief Executive Officer | 7 (7) | n/a | n/a |
| Mr P L Clifford | Finance Director | 7 (7) | n/a | n/a |
| Mr I G Brown | Non-executive Director | 7 (7) | 2 (2) | 4 (4) |

Numbers in brackets denote the total number of meetings during the year. The Nomination Committee did not meet 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**
In February 2014, the Board carried out an evaluation of the performance 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 recommendations were agreed. It is the Board's intention to continue to review annually its performance and that of its Committees.

In January 2013 and April 2014 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.

**Committees of the Board**
The terms of reference of the committees are set out in full on the Company's website, but a summary of the membership and work of each committee is set out below:

*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 £48,000. 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 Group and its current stage of development a separate internal audit function is not required, but the matter is re-considered annually by the Committee.

*Remuneration Committee*
The members of the Committee are Ms Wallis (Chairman) and Mr Brown. The Committee reviews and sets the remuneration of the executive directors and considers any bonuses to be awarded to them. The Committee advises on share schemes and approves the granting of share options. The Committee met four times during the year.

*Nomination Committee*
The members of the Committee are Ms Wallis (Chairman), Mr Brown and Dr O'Brien. The Committee recommends to the Board, 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, commercial and financial 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 Group'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. In addition the Group's stockbrokers provide independent feedback to the Board on shareholders' views. Both non-executive directors have the opportunity to attend shareholder meetings. The Board is kept informed on market views about the Group.

# 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 is registered with the UK Environment Agency as a Small EEE Producer, and disposes of electrical equipment waste responsibly.
- 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 that 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 shareholders 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 19.

# 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 2013/14, the main decisions the Committee made were:

*Bonus*
The bonuses for the year were 25% and 25% of base salary respectively for T K O'Brien and P L Clifford, which was below the maximum bonus opportunity of 50% of salary.

*Options*
EMI share options over 1,692,557 shares and unapproved options over 2,785,154 shares were granted to T K O'Brien in May 2013. EMI share options over 764,938 shares and unapproved options over 264,358 shares were granted to P L Clifford in May 2013. The awards made in June 2010, with an exercise price of 19.92p vested on 3 June 2013, when the share price was 9.63p.

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

*Salaries*
Executive Directors' salaries were increased with effect from1 February 2014, by similar percentages to other employees in the Group. The new salaries are as follows:

| Name | Salary from 1 February 2014 | % increase |
|---|---|---|
| T K O'Brien | £206,534 | 2.5% |
| P L Clifford | £142,429 | 2.5% |

P L Clifford normally works four days per week and works additional days if required.

*Bonus*
Now that the Company has achieved profitability the maximum bonus opportunity has been increased slightly from 50% to 60% of base salary and the award for on-target performance has been increased from 25% to 30%, in recognition of the higher operating profit targets applicable.

We will be seeking approval for this report at our Annual General Meeting on 11 June 2014.

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

Theresa Wallis
Chairman of the Remuneration Committee
28 April 2014

# 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 a shareholder vote at the forthcoming Annual General Meeting in June 2014.

**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 four times in the year.

**Remuneration policy**
The Committee determines on behalf of the Board, the remuneration for the executive directors and such other members of the senior management as it is designated to consider and oversees any major changes in employee benefit structures throughout the 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.

During the year, the Committee received advice on remuneration strategy for the executive directors, including an executive remuneration benchmarking and incentives review, from remuneration advisors MM&K Limited. In addition MM&K advises the Company on matters relating to the Group's share option schemes.

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 Group has followed the Guide in determining its remuneration policy.

**Future remuneration policy table**
The following table summarises details of the Company's future remuneration policy for the executive directors.

**Table of Future Remuneration Policy for Executive Directors – Key elements of Remuneration**

| | Purpose and link to strategy | Operation | Opportunity | Performance metrics | Changes in policy for 2014/15 |
|---|---|---|---|---|---|
| **Base salary** | Help recruit and retain employees.<br><br>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.<br>Reviewed annually and fixed for 12 months commencing 1 February<br>Decision influenced by:<br>– role, experience and performance<br>– average change in broader workforce salary<br>– total organisational salary budgets.<br>Salaries are benchmarked against companies of similar size and complexity in similar sectors. | | None | Directors salaries increased on 1 February 2014:<br>T K O'Brien<br>£206,534 (2.5%)<br>P L Clifford<br>£142,429 (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.<br>Full cost of the annual PHI policy:<br>T K O'Brien £1,912<br>P L Clifford £1,050 | 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.<br>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. Bonuses are capped at 60% of base salary.<br>Targets are renewed annually and relate to trading performance. If appropriate, there are gate conditions that apply to the payment of bonuses.<br>Bonus level is determined by the Committee after the year end, based on performance against targets.<br>There is no deferral of bonus, nor any clawback provisions as the Committee thinks such complexity is unnecessary where the bonus maximum is 60% of salary in a business environment like LiDCO's. | Target % of salary: 30%<br><br>Maximum % of salary: 60% | The majority of the bonus is based on achievement of specific targets of operating profit as well as partly on the achievement of other non-financial objectives which may be relevant for the year in question:<br>– maximum 50% salary judged by performance of Group operating profit<br>– maximum 10% salary for personal objectives. | Policy for 2014/15: The maximum bonus opportunity has been increased to 60% and the award for on target performance has been increased to 30%. |
| **Share options** | Incentivises executive directors to achieve returns for shareholders over a longer time frame. | LiDCO has four share option plans including EMI, HMRC Approved, Unapproved Options and consultants.<br>Awards of share options are made annually with vesting dependent on the achievement of performance conditions over the three subsequent years.<br>The Committee is of the opinion that clawback provisions are an unnecessary complication for a company of the size of LiDCO. | Awards in 2013:<br>T K O'Brien £604,490<br>P L Clifford £138,955 | The release of an award is dependent upon the individual's continued employment for a three-year holding period from the date of grant.<br>Executives only benefit when the share price increases.<br>Awards will have performance conditions linked to profit targets. | No change to policy. |

# 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 2014**

| | Salary and fees £'000 | Allowance in lieu of benefits £'000 | Benefits £'000 | Bonus £'000 | Total £'000 | 2013 £'000 |
|---|---|---|---|---|---|---|
| T A Wallis | 46 | – | – | – | 46 | 46 |
| T K O'Brien | 202 | 40 | 2 | 51 | 295 | 267 |
| P L Clifford | 159 | 32 | 1 | 35 | 227 | 186 |
| I G Brown | 29 | – | – | – | 29 | 29 |
| J G Barry | – | – | – | – | – | 128 |
| Total | 436 | 72 | 3 | 86 | 597 | 656 |

**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 2014 and Mr Brown's appointment for a term ending 11 October 2014.

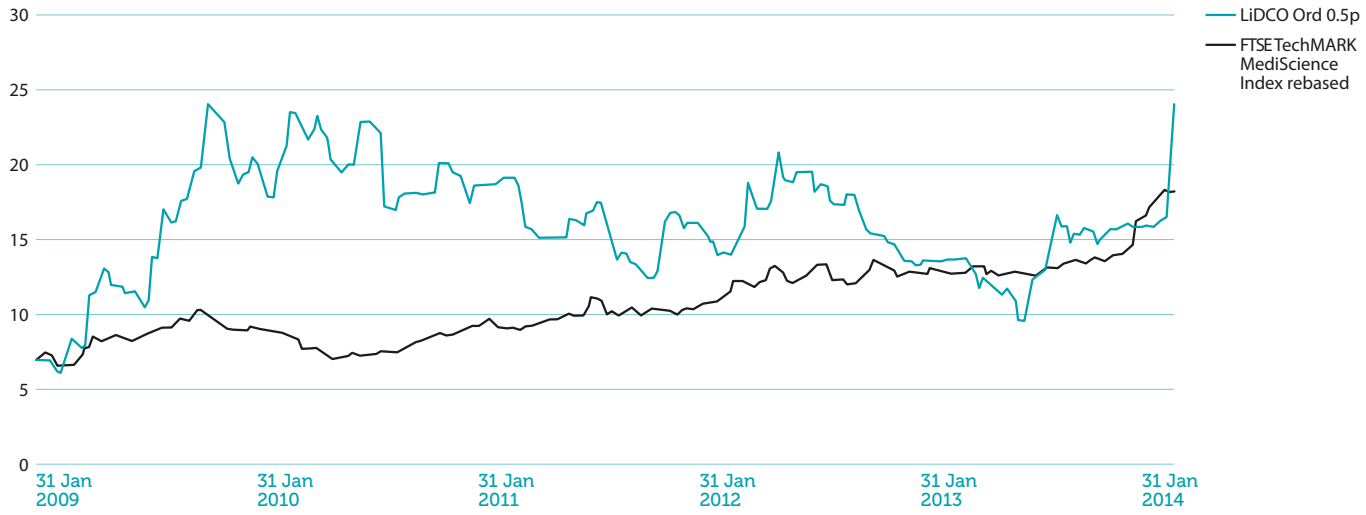
**Directors' interests in share options**
Options granted to the executive directors are as follows:

| Name | Option type | Options at 31 Jan 2013 | Date of grant | Options granted during 2013 | Exercised during 2013 | Lapsed during the year | Options at 31 Jan 2014 | Exercise price (p) | Exercisable from | Expiry date |
|---|---|---|---|---|---|---|---|---|---|---|
| T K O'Brien | 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 |
| | EMI | | May-2013 | 1,692,557 | | | **1,692,557** | 13.50 | May-2016 | May-2023 |
| | Unapproved | | May-2013 | 2,785,154 | | | **2,785,154** | 13.50 | May-2016 | May-2023 |
| | | 427,395 | | 4,477,711 | Nil | Nil | **4,905,106** | | | |
| 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 | 76,833 | Apr-2012 | | | | **76,833** | 18.00 | Apr-2015 | Apr-2022 |
| | EMI | 145,448 | Jul-2012 | | | | **145,448** | 18.38 | Jul-2015 | Jul-2022 |
| | EMI | | May-2013 | 764,938 | | | **764,938** | 13.50 | May-2016 | May-2023 |
| | Unapproved | | May-2013 | 264,358 | | | **264,358** | 13.50 | May-2016 | May-2023 |
| | | 941,931 | | 1,029,296 | Nil | Nil | **1,971,227** | | | |
| Totals | | 1,369,326 | | 5,507,007 | Nil | Nil | **6,876,333** | | | |

The share price was 13.88p on 1 February 2013 and 24.95p on 31 January 2014, with high and low during the year of 25.88p and 9.38p respectively.

**Pensions**
No pension contributions were payable by the Group during the year (2012/13: £nil).

**Shareholder return**
The graph below shows the share price performance since January 2009, 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*
*28 April 2014*

# Directors' report

The directors of LiDCO Group Plc present their annual report and audited financial statements (Annual Report) for the year ended 31 January 2014.

**Results and dividends**
The Group's revenue for the year was £8,631,000 (2012/13: £7,213,000). The Group made a consolidated profit after taxation of £299,000 (2012/13: loss £117,000). The directors do not recommend the payment of a dividend (2012/13: £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 Group, together with details of the movements in the Company's issued share capital and the share premium accounts during the year, are shown in note 14 on page 48 and notes 4 and 5 on page 54.

**Directors**
The directors of the Group who served during the year are set out below; short biographies are set out on page 17.

| | |
|---|---|
| T A Wallis | Non-Executive Chairman |
| T K O'Brien | Chief Executive Officer |
| P L Clifford | Finance Director |
| I G Brown | Non-Executive Director |

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

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

**Directors' interests in shares**
The directors who held office at 31 January 2014 had beneficial interests in the ordinary shares of the Group as shown below:

**Directors' shareholdings**

| | Ordinary shares of 0.5p each | |
|---|---|---|
| | **31 January 2014 Number** | 31 January 2013 Number |
| T A Wallis | **331,037** | 331,037 |
| T K O'Brien | **11,516,563** | 11,516,563 |
| P L Clifford | **659,660** | 659,660 |
| 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 Group's policy is to encourage the involvement of all employees in the development and performance of the Group. The Group has 45 employees who are briefed on the Group's activities through meetings and informal discussions with management and all employees are encouraged to give their views on matters of common concern through their line management. A significant number of employees have share options.

**Significant shareholdings**
As at 31 March 2014 the Company was aware of the following shareholdings in excess of 3% of the Group's ordinary share capital:

| Shareholder | Number of shares in which there is an interest | Percentage notified* |
|---|---|---|
| Ingalls & Snyder LLC | 22,289,251 | 11.48% |
| Liontrust Asset Management | 16,207,779 | 8.35% |
| H J Leitch | 14,681,183 | 7.56% |
| P A Brewer | 13,759,747 | 7.09% |
| Quilter Cheviot Asset Management Limited | 12,150,279 | 6.26% |
| T K O'Brien | 11,516,563 | 5.93% |
| R M Greenshields | 8,899,550 | 4.58% |
| Octopus Investments Limited | 8,705,545 | 4.48% |
| D M Band | 7,160,832 | 3.69% |
| Hargreave Hale & Co | 5,986,429 | 3.08% |

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 confirm that:

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

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

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

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

# Directors' report
continued

**Going concern**
The Group's business activities, together with a review of the market and the Group's distribution channels are set out in the Strategic Report on pages 8 to 15. 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 75% of its LiDCO product revenues in the year to 31 January 2014.

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 45 to 48.

**Internal controls, regulation and risk management**
The composition of the Board and the senior management team provides a suitable range of knowledge and experience to enable adequate risk monitoring and internal control. The 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 Board has established a process involving all departments for the comprehensive assessment of risks to the business involving the development and regular updating of a risk register which is reviewed by the Board at least annually. Actions to mitigate risks are identified and agreed. In addition the principal risks are discussed at all regular Board meetings. There is a list of the types of decisions reserved for the Board and Board decisions include discussion of the risks as well as the benefits and opportunities.

As a medical device Company, LiDCO also has a system of regulatory controls, to ensure compliance with all requirements of the 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 ISO 13485 (Medical Devices – Quality Management Systems) and ISO 9001 (Quality Management Systems).

The adequacy of internal controls and the internal control structures were reviewed by the Board in April 2014.

**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 11 June 2014 is set out on page 3 of the separate circular including an explanation of each resolution.

On behalf of the Board

*Paul Clifford*
*Director*
*28 April 2014*
*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 2014 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 (IFRS) 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 27, 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 2014 and of its profit 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 Strategic Report and the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

**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 2014.

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

*London*
*28 April 2014*

# Consolidated comprehensive income statement

For the year ended 31 January 2014

| | Note | Year ended 31 January 2014 £'000 | Year ended 31 January 2013 £'000 |
|---|---|---|---|
| **Revenue** | 2 | **8,631** | 7,213 |
| Cost of sales | | **(2,736)** | (2,389) |
| Gross profit | | **5,895** | 4,824 |
| Administrative expenses | | **(5,660)** | (5,041) |
| Profit/(loss) from operations | 3 | **235** | (217) |
| Finance income | | **13** | 4 |
| Finance expense | | **(31)** | (46) |
| Profit/(loss) before tax | | **217** | (259) |
| Income tax | 5 | **82** | 142 |
| **Profit/(loss) and total comprehensive income/(expense) for the year attributable to equity holders of the parent** | | **299** | (117) |
| **Earnings/(loss) per share (basic and diluted) (p)** | 6 | **0.15** | (0.07) |

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 2014

| | Note | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | **1,065** | 1,055 |
| Intangible assets | 8 | **1,537** | 1,338 |
| | | **2,602** | 2,393 |
| **Current assets** | | | |
| Inventory | 9 | **2,051** | 2,271 |
| Trade and other receivables | 10 | **2,139** | 2,360 |
| Current tax | | **83** | 146 |
| Cash and cash equivalents | | **2,373** | 2,060 |
| | | **6,646** | 6,837 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **(1,550)** | (1,573) |
| Deferred income | 11 | **(274)** | (263) |
| Borrowings | 11 | **(175)** | (183) |
| | | **(1,999)** | (2,019) |
| **Net current assets** | | **4,647** | 4,818 |
| **Long term liabilities** | | | |
| Finance lease liabilities | 12 | **–** | (183) |
| Deferred income | 12 | **–** | (158) |
| | | **–** | (341) |
| **Net assets** | | **7,249** | 6,870 |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | 14 | **969** | 968 |
| Share premium | | **27,760** | 27,741 |
| Merger reserve | | **8,513** | 8,513 |
| Retained earnings | | **(29,993)** | (30,352) |
| **Total equity** | | **7,249** | 6,870 |

The financial statements were approved by the Board of Directors on 28 April 2014.

*Theresa Wallis*
*Director*

*Terry 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 2014

| | Year ended 31 January 2014 £'000 | Year ended 31 January 2013 £'000 |
|---|---|---|
| Profit/(loss) before tax | **217** | (259) |
| Finance income | **(13)** | (4) |
| Finance expense | **31** | 46 |
| Depreciation and amortisation charges | **856** | 812 |
| Share-based payments | **60** | (80) |
| Decrease/(increase) in inventories | **220** | (922) |
| Decrease in receivables | **221** | 7 |
| (Decrease)/increase in payables | **(23)** | 363 |
| Decrease in deferred income | **(147)** | (162) |
| Income tax credit received | **144** | 56 |
| Net cash inflow/(outflow) from operating activities | **1,566** | (143) |
| | | |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | **(342)** | (360) |
| Purchase of intangible assets | **(723)** | (1,015) |
| Finance income | **13** | 4 |
| Net cash used in investing activities | **(1,052)** | (1,371) |
| Net cash inflow/(outflow) before financing | **514** | (1,514) |
| | | |
| Cash flows from financing activities | | |
| Finance expense | **(31)** | (46) |
| Repayment of finance lease | **(190)** | (156) |
| Issue of ordinary share capital | **20** | 2,435 |
| Net cash (outflow)/inflow from financing activities | **(201)** | 2,233 |
| | | |
| Net increase in cash and cash equivalents | **313** | 719 |
| | | |
| Opening cash and cash equivalents | **2,060** | 1,341 |
| Closing cash and cash equivalents | **2,373** | 2,060 |

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 2014

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|
| At 1 February 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 |
| Issue of share capital | 1 | 19 | – | – | 20 |
| Share-based payment expense | – | – | | 60 | 60 |
| Transactions with owners | 1 | 19 | – | 60 | 80 |
| Profit and total comprehensive income for the year | – | – | – | 299 | 299 |
| At 31 January 2014 | **969** | **27,760** | **8,513** | **(29,993)** | **7,249** |

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 2014

## 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 56. 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 31st January 2014.

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.

- IAS 1 Amendment: Presentation of other items of comprehensive income (effective 1 January 2013)
- IAS 19 Amendment: Defined benefit plans (effective 1 January 2013)
- IFRS 13 Fair Value Measurement (effective 1 January 2013)

Application of these standards did not result in any impact on the financial statements for 2014. There were no new standards issued in the year that affected the financial reporting for the Group.

**IFRS standards and interpretations not yet adopted**

*Standards issued but not yet effective*

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

- IFRS 9 Financial Instruments (no mandatory effective date)^
- IFRS 10 Consolidated Financial Statements (IASB effective date 1 January 2013*)
- IAS 27 (Revised), Separate Financial Statements (IASB effective date 1 January 2013*)
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) (effective 1 January 2014)

* EU mandatory effective date is 1 January 2014 not 2013. Hence, where an entity follows the EU effective date, it will include these standards in its list of standards in issue not yet effective in its 2013 accounts.

^ Not adopted by the EU (as at 30 January 2014).

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

**Going concern**
The Group's business activities, together with a review of the market and the Group's distribution channels are set out in the Strategic Report on pages 8 to 15. 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 75% of its total LiDCO product revenues in the year to 31 January 2014.

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 2014. 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.

*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.

# Notes to the financial statements
continued

**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, from the date the asset is available for use. Labour costs of the development department are apportioned between development work which fulfils the above criteria and is capitalised and the maintenance of existing products which are expensed as incurred.

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. Amortisation is calculated to write down the cost of assets less estimated residual value by equal instalments over their estimated useful life, on a straight line basis. The amortisation periods generally applicable are:

| | |
|---|---|
| Clinical trials | Three years |
| Product registration costs | Five years |
| Product development | 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 on a straight line basis over their estimated useful economic lives which are reassessed annually. The periods/rates generally applicable are:

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

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

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

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

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

**Foreign currency**
Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the 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 and consultants. Where share options are awarded, the fair value of the options at the date of grant is calculated using a pricing model and is charged to the income statement over the vesting period. Market-related performance conditions are factored into the fair value of the options granted and a charge is made irrespective of whether the market-related performance conditions are satisfied. In respect of awards with non market related performance conditions, an estimate of the proportion that will vest is made at the award date which is adjusted if the number of share options expected to vest differs from the previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period.

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

# Notes to the financial statements
continued

**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 & 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.

## 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**

| Group revenue | Year ended 31 January 2014 £'000 | Year ended 31 January 2013 £'000 |
|---|---|---|
| UK | **6,167** | 4,928 |
| USA | **857** | 1,096 |
| Continental Europe | **959** | 622 |
| Japan | **269** | 332 |
| Rest of World | **379** | 235 |
| | **8,631** | 7,213 |
| Result | | |
| UK | **2,750** | 1,703 |
| USA | **59** | 501 |
| Continental Europe | **407** | 193 |
| Japan | **167** | 157 |
| Rest of World | **165** | 87 |
| Total | **3,548** | 2,641 |
| Unallocated costs | **(3,313)** | (2,858) |
| Profit/(loss) from operations | **235** | (217) |

The customer services department was reorganised in the year. The result for the year to January 2013 has been restated to reflect the allocation of those overheads used in the current year.

**Products and services**

| | Year ended 31 January 2014 £'000 | Year ended 31 January 2013 £'000 |
|---|---|---|
| Monitor sales | **1,433** | 1,337 |
| Disposable sales | **5,145** | 3,881 |
| Distributed third party disposables | **1,765** | 1,726 |
| Total product revenue | **8,343** | 6,944 |
| Other income including service contracts | **288** | 269 |
| | **8,631** | 7,213 |

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 (2012/13: based in the UK), accounted for more than 10% of the Group's total revenue. Revenue recognised during the year is as follows:

| | 2014 £'000 | 2014 % revenue | 2013 £'000 | 2013 % revenue |
|---|---|---|---|---|
| Revenue recognised | **859** | **10%** | 870 | 12% |

# Notes to the financial statements
continued

## 3 Profit/(loss) from operations

The profit/(loss) on operations before taxation is stated after:

| | Year ended 31 January 2014 £'000 | Year ended 31 January 2013 £'000 |
|---|---|---|
| **Auditors' remuneration:** | | |
| – Fees payable to the Company auditors for the audit of the Group accounts: | **20** | 18 |
| **Fees payable to the Company auditors for other services:** | | |
| – Audit of the Company's subsidiaries | **28** | 26 |
| – Other services relating to the interim review* | **10** | 10 |
| Research and development expenditure | **124** | 142 |
| Depreciation of property, plant and equipment | **332** | 360 |
| Amortisation of intangible assets | **524** | 452 |
| Operating leases – rental of land and buildings | **168** | 168 |
| Share-based payment charge in respect of distributor arrangements | **–** | (123) |
| Write down of inventories | **55** | 70 |
| Exchange rate gains/(losses) | **1** | (20) |

The cost of goods sold during the year amounted to £2,346,000 (2013: £2,151,000).

* 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 2014 £'000 | Year ended 31 January 2013 £'000 |
|---|---|---|
| Wages and salaries | **2,612** | 2,370 |
| Social security costs | **235** | 258 |
| Share-based payments charge | **60** | 43 |
| | **2,907** | 2,671 |

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

| | 2014 Number | 2013 Number |
|---|---|---|
| Production | **12** | 11 |
| Sales | **20** | 18 |
| Administration | **13** | 13 |
| | **45** | 42 |

The remuneration of directors 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 21 to 25 and forms part of these accounts.

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Short-term employee benefits | **678** | 744 |
| Share-based payments | **30** | 11 |
| | **708** | 755 |

## 5 Tax on loss on ordinary activities

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

| | Year ended 31 January 2014 £'000 | Year ended 31 January 2013 £'000 |
|---|---|---|
| United Kingdom corporation tax at 23.17% (2013: 24.33%) | – | – |
| United States income taxes | – | 4 |
| Research and development expenditure tax credits -- current year | (83) | (146) |
| Total tax | (83) | (142) |

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:

| | | |
|---|---|---|
| Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 23.17% (2013: 24.33%) | 50 | (63) |
| Effect of: | | |
| Expenses not deductible for tax purposes | 17 | 10 |
| Depreciation for the period in excess of capital allowances | (53) | (3) |
| Disposals of property, plant and equipment over cost | – | – |
| Other temporary differences | 6 | (42) |
| Additional deduction for research and development expenditure | (196) | (218) |
| Losses surrendered for research and development tax credit | 176 | 316 |
| Research and development expenditure tax credits | (83) | (146) |
| Total tax income | (83) | (146) |

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 £83,000 (2013: £146,000) represents 12% (2013: 11%) 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 2014 £'000 | Year ended 31 January 2013 £'000 |
|---|---|---|
| Unused losses (available indefinitely) | 24,149 | 24,149 |
| Temporary differences (available indefinitely) | 47 | 94 |
| | 24,196 | 24,243 |

The related deferred tax asset (calculated at 20%) of £4.8m (2013: £4.8m calculated at 20%) which will be recognised in the accounts when the trend of profits has been established.

# Notes to the financial statements
continued

## 6 Earnings per share

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

| | **Year ended 31 January 2014 £'000** | Year ended 31 January 2013 £'000 |
|---|---|---|
| Profit/(loss) after tax for the financial year | **299** | (117) |

| | **Number ('000)** | Number ('000) |
|---|---|---|
| Weighted average number of ordinary shares | **193,831** | 179,434 |
| Earnings/(loss) per share – basic and diluted (p) | **0.15** | (0.07) |

## 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 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 |
| Additions | – | – | 10 | 44 | 288 | 342 |
| Retirements | – | (16) | (3) | (40) | – | (59) |
| At 31 January 2014 | **561** | **447** | **105** | **586** | **1,639** | **3,338** |
| **Accumulated depreciation** | | | | | | |
| At 1 February 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 |
| Charge for the year | 2 | 16 | 4 | 58 | 252 | 332 |
| Retirements | – | (16) | (3) | (40) | – | (59) |
| At 31 January 2014 | **556** | **411** | **90** | **508** | **708** | **2,273** |
| Carrying amount at 31 January 2014 | **5** | **36** | **15** | **78** | **931** | **1,065** |
| Carrying amount at 31 January 2013 | 7 | 52 | 9 | 92 | 895 | 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.

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 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 (2013: £173,000), and the net book value at 31 January 2014 was £173,000.

## 8 Intangible assets

| | Clinical trials £'000 | Product registration £'000 | Product development £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 February 2012 | 169 | 768 | 3,071 | 4,008 |
| Additions | 74 | 93 | 848 | 1,015 |
| At 31 January 2013 | 243 | 861 | 3,919 | 5,023 |
| Additions | 40 | 62 | 621 | 723 |
| At 31 January 2014 | **283** | **923** | **4,540** | **5,746** |
| **Accumulated amortisation** | | | | |
| At 1 February 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 |
| Charge for the year | 49 | 77 | 398 | 524 |
| At 31 January 2014 | **196** | **715** | **3,298** | **4,209** |
| Carrying amount at 31 January 2014 | **87** | **208** | **1,242** | **1,537** |
| Carrying amount at 31 January 2013 | 96 | 223 | 1,019 | 1,338 |

Intangible assets includes assets that are internally generated and amortised over their estimated useful lives. Amortisation costs are included in administrative expenses. Additions for the year included internally generated assets of £292,000 (2013: £277,000), and externally purchased assets of £431,000 (2013: £738,000). The rates of amortisation are shown in Note 1.

## 9 Inventory

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Raw materials and consumables | **658** | 821 |
| Finished goods and goods for resale | **1,393** | 1,450 |
| | **2,051** | 2,271 |

At 31 January 2014, inventories stated net of allowances for obsolete or slow moving items, was £72,000 (2013: £13,000).

# Notes to the financial statements
continued

## 10 Trade and other receivables

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Trade receivables | **1,837** | 2,106 |
| Other receivables | **118** | 70 |
| Prepayments | **184** | 184 |
| | **2,139** | 2,360 |

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 2014, trade receivables of £1.64m (2013: £1.44m) were 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:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Not more than three months | **155** | 468 |
| More than three months but not more than six months | **9** | 99 |
| More than six months but not more than one year | **11** | 70 |
| More than one year | **23** | 32 |
| | **198** | 669 |

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Opening balance | **130** | 92 |
| Provision for receivables impairment | **7** | 48 |
| Receivables written off in year | **(101)** | (10) |
| Closing balance | **36** | 130 |

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

## 11 Current liabilities

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Trade payables | **919** | 979 |
| Social security and other taxes | **277** | 276 |
| Accruals | **354** | 318 |
| Deferred income | **274** | 263 |
| Finance leases | **175** | 183 |
| | **1,999** | 2,019 |

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

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

## 12 Non-current liabilities

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Finance leases due within 2 to 5 years (see note 7) | **–** | 183 |
| Deferred Income | **–** | 158 |
| | **–** | 341 |

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 £1,955,000 (2013: £2,176,000).

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

# Notes to the financial statements
continued

**Liquidity risk**
The Group seeks to manage this financial risk by ensuring sufficient liquidity through the use of variable rate bank and overdraft facilities 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 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 2014, the Group's financial liabilities have contractual maturities which are summarised below:

| | Current | | Non Current | |
|---|---|---|---|---|
| 31 January 2014 | Within 6 months £'000 | 6 to 12 months £'000 | 1 to 5 years £'000 | Over 5 years £'000 |
| Bank overdraft | **–** | **–** | **–** | **–** |
| Trade payables | **1,550** | **–** | **–** | **–** |
| Finance lease liabilities | **87** | **88** | **–** | **–** |
| | **1,637** | **88** | **–** | **–** |

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

| | 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 | – |

**Market risks**
*Interest rate risk*
The Group finances its operations through a mixture of shareholders' funds, variable rate bank facilities and medium 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 largely mitigated by US dollar receivables from sales.

**Group interest rate profile**

| Financial assets at 31 January 2014 | Floating rate Cash current bank accounts £'000 | Deposit and reserve account £'000 | Total £'000 |
|---|---|---|---|
| **Currency** | | | |
| Sterling | **70** | **2,236** | **2,306** |
| US dollars | **57** | **–** | **57** |
| Euro | **10** | **–** | **10** |
| | **137** | **2,236** | **2,373** |

**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.

| Current assets | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Loans and receivables: | | |
| – Trade and other receivables | **1,955** | 2,176 |
| – Cash and cash equivalents | **2,373** | 2,060 |
| | **4,328** | 4,236 |

| Current liabilities | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Trade payables and other short term financial liabilities | **1,448** | 1,480 |
| | **1,448** | 1,480 |

**Currency risk management**

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

| | US dollars **2014 £'000** | US dollars 2013 £'000 |
|---|---|---|
| Trade and other receivables | **75** | 196 |
| Cash and cash equivalents | **57** | 72 |
| Trade and other payables | **(179)** | (400) |
| | **(47)** | (132) |

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

# Notes to the financial statements
continued

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 | |
|---|---|---|
| | **2014** | 2013 |
| | **£'000** | £'000 |
| Currency fluctuation | **9%** | 5% |

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

| | US dollars | |
|---|---|---|
| | **2014** | 2013 |
| | **£'000** | £'000 |
| Net result for the year | **(231)** | (80) |
| Equity | **(231)** | (80) |

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

| | US dollars | |
|---|---|---|
| | **2014** | 2013 |
| | **£'000** | £'000 |
| Net result for the year | **231** | 80 |
| Equity | **231** | 80 |

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

| | **2014** | 2013 |
|---|---|---|
| | **Number of shares** | Number of shares |
| Issued and fully paid – ordinary shares of 0.5 pence each | **000** | 000 |
| At the beginning of the year | **193,640** | 174,220 |
| Issued for cash | **230** | 19,420 |
| At the end of the year | **193,870** | 193,640 |

| | **£'000** | £'000 |
|---|---|---|
| At the beginning of the year | **968** | 871 |
| Issued for cash | **1** | 97 |
| At the end of the year | **969** | 968 |

During the year 230,000 shares were issued at 8.7p 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 and consultants. The normal earliest date for vesting is three years from the date of grant. The rules of the 2002 scheme provide that earlier vesting may occur in certain prescribed circumstances such as redundancy. The rules of all share option schemes provide for vesting in less than three years in the event of a change of control of the Group or for exceptional reasons at the absolute discretion of the Remuneration Committee. The latest date for exercise is ten years from the date of grant. The options are settled in equity once exercised. Where share options are awarded, the fair value of the options at the date of grant is calculated using a pricing model and is charged to the income statement over the vesting period. Market related performance conditions are factored into the fair value of the options granted and a charge is made irrespective of whether the market related performance conditions are satisfied. In respect of awards with non market related performance conditions, an estimate of the proportion that will vest is made at the award date and this is trued up or down at each accounting period.

| | **2014 Number** | **2014 Weighted average exercise price (p)** | 2013 Number | 2013 Weighted average exercise price (p) |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **6,708,418** | **15.7** | 12,747,329 | 16.7 |
| Issued in the year | **6,861,655** | **13.1** | 1,422,847 | 18.0 |
| Forfeited during the year | **(887,832)** | **18.6** | (5,464,758) | 18.3 |
| Exercised during the year | **(230,000)** | **8.7** | (1,997,000) | 11.3 |
| Outstanding at the end of the year | **12,452,241** | **14.6** | 6,708,418 | 15.7 |
| Exercisable at the end of the year | **2,920,369** | **16.4** | 3,114,526 | 14.4 |

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

| | **2014** | 2013 |
|---|---|---|
| Weighted average shares price (p) | **13.1** | 18.0 |
| Weighted average exercise price (p) | **13.1** | 18.0 |
| Expected volatility | **31%** | 40% |
| Expected life (years) | **3.5** | 3.5 |
| Risk free rate | **0.5%** | 0.5% |
| Expected dividend yield | **–** | – |

The weighted average share price for options exercised during the year was 8.7p (2013: 11.3p)

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 7.5p and 22.75p per share and a weighted average remaining contractual life of 7.6 years.

# Notes to the financial statements
continued

## 16 Capital commitments

At 31 January 2014 the Company had placed forward orders for the purchase of monitors and monitor components for inventory to the value of £421,000 (2013: £251,000). Delivery of these orders is scheduled between February 2014 and July 2014.

## 17 Contingent liabilities

There were no contingent liabilities at 31 January 2014 or 31 January 2013.

## 18 Leasing commitments

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

| Group | **2014 Land and buildings £'000** | **Other £'000** | 2013 Land and buildings £'000 | Other £'000 |
|---|---|---|---|---|
| In one year or less | **168** | **52** | 168 | 88 |
| Between one and five years | **763** | **25** | 930 | 58 |
| | **931** | **77** | 1,098 | 146 |

## 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 set out in note 4 and disclosed in the directors' remuneration report.

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

# 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 2014 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 27, 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 2014;
- 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 Strategic Report and 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 2014.

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

*London*
*28 April 2014*

# Company balance sheet

At 31 January 2014

| | Note | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 2 | **65** | 65 |
| | | **65** | 65 |
| **Current assets** | | | |
| Debtors: Amount due from subsidiary undertakings | 3 | **16,784** | 16,784 |
| Cash at bank | | **91** | 71 |
| | | **16,875** | 16,855 |
| **Current liabilities** | | | |
| Creditors: Amounts falling due within one year | | **–** | – |
| **Net current assets** | | **16,875** | 16,855 |
| Total assets less current liabilities | | **16,940** | 16,920 |
| **Net assets** | | **16,940** | 16,920 |
| **Capital and reserves** | | | |
| Called up share capital | 4 | **969** | 968 |
| Share premium account | 5 | **27,760** | 27,741 |
| Profit and loss account | 5 | **(11,789)** | (11,789) |
| Shareholders' funds | | **16,940** | 16,920 |

The financial statements were approved by the Board of Directors on 28 April 2014.

*Theresa Wallis*
*Director*

*Terry 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 2014

## 1 Principal accounting policies

**Basis of preparation**

The individual financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the individual 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 75% of its total revenues in the year to 31 January 2014.

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.

# Notes to the financial statements
continued

## 2 Investments

| Company | Shares in subsidiary undertakings £'000 |
|---|---|
| **Cost and net book value** | |
| At 1 February 2013 and at 31 January 2014 | 65 |

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

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

## 3 Debtors

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Amount due from subsidiary | **16,784** | 16,784 |

The amount due from subsidiary relates to the ongoing funding provided to the principal trading subsidiary, LiDCO Limited. 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 2014. The timing of the repayment of this debt is uncertain and unlikely to be within one year.

## 4 Share capital

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Allotted, called up and fully paid 193,870,304 ordinary shares of 0.5p each | **969** | 968 |

During the year 230,000 shares were issued at 8.7p 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 2013 | 27,741 | – | – | (11,789) |
| Loss for the year | – | – | – | – |
| Shares Issued | 19 | – | – | – |
| At 31 January 2014 | **27,760** | **–** | **–** | **(11,789)** |

## 6 Reconciliation of shareholders' funds

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Profit for the year | – | 1 |
| Shares issued | 1 | 97 |
| Share premium account | 19 | 2,338 |
| | 20 | 2,436 |
| Opening shareholders' funds | 16,920 | 14,484 |
| Closing shareholders' funds | 16,940 | 16,920 |

## 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 loss for the year of the Company was £nil (2012/13: £1,000 profit).

## 8 Related party transactions

Other than the charge for share-based payments, 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 its wholly-owned subsidiary, not to disclose details of related party transactions required by the standard.

# Company information

**Company registration number:**
2659005

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

**Company website:**
www.lidco.com

**Directors and Secretary:**

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

# Advisers to the Company

**Solicitor:**
Hewitsons
Shakespeare House
42 Newmarket Road
Cambridge
CB5 8EP

**Auditor:**
Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

**Registrar:**
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

**Nominated adviser and stockbroker:**
finnCap
60 New Broad Street
London
EC2M 1JJ

**Banker:**
NatWest Bank Plc
63-65 Piccadilly
London
W1J 0AJ

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LiDCO Group Plc

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

**Marketing Office:**
Unit M
South Cambridge Business Park
Babraham Road
Sawston
Cambridge
CB22 3JH

Telephone number as above

**www.lidco.com**