

Lombard Medical Technologies PLC
Annual report and financial statements
for the year ended 31 December 2004

Registered number 04636949

Lombard Medical Technologies PLC

Annual report and financial statements for the year ended 31 December 2004

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Lombard Medical Technologies PLC

Directors and advisers

Directors

Alistair Taylor – Executive Chairman
Tim Hall - Finance Director
Brian Howlett – Chief Executive Officer
Richard Johnston – non-executive director
Martin Rothman – non-executive director

Registered Office

4 Trident Park
Didcot
Oxon
OX14 7HJ

Registered Number

04636949

Auditors

PricewaterhouseCoopers LLP
Donington Court
Pegasus Business Park
Castle Donington
East Midlands
DE74 2UZ

Solicitors

Berwin Leighton Paisner
Adelaide House
London Bridge
London
EC4R 9HA

Bankers

Bank of Scotland
38 Threadneedle Street
London
EC2P 2EH

Registrars

Capita IRG plc
Northern House, Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

Lombard Medical Technologies PLC

Directors' report for the year ended 31 December 2004

The directors present their report and the audited financial statements of the Company and Group for the year ended 31 December 2004.

Principal activities

The company acts as holding company for the group which is engaged in the development of medical devices and polymer coatings.

Results and dividends

The results for the year are set out in the profit and loss account. The results reflect investment in research and development. Initial products have been launched and the directors are confident that further products will be launched in the next year.

A dividend of £612,000 (2003: £261,000) is payable in respect of the preference shares and has been credited back to reserves as no distributable reserves are available. The dividend payable at 30 April 2004 was settled by a scrip issue of A preference shares. Total non-equity appropriations were £1,178,000 (2003: £261,000).

The funding position of the company and Group is referred to in more detail in note 1 to these financial statements. Forecasts have been prepared taking into account the requirements to complete product development and achieve commercial sales. Since 31 December 2004, the bank has provided support by an overdraft facility and Camden Partners has advanced a loan facility. A private equity placing has raised £3.1 million which meets short term requirements only. The directors have therefore been following plans to raise additional funds by a flotation and are now confident that the gross proceeds of this will exceed £20 million. The forecasts indicate that this will provide the Group with sufficient funds and facilities to meet the repayment of existing loans and its trading requirements for the foreseeable future.

Research and development

The Group is committed to research and development in order to develop its business and bring its products to market. Costs of £1,798,000 during the year relate specifically to this aspect of the Group's activities and have been expensed in accordance with the group accounting policy.

Political and charitable donations

The Group made no political or charitable donations during the period.

Lombard Medical Technologies PLC

Directors' report for the year ended 31 December 2004 (continued)

Directors and their interests

The directors' who held office during the period with their interests in the shares of the Company, are as follows:

	31 December 2004 Shareholdings	31 December 2004 Share options	31 December 2003 Shareholdings
Alistair Taylor	7,206,622 ordinary 9,831,112 A preference	12,632,857 (b) 594,472 (a)	7,206,622 ordinary 9,201,857 A preference
Stephen Terry	12,992,547 A preference	15,791,072 (b)	12,127,321 A preference
John Kerslake	57,143 ordinary 2,457,777 A preference	9,474,643 (b)	57,143 ordinary 2,300,464 A preference
Antony Canning	481,166 ordinary 24,577,782 A preference	1,579,107 (b)	16,597,555 ordinary 24,129,643 A preference
Richard Johnston	-*	1,579,107 (b)	-*
Martin Rothman	49,012 ordinary 218,877 A preference	1,579,107 (b)	34,284 ordinary 204,869 A preference

*Richard Johnston has a share in the Camden Partners' funds which themselves hold 128,151,136 A preference shares, 14,869,888 B preference shares and 13,409,906 ordinary shares in the Company. (2003: 116,761,607 preference and 13,409,906 ordinary shares).

The interests of Antony Canning were shares registered in the names of:

Borodino Limited	481,166 ordinary shares
Lion Capital Advisers Limited	2003: 13,409,912 ordinary shares
Lion Capital Partners PLC	2003: 2,706,477 ordinary shares
Kingsfold Limited	24,577,782 (2003: 23,004,643) A preference shares
Lion Capital Advisers Limited	2003: 1,125,000 A preference shares

Antony Canning was a director shareholder of Lion Capital Advisers Limited (in liquidation) and Lion Capital Partners PLC (in administration), each of which held shares in the Company as disclosed above. He is also a potential discretionary beneficiary of a family trust, the trustees of which own Borodino Limited, which holds 481,166 Ordinary Shares in Lombard Medical Technologies PLC. Borodino Limited also has a 50 per cent interest in Kingsfold Limited, the holding of which is disclosed above.

Options

a) Alistair Taylor held options over 594,472 Lombard Medical plc shares exercisable at 17.4 pence per share between 20 February 2002 and 19 February 2011. These were rolled over on a one for one basis into options over the Company's ordinary shares.

b) On 8 June 2004 options were granted to management over 56,847,858 ordinary shares in the Company, exercisable at 1 pence per share in the period to 7 June 2014, provided certain specific performance conditions are met.

Richard Berkeley, Tim Hall and Brian Howlett were appointed as directors on 19 January 2005, 7 November 2005 and 11 November 2005 respectively. Steve Terry, John Kerslake, Anthony Canning and Richard Berkeley resigned as directors on 19 October 2005, 4 November 2005, 10 November 2005 and 1 December 2005 respectively.

Lombard Medical Technologies PLC

Directors' report for the year ended 31 December 2004 (continued)

Payment policy

It is the Group's policy to agree terms with its suppliers, terms of settlement which are appropriate for the markets in which they operate and to abide by such terms where suppliers have also met their obligations. The Company had 88 days' (2003: one day's) purchases outstanding at 31 December 2004, based on amounts invoiced by suppliers during the year.

Statement of Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the annual general meeting.

By order of the Board

Rhod Jones
Company Secretary
6 December 2005

Independent auditors' report to the members of Lombard Medical Technologies PLC

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2004 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
East Midlands
6 December 2005

Lombard Medical Technologies PLC

Consolidated profit and loss account for the year ended 31 December 2004

		2004	2003
	Note	£'000	£'000
Turnover	2	40	73
Cost of sales		(16)	(38)
Gross profit		24	35
Development and administrative expenses		(4,988)	(2,451)
Amortisation of goodwill		(687)	(324)
Net operating expenses		(5,675)	(2,775)
Operating loss	3	(5,651)	(2,740)
Loss on disposal of subsidiaries		-	(157)
Impairment of investments	12	(868)	-
Interest receivable	6	17	20
Interest payable	6	(493)	(141)
Loss on ordinary activities		(6,995)	(3,018)
Taxation on loss on ordinary activities	7	209	-
Loss after taxation		(6,786)	(3,018)
Non equity dividends and appropriations	8	(1,178)	(261)
Loss for the financial period	20	(7,964)	(3,279)

All activity relates to continuing operations.

The group has no recognised gains and losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the period stated above, and their historical cost equivalents.

Lombard Medical Technologies PLC

Consolidated balance sheet as at 31 December 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Intangible assets	10	2,659	1,957
Tangible assets	11	343	390
Investments – unquoted	12	2,595	3,463
		5,597	5,810
Current assets			
Stocks	13	147	3
Debtors	14	417	141
Cash at bank and in hand		20	209
		584	353
Creditors: amounts falling due within one year	15	(5,522)	(4,350)
Net current liabilities		(4,938)	(3,997)
Net assets		659	1,813
Capital and reserves			
Called up share capital	18	3,270	2,453
Share premium account	20	6,207	2,491
Profit and loss account	20	(10,230)	(3,131)
Shareholders' (deficit)/funds		(753)	1,813
Equity minority interests		1,412	-
		659	1,813
Equity shareholders' deficit		(11,129)	(3,165)
Non-equity shareholders' funds		10,376	4,978
	24	(753)	1,813

The financial statements were approved by the board of directors on 6 December 2005 and were signed on its behalf by:

Tim Hall
Director

Lombard Medical Technologies PLC

Company balance sheet as at 31 December 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	11	11	-
Investments	12	36,041	4,825
		36,052	4,825
Current assets			
Debtors	14	38	238
Cash at bank and in hand		20	15
		58	253
Creditors: amounts falling due within one year	15	(28,248)	(134)
Net current (liabilities)/assets		(28,190)	119
Total assets less current liabilities		7,862	4,944
Net assets		7,862	4,944
Capital and reserves			
Called up share capital	18	3,270	2,453
Share premium account	20	6,207	2,491
Profit and loss account	20	(1,615)	-
		7,862	4,944
Equity shareholders' deficit		(2,514)	(34)
Non-equity shareholders' funds		10,376	4,978
	20	7,862	4,944

The financial statements were approved by the board of directors on 6 December 2005 and were signed on its behalf by:

Tim Hall
Director

Lombard Medical Technologies PLC

Consolidated cash flow statement for the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Net cash outflow from operating activities	21	(4,317)	(2,569)
Returns on investment and servicing of finance			
Interest received		17	20
Interest paid		(265)	(80)
Net cash outflows from returns on investments and servicing of finance		(248)	(60)
Taxation received		-	239
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(188)	(53)
Net cash outflow from capital expenditure and financial investment		(188)	(53)
Acquisitions and disposals			
Purchase of subsidiary undertakings		-	(620)
Disposal of subsidiary undertakings		(60)	(97)
Cash acquired with subsidiary undertakings		-	187
Net cash outflows from acquisitions and disposals		(60)	(530)
Net cash outflow before financing		(4,813)	(2,973)
Financing			
Issue of ordinary shares		-	12
Issue of preference shares		4,656	3,726
Share issue expenses		(549)	(255)
Repayment of Loan Notes		-	(301)
Net cash inflow from financing		4,107	3,182
(Decrease)/increase in cash in the period	23	(706)	209

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004

1 Accounting policies

Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards. A summary of the more important Group accounting policies follows.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings. The results of acquired undertakings are included in the consolidated profit and loss account from the date control passes. Intra-group sales and profits are eliminated on consolidation.

No minority interest is shown in the group loss where there is no obligation for the minority shareholders to fund the deficit.

Basis of preparing the financial statements – financing

The financial statements have been prepared on the going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future.

The Group is committed to meeting employment and certain operational costs, as well as supporting its main trading subsidiaries through intercompany funding in order to pursue its objectives. Forecasts have been prepared taking into account the requirements to complete product development and achieve commercial sales. Bank and loan facilities in place at 31 December 2004 were fully utilised. Since 31 December 2004, the bank continued to provide support by way of overdraft facility which is repayable on demand and from May 2005 Camden Partners has advanced a loan facility. A private equity placing has raised £3.1million which meets short term requirements only. The directors have therefore been following plans to raise additional gross funds in excess of £20 million by a flotation to enable the Group to develop its activities for the foreseeable future.

Agreements are in place with the holders of the loans advanced to the group to repay these out of the proceeds of flotation or in the case of the Camden Partners loan to convert this into equity.

The forecasts indicate that these funds will provide the Group with sufficient facilities to meet the repayment of existing borrowings and its trading requirements for at least a further year. Placing acceptances have been underwritten and the directors are therefore confident that the funding outlined above will be in place and that therefore it is appropriate that these financial statements are prepared on the going concern basis.

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

1 Accounting policies (continued)

Investments

Investments are held at cost and provision is made for any impairment in value.

Fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual value, on a straight line basis over their estimated economic lives. The principal economic lives used for this purpose are:

Plant and equipment 3 to 10 years
Office equipment 3 to 5 years

Goodwill and intangible assets

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of identifiable net assets acquired. Goodwill arising on acquisitions is carried forward as an asset and amortised over its estimated useful economic life on a straight line basis. Licence fees are amortised on a straight line basis over the expected useful life of the patents on the products licensed. The principal economic lives used for this purpose are:

Goodwill 4 years
Licences 10 years

Impairment of fixed assets and goodwill

The carrying values of fixed assets are reviewed for impairment where there is an indication that the assets might be impaired. First year impairment reviews are conducted for acquired goodwill and intangible assets. Impairment is determined by reference to the higher of net realisable value and value in use, which is measured by reference to discounted cash flows. Indicative net realisable value has been used in these financial statements due to the considerable uncertainties attaching to future cash flows. Any provision for impairment is charged in the profit and loss account for the year.

Foreign currencies

Assets and liabilities of subsidiaries in foreign currencies are translated at the closing rates of exchange for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies, and from the translation of the results of those companies at average rate, are taken to reserves and, where material, are reported in the statement of total recognised gains and losses. All other exchange differences are taken to the profit and loss account in the period in which they arise.

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

1 Accounting policies (continued)

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first-in-first out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure including production overheads. Where necessary, provision is made for obsolete, slow-moving and defective stocks. Items purchased for use in research and development are stocked and expensed when used.

Revenue recognition

Turnover, which excludes value added tax, represents income from the sale of medical devices and from the licensing of technology. Medical device income is recognised on the supply of goods to a customer net of any provision where the customer has a right of return. Income arising from a licence agreement is recognised when receivable under the terms of the contract and when all related obligations have been fulfilled.

Research and development

Expenditure on research and development is charged to the profit and loss account as incurred.

Government grants

Government grants are recognised in the profit and loss account so as to match them with the expenditure to which they are intended to contribute.

Pensions

The Group operates a defined contribution pension scheme for some of its employees. Contributions payable during the year are charged to the profit and loss account.

Deferred taxation

Deferred taxation is provided on an undiscounted basis at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Liabilities are fully provided and assets are recognised to the extent that it is more likely than not that they will be realised.

Non-equity appropriations

The finance costs arising from non-equity shares, including any premium on redemption, increase in dividend rate, or issue costs taken to the share premium account, are accounted for as an appropriation in the profit and loss account. This is charged as an appropriation over the period to the earliest redemption date of the related shares so as to result in a constant finance rate in proportion to the carrying value of the related non-equity interest.

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

2 Turnover

Turnover and loss on ordinary activities before taxation are derived from one class of business. All turnover, results and net assets originate in the United Kingdom and Eire. An analysis of turnover by geographical destination is given below:

	2004	2003
	£'000	£'000
United Kingdom and Europe	13	47
United States of America	27	26
	40	73

3 Operating loss

	2004	2003
	£'000	£'000
Operating loss is stated after charging:		
Depreciation of tangible fixed assets	235	144
Amortisation of licences	9	5
Amortisation of goodwill (note 10)	687	324
Fundraising and corporate advisory expenses	887	-
Research and development expenditure	1,798	1,030
Operating lease rentals		
- Motor vehicles	52	42
- Land and buildings	158	69
- Other assets	5	2
Auditors' remuneration	31	22

Amounts paid to the Company's auditors in respect of non-audit fees for work provided to the Company and its subsidiaries, amounted to £19,000 (2003: £11,000).

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

4 Directors' emoluments

Emoluments for the period (receivable from the company and subsidiary undertaking) were as follows:

	Salary or fees	Pension contributions	Benefits in kind	Total 2004	Total 2003
	£'000	£'000	£'000	£'000	£'000
Alistair Taylor	155	15	15	185	96
Stephen Terry	160	15	4	179	90
John Kerslake	110	11	25	146	68
Antony Canning	15	-	-	15	7
Richard Johnston	15	-	-	15	7
Martin Rothman	35	-	-	35	17
Simon Stock	-	-	-	-	-
	490	41	44	575	285

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

5 Employee information

The average monthly number of persons including directors employed by the Group during the period was:

By activity	2004	2003
	Number	Number
Directors	6	6
Selling , marketing and distribution	9	2
Research and development	16	16
Administration and general	6	7
	37	31

Staff costs for the above persons were:

	2004	2003
	£'000	£'000
Wages and salaries	1,486	796
Social security costs	162	92
Other pensions costs	100	51
	1,748	939

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

6 Interest and related expenses

	2004	2003
	£'000	£'000
Interest receivable:		
Interest receivable on bank deposits	17	20
Interest payable:		
Loan Notes	-	(4)
Bank interest	(346)	(63)
Other	(9)	-
LCP loan	(124)	(74)
Minority share of interest payable intra-group	(14)	-
	(493)	(141)

7 Taxation on loss on ordinary activities

The credit of £209,000 relates to the utilisation of tax losses from research and development expenditure to reclaim PAYE and NI paid.

Taxation losses carried forward at the end of the year amounted to approximately £14.5 million and the unrecognised deferred tax asset at 30% is approximately £4.3 million. No deferred tax asset has been recognised in respect of these losses as the directors consider it is, as yet, uncertain whether the losses will be utilised.

The current tax credit of £nil is lower than the standard UK corporation rate of 30% applied to the loss for the period. The differences are explained below:

	2004	2003
	£'000	£'000
Loss before tax for the period at 30%	(2,114)	(905)
Additional deduction for research and development expenditure	(100)	(110)
Amounts not deductible for tax purposes including amortisation of goodwill	759	109
Losses carried forward	1,455	906
	-	-

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

8 Non-equity dividends and appropriations

	2004	2003
	£'000	£'000
<hr/>		
A preference shares		
Dividend at 8% per annum on paid up amount	(521)	(261)
Appropriations	(507)	-
B preference shares		
Dividend at 8% per annum on paid up amount	(91)	-
Appropriations	(59)	-
	<hr/>	<hr/>
	(1,178)	(261)
	<hr/>	

The 2004 A preference share appropriations include £169,000 relating to 2003 following full application of FRS4. This is not considered a fundamental omission in respect of 2003 and has accordingly been included within the 2004 charge.

9 Losses of holding company

Of the loss for the financial period, a loss before dividends of £1,302,000 is dealt with in the accounts of the Company. The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented the Company's profit and loss account.

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

10 Intangible assets

Group

	Goodwill on acquisition	Licences	Total
	£'000	£'000	£'000
Cost			
At 31 December 2003	2,224	62	2,286
Additions	1,398	-	1,398
At 31 December 2004	3,622	62	3,684
Amortisation			
At 31 December 2003	324	5	329
Charge for the year	687	9	696
At 31 December 2004	1,011	14	1,025
Net book value			
At 31 December 2004	2,611	48	2,659
At 31 December 2003	1,900	57	1,957

The company gained a 100% interest in the trading activity of the Group following a transfer of business and investments in subsidiaries from Lombard Medical plc for consideration of £25.1 million. The equity minority have an interest in £1.398 million of this intra-group loan remaining in Lombard Medical plc.

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

11 Tangible fixed assets

Group

	Plant and equipment
	£'000
<hr/>	
Cost	
At 31 December 2003	847
Additions	188
<hr/>	
At 31 December 2004	1,035
<hr/>	
Depreciation	
At 31 December 2003	457
Charge for the year	235
<hr/>	
At 31 December 2004	692
<hr/>	
Net book value	
At 31 December 2004	343
<hr/>	
At 31 December 2003	390
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Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

11 Tangible fixed assets (continued)

Company

	Plant and equipment
	£'000
<hr/>	
Cost	
At 31 December 2003	-
Additions	5
Transfer from subsidiary	8
At 31 December 2004	13
<hr/>	
Depreciation	
At 31 December 2003	-
Charge for the year	2
At 31 December 2004	2
<hr/>	
Net book value	
At 31 December 2004	11
<hr/>	

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

12 Fixed asset investments

Company

	Loans to subsidiaries	Investments in subsidiaries	Total
	£'000	£'000	£'000
Cost			
At 31 December 2003	282	4,543	4,825
Advances in year	3,713	-	3,713
Acquisition of trade and indirect subsidiaries from subsidiary	6,687	23,316	30,003
Loan notes in subsidiary cleared on acquisition	-	(2,500)	(2,500)
At 31 December 2004	10,682	25,359	36,041

Interests in Group undertakings

The following subsidiary undertakings have been included in the Group consolidation. All interests are held directly in the form of ordinary shares.

Name of undertaking	Principal area of activity	Country of incorporation
Lombard Medical plc	Dormant	Great Britain
Anson Medical Limited	Medical implants	Great Britain
PolyBioMed Limited	Polymer biomaterials	Great Britain
LionMedical Limited	Investment holding company	Great Britain

At the year end the company held 94% of the shares in Lombard Medical PLC. The above companies operate principally in their country of incorporation. All interests are held by the Company.

Group

	Unquoted investments
	£'000
Cost	
At 31 December 2003	3,463
Impairment in year	(868)
Net book value at 31 December 2004	2,595

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

12 Fixed asset investments (continued)

The group held 15.0% of the ordinary share capital of EndoArt SA (investment of £32,000), a company incorporated in Switzerland and 10.7% of the ordinary share capital of Vascular Concepts Holdings Limited (investment of £2,563,000), a company incorporated in the Isle of Man. EndoArt SA recorded a loss of £3,066,000 for the year ended 31 December 2004 and had net liabilities of £298,000 at that date. It required further funding and has subsequently raised new equity at a value per share which indicated an impairment in the investment. The investment was therefore written down from £900,000 to £32,000. The group participated in the new equity and for an investment of £230,000 now holds 8% of the share capital. These figures have been derived from audited financial statements prepared under International Financial Reporting Standards. The unaudited consolidated accounts of Vascular Concepts record a profit of £882,000 for the year ended 31 March 2005 and net assets of £3,681,000 at that date. These are both companies engaged in the development of medical devices. The investments are not readily realisable, being unquoted, and values can only be indicative of prospects given the early stage of their development and the inherent uncertainties in their further progress towards product or technology sales, on which the future value depends.

13 Stocks

	2004		2003	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Raw materials and consumables	-	-	3	-
Finished goods	147	-	-	-
	147	-	3	-

14 Debtors

	2004		2003	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Share capital not paid up	38	38	38	38
Trade debtors	7	-	21	-
Other debtors	133	-	76	-
Tax recoverable	209	-	-	-
Prepayments and accrued income	30	-	6	200
	417	38	141	238

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

15 Creditors: amounts falling due within one year

	2004		2003	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Amounts owed to subsidiary	-	25,342	-	-
Bank overdraft	517	456	-	-
Bank loan (note 16)	1,400	1,400	1,400	-
LCP loan (note 16)	1,942	-	1,942	-
Trade creditors	843	504	292	2
Other taxation and social security	107	22	64	-
Dividends payable	-	-	113	113
Other creditors	24	-	2	1
Accruals and deferred income	689	524	537	18
	5,522	28,248	4,350	134

Pension contributions of £147,000 are included in group creditors.

16 Bank and other loan

Interest is charged on the bank loan at 2% above base rate and the loan was repayable on 31 October 2005. The bank loan and overdraft are secured by a debenture over all the assets of the group.

The loan from Lion Capital Partners PLC ('LCP loan') is now repayable on the earlier of an admission to listing or 31 January 2006 and bears interest at 2% above base rate and is secured by a floating charge.

17 Pension obligations

The Group operates defined contribution pension schemes for its employees. The assets of these schemes are held separately from those of the companies, in independently administered funds.

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

18 Called up share capital

	2004 Number of shares	2004 Nominal value £'000	2003 Number of shares	2003 Nominal value £'000
Authorised				
Ordinary shares of 0.138p each	600,000,000	828	600,000,000	828
A Preference shares of 1p each	400,000,000	4,000	400,000,000	4,000
B preference shares of 1p each	117,200,000	1,172	-	-
		6,000		4,828
Allotted, called up and fully paid				
Ordinary shares of 0.138p each	45,708,294	64	45,708,294	64
A Preference shares of 1p each	253,481,388	2,535	233,895,134	2,339
B preference shares of 1p each	62,077,455	621	-	-
		3,220		2,403
Allotted, called up and part paid				
Ordinary shares of 0.138p each, 25% paid	36,250,007	50	36,250,007	50

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

18 Called up share capital (continued)

The authorised share capital was increased from £4,828,000 to £6,000,000 by the creation of 117,200,000 B convertible preference shares of 1p each.

New share capital issued during the period was as follows:

	Number of shares	Nominal value £'000	Consideration or fair value £'000
A Preference shares of 1p each			
At 31 December 2003	233,895,134	2,339	5,085
Scrip issue	19,586,254	196	426
At 31 December 2004	253,481,388	2,535	5,511
B preference shares of 1p each			
Shares subscribed for cash at 7.5p each	62,077,455	621	4,656
At 31 December 2004	62,077,455	621	4,656

The A and B preference shares rank pari passu in all material respects.

Dividends

The A and B preference shares are entitled to an 8% per annum cumulative dividend (the "coupon", calculated on the subscription price paid up) in cash or stock at the discretion of the Board of Directors. Coupons payable by way of stock shall take the form of A or B preference shares as appropriate, issued at the purchase price. The coupon accrues on a daily basis, commencing on the date of issue of the relevant A or B preference share and is payable in two equal instalments on 30 April and 31 October in each year, with the first such payment in respect of the A preference shares being made on 30 April 2004 and the first such payment in respect of the B preference shares being made on 31 October 2004. The Coupon shall increase to 12% in April 2006, unless converted or a special dividend has been paid, as described below. In each relevant period, the Company has appropriated through the profit and loss account A and B preference share dividends. Where the Company does not have sufficient distributable reserves in order to pay such preference dividends in their entirety the proportion in excess of distributable reserves has been credited back within the profit and loss account reserve.

Preference dividends payable of £612,000 are attributable to the year ended 31 December 2004 (2003: £261,000), of which £nil has been included in creditors at 31 December 2004 (2003: £113,000) and £299,000 (2003: £148,000) has been credited back to reserves as there were insufficient distributable profits available to the company. No dividends have subsequently been paid. The dividend payable of £426,000 for the period to 30 April 2004, was satisfied by a reinvestment into an issue of a further 19,586,254 A preference shares. Arrears of dividends payable at 31 December 2004 amounted to £447,000 relating to the period from 1 May 2004.

Appropriations of £566,000 relating to preference share financing costs have also been charged in the year ended 31 December 2004 and credited back to reserves.

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

18 Called up share capital (continued)

Dividends (continued)

The Company has instituted a formal dividend policy with respect to the ordinary shares that shall ensure that no ordinary share dividends (the “special dividend”) shall be paid unless and until all financial debt (including but not limited to working capital facilities and the LCP Loan) are undrawn and/or repaid in full. Furthermore, any such special dividend shall be paid only if the Company has adequate distributable reserves and sufficient cash resources as determined by the Board. The initial special dividend shall in no event be less than 3.5 pence per ordinary share on a fully diluted basis and A and B preference shareholders shall, at their option, be entitled to the special dividend on an as converted basis in lieu of the coupon (for the avoidance of doubt, including any future coupon payments).

Liquid preferences

In the event of any change of control, sale of all or substantially all of the assets, merger or liquidation or any other reorganisation where the Company is not the surviving company, the holders of the B preference shares shall be entitled to receive in preference to the holders of ordinary shares of the Company an amount equal to the purchase price of such shares multiplied by a factor ranging from 1.0x at the time of signing up to 1.5x by the 3rd anniversary of the signing (calculated on a sliding scale basis as detailed in the Articles of Association), plus any cumulative unpaid dividends (the “liquidation value”). A preference shares maintain a 1.0x liquidation preference. Any remaining proceeds shall be distributed to the holders of ordinary shares, A preference shares and B preference shares, on a pro rata, as converted basis.

Conversion

The A and B preference shares and B preference shares have the right to convert at any time into Ordinary Shares at the then applicable conversion rate (which will initially be a one for one basis at the purchase price that may be reset on the basis of the anti-dilution provisions, below). Automatic conversion into ordinary shares shall occur upon a flotation in which the aggregate net proceeds received by the Company are greater than or equal to £30 million and under which the offering price is greater than or equal to 2x the B preference shares purchase price.

Anti-dilution provisions

The B preference shares conversion price is subject to adjustment “on a full ratchet business” (as described in the Articles of Association). In the event of the Company’s issuance of additional equity shares (or warrants or rights to purchase equity shares or securities convertible into equity shares) for a consideration per share which (having due regard to other securities issued by the Company to the subscribers or persons entitled under contemporaneous arrangements, including but not limited to executive option schemes) is less than the conversion price of the B preference shares, then the B preference shares conversion ratio shall be adjusted and reduced concurrently with such issue to the lowest price paid for such additional shares. The B preference shares conversion price will not be adjusted upon the issuance of ordinary shares issued (i) to employees or (ii) as consideration for the acquisition by the Company of shares or assets.

Voting rights

Each ordinary share, A preference share and each B preference share will have the same voting rights, on an as converted basis, except as otherwise required by law.

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

18 Called up share capital (continued)

Restrictive covenants

Consent is required from the holders of a majority of the A and B preference shares voting as a single class before the Company, or any subsidiary, undertakes various actions (“investor consent”), which shall require 66% majority votes.

The holders of the A and B preference shares shall have a pro-rata right of first offer (on an as converted basis) in respect of any issue of preference shares. The holders of A and B preference shares and ordinary shares shall have a pro-rata right of first offer (on an as converted basis) to participate in offerings of ordinary shares or other (non-preference) equity shares. The right of first offer benefiting the holders of the A and B preference shares is over and above preference rights set out in the UK Companies Act.

The holders of A and B preference shares have the pro-rata right of first refusal (on an as converted basis) to purchase B preference shares of any selling shareholder, and B preference shareholders are required to offer such B shares accordingly. The holders of A and B preference shares and ordinary shares shall have the pro-rata right of first refusal (on an as converted basis) to purchase ordinary shares or other (non-preference) equity shares or any selling shareholder.

A and B preference shares, subject to a minimum share threshold of 10% of each class, will have the pro-rata right to sell in any sale of the Company’s equity securities by any shareholder as outlined in the Articles of Association.

Drag-along rights are exercisable subject to investor consent.

In the event of an unsolicited offer to purchase the Company, BSI shall have a 30 day pre-emption right to purchase the Company. In the event the Board decides to initiate a sale of the Company, BSI would have 21 days to give notice to make an offer, and if so, would have a 75 day period of exclusivity to complete, otherwise, the Board would be able to sell the Company within 75 days.

The A and B preference shares are redeemable in the event of an unremedied breach of the restrictive Covenants or if a flotation or sale has not occurred on or before 31 December 2008. The redemption price shall be equal to the purchase price plus declared but unpaid dividends.

19 Share options

Share options over 2,792,544 ordinary shares were issued to the Anson Medical Limited employees who were members of the Anson Unapproved Share Option Plan 2000 at the date of acquisition of Anson by Lombard Medical plc. These were exercisable at 17.4 pence per share between 20 February 2002 and 19 February 2011 and were rolled over on a one for one basis into options over the Company’s ordinary shares.

Options have been granted to management over 56,847,858 ordinary shares in the Company, exercisable at 1 pence per share in the period to 7 June 2014, provided certain specific performance conditions are met.

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

20 Capital and reserves

Group

	Called up share capital	Share premium account	Profit and loss account	Total equity shareholders funds
	£'000	£'000	£'000	£'000
Loss for the period	-	-	(7,964)	(7,964)
Preference appropriations credited to reserves	-	-	865	865
New share capital issued	621	4,035	-	4,656
Scrip issue of shares	196	230	-	426
Share issue expenses	-	(549)	-	(549)
At 31 December 2003	2,453	2,491	(3,131)	1,813
At 31 December 2004	3,270	6,207	(10,230)	(753)

Company

	Called up share capital	Share premium account	Profit and loss account	Total equity shareholders funds
	£'000	£'000	£'000	£'000
Loss for the period	-	-	(2,480)	(2,480)
Preference dividend credited to reserves	-	-	865	865
New share capital issued	621	4,035	-	4,656
Scrip issue of shares	196	230	-	426
Share issue expenses	-	(549)	-	(549)
At 31 December 2003	2,453	2,491	-	4,944
At 31 December 2004	3,270	6,207	(1,615)	7,862

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

21 Reconciliation of operating loss to net cash outflow from operating activities

	2004	2003
	£'000	£'000
Operating loss	(5,651)	(2,740)
Amortisation of goodwill	687	324
Depreciation and amortisation of licences	244	149
Increase in stocks	(144)	(4)
Increase in debtors	(67)	(13)
Increase/(decrease) in creditors	614	(285)
	(4,317)	(2,569)

22 Reconciliation of net cash flow to movement in net (debt)/funds

	2004	2003
	£'000	£'000
(Decrease)/increase in cash in period	(706)	209
Cash outflow from repayment of Loan Notes	-	301
Changes in net debt resulting from cash flows	(706)	510
Non-cash changes:		
Loan Notes acquired with subsidiary undertaking	-	(301)
Bank loan acquired with subsidiary undertaking	-	(1,400)
LCP loan acquired with subsidiary undertaking	-	(1,942)
Movement in net funds in period	(706)	(3,133)
Net debt at 31 December 2003	(3,133)	-
Net debt at 31 December 2004	(3,839)	(3,133)

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

22 Reconciliation of net cash flow to movement in net (debt)/funds (continued)

Major non-cash items

The consideration for gaining a 100% interest in the trading activity of the group was met by an intra-group debtor, of which £1,398,000 relates to the minority shareholdings. Dividends of £426,000 were settled by the issue of bonus shares.

In 2003 founder shares were issued 25% paid with £38,000 remaining unpaid. On the acquisition of Lombard Medical plc, shares with a nominal value of £64,000 were issued in exchange for Lombard Medical plc shares and preference shares with a fair value of £1,359,000 were issued in exchange for convertible loan stock.

23 Analysis of net debt

	31 December 2003	Cash movements	31 December 2004
	£'000	£'000	£'000
Cash at bank and in hand	209	(189)	20
Bank overdraft	-	(517)	(517)
Bank loan	(1,400)	-	(1,400)
LCP loan	(1,942)	-	(1,942)
	(3,133)	(706)	(3,839)

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

24 Reconciliation of movements in group shareholders' funds

	2004	2003
	£'000	£'000
Loss for the financial period	(7,964)	(3,279)
Dividends credited to reserves	865	148
Cash dividend retained	426	-
New share capital issued, including premium	4,656	5,199
Expenses of share issues	(549)	(255)
Net change in shareholders' funds	(2,566)	1,813
Opening shareholders' funds	1,813	-
Closing shareholders' (deficit)/funds	(753)	1,813

25 Related party disclosures

a) Acquisitions

The company acquired Lombard Medical plc during the prior period and in the offer document gave information on a concert party arising as a result of directors and investors in the company holding significant interests in Lombard Medical plc.

The significant shareholdings in the company following the transaction and prior holdings in Lombard Medical plc were:

	Company	Lombard Medical plc
Camden Partners	116,761,607 preference shares 13,409,906 ordinary shares	£2,370,000 of loan stock
Lion Capital Advisers Limited	13,409,912 ordinary shares 1,125,000 preference shares	£55,000 of loan stock 2,706,477 ordinary shares*
Bank of Scotland	6,286,793 ordinary shares	251,550 ordinary shares*
Kingsfold Limited	23,004,643 preference shares	-
Borodino Limited	-	481,166 ordinary shares*
Alistair Taylor	9,201,857 preference shares	7,206,622 ordinary shares*

* exchanged for ordinary shares in Lombard Medical Technologies plc.

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

25 Related party disclosures (continued)

b) Liabilities

A loan of £1,942,000 has been advanced by Lion Capital Partners PLC ('LCP') to the subsidiary, Lion Medical Limited, and was outstanding at 31 December 2004 and 2003. LCP was a shareholder and had common directors. Creditors also includes £143,000 in respect of unpaid loan interest (2003: £18,000).

c) Fees payable

In connection with the fund raising activities in the year £291,421 of fees and £117,500 of expenses and in connection with general corporate finance £264,375 of fees and £58,750 of expenses were paid to Lion Capital Advisers Limited (a shareholder and company with common directors).

In connection with the restructuring £29,375 of fees to British Linen Bank (a shareholder in the company).

In connection with the prior period acquisition and issue of shares, fees and related costs were paid as follows:

£373,000 to Lion Capital Advisers Limited and £29,000 in respect of their costs, a company in which ABB Canning and S J Stock had a financial interest, of which they were directors and which is a shareholder.

£227,500 to British Linen Bank

£82,000 in respect of the legal costs of Camden Partners (a shareholder).

d) Agreements

The company issued 44,609,665 B preference shares to Boston Scientific International BV in October 2004 and entered into distribution and licence agreements with this shareholder as follows:

Distribution agreement: Under the Distribution Agreement, the Company has granted Boston Scientific an option to enter into an initial five-year term during which Boston Scientific will market the Company's AAA and TAA products (including any associated products and improvements) in Europe and the rest of the world (other than the USA). The agreement contains provisions for automatic renewal on successive three-year terms unless notice of non-renewal is served.

Technology license agreement: The Company has agreed to enter into the terms of the Technology License Agreement under which it has granted Boston Scientific a non-exclusive worldwide technology license relating to the company's inflatable graft technology to remain in effect for the duration of the patent rights contained in the licensed technology.

Lombard Medical Technologies PLC

Notes to the financial statements for the year ended 31 December 2004 (continued)

26 Financial commitments and contingent liabilities

At 31 December 2004 the Group was committed to make the following payments during the next year in respect of operating leases:

	2004 Land and buildings	2004 Other	2003 Land and buildings	2003 Other
	£'000	£'000	£'000	£'000
Expiring within one year	15	24	18	18
Expiring between two and five years inclusive	125	-	79	8
	140	24	97	26

27 Post balance sheet events

The company has issued a further 42,000,333 B preference shares in October 2005 at 7.5 pence each with total proceeds of £3.15 million. Arrears of dividends relating to the period to 31 October 2005 have been satisfied by a scrip dividend with 10,670,602 A preference shares and 5,627,943 B preference shares issued at 7.5 pence per share.

28 Ultimate controlling party

The directors consider that there is no one ultimate controlling party of the Company