

Lombard Medical Technologies PLC

Non-statutory consolidated financial  
statements for the

six months ended 30 June 2005

Registered number 04636949

# **Lombard Medical Technologies PLC**

## **Financial statements for the six months ended 30 June 2005**

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# **Lombard Medical Technologies PLC**

## **Independent auditors' report to the directors of Lombard Medical Technologies PLC**

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

These financial statements have not been prepared under section 226 of the Companies Act 1985 and were prepared solely for the purposes of management.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the financial statements in accordance with the accounting policies listed in the basis of preparation in Note 1 to the financial statements.

Our responsibility is to audit the financial statements in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company for management purposes in accordance with our engagement letter dated 10 November 2005 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 into 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.

### **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 the group's affairs at 30 June 2005 and of its loss and cash flows for the six month period from 1 January 2005 to 30 June 2005.

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

## Lombard Medical Technologies PLC

### Consolidated profit and loss account for the 6 months ended 30 June 2005

|   | Note | 6 m<br>ended 30<br>June 2005<br>£'000 | Year ended<br>31 I<br>2004<br>£'000 |
|---|------|---------------------------------------|-------------------------------------|
| <b>Turnover</b>   | 2    | <b>83</b>                             | 40                                  |
| Cost of sales   |      | <b>(130)</b>                          | (16)                                |
| <b>Gross (loss)/profit</b>  |      | <b>(47)</b>                           | 24                                  |
| Development and administrative expenses                               |      | <b>(2,739)</b>                        | (4,988)                             |
| Amortisation of goodwill  |      | <b>(540)</b>                          | (687)                               |
| Net operating expenses  |      | <b>(3,279)</b>                        | (5,675)                             |
| <b>Operating loss</b>   | 3    | <b>(3,326)</b>                        | (5,651)                             |
| Impairment of investments   |      | -                                     | (868)                               |
| Interest receivable   | 6    | <b>2</b>                              | 17                                  |
| Interest payable and similar charges                                  | 6    | <b>(975)</b>                          | (493)                               |
| <b>Loss on ordinary activities</b>                                    |      | <b>(4,299)</b>                        | (6,995)                             |
| Taxation on loss on ordinary activities                               | 7    | -                                     | 209                                 |
| <b>Loss after taxation</b>  |      | <b>(4,299)</b>                        | (6,786)                             |
| Non equity dividends and appropriation                                | 8    | -                                     | (1,178)                             |
| <b>Loss for the financial period attributable to equity interests</b> | 19   | <b>(4,299)</b>                        | (7,964)                             |

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 30 June 2005

|   |      | 30 J<br>2005    | 31 I<br>2004 |
|---|------|-----------------|--------------|
|   | Note | £'000           | £'000        |
| <b>Fixed assets</b>                                   |      |                 |              |
| Intangible assets                                     | 9    | 2,115           | 2,659        |
| Tangible assets                                       | 10   | 291             | 343          |
| Investments – unquoted                                | 11   | 2,825           | 2,595        |
|   |      | <b>5,231</b>    | 5,597        |
| <b>Current assets</b>                                 |      |                 |              |
| Stocks  | 12   | 343             | 147          |
| Debtors   | 13   | 488             | 417          |
| Cash at bank and in hand                              |      | 20              | 20           |
|   |      | <b>851</b>      | 584          |
| <b>Creditors: amounts falling due within one year</b> | 14   | <b>(20,071)</b> | (5,522)      |
| <b>Net current liabilities</b>                        |      | <b>(19,220)</b> | (4,938)      |
| <b>Net (liabilities)/assets</b>                       |      | <b>(13,989)</b> | 659          |
| <b>Capital and reserves</b>                           |      |                 |              |
| Called up share capital                               | 17   | 114             | 3,270        |
| Share premium account                                 | 19   | -               | 6,207        |
| Profit and loss account                               | 19   | (15,542)        | (10,230)     |
| Total shareholders' deficit                           |      | <b>(15,428)</b> | (753)        |
| Equity minority interests                             |      | 1,439           | 1,412        |
|   |      | <b>(13,989)</b> | 659          |
| Equity shareholders' deficit                          |      | <b>(15,428)</b> | (11,129)     |
| Non-equity shareholders' funds                        |      | -               | 10,376       |
|   | 23   | <b>(15,428)</b> | (753)        |

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 6 months ended 30 June 2005

|   | Note | 6 m<br>ended 30<br>June 2005<br>£'000 | Year ended<br>31 I<br>2004<br>£'000 |
|---|------|---------------------------------------|-------------------------------------|
| <b>Net cash outflow from operating activities</b>                             | 20   | <b>(2,621)</b>                        | (4,317)                             |
| <b>Returns on investment and servicing of finance</b>                         |      |                                       |                                     |
| Interest received   |      | 2                                     | 17                                  |
| Interest paid   |      | (77)                                  | (265)                               |
| <b>Net cash outflows from returns on investments and servicing of finance</b> |      | <b>(75)</b>                           | (248)                               |
| <b>Taxation received</b>  |      | <b>59</b>                             | -                                   |
| <b>Capital expenditure and financial investment</b>                           |      |                                       |                                     |
| Purchase of investments   |      | (230)                                 | -                                   |
| Purchase of tangible fixed assets   |      | (37)                                  | (188)                               |
| <b>Net cash outflow from capital expenditure and financial investment</b>     |      | <b>(267)</b>                          | (188)                               |
| <b>Acquisitions and disposals</b>   |      |                                       |                                     |
| Disposal of subsidiary undertakings   |      | -                                     | (60)                                |
| <b>Net cash outflow before financing</b>                                      |      | <b>(2,904)</b>                        | (4,813)                             |
| <b>Financing</b>  |      |                                       |                                     |
| Issue of preference shares  |      | -                                     | 4,656                               |
| Share issue expenses  |      | -                                     | (549)                               |
| Loan advanced   |      | 1,346                                 | -                                   |
| <b>Net cash inflow from financing</b>   |      | <b>1,346</b>                          | 4,107                               |
| <b>Decrease in cash in the period</b>   | 22   | <b>(1,558)</b>                        | (706)                               |

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 1 Accounting policies

#### Basis of accounting

These financial statements are not prepared under section 226 of the Companies Act 1985. The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards, solely for the purposes of management. A summary of the more important Group accounting policies follows.

#### Change of accounting policy

The Group has adopted Financial Reporting Standard 25 "Financial Instruments: Disclosure and Presentation" as this applies to the accounting period commencing 1 January 2005. This has resulted in the non-equity interests represented by preference shares and related unpaid appropriations being reclassified to liabilities and dividends or appropriations classified as elements of the interest charge. Although this represents a change in accounting policy, the Group has taken advantage of the exemption available in FRS25 from the requirement to restate comparatives.

#### 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.

#### 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 30 June 2005 were fully utilised. Since 30 June 2005, Camden Partners has continued to provide support by way of a loan facility and 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 loans 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 6 months ended 30 June 2005

### 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 6 months ended 30 June 2005

### 1 Accounting policies (continued)

#### Operating leases

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

#### Stocks and work in progress

Stocks and work in progress 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.

#### Turnover

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 in the profit and loss account within interest charges for the period ended 30 June 2005 and dividends and appropriations for the period ended 31 December 2004. 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 6 months ended 30 June 2005

### 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:

|                                    | 6 r<br>ended 30<br>June 2005 | Year ended<br>31 I<br>2004 |
|------------------------------------|------------------------------|----------------------------|
|                                    | £'000                        | £'000                      |
| United Kingdom and mainland Europe | 83                           | 13                         |
| United States of America           | -                            | 27                         |
|                                    | 83                           | 40                         |

### 3 Operating loss

|   | 6 r<br>ended 30<br>June 2005 | Year ended<br>31 I<br>2004 |
|---|------------------------------|----------------------------|
|   | £'000                        | £'000                      |
| <b>Operating loss is stated after charging:</b> |                              |                            |
| Depreciation of tangible fixed assets           | 89                           | 235                        |
| Amortisation of licences                        | 4                            | 9                          |
| Amortisation of goodwill (note 10)              | 540                          | 687                        |
| Fundraising and corporate advisory expenses     | 45                           | 887                        |
| Research and development expenditure            | 1,132                        | 1,798                      |
| Foreign exchange loss                           | 49                           | -                          |
| Operating lease rentals                         |                              |                            |
| - Motor vehicles                                | 12                           | 52                         |
| - Land and buildings                            | 135                          | 158                        |
| - Other assets                                  | 4                            | 5                          |
| Auditors' remuneration                          | 18                           | 31                         |

Amounts paid to the Company's auditors in respect of non-audit fees for work provided to the Company and its subsidiaries, amounted to £5,000 (2004: £19,000).

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 4 Directors' emoluments

Emoluments for the six month period ended 30 June 2005 (receivable from the company and subsidiary undertaking) were as follows:

|                  | Salary<br>or fees | Pension<br>contributions | Benefits<br>in kind | Total<br>2005 |
|------------------|-------------------|--------------------------|---------------------|---------------|
|                  | £'000             | £'000                    | £'000               | £'000         |
| Alistair Taylor  | 80                | 8                        | 1                   | 89            |
| Stephen Terry    | 80                | 8                        | 2                   | 90            |
| John Kerslake    | 55                | 6                        | 13                  | 74            |
| Antony Canning   | 8                 | -                        | -                   | 8             |
| Richard Berkeley | 8                 | -                        | -                   | 8             |
| Richard Johnston | 8                 | -                        | -                   | 8             |
| Martin Rothman   | 17                | -                        | -                   | 17            |
|                  | 256               | 22                       | 16                  | 294           |

For the year ended 31 December 2004:

|                  | Salary<br>or fees | Pension<br>contributions | Benefits<br>in kind | Total<br>2004 |
|------------------|-------------------|--------------------------|---------------------|---------------|
|                  | £'000             | £'000                    | £'000               | £'000         |
| Alistair Taylor  | 155               | 15                       | 15                  | 185           |
| Stephen Terry    | 160               | 15                       | 4                   | 179           |
| John Kerslake    | 110               | 11                       | 25                  | 146           |
| Antony Canning   | 15                | -                        | -                   | 15            |
| Richard Johnston | 15                | -                        | -                   | 15            |
| Martin Rothman   | 35                | -                        | -                   | 35            |
|                  | 490               | 41                       | 44                  | 575           |

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 5 Employee information

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

| By activity                          | 6 r                   | Year ended   |
|--------------------------------------|-----------------------|--------------|
|                                      | ended 30<br>June 2005 | 31 I<br>2004 |
|                                      | Number                | Number       |
| Directors                            | 7                     | 6            |
| Selling , marketing and distribution | 19                    | 9            |
| Research and development             | 16                    | 16           |
| Administration and general           | 6                     | 6            |
|                                      | <b>48</b>             | 37           |

Staff costs for the above persons were:

|                       | 2005         | 2004  |
|-----------------------|--------------|-------|
|                       | £'000        | £'000 |
| Wages and salaries    | 909          | 1,486 |
| Social security costs | 103          | 162   |
| Other pensions costs  | 53           | 100   |
|                       | <b>1,065</b> | 1,748 |

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 6 Interest and related expenses

|  | 6 m<br>ended 30<br>June 2005 | Year ended<br>31 I<br>2004 |
|--|------------------------------|----------------------------|
|  | £'000                        | £'000                      |
| <b>Interest receivable:</b>                    |                              |                            |
| Interest receivable on bank deposits           | 2                            | 17                         |
| <b>Interest payable and related expenses</b>   |                              |                            |
| Bank interest payable                          | (117)                        | (346)                      |
| Other interest payable                         | (16)                         | (9)                        |
| LCP loan interest                              | (65)                         | (124)                      |
| Minority share of interest payable intra-group | (27)                         | (14)                       |
| A preference shares:                           |                              |                            |
| Dividend at 8% on paid up amount               | (264)                        | -                          |
| Appropriations                                 | (181)                        | -                          |
| B preference shares:                           |                              |                            |
| Dividend at 8% on paid up amount               | (185)                        | -                          |
| Appropriations                                 | (120)                        | -                          |
|  | <b>(975)</b>                 | <b>(493)</b>               |

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 7 Taxation on loss on ordinary activities

The 2004 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 period amounted to approximately £17.5 million and the unrecognised deferred tax asset at 30% is approximately £5.3 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:

|  | 6 r<br>ended 30<br>June 2005 | Year ended<br>31 I<br>2004 |
|--|------------------------------|----------------------------|
|  | £'000                        | £'000                      |
| Loss before tax for the period at 30%                                      | (1,290)                      | (2,114)                    |
| Additional deduction for research and development expenditure              | (50)                         | (100)                      |
| Amounts not deductible for tax purposes including amortisation of goodwill | 405                          | 759                        |
| Losses carried forward   | 935                          | 1,455                      |
|  | -                            | -                          |

### 8 Non-equity dividends and appropriations

|                                  | 6 r<br>ended 30<br>June 2005 | Year ended<br>31 I<br>2004 |
|----------------------------------|------------------------------|----------------------------|
|                                  | £'000                        | £'000                      |
| A preference shares              |                              |                            |
| Dividend at 8% on paid up amount | -                            | (521)                      |
| Appropriations                   | -                            | (507)                      |
| B preference shares              |                              |                            |
| Dividend at 8% on paid up amount | -                            | (91)                       |
| Appropriations                   | -                            | (59)                       |
|                                  | -                            | (1,178)                    |

Under FRS25 these charges are presented as a interest expense for the six months ended 31 June 2005 and as non-equity dividends payable for the year ended 31 December 2004.

## Lombard Medical Technologies PLC

### Notes to the financial statements for the 6 months ended 30 June 2005

#### 9 Intangible assets

|                                      | <b>Goodwill on<br/>acquisition</b> | <b>Licences</b> | <b>Total</b> |
|--------------------------------------|------------------------------------|-----------------|--------------|
|                                      | <b>£'000</b>                       | <b>£'000</b>    | <b>£'000</b> |
| <b>Cost</b>                          |                                    |                 |              |
| At 31 December 2004 and 30 June 2005 | 3,622                              | 62              | 3,684        |
| <b>Amortisation</b>                  |                                    |                 |              |
| At 31 December 2004                  | 1,011                              | 14              | 1,025        |
| Charge for the period                | 540                                | 4               | 544          |
| <b>At 30 June 2005</b>               | <b>1,551</b>                       | <b>18</b>       | <b>1,569</b> |
| <b>Net book value</b>                |                                    |                 |              |
| <b>At 30 June 2005</b>               | <b>2,071</b>                       | <b>44</b>       | <b>2,115</b> |
| At 31 December 2004                  | 2,611                              | 48              | 2,659        |

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 10 Tangible fixed assets

|                        | <b>Plant and<br/>equipment</b> |
|------------------------|--------------------------------|
|                        | <b>£'000</b>                   |
| <hr/>                  |                                |
| <b>Cost</b>            |                                |
| At 31 December 2004    | 1,035                          |
| Additions              | 37                             |
| <b>At 30 June 2005</b> | <b>1,072</b>                   |
| <hr/>                  |                                |
| <b>Depreciation</b>    |                                |
| At 31 December 2004    | 692                            |
| Charge for the period  | 89                             |
| <b>At 30 June 2005</b> | <b>781</b>                     |
| <hr/>                  |                                |
| <b>Net book value</b>  |                                |
| <b>At 30 June 2005</b> | <b>291</b>                     |
| <hr/>                  |                                |
| At 31 December 2004    | 343                            |
| <hr/>                  |                                |

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 11 Fixed asset investments

|  | <b>Unquoted<br/>investments</b> |
|--|---------------------------------|
|  | <b>£'000</b>                    |
| <b>Cost</b>  |                                 |
| At 31 December 2004                                    | 3,463                           |
| Additions  | 230                             |
| <b>At 30 June 2005</b>                                 | <b>3,693</b>                    |
| <b>Impairment at 31 December 2004 and 30 June 2005</b> | <b>(868)</b>                    |
| <b>Net book value</b>                                  |                                 |
| <b>At 30 June 2005</b>                                 | <b>2,825</b>                    |
| At 31 December 2004                                    | 2,595                           |

The group held 15.0% of the ordinary share capital of EndoArt SA, 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 which the group subscribed to at a cost of £230,000 and now holds 8% of the share capital with a cost of £1,130,000, impaired to a net £262,000. These figures have been derived from audited financial statements prepared under International Financial Reporting Standards. The unaudited consolidated financial 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.

### 12 Stocks

|                | <b>30<br/>June<br/>2005</b> | 31<br>December<br>2004 |
|----------------|-----------------------------|------------------------|
|                | <b>£'000</b>                | £'000                  |
| Finished goods | <b>343</b>                  | 147                    |

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 13 Debtors

|   | <b>30<br/>June<br/>2005</b> | 31<br>December<br>2004 |
|---|-----------------------------|------------------------|
|   | <b>£'000</b>                | £'000                  |
| <b>Amounts falling due within one year:</b> |                             |                        |
| Share capital not paid up                   | <b>38</b>                   | 38                     |
| Trade debtors                               | <b>60</b>                   | 7                      |
| Other debtors                               | <b>169</b>                  | 133                    |
| Tax recoverable                             | <b>150</b>                  | 209                    |
| Prepayments and accrued income              | <b>71</b>                   | 30                     |
|   | <b>488</b>                  | 417                    |

### 14 Creditors: amounts falling due within one year

|                                    | <b>30<br/>June<br/>2005</b> | 31<br>December<br>2004 |
|------------------------------------|-----------------------------|------------------------|
|                                    | <b>£'000</b>                | £'000                  |
| Preference share liabilities       | <b>11,126</b>               | -                      |
| Bank overdraft                     | <b>2,075</b>                | 517                    |
| Bank loan (note 15)                | <b>1,400</b>                | 1,400                  |
| LCP loan (note 15)                 | <b>1,942</b>                | 1,942                  |
| Camden loan (note 15)              | <b>1,395</b>                | -                      |
| Trade creditors                    | <b>1,031</b>                | 843                    |
| Other taxation and social security | <b>118</b>                  | 107                    |
| Dividends payable                  | -                           | -                      |
| Other creditors                    | <b>22</b>                   | 24                     |
| Accruals and deferred income       | <b>962</b>                  | 689                    |
|                                    | <b>20,071</b>               | 5,522                  |

Pension contributions of £170,000 are included in group creditors.

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 14 Creditors: amounts falling due within one year (continued)

|                              | 30<br>June<br>2005 | 31<br>December<br>2004 |
|------------------------------|--------------------|------------------------|
|                              | £'000              | £'000                  |
| <hr/>                        |                    |                        |
| A preference shares          |                    |                        |
| Net proceeds of share issue  | 5,256              | -                      |
| Dividends and appropriations | 1,308              | -                      |
|                              | <hr/> 6,564        | <hr/> -                |
| <hr/>                        |                    |                        |
| B preference shares          |                    |                        |
| Net proceeds of share issue  | 4,107              |                        |
| Dividends and appropriations | 455                |                        |
|                              | <hr/> 4,562        |                        |
|                              | <hr/> 11,126       |                        |
|                              | <hr/>              |                        |

### 15 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.

The loan from Camden Partners is now repayable on the earlier of an admission to listing or 31 December 2005 and bears interest at 15%. At the option of Camden Partners the loan may be used to subscribe for new shares or treated as a loan with a right to be granted warrants to subscribe for B preference shares in respect of 10% of the value of the loan.

### 16 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 6 months ended 30 June 2005

### 17 Called up share capital

|   | 30 June 2005 and<br>31 December 2004 |                           |
|---|--------------------------------------|---------------------------|
|   | Number<br>of<br>shares               | Nominal<br>value<br>£'000 |
| <b>Authorised</b>                         |                                      |                           |
| Ordinary shares of 0.138p each            | 600,000,000                          | 828                       |
| A Preference shares of 1p each            | 400,000,000                          | 4,000                     |
| B preference shares of 1p each            | 117,200,000                          | 1,172                     |
|   |                                      | <b>6,000</b>              |
| <b>Allotted, called up and fully paid</b> |                                      |                           |
| Ordinary shares of 0.138p each            | 45,708,294                           | 64                        |
| A Preference shares of 1p each            | 253,481,388                          | 2,535                     |
| B preference shares of 1p each            | 62,077,455                           | 621                       |
|   |                                      | <b>3,220</b>              |
| <b>Allotted, called up and part paid</b>  |                                      |                           |
| Ordinary shares of 0.138p each, 25% paid  | 36,250,007                           | 50                        |

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 17 Called up share capital (continued)

The capital has been presented in accordance with FRS25 as set out below:

|   | <b>30<br/>June<br/>2005</b> | 31<br>December<br>2004 |
|---|-----------------------------|------------------------|
|   | <b>£'000</b>                | £'000                  |
| <b>In liabilities:</b>                                  |                             |                        |
| Preference shares nominal value                         | <b>3,156</b>                | -                      |
| Share premium arising on issues                         | <b>6,207</b>                | -                      |
| Appropriations transferred from profit and loss reserve | <b>1,763</b>                | -                      |
| Preference share liabilities                            | <b>11,126</b>               | -                      |
| <b>In Share Capital:</b>                                |                             |                        |
| Ordinary shares fully paid                              | <b>64</b>                   | 64                     |
| Ordinary shares 25% paid                                | <b>50</b>                   | 50                     |
|   | <b>114</b>                  | 114                    |
| A preference shares                                     | -                           | 2,535                  |
| B preference shares                                     | -                           | 621                    |
|   | -                           | 3,156                  |
| Called up share capital                                 | <b>114</b>                  | 3,270                  |

Due to the fact that the preference shares are convertible into ordinary shares on demand, the preference share liabilities at 30 June 2005 have been included as part of creditors falling due within one year.

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 17 Called up share capital (continued)

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 of £449,000 and appropriations of £301,000 are attributable to the period ended 30 June 2005 (2004: £612,000 and £566,000) which has been included in creditors at 30 June 2005 (2004: £865,000 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, to the extent distributable was satisfied by a scrip issue of a further 19,586,254 A preference shares. Arrears of dividends payable at 30 June 2005 amounted to £896,000 relating to the period from 1 May 2004. The dividends payable together with appropriations to date relating to preference share financing costs have been included within liabilities in accordance with the new accounting policy adopted for the period ended 30 June 2005.

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 3<sup>rd</sup> 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.

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 17 Called up share capital (continued)

#### 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 price 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.

#### 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.

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 17 Called up share capital (continued)

#### Restrictive covenants (continued)

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.

### 18 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.

### 19 Capital and reserves

|   | Called up<br>share<br>capital | Share<br>premium<br>account | Profit<br>and loss<br>account | Total equity<br>shareholders<br>funds |
|---|-------------------------------|-----------------------------|-------------------------------|---------------------------------------|
|   | £'000                         | £'000                       | £'000                         | £'000                                 |
| Loss for the period   | -                             | -                           | (4,299)                       | (4,299)                               |
| Reclassification of preference share interests as liabilities under FRS25 | (3,156)                       | (6,207)                     | (1,013)                       | (10,376)                              |
| At 31 December 2004   | 3,270                         | 6,207                       | (10,230)                      | (753)                                 |
| <b>At 30 June 2005</b>  | <b>114</b>                    | <b>-</b>                    | <b>(15,542)</b>               | <b>(15,428)</b>                       |

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 20 Reconciliation of operating loss to net cash outflow from operating activities

|   | 2005    | 2004    |
|---|---------|---------|
|   | £'000   | £'000   |
| Operating loss                            | (3,326) | (5,651) |
| Amortisation of goodwill                  | 540     | 687     |
| Depreciation and amortisation of licences | 93      | 244     |
| Foreign exchange loss on loan             | 49      | -       |
| Increase in stocks                        | (196)   | (144)   |
| Increase in debtors                       | (130)   | (67)    |
| Increase in creditors                     | 349     | 614     |
|   | (2,621) | (4,317) |

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

|  | 2005           | 2004           |
|--|----------------|----------------|
|  | £'000          | £'000          |
| Decrease in cash in period                       | (1,558)        | (706)          |
| Cash inflow from Camden loan                     | (1,346)        | -              |
| Changes in net debt resulting from cash flows    | (2,904)        | (706)          |
| Non-cash changes:                                |                |                |
| Foreign exchange loss on loan                    | (49)           | -              |
| Movement in net funds in period                  | (2,953)        | (706)          |
| Net debt at 31 December 2004/2003                | (3,839)        | (3,133)        |
| <b>Net debt at 30 June 2005/31 December 2004</b> | <b>(6,792)</b> | <b>(3,839)</b> |

#### Major non-cash items

The consideration for gaining a 100% interest in the trading activity of the group in October 2004 was met by an intra-group debtor, of which £1,398,000 relates to the minority shareholdings. Dividends of £426,000 were waived and settled by the issue of bonus shares.

## Lombard Medical Technologies PLC

### Notes to the financial statements for the 6 months ended 30 June 2005

#### 22 Analysis of net debt

|                          | 31<br>December<br>2004 | Cash<br>movements | Non<br>cash<br>movements | 30<br>June<br>2005 |
|--------------------------|------------------------|-------------------|--------------------------|--------------------|
|                          | £'000                  | £'000             |                          | £'000              |
| Cash at bank and in hand | 20                     | -                 | -                        | 20                 |
| Bank overdraft           | (517)                  | (1,558)           | -                        | (2,075)            |
| Bank loan                | (1,400)                | -                 | -                        | (1,400)            |
| Camden loan              | -                      | (1,346)           | (49)                     | (1,395)            |
| LCP loan                 | (1,942)                | -                 | -                        | (1,942)            |
|                          | (3,839)                | (2,904)           | (49)                     | (6,792)            |

#### 23 Reconciliation of movements in group shareholders' funds

|   | 2005            | 2004         |
|---|-----------------|--------------|
|   | £'000           | £'000        |
| Loss for the financial period   | (4,299)         | (7,964)      |
| Dividends credited to reserves  | -               | 865          |
| Reclassification of preference share interests as liabilities under FRS25               | (10,376)        | -            |
| Scrip issue of shares   | -               | 426          |
| New share capital issued, including premium   | -               | 4,656        |
| Expenses of share issues  | -               | (549)        |
| Net change in shareholders' deficit   | (14,675)        | (2,566)      |
| Opening shareholders' (deficit)/funds   | (753)           | 1,813        |
| <b>Closing equity shareholders' deficit/equity and non-equity shareholders' deficit</b> | <b>(15,428)</b> | <b>(753)</b> |

# Lombard Medical Technologies PLC

## Notes to the financial statements for the 6 months ended 30 June 2005

### 24 Related party disclosures

#### Liabilities

A loan of £1,942,000 has been advanced by Lion Capital Partners plc ('LCP') and was outstanding at 30 June 2005 and 31 December 2004. LCP was a shareholder and had common directors. Creditors also includes £217,000 in respect of unpaid interest on the loan (31 December 2004: £143,000).

#### Fees payable

In connection with the fund raising activities in 2004 £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 company which was a shareholder and had common directors).

In connection with the 2004 restructuring £29,375 of fees to British Linen Bank (a shareholder in the company).

In respect of fundraising advice in the period ended 30 June 2005 fees of £23,500 were paid to A B Canning, a director of the company, and £21,150 to CapitalinQ Limited, a company controlled by A B Canning.

#### 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 6 months ended 30 June 2005

### 25 Financial commitments and contingent liabilities

At 30 June 2005 the Group was committed to make the following payments during the next year in respect of operating leases:

|   | <b>2005<br/>Land and<br/>buildings</b> | <b>2005<br/>Other</b> | <b>2004<br/>Land and<br/>buildings</b> | <b>2004<br/>Other</b> |
|---|--|-----------------------|--|-----------------------|
|   | <b>£'000</b>                           | <b>£'000</b>          | <b>£'000</b>                           | <b>£'000</b>          |
| Expiring within one year                      | 9                                      | 24                    | 15                                     | 24                    |
| Expiring between two and five years inclusive | 115                                    | -                     | 125                                    | -                     |
|   | <b>124</b>                             | <b>24</b>             | <b>140</b>                             | <b>24</b>             |

### 26 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.

### 27 Ultimate controlling party

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