

MEDICAL DEVICE INNOVATIONS LIMITED
REPORT OF THE DIRECTORS AND
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

Champion
Chartered Accountants & Registered Auditors
37-43 White Friars
CHESTER
CH1 1QD



MEDICAL DEVICE INNOVATIONS LIMITED

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2004**

DIRECTORS: D Cottier
A J Allars
Dr D J W Roach
Dr P Wall

SECRETARY: Dr P Wall

REGISTERED OFFICE: 37-43 White Friars
CHESTER
CH1 1QD

REGISTERED NUMBER: 4344782

AUDITORS: Champion
Chartered Accountants & Registered Auditors
37-43 White Friars
CHESTER
CH1 1QD

MEDICAL DEVICE INNOVATIONS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2004

The directors present their report with the financial statements of the company for the year ended 31 December 2004.

PRINCIPAL ACTIVITY

The principal activity of the company was the development of medical devices.

REVIEW OF BUSINESS

The results for the year and financial position of the company are as shown in the annexed financial statements.

The company continues to identify and develop medical devices.

DIVIDENDS

No dividends will be distributed for the year ended 31 December 2004.

DIRECTORS

The directors during the year under review were:

D Cottier	
A J Allars	- resigned 01/06/2005
Dr D J W Roach	
Dr P Wall	- appointed 15/6/2004

The beneficial interests of the directors holding office on 31 December 2004 in the issued share capital of the company were as follows:

	31.12.04	1.1.04 or date of appointment if later
Ordinary 10p shares		
D Cottier	500	500
A J Allars	-	-
Dr D J W Roach	-	-
Dr P Wall	250	250
A Ordinary 10p shares		
D Cottier	444	-
A J Allars *	667	-
Dr D J W Roach	-	-
Dr P Wall	-	-
B Ordinary 10p shares		
D Cottier	-	-
A J Allars	-	-
Dr D J W Roach	-	-
Dr P Wall	-	-

* The shares are owned by Anauel LLP, a limited liability partnership in which Mr A J Allars is a partner.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

MEDICAL DEVICE INNOVATIONS LIMITED

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2004**

STATEMENT OF DIRECTORS' RESPONSIBILITIES - continued

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

The auditors, Champion, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD:



.....
D Cottier - Director

15 June 2005

Date:

**REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF
MEDICAL DEVICE INNOVATIONS LIMITED**

We have audited the financial statements of Medical Device Innovations Limited for the year ended 31 December 2004 on pages five to fourteen. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described on pages two and three the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 Report of the Directors 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 with the company is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 company's affairs as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Champion

Champion
Chartered Accountants & Registered Auditors
37-43 White Friars
CHESTER
CH1 1QD

5 August 2005

Date:

MEDICAL DEVICE INNOVATIONS LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Notes	2004 £	2003 £
TURNOVER		-	500
Project costs		<u>311,453</u>	<u>54,356</u>
GROSS LOSS		(311,453)	(53,856)
Administrative expenses		<u>551,364</u>	<u>312,544</u>
OPERATING LOSS	3	(862,817)	(366,400)
Interest receivable and similar income		<u>2,399</u>	<u>1,012</u>
		(860,418)	(365,388)
Interest payable and similar charges	4	<u>25</u>	<u>3</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(860,443)	(365,391)
Tax on loss on ordinary activities	5	<u>-</u>	<u>55,433</u>
LOSS FOR THE FINANCIAL YEAR AFTER TAXATION		<u>(860,443)</u>	<u>(420,824)</u>
DEFICIT FOR THE YEAR		<u>(860,443)</u>	<u>(420,824)</u>

CONTINUING OPERATIONS

None of the company's activities were acquired or discontinued during the current and previous years.

TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the losses for the current and previous years.

The notes form part of these financial statements

MEDICAL DEVICE INNOVATIONS LIMITED

**BALANCE SHEET
31 DECEMBER 2004**

	Notes	2004	2003
		£	£
FIXED ASSETS			
Tangible assets	6	969	1,988
CURRENT ASSETS			
Debtors	7	25,776	8,732
Cash at bank and in hand		<u>966,576</u>	<u>105,265</u>
		992,352	113,997
CREDITORS			
Amounts falling due within one year	8	<u>98,632</u>	<u>340,175</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>893,720</u>	<u>(226,178)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>894,689</u>	<u>(224,190)</u>
CAPITAL AND RESERVES			
Called up share capital	10	2,244	575
Share options	11	96,812	17,450
Share premium	12	2,397,792	499,501
Profit and loss account	12	<u>(1,602,159)</u>	<u>(741,716)</u>
SHAREHOLDERS' FUNDS	13	<u>894,689</u>	<u>(224,190)</u>

ON BEHALF OF THE BOARD:



.....
D Cottier - Director

15 June 2005

Approved by the Board on

MEDICAL DEVICE INNOVATIONS LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Notes	2004		2003	
		£	£	£	£
Net cash outflow from operating activities	1		(820,386)		(340,275)
Returns on investments and servicing of finance	2		2,374		1,009
Capital expenditure	2		-		(953)
			(818,012)		(340,219)
Financing	2		<u>1,679,323</u>		<u>317,450</u>
Increase/(Decrease) in cash in the period			<u>861,311</u>		<u>(22,769)</u>

Reconciliation of net cash flow to movement in net debt

	3		
Increase/(Decrease) in cash in the period		861,311	(22,769)
Cash outflow/(inflow) from decrease/(increase) in debt		<u>300,000</u>	<u>(300,000)</u>
Change in net debt resulting from cash flows		<u>1,161,311</u>	<u>(322,769)</u>
Movement in net debt in the period		1,161,311	(322,769)
Net (debt)/funds at 1 January		<u>(194,735)</u>	<u>128,034</u>
Net funds/(debt) at 31 December		<u>966,576</u>	<u>(194,735)</u>

The notes form part of these financial statements

MEDICAL DEVICE INNOVATIONS LIMITED

**NOTES TO THE CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

1. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2004 £	2003 £
Operating loss	(862,817)	(366,400)
Depreciation charges	1,018	1,025
Increase in debtors	(17,044)	(271)
Increase in creditors	<u>58,457</u>	<u>25,371</u>
Net cash outflow from operating activities	<u>(820,386)</u>	<u>(340,275)</u>

2. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2004 £	2003 £
Returns on investments and servicing of finance		
Interest received	2,399	1,012
Interest paid	<u>(25)</u>	<u>(3)</u>
Net cash inflow for returns on investments and servicing of finance	<u>2,374</u>	<u>1,009</u>
Capital expenditure		
Purchase of tangible fixed assets	-	<u>(953)</u>
Net cash outflow for capital expenditure	<u>-</u>	<u>(953)</u>
Financing		
New loans in year	-	300,000
Shares issued during year	1,599,961	-
Share options granted during year	<u>79,362</u>	<u>17,450</u>
Net cash inflow from financing	<u>1,679,323</u>	<u>317,450</u>

3. ANALYSIS OF CHANGES IN NET DEBT

	At 1/1/04 £	Cash flow £	At 31/12/04 £
Net cash:			
Cash at bank and in hand	<u>105,265</u>	<u>861,311</u>	<u>966,576</u>
	<u>105,265</u>	<u>861,311</u>	<u>966,576</u>
Debt:			
Debts falling due within one year	<u>(300,000)</u>	<u>300,000</u>	-
	<u>(300,000)</u>	<u>300,000</u>	-
Total	<u>(194,735)</u>	<u>1,161,311</u>	<u>966,576</u>

The notes form part of these financial statements

MEDICAL DEVICE INNOVATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

1. **ACCOUNTING POLICIES**

Accounting convention

The financial statements have been prepared under the historical cost convention.

Turnover

Turnover represents fees, excluding Value added tax.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Fixtures and fittings	- 15% on cost
Computer equipment	- 33% on cost

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. A deferred tax asset is not recognised in circumstances where it is expected that it will take some time for the tax losses to be relieved.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions payable for the year are charged in the profit and loss account.

Share-based payment transactions

Expenses for share-based payment transactions are recognised during the vesting period in the profit and loss account. These expenses recognise the fair value of the share options granted. A corresponding amount is reflected in additional paid-in capital.

2. **STAFF COSTS**

	2004	2003
	£	£
Wages and salaries	231,624	201,447
Social security costs	26,747	21,433
Other pension costs	<u>22,426</u>	<u>16,100</u>
	<u>280,797</u>	<u>238,980</u>

The average monthly number of employees during the year was as follows:

	2004	2003
Management and Administrative Staff	<u>3</u>	<u>2</u>

MEDICAL DEVICE INNOVATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2004**

3. OPERATING LOSS

The operating loss is stated after charging:

	2004 £	2003 £
Depreciation - owned assets	1,017	1,025
Auditors' remuneration	2,900	2,700
Auditors' remuneration for non audit work	18,958	10,870
Research and Development expenditure	<u>301,453</u>	<u>-</u>
Directors' emoluments	172,314	129,613
Directors' pension contributions to money purchase schemes	<u>17,552</u>	<u>9,792</u>

The number of directors to whom retirement benefits were accruing was as follows:

Money purchase schemes	<u>2</u>	<u>1</u>
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4. INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £	2003 £
Bank interest	<u>25</u>	<u>3</u>

5. TAXATION

Analysis of the tax charge

The tax charge on the loss on ordinary activities for the year was as follows:

	2004 £	2003 £
Deferred tax	<u>-</u>	<u>55,433</u>
Tax on loss on ordinary activities	<u>-</u>	<u>55,433</u>

6. TANGIBLE FIXED ASSETS

	Fixtures and fittings £	Computer equipment £	Totals £
COST			
At 1 January 2004 and 31 December 2004	<u>75</u>	<u>3,074</u>	<u>3,149</u>
DEPRECIATION			
At 1 January 2004	7	1,156	1,163
Charge for year	<u>11</u>	<u>1,006</u>	<u>1,017</u>
At 31 December 2004	<u>18</u>	<u>2,162</u>	<u>2,180</u>
NET BOOK VALUE			
At 31 December 2004	<u>57</u>	<u>912</u>	<u>969</u>
At 31 December 2003	<u>68</u>	<u>1,918</u>	<u>1,986</u>

MEDICAL DEVICE INNOVATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2004**

7. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004	2003
	£	£
VAT	22,103	4,908
Prepayments and accrued income	<u>3,673</u>	<u>3,824</u>
	<u>25,776</u>	<u>8,732</u>

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004	2003
	£	£
Other loans (see note 9)	-	300,000
Trade creditors	62,136	8,629
Social security and other taxes	8,817	15,012
Accruals and deferred income	<u>27,679</u>	<u>16,534</u>
	<u>98,632</u>	<u>340,175</u>

9. LOANS

An analysis of the maturity of loans is given below:

	2004	2003
	£	£
Amounts falling due within one year or on demand:		
Convertible loan	<u>-</u>	<u>300,000</u>

During the year further convertible debt was issued; £200,000 in April and £400,000 in June 2004. This was subsequently converted on 23 December 2004 into 9000 'A' ordinary shares of 10p each with a share premium of £899,100.

10. CALLED UP SHARE CAPITAL

Authorised:			2004	2003
Number:	Class:	Nominal value:	£	£
10,000	Ordinary	10p	1,000	150
(2003 - 1,500)				
24,000	A Ordinary	10p	2,400	4,850
(2003 - 48,500)				
16,000	B Ordinary	10p	<u>1,600</u>	-
			<u>5,000</u>	<u>5,000</u>

Allotted, issued and fully paid:			2004	2003
Number:	Class:	Nominal value:	£	£
750	Ordinary	10p	75	75
14,001	A Ordinary	10p	1,400	500
(2003 - 5,001)				
7,692	B Ordinary	10p	<u>769</u>	-
			<u>2,244</u>	<u>575</u>

MEDICAL DEVICE INNOVATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2004**

10. CALLED UP SHARE CAPITAL - continued

The following fully paid shares were allotted during the year at a premium as shown below:

9,000 A Ordinary shares of 10p each at £99.90 per share
7,692 B Ordinary shares of 10p each at £129.90 per share

In the event of a return of assets the holders of B Ordinary shares are entitled to repayment of the amount of any premium paid thereon and the par value of such shares in priority to any premium and par value paid on the A Ordinary shares, which in turn are paid in priority to any premium paid on the Ordinary shares and the par value of the Ordinary shares; any balance of net assets is distributable amongst the shareholders pari passu pro rata to the number of shares held.

11. SHARE OPTIONS

	2004 £	2003 (As restated) £
Fair value of share options:		
At beginning of year, as previously stated	-	-
Prior year adjustment, Note 14	<u>17,450</u>	<u>-</u>
At beginning of year, as restated	17,450	-
Options granted during year	<u>79,362</u>	<u>17,450</u>
At end of year	<u>96,812</u>	<u>17,450</u>
Represented by:		
Fair value of share options:		
500 Ordinary shares of 10p	17,450	17,450
4,648 Ordinary shares of 10p	<u>79,362</u>	<u>-</u>
	<u>96,812</u>	<u>17,450</u>

12. RESERVES

	Share premium £	Profit and loss account £	Totals £
At beginning of year, as previously stated	499,501	(724,266)	(224,765)
Prior year adjustment, Note 14	<u>-</u>	<u>(17,450)</u>	<u>(17,450)</u>
At beginning of year, as restated	499,501	(741,716)	(242,215)
Loss for the year	-	(860,443)	(860,443)
Arising on issue of shares	<u>1,898,291</u>	<u>-</u>	<u>1,898,291</u>
At end of year	<u>2,397,792</u>	<u>(1,602,159)</u>	<u>795,633</u>

MEDICAL DEVICE INNOVATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2004**

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004 £	2003 £
Loss for the financial year	(860,443)	(420,824)
'A' Ordinary Share Capital Issued	900	-
'B' Ordinary Share Capital Issued	769	-
Share premium arising on issue of shares	1,898,291	-
Share options granted during year	<u>79,362</u>	<u>17,450</u>
Net addition/(reduction) to shareholders' funds	1,118,879	(403,374)
Opening shareholders' funds	<u>(224,190)</u>	<u>179,184</u>
Closing shareholders' funds	<u>894,689</u>	<u>(224,190)</u>
Equity interests	<u>894,689</u>	<u>(224,190)</u>

14. PRIOR YEAR ADJUSTMENT

The Company has adopted Financial Reporting Standard 20 - Share-based payments, in respect of the financial year ended 31 December 2004 and has applied the Standard retrospectively to the year ended 31 December 2003. Accordingly the comparatives have been restated and the opening retained earnings for 2004 have been adjusted in respect of share-based payments attributable to 2003.

15. SHARE-BASED PAYMENTS

(a) Share-based payments to third parties

The Company has entered into various share-based arrangements with third-party inventors and suppliers of services.

Under a Deed of Transfer of Intellectual Property dated 19 November 2004 the company has agreed that, in consideration of inventors assigning and transferring intellectual property, it will make payments in cash and grant to the inventors options to subscribe for shares, vesting and exercisable on each of three dates during a period from 19 November 2004 to the date of completion of the product development phase. In the event that the share options are not exercised within five years from 19 November 2004 the options will lapse.

Also, under a Deed dated 23 December 2004, the Company granted Anauel LLP an option to subscribe for ordinary shares in the company. The option may only be exercised on or after the earliest to occur of a sale of the business and assets of the company or the sale of the entire share capital of the company or the admission of any of the company's shares to or the granting of admission for any of the company's shares to be dealt with on a Recognised Investment Exchange. In the event that the share options are not exercised within ten years from 23 December 2004 the options will lapse. Mr A J Allars, a director of the company, is a partner in Anauel LLP.

Using the Intrinsic Method of measuring fair value of the options and having regard to the vesting periods the expenses recognised in the profit and loss account are as follow:

	2004 £	2003 £
Option-based expenses attributable to acquisition of intellectual property	-	-
Option-based expenses attributable to services	<u>15,164</u>	<u>-</u>
	<u>15,164</u>	<u>-</u>

MEDICAL DEVICE INNOVATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2004**

15. SHARE-BASED PAYMENTS

(a) Share-based payments to third parties (continued)

The movements in options granted to third parties were:

	Number of Shares under option		Weighted average exercise price	
	2004 £	2003 £	2004 £	2003 £
Outstanding at 1 January	-	-	-	-
Options granted	969	-	10.40	-
Options forfeited	-	-	-	-
Options exercised	-	-	-	-
Outstanding at 31 December	969	-	10.40	-

Range of exercise price of options outstanding at 31 December 2004:

Exercise Price Range	Average contractual life in years	Average remaining expected life in years
10p	10.0	1.0
£100	4.8	4.8

(b) Share-based plans for executives and employees

Under the Medical Device Innovations Limited 2003 Enterprise Management Investment Scheme the company has granted options to executive directors and selected employees for them to acquire shares in the company. Under the terms of the Scheme the options lapse on the tenth anniversary of the date of the grant.

On 30 January 2003 Mr D Cottier and Dr P Wall were each granted options to acquire shares in the company at an exercise price of 10p per share, the earliest date that such options could be exercised being 30 January 2003.

On 23 December 2004 Mr D Cottier, Mr M Collett and Dr P Wall were each granted options to acquire shares in the company at an exercise price of 10p per share, the earliest date that such options could be exercised being the first to occur of a sale of the business and assets of the company or the sale of the entire share capital of the company or the admission of any of the company's shares to or the granting of admission for any of the company's shares to be dealt with on a recognised Investment Exchange.

Using the Intrinsic Method of measuring fair value of the options and having regard to the vesting periods the expenses recognised in the profit and loss account are as follow:

	2004 £	2003 £
Option-based expenses attributable to EMI options	64,198	17,450

MEDICAL DEVICE INNOVATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2004**

15. SHARE-BASED PAYMENTS

(b) Share-based plans for executives and employees (Continued)

The movements in options granted under the Medical Device Innovations Limited 2003 Enterprise Management Investment Scheme were:

	Number of Shares under option		Weighted average exercise price	
	2004 £	2003 £	2004 £	2003 £
Outstanding at 1 January	500	-	0.10	0.10
Options granted	3,679	500	0.10	0.10
Options forfeited	-	-	-	-
Options exercised	-	-	-	-
Outstanding at 31 December	<u>4,179</u>	<u>500</u>	<u>0.20</u>	<u>0.20</u>

The weighted average contractual life and remaining expected life of options outstanding at 31 December 2004 were 9.77 years and 1 year respectively.

(c) Further information on share-based payments.

In view of the difficulty in measuring directly the fair value of the services received from employees and the fair value of the intellectual property rights that it has acquired, the company has measured the fair value of the services and intellectual property rights by reference to the fair value of the options granted.

Furthermore, in view of the fact that the company is unlisted and there is no historical data regarding share price volatility, the Intrinsic Method of measuring the fair value of the options has been used. Under this method the company has accounted for the options by recognising the difference between the market value of the shares at the year end and the exercise price of the options, so that over the vesting period an expense is charged which is equivalent to the option holders' gains on exercise.

16. RELATED PARTY DISCLOSURES

During the year Directors' fees of £10,000 and arrangement fees of £24,000 were payable to Avlar Bio Ventures Limited.

At the year end Medical Device Innovations Limited owed £31,137.50 to Avlar Bio Ventures Limited.

During the year a convertible loan of £900,000 owed to Avlar Bio Ventures was converted into 'A' ordinary shares.

Dr D J W Roach a director of the company during the year, was an employee of Avlar Bio Ventures Limited.

Consultancy fees of £27,000 were paid to Advanced Technology Management Limited, a company in which Dr D J W Roach is a director.

During the year Directors fees of £1,692 were payable to Prelude Ventures Limited.

MEDICAL DEVICE INNOVATIONS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2004**

17. GOING CONCERN

The financial statements have been prepared on a going concern basis. The Company relies on the continuing support of the investors. The directors believe that the investors intend to continue their support of the company; however, there can be no certainty that they will continue to make funds available.

18. CONTROLLING PARTY

The company is under the control of Avlar Bioventures Fund II Limited Partnership, who own 83.9% of the ordinary share capital.