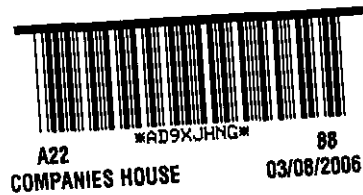


Medical Device Innovations Limited

Financial Statements

31 December 2005

Company Registration Number 4344782



CHAMPION CHARTERED ACCOUNTANTS

Chartered Accountants & Registered Auditors

2nd Floor

Refuge House

33-37 Watergate Row

Chester

CH1 2LE

Medical Device Innovations Limited

Financial Statements

Year Ended 31 December 2005

| CONTENTS | PAGES |
|---|--------------|
| Officers and Professional Advisers | 1 |
| The Directors' Report | 2 to 3 |
| Independent Auditor's Report to the Shareholders | 4 to 5 |
| Profit and Loss Account | 6 |
| Balance Sheet | 7 |
| Cash Flow Statement | 8 to 9 |
| Notes to the Financial Statements | 10 to 19 |
| The following pages do not form part of the financial statements | |
| Detailed Profit and Loss Account | 21 |
| Notes to the Detailed Profit and Loss Account | 22 |

Medical Device Innovations Limited

Officers and Professional Advisers

The Board of Directors

Mr A F Smith (Chairman)
Mr D Cottier
Dr D J W Roach
Dr P Wall

Company Secretary

Dr P Wall

Registered Office

Daresbury Innovation Centre
Daresbury International Science and
Technology Park
Halton
Cheshire
WA4 4FS

Auditor

Champion Chartered Accountants
Chartered Accountants
& Registered Auditors
2nd Floor
Refuge House
33-37 Watgate Row
Chester
CH1 2LE

Medical Device Innovations Limited

The Directors' Report

Year Ended 31 December 2005

The directors present their report and the financial statements of the company for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

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.

RESULTS AND DIVIDENDS

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements.

The directors have not recommended a dividend.

THE DIRECTORS AND THEIR INTERESTS IN THE SHARES OF THE COMPANY

The directors who served the company during the year together with their beneficial interests, including family holdings, in the shares of the company were as follows:

| | Class of share | At 31 December 2005 | At 1 January 2005 or later date of appointment |
|----------------|-----------------------|------------------------|---|
| Mr A F Smith | Ordinary 10p shares | - | - |
| | A Ordinary 10p shares | - | - |
| | B Ordinary 10p shares | - | - |
| Mr D Cottier | Ordinary 10p shares | 500 | 500 |
| | A Ordinary 10p shares | 444 | 444 |
| | B Ordinary 10p shares | - | - |
| Dr D J W Roach | Ordinary 10p shares | - | - |
| | A Ordinary 10p shares | - | - |
| | B Ordinary 10p shares | - | - |
| Dr P Wall | Ordinary 10p shares | 250 | 250 |
| | A Ordinary 10p shares | - | - |
| | B Ordinary 10p shares | - | - |
| | | <hr/> | <hr/> |

Mr A F Smith was appointed as a director on 21 July 2005.

Mr A J Allars resigned as a director on 1 June 2005.

Medical Device Innovations Limited

The Directors' Report *(continued)*

Year Ended 31 December 2005

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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

select suitable accounting policies, as described on pages 10 to 11, and then apply them consistently;

make judgements and estimates that are reasonable and prudent; and

prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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. The directors 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.

AUDITOR

A resolution to re-appoint Champion Chartered Accountants as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Registered office:
Daresbury Innovation Centre
Daresbury International Science and
Technology Park
Halton
Cheshire
WA4 4FS

Signed on behalf of the directors



Mr A F Smith

Chairman

Approved by the directors on 21st July 2006

Medical Device Innovations Limited

Independent Auditor's Report to the Shareholders of Medical Device Innovations Limited

Year Ended 31 December 2005

We have audited the financial statements of Medical Device Innovations Limited for the year ended 31 December 2005 on pages 6 to 19 which have been prepared on the basis of the accounting policies set out on pages 10 to 11.

This report is made solely to the company's shareholders, 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 shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read the Directors' Report 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 International Standards on Auditing (UK and Ireland) 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.

Medical Device Innovations Limited

Independent Auditor's Report to the Shareholders of Medical Device Innovations Limited *(continued)*

Year Ended 31 December 2005

OPINION

In our opinion:

the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and

the financial statements have been properly prepared in accordance with the Companies Act 1985.

Champion

2nd Floor
Refuge House
33-37 Watergate Row
Chester
CH1 2LE

CHAMPION CHARTERED ACCOUNTANTS
Chartered Accountants
& Registered Auditors

31 July 2006

Medical Device Innovations Limited

Profit and Loss Account

Year Ended 31 December 2005

| | Note | 2005 £ | 2004 £ |
|--|----------|-------------|-------------|
| Turnover | | - | - |
| Cost of sales | | 712,704 | 311,453 |
| Gross Loss | | (712,704) | (311,453) |
| Administrative expenses | | 547,045 | 551,365 |
| Operating Loss | 2 | (1,259,749) | (862,818) |
| Interest receivable | | 12,989 | 2,399 |
| Interest payable and similar charges | 5 | - | (25) |
| Loss on Ordinary Activities Before Taxation | | (1,246,760) | (860,444) |
| Tax on loss on ordinary activities | | - | - |
| Loss for the Financial Year | | (1,246,760) | (860,444) |
| Balance brought forward | | (1,602,160) | (741,716) |
| Balance carried forward | | (2,848,920) | (1,602,160) |

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

The notes on pages 10 to 19 form part of these financial statements.

Medical Device Innovations Limited

Balance Sheet

31 December 2005

| | Note | 2005 £ | £ | 2004 £ | £ |
|---|------|----------------|----------------|----------------|----------------|
| Fixed Assets | | | | | |
| Tangible assets | 6 | | 6,519 | | 969 |
| Current Assets | | | | | |
| Debtors | 7 | 53,076 | | 25,776 | |
| Cash at bank and in hand | | 706,639 | | 966,576 | |
| | | <u>759,715</u> | | <u>992,352</u> | |
| Creditors: Amounts Falling due Within One Year | 8 | <u>193,486</u> | | <u>98,633</u> | |
| Net Current Assets | | | <u>566,229</u> | | <u>893,719</u> |
| Total Assets Less Current Liabilities | | | <u>572,748</u> | | <u>894,688</u> |
| Capital and Reserves | | | | | |
| Called-up equity share capital | 11 | | 2,956 | | 2,244 |
| Share premium account | 12 | | 3,321,900 | | 2,397,792 |
| Other reserves | 13 | | 96,812 | | 96,812 |
| Profit and loss account | | | (2,848,920) | | (1,602,160) |
| Shareholders' Funds | 14 | | <u>572,748</u> | | <u>894,688</u> |

These financial statements were approved by the directors on the 21. 7. 06 and were signed on their behalf by:



Mr D Cottier

The notes on pages 10 to 19 form part of these financial statements.

Medical Device Innovations Limited

Cash Flow Statement

Year Ended 31 December 2005

| | 2005 | | 2004 | |
|---|---------|-------------|-----------|-----------|
| | £ | £ | £ | £ |
| Net Cash Outflow From Operating Activities | | (1,189,600) | | (820,387) |
| Returns on Investments and Servicing of Finance | | | | |
| Interest received | 12,989 | | 2,399 | |
| Interest paid | — | | (25) | |
| Net Cash Inflow From Returns on Investments and Servicing of Finance | | 12,989 | | 2,374 |
| Capital Expenditure | | | | |
| Payments to acquire tangible fixed assets | (8,146) | | — | |
| Net Cash Outflow From Capital Expenditure | | (8,146) | | — |
| Cash Outflow Before Financing | | (1,184,757) | | (818,013) |
| Financing | | | | |
| Issue of equity share capital | 712 | | — | |
| Share premium on issue of equity share capital | 924,108 | | 1,898,291 | |
| Net Cash Inflow From Financing | | 924,820 | | 1,898,291 |
| (Decrease)/Increase in Cash | | (259,937) | | 1,080,278 |

RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | 2005 | | 2004 | |
|---|-------------|-------------|-----------|-----------|
| | £ | £ | £ | £ |
| Operating loss | (1,259,749) | | (862,818) | |
| Depreciation | 2,596 | | 1,017 | |
| Increase in debtors | (27,300) | | (17,044) | |
| Increase in creditors | 94,853 | | 58,458 | |
| Net cash outflow from operating activities | | (1,189,600) | | (820,387) |

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

| | 2005 | | 2004 | |
|---|-----------|---------|-----------|-----------|
| | £ | £ | £ | £ |
| (Decrease)/Increase in cash in the period | (259,937) | | 1,080,278 | |
| Movement in net funds in the period | (259,937) | | 1,080,278 | |
| Net funds at 1 January 2005 | | 966,576 | | (113,702) |
| Net funds at 31 December 2005 | | 706,639 | | 966,576 |

Medical Device Innovations Limited

Cash Flow Statement *(continued)*

Year Ended 31 December 2005

ANALYSIS OF CHANGES IN NET FUNDS

| | At 1 Jan 2005 £ | Cash flows £ | At 31 Dec 2005 £ |
|--------------------------|-----------------------|------------------|------------------------|
| Net cash: | | | |
| Cash in hand and at bank | 966,576 | (259,937) | 706,639 |
| Net funds | <u>966,576</u> | <u>(259,937)</u> | <u>706,639</u> |

Medical Device Innovations Limited

Notes to the Financial Statements

Year Ended 31 December 2005

1. ACCOUNTING POLICIES

Basis of accounting

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

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

| | | |
|---------------------|---|-------------|
| Fixtures & Fittings | - | 15% on cost |
| Equipment | - | 33% on cost |

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

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.

Medical Device Innovations Limited

Notes to the Financial Statements

Year Ended 31 December 2005

1. ACCOUNTING POLICIES *(continued)*

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Share-based payments 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. OPERATING LOSS

Operating loss is stated after charging:

| | 2005 | 2004 |
|--|---------------|---------------|
| | £ | £ |
| Research and development expenditure written off | 712,704 | 311,453 |
| Depreciation of owned fixed assets | 2,596 | 1,017 |
| Auditor's remuneration | | |
| - as auditor | 5,000 | 4,650 |
| Auditors' remuneration - non audit | <u>25,491</u> | <u>17,208</u> |

Medical Device Innovations Limited

Notes to the Financial Statements

Year Ended 31 December 2005

3. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to:

| | 2005 | 2004 |
|----------------------------|-------------|----------|
| | No | No |
| Number of management staff | <u>3</u> | <u>3</u> |

The aggregate payroll costs of the above were:

| | 2005 | 2004 |
|-----------------------|----------------|----------------|
| | £ | £ |
| Wages and salaries | 275,694 | 231,624 |
| Social security costs | 28,416 | 26,747 |
| Other pension costs | 25,571 | 22,426 |
| | <u>329,681</u> | <u>280,797</u> |

4. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

| | 2005 | 2004 |
|--|----------------|----------------|
| | £ | £ |
| Emoluments receivable | 280,736 | 172,314 |
| Value of company pension contributions to money purchase schemes | 24,399 | 17,552 |
| | <u>305,135</u> | <u>189,866</u> |

The number of directors who accrued benefits under company pension schemes was as follows:

| | 2005 | 2004 |
|------------------------|-------------|----------|
| | No | No |
| Money purchase schemes | <u>2</u> | <u>2</u> |

5. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2005 | 2004 |
|------------------------------------|-------------|-----------|
| | £ | £ |
| Interest payable on bank borrowing | <u>-</u> | <u>25</u> |

Medical Device Innovations Limited

Notes to the Financial Statements

Year Ended 31 December 2005

6. TANGIBLE FIXED ASSETS

| | Fixtures & Fittings £ | Computer equipment £ | Total £ |
|----------------------------|-----------------------------|----------------------------|---------------|
| Cost | | | |
| At 1 January 2005 | 75 | 3,074 | 3,149 |
| Additions | - | 8,146 | 8,146 |
| At 31 December 2005 | <u>75</u> | <u>11,220</u> | <u>11,295</u> |
| Depreciation | | | |
| At 1 January 2005 | 18 | 2,162 | 2,180 |
| Charge for the year | 11 | 2,585 | 2,596 |
| At 31 December 2005 | <u>29</u> | <u>4,747</u> | <u>4,776</u> |
| Net Book Value | | | |
| At 31 December 2005 | <u>46</u> | <u>6,473</u> | <u>6,519</u> |
| At 31 December 2004 | <u>57</u> | <u>912</u> | <u>969</u> |

7. DEBTORS

| | 2005 £ | 2004 £ |
|--------------------------------|---------------|---------------|
| VAT recoverable | 47,104 | 22,103 |
| Prepayments and accrued income | 5,972 | 3,673 |
| | <u>53,076</u> | <u>25,776</u> |

8. CREDITORS: Amounts Falling due Within One Year

| | 2005 £ | 2004 £ |
|------------------------------|----------------|---------------|
| Trade creditors | 136,206 | 62,137 |
| PAYE and social security | 8,585 | 8,817 |
| Accruals and deferred income | 48,695 | 27,679 |
| | <u>193,486</u> | <u>98,633</u> |

Medical Device Innovations Limited

Notes to the Financial Statements

Year Ended 31 December 2005

9. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as set out below.

| | Land & Buildings | |
|--------------------------------|------------------|------|
| | 2005 | 2004 |
| | £ | £ |
| Operating leases which expire: | | |
| Within 2 to 5 years | 19,034 | - |

10. RELATED PARTY TRANSACTIONS

The company was under the control of Avlar Bioventures Fund II Limited Partnership, who own 84.5% of the ordinary share capital.

During the year directors fees of £10,000.00 and consultancy fees of £37,170.37 were payable to Avlar Bio Ventures Limited.

At the year end Medical Device Innovations Limited owed £35,462.33 to Avlar Bio Ventures Limited.

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

During the year £5,109.59 was paid to Yorkshire Fund Managers, in respect of monitoring costs.

During the year consultancy fees of £9,450.00 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 £19,884.00 were paid to Anauel LLP in which Mr A J Allars was a partner.

11. SHARE CAPITAL

Authorised share capital:

| | 2005 | 2004 |
|--|--------------|--------------|
| | £ | £ |
| 10,000 Ordinary shares of £0.10 each | 1,000 | 1,000 |
| 24,000 A Ordinary shares of £0.10 each | 2,400 | 2,400 |
| 16,000 B Ordinary shares of £0.10 each | 1,600 | 1,600 |
| | <u>5,000</u> | <u>5,000</u> |

Allotted, called up and fully paid:

| | 2005 | | 2004 | |
|---------------------------------|---------------|--------------|---------------|--------------|
| | No | £ | No | £ |
| Ordinary shares of £0.10 each | 750 | 75 | 750 | 75 |
| A Ordinary shares of £0.10 each | 14,001 | 1,400 | 14,001 | 1,400 |
| B Ordinary shares of £0.10 each | 14,806 | 1,481 | 7,692 | 769 |
| | <u>29,557</u> | <u>2,956</u> | <u>22,443</u> | <u>2,244</u> |

Medical Device Innovations Limited

Notes to the Financial Statements

Year Ended 31 December 2005

11. SHARE CAPITAL *(continued)*

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

7,114 B Ordinary shares of 10p each at a premium of £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.

12. SHARE PREMIUM ACCOUNT

| | 2005 £ | 2004 £ |
|----------------------------|------------------|------------------|
| Balance brought forward | 2,397,792 | 499,501 |
| Arising on issue of shares | 924,108 | 1,898,291 |
| Balance carried forward | <u>3,321,900</u> | <u>2,397,792</u> |

13. OTHER RESERVES

| | 2005 £ | 2004 £ |
|---------------------------------|---------------|---------------|
| Fair value of share options: | | |
| At beginning of year | 96,812 | 17,450 |
| Options granted during the year | - | 79,362 |
| At end of year | <u>96,812</u> | <u>96,812</u> |
| Represented by: | | |
| Fair value of share options: | | |
| 500 Ordinary shares of 10p | 17,450 | 17,450 |
| 4,648 Ordinary shares of 10p | 79,362 | 79,362 |
| 62 Ordinary shares of 10p | - | - |
| | <u>96,812</u> | <u>96,812</u> |

Medical Device Innovations Limited

Notes to the Financial Statements

Year Ended 31 December 2005

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2005 | 2004 |
|---|-------------|-----------|
| | £ | £ |
| Loss for the financial year | (1,246,760) | (860,444) |
| New equity share capital subscribed | 712 | - |
| Premium on new share capital subscribed | 924,108 | 1,898,291 |
| Share Options | - | 96,812 |
| | <hr/> | <hr/> |
| Net (reduction)/addition to shareholders' funds/(deficit) | (321,940) | 1,134,659 |
| Opening shareholders' funds/(deficit) | 894,688 | (239,971) |
| | <hr/> | <hr/> |
| Closing shareholders' funds | 572,748 | 894,688 |

Medical Device Innovations Limited

Notes to the Financial Statements

Year Ended 31 December 2005

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 Deeds for the Transfer of Intellectual Property 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 the three dates during a period from the date of the Deeds to the date of completion of the product development phase or obtaining C E marks of approval for the devices. In event that the share options are not exercised within five years from the date of the Deeds 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 have been 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 be dealt with on a Recognised Investment Exchange. These options have lapsed in the year due to the withdrawal of Anauel LLP from involvement in the company.

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:

| | 2005 £ | 2004 £ |
|--|-----------|-----------|
| Option-based expenses attributable to services | — | 15,164 |

The movements in options granted to third parties were:

| | Number of Shares under option 2005 £ | 2004 £ | Weighted average exercise price 2005 £ | 2004 £ |
|----------------------------|--|-----------|--|-----------|
| Outstanding at 1 January | 969 | — | 10.40 | — |
| Options granted | 62 | 969 | 400.00 | 10.40 |
| Options forfeited / lapsed | (869) | — | (0.10) | — |
| Outstanding at 31 December | 162 | 969 | 214.80 | 10.40 |

Range of exercise price of options outstanding at 31 December 2005:

| Exercise Price Range | Average contractual life in years | Average remaining expected life in years |
|----------------------|---|---|
| £100 | 5.0 | 4.8 |
| £400 | 5.0 | 4.1 |

(b) Share-based plans for executives and employees

Under the Medical Device Innovations Limited 2003 Enterprise Management Investment Scheme the company

Medical Device Innovations Limited

Notes to the Financial Statements

Year Ended 31 December 2005

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 and 23 December 2004 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 the first to occur of a sale of 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 be dealt with on a Recognised Investment exchange.

On 23 December 2004 Mr M Collett was granted options on the same terms as those applicable to Mr D Cottier and Dr P Wall. Mr Collett's options lapsed in the year, when he ceased to be employed by the company.

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:

| | 2005 £ | 2004 £ |
|---|-----------|---------------|
| Option-based expenses attributable to EMI options | — | <u>64,198</u> |

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

| | Number of Shares under option 2005 £ | 2004 £ | Weighted average exercise price 2005 £ | 2004 £ |
|----------------------------|--|--------------|--|-------------|
| Outstanding at 1 January | 4,179 | 500 | 0.10 | 0.10 |
| Options granted | — | 3,679 | 0.10 | 0.10 |
| Options forfeited / lapsed | <u>(580)</u> | <u>—</u> | <u>(0.10)</u> | <u>—</u> |
| Outstanding at 31 December | <u>3,599</u> | <u>4,179</u> | <u>0.10</u> | <u>0.10</u> |

The weighted average contractual life and remaining expected life of options outstanding at 31 December 2005 were 10 years and 2 years 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 holder's gains on exercise.

Medical Device Innovations Limited

Notes to the Financial Statements

Year Ended 31 December 2005

16. 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.

Medical Device Innovations Limited

Management Information

Year Ended 31 December 2005

**The following pages do not form part of the statutory financial statements
which are the subject of the independent auditor's report on pages 4 to 5.**

Medical Device Innovations Limited

Detailed Profit and Loss Account

Year Ended 31 December 2005

| | 2005 £ | 2004 £ |
|------------------------------------|-------------|-----------|
| Cost of Sales | | |
| General project costs | 712,704 | 311,453 |
| Gross Loss | (712,704) | (311,453) |
| Overheads | | |
| Administrative expenses | 547,045 | 551,365 |
| Operating Loss | (1,259,749) | (862,818) |
| Bank interest receivable | 12,989 | 2,399 |
| | (1,246,760) | (860,419) |
| Bank interest payable | - | (25) |
| Loss on Ordinary Activities | (1,246,760) | (860,444) |

Medical Device Innovations Limited

Notes to the Detailed Profit and Loss Account

Year Ended 31 December 2005

| | 2005 | | 2004 | |
|---|---------|----------------|---------|----------------|
| | £ | £ | £ | £ |
| Administrative Expenses | | | | |
| Personnel Costs | | | | |
| Directors' salaries | 211,907 | | 158,977 | |
| Directors' fees | 29,883 | | 11,692 | |
| Directors' national insurance contributions | 25,151 | | 19,624 | |
| Directors' pension contributions | 24,399 | | 17,552 | |
| Wages and salaries | 33,454 | | 60,955 | |
| Recruitment costs | 450 | | - | |
| Employers national insurance contributions | 3,265 | | 7,123 | |
| Pensions | 1,172 | | 4,874 | |
| | | 329,681 | | 280,797 |
| Establishment Expenses | | | | |
| Rent, rates and water | 20,972 | | 11,272 | |
| Insurance | 647 | | 356 | |
| Repairs and maintenance | 371 | | - | |
| | | 21,990 | | 11,628 |
| General Expenses | | | | |
| Motor and travel expenses | 31,267 | | 22,202 | |
| Telephone | 4,507 | | 5,289 | |
| Subscriptions | 3,150 | | 1,375 | |
| Consultancy fees | 47,833 | | 27,000 | |
| EMI and other options | - | | 79,362 | |
| Company health plan | 3,338 | | 2,301 | |
| Stationery and postage | 6,306 | | 2,495 | |
| Marketing and P.R | 10,710 | | - | |
| Sundry expenses | 5,991 | | 1,271 | |
| Advertising | - | | 1,290 | |
| Legal & professional fees | 43,717 | | 93,110 | |
| Monitoring fees | 5,110 | | - | |
| Auditors' remuneration | 5,000 | | 4,650 | |
| Auditors' remuneration - non audit | 25,491 | | 17,208 | |
| Depreciation | 2,596 | | 1,017 | |
| | | 195,016 | | 258,570 |
| Financial Costs | | | | |
| Bank and credit card charges | | 358 | | 370 |
| | | <u>547,045</u> | | <u>551,365</u> |
| Interest Receivable | | | | |
| Bank interest receivable | | <u>12,989</u> | | <u>2,399</u> |