



**Osmetech plc**

Annual Report and Accounts 2004

## Osmetech today

Osmetech is a fast developing and well funded international diagnostics business targeting the high growth point of care sector. The acquisition of the OPTI range of blood gas analysers in April 2003 from Roche marked a transformation of the business by providing a profitable and high quality revenue base. This has created a strong platform from which the Group's exciting pipeline of new products can be developed. Based in Atlanta, US, OPTI has also provided an excellent operational infrastructure which together with a strong international distributor network is capable of supporting the Osmetech's future growth.

### Contents

1	Highlights
2	Chairman's statement
3	Chief Executive Officer's review
7	Board of directors
8	Report of the directors
12	Independent auditors' report
13	Consolidated profit and loss account
13	Consolidated statement of total recognised gains and losses
14	Consolidated balance sheet
15	Company balance sheet
16	Consolidated cash flow statement
16	Reconciliation of net cash flow to movement in net funds
17	Notes to the consolidated cash flow statement
19	Notes forming part of the financial statements
32	Notice of annual general meeting
	Form of proxy
	Directors and advisers



## Highlights

- Sales revenues well ahead of expectations at £6.2m.
- Loss before tax substantially reduced to £1.3m (2003 – £3.8m)
- Well funded Group with £3.2m in cash and term deposits at 30 April 2004
- Significant improvement in commercial and financial risk profile
- Five new OPTI products scheduled for launch in the coming year
- Good progress with development of vaginal infection product
- Important long term agreements signed with IDEXX for veterinary market
- Excellent growth prospects

During the last financial year Osmetech has made significant advances with its strategy to develop a medical devices and diagnostics business in the fast growing point of care market. As a result of the successful acquisition of the OPTI product line of blood gas analysers from Roche, the Group's risk profile improved substantially and the business is now well funded with over £3m of cash and term deposits at the year end.

## Chairman's statement

The first full year of trading of the OPTI product line has exceeded our expectations at all levels. Now fully integrated, this business provides a sound and profitable commercial base for the Group. There are clear organic growth plans for OPTI which will commence in the second half of the coming financial year following the launch of three key new products and the start of the important trading relationship with IDEXX in the veterinary market.

The OPTI business has provided us with an excellent platform from which we can develop other opportunities within the Group, notably the vaginal infection product scheduled for the next calendar year. The experience of the OPTI management team and the proven development and engineering capabilities will be very valuable in this process of bringing new products through to market.

I am delighted to welcome Alfred Marek to the Board. Alfred joined Osmetech from Roche at the time of the OPTI acquisition and is President of Osmetech's Critical Care Division based in Atlanta. Previously with AVL he was instrumental in developing their entire blood gas business prior to its sale to Roche.

This strengthening of the management team comes at an important time for the Group as it seeks to grow both organically and through continued strategic acquisitions.

Gordon Hall  
Chairman  
5 August 2004



**OPTI's self contained optical sensor cassette for blood gas, electrolyte and metabolite analysis**

Over 1.3 million consumable tests sold in 2003/4 representing 65% of total OPTI sales and a highly reliable source of revenue.

## Chief Executive Officer's review

### Introduction

During the course of this financial year the Group has been successfully transformed from a pre-revenue technology development operation to an international diagnostics business through the ground breaking OPTI acquisition. The highly reliable revenue streams from OPTI have exceeded our expectations and provide a solid base from which the business can develop its exciting opportunities for further growth. The acquisition has substantially improved the financial and commercial risk profile for Osmetech as it is now able to pursue its strategy for growth from a position of strength.

### The market

The global medical diagnostics market is worth approximately \$20bn and growing steadily, with Osmetech positioned in the fast growing point of care (POC) market segment. Annual double digit percentage growth is expected to continue in this sector as healthcare operators increasingly demand faster test results.

The OPTI business operates in the POC arterial blood gas market which has experienced high growth over recent years as testing migrates from traditional central hospital laboratory settings. Osmetech's vaginal infection product, currently under development, will also target similar POC markets where there is a significant unmet need for improved infectious disease testing.

### Business structure

Following the successful integration of the OPTI acquisition we have been able to consolidate the Group's operations on to the Atlanta site, where we have an excellent 60,000 sq ft facility capable of supporting the anticipated growth of the business.

The development of the vaginal infection product is now directly benefiting from the considerable experience and expertise of the OPTI team. These benefits span the full commercial progression from product development through to clinical, regulatory, production, sales and marketing operations. Both products have similar customer bases and we intend to use OPTI's strong international network of distributors to gain access to all significant world markets.

### OPTI trading

Sales revenues for the first full year of trading of \$10.5m (£6.2m) far exceeded our original expectations. These revenues include approximately \$1m (£0.6m) of SARS-related sales to China during the first half of the year.

New instrument sales accounted for 33% of total revenues with over 800 new analyser instruments sold during the year. The active installed base of over 4,000 instruments with customers provides robust and reliable demand for our proprietary consumables that are necessary in order to perform the tests. This high quality stream of consumable sales revenues amounted to 65% of total sales and should steadily grow as the installed base of instruments widens and further advances are made with initiatives to increase the average number of tests per instrument.



#### **The portable OPTI CCA analyser**

Over 800 new OPTI CCA instruments sold in 2003/4 increasing the active installed base of units to over 4,000 from which repeat consumable sales will be generated.

## **Chief Executive Officer's review** continued

### **New OPTI products**

We remain on target to introduce five new products during the coming year, the first three of which, including the new Critical Care Analyser with colour touch screen, were launched at the recent American Association of Clinical Chemists Conference (AACC) in Los Angeles. Two further key products are expected to be introduced in the second half of the year and should provide the basis for substantial revenue growth both through the sale of new instruments and consumable revenues for the growing installed base. We believe that much of this new business will be incremental as we will be able to offer products aimed at reducing the cost per test for both the higher usage customer and those operators only requiring a narrow range of tests.

### **IDEXX agreement**

We have recently entered into an OEM manufacturing and supply agreement with IDEXX Laboratories, Inc, a worldwide leader in the development and commercialisation of animal health diagnostic products. In 2003, IDEXX had sales of \$475m and have a current market capitalisation of approximately \$1.8bn. This long term commercial relationship should provide a substantial level of new business for OPTI in both instruments and consumables thereby allowing us to benefit from leveraging our highly scaleable manufacturing infrastructure in Atlanta.

We have also entered into a development and supply contract with IDEXX to create a new platform for measuring critical care parameters based on Osmetech's proprietary optical fluorescence technology.

Both contracts will span over a period of at least 10 years and will open the veterinarian market for Osmetech's technology and products.

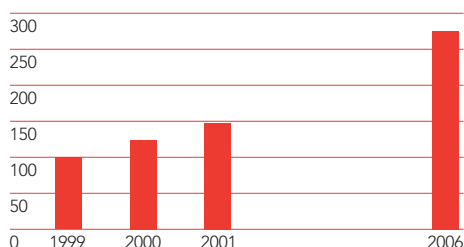
This relationship is not only a further validation of the OPTI technology but also demonstrates Osmetech's ability to scale up its manufacturing efficiently and become a top quality provider of critical care diagnostic instrumentation.

### **Vaginal Infection Product**

The increasing spread of sexually transmitted diseases (STDs) continues to be of major concern in all markets worldwide. The Centre for Disease Control has reported that 15 million people are diagnosed annually with an STD. In the ten year period to 2002, the NHS in the UK reported that the number of STD patients doubled, with 1 in 10 of the entire UK adult population now estimated to be infected with Chlamydia.

Current diagnostic practice is unable to provide results in a timely manner that would allow the early commencement of appropriate treatment that could provide improved control over the further spread of infection in the community. There is a clear unmet need for a simple and objective test for the most common and clinically important vaginal infections that is capable of delivering results within the time period of a normal patient visit.

### Global Near Patient and Point of Care Blood Gas Testing Market (revenues \$m)



The market segment has grown significantly in recent years and is expected to grow at an annual rate of 13% over the 5-year period 2001-6 as more testing moves away from the central laboratory setting

## Chief Executive Officer's review continued

Good progress has continued to be made with the development of a device capable of satisfying this market requirement. The device's automated testing process has been clinically tested and has provided results comparable to the manual methods currently used. This is an important step and the tests will now be optimised further and combined within the single platform device prior to the commencement of clinical trials. FDA regulatory approval for the combined device will be required prior to launch in the US in 2005.

### Financial review

Sales revenues totalled \$10,453,000 (£6,180,000), with 38% representing direct US sales and the remainder through third party distributors serving other markets. In product terms, the highly reliable repeat consumable sales accounted for 65% of total business revenues.

The gross profit margin was abnormally high at 55.8% reflecting the successful utilisation of slow moving and redundant inventory acquired as part of the purchase of the OPTI business.

The profitable trading of OPTI together with the significant reduction in the cost base of the remainder of the business has contributed to a substantial reduction in the loss for the year to £1,168,000 (2003 – £3,667,000). Development costs associated with the new product introductions will however increase in the coming year.

Cash outflows before financing at £2,084,000 were higher than the reported loss for the year, reflecting the final payments of the deferred consideration of \$795,000 (£422,000) for OPTI together with an increase of £474,000 in trade debtors due to the growth of the business over the full trading period.

Following the £2,000,000 placing to institutional investors in October 2003, the Group ended the year with cash balances and term deposits of £3,172,000. This represents a strong cash position and we are satisfied that the Group should have sufficient funds available to launch all of the new OPTI products scheduled for the coming year through to the launch of the integrated vaginal infection device.

All of OPTI's sales revenues and the majority of its costs are dollar based. The surplus of dollars that this generates broadly matches the dollar requirements for the rest of the Group.

# Chief Executive Officer's review

continued

## Outlook

The relocation of Osmetech's operational base to Atlanta has been extremely successful and our thanks go to all our employees, old and new, for making this move and indeed this year as productive and encouraging as it has been.

We have a high quality operational infrastructure capable of supporting the continued growth of the business. We expect to be able to build on the excellent performance of OPTI this year and are confident of significant growth commencing in the second half of next year through the new product introductions and the IDEXX relationship.

Osmetech is well placed in a fast growth market sector, with a strong commercial business base and access to enabling technologies, including its proprietary electronic nose technology, capable of meeting the market requirements for new products. We will also continue to search for opportunities through suitable acquisitions to further stimulate this growth.

James White  
Chief Executive Officer  
5 August 2004

## Board of directors

for the year ended 30 April 2004

### **Gordon James Hall**

Non-Executive Chairman

Gordon Hall, aged 61, was Managing Director of Shield Diagnostic Group plc (now Axis-Shield plc) until October 1997 and prior to this held senior positions at Abbott Laboratories. He was appointed to the Board as executive Chairman on 24 September 1998, becoming non-executive Chairman on 1 February 2001.

### **James Nicholas Gerald White**

Chief Executive Officer

James White, aged 33, was previously a senior consultant in Arthur D Little Ltd's corporate finance practice, where he specialised in advising venture capitalists on investments in small and medium sized companies. He was Operations Manager of Osmetech from September 1998 until appointed to the Board as Chief Operating Officer on 1 October 1999. He was appointed Chief Executive Officer on 22 December 2000.

### **David Anthony Sandilands**

Chief Financial Officer

David Sandilands, aged 43, was Group Financial Director at Bluebird Toys plc, until its take-over by Mattel Inc. of the USA. Mr Sandilands qualified as a Chartered Accountant with Price Waterhouse and was appointed to the Board as Chief Financial Officer on 1 July 1999.

### **Gordon Bruce Kuenster**

Non-Executive

Gordon Kuenster, aged 70, has founded and developed major medical diagnostic companies. He was appointed Group Vice President and a director of Squibb Corporation, following its acquisition of Advance Technology Laboratories Inc. He is Chairman of UMD Technology Inc, a medical technology company. He was appointed to the Board on 3 February 1998 as Director of Development and was appointed Chief Technology Officer on 1 October 1999, becoming a non-executive director on 3 September 2002.

### **Alfred Marek**

Executive

Alfred Marek, aged 58, is President of Osmetech's Critical Care Division based in Atlanta, having joined the Company at the time of the OPTI acquisition in April 2003. He was previously with AVL and was instrumental in developing their entire blood gas business prior to its sale to Roche in 2000. Mr Marek was appointed to the Board on 21 April 2004.

# Report of the directors

for the year ended 30 April 2004

The directors submit their report together with the audited financial statements for the year ended 30 April 2004.

## Results and dividends

The results of the Group for the year are set out on page 13.

The directors do not recommend the payment of a dividend (2003 – £Nil).

## Principal activities, trading review and future developments

The principal activity of the Group is the design, development and manufacture of healthcare diagnostics and medical devices incorporating sensing technology.

The principal activities of two of the subsidiaries, Osmetech Inc and Osmetech Technology Inc, are the same as Osmetech plc. The principal activity of the third subsidiary, Osmetech AESOP Trustee Limited, is to act as a trustee to an employee share ownership trust.

A review of the trading and future developments are dealt with fully in the accompanying Chairman's statement and Chief Executive Officer's review.

## Charitable and political contributions

The Group did not make any charitable or political contributions during the year.

## Directors

The directors of the Company at 30 April 2004 and their interests, which were all held beneficially, in the ordinary share capital of the Company at the balance sheet date were:

	Ordinary shares of 1p each 30 April 2004		Ordinary shares of 1p each 30 April 2003 (or date of appointment if later)	
	Shares	Options	Shares	Options
G J Hall	763,946	1,000,000	653,946	1,000,000
J N G White	1,509,500	25,120,000	2,289,500	25,120,000
D A Sandilands	330,263	12,500,000	330,263	12,500,000
G B Kuenster	330,540	3,350,000	330,540	3,350,000
A Marek (appointed 21 April 2004)	261,900	10,000,000	261,900	10,000,000

There have been no movements in the directors' interests in the Company's share capital between 30 April 2004 and 5 August 2004.

In accordance with the Articles of Association and, having been appointed since the date of the last Annual General Meeting, Mr A Marek retires and, being eligible, offers himself for election as a director at the Annual General Meeting to be held on 23 September 2004. Mr Marek's appointment is terminable by at least 12 months' notice.

In accordance with the Articles of Association, Mr G J Hall and Mr G B Kuenster will retire by rotation and, being eligible, offer themselves for re-election. Mr Hall and Mr Kuenster do not have service agreements with the Company. Mr Hall's and Mr Kuenster's appointments are terminable by at least 12 months' notice.

## Directors' interests in contracts

No director was, or is, materially interested in any contract subsisting during, or at the end of the financial year which was significant in relation to the business of the Group.

# Report of the directors

continued

## Substantial shareholdings

In addition to the directors' shareholdings shown above, the directors have been notified or are aware of the following interests in 3 per cent. or more of the issued ordinary share capital of the Company as at 14 July 2004:

Shareholder	Number of Shares	Per cent
Barclayshare Nominees Limited	45,546,929	7.54
T D Waterhouse Nominees (Europe) Limited SMKTNOMS Account	34,498,187	5.71
Barnard Nominees Limited E I I L Account	31,333,333	5.18
HSBC Global Custody Nominee (UK) Limited 813259 Account	23,446,884	3.88
HSDL Nominees Limited	18,463,107	3.05

## Compliance

As an AIM listed company, the Combined Code is not mandatory and the Company has therefore not produced a separate Corporate Governance or Directors' Remuneration Report.

## Going Concern

Having reviewed the Group's budgets and financial projections and after making due and careful enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The accounts, therefore, are prepared on a going concern basis.

## Directors' responsibilities

United Kingdom 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 the Group and of the profit or loss of the Group for that year. 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

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 the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that have occurred to the information contained in the financial statements since they were initially presented on the web site.

# Report of the directors

continued

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in the annual reports may differ from legislation in other jurisdictions.

## Supplier Payment Policy

The Company has due regard to the payment terms of suppliers and settles all undisputed accounts in accordance with the payment terms agreed with the supplier for each business transaction. The Company had 18 days (2003 – 22 days) of purchases outstanding at the end of the financial year.

## CREST

The Company's ordinary shares are eligible for settlement through CREST, the system for securities to be held and transferred in electronic form rather than in paper. Shareholders are not obliged to use CREST and can continue to hold and transfer shares in paper without loss of rights.

## Independent Auditors

A resolution to reappoint Deloitte & Touche LLP as the Company's auditor will be proposed at the Annual General Meeting.

## Electronic Communications

The Company may deliver shareholder information including Annual and Interim Reports, Forms of Proxy and Notices of General Meetings in an electronic format to shareholders.

If you would like to receive shareholder information in electronic format, please register your request on the Company's Registrar's electronic database at [www.capitaregistrars.com](http://www.capitaregistrars.com). You will initially need your unique 'investor code', which you will find at the top of your share certificate. There is no charge for this service. If you wish to subsequently change your mind, you may do so by contacting the Company's Registrars by post or through their web site.

If you elect to receive shareholder information electronically, please note that it is the shareholder's responsibility to notify the Company of any change to their name, address, e-mail address or other contact details. Shareholders should also note that, with electronic communication, the Company's obligations will be satisfied when it transmits the notification of availability of information or such other document as may be involved to the electronic address it has on file. The Company cannot be held responsible for any failure in transmission beyond its control any more than it can for postal failure. In the event of the Company becoming aware that an electronic notification is not successfully transmitted, a further two attempts will be made. In the event that the transmission is still unsuccessful a hard copy of the notification will be mailed to the shareholder. In the event that specific software is required to access information placed on the Company's website it will be available via the website without charge. Before electing for electronic communications shareholders should ensure that they have the appropriate equipment and computer capabilities sufficient for the purpose. The Company takes all reasonable precautions to ensure no viruses are present in any communication it sends out but cannot accept responsibility for loss or damage arising from the opening or use of any e-mail or attachments from the Company and recommends that shareholders subject all messages to virus checking procedures prior to use. Any electronic communication received by the Company that is found to contain any virus will not be accepted.

Shareholders wishing to receive shareholder information in the conventional printed form will continue to do so and need take no further action.

Should you have any further questions on this please contact the Company's Registrars, Capita Registrars on 0870 162 3131.

# Report of the directors

continued

## Annual General Meeting – Explanation of Special Business

### Renewal of Authority to Allot Shares and Disapplication of Pre-emption rights (Resolutions 6 and 7)

#### Resolution 6

The directors may only allot shares or grant rights over shares if authorised to do so by shareholders. The general authority granted at the annual general meeting held on 28 August, 2003 is due to expire at the annual general meeting in 2004. Accordingly, Resolution 6 will be proposed as an ordinary resolution to grant a new authority to allot unissued share capital up to an aggregate nominal value of £2,014,767, representing 33<sup>1</sup>/<sub>3</sub> per cent. of the total issued ordinary share capital as at 5 August 2004. If given, this authority will expire at the earlier of (A) 31 October 2005 and (B) the conclusion of the annual general meeting in 2005. Other than in respect of the Company's obligations under its employee share schemes the directors have no present intention of utilising the authority set out in this resolution to issue any of the authorised but unissued share capital of the Company. This authority, if granted, will be in addition to any other like authority to the extent not utilised at the time and date it is granted.

#### Resolution 7

The directors also require additional authority from shareholders to allot shares or grant rights over shares where they propose to do so for cash and otherwise than to existing shareholders pro rata to their holdings. The general authority granted at the annual general meeting held on 28 August, 2003 is due to expire at the annual general meeting in 2004. Accordingly, Resolution 7 will be proposed as a special resolution to grant such authority. If given, this power will expire at the earlier of (A) 31 October 2005 and (B) the conclusion of the annual general meeting in 2005. Apart from rights issues, open offers and other pre-emptive issues, the authority will be limited to the issue of shares up to an aggregate nominal value of £1,208,860 being 20 per cent. of the issued ordinary share capital at 5 August 2004. This authority does not accord with IPC guidelines, but the directors regard the authority as desirable to maximise the options open to the Company in the coming year.

By order of the Board

**S A Craig**

Secretary

5 August 2004

# Independent auditors' report

## Independent auditors' report to the members of Osmetech plc

We have audited the financial statements of Osmetech plc for the year ended 30 April 2004, which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the reconciliation of net cash flow to movement in net funds, notes to the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes 1 to 26. The financial statements have been prepared under 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 in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We read the Directors' Report and the other information contained in the Annual Report for the above year as set out in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## 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 circumstances of the Company and Group, 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 presentation of information in the financial statements.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 April 2004 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

## Deloitte & Touche LLP

Chartered Accountants and Registered Auditors  
Liverpool

5 August 2004

## Consolidated profit and loss account

for the year ended 30 April 2004

	Note	Year ended 30.04.04 £	Year ended 30.04.03 £
<b>Turnover</b>	2	<b>6,180,028</b>	686,411
Cost of sales		<b>(2,733,651)</b>	(315,630)
<b>Gross profit</b>		<b>3,446,377</b>	370,781
Administrative expenses		<b>(4,864,443)</b>	(3,469,618)
<b>Operating loss</b>	4	<b>(1,418,066)</b>	(3,098,837)
Exceptional cost of fundamental restructuring of continuing operations	5	–	(862,981)
		<b>(1,418,066)</b>	(3,961,818)
Interest receivable	8	<b>102,245</b>	130,919
Interest payable and similar charges	9	<b>(97)</b>	(146)
<b>Loss on ordinary activities before taxation</b>		<b>(1,315,918)</b>	(3,831,045)
Taxation	10	<b>147,804</b>	163,762
<b>Loss for the year transferred from reserves</b>	21	<b>(1,168,114)</b>	(3,667,283)
Basic and Diluted Loss per share	12	<b>(0.21p)</b>	(0.94p)

All activities arose from continuing operations.

## Consolidated statement of total recognised gains and losses

for the year ended 30 April 2004

	Year ended 30.04.04 £	Year ended 30.04.03 £
Loss for the financial year	<b>(1,168,114)</b>	(3,667,283)
Currency translation difference on foreign currency net investments	<b>(241,703)</b>	2,930
<b>Total recognised losses relating to the year</b>	<b>(1,409,817)</b>	(3,664,353)

# Consolidated balance sheet

at 30 April 2004

	Note	At 30.04.04		At 30.04.03	
		£	£	£	£
<b>Fixed assets</b>					
Intangible assets	13		<b>1,021,933</b>		1,074,958
Tangible assets	14		<b>476,513</b>		412,341
			<b>1,498,446</b>		1,487,299
<b>Current assets</b>					
Stocks	16	<b>967,278</b>		966,424	
Debtors – due within one year	17	<b>1,464,345</b>		1,116,234	
Investments – Term Deposits	18	<b>2,700,000</b>		2,720,000	
Cash at bank and in hand		<b>472,317</b>		518,833	
		<b>5,603,940</b>		5,321,491	
<b>Creditors: amounts falling due within one year</b>	19	<b>(940,483)</b>		(1,574,647)	
<b>Net current assets</b>			<b>4,663,457</b>		3,746,844
<b>Net assets</b>			<b>6,161,903</b>		5,234,143
<b>Capital and reserves</b>					
Called up share capital	20	<b>6,044,304</b>		5,161,775	
Share premium account	21	<b>29,493,748</b>		28,038,700	
Profit and loss account	21	<b>(29,376,149)</b>		(27,966,332)	
<b>Equity shareholders' funds</b>	22	<b>6,161,903</b>		5,234,143	

These financial statements were approved by the Board of Directors on 5 August 2004

Signed on behalf of the Board of Directors

**D A Sandilands** Director

# Company balance sheet

at 30 April 2004

	Note	At 30.04.04		At 30.04.03	
		£	£	£	£
<b>Fixed assets</b>					
Intangible assets	13		<b>680,419</b>		671,065
Tangible assets	14		<b>3,093</b>		31,478
Investments	15		<b>3,006,672</b>		2,292,729
			<b>3,690,184</b>		2,995,272
<b>Current assets</b>					
Stocks	16		-		33,486
Debtors – due within one year	17		<b>471,547</b>		503,391
Investments – term deposits	18		<b>2,700,000</b>		2,720,000
Cash at bank and in hand			<b>429,886</b>		412,428
			<b>3,601,433</b>		3,669,305
<b>Creditors: amounts falling due within one year</b>	19		<b>(324,995)</b>		(751,571)
<b>Net current assets</b>			<b>3,276,438</b>		2,917,734
<b>Net assets</b>			<b>6,966,622</b>		5,913,006
<b>Capital and reserves</b>					
Called up share capital	20		<b>6,044,304</b>		5,161,775
Share premium account	21		<b>29,493,748</b>		28,038,700
<b>Profit and loss account</b>	21		<b>(28,571,430)</b>		(27,287,469)
<b>Equity shareholders' funds</b>	22		<b>6,966,622</b>		5,913,006

These financial statements were approved by the Board of Directors on 5 August 2004

Signed on behalf of the Board of Directors

**D A Sandilands** Director

## Consolidated cash flow statement

for the year ended 30 April 2004

	Note	Year ended 30.04.04 £	Year ended 30.04.03 £
Net cash outflow from operating activities	(a)	<b>(1,772,616)</b>	(3,441,612)
Returns on investments and servicing of finance	(c)	<b>101,049</b>	127,267
Taxation	(c)	<b>227,529</b>	449,569
Capital expenditure and financial investment	(c)	<b>(238,303)</b>	(166,944)
Acquisitions and disposals	(b)	<b>(421,762)</b>	(1,340,342)
Cash outflow before management of liquid resources and financing		<b>(2,104,103)</b>	(4,372,062)
Management of liquid resources	(c)	<b>20,000</b>	(620,000)
Financing	(c)	<b>2,047,577</b>	4,894,955
<b>Decrease in cash</b>		<b>(36,526)</b>	(97,107)

## Reconciliation of net cash flow to movement in net funds

	Year ended 30.04.04 £	Year ended 30.04.03 £
Decrease in cash in the year	<b>(36,526)</b>	(97,107)
(Decrease)/increase in liquid resources	<b>(20,000)</b>	620,000
Exchange differences	<b>(9,990)</b>	(488)
Change in net funds	<b>(66,516)</b>	522,405
<b>Net funds at beginning of year</b>	<b>3,238,833</b>	2,716,428
<b>Net funds at end of year</b>	<b>3,172,317</b>	3,238,833

## Notes to the consolidated cash flow statement

### (a) Reconciliation of operating loss to operating cash flows

	Year ended 30.04.04 £	Year ended 30.04.03 £
Operating loss	<b>(1,418,066)</b>	(3,098,837)
Depreciation and amortisation	<b>157,831</b>	126,674
Loss on disposal of fixed assets	–	54,648
(Increase)/decrease in stocks	<b>(62,297)</b>	63,876
Increase in debtors	<b>(274,442)</b>	(725,438)
(Decrease)/increase in creditors	<b>(175,642)</b>	137,465
Net cash outflow from operating activities	<b>(1,772,616)</b>	(3,441,612)

### (b) Acquisitions and disposals

On 1 April 2003, the Group acquired the assets of the Atlanta, US based "OPTI" product line of blood gas analysers from Roche Diagnostics Inc. The total consideration adjusted for final inventory levels and excluding costs was \$2,745,000 (£1,671,294). The total consideration of £1,762,104 (including legal fees of £90,810) was paid in a number of instalments over the two financial years:

	Year ended 30.04.04 £	Year ended 30.04.03 £
Consideration paid during the year	<b>(421,762)</b>	(1,340,342)

### (c) Analysis of cash flows

	Year ended 30.04.04 £	Year ended 30.04.03 £
<b>(i) Gross cash flows</b>		
<b>Returns on investments and servicing of finance</b>		
Interest received	<b>101,146</b>	127,413
Interest paid	<b>(97)</b>	(146)
	<b>101,049</b>	127,267
<b>Taxation</b>		
Research and Development tax credit	<b>227,529</b>	449,569
<b>Capital expenditure and financial investment</b>		
Payments to acquire intangible fixed assets	<b>(14,754)</b>	(79,379)
Payments to acquire tangible assets	<b>(223,549)</b>	(87,565)
	<b>(238,303)</b>	(166,944)
<b>Management of liquid resources</b>		
Transfer from/(to) Term Deposits	<b>20,000</b>	(620,000)
<b>Financing</b>		
Shares issued	<b>2,147,577</b>	5,562,998
Share issue expenses	<b>(100,000)</b>	(668,043)
	<b>2,047,577</b>	4,894,955

## Notes to the consolidated cash flow statement

continued

### (ii) Analysis of changes in net funds

	At 30.04.03 £	Cash flows £	Exchange differences £	At 30.04.04 £
Cash at bank and in hand	518,833	(36,526)	(9,990)	<b>472,317</b>
Current asset investments	2,720,000	(20,000)	–	<b>2,700,000</b>
Net Funds	3,238,833	(56,526)	(9,990)	<b>3,172,317</b>

# Notes forming part of the financial statements

for the year ended 30 April 2004

## 1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable United Kingdom accounting standards. The Company has taken advantage of the exemption conferred by section 230 of the Companies Act 1985 from presenting its own profit and loss account. The following accounting policies, which have not changed in the year, have been applied.

### *Basis of consolidation*

The consolidated accounts incorporate the financial statements of Osmetech plc and all of its subsidiary undertakings made up to 30 April 2004. The Company uses the acquisition method of accounting to consolidate the results of its subsidiary undertakings. The results of subsidiary undertakings are included from the date of acquisition.

### *Investments*

Investments held as fixed assets are stated at cost less provision for impairment.

### *Acquisitions and disposals*

On acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the Group's share of net separable assets under the acquisition method in FRS6 'Acquisitions and Mergers'. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition. The results and cash flow relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition.

### *Turnover*

Turnover represents sales of goods and services to third parties and access fees, milestone payments and non-refundable licence fees due from third parties, excluding value added tax.

Unearned amounts are carried forward as deferred income.

### *Tangible fixed assets*

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

### *Depreciation*

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets over their expected useful lives. It is calculated at the following rates:

Short leasehold improvements	–	over the life of lease
Plant, machinery and motor vehicles	–	10-35% per annum on cost
Office equipment	–	25-50% per annum on cost

### *Taxation*

Current tax, including UK corporation tax, research and development tax credits and foreign tax, is provided at amounts expected to be paid or recovered using the tax rates and laws enacted or substantively enacted by the balance sheet date.

### *Deferred taxation*

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

# Notes forming part of the financial statements

continued

## 1 Accounting policies continued

### *Finance costs*

Finance costs associated with the issue of debt are deducted from the proceeds of the issue and charged to the profit and loss account over the term of the debt so that the amount charged is at a constant rate on the carrying amount.

### *Financial instruments*

In relation to the disclosures made in note 26:

- Short term debtors and creditors are not treated as financial assets or financial liabilities.
- The Group does not hold or issue derivative financial instruments for trading purposes.
- Forward exchange contracts are used to fix the value of the related asset or liability in the contract currency at the contract rate and any gains or losses on these instruments are offset. Where the instrument is used to hedge a committed or probable future transaction, gains and losses are deferred until the transaction occurs.

### *Foreign currency*

Profit and loss accounts of foreign subsidiary undertakings are translated into sterling at the average rate. Assets and liabilities of the foreign subsidiary undertakings are translated into sterling at the rates of exchange ruling on the balance sheet date.

Exchange differences which arise from translation of the net investment in foreign subsidiary undertakings and the translation of the profit and loss account between closing rate and average rate are taken to reserves.

All other differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, which, to the extent that they are used to finance or provide a hedge against foreign equity investments, are taken directly to reserves to the extent of the exchange differences arising on the net investment in those enterprises.

### *Intellectual property rights*

Patent and trademark costs are capitalised and written off on a straight line basis over the shorter of the life of the patent or trademark or its useful economic life. The Company's other intellectual property rights are stated at cost and amortised over their useful economic lives in relation to revenues generated.

### *Goodwill*

Purchased goodwill, representing the excess of the fair value of the consideration over the fair value of the assets acquired, is capitalised and amortised on a straight line basis over its useful economic life. This is presumed to be 15 years unless circumstances change significantly resulting in an impairment of the carrying value.

### *Research and development*

All research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

### *Stock*

Stocks are valued at the lower of cost or net realisable value. Cost is calculated as follows:

- Raw materials – cost of purchase on first in, first out basis.
- Finished goods – cost of raw materials and labour and attributable overheads based on the normal level of activity.

Net realisable value is based on estimated selling price less further costs to completion and disposal.

# Notes forming part of the financial statements

continued

## 1 Accounting policies continued

### Pension costs

Contributions to defined contribution pension schemes are charged to the profit and loss account in the year in which they become payable.

### Operating leases

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis.

## 2 Turnover

The turnover is wholly attributable to the Group's principal activity.

Turnover is analysed by market as follows:

	2004 £	2003 £
United Kingdom	123,923	3,008
Rest of Europe	1,142,784	43,082
USA	2,331,073	212,399
Far East	2,120,280	403,038
Rest of world	461,968	24,884
	<b>6,180,028</b>	<b>686,411</b>

All turnover originates in the United States. All turnover is to external customers.

## 3 Analysis of loss before taxation and net assets

The directors have not disclosed segmental analysis on the grounds that it is considered seriously prejudicial to the Group's commercial interests.

## 4 Operating loss

	2004 £	2003 £
This is arrived at after charging:		
Amortisation of intangible fixed assets	30,807	16,566
Depreciation	127,024	110,108
Auditors' remuneration – audit services: Osmetech plc	24,500	22,500
Other Group companies	17,791	17,493
Previous auditors – non audit services	–	12,877
Operating lease rentals – plant and machinery	–	–
– other	263,036	192,576
Research and development	1,744,862	1,375,948
Loss on disposal of fixed assets	–	54,648

Amounts payable to Deloitte & Touche LLP and their associates by the Company and its UK subsidiary undertakings in respect of non-audit services were £11,000 (2003 – £nil).

## Notes forming part of the financial statements

continued

### 5 Cost of fundamental restructuring of continuing operations

The costs in 2003 relate to the closure of the Company's facilities in Woburn, Massachusetts, USA and Crewe, Cheshire, UK and related provisions for the write off of intangible and tangible fixed assets.

	2004 £	2003 £
Intangible fixed assets	–	243,903
Tangible fixed assets	–	112,361
Closure costs	–	506,717
	–	862,981

The effect of this exceptional charge on pre and post tax results in 2003 was £862,981.

### 6 Employees

	2004 £	2003 £
Staff costs for all employees, including executive directors, consist of:		
Wages and salaries	2,739,148	1,150,246
Social security costs	227,584	110,302
Other pension costs	107,637	87,443
	3,074,369	1,347,991

The average monthly number of employees of the Group during the year, including executive directors, was as follows:

	Number	Number
Manufacturing	24	2
Research and development	21	19
Selling and administration	19	8
	64	29

### 7 Directors

	2004 £	2003 £
Emoluments	403,261	479,303
Defined contribution pension scheme payments	40,230	40,780
	443,491	520,083

Highest paid director:

Emoluments	198,311	155,866
Defined contribution pension scheme payments	22,500	18,750
	220,811	174,616

### Directors' interests

The interests of the directors in ordinary shares of Osmetech plc are all held beneficially as reported in the Report of the directors on page 8.

# Notes forming part of the financial statements

continued

## 7 Directors continued

### Defined Contribution Pension Scheme Payments

	2004 Number of directors	2003 Number of directors
Defined contribution pension schemes	<b>3</b>	<b>3</b>

### Options

Director	Total options on ordinary shares 30.04.03*	Granted during the year	Lapsed/ surrendered during the year	Total options on ordinary shares 30.04.04	Date of Grant	Exercise price per share	From	Exercisable To
G J Hall	1,000,000	–	–	<b>1,000,000</b>	25.09.98	2p	21.10.01	21.01.08
J N G White	120,000	–	–	<b>120,000</b>	25.09.98	2p	21.10.01	21.01.08
	5,000,000	–	–	<b>5,000,000</b>	30.09.02	2p	30.09.05	30.09.12
	15,815,900	–	–	<b>15,815,900</b>	24.02.03	2.39p	24.02.04	24.02.13
	4,184,100	–	–	<b>4,184,100</b>	24.02.03	2.39p	24.02.04	24.02.13
D A Sandilands	2,500,000	–	–	<b>2,500,000</b>	30.09.02	2p	30.09.05	30.09.12
	5,815,900	–	–	<b>5,815,900</b>	24.02.03	2.39p	24.02.04	24.02.13
	4,184,100	–	–	<b>4,184,100</b>	24.02.03	2.39p	24.02.04	24.02.13
G B Kuenster	1,350,000	–	–	<b>1,350,000</b>	26.04.00	26 <sup>1</sup> / <sub>4</sub> p	26.04.03	26.04.10
	1,000,000	–	–	<b>1,000,000</b>	20.03.01	11p	20.03.04	20.03.11
	1,000,000	–	–	<b>1,000,000</b>	29.01.02	12 <sup>3</sup> / <sub>4</sub> p	29.01.05	29.01.12
A Marek (appointed 21 April 2004)	10,000,000	–	–	<b>10,000,000</b>	1.04.03	2.33p	1.04.04	1.04.13

The mid-market price of the shares at 30 April 2004 was 4.33p (2003 – 3.45p) and the range during the period was between 2.81p and 5p; (2003 – 1.75p and 12.42p).

\*or date of appointment if later

### 8 Interest receivable

	2004 £	2003 £
Interest on bank balances and term deposits	<b>102,245</b>	130,919
	<b>102,245</b>	130,919

### 9 Interest payable and similar charges

	2004 £	2003 £
Bank borrowings	<b>97</b>	146
	<b>97</b>	146

## Notes forming part of the financial statements

continued

### 10 Tax on loss on ordinary activities

The tax credit comprises:

	2004 £	2003 £
Current tax:		
UK corporation tax receivable	(147,804)	(227,529)
Adjustment in respect of prior years research and development tax credit	–	63,767
<b>Total tax on loss on ordinary activities</b>	<b>(147,804)</b>	<b>(163,762)</b>

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2004 £	2003 £
Loss on ordinary activities before tax	(1,315,918)	(3,831,045)
Tax credit at 30%	(394,775)	(1,149,314)
Effects of:		
– losses which are available to set against future profits	418,074	1,149,314
– research and development tax credit	(147,804)	(163,762)
– expenses not deductible for tax purposes	10,959	–
– capital allowances in excess of depreciation	(22,826)	–
– movement in short term timing differences	(11,432)	–
<b>Total current tax credit</b>	<b>(147,804)</b>	<b>(163,762)</b>

### Factors that may affect the future tax charge

A deferred tax asset has not been recognised in respect of timing differences relating to tax losses carried forward as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised at a standard tax rate of 30% is £6,412,912 (2003 – £5,019,332). In addition, a deferred tax asset in respect of capital allowances and general provisions of £317,063 (2003 – £nil) has not been recognised. These assets will be recoverable if the company generates profits in the future from the same trade in which the losses were incurred.

### 11 Loss attributable to the Company

The loss for the financial year dealt with in the financial statements of the parent company was £1,283,961 (2003 – £2,987,237). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

### 12 Loss per share

The loss per share of 0.21p (2003 – loss per share 0.94p) has been calculated on the weighted average number of shares in issue during the year namely 561,457,432; (2003 – 389,690,248) and losses of £1,168,114; (2003 – £3,667,283).

FRS 14 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it is inappropriate to assume that option holders would act irrationally, no adjustment is made to diluted EPS for out-of-the-money share options.

## Notes forming part of the financial statements

continued

### 13 Intangible assets

	Group				Company			
	Patents and Trademarks £	Intellectual Property £	Goodwill £	Total £	Patents and Trademarks £	Intellectual Property £	Goodwill £	Total £
<b>Group</b>								
<i>Cost</i>								
At beginning of year	180,932	600,000	405,629	<b>1,186,561</b>	180,932	600,000	–	<b>780,932</b>
Additions	14,754	–	–	<b>14,754</b>	14,754	–	–	<b>14,754</b>
Currency translation adjustment	–	–	(38,074)	<b>(38,074)</b>	–	–	–	–
At end of year	195,686	600,000	367,555	<b>1,163,241</b>	195,686	600,000	–	<b>795,686</b>
<i>Amortisation</i>								
At beginning of year	13,607	96,260	1,736	<b>111,603</b>	13,607	96,260	–	<b>109,867</b>
Charge for the year	5,400	–	25,407	<b>30,807</b>	5,400	–	–	<b>5,400</b>
Currency translation adjustment	–	–	(1,102)	<b>(1,102)</b>	–	–	–	–
At end of year	19,007	96,260	26,041	<b>141,308</b>	19,007	96,260	–	<b>115,267</b>
<i>Net book value</i>								
<b>At 30 April 2004</b>	<b>176,679</b>	<b>503,740</b>	<b>341,514</b>	<b>1,021,933</b>	<b>176,679</b>	<b>503,740</b>	–	<b>680,419</b>
At 30 April 2003	167,325	503,740	403,893	1,074,958	167,325	503,740	–	671,065

### 14 Tangible assets

	Short leasehold improvements £	Plant, machinery and motor vehicles £	Office equipment £	Total £
	<b>Group</b>			
<i>Cost</i>				
At beginning of year	–	340,904	150,647	<b>491,551</b>
Additions	1,124	138,678	83,747	<b>223,549</b>
Currency translation adjustment	–	(23,234)	(13,236)	<b>(36,470)</b>
At end of year	1,124	456,348	221,158	<b>678,630</b>
<i>Depreciation</i>				
At beginning of year	–	69,170	10,040	<b>79,210</b>
Charge for the year	39	70,445	56,540	<b>127,024</b>
Currency translation adjustment	(1)	(2,111)	(2,005)	<b>(4,117)</b>
At end of year	38	137,504	64,575	<b>202,117</b>
<i>Net book value</i>				
<b>At 30 April 2004</b>	<b>1,086</b>	<b>318,844</b>	<b>156,583</b>	<b>476,513</b>
At 30 April 2003	–	271,734	140,607	412,341

## Notes forming part of the financial statements

continued

### 14 Tangible assets continued

	Plant, machinery and motor vehicles £	Office equipment £	Total £
<b>Company</b>			
<i>Cost</i>			
At beginning of year	93,374	9,639	<b>103,013</b>
Additions	–	3,301	<b>3,301</b>
Transfers to other group companies	(93,374)	–	<b>(93,374)</b>
At end of year	–	12,940	<b>12,940</b>
<i>Depreciation</i>			
At beginning of year	64,763	6,772	<b>71,535</b>
Charge for the year	17,085	3,075	<b>20,160</b>
Transfers to other group companies	(81,848)	–	<b>(81,848)</b>
At end of year	–	9,847	<b>9,847</b>
<i>Net book value</i>			
<b>At 30 April 2004</b>	<b>–</b>	<b>3,093</b>	<b>3,093</b>
At 30 April 2003	28,611	2,867	31,478

### 15 Fixed asset investments

	Shares £	Loan £	Total £
<b>Company</b>			
<i>Cost</i>			
At beginning of year	646	9,090,703	<b>9,091,349</b>
Transactions in the year	–	713,943	<b>713,943</b>
At end of year	646	9,804,646	<b>9,805,292</b>
<i>Provision for impairment</i>			
At beginning of year and end of year	645	6,797,975	<b>6,798,620</b>
<i>Net book value</i>			
<b>At 30 April 2004</b>	<b>1</b>	<b>3,006,671</b>	<b>3,006,672</b>
At 30 April 2003	1	2,292,728	2,292,729

The following were subsidiary undertakings at the end of the year and have all been included in the consolidated accounts.

Name	Country of incorporation or registration	Proportion of voting rights and ordinary share capital held	Nature of business
Osmetech Technology Inc	USA	100%	Holding Company
Osmetech Inc	USA	100%*	Same as ultimate parent company
Osmetech AESOP Trustee Limited	UK	100%	Dormant

The country of operation is the same as its country of incorporation or registration.

\*Shares held by Osmetech Technology Inc.

## Notes forming part of the financial statements

continued

### 16 Stocks

	2004		2003	
	Group £	Company £	Group £	Company £
Raw materials and work in progress	600,574	–	424,845	33,486
Finished goods	366,704	–	541,579	–
	<b>967,278</b>	<b>–</b>	<b>966,424</b>	<b>33,486</b>

There is no material difference between the replacement cost of stocks and the amount at which they are stated in the financial statements.

### 17 Debtors

	2004		2003	
	Group £	Company £	Group £	Company £
Due within one year				
Trade debtors	928,649	–	589,501	7,550
Other debtors	46,251	14,715	38,343	38,343
Called up share capital not paid	290,000	290,000	–	–
Taxation recoverable	149,515	149,515	244,420	244,420
Prepayments and accrued income	49,930	17,317	243,970	213,078
	<b>1,464,345</b>	<b>471,547</b>	<b>1,116,234</b>	<b>503,391</b>

### 18 Investments – term deposits

	2004 £	2003 £
<b>Group and Company</b>		
Cash deposits with terms in excess of 7 days	<b>2,700,000</b>	2,720,000

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

	2004		2003	
	Group £	Company £	Group £	Company £
Trade creditors	217,984	30,210	495,004	202,513
Taxation and social security	51,820	51,820	30,972	30,972
Accruals and deferred income	670,679	242,965	1,042,080	518,086
Other creditors	–	–	6,591	–
	<b>940,483</b>	<b>324,995</b>	<b>1,574,647</b>	<b>751,571</b>

## Notes forming part of the financial statements

continued

### 20 Share capital

	Authorised		Allotted, called up and fully paid		Allotted and called up	
	2004 £	2003 £	2004 £	2003 £	2004 £	2003 £
Ordinary shares of 1p	<b>8,100,000</b>	8,100,000	<b>5,899,304</b>	5,161,775	<b>145,000</b>	–

The number of authorised ordinary shares at 30 April 2004 is 810,000,000 (2003 – 810,000,000); the number of allotted, called up and fully paid ordinary shares at 30 April 2004 is 589,930,397 (2003 – 516,177,571); and the number of allotted and called up ordinary shares at 30 April 2004 is 14,500,000 (2003 – nil).

The following ordinary shares of 1p each were issued during the year:

Date	Number	Consideration per share
12 June 2003	125,000	1.75p
	276,000	2.39p
30 June 2003	125,000	1.75p
	50,000	2.39p
1 July 2003	250,000	1.75p
	25,000	2.39p
2 July 2003	125,000	1.75p
	352,862	2.39p
3 July 2003	125,000	1.75p
4 July 2003	250,000	1.75p
	418,389	2.39p
7 July 2003	187,500	1.75p
	358,686	2.39p
7 July 2003	250,000	1.75p
	580,884	2.39p
	22,000	2p
9 July 2003	100,000	1.75p
17 July 2003	225,000	1.75p
21 July 2003	125,000	1.75p
22 July 2003	93,750	1.75p
22 August 2003	48,000	2p
6 October 2003	66,666,667	3p
4 December 2003	125,000	1.75p
	383,686	2.39p
9 January 2004	200,000	1.75p
	380,150	2.39p
4 February 2004	15,000,000	2p
5 February 2004	250,000	1.75p
	634,252	2.39p
9 February 2004	250,000	1.75p
12 February 2004	250,000	1.75p

# Notes forming part of the financial statements

continued

## 20 Share capital continued

### Share options

The Company has granted options under the Osmetech plc Enterprise Management Incentive Plan ("EMI Plan") and the Osmetech plc 2003 US Equity Compensation Plan ("US Plan") and has entered into individual option agreements as follows:

#### 1. EMI Plan:

Date	Number of ordinary shares under option as at		Subscription Price	Exercisable between
	30.04.04	30.04.03		
1 March 2001	–	869,565	11½p	1 March 2004 and 1 March 2011
17 September 2002	<b>1,437,500</b>	4,493,750	1¾p	17 December 2002 and 17 September 2012
24 February 2003	<b>11,359,518</b>	14,819,427	2.39p	17 December 2003 and 24 February 2013
	<b>12,797,018</b>	20,182,742		

#### 2. US Plan:

Date	Number of ordinary shares under option as at		Subscription Price	Exercisable between
	30.04.04	30.04.03		
1 April 2003	<b>25,000,000</b>	25,000,000	2.33p	1 April 2004 and 1 April 2013

#### 3. Individual Option Agreements:

Date	Number of ordinary shares under option as at		Subscription Price	Exercisable between
	30.04.04	30.04.03		
25 September 1998	<b>1,237,000</b>	1,307,000	2p	21 October 2001 and 21 October 2008
21 May 1999	–	78,872	18p	21 May 2002 and 21 May 2009
13 October 1999	–	500,000	17¾p	13 October 2002 and 13 October 2009
26 April 2000	<b>1,350,000</b>	3,150,000	26¼p	26 April 2003 and 26 April 2010
1 March 2001	–	500,000	11½p	1 March 2004 and 1 March 2011
20 March 2001	<b>250,000</b>	250,000	11p	20 March 2004 and 20 March 2011
20 March 2001	<b>750,000</b>	750,000	11p	20 March 2004 and 20 March 2011
29 January 2002	<b>2,000,000</b>	3,500,000	12¾p	29 January 2005 and 29 January 2012
17 September 2002	<b>2,500,000</b>	2,500,000	2p	17 September 2005 and 17 September 2012
30 September 2002	<b>7,500,000</b>	7,500,000	2p	30 September 2005 and 30 September 2012
24 February 2003	<b>21,631,800</b>	21,631,800	2.39p	24 February 2004 and 24 February 2013
	<b>37,218,800</b>	41,667,672		

### Warrants

The Company has warrants outstanding as follows:

Date	Number of ordinary shares under warrant as at		Subscription Price	Exercisable between
	30.04.04	30.04.03		
14 January 2002	<b>300,000</b>	300,000	14.055p	15 January 2002 and 14 January 2005
29 January 2002	<b>730,000</b>	730,000	13.32p	30 January 2002 and 29 January 2005
30 September 2002	–	15,000,000	2p	30 September 2002 and 30 September 2005
	<b>1,030,000</b>	16,030,000		

## Notes forming part of the financial statements

continued

### 21 Reserves

	Share premium account £	Profit and loss account £
<b>Group</b>		
At beginning of year	28,038,700	(27,966,332)
On new share capital subscribed	1,555,048	–
Issue expenses	(100,000)	–
Loss for the year	–	(1,168,114)
Exchange loss on consolidation	–	(241,703)
At end of year	<b>29,493,748</b>	<b>(29,376,149)</b>

	Share premium account £	Profit and loss account £
<b>Company</b>		
At beginning of year	28,038,700	(27,287,469)
On new share capital subscribed	1,555,048	–
Issue expenses	(100,000)	–
Loss for the year	–	(1,283,961)
At end of year	<b>29,493,748</b>	<b>(28,571,430)</b>

### 22 Reconciliation of movements in shareholders' funds

	2004		2003	
	Group £	Company £	Group £	Company £
Loss for the financial year	(1,168,114)	(1,283,961)	(3,667,283)	(2,987,237)
Other recognised gains and losses relating to the year	(241,703)	–	2,930	–
New share capital subscribed including premium	2,337,577	2,337,577	4,894,955	4,894,955
Net increase in shareholders' funds	927,760	1,053,616	1,230,602	1,907,718
Opening shareholders' funds	5,234,143	5,913,006	4,003,541	4,005,288
Closing shareholders' funds	<b>6,161,903</b>	<b>6,966,622</b>	5,234,143	5,913,006

### 23 Commitments

At the balance sheet date the Group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2004 £	Other 2004 £	Land and buildings 2003 £	Other 2003 £
Operating leases which expire:				
Within 1 year	–	–	437,531	5,821
Two and five years	–	–	–	2,362
Over five years	168,055	5,067	–	–
	<b>168,055</b>	<b>5,067</b>	437,531	8,183

## Notes forming part of the financial statements

continued

### 24 Related party transactions

The Company has taken advantage of the exemption not to disclose transactions with other Group undertakings as voting rights are controlled within the Group and consolidated financial statements are publicly available.

No director was, or is, materially interested in any contract subsisting during, or at the end of the financial year which was significant in relation to the business of the Group.

### 25 Pension costs

The Company makes contributions into money purchase pension schemes for the benefit of its employees. The assets of the schemes are held separately from those of the Company in independently administered funds. The pension cost charge represents contributions payable and paid by the Company to the funds, and amounted to £107,637 for the year (2003 – £87,443).

### 26 Financial instruments

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 – Derivatives and Other Financial Instruments: Disclosures (FRS13). Certain financial assets such as investments in subsidiaries are excluded from the scope of these disclosures.

As permitted by FRS13, short-term debtors and creditors have been excluded from the disclosures other than the currency risk disclosures.

There is no material difference between the fair values and book values of the Group's financial instruments, either in the current or prior year.

The Group's treasury activities are designed to provide suitable, flexible funding arrangements to satisfy its requirements. The Group uses financial instruments comprising cash and term deposits. The main risks arising from the Group financial instruments are interest rate and liquidity risks. The Board reviews policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

The Group aims to achieve a balance between continuity and flexibility of funding by maintaining a range of maturities on its liquid resources. The Group also mixes the duration of its deposits to reduce the impact of interest rate fluctuations.

The Group has limited foreign currency risk since overseas subsidiaries derive revenues and incur expenses denominated predominantly in the currencies of the countries in which they operate. All monetary assets and liabilities of the Group are materially denominated in the operating or functional currency of the operating unit involved.

#### *Interest bearing financial assets*

	Group £	2004 Sterling £	Functional currency of operations			Dollar £
			Dollar £	Group £	2003 Sterling £	
Cash	<b>472,317</b>	<b>429,886</b>	<b>42,431</b>	518,833	411,730	107,103
Term Deposits	<b>2,700,000</b>	<b>2,700,000</b>	–	2,720,000	2,720,000	–
	<b>3,172,317</b>	<b>3,129,886</b>	<b>42,431</b>	3,238,833	3,131,730	107,103

The sterling and US dollar cash balances attract interest at floating rates based on the Bank of England Base rate and US Prime Rate respectively.

The term deposits are of 1 month's duration, at a weighted average fixed rate of 4.06% (2003 – 1 month's duration, 3.69%).

## Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of Osmetech plc (the "Company") will be held at the offices of Ashurst, Broadwalk House, 5 Appold Street, London EC2A 2HA on 23 September 2004 at 11.00 am for the purpose of considering and, if thought fit, passing the following resolutions:

### Ordinary Business

1. To receive and consider the accounts for the year ended 30 April 2004, together with the reports of the directors and auditors thereon.
2. To elect A Marek as a director.
3. To re-elect G J Hall as a director.
4. To re-elect G B Kuenster as a director.
5. To re-appoint Deloitte & Touche LLP as auditors of the Company until the conclusion of the next annual general meeting and to authorise the directors of the Company to determine their remuneration.

### Special Business

To consider and, if thought fit, to pass the following resolutions which number 6 will be proposed as an ordinary resolution and number 7 will be proposed as a special resolution:

6. That the directors be and they are hereby generally and unconditionally authorised for the purposes of and pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £2,014,767 provided that this authority shall, unless renewed, varied or revoked, expire at the earlier of (A) 31 October 2005 and (B) the conclusion of the next annual general meeting of the Company to be held in 2005 and provided further that the Company may before the expiry of such period make any offer, agreement or arrangement which would or might require relevant securities to be allotted after such expiry and the directors of the Company may allot relevant securities pursuant to any such offer, agreement or arrangement as if the authority hereby conferred had not expired. This authority shall be in addition to any like authority pursuant to the said section 80 to the extent not utilised at the time and date on which this Resolution 6 is passed.
7. That, subject to the passing of Resolution 6 above, the directors of the Company be and they are hereby empowered to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority conferred by Resolution 6 above as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall, unless renewed, varied or revoked, expire at the earlier of (A) 31 October 2005 and (B) the conclusion of the next annual general meeting of the Company to be held in 2005 and provided further that this power shall be limited to the allotment of equity securities:
  - (i) in connection with a rights issue, open offer or other pre-emptive issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as practical) to the respective number of ordinary shares held by them but subject to such exclusions or other arrangements as the directors may deem necessary or desirable in relation to fractional entitlements or legal or practical problems arising in, or pursuant to, the laws of any territory or the requirement of any regulatory body or stock exchange in any territory; and
  - (ii) (otherwise than pursuant to paragraph (i) above) up to an aggregate nominal amount of £1,208,860,

## Notice of annual general meeting

continued

and provided further that the Company may, at any time before the expiry of such power make any offer or enter into any agreement which would or might require equity securities to be allotted after the expiry of such power and the directors may allot equity securities in pursuance of any such offer or agreement as if such power conferred hereby had not expired. This power shall be in addition to any existing like power to the extent not utilised at the time and date on which this Resolution 7 becomes unconditional.

By Order of the Board  
S A Craig  
Secretary

Registered office  
Broadwalk House  
5 Appold Street  
London EC2A 2HA

5 August 2004

### NOTES:

- (1) A member of the Company may appoint one or more proxies to attend and, on a poll, to vote instead of the member. A proxy of a member need not also be a member.
- (2) The instrument appointing a proxy, and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority must be deposited with the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than 48 hours before the time for holding the meeting. A form of Proxy accompanies this document for use by members.
- (3) Completion of the Form of Proxy will not preclude a member from attending and voting in person.
- (4) As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, only those holders of Ordinary Shares who are registered on the Company's share register as at 11.00 am on 21 September 2004 shall be entitled to attend the Annual General Meeting and to vote in respect of the number of shares registered in their names at that time. Changes to entries on the share register after 11.00 am on 21 September 2004 shall be disregarded in determining the rights of any person to attend and/or vote at the Annual General Meeting.
- (5) The register of directors' interests in the share capital of the Company is available for inspection at the Company's registered office during normal business hours from the date of this notice until the date of the annual general meeting and will be available for inspection at the place of the annual general meeting for at least 15 minutes prior to and during the meeting.



# OSMETECH plc: Proxy for use at annual general meeting

Please insert full name and address of \_\_\_\_\_  
 I/We \_\_\_\_\_  
 (Please use block letters)

being member(s) of the above-named company, hereby appoint the Chairman of the Annual General Meeting or (see note 1) \_\_\_\_\_ as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at the offices of Ashurst, Broadwalk House, 5 Appold Street, London EC2A 2HA on 23 September 2004 at 11.00 am and at any adjournment thereof.

I/we request such proxy to vote on the following resolutions as mentioned below (see note 2)

Ordinary Business	FOR	AGAINST
1. To receive and consider the accounts for the year ended 30 April 2004, together with the reports of the directors and auditors thereon.		
2. To elect A Marek as a director.		
3. To re-elect G J Hall as a director.		
4. To re-elect G B Kuenster as a director.		
5. To re-appoint Deloitte & Touche LLP as auditors of the Company until the conclusion of the next annual general meeting and to authorise the directors of the Company to determine their remuneration.		
<b>Special Business</b>		
6. To authorise the directors to allot shares of the Company up to a maximum amount of £2,014,767.		
7. To empower the directors to allot shares for cash otherwise than on a pre-emptive basis up to a maximum amount of £1,208,860.		

Signature \_\_\_\_\_ (see note 3) Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2004  
 Joint holders (if any) (see note (5))

Name \_\_\_\_\_ Name \_\_\_\_\_

Name \_\_\_\_\_ Name \_\_\_\_\_



**NOTES:**

- If you wish to appoint some other person as your proxy please insert his/her name and address, initial and strike out the words "the Chairman of the Meeting". A proxy need not be a member of the Company. Appointing a proxy will not preclude you from personally attending and voting at the meeting (in substitution for your proxy vote) if you subsequently decide to do so.
- Please indicate with an "X" in the appropriate box how you wish your votes cast. Unless otherwise instructed the proxy will exercise his/her discretion as whether, and if so, how he/she will vote.
- This Form of Proxy must, in the case of an individual, be signed by the appointer or his/her attorney or, in the case of a corporation, be given under its common seal or signed on its behalf by an attorney or a duly authorised officer or, if it is subject to the Companies Act 1985 (as amended), in accordance with Section 36A thereof.
- To be valid this Form of Proxy and any power of attorney or other authority under which it is executed (or a duly notarised copy thereof) must be lodged with the Registrars of the Company, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than 48 hours before the time appointed for the meeting, or adjourned meeting at which it is to be used.
- In the case of joint holders of a share the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the statutory register of members in respect of the share.
- Any alteration in this Form of Proxy must be initialled by the person in whose hand it is signed or executed.

THIRD FOLD

BUSINESS REPLY SERVICE  
Licence No MB122



**Capita Registrars  
Proxy Department  
PO Box 25  
Beckenham  
Kent BR3 4BR**

SECOND FOLD

FIRST FOLD

# Directors and advisers

## Directors

Gordon J Hall (Non-Executive Chairman)  
James N G White (Chief Executive Officer)  
David A Sandilands (Chief Financial Officer)  
Gordon B Kuenster (Non-Executive)  
Alfred Marek (Executive, appointed 21 April 2004)

## Secretary

Sally A Craig

## Corporate governance standing committees

### Audit Committee

Gordon J Hall (Chairman)  
Gordon B Kuenster

### Remuneration committee

Gordon J Hall (Chairman)  
Gordon B Kuenster

## Registered office

Broadwalk House  
5 Appold Street  
London EC2A 2HA

Tel: 020 7849 6027

Fax: 020 7849 6300

Website: <http://www.osmetech.com>

## Registered number

2849544

## Stockbroker and financial advisor

Evolution Beeson Gregory Limited  
The Registry  
Royal Mint Court  
London EC3N 4LB

## Auditors

Deloitte & Touche LLP  
Martins Building  
4 Water Street  
Liverpool L2 8UY

## Solicitors

Ashurst  
Broadwalk House  
5 Appold Street  
London EC2A 2HA

## Registrars and transfer office

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield HD8 0LA

## Principal banker

National Westminster Bank plc  
41 Greengate Street  
Stafford ST1 2JD

