Osmetech plc

Report and Financial Statements

Year ended 30 April 2001

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Corporate information

Directors

Gordon J Hall (Non-Executive Chairman)

James N G White (Chief Executive Officer)

David A Sandilands (Chief Financial Officer)

Gordon B Kuenster (Chief Technology Officer)

David C Grindrod (Chief Operating Officer)

Dr Donald S Hetzel (President of US Operations, Non-Executive)

G Roy Davis (Senior Non-Executive)

Secretary

Sally A Craig

Corporate Governance Standing Committees

Audit Committee

G Roy Davis (Chairman)

Gordon J Hall

Dr Donald S Hetzel

Remuneration Committee

Gordon J Hall (Chairman)

G Roy Davis

Dr Donald S Hetzel

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Board of Directors 2001

Gordon James Hall, Non-Executive Chairman	Gordon Hall, aged 59, was Managing Director of Shield Diagnostic Group plc (now Axis-Shield plc) until October 1997. Prior to joining that company, Mr Hall 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 2000.
James Nicholas Gerald White, Chief Operating Officer	James White, aged 30, 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 40, 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, Chief Technology Officer	Gordon Kuenster, aged 67, has founded and developed major medical diagnostic companies. Following the sale of Advance Technology Laboratories Inc. to Squibb Corporation, he was appointed Group Vice President and a director of Squibb Corporation. He is a director of Seattle Sight Systems Inc. and Praegitzer Industries Inc. He was appointed to the Board on 3 February 1998 as Director of Development and was appointed Chief Technology Officer on 1 October 1999.
David Charles Grindrod, Chief Operating Officer	David Grindrod, aged 40, was with Oxford Instruments Plc for over ten years, the last four as a director of its subsidiary, Oxford Plasma Technology. He joined the Company in 1994 as Manufacturing Manager, becoming Head of Manufacturing in 1995. Mr Grindrod was appointed to the Board as an executive Director on 22 December 2000.
Dr Donald Stanford Hetzel, President of US Operations	Don Hetzel, aged 60, was Vice President, Corporate Research and Development for Becton Dickinson & Company from 1981 to 1995. Whilst at Becton Dickinson he invested, on their behalf, in several emerging medical technologies which have since developed into well established businesses, including Applied BioSystems Inc., of which he was a director from 1985 to 1993. He was appointed to the Board on 3 February 1998 as Healthcare Director and was appointed non-executive director and President of US Operations on 1 October 1999.
Gordon Roy Davis, Senior Non-Executive	Roy Davis, aged 45, is Chief Executive Officer of Nanomat, a leading nanotechnology company. He previously held a number of senior management positions within the Arthur D. Little ("ADL") management consulting group of businesses. Before joining ADL, Mr Davis was Operations Director of a Reuters subsidiary and Tricom, a datacomms manufacturer. He is also a non executive director of Gyrus plc and Auralight se. Mr Davis was appointed to the Board on 1 February 2000.

Chairman's Statement

Introduction

The last twelve months have been characterised by a series of landmark achievements for Osmetech. The Company has taken unprecedented strides towards its goal of commercialising its electronic nose ("e-nose") technology, culminating in the submission made on 2 April 2001 to the United States' Food and Drug Administration (FDA) for regulatory approval of Osmetech's Urinary Tract Infection (UTI) sensor technology. The Company anticipates receiving FDA approval by autumn of 2001. This achievement would not only mark yet another first for an e-nose company, but would bring Osmetech a step closer to signing a licensing partner and consequently driving sales revenue.

Highlights

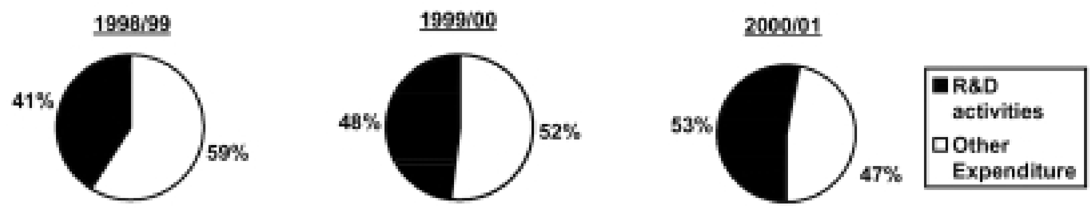
- Submission filed for FDA regulatory approval of UTI diagnostic test.
- Presentation of UTI Clinical trial data at two leading medical conferences well received by clinicians and potential licensing partners.
- UTI trial results presented for peer review in the renowned Journal of Clinical Microbiology.
- Results of a large bacterial vaginosis (BV) study match the performance of the existing "gold standard" diagnostic test.
- Imminent commencement of FDA trials for BV Microbial Analyser at world-leading US and UK hospitals.
- Four new patents awarded, further consolidating the Company's pre-eminent position within the industry.
- Instrument under development for the growing point of care market.

Financial Review

Cash outflow before financing and movement in liquid resources rose from £3,648,000 in 2000 to £4,146,000 in 2001, reflecting the increased cost of healthcare projects as they near commercialisation. The loss for the year of £4,378,000 was lower than the previous period, which included a number of exceptional costs of a non-cash nature.

Resources are now entirely focused on developing healthcare market applications. Consequently sales revenues for the traditional industrial business in the US have now been discontinued and inventory holdings have been managed down to negligible levels.

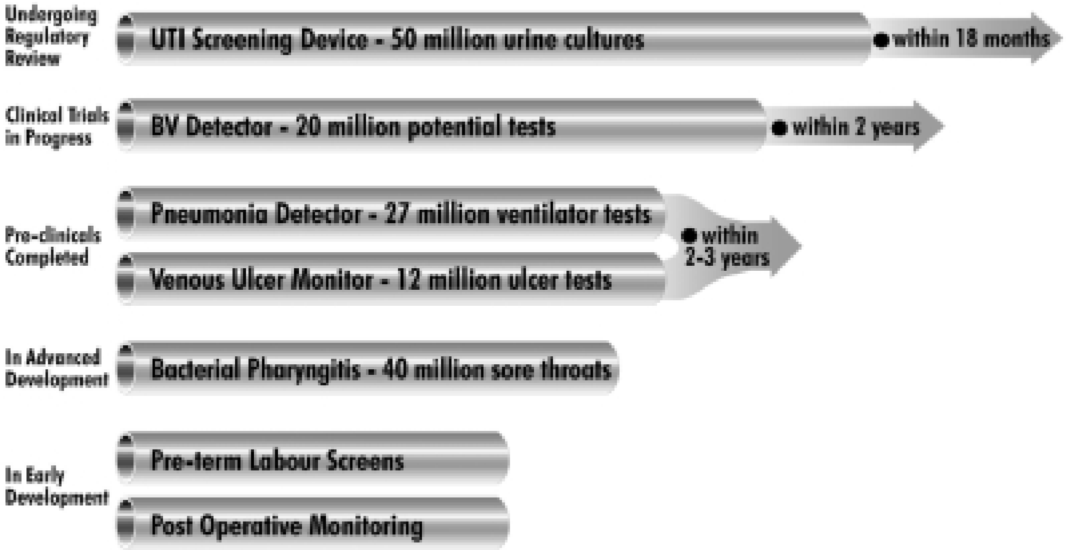
The proportion of total Company resources applied to research and development activities and product application projects has steadily increased since the change in business strategy two-three years ago. This trend is anticipated to continue next year and there will also be development costs for a new point of care device.



In the forthcoming financial year, the Company will be reviewing its financing alternatives for the purposes of taking forward FDA clinical trials for the BV sensor instrument and development of a UTI point-of-care instrument.

Strategy

Osmetech's strategy continues to be to apply its gas sensing technology to the enormous global healthcare market opportunities. Excellent progress has been made with the UTI and BV projects and the Company has a strong product pipeline of other medical applications.



The Company will, in the future, commence initial studies on other disease states that have commercial potential.

Urinary Tract Infections (UTI)

UTI tests represent the single largest test carried out by clinical laboratories worldwide. At present the majority of UTI tests are culture-based, with patients having to wait for 3-5 days to receive results. Osmetech's laboratory screening device will be capable of significantly reducing this workload and providing results much faster than at present. The point-of-care technology being developed by Osmetech will enable tests to be analysed at the surgery or hospital and results given to patients immediately.

The period under review has seen the Company take its leading UTI sensor technology from "proof of concept" status through FDA clinical trials and on to FDA submission. This is a record never before achieved in the e-nose industry.

In January 2001, FDA clinical trials of the UTI sensor were successfully completed. The trials, which took place at Guy's and St. Thomas's Hospital, London and at premier teaching hospitals in Boston and Baltimore in the US, yielded exceptional results and confirmed an earlier study showing that the Osmetech Microbial Analyser™ can reliably detect the six most common pathogens present in UTIs.

On the basis of these outstanding results, the Company announced in April 2001 that it had submitted its first diagnostic test, using UTI sensor technology, to the FDA for regulatory approval. FDA approval represents the global benchmark in terms of regulatory clearance and is a pre-requisite for the sale of any healthcare product into the US. Given the potential of the US healthcare market, the strategy of opting for FDA approval, rather than a lower regulatory hurdle, is considered to be in the best interests of the Company. The Board expects to receive FDA approval in autumn 2001, an achievement that the directors believe would represent a major endorsement of Osmetech's core technology.

The Company acknowledges the importance of peer review within the healthcare and diagnostic industry and the board is therefore delighted to announce today that an article presenting the results of the earlier UTI study was published in June 2001 for peer review in the internationally renowned Journal of Clinical Microbiology. The pre-trial results were also presented at the American Society of Microbiology conference in May and were extremely well received by clinicians and potential licensing partners present at the event.

Bacterial Vaginosis (BV)

BV has a high prevalence rate and is responsible for 10 million gynaecological visits in the US every year. Medical and public awareness of the condition, which is also a risk factor for numerous obstetric and neonatal complications, is growing. In the period under review, Osmetech has taken its BV product from "proof of concept" through to pre-FDA clinical trials, as planned.

In October of 2000, a large study of 1,038 patients was completed. The study took place at St George's Hospital, London and was conducted by Dr Philip Hay, one of the world's leading BV physicians. Using the Osmetech Microbial Analyser™ excellent results were achieved that matched the existing "gold standard" diagnostic test for the disease and also demonstrated that Osmetech's device is significantly faster, more objective and less labour intensive that current testing methods.

In June of this year, the Company presented the results of this clinical study for peer review at the international ISSTDR conference held in Berlin, Germany. The results were extremely well received and, again, generated considerable interest amongst clinicians.

For the next stage in the development of its BV sensor technology, the Company already has three leading US and UK hospitals due to commence FDA trials later this year: John Hopkins Hospital, Baltimore, USA, St Georges' Hospital, London and the Brigham & Women's Hospital, Harvard, USA. The results of these trials will support the Company's second FDA application to be filed soon thereafter.

Point of Care Device

The global healthcare market is not only growing, but also moving towards point of care diagnosis and treatment. Osmetech has identified numerous applications for its technology, including the diagnosis of UTIs and BV, which would benefit from point of care testing. Such a device could provide a common platform for each of these tests. In time, interchangeable sensors for specific applications or combined sensors with the capability of diagnosing several conditions would be provided.

Development has commenced for the device that is expected to be in a pre-production form by the end of the financial year, April 2002, costing approximately £1.5 million. This will enable the time to market for point of care applications to be minimised and should also place Osmetech in a position of strength when negotiating with commercial partners.

Intellectual Property

Over the course of the year the Company, which already has the largest Patent portfolio in the electronic nose industry, was awarded four new patents covering its sensor technology and healthcare applications. These latest awards consolidate Osmetech's lead on the rest of the electronic nose industry, bringing the total number of patents held by the Company to 52.

Collaboration Agreement

In November 2000, the Company entered into a healthcare collaboration agreement with Cyrano Sciences Inc. Jointly funded trials are currently in progress testing Osmetech's sensors in Cyrano's hand-held sensing instrument. It is the Board's expectation that the resulting product could provide a low cost, low risk route to accelerating the time to market for certain healthcare opportunities.

Outlook

The Company has already made significant progress towards realising its goal of commercially exploiting opportunities for its gas sensing technology in the healthcare diagnostics market. The new focus for the Company is yielding results. FDA approval for the UTI sensors anticipated in the autumn would be a considerable achievement and a major milestone in the commercialisation process, with further regulatory applications set to follow for other tests. This versatility and the development of a point of care platform device will significantly enhance Osmetech's market position.

Gordon J Hall
3 August 2001

Report of the directors

The directors submit their report together with the audited financial statements for the year ended 30 April 2001.

Results and dividends

The results of the Group for the year are set out on page 17.

The directors do not recommend the payment of a dividend.

Principal activities, trading review and future developments

The principal activity of the Group is the design, development and manufacture of electronic gas and odour sensors and the commercial exploitation of its technology.

The principal activities of two of the subsidiaries, Osmetech Inc and Osmetech Technology Inc, are the same as Osmetech plc and that of a holding Company respectively. The third subsidiary, Osmetech AESOP Trustee Limited, is dormant.

The results are dealt with fully in the accompanying Chairman's statement.

Research and development

The Group spent £2,484,575 (2000: £1,951,927) in the year on research and development which has been written off to the profit and loss account. Investment in research and development is essential to the future of the Group.

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 2001 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 2001		30 April 2000 (or date of appointment if later)	
		Shares	Options/ Warrants	Shares	Options/ Warrants
G J Hall		403,946	1,000,000	403,946	1,000,000
J N G White		1,289,500	4,367,265	27,000	4,497,700
D A Sandilands		80,263	3,269,565	80,263	2,550,000
G B Kuenster		1,504,262	3,600,000	1,504,262	3,050,000
D C Grindrod	(appointed 22 December 2000)	5,526	3,868,437	5,526	2,998,872
Dr D S Hetzel		1,142,841	1,625,000	1,142,841	1,625,000
G R Davis		—	—	—	—

Dr G W Chong resigned as a director on 27 April 2001.

Save as disclosed, there have been no movements in the directors' interests in the Company's share capital between 30 April 2001 and 24 July 2001.

In accordance with the Articles of Association and, having been appointed as a director since the date of the last Annual General Meeting, Mr D C Grindrod retires and, being eligible, offers himself for election as a director at the Annual General Meeting to be held on 29 August 2001. Mr D C Grindrod's appointment is terminable by at least six months' notice.

Mr G J Hall and Mr G B Kuenster will retire by rotation and, being eligible, offer themselves for re-election. Mr G J Hall and Mr G B Kuenster do not have service agreements with Osmetech plc. Mr G J Hall's appointment is terminable by at least twelve months' notice and Mr G B Kuenster's appointment is terminable by at least three months' notice.

Directors' interests in contracts

Save as disclosed below, 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.

Mr G B Kuenster is a director and shareholder of Seattle Sight Systems Inc.. The Company purchases various components from Seattle Sight Systems Inc. on a competitive basis. The net value of transactions between the Company and Seattle Sight Systems Inc. in the year to 30 April 2001 was £432,857 (2000: £354,197) and at the balance sheet date the Company owed £66,083 (2000: £35,613) to Seattle Sight Systems Inc.

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 9 July 2001:

Shareholder	**Number of Shares**	**Per cent.**
Jupiter Asset Management Limited	23,630,038	10.42
Nortrust Nominees Limited	13,359,301	5.89
Nutraco Nominees Limited	12,733,358	5.61
Chase Nominees Limited	12,005,000	5.29
RBSTB Nominees Limited a/c 1781	7,854,444	3.46
Pershing Keen Nominees Limited a/c shclt	7,584,952	3.34

Corporate Governance

Corporate governance, in general terms, is the way in which a Company is controlled and directed and, in particular, is concerned with the role of the Board of directors, how the Board and committees of the Board operate, and accountability within a Company.

The Board supports high standards of corporate governance and is accountable to the shareholders for good governance.

The Combined Code

The Listing Rules require listed companies to describe how they have complied with a new consolidated code of practice, known as the combined code. This statement, and the report on remuneration on page 12, describe how the principal of good governance set out in section 1 of the combined code appended to the Listing Rules, are applied by the Company. It also comments on the Company's compliance with the code of best practice provisions set out in section 1 of the Combined Code.

Compliance with the Combined Code

The Board considers that throughout the financial period under review, the Group complied with the recommendations of the Combined Code with the exception that the Company does not have a Nomination Committee as it is not believed to be appropriate given the organisation's present size.

Under the interpretation given on independent directors, Mr G J Hall and Dr D S Hetzel are not regarded as independent non-executive directors as they have both previously held executive positions in the Company.

Additionally the Board has implemented the guidance (Internal Control: Guidance for Directors on the Combined Code) during the year. This stresses principle D2 of the code. The Board also considers that it is compliant with the requirements of Turnbull.

Directors

The Board of directors comprises four executive and three non-executive directors who bring a wide range of business experience and expertise to the Board's discussions and decision making. Biographical details of all the directors are set out at the front of the Annual Report.

The positions of the Chairman and Chief Executive are held by separate individuals with clearly defined responsibilities, the former primarily responsible for the working of the Board and the latter with executive responsibility for running the business and for implementing Board strategy and policy.

All the directors are equally accountable under the law for the proper stewardship of the Company's affairs. The Board acts in a way which allows all directors to bring their independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.

Save as mentioned on page 9, all the non-executive directors are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

All the directors have access to the advice and services of the Company Secretary, Mrs S A Craig, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. There is a formal procedure for directors to obtain independent professional advice in the furtherance of their duties should that be necessary, the cost of which would be met by the Company.

The Board is supplied in a timely manner with all relevant information to assist it in the discharge of its duties. It meets formally at least six times each year. It focuses on strategy formulation and the strategic direction of the Company, the development of policy and reviews the management and financial performance of the Company.

The Board has a formal schedule of matters specifically reserved to it for decision, including business acquisitions and disposals, major capital expenditure and significant financing matters. It has approved a formal structure of authorities for decision making below Board level.

Some specific responsibilities have been delegated to committees of the Board, including the Audit and Remuneration committees, whose terms of reference were reviewed and revised appropriately during the year, specifically in the light of the provisions of the Combined Code. The roles of the Audit and Remuneration Committees are described on pages 11 and 12.

All non-executive directors are appointed subject to re-election and the Companies Act provisions relating to the removal of a director, and re-appointment is not automatic. All directors are subject to election by shareholders at the first opportunity after their initial appointment, and to re-election thereafter in accordance with the articles of association at intervals of no more than three years in accordance with the Combined Code.

Directors' remuneration

The principles of good governance applied in respect of directors' remuneration, including the role and membership of the Remuneration Committee, are described in the Board's report on remuneration.

Relations with shareholders

The Company maintains an open policy of dialogue with all shareholders to ensure that the objectives of the Company are understood. Institutional shareholders are regularly briefed on any current relevant matters and future developments.

The Company encourages communication with the large number of private investors it has and endeavours to effectively communicate in a meaningful way through the publication of its Annual Report and Accounts and Interim Report. In addition, the Company enables shareholders and the general public to access all press releases and general information on the Company via its Internet website, http://www.osmetech.plc.uk.

Accountability and Audit

The directors of the Board have overall responsibility for the systems of internal financial controls, safeguarding assets against unauthorised use or disposal, the maintenance of proper accounting records and for presenting a balanced and understandable assessment of the Company's position and prospects. The Board takes into account recommendations of the audit committee.

The Board has established an audit committee chaired by Mr G R Davis which consists of all the non-executive directors and which has agreed terms of reference. This committee meets at least twice a year and is supported and attended by the Chief Financial Officer. The main function of the committee is to review the scope of the external audit and internal control reviews, to receive reports from the external auditors and the Chief Financial Officer and to review the half-yearly and annual accounts before they are presented to the Board. The committee also reviews the internal controls to assess their effectiveness for risk management.

The Board of directors has overall responsibility for the Group's system of internal financial control. The Group has an established control framework which aims to safeguard Group assets, ensure proper accounting records are maintained and that the financial information used within the business, and for publication, is reliable. This framework operates through clearly defined lines of management responsibility through which the Board has delegated implementation of financial controls to executive management.

The Audit Committee on behalf of the Board has reviewed the effectiveness of the system of internal financial control from the information provided by management and the Group's external auditors.

The Combined Code places a requirement on directors to review at least annually the effectiveness of the Group's system of internal control, and to report to shareholders that they have done so.

Following the publication of the "Internal Control Guidance for directors on the Combined Code", in September 1999 (the Turnbull Guidance), the directors adopted the Financial Services Authority's transitional rules and report on internal financial controls for the accounting period ended on 31 March 2000.

With effect from 1 April 2000, an ongoing process of risk management and internal control in accordance with the Turnbull Committee Guidance on internal control has been implemented. This process has been in place for the full financial year.

The Board is responsible for the effectiveness of the Group's system of internal control. The system of internal control has been designed and implemented to meet the particular requirements of the Group and the risks to which it is exposed. The internal control system can provide reasonable but not absolute assurance against material misstatement or loss.

The processes to identify, assess and manage the risks to the Group's continued success are an integral part of the system of internal control. These processes include systems to assess operational risks, linkage with the Business Planning process, the monthly forecasting procedure, appointment of senior managers and controls over major items of expenditure including capital items. The ongoing process of enhancing and improving these processes ensures that business risks and opportunities are effectively managed.

The Board formally reviews the risk management processes and priorities twice a year.

The key elements of the systems are as follows:

- detailed budgets and plans which are approved by the Board;
- preparation of Group business plans which include the identification of, and the assessment of business and financial risks;
- monitoring of actual results compared with budgets and updated forecasts;
- each company maintains financial controls and procedures appropriate to its own business environment conforming to overall standards and guidelines;
- defined procedures for the appraisal, review and authorisation of major expenditure.

Going Concern

The Board recognises that notwithstanding the success of recent fundraising exercises, there may be a further financing requirement for the Company.

The Company has made excellent progress to date towards its goal of commercialising its sensor technology and the Board fully expects this progress in developing healthcare applications to continue. On this basis the Board will continue to examine a number of options for further financing. The Board therefore considers it appropriate to prepare the accounts on a going concern basis.

Remuneration Policy

This report has been prepared by the Board and describes the Company's arrangements for the directors' remuneration in the context of the combined code principles and the provisions of the code of best practice.

The Company complied throughout the year with the provisions of the code of best practice which concern directors' remuneration. In formulating its remuneration policy, the Board has considered Schedule A — "Provisions on the Design of Performance Related Remuneration" and Schedule B — "Provisions on what should be included in the Remuneration Report".

The members of the Remuneration Committee, Mr G J Hall, Dr D S Hetzel and Mr G R Davis, are non-executive directors of the Company and have no personal financial interest arising from cross-directorship and no day to day involvement in running the business.

The Remuneration Committee, on behalf of the Board and in consultation with the executive directors, determines the Company's policy on executive remuneration, employment conditions and the individual remuneration packages of executive directors. Regular reviews of the policy are carried out supported by independent advice (if necessary) to ensure that the range and level of emoluments and incentive schemes for the executive directors continue to match current market practice.

The policy on directors' remuneration is to provide the remuneration packages necessary to attract, retain and motivate executive directors of the quality required to manage the business of the Group and to align the interest of directors with those of the shareholders.

The emoluments of executive directors currently include:

Salary and benefits

In determining the basic salary levels and benefits for each executive director the Board uses remuneration surveys to relate remuneration levels to comparable publicly quoted companies.

Pension

The Company makes defined contributions to certain directors' personal pension plans.

Long term incentives

The Company currently has three share option schemes: the Osmetech plc Executive Share Option Scheme, the Osmetech plc Unapproved Executive Share Option Scheme and the Osmetech plc

Enterprise Management Incentive Plan, although the former two schemes have no options outstanding. The executive directors are responsible for supervising the schemes in accordance with the rules approved by shareholders. Under the schemes, directors and employees who are judged to have made a significant contribution to the Company's development to date and are considered to be likely to provide a continuing contribution to the realisation of strategic goals in the future, are granted share options.

The options at 30 April 2001 are set out in notes 6 and 18 and include individual option agreements with certain executive directors and employees.

It is the Company's intention to introduce its recently approved All Employee Share Ownership plan during the next year.

Service Agreements

Mr G J Hall, Mr D A Sandilands, Mr G B Kuenster, Dr D S Hetzel and Mr G R Davis do not have service agreements with the Company. Mr G J Hall and Mr D A Sandilands' appointments are terminable by at least twelve months' notice. Mr G B Kuenster, Dr D S Hetzel and Mr G R Davis' appointments are terminable by at least three months' notice.

Mr J N G White's appointment is terminable by at least twelve months' notice and Mr D C Grindrod's appointment is terminable by at least six months' notice.

Directors emoluments

Emoluments of executive and non-executive directors are disclosed in note 6 to the financial statements.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the directors' report and other information included in the annual report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that an annual report includes information required by the Listing Rules of Financial Services Authority.

The maintenance and integrity of the website 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.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in 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 38 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.

Electronic Communications

A recent change in the law now allows the Company the option to deliver shareholder information including Annual and Interim Reports, Forms of Proxy and Notices of General Meetings in an electronic format to shareholders. The advantages of this include:

- Shareholders may access, read and retrieve documents at their own convenience
- Documents are delivered quickly
- Significant cost saving to the Company on printing costs
- Saving on environmental resources
- When introduced, confirmation of receipt of a lodged proxy

If you would like to receive shareholder information in electronic format, please register your request on the Company's Registrars electronic database at www.northernregistrars.co.uk. You will initially need your unique "holdercode", 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 failures. 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.

It is hoped that as many shareholders as possible will take up the opportunity. Should you have any further questions on this please contact the Company's Registrars, Northern Registrars Limited on 01484 600900.

A resolution to adopt new Articles of Association to facilitate the proposed introduction of electronic communications will be proposed at the Annual General Meeting.

Independent Auditors

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

Annual General Meeting — Explanation of Special Business

Renewal of Authority to Allot Shares (Resolutions 6 and 7)

It is proposed, in accordance with section 80 of the Companies Act 1985, to renew the directors' authority to issue shares in the share capital of the Company up to a nominal amount of £566,962 representing approximately 25 per cent. of the issued share capital of the Company.

In accordance with section 89 of the Companies Act 1985, renewal is sought for the directors' authority to allot further shares for cash without first offering them to existing shareholders under the statutory pre-emption procedure. This authority is limited to the issue of equity securities in connection with rights issues, warrants and otherwise up to a nominal amount of £113,392, representing 5 per cent. of the Company's issued ordinary share capital.

The directors consider that it is appropriate for these authorities to be granted. It is not the directors' present intention to allot any ordinary shares except upon exercise of share options granted by the Company and in accordance with the issue of ordinary shares pursuant to warrants issued by the Company.

The authorities contained in resolutions 6 and 7 will both expire at the conclusion of the next Annual General Meeting or 15 months from the date of the passing of the resolutions, whichever is the earlier.

Adoption of New Articles of Association to Allow Electronic Communications between the Company and Shareholders (Resolution 8)

It is proposed that the Articles of Association to be produced to the Annual General Meeting and initialled by the Chairman, be adopted as the new Articles of Association in place of the existing Articles of Association. The new Articles facilitate the proposed introduction of electronic communications between the Company and the shareholders pursuant to the Electronic Communications Act 2000.

By order of the Board

S A Craig
Secretary
3 August 2001

Report of the independent auditors

Independent auditors' report to the shareholders of Osmetech plc

We have audited the financial statements of Osmetech plc for the year ended 30 April 2001 on pages 17 to 32 which comprise the profit and loss account, the balance sheet, the cashflow statement, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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 or the Listing Rules regarding directors' remuneration and transactions with the company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement and Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 30 April 2001 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward
Chartered Accountants and Registered auditors
Manchester
3 August 2001

Consolidated profit and loss account

for the year ended 30 April 2001

	Note	2001	2000
		£	£
Turnover	2	56,221	480,185
Cost of sales		24,906	245,455
Gross profit		31,315	234,730
Administrative expenses		4,791,346	4,577,528
		(4,760,031)	(4,342,798)
Other operating income		—	4,994
Operating loss	4	(4,760,031)	(4,337,804)
Interest receivable		381,901	179,075
Interest payable and similar charges	7	(279)	(311,798)
Loss on ordinary activities before taxation	3	(4,378,409)	(4,470,527)
Taxation	8	—	—
Loss for the year	9	(4,378,409)	(4,470,527)
Loss per share — basic	10	(1.97p)	(2.42p)

All amounts relate to continuing activities.

Consolidated statement of total recognised gains and losses

for the year ended 30 April 2001

	2001	2000
	£	£
Loss for the financial year after taxation	(4,378,409)	(4,470,527)
Exchange gains on consolidation	(297)	6,418
Total recognised losses for the year	(4,378,706)	(4,464,109)

The notes on pages 21 to 32 form part of these financial statements

Consolidated balance sheet
at 30 April 2001

	Note	2001		2000	
		£	£	£	£
Fixed assets					
Intangible assets	11		862,683		812,994
Tangible assets	12		362,581		320,991
			1,225,264		1,133,985
Current assets					
Stocks	14	75,081		152,532	
Debtors — due within one year	15	272,609		234,212	
Cash at bank and in hand		5,021,202		6,426,241	
		5,368,892		6,812,985	
Creditors: amounts falling due within one year	16	736,499		448,654	
Net current assets			4,632,393		6,364,331
Total assets less current liabilities			5,857,657		7,498,316
Capital and reserves					
Called up share capital	18		2,267,849		2,136,025
Share premium account	19		24,109,810		21,503,587
Profit and loss account	19		(20,520,002)		(16,141,296)
Equity shareholders' funds	20		5,857,657		7,498,316

These financial statements were approved by the Board on 3 August 2001

The notes on pages 21 to 32 form part of these financial statements

Company balance sheet
at 30 April 2001

	Note	2001		2000	
		£	£	£	£
Fixed assets					
Intangible assets	11		862,683		812,994
Tangible assets	12		362,580		320,990
			1,225,263		1,133,984
Current assets					
Stocks	14	62,758		130,204	
Debtors — due within one year	15	269,911		212,447	
Cash at bank and in hand		5,008,316		6,400,246	
		5,340,985		6,742,897	
Creditors: amounts falling due within one year	16	728,811		441,628	
Net current assets			4,612,174		6,301,269
Total assets less current liabilities			5,837,437		7,435,253
Capital and reserves					
Called up share capital	18		2,267,849		2,136,025
Share premium account	19		24,109,810		21,503,587
Profit and loss account	19		(20,540,222)		(16,204,359)
Equity shareholders' funds	20		5,837,437		7,435,253

These financial statements were approved by the Board on 3 August 2001

DA Sandilands

Director

The notes on pages 21 to 32 form part of these financial statements

Consolidated cash flow statement

for the year ended 30 April 2001

Reconciliation of operating loss to net cash outflow from operating activities

	2001	2000
	£	£
Operating loss	(4,760,031)	(4,337,804)
Amortisation	5,746	36,441
Depreciation	178,825	394,895
(Increase)/decrease in stocks	(11,205)	202,374
Decrease in debtors	8,384	102,006
Increase/(decrease) in creditors	288,366	(295,107)
Loss on disposal of fixed assets	20,345	424,086
Net cash outflow from operating activities	(4,269,570)	(3,473,109)

Consolidated cash flow statement

	Note	2001	As restated 2000
		£	£
Net cash outflow from operating activities		(4,269,570)	(3,473,109)
Returns on investments and servicing of finance	21	333,227	109,552
Capital expenditure	21	(209,225)	(284,400)
Management of liquid resources	21	1,250,000	(5,750,000)
Financing	21	2,738,047	9,036,170
Decrease in cash	21	(157,521)	(361,787)

Reconciliation of net cash flow to movement in net funds

	Note	2001	As restated 2000
		£	£
Decrease in cash in the year		(157,521)	(361,787)
Movement in liquid resources		(1,250,000)	5,750,000
Finance lease repayments		—	2,280
Exchange differences		2,482	1,377
Change in net funds		(1,405,039)	5,391,870
Net funds at beginning of year	21	6,426,241	1,034,371
Net funds at end of year	21	5,021,202	6,426,241

The notes on pages 21 to 32 form part of these financial statements

Notes forming part of the financial statements

for the year ended 30 April 2001

1 **Accounting policies**

The financial statements have been prepared under the historical cost convention and are in accordance with applicable 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 except for the policy regarding the classification on liquid resources, have been applied:

Basis of preparation

The financial statements have been prepared on a going concern basis, following a detailed assessment by the Board, as outlined on page 12.

Basis of consolidation

The consolidated accounts incorporate the financial statements of Osmetech plc and all of its subsidiary undertakings made up to 30 April 2001. 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 permanent diminution in value.

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.

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

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that it is probable that a liability or asset will crystallise.

Finance costs

Finance costs associated with the issue of debt are deducted from the proceeds of the issue and charged to profit 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 other than for currency disclosures.
- 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 and 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 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.

1 **Accounting policies** *(continued)*

Intellectual property rights

Patent costs are capitalised and written off on a straight line basis over the shorter of the life of the patent 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.

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.

Government grants

Grants relating to expenditure on tangible fixed assets are credited to the profit and loss account at the same rate as the depreciation on the assets to which the grants relate. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are credited to the profit and loss account in the year to which they relate.

Pension costs

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

Liquid resources

The accounting policy regarding the classification of cash and liquid resources has been amended to reflect all term deposits as liquid resources rather than cash balances, as previously recorded. The comparative figures on the cash flow statement have thus been restated to transfer £5,750,000 from cash to liquid resources.

Operating leases

Operating lease rentals are charged in the period to which they relate.

2 **Turnover**

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

Turnover is analysed by market as follows:

	2001	**2000**
	£	£
United Kingdom	2,041	30,167
Rest of Europe	1,462	16,860
USA	27,171	268,654
Far East	20,712	34,260
Rest of world	4,835	244
Product sales	56,221	350,185
Other sales	—	130,000
	56,221	480,185

Turnover in the United States originates in that country, all other turnover originates in the United Kingdom. All turnover is to external customers. Other sales includes access fees, milestone payments and non-refundable licence fees.

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

	2001 £	2000 £
This is arrived at after charging:		
Amortisation of intangible fixed assets	5,746	36,441
Depreciation	178,825	394,895
Auditors' remuneration:		
— audit services: Osmetech plc	23,500	23,000
: Other group companies	5,690	2,891
— non audit services	80,757	49,228
Operating lease rentals	192,621	165,978
Research and development	2,484,575	1,951,927
Loss on disposal of fixed assets	20,345	424,086

5 Employees

	2001 £	2000 £
Staff costs for all employees, including executive directors, consist of:		
Wages and salaries	1,410,805	1,199,990
Social security costs	113,586	89,961
Other pension costs	86,454	64,589
	1,610,845	1,354,540

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

	Number	Number
Full time equivalents	41	38

6 Directors

	2001 £	2000 £
Emoluments:		
Fees as directors	139,877	185,168
Remuneration for management services	322,835	122,085
	462,712	307,253
Highest paid director:		
Emoluments	159,112	62,727
Defined contribution pension scheme payments	8,250	—
	167,362	62,727

6 **Directors** *(continued)*

Directors' interests

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

Directors' remuneration

	Fees and basic salary £	Benefits £	2001 Total £	2000 Total £	2001 Pension contributions £	2000 Pension contributions £
Executive directors						
J N G White	82,822	8,225	91,047	39,375	12,423	5,250
D A Sandilands	50,491	870	51,361	34,083	10,098	6,667
G B Kuenster	69,287	—	69,287	62,727	—	—
D C Grindrod	21,873	3,442	25,315	—	3,281	—
Non executive directors						
G J Hall	36,000	1,071	37,071	47,135	—	—
D S Hetzel	17,519	—	17,519	44,827	—	—
G R Davis	12,000	—	12,000	3,000	—	—
G W Chong(1)	153,300	5,812	159,112	52,192	8,250	6,869

Note:

(1) The emoluments of G W Chong include £60,812 for services provided as an executive director and £94,300 in respect of compensation for loss of office.

Defined Contribution Pension Scheme Payments

	2001 £	2000 £
Defined contribution pension scheme payments	34,052	18,997

	2001 Number of directors	2000 Number of directors
Defined contribution pension schemes	4	4

6 **Directors** *(continued)*

Options

Director	Total options on ordinary shares 30 April 2000	Granted during the Year EMI	Non EMI	Lapsed/ Exercised* during the Year	Total Options on ordinary shares 30 April 2001	Date of Grant	Exercise Price per share	Exercisable From	To
G J Hall	1,000,000	—	—	—	1,000,000	25.09.98	2p	21.10.01	21.01.08
J N G White	120,000	—	—	—	120,000	25.09.98	2p	21.10.01	21.01.08
	1,500,000(2)	—	—	(1,500,000)*	—	—	—	—	—
	77,700	—	—	—	77,700	21.05.99	18p	21.05.02	21.05.09
	500,000	—	—	—	500,000	13.10.99	17¾p	13.10.02	13.10.09
	2,300,000	—	—	(500,000)	1,800,000	26.04.00	26¼p	26.04.03	26.04.10
	—	869,565	1,000,000	—	1,869,565	01.03.01	11½p	01.03.04	01.03.11
D A Sandilands	750,000	—	—	—	750,000	26.07.99	17¼p	26.07.02	26.07.09
	1,800,000	—	—	(450,000)	1,350,000	26.04.00	26¼p	26.04.03	26.04.10
	—	869,565	300,000	—	1,169,565	01.03.01	11½p	01.03.04	01.03.11
D C Grindrod	120,000	—	—	—	120,000	25.09.98	2p	21.10.01	21.01.08
	78,872	—	—	—	78,872	21.05.99	18p	21.05.02	21.05.09
	500,000	—	—	—	500,000	13.10.99	17¾p	13.10.02	13.10.09
	2,300,000	—	—	(500,000)	1,800,000	26.04.00	26¼p	26.04.03	26.04.10
	—	869,565	500,000	—	1,369,565	01.03.01	11½p	01.03.04	01.03.11
G B Kuenster	1,250,000	—	—	—	1,250,000	25.09.98	2p	21.10.01	21.01.08
	1,800,000	—	—	(450,000)	1,350,000	26.04.00	26¼p	26.04.03	26.04.10
	—	—	1,000,000	—	1,000,000	20.03.01	11p	20.03.04	20.03.11
D S Hetzel	625,000	—	—	—	625,000	25.09.98	2p	21.10.01	21.01.08
	1,000,000	—	—	—	1,000,000	21.05.99	18p	21.05.02	21.05.09

The mid-market price of the shares at 30 April 2001 was 13.25p (2000: 19.5p) and the range during the period was between 9.5p and 28.25p (2000: 16p and 32.5p).

Note (2) Warrants. The mid-market price of the shares on the date of exercise was 23.25p, resulting in a gross gain of £318,750.

7 **Interest payable and similar charges**

	2001 £	2000 £
Finance lease and hire purchase contracts	—	90
Bank borrowings	279	2,508
Debenture interest	—	22,069
Issue costs of convertible debentures	—	287,131
	279	311,798

8 **Taxation on loss on ordinary activities**

There is no liability to corporation tax on the result for the year.

9 **Loss for the financial year**

	2001 £	2000 £
Dealt with in the accounts of the parent undertaking	(4,335,863)	(4,320,576)

The loss for the year ended 30 April 2001 includes a write down in the value of the investment in subsidiary undertakings of £900,134 (2000: £433,912).

10 **Loss per share**

The basic loss per share has been calculated on the weighted average number of shares in issue during the year namely 221,970,454 (2000: 184,627,231) and losses of £4,378,409 (2000: £4,470,527). There are no dilutive potential ordinary shares.

11 Intangible assets

Group and Company	**Intellectual property rights £**
Cost	
At beginning of year	910,547
Additions	62,282
Disposals	(6,847)
At end of year	965,982
Amortisation	
At beginning of year	97,553
Provided for year	5,746
Disposals	—
At end of year	103,299
Net book value	
At 30 April 2001	862,683
At 30 April 2000	812,994

12 Tangible assets

Group	**Short leasehold improvements £**	**Plant, machinery and motor vehicles £**	**Office equipment £**	**Total £**
Cost				
At beginning of year	11,711	601,364	300,428	913,503
Additions	—	183,565	50,378	233,943
Disposals	—	(63,000)	—	(63,000)
Currency translations adjustments	435	—	1,528	1,963
At end of year	12,146	721,929	352,334	1,086,409
Depreciation				
At beginning of year	11,711	328,061	252,740	592,512
Provided for the year	—	154,125	24,700	178,825
Disposals	—	(49,502)	—	(49,502)
Currency translation adjustments	435	—	1,558	1,993
At end of year	12,146	432,684	278,998	723,828
Net book value				
At 30 April 2001	—	289,245	73,336	362,581
At 30 April 2000	—	273,303	47,688	320,991

The additions above include transfers from stock of £87,000.

12 Tangible assets *(continued)*

Company	**Short leasehold improvements** £	**Plant, machinery and motor vehicles** £	**Office equipment** £	**Total** £
Cost				
At beginning of year	7,147	601,364	284,397	892,908
Additions	—	183,565	49,733	233,298
Disposals	—	(63,000)	—	(63,000)
At end of year	7,147	721,929	334,130	1,063,206
Depreciation				
At beginning of year	7,147	328,061	236,710	571,918
Provided for the year	—	154,125	24,085	178,210
Disposals	—	(49,502)	—	(49,502)
At end of year	7,147	432,684	260,795	700,626
Net book value				
At 30 April 2001	—	289,245	73,335	362,580
At 30 April 2000	—	273,303	47,687	320,990

The additions above include transfers from stock of £87,000.

13 Fixed asset investments

Company	**Shares** £	**Loan** £	**Total** £
Cost			
At beginning of year	645	5,194,189	5,194,834
Transactions in the year	—	900,134	900,134
At end of year	645	6,094,323	6,094,968
Provision for permanent diminution in value			
At beginning of year	645	5,194,189	5,194,834
Provision movements during the year	—	900,134	900,134
At end of year	645	6,094,323	6,094,968
Net book value			
At 30 April 2001	—	—	—
At 30 April 2000	—	—	—

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.*

14 Stocks

	2001		2000	
	Group	Company	Group	Company
	£	£	£	£
Raw materials	53,831	43,508	33,757	24,504
Finished goods	21,250	19,250	118,775	105,700
	75,081	62,758	152,532	130,204

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

15 Debtors

	2001		2000	
	Group	Company	Group	Company
	£	£	£	£
Due within one year				
Trade debtors	16,243	15,375	24,718	4,624
Other debtors	3,270	1,440	12,563	10,892
Taxation recoverable	54,746	54,746	51,959	51,959
Prepayments and accrued income	198,350	198,350	144,972	144,972
	272,609	269,911	234,212	212,447

16 Creditors: amounts falling due within one year

	2001		2000	
	Group	Company	Group	Company
	£	£	£	£
Trade creditors	368,112	365,695	168,300	168,300
Taxation and social security	45,741	45,741	38,985	38,985
Accruals and deferred income	322,605	317,375	240,710	234,343
Other creditors	41	—	659	—
	736,499	728,811	448,654	441,628

17 Deferred taxation

	2001		2000	
	Unprovided	Provided in accounts	Unprovided	Provided in accounts
	£	£	£	£
Group				
Accelerated capital allowances	(1,881)	171,423	—	124,830
Sundry timing differences	(16,762)	—	—	—
Unutilised tax losses	(6,450,946)	(171,423)	(6,314,488)	(124,830)
	(6,469,590)	—	(6,314,488)	—
Company				
Accelerated capital allowances	(16,762)	171,423	—	135,394
Unutilised tax losses	(4,132,273)	(171,423)	(3,382,852)	(135,394)
	(4,149,035)	—	(3,382,852)	—

18 Share capital

	Authorised 2001	Authorised 2000	Allotted, called up and fully paid 2001	Allotted, called up and fully paid 2000
	£	£	£	£
Ordinary shares of 1p	3,446,640	3,446,640	2,267,849	2,136,025

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

Date	Number	Consideration Per Share	Par Value	Share Premium	Total Consideration
			£	£	£
8 August 2000	2,500,000	2p	25,000	25,000	50,000
12 September 2000	10,680,233	25.5p	106,802	2,616,657	2,723,459
			131,802	2,641,657	2,773,459

Share options

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

1. EMI Plan:

Date	Number of ordinary shares under option as at 30 April 2001	Number of ordinary shares under option as at 30 April 2000	Subscription Price	Exercisable between
1 March 2001	4,050,000	—	11½p	1 March 2002 and 1 March 2011
1 March 2001	2,608,725	—	11½p	1 March 2004 and 1 March 2011

2. Individual Option Agreements:

Date	Number of ordinary shares under option as at 30 April 2001	Number of ordinary shares under option as at 30 April 2000	Subscription Price	Exercisable between
25 September 1998	4,252,000	4,306,000	2p	21 October 2001 and 21 October 2008
21 May 1999	2,172,148	2,198,673	18p	21 May 2002 and 21 May 2009
26 July 1999	750,000	750,000	17¼p	26 July 2002 and 26 July 2009
13 October 1999	1,000,000	2,000,000	17¾p	13 October 2002 and 13 October 2009
26 April 2000	8,053,772	13,838,961	26¼p	26 April 2003 and 26 April 2010
27 April 2000	—	853,905	26¼p	27 April 2003 and 27 April 2010
9 August 2000	—	—	26¼p	9 August 2003 and 9 August 2010
1 March 2001	1,800,000	—	11½p	1 March 2004 and 1 March 2011
20 March 2001	5,381,400	—	11p	20 March 2004 and 20 March 2011

Warrants

The Company has warrants outstanding as follows:

Date	Number of ordinary shares under warrant as at 30 April 2001	Number of ordinary shares under warrant as at 30 April 2000	Subscription Price	Exercisable between
26 January 1999	1,000,000	3,500,000	2p	21 October 1998 and 21 October 2001

19 Reserves

	Share premium account	Profit and loss account
Group	£	£
At beginning of year	21,503,587	(16,141,296)
On new share capital subscribed	2,641,657	—
Issue expenses	(35,434)	—
Loss for the year	—	(4,378,409)
Exchange gain on consolidation	—	(297)
At end of year	24,109,810	(20,520,002)

	Share premium account	Profit and loss account
Company	£	£
At beginning of year	21,503,587	(16,204,359)
On new share capital subscribed	2,641,657	—
Issue expenses	(35,434)	—
Loss for the year	—	(4,335,863)
At end of year	24,109,810	(20,540,222)

20 Reconciliation of movements in shareholders' funds

	2001		2000	
	Group	Company	Group	Company
	£	£	£	£
Loss for the financial year	(4,378,409)	(4,335,863)	(4,470,527)	(4,320,576)
Other recognised gains and losses relating to the year	(297)	—	6,418	—
New share capital subscribed including premium	2,738,047	2,738,047	9,447,650	9,447,650
Net reduction in shareholders' funds	(1,640,659)	(1,597,816)	4,983,541	5,127,074
Opening shareholders' funds	7,498,316	7,435,253	2,514,775	2,308,179
Closing shareholders' funds	5,857,657	5,837,437	7,498,316	7,435,253

21 Notes to the cash flow statement

(i) Gross cash flows

	2001 £	2000 as restated £
Returns on investments and servicing of finance		
Interest received	333,506	114,897
Interest paid	(279)	(5,255)
Interest element of finance lease rentals	—	(90)
	333,227	109,552
Capital expenditure		
Payments to acquire intangible fixed assets	(62,282)	(94,241)
Payments to acquire tangible assets	(146,943)	(190,159)
Receipts from sales of tangible fixed assets	—	—
	(209,225)	(284,400)
Management of liquid resources		
Transfer to Term Deposits	—	(5,750,000)
Transfer from Term Deposits	1,250,000	—
	1,250,000	(5,750,000)
Financing		
Shares issued by parent Company	2,773,459	7,302,331
Shares issue expenses	(35,412)	(476,750)
Convertible debentures issued by parent company	—	2,500,000
Convertible debenture issue costs	—	(287,131)
Capital element of finance lease payments	—	(2,280)
	2,738,047	9,036,170

(ii) Analysis of changes in net funds

	At 30 April 2000 £	Cash flows £	Exchange differences £	At 30 April 2001 £
Cash at bank and in hand	176,241	(157,521)	2,482	21,202
Liquid resources	6,250,000	(1,250,000)	—	5,000,000
Net Funds	6,426,241	(1,407,521)	2,482	5,021,202

22 Commitments

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

	Land and buildings 2001 £	Other 2001 £	Land and buildings 2000 £	Other 2000 £
Operating leases which expire:				
Within one year	164,207	7,182	136,192	26,623
In one to two years	—	12,890	—	2,891
Between two and five years	—	11,535	—	—
	164,207	31,607	136,192	29,514

23 Contingent liabilities

	2001		2000	
	Group	Company	Group	Company
	£	£	£	£
Bank guarantee	40,000	40,000	40,000	40,000

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.

Mr G Kuenster is a director and shareholder of Seattle Sight Systems Inc. The Company purchases various components from Seattle Sight Systems Inc. on a competitive basis. The net value of transactions between the Company and Seattle Sight Systems Inc. in the year to 30 April 2001 was £432,857 (2000: £354,197) and at the balance sheet date the Company owed £66,083 (2000: £35,613) to Seattle Sight Systems Inc.

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 £86,454 for the year (2000: £64,589).

26 Financial instruments

The Group's treasury activities are designed to provide suitable, flexible funding arrangements to satisfy the Group's requirements. The Group uses financial instruments comprising cash, liquid resources and items such as trade debtors and creditors that arise directly from its operations. The main risks arising from the Group financial instruments are interest rate, liquidity and foreign currency 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 finances its operations through a combination of retained profits, cash resources, and liquid resources. It 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.

There is no material difference between the fair values and book values of the Group's financial instruments.

Short-term debtors and creditors have been excluded from the above disclosures other than the currency risk disclosures.

Significant foreign currency assets and liabilities generate no gain or loss in the profit and loss account because they are denominated in the currency of the Group operation to which they belong.

Currency analysis of net assets

The Group's net monetary assets by currency at 30 April 2001 were as follows:

	Functional currency of operations		
	Group	Sterling	US Dollar
	£	£	£
Cash	21,202	8,316	12,886
Liquid resources	5,000,000	5,000,000	—
Trade debtors	16,243	15,375	868
Trade creditors	(368,112)	(365,695)	(2,417)
	4,669,333	4,657,996	11,337

Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of Osmetech plc (the "Company") will be held at Crewe Hall, Weston Road, Crewe, Cheshire CW1 6UZ on Wednesday 29 August 2001 at 10.30 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 2001, together with the reports of the directors and auditors.
2. To elect D C Grindrod as a director.
3. To re-elect G J Hall as a director, who retires by rotation.
4. To re-elect G J Kuenster as a director, who retires by rotation.
5. To re-appoint BDO Stoy Hayward 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

6. To consider and, if thought fit, to pass the following resolution which will be proposed as an ordinary resolution:

   That, for the purposes of and pursuant to section 80 of the Companies Act 1985 (the "Act"), the directors of the Company be and they are hereby generally and unconditionally authorised and empowered to exercise all the powers of the Company to allot the relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £566,962 to such persons at such times and upon such terms and conditions as they may determine (subject always to the articles of association of the Company) provided this authority and power shall, unless renewed, varied or revoked, expire at the conclusion of the next annual general meeting or 15 months from the date of the passing of this resolution (whichever is the earlier) of the Company 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 the expiry of such period and the directors of the Company may then allot relevant securities pursuant to any such offer, agreement or arrangement as if the authority or power hereby conferred had not expired.

7. To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution:

   That, pursuant to section 95(1) of the Act, the directors of the Company be and they are hereby authorised and empowered to allot equity securities (within the meaning of section 94 of the Act) pursuant to the general authority and power conferred by the resolution numbered 7 in this notice of meeting as if section 89(1) of the Act did not apply to any such allotment provided that this authority and power shall, unless renewed, varied or revoked, expire at the conclusion of the next annual general meeting or 15 months from the date of the passing of this resolution (whichever is the earlier) of the Company and provided further that this authority and power shall be limited:

   (a) to the allotment of equity securities pursuant to a rights issue or similar offer to ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate or as nearly as practical (and taking into account any prohibitions against or difficulties concerning the making of an offer or allotment to shareholders whose registered address or place of residence is overseas and subject to such exclusions as the directors of the Company may deem necessary or expedient to deal with fractional entitlement or record dates) to the respective numbers of ordinary shares held by them; and

(b) to the allotment (otherwise than pursuant to paragraph (a) above) for cash of equity securities up to an aggregate nominal amount of £113,392 representing 5% of the current issued share capital of the Company.

8. To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution:

To adopt the articles of association now produced to the meeting and initialled, for identification purposes only, by the Chairman as the new articles of association of the Company in place of and to the exclusion of the existing articles of association of the Company. The new articles of association facilitate the proposed introduction of electronic communications between the Company and the shareholders pursuant to the Electronic Communications Act 2000.

By order of the Board
S A Craig
Secretary
3 August 2001

Registered office:
Electra House
Electra Way
Crewe CW1 6WZ

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, Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield HD8 0JQ, 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 34 of the Uncertificated Securities Regulations 1995, only those holders of Ordinary Shares who are registered on the Company's share register as at 10.30 am on 27 August 2001 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 10.30 am on 27 August 2001 shall be disregarded in determining the rights of any person to attend and/or vote at the Annual General Meeting.

Proxy for use at annual general meeting

Please insert full name and address

I/We ....

(Please use BLOCK LETTERS)

of ....

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 Crewe Hall, Weston Road, Crewe, Cheshire CW1 6UZ on Wednesday 29 August 2001 at 10.30 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 2001, together with the reports of the directors and auditors.		
2. To elect D C Grindrod as a director.		
3. To re-elect G J Hall as a director, who retires by rotation.		
4. To re-elect G J Kuenster as a director, who retires by rotation.		
5. To re-appoint BDO Stoy Hayward 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.		
6. That, for the purposes of and pursuant to section 80 of the Companies Act 1985 (the "Act"), the directors of the Company be and they are hereby generally and unconditionally authorised and empowered to exercise all the powers of the Company to allot the relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £566,962 to such persons at such times and upon such terms and conditions as they may determine (subject always to the articles of association of the Company) provided this authority and power shall, unless renewed, varied or revoked, expire at the conclusion of the annual general meeting or 15 months from the date of the passing of this resolution (whichever is the earlier) of the Company 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 the expiry of such period and the directors of the Company may then allot relevant securities pursuant to any such offer, agreement or arrangement as if the authority or power hereby conferred had not expired.		
7. That, pursuant to section 95(1) of the Act, the directors of the Company be and they are hereby authorised and empowered to allot equity securities (within the meaning of section 94 of the Act) pursuant to the general authority and power conferred by the resolution numbered 7 as if section 89(1) of the Act did not apply to any such allotment provided that this authority and power shall, unless renewed, varied or revoked, expire at the conclusion of the next annual general meeting or 15 months from the date of the passing of this resolution (whichever is the earlier) of the Company and provided further that this authority and power shall be limited: (a) to the allotment of equity securities pursuant to a rights issue or similar offer to ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate or as nearly as practical (and taking into account any prohibitions against or difficulties concerning the making of an offer or allotment to shareholders whose registered address or place of residence is overseas and subject to such exclusions as the directors of the Company may deem necessary or expedient to deal with fractional entitlement or record dates) to the respective numbers of ordinary shares held by them; and (b) to the allotment (otherwise than pursuant to paragraph (a) above) for cash of equity securities up to an aggregate nominal amount of £113,392 representing 5% of the current issued share capital of the Company.		
8. To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution: To adopt the articles of association now produced to the meeting and initialled, for identification purposes only, by the Chairman as the new articles of association of the Company in place of and to the exclusion of the existing articles of association of the Company. The new articles of association facilitate the proposed introduction of electronic communications between the Company and the shareholders pursuant to the Electronic Communications Act 2000.		

Signature .... (see note 3) Dated this .... day of 2001

Joint holders (if any) (see note (5)) Name .... Name ....

Name .... Name ....

Notes:

1. 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.
2. 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.
3. 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.
4. 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, Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield HD8 0JQ, not less than 48 hours before the time appointed for the meeting, or adjourned meeting at which it is to be used.
5. 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.
6. Any alteration in this Form of Proxy must be initialled by the person in whose hand it is signed or executed.

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Licence No. HF106

2

NORTHERN REGISTRARS LTD,
NORTHERN HOUSE,
WOODSOME PARK,
FENAY BRIDGE,
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HD8 0JQ

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