

Osmetech plc

Annual Report and Accounts
Year ended 30 April 2002



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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)
Matthew J Bergeron (Executive)
G Roy Davis (Senior Non-Executive)
Dr Donald S Hetzel (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

Registered office

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Fax: 01270 216030
Website: <http://www.osmetech.plc.uk>

Registered number

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Stockbroker and Financial Advisor

Bell Lawrie Wise Speke
48 St Vincent Street
Glasgow G2 5TS

Auditors

BDO Stoy Hayward
Commercial Buildings
11-15 Cross Street
Manchester M2 1WE

Solicitors

Halliwell Landau
St James's Court
Brown Street
Manchester M2 2JF

Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London EC2A 2HA

Registrars and Transfer Office

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

Principal Banker

National Westminster Bank plc
41 Greengate Street
Stafford ST1 2JD

Board of Directors 2002

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 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 31, 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 41, 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 68, has founded and developed a number of 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.

David Charles Grindrod,
Chief Operating Officer

David Grindrod, aged 41, was with Oxford Instruments Plc for over ten years prior to joining the Company, 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 on 22 December 2000 and then to Chief Operating Officer.

Matthew Joseph Bergeron,
Executive

Matthew Bergeron, aged 39, is President & Chief Financial Officer of UMD Technology Inc. Mr Bergeron previously founded e2E, an EMS (electronics components) company subsequently sold to Plexus, a top 15 EMS company. He also served as President, Chief Operating Officer and Director of Praegitzer Industries, Inc that was sold to Tyco in 1999. He was appointed to the board as a non-executive director on 17 December 2001 and became an executive director on 6 February 2002.

Gordon Roy Davis,
Senior Non-Executive

Roy Davis, aged 46, is Chief Executive Officer of N'Tera Ltd, a Dublin based nanotechnology company. He was formerly Managing Director of C-Quential UK, Arthur D. Little's Telecomms, Information, Media and Electronics business, Executive Vice President of C-Quential Inc and Vice President of Arthur D. Little Inc. He is also a non-executive director of Gyrus plc. Mr Davis was appointed to the Board on 1 February 2000.

Dr Donald Stanford Hetzel,
Non-Executive

Don Hetzel, aged 61, is currently Chief Executive Officer and President of Instrumentation Metrics Inc, a development stage medical equipment company. He was formerly Vice President, Corporate Research and Development for Becton Dickinson & Company from 1981 to 1995, initiating investments 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 and became a non-executive director on 1 October 1999.

Chairman's statement

Introduction

The last year has been marked by two major achievements by Osmetech. In November 2001, the US Food and Drug Administration (FDA) approved the Company's Urinary Tract Infection (UTI) sensor device. This landmark achievement for the electronic nose (e-nose) industry demonstrated regulatory proof of principle for the Company's core technology. This success was followed up in early May with a second submission to the FDA, for the Company's bacterial vaginosis (BV) sensor device. These key milestones were hit on time and represent a major step forward in the commercialisation of the Company's innovative and versatile platform technology.

Highlights

- FDA approval received for UTI screening device.
- BV submission made to the FDA.
- £5m funding facility secured through an equity line of credit.
- Point of care instrument in advanced development phase.
- Major European microbial patent to be granted to augment US coverage already in place.

UTI

FDA approval was secured within the timescale set out at the start of the submission process. This approval is a pre-requisite for selling a medical device into the US market and is internationally recognised as being the most significant regulatory hurdle to overcome. Osmetech now joins a very small group of UK companies that have successfully taken new technology through the FDA process.

UTI testing is the most frequently performed clinical laboratory test worldwide. It is estimated that at least 50 million urine cultures are performed every year in the US alone, at a cost of approximately \$5 per test. Currently the majority of UTI tests are culture-based with test samples being sent for laboratory screening, a process that typically takes three working days. Approximately 80% return a negative result. Osmetech's screening device should enable negative samples to be screened out within minutes enabling the number of cultured samples to be greatly reduced, resulting in both time and cost savings.

Osmetech is currently in discussions with a number of potential commercial partners who have the capability to exploit its technology in the high throughput UTI laboratory setting worldwide. It is envisaged that the partner would be responsible for the final design and development of the product as well as the sales, marketing and distribution of the device and consumables. Osmetech anticipates receiving licensing income and revenues from the manufacture and supply of sensors.

BV

BV is one of the most common causes of vaginal infections and has been linked to such problems in pregnancy as pre-term delivery and spontaneous abortion. An estimated 10 million tests are performed annually in the US alone.

Following the success of two large pre-trial studies in the UK and US, clinical trials in support of the Company's BV regulatory submission to the FDA were conducted at three leading US and UK hospitals: Johns Hopkins Hospital, Baltimore; Brigham & Women's Hospital, Harvard and St George's Hospital, London. Data from the trials confirmed the favourable results from the two earlier studies and has been submitted in support of the Company's second FDA application filed in early May 2002. The core technology was assessed in considerable detail by the FDA during its review of the UTI submission. We are confident that we will receive approval for BV later this year.

Osmetech's trials comprise one of the largest collective BV studies ever conducted. At each of the trials the Osmetech BV polymer sensor demonstrated the capability of yielding diagnostic readings in a significantly faster timescale than for current testing methods.

Other Projects

BV testing is often performed at the same time as tests for other conditions and infections such as Candida and Trichomonas. Osmetech has a clinical study currently under way for Candida and has

commenced other work designed to enhance our ability to detect other commonly occurring and clinically important vaginal infections. Market research has indicated that there is a very exciting product opportunity for a point of care test with such a multi-faceted capability. Such a product would have a compelling clinical and economic appeal and would benefit from a very broad market potential covering obstetrics, gynaecology, STD clinics and surgical wards as well as primary care physicians / general practitioners. The annual US market potential for the product is estimated to be \$1.4bn - \$1.9bn.

The Company has also identified many other areas of great commercial potential in the huge global healthcare market. Osmetech will however restrict its focus to a limited number of longer-term projects, including the detection of pneumonia in intensive care unit patients, which will now enter a new phase of development.

Point of Care Device

Many of Osmetech's potential healthcare applications lie in the point of care and near patient settings, where high levels of market growth are being experienced. Development is well advanced for a device that could provide a common platform for in-vitro diagnostic testing utilising our technology. We have taken delivery of engineering prototype units, upon which we have run tests using both formulated and clinical samples. The devices have met our required performance levels.

The vaginal infection product outlined above represents a considerable opportunity for Osmetech. The market requirements of this combined test are currently being refined and will be incorporated into the final design of this point of care device.

Intellectual Property

Osmetech has recently received notice from the European Patent Office of its intention to grant three new patents. One of the patents is for the detection of micro-organisms using multi sensor array technology, which is already in place in the US.

This marks a significant further strengthening of our industry leading patent portfolio, bringing our European coverage in one key area in particular, up to the level already in place in the US. These patents enhance our IPR for healthcare applications and, together with those for our core technology, extend our portfolio to 58 patents across 11 patent families.

Financial Review

Reduced losses for the year of £3,778,000 (2001 - £4,378,000) were favourably impacted by research and development tax credits totalling £930,000, of which £451,000 was in respect of the previous fiscal year. Excluding these tax credits, the higher costs reflect the increased pace of development of the point of care device.

In September 2001, the Company secured an equity credit line of £5,000,000 with GEM Global Yield Fund Limited, the US based private investment group. The facility is available for a two-year period during which Osmetech will control the timing and the maximum amount of each draw down. The Company is not obliged to draw down any specific amount of the funds on offer, but it provides important flexibility and cost-effective access to funding outside traditional equity markets.

Cash balances at 30 April 2002 of £2,716,000 were enhanced by the 5% issue of share capital to a number of institutional investors in November 2001. This raised £1,302,000 net of expenses together with net proceeds of £566,000 following two draw downs against the GEM equity line of credit.

Outlook

FDA approval has been a considerable achievement for Osmetech, demonstrating regulatory proof of principle in addition to the technical and scientific achievements previously obtained. Osmetech anticipates that BV approval will follow later this year and further applications will be developed on the same technological platform.

The Company is very excited about the point of care product opportunities, in particular with the combination vaginal infection test and remain confident that Osmetech will be able to successfully partner major international medical devices companies looking for the next generation of diagnostic products.

Gordon Hall

Chairman

12 July 2002

Corporate Governance Statement

There is a commitment to high standards of corporate governance throughout the Group. The board confirms that throughout the year ended 31 December 2001 the Group has complied with the provisions set out in Section 1 of the Combined Code, except for the following:

- 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.

The board is accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the Combined Code are applied by the Group.

Directors

The Board of directors comprises five 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 differing roles of the Chairman and the Chief Executive are acknowledged and defined in separate statements approved by the board. The key functions of the Chairman are to conduct board meetings and meetings of shareholders and to ensure that all directors are properly briefed in order to take a full and constructive part on board discussions. The Chief Executive is required to develop and lead business strategies and processes to enable the group's business to meet the requirements of its shareholders.

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 above, 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. The roles of the Audit and Remuneration Committees are described on pages 7 and 8.

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>. All shareholders have the opportunity to put questions at the Company's annual general meeting.

Audit and internal control

The board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the group, which complies with the guidance Internal Control: Guidance for Directors on the Combined Code. This has been in place throughout the year and up to the date of approval of the financial statements. The process is regularly reviewed by the board.

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

The process to identify, assess and manage the risks to the Group's continued success is an integral part of the system of internal control. The process 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 ensure 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 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.

S A Craig

Secretary

12 July 2002

Remuneration Report

Compliance

As well as complying with the provisions of the Combined Code as disclosed in the corporate governance statement, the Company has applied the principles relating to directors' remuneration as described below.

Details of each individual directors remuneration and share options are included in note 6 to the financial statements and those of the directors' shareholdings are set out in the report of the directors.

Composition and policy on remuneration of executive directors and senior executives

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:

a) 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. Basic salary for each director takes into account performance measures by a formal appraisal process.

b) Annual bonus

Specifically for the year 2001/02, the Group introduced performance-related rewards for certain executive management, which were only available when the desired results were achieved.

c) Pension

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

d) Executive share option schemes

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 options at 30 April 2002 are set out in notes 6 and 18 and include individual option agreements with certain executive directors and employees. Options are granted in order to attract, retain and incentivise both executive directors and employees.

Service Agreements

Mr G J Hall, Mr D A Sandilands, Mr G B Kuenster, Mr M J Bergeron, 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 12 months' notice. Mr G B Kuenster, Mr M J Bergeron, 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 12 months' notice and Mr D C Grindrod's appointment is terminable by at least six months' notice

Non executive directors

The remuneration for non-executive directors consists of fees for their services in connection with Board and Board Committee meetings. They are not eligible for pension scheme membership and do not participate in any of the Company's bonus, share option or other incentive schemes.

G J Hall

Chairman - Remuneration Committee

12 July 2002

Report of the directors

for the year ended 30 April 2002

The directors submit their report together with the audited financial statements for the year ended 30 April 2002.

Results and dividends

The results of the Group for the year are set out on page 15 .

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 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.

Research and development

The Group spent £2,848,530 (2001 - £2,484,575) 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 2002 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 2002		Ordinary shares of 1p each 30 April 2001 (or date of appointment if later)	
	Shares	Options	Shares	Options
G J Hall	403,946	1,000,000	403,946	1,000,000
J N G White	1,289,500	8,367,265	1,289,500	4,367,265
D A Sandilands	80,263	4,769,565	80,263	3,269,565
G B Kuenster	254,262	3,350,000	1,504,262	3,600,000
D C Grindrod	5,526	5,368,437	5,526	3,868,437
M J Bergeron	113,500	1,000,000	—	—
D S Hetzel	1,142,841	1,625,000	1,142,841	1,625,000
G R Davis	—	—	—	—

There have been no movements in the directors' interests in the Company's share capital between 30 April 2002 and 2 July 2002.

In accordance with the Articles of Association and, having been appointed as a director since the date of the last Annual General Meeting, Mr M J Bergeron retires and, being eligible, offers himself for election as a director at the Annual General Meeting to be held on 7 August 2002. Mr M J Bergeron's appointment is terminable by at least three month's notice.

Mr D A Sandilands and Mr G R Davis will retire by rotation and, being eligible, offer themselves for re-election. Mr D A Sandilands and Mr G R Davis do not have service agreements with Osmetech plc. Mr D A Sandilands' appointment is terminable by at least 12 month's notice and Mr G R Davis' appointment is terminable by at least three month's 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 was 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 2002 was £498,105 (2001 - £432,857) and at the balance sheet date the Company owed £69,617 (2001 - £66,083) to Seattle Sight Systems Inc.

Mr G B Kuenster is the Chairman and a shareholder of UMD Technology Inc (the successor by merger to Seattle Sight Systems Inc). Mr M J Bergeron is the President, Chief Financial Officer and a shareholder of UMD Technology Inc. The Company purchases various components from UMD Technology Inc on a competitive basis. The net value of transactions between the Company and UMD Technology Inc in the year to 30 April 2002 was £12,578 (2001 - £NIL) and, at the balance sheet date the Company owed £NIL (2001 - £NIL) to UMD Technology 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 1 July 2002:

Shareholder	Number of Shares	Per cent
Chase Nominees Limited	11,331,328	4.60
Nutraco Nominees Limited	10,725,111	4.35
TD Waterhouse Nominees (Europe) Limited a/c SMKTNOMS	10,321,467	4.19
Sharelink Nominees Limited a/c JMM	9,780,228	3.97
Jupiter Asset Management Limited	8,111,855	3.29
Barclayshare Nominees Limited	8,016,640	3.25

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.

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 the annual report includes information required by the Listing Rules of the Financial Services Authority.

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.

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 25 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

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.

Electronic Communications

A resolution to adopt new articles of association to facilitate the introduction of electronic communications was approved by shareholders at the annual general meeting held on 29 August 2001. Accordingly, the Company is now permitted to 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 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 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, Northern Registrars Limited on 01484 600900.

**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 £616,160 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 shareholders for cash without further 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 £123,232, 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.

These 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.

By order of the Board

S A Craig
Secretary

12 July 2002

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 2002 on pages 15 to 34 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. The 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 responsibilities are 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 reflect 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, Directors' report, Corporate Governance Statement and Remuneration 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 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 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 2002 and of the loss of the Group 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

12 July 2002

Consolidated profit and loss account

for the year ended 30 April 2002

	Note	2002 £	2001 £
Turnover	2	41,136	56,221
Cost of sales		16,082	24,906
Gross profit		<u>25,054</u>	<u>31,315</u>
Administrative expenses		4,887,668	4,791,346
Operating Loss	4	<u>(4,862,614)</u>	<u>(4,760,031)</u>
Interest receivable		155,771	381,901
Interest payable and similar charges	7	(372)	(279)
Loss on ordinary activities before taxation		<u>(4,707,215)</u>	<u>(4,378,409)</u>
Taxation	8	929,696	—
Loss for the year	9	<u>(3,777,519)</u>	<u>(4,378,409)</u>
Loss per share - basic and diluted	10	<u>(1.62p)</u>	<u>(1.97p)</u>

All amounts relate to continuing activities.

Consolidated statement of total recognised gains and losses

for the year ended 30 April 2002

	2002 £	2001 £
Loss for the financial year after taxation	(3,777,519)	(4,378,409)
Exchange losses on consolidation	(4,458)	(297)
Total recognised losses for the year	<u>(3,781,977)</u>	<u>(4,378,706)</u>

The notes on pages 19 to 34 form part of these financial statements

Consolidated balance sheet

at 30 April 2002

	Note	2002		2001	
		£	£	£	£
Fixed assets					
Intangible assets	11		905,040		862,683
Tangible assets	12		237,179		362,581
			<u>1,142,219</u>		<u>1,225,264</u>
Current assets					
Stocks	14	82,319		75,081	
Debtors: due within one year	15	677,715		272,609	
Cash at bank and in hand		2,716,428		5,021,202	
		<u>3,476,462</u>		<u>5,368,892</u>	
Creditors: amounts falling due within one year	16	<u>615,140</u>		<u>736,499</u>	
Net current assets			<u>2,861,322</u>		<u>4,632,393</u>
Total assets less current liabilities			<u>4,003,541</u>		<u>5,857,657</u>
Capital and reserves					
Called up share capital	18		2,464,639		2,267,849
Share premium account	19		25,840,881		24,109,810
Profit and loss account	19		(24,301,979)		(20,520,002)
Equity shareholders' funds	20		<u>4,003,541</u>		<u>5,857,657</u>

These financial statements were approved by the Board on 12 July 2002

D A Sandilands
Director

The notes on pages 19 to 34 form part of these financial statements

Company balance sheet

at 30 April 2002

	Note	2002		2001	
		£	£	£	£
Fixed assets					
Intangible assets	11		905,040		862,683
Tangible assets	12		237,178		362,580
Investments	13		1		—
			<u>1,142,219</u>		<u>1,225,263</u>
Current assets					
Stocks	14	82,319		62,758	
Debtors - due within one year	15	669,720		269,911	
Cash at bank and in hand		2,711,032		5,008,316	
		<u>3,463,071</u>		<u>5,340,985</u>	
Creditors: amounts falling due within one year	16	<u>600,002</u>		<u>728,811</u>	
Net current assets			<u>2,863,069</u>		<u>4,612,174</u>
Total assets less current liabilities			<u>4,005,288</u>		<u>5,837,437</u>
Capital and reserves					
Called up share capital	18		2,464,639		2,267,849
Share premium account	19		25,840,881		24,109,810
Profit and loss account	19		(24,300,232)		(20,540,222)
Equity shareholders' funds	20		<u>4,005,288</u>		<u>5,837,437</u>

These financial statements were approved by the Board on 12 July 2002

D A Sandilands
Director

The notes on pages 19 to 34 form part of these financial statements

Consolidated cash flow statement

for the year ended 30 April 2002

Reconciliation of operating loss to net cash outflow from operating activities

	2002	2001
	£	£
Operating loss	(4,862,614)	(4,760,031)
Amortisation	10,105	5,746
Depreciation	161,289	178,825
(Increase) in stocks	(14,407)	(11,205)
(Increase)/decrease in debtors	(8,678)	8,384
(Decrease)/increase in creditors	(116,871)	288,366
Loss on disposal of fixed assets	22,138	20,345
Net cash outflow from operating activities	<u>(4,809,038)</u>	<u>(4,269,570)</u>

Consolidated cash flow statement

	Note	2002	2001
		£	£
Net cash outflow from operating activities		(4,809,038)	(4,269,570)
Taxation	21	416,360	-
Returns on investments and servicing of finance	21	270,723	333,227
Capital expenditure	21	(110,487)	(209,225)
Management of liquid resources	21	2,900,000	1,250,000
Financing	21	1,927,861	2,738,047
Increase/(decrease) in cash	21	<u>595,419</u>	<u>(157,521)</u>

Reconciliation of net cash flow to movement in net funds

	2002	2001
	£	£
Increase/(decrease) in cash in the year	595,419	(157,521)
Movement in liquid resources	(2,900,000)	(1,250,000)
Exchange differences	(193)	2,482
Change in net funds	<u>(2,034,774)</u>	<u>(1,405,039)</u>
Net funds at beginning of year	21	<u>5,021,202</u>
Net funds at end of year	21	<u>2,716,428</u>

The notes on pages 19 to 34 form part of these financial statements

Notes forming part of the financial statements

for the year ended 30 April 2002

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, 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 11 .

Basis of consolidation

The consolidated accounts incorporate the financial statements of Osmetech plc and all of its subsidiary undertakings made up to 30 April 2002. 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

Following the adoption of Financial Reporting Standard 19, Deferred Taxation, deferred tax is recognised of all timing differences that have been originated but not reversed by the balance sheet date except for deferred tax assets which are only recognised to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. The adoption of Financial Reporting Standard 19 has had no impact on prior year's figures and so no prior year adjustment has occurred.

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.

1 Accounting policies (continued)

Financial instruments

In relation to the disclosures made in note 25:

- 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.

Foreign currency

Profit and loss accounts of foreign subsidiary undertakings are translated into sterling at the average exchange rate for the year. 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.

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, 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.

1 Accounting policies (continued)

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 is to reflect all term deposits as liquid resources rather than cash balances.

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:

	2002	2001
	£	£
United Kingdom	66	2,041
Rest of Europe	2,750	1,462
USA	22,480	27,171
Far East	15,840	20,712
Rest of world	—	4,835
	<u>41,136</u>	<u>56,221</u>

Turnover in the USA originates in that country, all other turnover originates in the United Kingdom. All turnover is to external customers.

3 Analysis of loss before taxation and net assets

The directors have not disclosed segmental analysis of loss before taxation and net assets on the grounds that it is considered seriously prejudicial to the Group's commercial interests.

4 **Operating loss**

	2002	2001
	£	£
This is arrived at after charging:		
Amortisation of intangible fixed assets	10,105	5,746
Depreciation	161,289	178,825
Auditors' remuneration - audit services: Osmetech plc	23,500	23,500
- other Group companies	4,839	5,690
- non audit services	20,954	80,757
Operating lease rentals	211,455	192,621
Research and development	2,848,530	2,484,575
Loss on disposal of fixed assets	22,138	20,345
	<u> </u>	<u> </u>

5 **Employees**

	2002	2001
	£	£
Staff costs for all employees, including executive directors, consist of:		
Wages and salaries	1,522,300	1,410,805
Social security costs	130,316	113,586
Other pension costs	98,262	86,454
	<u>1,750,878</u>	<u>1,610,845</u>

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

	Number	Number
Full time equivalents	<u>36</u>	<u>41</u>

6 **Directors**

	2002	2001
	£	£
Emoluments:		
Fees as directors	137,820	139,877
Remuneration for management services	392,792	322,835
	<u>530,612</u>	<u>462,712</u>
Highest paid director:		
Emoluments	197,108	159,112
Defined contribution pension scheme payments	17,813	8,250
	<u>214,921</u>	<u>167,362</u>

6 Directors (continued)

Directors' remuneration

	Fees and basic salary	Bonus	Benefits	2002 Total	2001 Total	2002 Pension contributions	2001 Pension contributions
	£	£	£	£	£	£	£
<i>Executive directors</i>							
J N G White	118,750	70,000	8,358	197,108	91,047	17,813	12,423
D A Sandilands	84,375	23,000	5,440	112,815	51,361	13,958	10,098
G B Kuenster	70,774	—	—	70,774	69,287	—	—
D C Grindrod	76,667	20,000	10,318	106,985	25,315	11,500	3,281
M Bergeron	5,625	—	—	5,625	—	—	—
<i>Non executive directors</i>							
G J Hall	35,000	—	1,316	36,316	37,071	—	—
D S Hetzel	14,171	—	—	14,171	17,519	—	—
G R Davis	12,250	—	—	12,250	12,000	—	—

Defined Contribution Pension Scheme Payments

	2002 £	2001 £
Defined contribution pension scheme payments	43,271	34,052

	2002 Number of directors	2001 Number of directors
Defined contribution pension schemes	3	4

6 Directors (continued)

Directors' interests

The interests of the directors in ordinary shares of Osmetech plc, which, are all held beneficially as reported in the Report of the directors on page 10.

Options

Director	Total options on ordinary shares 30 April 2001	Granted during the Year Non EMI	Lapsed/ Exercised* during the Year	Total Options on ordinary shares 30 April 2002	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
JNG White	120,000	—	—	120,000	25.09.98	2p	21.10.01	21/01.08
	77,700	—	—	77,700	21.05.99	18p	21.05.02	21.05.09
	500,000	—	—	500,000	13.10.99	17 3/4p	13.10.02	13.10.09
	1,800,000	—	—	1,800,000	26.04.00	26 1/4p	26.04.03	26.04.10
	1,869,565	—	—	1,869,565	01.03.01	11 1/2p	01.03.04	01.03.11
	—	4,000,000	—	4,000,000	29.01.02	12 3/4p	29.01.05	29.01.12
D A Sandilands	750,000	—	—	750,000	26.07.99	17 1/4p	26.07.02	26.07.09
	1,350,000	—	—	1,350,000	26.04.00	26 1/4p	26.04.03	26.04.10
	1,169,565	—	—	1,169,565	01.03.01	11 1/2p	01.03.04	01.03.11
	—	1,500,000	—	1,500,000	29.01.02	12 3/4p	29.01.05	29.01.12
D C Grindrod	120,000	—	—	120,000	25.09.98	2 p	21.10.01	21.01.08
	78,872	—	—	78,872	21.05.99	18 p	21.05.02	21.05.09
	500,000	—	—	500,000	13.10.99	17 3/4p	13.10.02	13.10.09
	1,800,000	—	—	1,800,000	26.04.00	26 1/4p	26.04.03	26.04.10
	1,369,565	—	—	1,369,565	01.03.01	11 1/2p	01.03.04	01.03.11
	—	1,500,000	—	1,500,000	29.01.02	12 3/4p	29.01.05	29.01.12
G B Kuenster	1,250,000	—	(1,250,000)*	—	—	—	—	—
	1,350,000	—	—	1,350,000	26.04.00	26 1/4p	26.04.03	26.04.10
	1,000,000	—	—	1,000,000	20.03.01	11 p	20.03.04	20.03.11
	—	1,000,000	—	1,000,000	29.01.02	12 3/4p	29.01.05	29.01.12
M J Bergeron	—	1,000,000	—	1,000,000	06.02.02	12 3/4p	06.02.05	06.02.12
D S Hetzel	625,000	—	—	625,000	25.09.98	2p	21.01.01	21.02.08
	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 2002 was 13p (2001 - 13.25p) and the range during the period was between 6 p and 18.75p (2001 - 9.5p and 28.25p).

Note: * Exercise of Options. The mid-market price of the shares on the date of exercise was 13p, resulting in a gross gain of £137,500.

7 Interest payable and similar charges

	2002	2001
	£	£
Bank borrowings	372	279

8 Taxation

For the current year, this represents Research and Development tax credit receivable of £478,679 in respect of 2002 and £451,017 in respect of 2001.

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

8 Taxation (continued)

The tax assessed for the year is different than the standard rate of corporation tax in the UK. The differences are explained below:

	2002 £	2001 £
Loss on ordinary activities before tax	(4,707,215)	(4,378,409)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2001 - 30%)	(1,412,185)	(1,313,523)
Effect of:		
Expenses not deductible for tax purposes	220,187	189,156
Capital allowances in excess of depreciation	(14,603)	(23,427)
Other short term timing differences	30,642	3,434
Losses carried forward	577,609	1,144,380
Research and development tax credit at 24%	119,670	—
Adjustment to tax charge in respect of prior periods	(451,017)	—
Current tax credit for the period	(929,696)	—

9 Loss for the financial year

	2002 £	2001 £
Dealt with in the accounts of the parent undertaking	(3,760,010)	(4,335,863)

The loss for the year ended 30 April 2002 includes a write down in the value of the investment in subsidiary undertakings of £703,652 (2001 - £900,134).

10 Loss per share

The basic loss per share has been calculated on the weighted average number of shares in issue during the year of 232,796,080 (2001 - 221,970,454) and losses of £3,777,519 (2001 - £4,378,409). There are no dilutive potential ordinary shares.

11 Intangible assets

	Intellectual property rights £
Group and Company	
<i>Cost</i>	
At beginning of year	965,982
Additions	60,787
Disposals	(8,325)
At end of year	1,018,444
<i>Amortisation</i>	
At beginning of year	103,299
Provided for year	10,105
Disposals	—
At end of year	113,404
<i>Net book value</i>	
At 30 April 2002	905,040
At 30 April 2001	862,683

12 Tangible assets

Group	Short leasehold improvements £	Plant, machinery and motor vehicles £	Office equipment £	Total £
<i>Cost</i>				
At beginning of year	12,146	721,929	352,334	1,086,409
Additions	—	43,921	5,779	49,700
Disposals	(4,925)	(166,340)	—	(171,265)
Currency translations adjustments	(74)	—	(270)	(344)
At end of year	<u>7,147</u>	<u>599,510</u>	<u>357,843</u>	<u>964,500</u>
<i>Depreciation</i>				
At beginning of year	12,146	432,684	278,998	723,828
Provided for the year	—	133,178	28,111	161,289
Disposals	(4,925)	(152,527)	—	(157,452)
Currency translation adjustments	(74)	—	(270)	(344)
At end of year	<u>7,147</u>	<u>413,335</u>	<u>306,839</u>	<u>727,321</u>
<i>Net book value</i>				
At 30 April 2002	<u>—</u>	<u>186,175</u>	<u>51,004</u>	<u>237,179</u>
At 30 April 2001	<u>—</u>	<u>289,245</u>	<u>73,336</u>	<u>362,581</u>

Company	Short leasehold improvements £	Plant, machinery and motor vehicles £	Office equipment £	Total £
<i>Cost</i>				
At beginning of year	7,147	721,929	334,130	1,063,206
Additions	—	43,921	5,779	49,700
Disposals	—	(166,340)	—	(166,340)
At end of year	<u>7,147</u>	<u>599,510</u>	<u>339,909</u>	<u>946,566</u>
<i>Depreciation</i>				
At beginning of year	7,147	432,684	260,795	700,626
Provided for the year	—	133,178	28,111	161,289
Disposals	—	(152,527)	—	(152,527)
At end of year	<u>7,147</u>	<u>413,335</u>	<u>288,906</u>	<u>709,388</u>
<i>Net book value</i>				
At 30 April 2002	<u>—</u>	<u>186,175</u>	<u>51,003</u>	<u>237,178</u>
At 30 April 2001	<u>—</u>	<u>289,245</u>	<u>73,335</u>	<u>362,580</u>

13 Fixed asset investments

Company	Shares £	Loan £	Total £
<i>Cost</i>			
At beginning of year	645	6,094,323	6,094,968
Transactions in the year	1	703,652	703,653
At end of year	646	6,797,975	6,798,621
<i>Provision for permanent diminution in value</i>			
At beginning of year	645	6,094,323	6,094,968
Provision movements during the year	—	703,652	703,652
At end of year	645	6,797,975	6,798,620
<i>Net book value</i>			
At 30 April 2002	1	—	1
At 30 April 2001	—	—	—

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

	2002		2001	
	Group £	Company £	Group £	Company £
Raw materials	82,319	82,319	53,831	43,508
Finished goods	—	—	21,250	19,250
	82,319	82,319	75,081	62,758

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

	2002		2001	
	Group £	Company £	Group £	Company £
Due within one year				
Trade debtors	15,988	15,625	16,243	15,375
Other debtors	6,173	2,051	3,270	1,440
Taxation recoverable	531,339	531,339	54,746	54,746
Prepayments and accrued income	124,215	120,705	198,350	198,350
	<u>677,715</u>	<u>669,720</u>	<u>272,609</u>	<u>269,911</u>

16 Creditors: amounts falling due within one year

	2002		2001	
	Group £	Company £	Group £	Company £
Trade creditors	262,541	256,785	368,112	365,695
Taxation and social security	45,227	45,227	45,741	45,741
Accruals and deferred income	307,348	297,990	322,605	317,375
Other creditors	24	—	41	—
	<u>615,140</u>	<u>600,002</u>	<u>736,499</u>	<u>728,811</u>

17 Deferred taxation

	2002	2001
	Provided £	Provided £
Group		
Accelerated capital allowances	173,730	169,542
Sundry timing differences	(15,990)	(16,762)
Unutilised tax losses	(157,740)	(152,780)
	<u>—</u>	<u>—</u>
Company		
Accelerated capital allowances	173,730	154,661
Sundry timing differences	(15,990)	—
Unutilised tax losses	(157,740)	(154,661)
	<u>—</u>	<u>—</u>

At 30 April 2002 the Group had unutilised tax losses of £5,895,131 (2001 - £6,469,589) and the Company had unutilised tax losses of £3,323,097 (2001 - £4,149,035).

18 Share capital

	Authorised		Allotted, called up and fully paid	
	2002	2001	2002	2001
	£	£	£	£
Ordinary shares of 1p	3,678,141	3,446,640	2,464,639	2,267,849

The number of authorised ordinary shares at 30 April 2002 is 367,814,100 (2001 - 344,664,000) and the number of allotted, called up and fully paid ordinary shares at 30 April 2002 is 246,463,946 (2001 - 226,784,901).

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

Date	Number	Consideration Per Share
1 August 2001	1,000,000	2p
25 October 2001	416,000	2p
13 December 2001	11,410,045	11.5p
14 January 2002	1,500,000	14.055p
16 January 2002	453,000	2p
29 January 2002	3,650,000	13.32p
20 March 2002	1,250,000	2p

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		Subscription Price	Exercisable between
	30 April 2002	30 April 2001		
1 March 2001	2,825,000	4,050,000	11 ½p	1 March 2002 and 1 March 2011
1 March 2001	2,608,695	2,608,695	11 ½p	1 March 2004 and 1 March 2011
19 July 2001	2,734,900	—	11 ¾p	1 March 2002 and 19 July 2011
11 February 2002	1,850,000	—	12 ½p	11 February 2003 and 11 February 2012

18 Share capital (continued)

2. Individual Option Agreements:

Date	Number of ordinary shares under option as at		Subscription Price	Exercisable between
	30 April 2002	30 April 2001		
25 September 1998	2,133,000	4,252,000	2p	21 October 2001 and 21 October 2008
21 May 1999	1,941,632	2,172,148	18p	21 May 2002 and 21 May 2009
26 July 1999	750,000	750,000	17 1/4p	26 July 2002 and 26 July 2009
13 October 1999	1,000,000	1,000,000	17 3/4p	13 October 2002 and 13 October 2009
26 April 2000	7,513,807	8,053,772	26 1/4p	26 April 2003 and 26 April 2010
1 March 2001	1,800,000	1,800,000	11 1/2p	1 March 2004 and 1 March 2011
20 March 2001	300,000	300,000	11p	1 March 2002 and 20 March 2011
20 March 2001	1,000,000	1,000,000	11p	20 March 2004 and 20 March 2011
29 January 2002	9,000,000	—	12 3/4p	29 January 2005 and 29 January 2012
6 February 2002	1,000,000	—	12 3/4p	6 February 2005 and 6 February 2012
11 February 2002	75,000	—	12 1/2p	11 February 2003 and 11 February 2012

Warrants

The Company has warrants outstanding as follows:

Date	Number of ordinary shares under option as at		Subscription Price	Exercisable between
	30 April 2002	30 April 2001		
14 January 2002	300,000	—	14.055p	15 January 2002 and 14 January 2005
29 January 2002	730,000	—	13.32p	30 January 2002 and 29 January 2005

19 Reserves

	Share premium account £	Profit and loss account £
Group		
At beginning of year	24,109,810	(20,520,002)
On new share capital subscribed	1,874,750	—
Issue expenses	(143,679)	—
Loss for the year	—	(3,777,519)
Exchange gain on consolidation	—	(4,458)
At end of year	<u>25,840,881</u>	<u>(24,301,979)</u>
	Share premium account £	Profit and loss account £
Company		
At beginning of year	24,109,810	(20,540,222)
On new share capital subscribed	1,874,750	—
Issue expenses	(143,679)	—
Loss for the year	—	(3,760,010)
At end of year	<u>25,840,881</u>	<u>(24,300,232)</u>

20 Reconciliation of movements in shareholders' funds

	2002		2001	
	Group £	Company £	Group £	Company £
Loss for the financial year	(3,777,519)	(3,760,010)	(4,378,409)	(4,335,863)
Other recognised gains and losses relating to the year	(4,458)	—	(297)	—
New share capital subscribed including premium	1,927,861	1,927,861	2,738,047	2,738,047
Net reduction in shareholders' funds	(1,854,116)	(1,832,149)	(1,640,659)	(1,597,816)
Opening shareholders' funds	5,857,657	5,837,437	7,498,316	7,435,253
Closing shareholders' funds	<u>4,003,541</u>	<u>4,005,288</u>	<u>5,857,657</u>	<u>5,837,437</u>

21 Notes to the cash flow statement

i) Gross cash flows

	2002	2001
	£	£
Taxation		
Research and Development tax credit	416,360	—
	<u>416,360</u>	<u>—</u>
Returns on investments and servicing of finance		
Interest received	271,095	333,506
Interest paid	(372)	(279)
	<u>270,723</u>	<u>333,227</u>
Capital expenditure		
Payments to acquire intangible fixed assets	(60,787)	(62,282)
Payments to acquire tangible fixed assets	(49,700)	(146,943)
	<u>(110,487)</u>	<u>(209,225)</u>
Management of liquid resources		
Transfer from term deposits	2,900,000	1,250,000
	<u>2,900,000</u>	<u>1,250,000</u>
Financing		
Issue of ordinary share capital	2,071,540	2,773,459
Share issue expenses	(143,679)	(35,412)
	<u>1,927,861</u>	<u>2,738,047</u>

ii) Analysis of changes in net funds

	£	£	£	£
	At	Cash	Exchange	At
	30 April	flows	differences	30 April
	2001			2002
	£	£	£	£
Cash at bank and in hand	21,202	595,419	(193)	616,428
Liquid resources	5,000,000	(2,900,000)	-	2,100,000
	<u>5,021,202</u>	<u>(2,304,581)</u>	<u>(193)</u>	<u>2,716,428</u>

22 Commitments

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

	Land and buildings	Other	Land and buildings	Other
	2002	2002	2001	2001
	£	£	£	£
Operating leases which expire:				
Within 1 year	163,152	16,530	164,207	7,182
In one to two years	—	11,535	—	16,530
Between two and five years	16,795	—	—	11,535
	<u>179,947</u>	<u>28,065</u>	<u>164,207</u>	<u>35,247</u>

23 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 B Kuenster was 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 2002 was £498,105 (2001 - £432,857) and at the balance sheet date the Company owed £69,617 (2001 - £66,083) to Seattle Sight Systems Inc.

Mr G B Kuenster is the Chairman and a shareholder of UMD Technology Inc. (the successor by merger to Seattle Sight Systems Inc.) Mr M J Bergeron is the President, Chief Financial Officer and a shareholder of UMD Technology Inc. The Company purchases various components from UMD Technology Inc on a competitive basis. The net value of transactions between the Company and UMD Technology Inc. in the year to 30 April 2002 was £12,578 (2001 - £NIL) and at the balance sheet date the Company owed £NIL (2001 - £NIL) to UMD Technology Inc.

24 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 £98,262 for the year (2001 - £86,454).

25 Financial instruments

The Group's treasury activities are designed to provide suitable, flexible funding arrangement 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 profit, 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, either in the current or prior year.

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

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

	Functional currency of operations					
	2002			2001		
	Group £	Sterling £	US Dollar £	Group £	Sterling £	US Dollar £
Cash	616,427	608,479	7,948	21,202	8,316	12,886
Liquid resources	2,100,000	2,100,000	-	5,000,000	5,000,000	-
	<u>2,716,427</u>	<u>2,708,479</u>	<u>7,948</u>	<u>5,021,202</u>	<u>5,008,316</u>	<u>12,886</u>

Fixed rate financial assets of £2,100,000 (2001: £5,000,000) comprise cash deposits on money market deposit, at monthly and three monthly rates. Floating rate cash earns interest at a rate based on LIBOR.

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 7th August 2002 at 9.30 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 2002, together with the reports of the directors and auditors.
2. To elect M J Bergeron as a director.
3. To re-elect D A Sandilands as a director, who retires by rotation.
4. To re-elect G R Davis 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 relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £616,160 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 6 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 £123,232 representing 5 % of the current issued share capital of the Company.

By order of the Board
S A Craig
Secretary

Registered office:
Electra House
Electra Way
Crewe CW1 6WZ

12 July 2002

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 deposit with the Company's Registrars, Northern Registrars Limited, Northern House, Woodsome Park, Fenay bridge, Huddersfield, HD8 0LA, 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 9.30 am on 5 August 2002 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 9.30 am on 5 August 2002 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 I/We.....
 full name (Please use block letters)
 and address of.....

being member(s) of the above-named company, hereby appoint the Chairman of the 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 7 August 2002 at 9.30am 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 2002, together with the reports of the directors and auditors.		
2. To elect M J Bergeron as a director.		
3. To re-elect D A Sandilands as a director, who retires by rotation.		
4. To re-elect G R Davis 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	FOR	AGAINST
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 relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £616,160 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 6 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 £123,232 representing 5% of the current issued share capital of the Company.		

Signature(see note 3) Dated this day of 2002

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, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA, 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.

FIRST FOLD

BUSINESS REPLY SERVICE
Licence No. HF 106



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

THIRD FOLD

SECOND FOLD

