

OXFORD BIOSENSORS LIMITED

Report and Financial Statements

31 July 2007

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REPORT AND FINANCIAL STATEMENTS 2007

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REPORT AND FINANCIAL STATEMENTS 2007

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J Garner (resigned 23 September 2007)
L Clay
R M Mehalso
D G Hawksworth

SECRETARY

Aldwych Secretaries Limited
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Aldwych House
81 Aldwych
London
WC2B 4RP

REGISTERED OFFICE

9400 Garsington Road
Oxford Business Park
Oxford
OX4 2HN

BANKERS

Barclays Bank plc
Oxford City Centre
The Oxford Group
PO Box 333
Oxford
OX1 3HS

SOLICITORS

Manches
9400 Garsington Road
Oxford Business Park
Oxford
OX4 2HN

AUDITORS

Deloitte & Touche LLP
Reading, UK

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 July 2007. The directors' report has been prepared in accordance with the special provision relating to small companies under section 246(4) of the Companies Act 1985.

ACTIVITIES

The principal activity of the company during the year ended 31 July 2007 was that of developing hand-held diagnostic equipment.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The past year of operations has seen the company continuing to develop its technology towards the goal of commercialising the Cardiac Risk Product.

On 23 September 2007, Mr J Garner resigned as a director of the company following his departure from East Hill Advisors. The Board would like to thank Mr Garner for his contribution to Oxford Biosensors over the years.

The company's headcount stood at 56 full time employees in July 2007, compared with 58 at the beginning of the year.

Arrangements are being made to secure additional finance via a new issue of shares. This is expected to be completed in 2008 and should provide sufficient funds to complete the development and regulatory approvals of the Cardiac Risk Product and to launch the product to market.

As stated in note 17 to the accounts, on 28 August 2007 the final tranche of £350,000 of the original loan note instrument was issued. Further loan note instruments having similar terms to the earlier loan note were approved by the board. To date £2,150,000 of loan notes have been issued against these instruments.

Because most of the commercial conditions relating to certain performance warrants were not met, 246,588 of these warrants became exercisable. Subsequently a further 246,588 shares were issued at £0.01 each.

On 11 October 2007 share warrants were exercised resulting in 206,700 new shares being issued for a total consideration of £750,321. A further 146,900 warrants also exercisable at £3.63 per share were not exercised before their expiry date of 1 November 2007 and have lapsed.

DIVIDENDS

The directors do not recommend payment of a dividend for the year ended 31 July 2007 (2006: £nil).

DIRECTORS

The directors who served throughout the year and to the date of signing are listed on page 1.

DIRECTORS' REPORT (CONTINUED)

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that

- So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- The director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors and signed on behalf of the Board



D G Hawksworth

Director

9th MAY 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OXFORD BIOSENSORS LIMITED

We have audited the financial statements of Oxford Biosensors Limited for the year ended 31 July 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OXFORD BIOSENSORS LIMITED

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 July 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the need for the company to issue convertible loan notes and to complete an equity funding round in order to continue as a going concern. In view of the significance of this uncertainty, we consider that it should be drawn to your attention, but, in accordance with auditing standards our opinion is not qualified in this respect. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.



DELOITTE & TOUCHE LLP

Chartered Accountants and Registered Auditors
Reading, United Kingdom

16 May 2008

PROFIT AND LOSS ACCOUNT
Year ended 31 July 2007

	Note	2007 £	2006 Restated (See note 6) £
Other operating income	3	874,667	5,035,956
Administrative expenses		(5,895,259)	(5,058,207)
OPERATING LOSS	3	(5,020,592)	(22,251)
Interest receivable and similar income	7	60,395	110,580
Interest payable and similar charges	8	(126,667)	(9,162)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(5,086,864)	79,167
Tax on (loss)/profit on ordinary activities	9	-	260,316
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	19	(5,086,864)	339,483
Retained loss brought forward	19	(5,969,745)	(6,309,228)
Retained loss carried forward	19	(11,056,609)	(5,969,745)

All amounts derive from continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 July 2007

	Note	2007 £	2006 £ As restated*
(Loss)/profit for the financial period		<u>(5,086,864)</u>	<u>339,483</u>
Total recognised gains and losses for the period		<u>(5,086,864)</u>	<u>339,483</u>
Prior year adjustment for the adoption of FRS 20 “Share based payments”		<u>(76,619)</u>	
Total gains and losses recognised since last annual report and financial statements		<u><u>(5,163,483)</u></u>	

* Restated on first time adoption of FRS 20 “Share based payments” - see note 6

BALANCE SHEET
At 31 July 2007

	Note	2007 £	2006 Restated (See note 6) £
FIXED ASSETS			
Tangible assets	10	1,572,603	1,721,361
CURRENT ASSETS			
Debtors	11	269,022	540,330
Current asset investment	12	-	1,016,858
Cash at bank and in hand		766,543	1,660,599
		1,035,565	3,217,787
CREDITORS: amounts falling due within one year	13	(3,192,549)	(950,246)
NET CURRENT (LIABILITIES)/ASSETS		(2,156,984)	2,267,541
CREDITORS: amounts falling due after more than one year	14	(18,674)	-
PROVISIONS FOR LIABILITIES AND CHARGES	16	(10,695)	(21,548)
NET (LIABILITIES)/ASSETS		(613,750)	3,967,354
CAPITAL AND RESERVES			
Called up share capital	18	30,823	30,823
Share premium account	19	9,742,284	9,742,284
Equity reserve	19	282,014	-
Profit and loss account	19	(10,668,871)	(5,805,753)
TOTAL SHAREHOLDERS' (DEFICIT)/FUNDS	19	(613,750)	3,967,354

These financial statements were approved by the Board of Directors on

9th MAY 2008

Signed on behalf of the Board of Directors



D G Hawksworth

Director

NOTES TO THE ACCOUNTS
Year ended 31 July 2007

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future

On 8 February 2007, the company created convertible loan instruments to obtain additional funding from existing shareholders as described in Note 18 £2.65 million of loan notes were issued before the end of July 2007

Since the balance sheet date, a further £2.5 million of loan notes have been issued, as described in Note 24

The directors do not expect this instrument to fund the company's development program beyond 2008. Consequently, they are currently seeking further financing of £15 million via a new share subscription. A business plan (which details the company's intentions and strategies for the development, regulatory approval and marketing of the cardiac risk and other products as well as its estimated expenditure beyond product launch) has been prepared and has been marketed to potential investors from the second quarter of 2007.

Should the company fail to secure further tranches of the convertible loan instruments or the proposed financing be unsuccessful, then the company would not be able to meet its liabilities as they fall due, and the going concern basis would be inappropriate.

However, the directors are confident that necessary interim funding will be forthcoming under the terms of the loan instruments and that the proposed new equity financing described above will be achieved during 2008, and accordingly have prepared the accounts on a going concern basis. The financial statements do not, therefore, include any adjustments that would result from failure to obtain further financing. In the event that the going concern basis is not applicable and in accordance with generally accepted accounting practices, adjustments would have to be made to the accounts to restate the value of assets to their recoverable amount, to provide any further liabilities which might arise and to reclassify fixed assets as current assets.

2. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below and have been applied consistently throughout the current and preceding year, with the exception of the first time implementation of FRS 20 "Share-Based Payments".

Accounting convention

The financial statements are prepared under the historical cost convention.

Cash flow statement

The company has taken the exemption from the requirement to present a cash flow statement in these financial statements under S246 and S247 of the Companies Act 1985.

NOTES TO THE ACCOUNTS (CONTINUED)
Year ended 31 July 2007

2. ACCOUNTING POLICIES (CONTINUED)

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for permanent diminution in value

Depreciation is provided on all tangible fixed assets at rates calculated to write down the cost less estimated residual value of each asset over their expected useful economic life as follows

Plant and machinery	4 years
Office equipment	2 to 3 years
Fixtures and fittings	5 years
Leasehold improvements	Lesser of the life of the lease and 5 to 15 years

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

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

Leases

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

Assets held under finance leases are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Research and development

Research and development expenditure is charged to the profit and loss account as incurred.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transaction was entered into. Monetary assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial period. All foreign exchange differences are taken to the profit and loss account in the period in which they arise.

Share-based payments

The company has applied the requirements of FRS 20 Share-based payments to equity settled share option payments issued after 1 November 2002. The prior year comparatives have been restated to reflect this (see Note 6).

The company issues equity-settled share-based payments to various employees and consultants. Equity settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on estimates of the shares that will eventually vest and adjusting for the effect of non market-based vesting conditions.

Fair value is measured by the use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on estimates, for the effects of non-transferability, exercise restrictions and behavioural conditions.

NOTES TO THE ACCOUNTS (CONTINUED)
Year ended 31 July 2007

2 ACCOUNTING POLICIES (CONTINUED)

Convertible loan note

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of the issue of the convertible loan note and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the company, is included in equity.

The interest expense of the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

3. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging/(crediting)

	2007 £	2006 £
Depreciation of tangible fixed assets owned	521,205	407,949
leased	50,301	45,552
Rentals under operating leases other operating leases	132,789	115,000
Auditors' remuneration audit fees	9,544	7,651
other fees	16,450	19,350
Other operating income	<u>(874,667)</u>	<u>(5,035,956)</u>

Other operating income represents funding receivable under the terms of a collaborative development agreement.

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2007 £	2006 £
Directors' remuneration		
Cash Emoluments	189,042	173,706
Emoluments with alternative settlement options	-	101,150
	<u>189,042</u>	<u>274,856</u>
	£	£
Highest paid director:		
Emoluments for qualifying services	<u>135,062</u>	<u>105,426</u>
	£	£
Staff costs during the year (including directors)		
Wages and salaries	2,022,628	1,799,648
Social security costs	218,520	193,320
	<u>2,241,148</u>	<u>1,992,968</u>
	No.	No.
Average number of persons employed by the company	<u>54</u>	<u>49</u>

NOTES TO THE ACCOUNTS (CONTINUED)
Year ended 31 July 2007

5. SHARE BASED PAYMENTS

The company operates a share option scheme that entitles employees and certain consultants to purchase shares in the company. During the financial period grants have been made as detailed below.

The number and weighted average prices of share options is as follows:

	Weighted average exercise price 2007 £	Number of options 2007 No.	Weighted average exercise price 2006 £	Number of options 2006 No.
Outstanding at the start of the year	3.88	144,075	3.35	102,900
Forfeited during the year	4.08	(4,450)	3.63	(2,900)
Granted during the year	5.11	47,246	5.11	44,075
Exercised during the year		Nil		Nil
Replaced during the year		Nil		Nil
Outstanding at the end of the year	4.19	186,871	3.88	144,075
Exercisable at the end of the year	3.92	144,146	3.30	69,000

The options outstanding at 31 July 2007 have exercise prices in the range of £2.50 to £5.11 and a weighted average remaining contractual life of 6.7 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured using the Black-Scholes model. The expected life of the options is used as an input into this model.

	2007	2006 Restated (See note 6)
Fair value of each option at measurement date	£3.38	£2.86
Share price	£4.86	£4.86
Exercise price	£5.11	£5.11
Expected volatility	55%	55%
Option life (average)	10 years	7.6 years
Weighted average risk free interest rate	4.8%	4.4%

The expected volatility is based on the historic volatility of quoted shares which are considered relevant.

NOTES TO THE ACCOUNTS (CONTINUED)
Year ended 31 July 2007

5. SHARE BASED PAYMENTS (CONTINUED)

Share options are granted under a service condition. There are no market or performance conditions associated with the share option grants.

	2007 £	2006 Restated (See note 6) £
Fair value of share options granted in		
2003	-	10,305
2004	13,288	31,494
2005	-	-
2006	50,856	34,820
2007	58,452	-
Total expense recognised as employee cost	<u>122,596</u>	<u>76,619</u>

6. PRIOR YEAR ADJUSTMENT

The company has implemented FRS 20 share based payments for the first time. Details of the policy are stated in note 2 and note 5. The comparative figures in these financial statements have been restated to reflect the new policy.

The effects of the change in policy are summarised below:

	2007 £	2006 £
Profit and loss account		
Fair value of share option granted	<u>(122,596)</u>	<u>(76,618)</u>
Decrease in profit for year	<u>(122,596)</u>	<u>(76,618)</u>
Balance sheet		
Increase in profit and loss reserve	122,596	76,618
Decrease in profit and loss account for the year	<u>(122,596)</u>	<u>(76,618)</u>
Change in net assets	<u>Nil</u>	<u>Nil</u>

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2007 £	2006 £
Bank interest receivable	60,395	108,334
Interest on corporation tax repayment	<u>-</u>	<u>2,246</u>
	<u>60,395</u>	<u>110,580</u>

NOTES TO THE ACCOUNTS (CONTINUED)
Year ended 31 July 2007

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £	2006 £
Finance lease interest	7,887	9,150
Bank interest payable	14	12
Interest accruing on convertible loan notes (note 18)	118,766	-
	<u>126,667</u>	<u>9,162</u>

9. TAX CREDIT ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2007 £	2006 £
Corporation tax at 20%		
Current year	-	-
Adjustment in respect of prior years	-	260,316
	<u>-</u>	<u>260,316</u>

The tax assessed for the year differs from that resulting from applying the small company rate of corporation tax in the United Kingdom 20% (2006 19%) The differences are explained below

	2007 £	2006 £
(Loss)/profit on ordinary activities before tax	(5,086,864)	79,167
Tax (credit)/charge thereon	(1,017,373)	15,042
Effects of		
Expenses not deductible for tax purposes	47,899	23,955
R&D enhancement	(212,087)	(93,081)
Depreciation in excess of capital allowances	25,411	5,809
Movement in short term timing differences	-	19,219
Tax losses	1,200,119	29,056
Prior period adjustments	2,167	(260,316)
Increase in tax rate to 20%	(46,134)	-
Current tax credit for period	<u>-</u>	<u>(260,316)</u>

At 31 July 2007 the Company has a net unprovided deferred tax asset of £2,104,245 (2006 £878,715) The net deferred tax asset is composed of a deferred tax asset of £2,136,652 (2006 £936,533) arising from trading losses from incorporation and a deferred tax liability of £32,407 (2006 £57,818) in respect of accelerated capital allowances

No provision for the net deferred tax asset has been made at 31 July 2007 on the grounds of uncertainty over its recoverability in light of nascent revenue streams and commitment to continued investment in research and development

NOTES TO THE ACCOUNTS (CONTINUED)
Year ended 31 July 2007

10. TANGIBLE FIXED ASSETS

	Payments on account £	Leasehold improvements £	Plant and machinery £	Office equipment £	Fixtures and fittings £	Total £
Cost						
At 1 August 2006	119,263	630,908	1,648,256	248,822	86,218	2,733,467
Additions	1,908	2,642	350,053	25,007	61,386	440,996
Transfer	(106,923)	-	106,923	-	-	-
Disposals	(14,248)	-	(16,459)	(15,061)	-	(45,768)
At 31 July 2007	-	633,550	2,088,773	258,768	147,604	3,128,695
Accumulated depreciation						
At 1 August 2006	-	124,307	650,509	192,632	44,658	1,012,106
Charge for the year	-	46,848	452,430	47,396	24,832	571,506
Disposals	-	-	(12,459)	(15,061)	-	(27,520)
At 31 July 2007	-	171,155	1,090,480	224,967	69,490	1,556,092
Net book value						
At 31 July 2007	-	462,395	998,293	33,801	78,114	1,572,603
At 31 July 2006	119,263	506,601	997,747	56,190	41,560	1,721,361

The net book values of fixed assets include the following amounts in respect of assets held under finance lease contracts

	2007 £	2006 £
Plant and machinery	62,445	64,165
Office equipment	6,357	8,677
	<u>68,802</u>	<u>72,842</u>

11. DEBTORS

	2007 £	2006 £
Other debtors	222,263	223,853
Corporation tax	-	260,316
Prepayments and accrued income	46,759	56,161
	<u>269,022</u>	<u>540,330</u>

NOTES TO THE ACCOUNTS (CONTINUED)
Year ended 31 July 2007

12. CURRENT ASSET INVESTMENT

	2007 £	2006 £
Bank deposit	-	1,016,858

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £	2006 £
Obligations under hire purchase contracts (see note 15)	13,133	36,103
Trade creditors	517,005	243,021
Other taxation and social security	66,695	63,896
Directors fees convertible to share options (note 4)	-	101,150
Other creditors	20,604	-
Liability component of convertible loan note (note 17)	2,486,752	-
Accruals and deferred income	88,360	506,076
	<u>3,192,549</u>	<u>950,246</u>

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2007 £	2006 £
Obligations under hire purchase contracts (see note 15)	18,674	-

15. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

	2007 £	2006 £
Obligations under hire purchase contracts, net of future finance charges, are due as follows		
Within one year	13,133	36,103
Between one and five years	18,674	-
	<u>31,807</u>	<u>36,103</u>

The obligations under hire purchase contracts are secured on the related fixed assets

16. PROVISIONS FOR LIABILITIES AND CHARGES

Provision for reduced rent period	£
At 1 August 2006	21,548
Utilised in the year	(10,853)
At 31 July 2007	<u>10,695</u>

The provision for the reduced rent period is expected to be utilised within the next year

NOTES TO THE ACCOUNTS (CONTINUED)

Year ended 31 July 2007

17. CONVERTIBLE LOAN NOTE

On 8 February 2007 the company created a convertible loan instrument with the existing shareholders of up to £3 million to provide interim funding until the completion of an equity funding round. Interest accrues at a rate of 3.5% above the Barclays Bank plc base rate. Once an equity funding round of at least £5 million is completed the loan notes, together with accrued interest, are either redeemable or are convertible to ordinary shares at 80% of the price per share of the funding round. If there is no such equity funding round the loan notes, together with accrued interest, are either redeemable or are convertible to ordinary shares at £4.86 each one year after the first draw down (6 March 2007).

During the year £2,650,000 of loan notes were issued with a final tranche of £350,000 being issued on 28 August 2007.

Part of the conditions for the issue of £1,000,000 of these loan notes was that share warrants be issued with the loan notes. 308,234 performance warrants exercisable at £0.01, but only if the company failed to meet certain commercial objectives by 31 July 2007, were issued. 10,288 warrants exercisable at £4.86 up to twelve months after the issue date of the loan notes were also issued.

The net proceeds received from the issue of the convertible loan notes have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity in the company, as follows:

	£
Nominal value of convertible loans issued	2,650,000
Equity component	(282,014)
	<hr/>
Liability component at dates of issue	2,367,986
Interest charged	118,766
	<hr/>
Liability component at 31 July 2007	<u>2,486,752</u>

The interest charged for the year is calculated by applying an effective interest rate of 25% to the liability component.

NOTES TO THE ACCOUNTS (CONTINUED)
Year ended 31 July 2007

18. CALLED UP SHARE CAPITAL

	2007 £	2006 £
Authorised		
7,512,000 (2006 3,756,000) ordinary shares of £0 01 (2006 £0 01) each	75,120	37,560
Called up, allotted and fully paid		
3,082,345 (2006 3,082,345) ordinary shares of £0 01 (2006 £0 01) each	30,823	30,823

On 29 May 2007 the authorised share capital was increased by the creation of 3,756,000 ordinary shares of £0 01 each. The rights of the shares rank *pari passu* with existing ordinary shares.

As at 31 July 2007 warrants and options have been granted to subscribe for ordinary shares in the company as follows:

Number of shares	Subscription price per share	Exercise period
Share warrants		
353,600	£3 63	01 11 02 – 01 11 07
308,234	£0 01	03 08 07 – 03 09 07
10,288	£4 86	02 07 07 – 01 07 08
Employee share options		
20,000	£2 50	09 08 00 – 07 08 10
20,000	£3 63	03 08 04 – 02 08 11
25,900	£3 63	01 03 03 – 27 02 13
27,000	£3 63	01 01 03 – 31 12 13
4,000	US\$4 00	01 01 03 – 31 12 13
42,725	£5 11	01 05 08 – 30 04 15
18,714	£5 11	12 08 06 – 10 08 16
28,532	£5 11	14 12 06 – 30 09 16

The rights of the shares will rank *pari passu* with existing shares in issue.

NOTES TO THE ACCOUNTS (CONTINUED)
Year ended 31 July 2007

19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' (DEFICIT)/FUNDS

	Share capital £	Share premium account £	Equity Reserves £	Profit and loss account £	2007 Total £	2006 Total £
Opening shareholders' funds	30,823	9,742,284	-	(5,805,753)	3,967,354	2,018,028
Profit/(loss) for the financial year	-	-	-	(5,086,864)	(5,086,864)	339,484
Recognition of equity component of convertible loan notes (note 17)	-	-	282,014	-	282,014	-
Issue of employee share options during the year (note 5)	-	-	-	122,596	122,596	76,618
Settlement of compound financial instrument (see below)	-	-	-	101,150	101,150	-
Issue of share capital	-	-	-	-	-	1,533,224
At 31 July 2007	<u>30,823</u>	<u>9,742,284</u>	<u>282,014</u>	<u>(10,668,871)</u>	<u>(613,750)</u>	<u>3,967,354</u>

Under the terms of a consultancy agreement in existence at 31 July 2006, one of the directors had an option to take a cash payment equivalent to £101,150 or share options. This was recognised as a compound financial instrument with a debt element of £101,150. During the year the agreement was superseded so that the director no longer has the cash alternative and has been issued with share options. Consequently, this debt element is transferred to the share options reserve.

20. CAPITAL COMMITMENTS

On 31 July 2007 the company had entered into capital commitments for expenditure of £1,748 (2006 £199,485).

21. OPERATING LEASE COMMITMENTS

On 31 July 2007 the company was committed to making the following payments during the next year in respect of operating leases:

	2007		2006	
	Land and buildings £	Other £	Land and buildings £	Other £
Leases which expire				
Within one year	-	61,265	-	-
In more than 5 years	108,000	-	108,000	-
	<u>108,000</u>	<u>61,265</u>	<u>108,000</u>	<u>-</u>

22. CONTROLLING PARTY

East Hill Advisors (a US venture capital business) manages a number of funds, two of which between them have a greater than 50% shareholding in Oxford Biosensors Limited. However, neither fund owns a majority of the share capital or voting rights and each has a separate ownership structure and Board. These funds vote and act independently in relation to the affairs of the company and, therefore, it is the view of the directors that East Hill Advisors does not exercise control of Oxford Biosensors Limited.

NOTES TO THE ACCOUNTS (CONTINUED)

Year ended 31 July 2007

23. RELATED PARTY TRANSACTION

During April 2007 L T Clay, a director of the company, acquired £1,000,000 of convertible loan notes together with 308,234 performance warrants exercisable at £0.01 and 10,288 warrants exercisable at £4.86. This was part of the convertible loan note issue described in note 17 and the terms under which these securities were issued to Mr Clay were identical to the terms offered to all shareholders.

24. POST BALANCE SHEET EVENTS

As stated in note 17 above on 28 August 2007 the final tranche of £350,000 of the original loan note instrument was issued. Further loan note instruments having similar terms to the earlier loan note have been approved by the board. To date £2,150,000 of loan notes have been issued against these instruments.

Because most of the commercial conditions set out in note 17 above relating to the performance warrants were not met, 246,588 of these warrants became exercisable. Subsequently a further 246,588 shares were issued at £0.01 each. The remaining 61,646 warrants cannot be exercised.

On 11 October 2007 share warrants were exercised resulting in 206,700 new shares being issued for a total consideration of £750,321. A further 146,900 warrants also exercisable at £3.63 per share were not exercised before their expiry date of 1 November 2007 and have lapsed.

TRADING PROFIT AND LOSS ACCOUNT
Year ended 31 July 2007

The additional financial information on page 23 is prepared from the accounting records of the company. It should be read in conjunction with the statutory financial statements set out on pages 7 to 21 and the auditors' report thereon.

TRADING PROFIT AND LOSS ACCOUNT
Year ended 31 July 2007

		2007	2006
	£	£	Restated See note 6 £
Turnover		-	-
Cost of sales		-	-
		<hr/>	<hr/>
Gross profit		-	-
Other operating income		874,667	5,035,956
Administrative expenses			
Staff costs	2,241,148	2,094,118	
Fair value of share options issued	122,596	76,618	
Temporary and other staff costs	131,633	295,443	
Recruitment and training	35,814	93,249	
Research contracts	147,795	88,272	
External advisors	684,564	420,746	
Technical overheads	734,819	626,050	
Instrument contract	103,281	63,906	
Marketing expenses	35,526	31,009	
Premises costs	207,649	192,831	
Office expenses	145,528	116,512	
Travel, subsistence and entertaining	99,110	124,197	
Legal and professional fees	241,035	133,891	
Insurance	60,329	60,290	
Regulatory & IP costs	269,462	156,128	
Royalties payable	33,887	14,500	
Depreciation	571,506	455,840	
Bank charges	3,129	2,550	
Foreign exchange loss	26,448	12,057	
		<hr/>	<hr/>
		(5,895,259)	(5,058,207)
Operating loss		(5,020,592)	(22,251)
Interest receivable and similar income		60,395	110,580
Interest payable and similar income		(126,667)	(9,162)
		<hr/>	<hr/>
(LOSS)/ PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(5,086,864)</u>	<u>79,167</u>

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Date

Audit Report Signed

	NAME (print)	REQUIRED
Manager	J CRANE	<input checked="" type="checkbox"/> Yes
Partner	H VEARY	<input checked="" type="checkbox"/> Yes
EQAR Partner	CLOWEY	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
IR Partner		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Tax	D FALLON	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
RAR		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
GOS		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Other (specify)		

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27/3/08

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p10

"Note 18 (para 2) shld be 17.
~~PARAS 18 & 19~~

12th May 2008

Deloitte & Touche LLP
Abbots House
Abbey Street
Reading
RG1 3BD

Our Ref HWV/JSC

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Oxford Biosensors Ltd for the year ended 31 July 2007 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Oxford Biosensors Ltd as of 31 July 2007 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with applicable accounting framework and Companies Act 1985. We are aware that under Section 389A of the Companies Act 1985, it is an offence to mislead a company auditor.

We acknowledge as directors our responsibilities under the Companies Act 1985 for preparing financial statements for the company which give a true and fair view and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations:

- 1 All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the company have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and shareholders meetings, have been made available to you.
- 2 We acknowledge our responsibilities for the design and implementation of internal control to prevent and detect fraud and error.
- 3 We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 4 We are not aware of any significant facts relating to any frauds or suspected frauds affecting the company or group involving
 - (i) management,
 - (ii) employees who have significant roles in internal control, or
 - (iii) others where the fraud could have a material effect on the financial statements.
- 5 We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- 6 We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.

Oxford Biosensors Limited, Oxford Industrial Park, Mead Road, Yarnton, Oxfordshire OX5 1QU, UK

Telephone +44 (0)1865 849100 Facsimile +44 (0)1865 849200 Website www.oxford-biosensors.com Email info@oxford-biosensors.com

- 7 We have considered the uncorrected misstatements detailed in the appendix to this letter. We believe that no adjustment is required to be made in respect of any of these items as they are individually and in aggregate immaterial having regard to the financial statements taken as a whole.
- 8 Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the directors, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, (e.g. volatility in relation to share-based payment scheme and, fair value of the liability of convertible loan notes), including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the company. Any significant changes in those values since the balance sheet date have been disclosed to you.
- 9 We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements. We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the reporting entity and confirm that we have disclosed in the financial statements all transactions relevant to the company and we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS8 "Related party disclosures" or other requirements.
- 10 No claims in connection with litigation have been or are expected to be received.
- 11 We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
- 12 We confirm that we are of the opinion that the company is a going concern, that we have disclosed to you all relevant information of which we are aware and which relates to our opinion, and that all relevant facts are disclosed in Note 1 of the financial statements.
- 13 Other than those described in Note 24 to the financial statements, there have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.
- 14 There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.
- 15 The profit and loss account, statement of total recognised gains and losses, balance sheet and the related notes are free from material misstatements, including omissions.
- 16 The company has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- 17 The following have been properly recorded and when appropriate, adequately disclosed in the financial statements and related notes:
- (i) The identity of, and balances with, related parties
 - (ii) Losses arising from sale and purchase commitments

(iii) Agreements and options to buy back assets previously sold

(iv) Assets pledged as collateral

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements

- 18 The company has satisfactory title to all assets and there are no liens or encumbrances on the company's assets, except for those that are disclosed in Note 15 to the financial statements
- 19 We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent
- 20 There are no formal or informal compensating balance arrangements with any of our cash and investment accounts
- 21 We have properly recorded or disclosed in the financial statements the share capital repurchase options and agreements, and share capital reserved for options, warrants, conversions and other requirements
- 22 All minutes of directors, management and shareholders meetings during and since the financial year have been made available to you
- 23 The disclosures given in the financial statements regarding control of the entity are correct
- 24 All transactions with the related parties are consummated on terms substantially equivalent to those that prevail in an arm's length transaction
- 25 In connection with deferred taxation not provided, the assumptions given in Note 9 of the financial statements reflect the intentions and expectations of the company
- 26 We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of fixed assets may not be recoverable

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you

Yours faithfully



D G Hawksworth

Signed on behalf of the Board of Directors

APPENDIX
SCHEDULE OF UNCORRECTED MISSTATEMENTS

	Assets	Liabilities	Income
	Dr (Cr)	Dr (Cr)	Statement
			Dr (Cr)
To adjust for finance lease payments incorrectly classified as interest			
Dr Admin expenses			2,800
Cr Interest payable			-2,800
Total	-	-	-