

COMPANY REGISTRATION NUMBER 4095774

ACARIS HEALTHCARE SOLUTIONS PLC
FINANCIAL STATEMENTS
FOR
31 AUGUST 2004



KINNAIRD HILL
Chartered Accountants & Registered Auditors
Anglia House
285 Milton Road
Cambridge
CB4 1XQ

ACARIS HEALTHCARE SOLUTIONS PLC

FINANCIAL STATEMENTS

YEAR ENDED 31 AUGUST 2004

CONTENTS	PAGE
The directors' report	1 - 2
Statement of directors' responsibilities	3
Independent auditors' report to the shareholders	4 - 5
Group profit and loss account	6
Reconciliation of movements in shareholders' funds	7
Group balance sheet	8
Company balance sheet	9
Group cash flow	10
Notes to the financial statements	11 - 21
The following pages do not form part of the financial statements	
Detailed group profit and loss account	23
Notes to the detailed group profit and loss account	24

ACARIS HEALTHCARE SOLUTIONS PLC

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 AUGUST 2004

The directors present their report and the financial statements of the group for the year ended 31 August 2004.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the group during the year was the research, development and manufacture of products to detect allergens in the domestic or industrial environment.

The reporting period has seen many exciting developments at Acaris. During the period the turnover of the group nearly doubled. Acaris created a variety of revenue opportunities for Mite-Alert in the service sector, e-commerce and direct sales through distributors. In April 2004, the company acquired Medivac Healthcare Limited, a UK company specialising in marketing allergen avoidance products for asthma, eczema, and rhinitis sufferers.

The strategic key strength of Medivac is its database comprising in excess of 120,000 prospects. Post acquisition activities included integration and optimisation of the operations of the enlarged company. Subsequently a direct mail was launched including a combination of traditional Medivac products, Mite-Alert and newly sourced allergy related products. Following the success of this campaign, the company is planning a further marketing campaign in 2005.

Previously we reported Acaris entering into a technology licensing agreement with City Technology Limited (CTL) in October 2002. The purpose of this agreement is to co-develop with CTL a new range of products to detect and monitor hazardous biological agents used in industrial environments. The development of the first product, detection system for airborne biological agents in the detergent industry was completed in 2004. The monitoring system will enter field trials in the first quarter of 2005, initially in the UK. The product will be available to two major global detergent manufacturers. Acaris expects revenues for the manufacture of the reagents, initially along with royalties on sales. CTL have continued to fund the second product development programme, detection of airborne mould. The programme was agreed in 2004 and the initial phase of the programme commenced in January 2005.

With product in place and with the CTL agreement referred to above, the Directors expect revenues to develop over the coming year. However, in order to develop the business and maximise profitability it may, in the future, be necessary to raise further funds by way of equity investment. To facilitate such funding the Directors may wish to allot equity securities for cash and your attention is therefore drawn to Resolution 5 set out in the Notice of Meeting attached hereto.

RESULTS AND DIVIDENDS

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

The directors have not recommended a dividend.

ACARIS HEALTHCARE SOLUTIONS PLC

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 AUGUST 2004

THE DIRECTORS AND THEIR INTERESTS

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

	Ordinary Shares of £0.02 each	
	At 31 August 2004	At 1 September 2003
Dr A Cooke	1,237,500	1,237,500
Dr R Pirzad	1,237,500	1,237,500
Dr S Powell	25,000	25,000
Mr M Dyer Bartlett	—	—

On 22 October 2004 J Williams resigned as secretary of the company. M Dyer-Bartlett was appointed secretary of the Company on the same date.

On 21 January 2004 the allotment of options to key employees and directors under an unapproved share option scheme was approved by the board. At the same date, 30,302 options each at a grant price of 55p per share were granted to Dr R Pirzad and Dr A Cooke.

None of the group directors held shares in the subsidiary undertakings of the Company.

POLICY ON THE PAYMENT OF CREDITORS

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the group and its suppliers provided that all trading terms and conditions have been complied with.

At 31 August 2004 the group had an average of 91 days purchases outstanding in trade creditors (2003: 78 days). However, excluding the acquisition and results of Medivac Healthcare Limited the group had an average of 55 days purchases outstanding at the year end. The directors aim to reduce the level of creditors in Medivac Ltd to an amount consistent with group payment policy during the forthcoming year.

POST BALANCE SHEET EVENT

In October 2004 the company successfully completed an offer for subscription resulting in the issue of 194,036 shares at a price of 55p per share.

AUDITORS

On 11 February 2005 the Company appointed Kinnaird Hill as auditors. A resolution to re-appoint Kinnaird Hill as auditors will be put to the members at the Annual General Meeting.

Registered office:
Babraham Hall
Babraham
Cambridgeshire
CB2 4AT

Signed on behalf of the directors

R Pirzad
Director

Approved by the directors on R. Pirzad

29th March 2005

ACARIS HEALTHCARE SOLUTIONS PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES
YEAR ENDED 31 AUGUST 2004

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

select suitable accounting policies, as described on pages 11 to 13, 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; and

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 group and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ACARIS HEALTHCARE SOLUTIONS PLC
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
ACARIS HEALTHCARE SOLUTIONS PLC
YEAR ENDED 31 AUGUST 2004

We have audited the financial statements of Acaris Healthcare Solutions PLC for the year ended 31 August 2004 on pages 6 to 21 which have been prepared under the historical cost convention and the accounting policies set out on pages 11 to 13.

This report is made solely to the company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group'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.

In forming our opinion, we have examined the adequacy of the disclosures made in note 1 of the financial statements concerning the uncertainty as to the future revenues and funding of the group. In view of the significance of this uncertainty, we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

ACARIS HEALTHCARE SOLUTIONS PLC
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
ACARIS HEALTHCARE SOLUTIONS PLC *(continued)*

YEAR ENDED 31 AUGUST 2004

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs and of the group as at 31 August 2004 and of the loss of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



Anglia House
285 Milton Road
Cambridge
CB4 1XQ

KINNAIRD HILL
Chartered Accountants
& Registered Auditors

ACARIS HEALTHCARE SOLUTIONS PLC

GROUP PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 AUGUST 2004

	Note	2004 £	2003 £
GROUP TURNOVER	2	199,003	106,109
Cost of sales		<u>57,885</u>	<u>19,245</u>
GROSS PROFIT		141,118	86,864
Research and Development costs		<u>151,289</u>	298,643
Administrative expenses		<u>276,426</u>	130,797
OPERATING LOSS	3	(286,597)	(342,576)
Interest receivable		133	4,599
Interest payable and similar charges	6	<u>(887)</u>	<u>(307)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(287,351)	(338,284)
Tax on loss on ordinary activities	7	<u>(49,582)</u>	—
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(237,769)	(338,284)
Minority interests		<u>(7,404)</u>	—
LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY	8	(230,365)	(338,284)
LOSS FOR THE FINANCIAL YEAR		(230,365)	(338,284)
Earnings per share (pence)	9	<u>(4.8)</u>	<u>(8.0)</u>

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

The company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account.

The notes on pages 11 to 21 form part of these financial statements.

ACARIS HEALTHCARE SOLUTIONS PLC

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

YEAR ENDED 31 AUGUST 2004

	2004	2003
	£	£
Loss for the financial year	(230,365)	(338,284)
New equity share capital subscribed	–	23,169
Premium on new share capital subscribed (net of costs)	–	584,349
	<u>(230,365)</u>	<u>269,234</u>
Goodwill written off on acquisition of subsidiary	(2,300)	–
Net (reduction)/addition to funds	<u>(232,665)</u>	<u>269,234</u>
Opening shareholders' equity funds/(deficit)	267,170	(2,064)
Closing shareholders' equity funds	<u>34,505</u>	<u>267,170</u>

The notes on pages 11 to 21 form part of these financial statements.

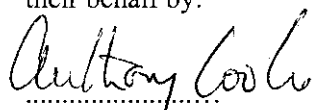
ACARIS HEALTHCARE SOLUTIONS PLC

GROUP BALANCE SHEET

31 AUGUST 2004

	Note	2004 £	2003 £
FIXED ASSETS			
Intangible assets	10	187,500	—
Tangible assets	11	25,371	34,975
		<u>212,870</u>	<u>34,975</u>
CURRENT ASSETS			
Stocks	13	34,565	33,312
Debtors	14	63,327	33,989
Cash at bank and in hand		24,850	197,244
		<u>122,742</u>	<u>264,545</u>
CREDITORS: Amounts falling due within one year	15	138,674	32,350
NET CURRENT (LIABILITIES)/ASSETS		<u>(15,932)</u>	<u>232,195</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>196,938</u>	<u>267,170</u>
CREDITORS: Amounts falling due after more than one year	16	170,377	—
		<u>26,561</u>	<u>267,170</u>
MINORITY INTERESTS		<u>7,943</u>	<u>—</u>
		<u>34,504</u>	<u>267,170</u>
CAPITAL AND RESERVES			
Called-up equity share capital	19	95,685	95,685
Share premium account	20	1,055,622	1,055,622
Merger reserve	20	(41,050)	(41,050)
Profit and loss account	20	(1,075,752)	(843,087)
SHAREHOLDERS' FUNDS		<u>34,505</u>	<u>267,170</u>

These financial statements were approved by the directors on the 29th March and are signed on their behalf by: 2005


Dr A Cooke

The notes on pages 11 to 21 form part of these financial statements.

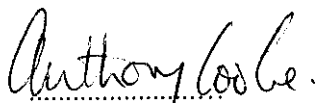
ACARIS HEALTHCARE SOLUTIONS PLC

COMPANY BALANCE SHEET

31 AUGUST 2004

	Note	2004 £	2003 £
FIXED ASSETS			
Investments in subsidiary undertakings	12	51,000	51,000
		<u>51,000</u>	<u>51,000</u>
CURRENT ASSETS			
Debtors	14	9,029	7,582
Cash at bank and in hand		4,897	197,203
		<u>13,926</u>	<u>204,785</u>
CREDITORS: Amounts falling due within one year	15	11,791	9,785
NET CURRENT ASSETS		2,136	195,000
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>53,136</u>	<u>246,000</u>
CAPITAL AND RESERVES			
Called-up equity share capital	19	95,685	95,685
Share premium account	20	1,055,622	1,055,622
Profit and loss account	20	(1,098,171)	(905,307)
SHAREHOLDERS' FUNDS		<u>53,136</u>	<u>246,000</u>

These financial statements were approved by the directors on the and are signed on their behalf by:


Dr A Cooke

The notes on pages 11 to 21 form part of these financial statements.

ACARIS HEALTHCARE SOLUTIONS PLC

GROUP CASH FLOW

YEAR ENDED 31 AUGUST 2004

	Note	2004 £	2003 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	21	(201,867)	(373,181)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	21	(754)	4,292
TAXATION	21	49,582	—
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	21	(12,609)	(45,788)
CASH OUTFLOW BEFORE FINANCING		<u>(165,648)</u>	<u>(414,677)</u>
FINANCING	21	(8,042)	607,518
(DECREASE)/INCREASE IN CASH	21	<u>(173,690)</u>	<u>192,841</u>

The notes on pages 11 to 21 form part of these financial statements..

ACARIS HEALTHCARE SOLUTIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 AUGUST 2004

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements incorporate the results of Acaris Healthcare Solutions PLC and its two subsidiaries, Acaris Limited and Medivac Healthcare Limited, drawn up to 31 August 2004. These are adjusted, where appropriate, to conform to group accounting policies. Acaris Limited is accounted for under the merger method of accounting whereas Medivac Healthcare Limited has been treated under the acquisition method. The goodwill arising on the acquisition of Medivac has been eliminated against reserves on the grounds that the effect of capitalising and amortising it would not be material to the results of the group.

As a consolidated group profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 230 of the Companies Act 1985.

Turnover

The turnover shown in the group profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

Research and development

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

Goodwill

Goodwill arising on the acquisition of Medivac Healthcare Limited has been written off to reserves on the basis that it is not material.

Amortisation

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

Trade marks - 80 months

Fixed assets

All fixed assets are initially recorded at cost.

Investments

Investments in subsidiary undertakings are recorded at the amount invested, less any required provision for diminution in value.

ACARIS HEALTHCARE SOLUTIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 AUGUST 2004

1. ACCOUNTING POLICIES *(continued)*

Depreciation

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

Plant and machinery – 4 years straight line

Fixtures and fittings – 4 years straight line

Fixtures and fittings (within Medivac Healthcare Limited) – 33% reducing balance

Stocks

Stocks are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Operating lease agreements

Rentals payable under operating leases are charged in the Profit and Loss Account on a straight line basis over the lease term.

Pension costs

The group operates a defined contribution pension scheme. Contributions to the scheme are charged in the Profit and Loss Account as they become payable in accordance with the rules of the scheme.

Deferred taxation

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

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

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

ACARIS HEALTHCARE SOLUTIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 AUGUST 2004

1. ACCOUNTING POLICIES *(continued)*

Going concern

In common with other development stage companies, the group funds its operations through a mix of licensing revenues, product sales and capital injections from investors. At this stage in its development it is particularly reliant on revenues from a few key agreements with customers, notably City Technology Limited, as described in the Directors' Report. The timing and amount of revenues from these agreements is inherently uncertain and should revenues fall short of expectations the holding company of the group may need to raise additional funding from investors.

However, the directors have carefully reviewed the forecast cash requirements of the group in the light of the above risks and believe that it is still appropriate to present the accounts on a going concern basis. The accounts therefore exclude any adjustments to carrying values that might be necessary should the group be unable to continue in operation for the foreseeable future.

2. TURNOVER

The turnover and loss before tax are attributable to the one principal activity of the group.

An analysis of turnover is given below:

	2004	2003
	£	£
United Kingdom	<u>199,003</u>	<u>106,109</u>

The contribution of Medivac Healthcare Limited, acquired during the year, was £38,454.

3. OPERATING LOSS

Operating loss is stated after charging:

	2004	2003
	£	£
Directors' emoluments	90,738	115,725
Amortisation	12,500	—
Depreciation of owned fixed assets	12,560	12,105
Auditors' remuneration		
- as auditors	7,000	4,500
- non-audit services	—	2,500
Operating lease rentals – plant and machinery	—	2,004

4. PARTICULARS OF EMPLOYEES

The average number of persons employed by the group during the financial year, including the directors, amounted to 5 persons (2003: 4). The aggregate payroll costs of the above were:

	2004	2003
	£	£
Wages and salaries	180,562	174,879
Social security costs	18,158	18,920
Pension costs	6,790	3,558
	<u>205,510</u>	<u>197,357</u>

ACARIS HEALTHCARE SOLUTIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 AUGUST 2004

5. DIRECTORS' EMOLUMENTS

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

	2004 £	2003 £
Emoluments receivable	90,738	115,725
Members of money purchase pension schemes	3	2

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £	2003 £
Interest payable on bank borrowing	<u>887</u>	<u>307</u>

7. TAXATION ON ORDINARY ACTIVITIES

	2004 £	2003 £
Current tax:		
UK Corporation tax on the results for the year at 19% (2003 - 19%)	-	-
Tax credits received in respect of R&D expenditure	<u>(49,582)</u>	<u>-</u>
Total current tax	<u>(49,582)</u>	<u>-</u>

The adjustment shown in the current year relates to a research and development tax credit received from the Inland Revenue under the Finance Act 2000 for prior year research and development expenditure. Whilst the company believes it may have a valid claim for further credits under the Act in respect of current year expenditure, this amount has not been credited due to the uncertainty involved.

8. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss dealt with in the accounts of the parent company was £192,864 (2003 - £412,206). This includes a provision made in full for the intercompany balance with Acaris Limited.

9. EARNINGS PER SHARE

	2004	2003
Earnings per ordinary share (pence)	(4.8)	(8.0)
Earnings per ordinary share (pence, fully diluted)	<u>(4.8)</u>	<u>(8.0)</u>

Earnings per share have been calculated on the net basis on the loss on ordinary activities after taxation and after deduction of minority interests of £230,366 (2003 - £338,284) using the average number of ordinary shares in issue of 4,784,273 (2003 - 4,205,052).

Earnings per share on a fully diluted basis have been calculated to include shares not yet issued but held under share option schemes of 60,604 shares.

ACARIS HEALTHCARE SOLUTIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 AUGUST 2004

10. INTANGIBLE FIXED ASSETS

Group	Trade marks £
COST	
Additions	200,000
At 31 August 2004	<u>200,000</u>
AMORTISATION	
Charge for the year	12,500
At 31 August 2004	<u>12,500</u>
NET BOOK VALUE	
At 31 August 2004	<u>187,500</u>
At 31 August 2003	<u>—</u>

The Company holds no intangible fixed assets.

11. TANGIBLE FIXED ASSETS

Group	Plant & Machinery £	Fixtures & Fittings £	Total £
COST			
At 1 September 2003	40,431	7,994	48,425
Additions	—	109	109
Acquired in subsidiary undertaking	—	23,778	23,778
At 31 August 2004	<u>40,431</u>	<u>31,881</u>	<u>72,312</u>
DEPRECIATION			
At 1 September 2003	10,107	3,343	13,450
Acquired in subsidiary undertaking	—	20,931	20,931
Charge for the year	10,108	2,452	12,560
At 31 August 2004	<u>20,215</u>	<u>26,726</u>	<u>46,941</u>
NET BOOK VALUE			
At 31 August 2004	<u>20,216</u>	<u>5,155</u>	<u>25,371</u>
At 31 August 2003	<u>30,324</u>	<u>4,651</u>	<u>34,975</u>

The company holds no tangible fixed assets.

ACARIS HEALTHCARE SOLUTIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 AUGUST 2004

12. INVESTMENTS

Company	Company	
	2004	2003
	£	£
Cost and net book value	51,000	51,000
Additions	—	—
	<u>51,000</u>	<u>51,000</u>

The Company holds the entire issued share capital of Acaris Limited, a company incorporated in the UK. Acaris Limited's principal activity is the research, development and manufacture of products to detect allergens in the domestic or industrial environment. The aggregate amount of capital and reserves of Acaris Limited at 31 August 2004 amounted to a deficit of £962,046 and its loss for the period after tax was £169,069.

On 6 April 2004 the Company acquired 81% of the share capital of Medivac Healthcare Limited, a company incorporated in the UK. Medivac Healthcare Limited's principal activity is the design, development and marketing by mail order of a range of products associated with allergy treatment/prevention. The Company acquired its stake in Medivac Healthcare Limited for a nominal amount. Goodwill arising on the acquisition of £2,300 has been written off to reserves. The aggregate amount of capital and reserves of Medivac Healthcare Limited at 31 August 2004 amounted to a deficit of £41,801 and its post acquisition loss for the period after tax was £38,961.

There are no investments in the Group apart from the Company's investment in subsidiaries.

13. STOCKS

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Raw materials	25,116	33,312	—	—
Finished goods	9,449	—	—	—
	<u>34,565</u>	<u>33,312</u>	<u>—</u>	<u>—</u>

14. DEBTORS

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Trade debtors	15,960	3,173	—	—
VAT recoverable	—	24,302	—	2,082
Other debtors	45,035	6,514	9,029	5,500
Prepayments and accrued income	2,331	—	—	—
	<u>63,327</u>	<u>33,989</u>	<u>9,029</u>	<u>7,582</u>

ACARIS HEALTHCARE SOLUTIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 AUGUST 2004

15. CREDITORS: Amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank loans and overdrafts	16,376	3,518	—	—
Trade creditors	67,558	18,464	6,791	7,285
Corporation tax	2,254	—	—	—
Other taxes and social security costs	7,256	5,368	—	—
Accruals and deferred income	15,230	5,000	5,000	2,500
Other creditors	30,000	—	—	—
	<u>138,674</u>	<u>32,350</u>	<u>11,791</u>	<u>9,785</u>

Loans issued to the group are secured. Other creditors relate to amounts payable to Mr C Taylor within 12 months in respect of the acquisition of trade marks by Medivac Healthcare Limited.

16. CREDITORS: Amounts falling due after more than one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank loans and overdrafts	12,877	—	—	—
Other creditors	157,500	—	—	—
	<u>170,377</u>	<u>—</u>	<u>—</u>	<u>—</u>

Loans issued to the group are secured. Other creditors relate to amounts payable to Mr C Taylor for the acquisition of trade marks by Medivac Healthcare Limited (£120,000 being payable within 1-5 years). Although the whole balance is recognised as a creditor in the accounts and is anticipated to become due, the group has the option throughout the period of the agreement to cancel the assignment and return the trade marks to Mr Taylor. The maximum contractual liability arising in these circumstances (over and above the amounts already paid) would be £7,500, being three month's notice of cancellation.

17. COMMITMENTS UNDER OPERATING LEASES

At 31 August 2004 the Group had no annual commitments under non-cancellable operating leases (2003: £15,552).

18. PENSIONS

The Group operates a defined contribution pension scheme for its Directors. There were no unpaid contributions outstanding at the period end.

ACARIS HEALTHCARE SOLUTIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 AUGUST 2004

19. SHARE CAPITAL

Authorised share capital:

	2004 £	2003 £
50,000,000 Ordinary shares of £0.02 each	<u>1,000,000</u>	<u>1,000,000</u>

Allotted, called up and fully paid:

	2004		2003	
	No.	£	No.	£
Ordinary shares of £0.02 each	<u>4,784,273</u>	<u>95,685</u>	<u>4,784,273</u>	<u>95,685</u>

There were no movements during the year.

20. RESERVES

Group	Share premium account £	Merger Reserve £	Profit and loss account £
Balance brought forward	1,055,622	(41,050)	(843,087)
Loss for the year	—	—	(230,365)
Goodwill written off	—	—	(2,300)
Balance carried forward	<u>1,055,622</u>	<u>(41,050)</u>	<u>(1,075,752)</u>

Company	Share premium account £	Profit and loss account £
Balance brought forward	1,055,622	(905,307)
Loss for the year	—	(192,864)
Balance carried forward	<u>1,055,622</u>	<u>(1,098,171)</u>

21. NOTES TO THE STATEMENT OF CASH FLOWS

RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2004 £	2003 £
Operating loss	(286,597)	(342,576)
Amortisation	12,500	—
Depreciation	12,560	12,105
Increase in stocks (excluding acquisitions)	14,747	(33,312)
Increase in debtors (excluding acquisitions)	13,731	(19,026)
Increase in creditors (excluding acquisitions, bank loans and overdrafts and non cash items)	31,192	9,628
Net cash outflow from operating activities	<u>(201,867)</u>	<u>(373,181)</u>

The major non cash item excluded from the increase in creditors relates to a £187,500 creditor with Mr C Taylor in respect of trade marks acquired by Medivac Healthcare Limited.

ACARIS HEALTHCARE SOLUTIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 AUGUST 2004

21. NOTES TO THE STATEMENT OF CASH FLOWS *(continued)*

RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2004	2003
	£	£
Interest received	133	4,599
Interest paid	(887)	(307)
Net cash (outflow)/inflow from returns on investments and servicing of finance	<u>(754)</u>	<u>4,292</u>

TAXATION

	2004	2003
	£	£
Tax paid/(tax credits received)	<u>49,582</u>	<u>—</u>

CAPITAL EXPENDITURE

	2004	2003
	£	£
Payments to acquire intangible fixed assets	(12,500)	—
Payments to acquire tangible fixed assets	(109)	(45,788)
Net cash outflow from capital expenditure	<u>(12,609)</u>	<u>(45,788)</u>

FINANCING

	2004	2003
	£	£
Issue of equity share capital	—	23,169
Share premium on issue of equity share capital	—	613,975
Decrease in bank loans	(8,042)	—
Net cash inflow from financing	<u>(8,042)</u>	<u>607,518</u>

ACARIS HEALTHCARE SOLUTIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 AUGUST 2004

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2004	2003
	£	£
(Decrease)/increase in cash in the period	(173,690)	192,841
Acquired bank loans in subsidiary	(33,777)	—
Acquired cash in subsidiary	1,296	—
	(32,481)	192,841
Net repayments of bank loans	8,042	—
Change in net debt	(198,129)	192,841
Net funds at 1 September	193,726	885
Net debt at 31 August	(4,403)	193,726

ANALYSIS OF CHANGES IN NET DEBT

	At 1 Sep 2003	Cash flows	Acquisitions	At 31 Aug 2004
	£	£	£	£
Net cash:				
Cash in hand and at bank	197,244	(173,690)	1,296	24,850
Debt:				
Debt due within 1 year	(3,518)	(858)	(12,000)	(16,376)
Debt due after 1 year	—	8,900	(21,777)	(12,877)
	(3,518)	8,042	(33,777)	(29,253)
Net debt	193,726	(165,648)	(32,481)	(4,403)

PURCHASE OF SUBSIDIARY UNDERTAKINGS

	2004
	£
Net assets acquired	
Tangible fixed assets	2,847
Stocks	16,000
Debtors	43,069
Cash at bank and in hand	1,296
Creditors	(32,274)
Bank overdrafts	—
Loans and finance leases	(33,777)
	(2,839)
Minority interest stake not acquired	539
Goodwill	2,300
	—
Satisfied by	
Cash (nominal)	—

ACARIS HEALTHCARE SOLUTIONS PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 AUGUST 2004

22. RELATED PARTY TRANSACTIONS AND DIRECTORS' LOANS

On 6 April 2004 the group acquired Medivac Healthcare Limited from Mr C Taylor, the sole director and shareholder. Mr C Taylor remains a director of Medivac Healthcare Limited due to his continuing involvement with the business. Through the transaction 81 of the 100 shares owned by Mr C Taylor were acquired by Acaris Healthcare Solutions PLC on 6 April 2004. Acaris Healthcare Solutions PLC has an option to purchase the remaining shares at any time for 19% of the net assets of the Company as at that date.

On the acquisition of Medivac Healthcare Limited from Mr C Taylor, the group agreed through Medivac Healthcare Limited to purchase the intellectual property rights associated with its products. The rights were acquired for £200,000, payable over 80 months and were accordingly capitalised into the balance sheet at that date. The rights are being amortised over the same period. The balance outstanding under this agreement at the year end was £30,000 within one year and £157,500 over the following 61 months.

At the time of acquisition, Mr C Taylor had a loan owing to the Company amounting to £41,351 held on an interest free basis. This loan was transferred to Acaris Limited, a wholly owned subsidiary of the group, at the date of acquisition. The balance outstanding at the year end amounted to £35,163 and the maximum balance owing during the year was £48,351.

Dr R Pirzad and Dr A Cooke are jointly the controlling party of the Group, holding 51.7% of the issued share capital.

Apart from the above transactions, no transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.

ACARIS HEALTHCARE SOLUTIONS PLC

MANAGEMENT INFORMATION

YEAR ENDED 31 AUGUST 2004

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

ACARIS HEALTHCARE SOLUTIONS PLC
DETAILED GROUP PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 AUGUST 2004

	2004	2003
	£	£
TURNOVER	199,003	106,109
COST OF SALES		
Opening stock - raw materials	33,312	—
Acquired stock - finished goods	16,000	—
Purchases	28,382	52,557
Direct costs	14,756	—
	<u>92,449</u>	<u>52,557</u>
Closing stock - raw materials	(25,116)	(33,312)
Closing stock - finished goods	<u>(9,449)</u>	<u>—</u>
	<u>57,885</u>	<u>19,245</u>
GROSS PROFIT	<u>141,118</u>	<u>86,864</u>
OVERHEADS		
Research and Development costs	151,289	298,643
Administrative expenses	<u>276,426</u>	<u>130,797</u>
	<u>427,715</u>	<u>429,440</u>
OPERATING LOSS	<u>(286,597)</u>	<u>(342,576)</u>
Bank interest receivable	133	4,599
	<u>(286,464)</u>	<u>(337,977)</u>
Bank interest payable	(887)	(307)
LOSS ON ORDINARY ACTIVITIES	<u>(287,351)</u>	<u>(338,284)</u>

ACARIS HEALTHCARE SOLUTIONS PLC

NOTES TO THE DETAILED GROUP PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 AUGUST 2004

	2004 £	2003 £
RESEARCH AND DEVELOPMENT COSTS		
Research and Development wages	57,728	82,198
Directors salaries - R&D	38,542	115,725
Other R&D costs	5,393	33,302
Patent / IPR costs	30,732	10,829
Development expenses	5,069	24,503
Rent and utilities	13,825	32,086
	<u>151,289</u>	<u>298,643</u>
ADMINISTRATIVE EXPENSES		
Personnel costs		
Directors salaries (including non-execs)	64,453	—
Directors pension contributions	5,500	—
Wages and salaries	39,287	—
	<u>109,240</u>	<u>—</u>
Establishment expenses		
Rent and utilities	6,913	—
Insurance	6,340	5,277
	<u>13,253</u>	<u>5,277</u>
General expenses		
Travel and subsistence	10,569	10,101
Telephone	3,095	1,937
Office expenses	1,012	2,668
Printing, stationery and postage	5,460	446
General expenses	2,688	2,515
Advertising	37,501	49,852
Legal and professional fees	58,338	38,213
Accountancy fees	1,350	—
Auditors remuneration (including other services)	7,000	7,000
Amortisation	12,500	—
Depreciation of plant and machinery	10,108	10,107
Depreciation of fixtures and fittings	2,025	1,998
Depreciation of office equipment	427	—
	<u>152,073</u>	<u>124,837</u>
Financial costs		
Bank charges	1,860	990
	<u>276,426</u>	<u>131,104</u>
INTEREST RECEIVABLE		
Bank interest receivable	133	4,599