

**Medical Device Innovations Limited**

**Financial Statements**

**31 December 2009**

**Company Registration Number 4344782**

**CHAMPION ACCOUNTANTS LLP**

Chartered Accountants & Statutory Auditors

2nd Floor

Refuge House

33-37 Watergate Row

Chester

CH1 2LE

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COMPANIES HOUSE

# **Medical Device Innovations Limited**

## **Financial Statements**

**Year Ended 31 December 2009**

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# **Medical Device Innovations Limited**

## **Officers and Professional Advisers**

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### **The Board of Directors**

Mr A F Smith (Chairman)  
Mr D Cottier  
Dr D J W Roach

### **Company Secretary**

Mr D Cottier

### **Registered Office**

Highfield Court  
Church Lane  
Madingley  
Cambridgeshire  
CB23 8AG

### **Auditor**

Champion Accountants LLP  
Chartered Accountants & Statutory Auditors  
2nd Floor  
Refuge House  
33-37 Watergate Row  
Chester  
CH1 2LE

# **Medical Device Innovations Limited**

## **The Directors' Report**

**Year Ended 31 December 2009**

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The directors present their report and the financial statements of the company for the year ended 31 December 2009

### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the company during the year was the development of medical devices and management of the related intellectual property

The nature of the business is such that the generation of future benefit is uncertain. The Directors therefore monitor and control expenditure so as to ensure that it is relative to the levels of investment available.

The company reports a substantial loss for the year as development of intellectual property (IP) continues. The loss is at a lower level to previous years as a result of structured cuts in project costs and associated administrative expenses due to reducing cash levels.

The Directors operate an ongoing policy of seeking potential new investment including strategic commercial partnerships. The directors are in discussions with various parties regarding the possible sale of IP, generating income from royalties and beginning the commercial manufacture, by a contractor, of one of the products for which an order is anticipated.

Due to the nature of the business the key financial performance indicator used by the company is the monitoring of income and expenditure against approved budgets.

### **FUTURE DEVELOPMENTS**

The company will continue to invest in the technologies in its current portfolio so that it can sell the IP or out-license the IP for royalties or contract manufacture products for sale to the market.

### **POST BALANCE SHEET EVENTS**

There are no post balance sheet events at present.

### **RESULTS AND DIVIDENDS**

The loss for the year amounted to £568,539. The directors have not recommended a dividend.

### **RESEARCH AND DEVELOPMENT**

All costs are expensed within the profit and loss account as incurred. The programme is devoted to the invention and development of new medical devices and the creation of a related broad intellectual property portfolio.

### **DIRECTORS**

The directors who served the company during the year were as follows:

Mr A F Smith (Chairman)  
Mr D Cottier  
Dr D J W Roach

# Medical Device Innovations Limited

## The Directors' Report *(continued)*

### Year Ended 31 December 2009

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The beneficial interests of the directors in the shares of the company during the year were as follows

|                         |                       | At 31<br>Class of share December 2009 | At 1 January<br>2009 |
|-------------------------|-----------------------|---------------------------------------|----------------------|
| Mr A F Smith (chairman) | Ordinary 10p shares   | -                                     | -                    |
|                         | A Ordinary 10p shares | -                                     | -                    |
|                         | B Ordinary 10p shares | -                                     | -                    |
| Mr D Cottier            | Ordinary 10p shares   | 833                                   | 833                  |
|                         | A Ordinary 10p shares | 444                                   | 444                  |
|                         | B Ordinary 10p shares | -                                     | -                    |
| Dr D J W Roach          | Ordinary 10p shares   | -                                     | -                    |
|                         | A Ordinary 10p shares | -                                     | -                    |
|                         | B Ordinary 10p shares | -                                     | -                    |

#### DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' 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). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 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,
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

# Medical Device Innovations Limited

## The Directors' Report *(continued)*

Year Ended 31 December 2009

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### AUDITOR

Champion Accountants LLP are eligible for reappointment as auditors to the Company

Registered office  
Highfield Court  
Church Lane  
Madingley  
Cambridgeshire  
CB23 8AG

Signed on behalf of the directors



Mr D Cotter

Company Secretary

Approved by the directors on 18 June 2010

# **Medical Device Innovations Limited**

## **Independent Auditor's Report to the Shareholders of Medical Device Innovations Limited**

**Year Ended 31 December 2009**

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We have audited the financial statements of Medical Device Innovations Limited for the year ended 31 December 2009 on pages 7 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's shareholders, as a body, in accordance with Chapter 3 of Section 16 of the Companies Act 2006. 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 auditor's 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 AUDITOR**

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by directors, and the overall presentation of the financial statements.

### **OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Without qualifying our opinion, we draw attention to Note 21 in the financial statements which indicates the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern.

### **OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Medical Device Innovations Limited

## Independent Auditor's Report to the Shareholders of Medical Device Innovations Limited *(continued)*

Year Ended 31 December 2009

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### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

*Champion Accountants LLP*

MR A M HOPWOOD (Senior  
Statutory Auditor)  
For and on behalf of  
CHAMPION ACCOUNTANTS LLP

Chartered Accountants & Statutory Auditors

2nd Floor  
Refuge House  
33-37 Watgate Row  
Chester  
CH1 2LE

18 June 2010



# Medical Device Innovations Limited

## Profit and Loss Account

Year Ended 31 December 2009

|   | Note | 2009<br>£        | 2008<br>£        |
|---|------|------------------|------------------|
| Turnover                                    | 2    | 116,758          | 40,124           |
| Cost of sales                               |      | <u>252,867</u>   | <u>258,984</u>   |
| Gross Loss                                  |      | (136,109)        | (218,860)        |
| Administrative expenses                     |      | 459,730          | 704,970          |
| Other operating income                      | 3    | <u>(75)</u>      | <u>(768)</u>     |
| Operating Loss                              | 4    | (595,764)        | (923,062)        |
| Interest receivable and similar income      |      | 124              | 13,100           |
| Interest payable and similar charges        | 7    | <u>(1,278)</u>   | <u>(555)</u>     |
| Loss on Ordinary Activities Before Taxation |      | (596,918)        | (910,517)        |
| Tax on loss on ordinary activities          | 8    | <u>(28,379)</u>  | <u>(74,038)</u>  |
| Loss for the Financial Year                 |      | <u>(568,539)</u> | <u>(836,479)</u> |

All of the activities of the company are classed as continuing

The notes on pages 12 to 23 form part of these financial statements.

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## **Medical Device Innovations Limited**

### **Statement of Total Recognised Gains and Losses**

**Year Ended 31 December 2009**

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|  | <b>2009</b>      | <b>2008</b>      |
|--|------------------|------------------|
|  | <b>£</b>         | <b>£</b>         |
| Loss for the financial year attributable to the shareholders   | (568,539)        | (836,479)        |
| Expiry and forfeiture of share options                         | <u>—</u>         | <u>56,026</u>    |
| Total gains and losses recognised since the last annual report | <u>(568,539)</u> | <u>(780,453)</u> |

**The notes on pages 12 to 23 form part of these financial statements.**

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# Medical Device Innovations Limited

## Balance Sheet

31 December 2009

|  | Note | 2009<br>£     | £                  | 2008<br>£      | £                  |
|--|------|---------------|--------------------|----------------|--------------------|
| <b>Fixed Assets</b>  |      |               |                    |                |                    |
| Tangible assets  | 9    |               | —                  |                | 864                |
| <b>Current Assets</b>  |      |               |                    |                |                    |
| Debtors  | 10   | 42,473        |                    | 126,588        |                    |
| Cash at bank and in hand                                       |      | <u>75,337</u> |                    | <u>338,722</u> |                    |
|  |      | 117,810       |                    | 465,310        |                    |
| <b>Creditors: Amounts Falling due Within One Year</b>          | 11   | <u>71,356</u> |                    | <u>53,855</u>  |                    |
| <b>Net Current Assets</b>                                      |      |               | 46,454             |                | 411,455            |
| <b>Total Assets Less Current Liabilities</b>                   |      |               | 46,454             |                | 412,319            |
| <b>Creditors: Amounts Falling due after More than One Year</b> | 12   |               | <u>200,000</u>     |                | —                  |
|  |      |               | <u>(153,546)</u>   |                | <u>412,319</u>     |
| <b>Capital and Reserves</b>                                    |      |               |                    |                |                    |
| Called-up equity share capital                                 | 16   |               | 5,047              |                | 5,047              |
| Share premium account  | 17   |               | 5,994,723          |                | 5,994,723          |
| Share options reserve  | 18   |               | 192,809            |                | 190,135            |
| Profit and loss account  | 19   |               | <u>(6,346,125)</u> |                | <u>(5,777,586)</u> |
| <b>(Deficit)/Shareholders' Funds</b>                           | 20   |               | <u>(153,546)</u>   |                | <u>412,319</u>     |

These financial statements were approved by the directors and authorised for issue on 18 June 2010, and are signed on their behalf by



Mr D Cottier

Company Registration Number 4344782

The notes on pages 12 to 23 form part of these financial statements

# Medical Device Innovations Limited

## Cash Flow Statement

Year Ended 31 December 2009

|  | 2009    |           | 2008        |
|--|---------|-----------|-------------|
|  | £       | £         | £           |
| Net Cash Outflow from Operating Activities                                     |         | (526,905) | (1,027,688) |
| <b>Returns on Investments and Servicing of Finance</b>                         |         |           |             |
| Interest received  | 124     |           | 13,100      |
| Interest paid  | (1,278) |           | (555)       |
| Net Cash (Outflow)/Inflow from Returns on Investments and Servicing of Finance |         | (1,154)   | 12,545      |
| Taxation   |         | 62,000    | 309,582     |
| Cash Outflow Before Financing  |         | (466,059) | (705,561)   |
| <b>Financing</b>   |         |           |             |
| Increase in share options reserve  | 2,674   |           | 89,838      |
| Long-term loans from Avlar Bioventures Fund II Limited Partnership             | 200,000 |           | —           |
| Net Cash Inflow from Financing   |         | 202,674   | 89,838      |
| Decrease in Cash   |         | (263,385) | (615,723)   |

### RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

|  | 2009      | 2008        |
|--|-----------|-------------|
|  | £         | £           |
| Operating loss                             | (595,764) | (923,062)   |
| Depreciation                               | 864       | 2,055       |
| Decrease in debtors                        | 50,494    | 17,461      |
| Increase/(decrease) in creditors           | 17,501    | (124,142)   |
| Net cash outflow from operating activities | (526,905) | (1,027,688) |

### RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

|   | 2009      |           | 2008      |
|---|-----------|-----------|-----------|
|   | £         | £         | £         |
| Decrease in cash in the period  | (263,385) |           | (615,723) |
| Net cash (inflow) from long-term loans from Avlar Bioventures Fund II Limited Partnership | (200,000) |           | —         |
|   |           | (463,385) | (615,723) |
| Change in net debt  |           | (463,385) | (615,723) |
| Net funds at 1 January 2009   |           | 338,722   | 954,445   |
| Net debt at 31 December 2009  |           | (124,663) | 338,722   |

# Medical Device Innovations Limited

## Cash Flow Statement

Year Ended 31 December 2009

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### ANALYSIS OF CHANGES IN NET DEBT

|                          | At<br>1 Jan 2009<br>£ | Cash flows<br>£  | At<br>31 Dec 2009<br>£ |
|--------------------------|-----------------------|------------------|------------------------|
| Net cash                 |                       |                  |                        |
| Cash in hand and at bank | <u>338,722</u>        | <u>(263,385)</u> | <u>75,337</u>          |
| Debt                     |                       |                  |                        |
| Debt due after 1 year    | <u>—</u>              | <u>(200,000)</u> | <u>(200,000)</u>       |
| Net debt                 | <u>338,722</u>        | <u>(463,385)</u> | <u>(124,663)</u>       |

# **Medical Device Innovations Limited**

## **Notes to the Financial Statements**

**Year Ended 31 December 2009**

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### **1 ACCOUNTING POLICIES**

#### **Basis of accounting**

The financial statements have been prepared under the historical cost convention

#### **Turnover**

Turnover represents government grants receivable which are recognised in the profit and loss in the same period as the related expenditure

#### **Research and development**

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

#### **Fixed assets**

All fixed assets are initially recorded at cost

#### **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

|                     |   |             |
|---------------------|---|-------------|
| Fixtures & Fittings | - | 15% on cost |
| Computer Equipment  | - | 33% on cost |

#### **Operating lease agreements**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease

#### **Pension costs**

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions payable for the year are charged in the profit and loss account.

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2009

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### 1. ACCOUNTING POLICIES *(continued)*

#### 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

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

#### Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit

#### Share-based payments

Expenses for share-based payment transactions are recognised during the vesting period in the profit and loss account. These expenses recognise the fair value of the share options granted. A corresponding amount is reflected in additional paid-in capital

#### Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities

### 2. TURNOVER

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

An analysis of turnover is given below

|                         | 2009           | 2008          |
|-------------------------|----------------|---------------|
|                         | £              | £             |
| Government grant income | <u>116,758</u> | <u>40,124</u> |

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2009

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### 3 OTHER OPERATING INCOME

|                                      | 2009      | 2008       |
|--------------------------------------|-----------|------------|
|                                      | £         | £          |
| On-line filing credit                | 75        | 100        |
| Consultancy fees and costs recharged | —         | 668        |
|                                      | <u>75</u> | <u>768</u> |

### 4 OPERATING LOSS

Operating loss is stated after charging/(crediting)

|   | 2009         | 2008       |
|---|--------------|------------|
|   | £            | £          |
| Research and development expenditure written off  | 252,867      | 258,985    |
| Depreciation of owned fixed assets                | 864          | 2,055      |
| Auditor's remuneration                            |              |            |
| - as auditor                                      | 6,400        | 6,400      |
| - for other services                              | 35,163       | 22,849     |
| Net (profit)/loss on foreign currency translation | <u>(418)</u> | <u>490</u> |

### 5. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to

|                            | 2009     | 2008     |
|----------------------------|----------|----------|
|                            | No       | No       |
| Number of management staff | <u>4</u> | <u>5</u> |

The aggregate payroll costs of the above were

|                             | 2009           | 2008           |
|-----------------------------|----------------|----------------|
|                             | £              | £              |
| Wages and salaries          | 216,037        | 305,061        |
| Social security costs       | 24,187         | 34,612         |
| Other pension costs         | 19,699         | 41,515         |
| EMI and other share options | 2,674          | 89,838         |
|                             | <u>262,597</u> | <u>471,026</u> |

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# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2009

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### 6. DIRECTORS' REMUNERATION

The directors' aggregate remuneration in respect of qualifying services were

|  | 2009<br>£      | 2008<br>£      |
|--|----------------|----------------|
| Aggregate remuneration   | 157,016        | 248,541        |
| Value of company pension contributions to money purchase schemes | 16,194         | 38,010         |
|  | <u>173,210</u> | <u>286,551</u> |

The number of directors who accrued benefits under company pension schemes was as follows

|                        | 2009<br>No | 2008<br>No |
|------------------------|------------|------------|
| Money purchase schemes | <u>1</u>   | <u>2</u>   |

The number of directors who received shares under a long term incentive scheme during the year were as follows

|  | 2009<br>No | 2008<br>No |
|--|------------|------------|
| Directors who received shares under a long term incentive scheme | <u>1</u>   | <u>1</u>   |

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

|                        | 2009<br>£    | 2008<br>£  |
|------------------------|--------------|------------|
| Credit charges payable | <u>1,278</u> | <u>555</u> |

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2009

### 8. TAXATION ON ORDINARY ACTIVITIES

#### Analysis of charge in the year

|  | 2009<br>£       | 2008<br>£       |
|--|-----------------|-----------------|
| Current tax  |                 |                 |
| UK Corporation tax recoverable on Research and Development Tax Credits | (28,435)        | (62,056)        |
| Over/under provision in prior year                                     | 56              | (11,982)        |
| Total current tax  | <u>(28,379)</u> | <u>(74,038)</u> |

The company has tax losses to carry forward against future profits of approximately £4,715,000 (2008 - £4,275,000)

A deferred tax asset has not been recognised in respect of these losses as the likelihood of sufficient future taxable profits to utilise these losses is uncertain. The estimated value of the deferred tax asset not recognised, if measured at the small companies rate for the year of 21%, is £990,150 (2008 - £897,750 at 21%)

### 9. TANGIBLE FIXED ASSETS

|  | Fixtures & Fittings<br>£ | Computer Equipment<br>£ | Total<br>£    |
|--|--------------------------|-------------------------|---------------|
| Cost                                   |                          |                         |               |
| At 1 January 2009 and 31 December 2009 | <u>237</u>               | <u>14,225</u>           | <u>14,462</u> |
| Depreciation                           |                          |                         |               |
| At 1 January 2009                      | 128                      | 13,470                  | 13,598        |
| Charge for the year                    | <u>109</u>               | <u>755</u>              | <u>864</u>    |
| At 31 December 2009                    | <u>237</u>               | <u>14,225</u>           | <u>14,462</u> |
| Net Book Value                         |                          |                         |               |
| At 31 December 2009                    | <u>-</u>                 | <u>-</u>                | <u>-</u>      |
| At 31 December 2008                    | <u>109</u>               | <u>755</u>              | <u>864</u>    |

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2009

### 10 DEBTORS

|                                | 2009          | 2008           |
|--------------------------------|---------------|----------------|
|                                | £             | £              |
| Trade debtors                  | 35            | —              |
| Corporation tax repayable      | 28,435        | 62,056         |
| VAT recoverable                | 6,544         | 6,830          |
| Other debtors                  | —             | 52,124         |
| Prepayments and accrued income | 7,459         | 5,578          |
|                                | <u>42,473</u> | <u>126,588</u> |

### 11 CREDITORS: Amounts Falling due Within One Year

|                              | 2009          | 2008          |
|------------------------------|---------------|---------------|
|                              | £             | £             |
| Trade creditors              | 26,743        | 20,343        |
| PAYE and social security     | 7,382         | 18,466        |
| Accruals and deferred income | 37,231        | 15,046        |
|                              | <u>71,356</u> | <u>53,855</u> |

### 12. CREDITORS: Amounts Falling due after More than One Year

|   | 2009           | 2008     |
|---|----------------|----------|
|   | £              | £        |
| Loan from Avlar Bioventures Fund II Limited Partnership | <u>200,000</u> | <u>—</u> |

The following liabilities disclosed under creditors falling due after more than one year are secured by the company

|   | 2009           | 2008     |
|---|----------------|----------|
|   | £              | £        |
| Loan from Avlar Bioventures Fund II Limited Partnership | <u>200,000</u> | <u>—</u> |

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2009

### 13. SHARE-BASED PAYMENTS

#### (a) Share-based payments to third parties

The company has entered into various share-based arrangements with third-party inventors and suppliers of services

Under Deeds for the Transfer of Intellectual Property the company has agreed that, in consideration of inventors assigning and transferring intellectual property, it will make payments in cash and grant to the inventors options to subscribe for shares, vesting and exercisable on various dates during a period from the date of the Deeds to the dates of achieving certain milestones. In event that the share options are not exercised within five years from the date of the Deeds the options will lapse.

Using the Intrinsic Method of measuring fair value of the options and having regard to the vesting periods the expenses recognised in the profit and loss account are as follows

|  | 2009<br>£ | 2008<br>£ |
|--|-----------|-----------|
| Option-based expenses attributable to services | -         | -         |

The movements in options granted to third parties were

|                            | Number of<br>Shares under<br>option<br>2009 | 2008       | Weighted<br>average exercise<br>price<br>2009<br>£ | 2008<br>£ |
|----------------------------|---|------------|--|-----------|
| Outstanding at 1 January   | 745   | 745        | 279.19   | 290.51    |
| Options forfeited/lapsed   | (300)                                       | -          | 100.00   | -         |
| Outstanding at 31 December | <u>445</u>                                  | <u>745</u> | 400.00   | 279.19    |

Range of exercise price of options outstanding at 31 December 2009

| Exercise Price Range | Average<br>contractual life<br>in years | Average<br>remaining<br>expected life in<br>years |
|----------------------|---|---|
| £400                 | 5.0                                     | 1.22  |

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2009

### 13. SHARE-BASED PAYMENTS *(continued)*

#### (b) Share-based plans for executives and employees

Under the Medical Device Innovations Limited 2003 Enterprise Management Investment Scheme the company has granted options to executive directors and selected employees for them to acquire shares in the company. Under the terms of the Scheme the options lapse on the tenth anniversary of the date of the grant.

On 30 January 2003 and 23 December 2004 Mr D Cottier and Dr P Wall were each granted options to acquire shares in the company at an exercise price of 10p per share, the earliest date that such options can be exercised being the first to occur of a sale of business and assets of the company or the sale of the entire share capital of the company or the admission of any of the company's shares to be dealt with on a Recognised Investment exchange.

On 9 March 2007 Mr D Cottier, Dr P Wall and Mr T Kink were each granted options to acquire shares in the company at an exercise price of 10p per share, the earliest date that such options can be exercised being the first to occur of a sale of business and assets of the company or the sale of the entire share capital of the company or the admission of any of the company's shares to be dealt with on a Recognised Investment exchange.

On 6 November 2007 Dr P Wall and Mr T Kink were each granted options under an unapproved share option scheme to acquire shares in the company at an exercise price of 10p per share, the earliest date that such options can be exercised being the first to occur of a sale of business and assets of the company or the sale of the entire share capital of the company, the admission of any of the company's shares to be dealt with on a Recognised Investment exchange or the receipt of at least £2 million in equity funding.

All options granted to Dr P Wall lapsed on 30 November 2008 when he left the Company.

Using the Intrinsic Method of measuring fair value of the options and having regard to the vesting periods the expenses recognised in the profit and loss account are as follow:

|   | 2009<br>£    | 2008<br>£     |
|---|--------------|---------------|
| Option-based expenses attributable to EMI options | <u>6,446</u> | <u>36,168</u> |

The movements in options granted under the Medical Device Innovations Limited 2003 Enterprise Management Investment Scheme were:

|                            | Number of<br>Shares under<br>EMI options |              | Weighted<br>average exercise<br>price |             |
|----------------------------|--|--------------|---------------------------------------|-------------|
|                            | 2009                                     | 2008         | 2009<br>£                             | 2008<br>£   |
| Outstanding at 1 January   | 4,092                                    | 7,218        | 0.10                                  | 0.10        |
| Options lapsed             | –  | (3,126)      | –                                     | (0.10)      |
| Outstanding at 31 December | <u>4,092</u>                             | <u>4,092</u> | <u>0.10</u>                           | <u>0.10</u> |

The weighted average expected contractual life and remaining expected life of options outstanding at 31 December 2009 were 4.9 years and 1 year respectively.

# Medical Device Innovations Limited

## Notes to the Financial Statements

### Year Ended 31 December 2009

#### 13. SHARE-BASED PAYMENTS *(continued)*

On 9 March 2007 and 6 November 2007 Mr D Cottier and Mr A Smith were each granted options under an unapproved share option scheme to acquire shares in the company at an exercise price of 10p per share, the earliest date that such options can be exercised being the first to occur of a sale of business and assets of the company or the sale of the entire share capital of the company or the admission of any of the company's shares to be dealt with on a Recognised Investment exchange or, in the case of the 6 November 2007 options, a receipt of at least £2 million in equity funding

|  |  |                                       | 2009<br>£      | 2008<br>£     |
|--|--|---------------------------------------|----------------|---------------|
| Option-based expenses attributable to unapproved options |  |                                       | <u>(3,772)</u> | <u>53,671</u> |
|  | Number of<br>Shares under<br>unapproved<br>options | Weighted<br>average exercise<br>price |                |               |
|  | 2009   | 2008                                  | 2009<br>£      | 2008<br>£     |
| Outstanding at 1 January                                 | <u>2,979</u>                                       | <u>2,979</u>                          | <u>0 10</u>    | <u>0 10</u>   |
| Outstanding at 31 December                               | <u>2,979</u>                                       | <u>2,979</u>                          | <u>0 10</u>    | <u>0 10</u>   |

#### (c) Further information on share-based payments

In view of the difficulty in measuring directly the fair value of the services received from employees and the fair value of the intellectual property rights that it has acquired, the company has measured the fair value of the services and intellectual property rights by reference to the fair value of the options granted

Furthermore, in view of the fact that the company is unlisted and there is no historical data regarding share price volatility, the Intrinsic Method of measuring the fair value of the options has been used. Under this method the company has accounted for the options by recognising the difference between the market value of the shares at the year end and the exercise price of the options, so that over the vesting period an expense is charged which is equivalent to the option holder's gains on exercise

#### 14. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2009 the company had annual commitments under non-cancellable operating leases as set out below

|                               | Land and buildings |               |
|-------------------------------|--------------------|---------------|
|                               | 2009<br>£          | 2008<br>£     |
| Operating leases which expire |                    |               |
| Within 2 to 5 years           | <u>-</u>           | <u>26,591</u> |

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2009

### 15. RELATED PARTY TRANSACTIONS

The company was under the control of Avlar Bioventures Fund II Limited Partnership, who owned 88.9% of the ordinary share capital

During the year, loans of £200,000 were made to the Company by Avlar Bioventures Fund II Limited Partnership. The loans are interest free and for a term of no less than 3 years and one day from 15 March 2010

The loan is secured by a fixed and floating charge in the form of a debenture over all Intellectual Property Rights and other assets of the Company and is convertible into shares in the Company at the direction of the lender

During the year directors' fees of £7,500 (2008 - £10,000) and consultancy fees of £33,156 (2008- £44,208) were payable to Avlar Bioventures Limited

At the year end Medical Device Innovations Limited owed £16,085 (2008 - £4,626) to Avlar Bioventures Limited together with £29,964 in respect of legal and professional fees paid by Avlar Bioventures Limited on behalf of the Company (2008 - £Nil)

During the year £5,265 (2008 - £8,828) was paid to YFM Private Equity, in respect of monitoring fees

YFM Private Equity act on behalf of Northwest Business Investment Scheme who are shareholders in the company

### 16. SHARE CAPITAL

#### Authorised share capital:

|  | 2009         | 2008         |
|--|--------------|--------------|
|  | £            | £            |
| 12,000 Ordinary shares of £0.10 each   | 1,200        | 1,200        |
| 24,000 A Ordinary shares of £0.10 each | 2,400        | 2,400        |
| 48,000 B Ordinary shares of £0.10 each | 4,800        | 4,800        |
|  | <u>8,400</u> | <u>8,400</u> |

#### Allotted, called up and fully paid:

|  | 2009          |              | 2008          |              |
|--|---------------|--------------|---------------|--------------|
|  | No            | £            | No            | £            |
| 1,083 Ordinary shares of £0.10 each    | 1,083         | 108          | 1,083         | 108          |
| 14,001 A Ordinary shares of £0.10 each | 14,001        | 1,400        | 14,001        | 1,400        |
| 35,382 B Ordinary shares of £0.10 each | 35,382        | 3,538        | 35,382        | 3,538        |
|  | <u>50,466</u> | <u>5,047</u> | <u>50,466</u> | <u>5,047</u> |

In the event of a return of assets the holders of B Ordinary shares are entitled to repayment of the amount of any premium paid thereon and the par value of such shares in priority to any premium and par value paid on the A Ordinary shares, which in turn are paid in priority to any premium paid on the Ordinary shares and the par value of the Ordinary shares, any balance of net assets is distributable amongst the shareholders pari passu pro rata to the number of shares held

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2009

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### 17. SHARE PREMIUM ACCOUNT

There was no movement on the share premium account during the financial year

### 18. SHARE OPTIONS RESERVE

|   | 2009<br>£      | 2008<br>£      |
|---|----------------|----------------|
| Balance brought forward                     | 190,135        | 156,323        |
| Increase in share option reserve            | 2,674          | 89,838         |
| Expiry and forfeiture of share options      | —              | (56,026)       |
| Balance carried forward                     | <u>192,809</u> | <u>190,135</u> |
| Represented by                              |                |                |
| Fair value of share options                 |                |                |
| 7,071 (2008 - 7,071) Ordinary shares of 10p | <u>192,809</u> | <u>190,135</u> |

### 19. PROFIT AND LOSS ACCOUNT

|  | 2009<br>£          | 2008<br>£          |
|--|--------------------|--------------------|
| Balance brought forward                | (5,777,586)        | (4,997,133)        |
| Loss for the financial year            | (568,539)          | (836,479)          |
| Expiry and forfeiture of share options | —                  | 56,026             |
| Balance carried forward                | <u>(6,346,125)</u> | <u>(5,777,586)</u> |

### 20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

|                                       | 2009<br>£        | 2008<br>£      |
|---------------------------------------|------------------|----------------|
| Loss for the financial year           | (568,539)        | (836,479)      |
| Increase in share option reserve      | 2,674            | 89,838         |
| Net reduction to shareholders' funds  | (565,865)        | (746,641)      |
| Opening shareholders' funds           | 412,319          | 1,158,960      |
| Closing shareholders' (deficit)/funds | <u>(153,546)</u> | <u>412,319</u> |



# **Medical Device Innovations Limited**

## **Notes to the Financial Statements**

**Year Ended 31 December 2009**

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### **21. GOING CONCERN**

The financial statements have been prepared on a going concern basis

The Directors have reviewed the funding position of the Company for the forward period and considered the viability of business plans and budgets for the twelve month period to June 2011

During the final quarter of 2009 the Company has taken steps to significantly reduce planned project expenditure together with its ongoing overhead base. In addition, the company has signed a convertible loan agreement dated 15 March 2010 with its holding company, Avlar Bioventures Fund II Limited Partnership, under which an interest free convertible loan facility of up to £1,000,000 has been made available to the Company of which £200,000 was received prior to 31 December 2009

Further funding will be required to finance future expenditure necessary to fully develop the Company's IP and talks are continuing to take place with the aim of obtaining the required funding from the sale of IP or generating income from royalties

In the meantime, the Directors are confident that the funding now in place and the steps taken to reduce the level of expenditure to keep it within the funds available will enable the business to continue to trade over the next twelve months

Accordingly the Directors consider that the going concern basis is appropriate for the preparation of these financial statements