Oxford Nanopore Technologies Limited
(previously Oxford Nanolabs Limited)

Directors' report and financial statements

Registered number 05386273
Year ended 30 June 2008

Contents

Company information

Directors	JHP Bayley TJ Nicholls DR Norwood R Pigliucci G Sanghera CP Triniman JP Willcocks
Company secretary	Aldwych Secretaries
Registered office	Begbroke Science Park Sandy Lane Kidlington Oxford OX5 1PF
Company number	05386273
Auditors	BDO Stoy Hayward LLP Arcadia House Maritime Walk Southampton SO14 3TL

Directors' report

The directors present their report and the audited financial statements for the year ended 30 June 2008

Principal activities

The principal activity of the company is that of research and development focussing on products and services in the fields of gene sequencing, molecular diagnostics, bio-terrorism and environmental monitoring

Business review

During the year the Company has continued to build a skilled team of scientists to deliver a novel and proprietary nanopore technology providing a method of molecular detection and analysis At the year end the Company had grown to some 35 full time employees with plans for further expansion in the new financial year In March 2008 the Company successfully completed a new round of financing raising £10m net of expenses and enters the new financial year with circa £14m of cash resources The focus of current activity is continuing research and development work on the different elements of BASE™ technology, in preparation for integration of the system and the goal of a working prototype product

Research and development

The Company's research and development activity is based on an electronic output NanoPore Biosensor Platform which exploits naturally occurring nanometer sized channels or NanoPores in biological molecules (proteins) The simplicity of the sensing element and electrical output modality offer several advantages over alternative approaches The Company anticipates commercial applications over a number of fields but in particular is focussing on genetics and diagnostics

Results and dividends

The income statement is set out on page 6

The directors do not recommend the payment of a dividend

Directors

The directors of the company during the year were as follows

DR Norwood (Chairman)
JHP Bayley
TJ Nicholls
R Pigliucci
G Sanghera
CP Triniman
JP Willcocks

Directors' report (continued)

Financial Instruments

Disclosure of the company's financial instruments policies are shown in Note 10

Donations

The company made no political or charitable contributions during the year

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information The directors are not aware of any relevant audit information of which the auditors are unaware

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of BDO Stoy Hayward LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

On behalf of the board

GSanghera

G Sanghera
Director

24 September 2008

Statement of directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985 The directors have chosen to prepare financial statements for the company in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs)

International Accounting Standard 1 requires that financial statements present fairly for each financial period the company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs A fair presentation also requires the Directors to

- consistently select and apply appropriate accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

Independent Auditor's Report to the Shareholders of Oxford Nanopore Technologies Limited

We have audited the financial statements of Oxford Nanopore Technologies Limited for the year ended 30 June 2008 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement, and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985 Additionally we report to you whether the information given in the Directors' Report is consistent with those financial statements We also 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

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 30 June 2008 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985,
- the information given in the Directors' Report is consistent with the financial statements

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
Southampton

BDO Stoy Hayward LLP
27 September 2008

Income statement
for the year ended 30 June 2008

	Note	**Year ended 30 June 2008 £**	Year ended 30 June 2007 £
Revenue			
Other income		**158,549**	181,641
Direct research & development expenses		**(1,942,177)**	(857,364)
General & administrative expenses		**(751,896)**	(436 442)
Facilities and infrastructure expenses		**(146,612)**	(92,050)
Depreciation and amortisation expense		**(182,041)**	(105,105)
Other expenses		**(539,212)**	(274,933)
Total expenses		**(3,561,938)**	(1,765,894)
Loss from operations	*2*	**(3,403,389)**	(1 584 253)
Finance costs	*5*	**(72)**	-
Finance income	*5*	**444,525**	328 887
Loss before tax		**(2,958,936)**	(1,255,366)
Tax credit	*6*	**363,632**	221,186
Accumulated loss for the year attributable to the equity holders of the Company		**(2,595,304)**	(1 034,180)

The company made no acquisitions and had no discontinued operations

Statement of changes in equity
for the year to 30 June 2008

	Share Capital (i) £	**Share Premium (ii) £**	**Retained Earnings (iii) £**	**Total £**
Balance as at 1 July 2007	7,970	8 302,495	(1,496,159)	6 814,306
Total recognised income and expense	-	-	(2,595 304)	(2,595,304)
Issue of share capital	1,758	10,098,606	-	10,100,364
Costs of share issue	-	(100,403)	-	(100,403)
Employee share benefit expense	-	-	76,104	76 104
Balance as at 30 June 2008	**9,728**	**18,300,698**	**(4,015,359)**	**14,295,067**

(i) Share Capital the aggregate nominal value of all shares in issue
(ii) Share Premium amount subscribed for share capital in excess of nominal value
(iii) Retained earnings cumulative net gains and losses recognised in the Income Statement

The notes on pages 9 to 20 form part of these financial statements

Balance sheet
as at 30 June

	Note		2008		2007
		£	£	£	£
Assets					
Non current assets					
Property plant and equipment	*7*		**438,508**		312,461
Current assets					
Trade and other receivables	*9*	**397,372**		151 201	
R&D tax credit recoverable	*5*	**363,632**		161,418	
Cash and cash equivalents	*10*	**13,997,391**		6,398,233	
Total current assets			**14,758,395**		6,710 852
Total assets			**15,196,903**		7 023 313
Liabilities					
Current liabilities					
Trade and other payables	*11*		**(901,836)**		(209,007)
Total current liabilities			**(901,836)**		(209,007)
Total net assets			**14,295,067**		6 814 306
Capital and reserves attributable to equity holders of the company					
Share capital	*12*		**9,728**		7,970
Share premium reserve			**18,300,698**		8,302,495
Retained earnings			**(4,015,359)**		(1,496,159)
Total equity			**14,295,067**		6,814,306

The financial statements on pages 6 to 20 were approved by the Board of Directors and authorised for issue on 24 September 2008 and were signed on its behalf by

G Sanghera
Director

The notes on pages 9 to 20 form part of these financial statements

Cash flow statement
for the year ended 30 June 2008

	Note	2008 £	2007 £
Operating activities			
Loss before tax		**(2,958,936)**	(1 255,366)
Adjustments for			
Depreciation	7	**182,041**	105,105
Loss on disposal of property, plant and equipment		**-**	416
Interest expense	5	**72**	-
Interest income	5	**(444,525)**	(328,887)
Employee share benefit costs	15	**76,104**	68,163
Operating loss before changes in working capital and provisions		**(3,145,244)**	(1,410,569)
Increase in trade and other receivables		**(136,465)**	(127 973)
Increase in trade and other payables		**642,787**	157 983
Cash absorbed by operations		**(2,638,922)**	(1,380,559)
Income taxes – R&D tax credit received		**161,418**	59,768
Cash flows from operating activities		**(2,477,504)**	(1 320,791)
Investing activities			
Purchases of PPE		**(258,046)**	(405 183)
Receipt from insurance claim on loss of PPE		**-**	6 295
Interest paid		**(72)**	-
Interest received		**334,819**	344,738
Cash flows from investing activities		**76,701**	(54,150)
Financing activities			
Issue of ordinary shares		**10,100,364**	25,004
Costs of share issue		**(100,403)**	-
Cash flows from financing activities		**9,999,961**	25,004
Increase/(decrease) in cash and cash equivalents		**7,599,158**	(1,349 937)
Cash and cash equivalents at start of year		**6,398,233**	7 748,170
Cash and cash equivalents at end of year		**13,997,391**	6 398,233

Notes *(forming part of the financial statements)*

1 Accounting policies

Basis of preparation

These financial statements relate solely to the activities of Oxford Nanopore Technologies Limited, the parent entity and ultimate holding company of the group The group, which is small as defined by the Companies Act 1985, is therefore exempt from preparing consolidated financial statements Prior to the current period the investment in STS Diagnostics GmbH, a wholly owned subsidiary registered in Germany, was written off and charged to the Income Statement as the directors considered the fair value of the asset to be nil

The principal accounting policies adopted in the preparation of the financial statements are set out below The policies have been consistently applied throughout the year

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS

Foreign currency

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement

Impairment of non-financial assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable Where the carrying value of an asset exceeds its recoverable amount (ie the higher of value in use and fair value less costs to sell), the asset is written down accordingly Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in the statement of recognised income and expense

Financial assets

The company classifies its financial assets depending on the purpose for which the asset was acquired The company's accounting policy for each identified category is as follows

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset They are carried at cost less any provision for impairment

Financial liabilities

The company classifies its financial liabilities depending on the purpose for which the asset was acquired Other financial liabilities, which include trade payables and other short-term monetary liabilities, are recognised at amortised cost

Share-based payments

Where share options and other equity instruments are awarded to employees, the fair value of the instrument at the date of grant is charged to the income statement over the vesting period Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of instruments that eventually vest Market vesting conditions are factored into the fair value of the options granted As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied The cumulative expense is not adjusted for failure to achieve a market vesting condition Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured

Notes *(forming part of the financial statements) continued*

immediately before and after the modification, is also charged to the income statement over the remaining vesting period

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the company (a "finance lease"), the asset is treated as if it had been purchased outright The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease The corresponding lease commitment is shown as a liability Lease payments are analysed between capital and interest The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability The capital element reduces the balance owed to the lessor Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term The land and buildings elements of property leases are considered separately for the purposes of lease classification

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered)

Deferred tax balances are not discounted

Investments

Investments held as fixed assets are stated at fair value less any provision for any impairment in value

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items Any corresponding liability is recognised within provisions

All items of property, plant and equipment are carried at depreciated cost

Depreciation is provided on all items of property plant and equipment so as to write off the carrying value of items over their expected useful economic lives It is applied at the following rates

Plant and machinery	- 33% per annum straight line
Fixtures and fittings	- over the duration of the lease straight line
Leasehold improvements	- over the duration of the lease straight line
Office equipment	- 33% per annum straight line

Government grants

Government grants received are recognised as other income Where retention of a government grant is dependent on the satisfaction of certain criteria, it is initially recognised as deferred income When the criteria for retention have been satisfied, the deferred income balance is released to the income statement

Critical Accounting Estimates and Judgements

In preparing these financial statements, estimates and assumptions have been made for certain items that have an impact on the recognition and measurement of the assets, liabilities, income and expenditure reported Actual amounts may differ from these estimates Management set out below those areas in which they believe critical accounting estimates and judgements have been made in the preparation of these consolidated financial statements

Judgements

Intellectual Property Agreements

During the year, the Company entered into a small number of intellectual property licence agreements with academic institutions These agreements contract the Company to make material payments in respect of licence issuance and maintenance fees over the term of the agreements

Management have considered the requirements of IAS 38 "Intangible Assets" in respect of the accounting treatment of these agreements It is our opinion that whilst the value of the licences can be reliably measured, it is as yet uncertain that any future economic benefit will be derived from the licences and flow to the Company

As a result of this conclusion, all amounts in relation to these agreements have been recognised within research and development expenses in the income statement during the period

Standards Not yet Effective

International Accounting Standards (IAS/IFRS)		**Effective date for periods commencing**
IFRS 2	Amendment to IFRS 2 Share Based Payment Vesting Conditions and Cancellations*	1 January 2009
IFRS 3	Revised IFRS 3 Business Combinations*	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Amendment to IAS 1 Presentation of Financial Statements A Revised Presentation*	1 January 2009
IAS 23	Amendments to IAS 23 Borrowing Costs*	1 January 2009
IAS 27	Amendments to IAS 27 Consolidated and Separate Financial Statements	1 July 2009
	Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*	1 January 2009
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes*	1 July 2008
IFRIC 14	The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction*	1 January 2008
IFRIC 15	Agreements for the Construction of Real Estate*	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation*	1 October 2008

* Not yet adopted for use in the European Union

The above standards and interpretations will be adopted in accordance with their effective dates and have not been adopted in these financial statements The Directors do not anticipate that the adoption of the above Standards and Interpretations will have a material impact on the financial statements of the Group in the period of initial application

Notes *(forming part of the financial statements) continued*

2 Loss from operations

	Year to 30 June 2008	Year to 30 June 2007
	£	£
This is after charging/(crediting)		
Government grants received	**(158,549)**	(176,019)
Staff costs	**1,322,796**	783,303
Depreciation	**182,041**	105 105
Direct non staff research and development costs	**1,043,214**	365,841
Loss on disposal of Property Plant and Equipment	**-**	416
Payments under operating leases - property	**125,604**	79,044
Auditors' remuneration	**9,150**	12,377
Fees to auditors for non audit services (taxation and grant applications)	**3,445**	6,450

During the year grants were received from the Department of Trade & Industry and from the Biotechnology and Biological Sciences Research Council for research projects lead by the Company The amounts shown reflect only those sums attributable to and receivable by the Company

3 Staff costs

	Year to 30 June 2008	Year to 30 June 2007
	£	£
Staff costs including directors consist of		
Wages and salaries	1,120,451	643,392
Employee benefits	13,902	709
Employer's national insurance contributions and similar taxes	112,339	71,039
Share based payments	76,104	68,163
	1,322,796	783,303

The average monthly number of employees, including directors, during the year was 28 (2007 17) These included 3 executive directors (2007 3), 4 non executive directors (2007 3), 20 direct research and development scientists (2007 10) and 1 administrator (2007 1)

Notes *(forming part of the financial statements) continued*

2 Loss from operations

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Notes *(forming part of the financial statements) continued*

4 Directors' emoluments

	Year to 30 June 2008 £	Year to 30 June 2007 £
Directors' emoluments consist of		
Remuneration for management services	**286,700**	214 624
Amount paid as directors fees	**70,240**	31,240
	355,240	245,864
Highest paid director		
Remuneration for management services	**111,009**	78,859

In the year ended 30th June 2007 Mr CP Trimman exercised an unapproved option over 3,572 shares at an exercise price of £7 per share No other directors have exercised any options

Mr R Pigliucci provides services to the Company under separate agreement in his capacity as a consultant These services are over and above those necessary to fulfil his role as a director During the year the Company has charged £31,422 (1997 £37 288) to its income statement with respect to those services

Similarly Mr TJ Nicholls provides services to the Company under separate agreement in his capacity as a consultant These services are over and above those necessary to fulfil his role as a director During the year the Company has charged £12,000 (2007 £Nil) to its income statement with respect to those services

Professor H Bayley provides services to the Company under separate agreement in his capacity as a consultant through Oxford University Consulting These services are over and above those necessary to fulfil his role as a director During the year the Company has charged £27,150 (2007 £35 600) to its income statement with respect to those services

Mr DR Norwood is a director of IP Group plc, a significant shareholder The Company also entered into activities with IP Group plc for which it was charged £110,875 (2007 £5,622) These charges have been satisfied in full Mr Norwood is also a director of Ora Capital Partners plc which also holds shares in the Company

Executive directors receive medical insurance for themselves and immediate family as a non-monetary benefit Total premiums in respect of this cover for the year amounted to £1,701 (2007 £142)

All the emoluments relate to short-term employee benefits No director received any post employment benefit other long-term benefit or termination benefit Charges to the profit and loss account relating to share based payments relating to options held by directors amounted to £26 882 (2007 £35,238)

5 Finance Income and expense

	Year to 30 June 2008 £	Year to 30 June 2007 £
Finance income		
Bank interest receivable	**444,525**	328,887
Finance expense		
Bank interest payable	**72**	-

Notes *(forming part of the financial statements) continued*

6 Tax credit

	Year to 30 June 2008 £	Year to 30 June 2007 £
Current tax credit		
Research and development tax credit for the year	363,632	161 418
Adjustment for under provision of research and development tax credit in prior period	-	59,768
Total current tax credit	363,632	221,186
Deferred tax expense		
Reversal of timing differences	-	-
Tax credit on loss on ordinary activities	363,632	221,186

The directors believe that the Company is eligible to claim a Research and Development tax credit and intend to make such a claim An initial calculation indicates that this claim will be for £363,632 (2007 £161,418) This claim will be subject to HM Revenue and Customs review and approval, the result of which will not be known until a future date Credit has been taken to the Income Statement with respect to this claim due to the Company's history of successful claims

There is a deferred tax asset of £278,818 in respect of the share based payment charge This has not been recognised due to the uncertainty that the asset will reverse in the foreseeable future as the company has yet to obtain significant sources of income

Deferred tax losses have been recognised to the extent that they offset the deferred tax liability arising through accelerated capital allowances The remainder of the deferred tax asset of £452,184 has not been recognised due to the uncertainty that the asset will reverse in the foreseeable future as the company has yet to obtain significant sources of income

(b) Factors affecting the tax charge for the current year

The current tax credit for the year is lower than the standard rate of corporation tax in the UK for small companies of 20% The differences are explained below

	Year to 30 June 2008 £	Year to 30 June 2007 £
Loss on ordinary activities before taxation	(2,958,936)	(1,255,366)
Loss on ordinary activities multiplied by expected rate of corporation tax at 20 25% (2007 20%)	(599,185)	(251,073)
Effects of		
Expenses not deductible for tax purposes	753	13,644
Origination of temporary timing differences	(9,486)	(58,115)
Origination of unrecognised tax losses	310,711	167,728
R&D tax relief	(66,425)	(33,602)
Under provision for tax recoverable in prior period	-	(59,768)
	363,632	221,186

(c) Factors that may affect future tax charges

The company plans to continue to invest in research and development for which substantial tax relief can be obtained

Notes *(forming part of the financial statements) continued*

7 Property, Plant and Equipment

	Leasehold improvements £	Plant and machinery £	Office equipment £	Total £
At 30 June 2007				
Cost	68,359	313 240	40,339	421,938
Accumulated depreciation	(17 088)	(81 305)	(11,084)	(109 477)
Net book value	51,271	231,935	29,255	312,461
At 30 June 2008				
Cost	108,724	511,908	109,394	730 026
Accumulated depreciation	(50,791)	(213,795)	(26,932)	(291,518)
Net book value	**57,933**	**298,113**	**82,462**	**438,508**
Year ended 30 June 2007				
Opening net book value	-	14 429	7,335	21 764
Additions	68,359	295,964	38,190	402 513
Disposals	-	-	(6,711)	(6,711)
Depreciation charge for the year	(17,088)	(78,458)	(9,559)	(105,105)
Closing net book value	51,271	231,935	29,255	312,461
Year ended 30 June 2008				
Opening net book value	51,271	231 935	29,255	312 461
Additions	40,365	198,668	69,055	308,088
Depreciation charge for the year	(33,703)	(132,490)	(15,848)	(182,041)
At 30 June 2008	**57,933**	**298,113**	**82,462**	**438,508**

8 Investment

Investment in group undertakings	**Company £**
Investment in STS Diagnostics GmbH	39 188
Fair value adjustment	(39 188)
Balance as at 30 June 2007 and 2008	-

This represents the investment made by the Company to acquire 100% of STS Diagnostics GmbH ('STS') a company incorporated in Germany This acquisition facilitated the establishment of the Company and helped form a small part of the patent portfolio established since inception The directors are in the process of liquidating STS in the near future The directors have considered the fair value of the assets of STS as at 30 June 2008 and believe them to be valueless having net assets broadly in line with the anticipated costs of liquidation

Notes *(forming part of the financial statements) continued*

9 Trade and other receivables - current

	30 June 08	30 June 07
	£	£
Other debtors	**80,150**	108 856
Accrued income	**114,403**	4 698
Other taxes	**148,253**	26,330
Prepayments	**54,566**	11,317
	397,372	312,619

10 Financial instruments – risk management

Financial risk management objectives and policies

Overview

The Company has exposure to credit, liquidity and market risks from its use of financial instruments This note sets out the Company's key policies and processes for managing these risks

Credit risk

Credit risk is the risk of financial loss to the Company if a grant provider fails to meet its contractual obligations or if a deposit taker should fail Since almost all of the Company's current income is derived from grant and interest income sources the Company's exposure to credit risk is considered to be inherently low

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation The Company has no debt facilities and a substantial cash balance to fund its operations

It is currently Company policy that the majority of external monetary deposits are made on a fixed interest basis over terms varying from one to twelve months depending upon the rate available Maturities are staggered whenever possible to spread exposure to interest rate movement Although the board accepts that this policy neither protects the group from the risk of receiving rates below the current market rates nor eliminates fully cash flow risk associated with interest receipts, it considers that it achieves an appropriate balance of exposure to these risks Term deposits are denominated in UK sterling with institutions rated as A or better by both Moody's and Standard & Poor's

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's costs of research and development or the value of its holdings in financial instruments The Company has little exposure to interest rate risk other than that returns on short-term fixed interest deposits will vary with movements in underlying bank interest rates The Group's principal market risk exposure is to movements in foreign exchange rates

Foreign currency risk

Foreign exchange risk arises because the Company from time to time enters into transactions denominated in a currency other than Sterling Where it is considered that the risk to the Company is significant, it will enter into a matching forward contract with a reputable bank To date no such forward contracts have been entered into In the year ended 30th June 2008 approximately 10% of the Company's annual expenditures were denominated in US dollars as some significant non recurring expenditures were made This proportion is expected to decline in the immediate future

Notes ***(forming part of the financial statements) continued***

Sensitivity analysis

A 5% weakening of the US$ at 30 June 2008 would have resulted in changes to equity and profit or loss by the amounts shown below

	30 June 08	30 June 07
	£ 000's	£ 000's
Increase in loss for the year	10	-
Decrease in equity	10	-

The interest rate for short-term deposits is variable dependent on the rates offered by the Company's bankers During the year ended 30 June 2008, the short-term deposits returned an average of 5 3911% (2007 4 8625%) The Company's exposure to interest rate risk on cash and cash equivalents, is illustrated below with regard to the average cash balance and the difference a decrease of 1% in interest rates would have made based on the average cash balance of £10,197,812 (2007 £7,073,202)

	30 June 08	30 June 07
	£ 000's	£ 000's
Increase in loss for the year	102	71
Decrease in equity	102	71

Capital management

The Company defines the capital that it manages as the Company's total equity The Company's objectives when managing capital are

- To safeguard the Company's ability to continue as a going concern, so that it can continue to strive to provide returns to investors
- To provide an adequate return to investors based on the level of risk undertaken
- To have available the necessary financial resources to allow the Company to invest in areas that may deliver future benefits for inventive sources and returns to investors
- To maintain sufficient financial resources to mitigate against risks and unforeseen events

The Company's capital and equity ratio are shown in the table below

	30 June 08	30 June 07
	£	£
Total equity – capital and reserves	14,295,067	6,814,306
Total assets	15,196,903	7,023,313
Equity ratio	94 0%	97 0%

The Company is not subject to regulatory capital adequacy requirements as known in the financial services industry

Financial instruments

The Group's financial instruments comprise cash, short-term deposits and various items such as trade debtors and creditors which arise directly from operations

Notes *(forming part of the financial statements) continued*

Fair values

The fair values of the Group's financial assets and liabilities, together with the carrying values shown in the balance sheet, are as follows

	Designated At fair value	Amortised cost	Total carrying Value	Fair Value
	£	£	£	£
30 June 2008				
Loans and Receivables				
Cash and cash equivalents	-	-	13,997,391	13 997,391
Other investments	-	-	-	-
Trade and other receivables	-	-	761,004	761,004
Other financial liabilities				
Trade and other payables	-	-	(901 836)	(901,836)
30 June 2007				
Loans and Receivables				
Cash and cash equivalents	-	-	6,710,852	6,710,852
Other investments	-	-	-	-
Trade and other receivables	-	-	312,619	312,619
Other financial liabilities				
Trade and other payables	-	-	(209 007)	(209,007)

The following summarises the methods and assumptions used in estimating the fair values of financial instruments reflected in the table

Other investments

These comprise the investment in STS Diagnostics GmbH, a wholly owned subsidiary The figure recorded in the balance sheet is the best estimate of fair value

Trade receivables, trade payables and cash and cash equivalents

Trade payables and receivables generally have a remaining life of less than one year so their value recorded in the balance sheet is considered to be a fair approximation of fair value

Financial assets – numerical information

As at the 30 June the Company had the following Sterling treasury deposits

	30 June 08	30 June 07
	£	£
Floating rate assets	**647,391**	648,233
Fixed rate assets	**13,350,000**	5,750,000
	13,997,391	6 398,233

The weighted average interest rate on the fixed term deposits was 5 3911% (2007 4 8625%) The weighted average term of fixed interest rate deposits was 1 7 months (2007 4 4 months)

Notes ***(forming part of the financial statements) continued***

11 Trade and other payables - current

	30 June 08 £	30 June 07 £
Trade payables	**511,201**	46,424
Taxation and social security	**51,562**	29,330
Other creditors	**24,190**	84,801
Accruals and deferred income	**314,883**	48,452
	901,836	209,007

12 Share capital

	30 June 08 £	30 June 07 £
Authorised		
1,089,000 ordinary shares of £0 01 each	**10,890**	8,750
Allotted, called up and fully paid		
At 1 July	**7,970**	7,934
175,842 ordinary shares (2007 3,572) of £0 01 issued during the year	**1,758**	36
At 30 June	**9,728**	7,970

13 Commitments under operating leases

As at 30 June 2008 the company had a commitment to make payments under eight separate operating leases for laboratory and office space of £158,266 (2007 £121,400) These leases are all due to expire between 31 May 2009 and 23 July 2009 but are cancellable upon periods between one and six months written notice

	30 June 08 £	30 June 07 £
The total of future minimum non-cancellable lease payments due for each of the following periods are		
Not later than one year	**800**	-
Later than one year and not later than five years	**61,048**	59,200
	61,848	59 200

14 Retirement benefits

The Company runs a defined contribution scheme for its employees The scheme is open to all employees at their own discretion The Company makes no contribution to pension benefits for any of its employees

Notes ***(forming part of the financial statements) continued***

15 Share based payment

The company operates only one equity-settled share based remuneration scheme for employees the Oxford Nanopore Technologies Share Option Scheme The Scheme allows the Company to award both HM Revenue & Customs approved Executive Management Incentive (EMI) share options to qualifying individuals and unapproved share options All options may be subject to performance criteria and vesting schedules set at the Board's discretion All UK resident employees working 25 hours a week, or if less, 75% of their working time are eligible to be awarded EMI share options All options have a life of ten years from date of grant

On 2 January 2008 the Company granted options under the Enterprise Management Incentive Scheme over 19,100 ordinary shares of £0 01 nominal value exercisable at a price of £7 per share Unapproved options over 6,000 ordinary shares of £0 01 nominal value were granted on the same date and at the same price Unapproved options over a further 4,750 ordinary shares of £0 01 nominal value also with an exercise price of £7 per share were issued on 7 January 2008 On 24 February 2008 options over 4,000 ordinary shares of £0 01 nominal value under the Enterprise Management Incentive Scheme were granted, again exercisable at a price of £7 per share During the year no options were exercised, forfeited or lapsed

	2008 Weighted average exercise price	Number	2007 Weighted average exercise price	Number
Outstanding at the beginning of the year	**£7 00**	**39,628**	-	-
Granted during the year	**£7 00**	**33,850**	£7 00	43 200
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	£7 00	(3,572)
Lapsed during the year	-	-	-	-
Outstanding at the end of the year	**£7 00**	**73,478**	£7 00	39 628

The exercise price of all options outstanding at the end of the year was £7 00 per share and their weighted average contractual life was 8 89 years (2007 9 35 years)

All options outstanding at year end vest equally over their lifetime in quarterly instalments Of the total number of options outstanding at the end of the year, 15,764 (2007 5,348) had vested and were exercisable

The weighted average share price (at the date of exercise) of options exercised during 2007 was £7 00

The weighted average fair value of each option granted during the year was £3 00 (2007 £3 00)

The following information is relevant in the determination of the fair value of options granted during the year under the equity share based remuneration schemes operated by the Company

	30 June 08	30 June 07
Option pricing model used	**Binomial**	Binomial
Weighted average share price at grant date	£7 00	£7 00
Exercise price	£7 00	£7 00
Volatility	60%	60%
Risk free interest rate	4 35% - 4 45%	4 59%
Dividend yield	Nil	Nil
Weighted average contractual life	10 yrs	10 yrs

Notes *(forming part of the financial statements) continued*

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices of comparable companies over various periods of no less than one year The risk free interest rate used reflects the UK Government 5 year Gilt rate as reported by the Bank of England

16 Related party transactions

Details of directors' remuneration are given in note 4 Other related party transactions were as follows

Related party relationship	Type of transaction	Transaction amount		Balance owed	
		2008	2007	**2008**	2007
		£	£	**£**	£
Organisation for which a director is a director and shareholder	Charge for executive services	110,875	5,622	-	-

17 Ultimate Controlling Party

There is no overall controlling party of the company