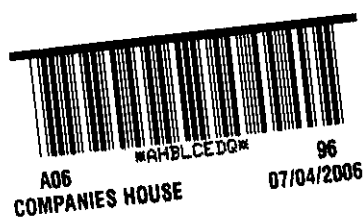


**PHAIRSON LIMITED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2005**

Registered number 3649486



**PHAIRSON LIMITED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2005**

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# PHAIRSON LIMITED

## DIRECTORS' REPORT FOR THE YEARENDED 31 DECEMBER 2005

The directors present their annual report on the affairs of the company together with the financial statements for the year ended 31 December 2005.

### Principal activities and business review

The principal activity of the company is to act as a holding company and to provide finance to its subsidiary.

### Results and dividends

No income was earned and expenditure was borne by the subsidiary company during the year. On 16 December 2005 the Company incurred a premium of £1,303,400 in respect of the redemption of the Secured Redeemable Loan Notes. The directors cannot recommend the payment of a dividend (2004: £nil).

### Directors and their interests

The directors of the company who served during the year are as shown below:

#### Executive

Dr Richard Franklin (Chief Executive)

#### Non-Executive

Mr Sven-Erik Nilsson

The directors who held office at 31 December 2005 had no interests (including options) other than those shown below in the shares of the company.

Shares Name of Director	Ordinary	At 31 December 2005 Number of shares			Ordinary	At 1 January 2005 Number of shares		
		Preferred A	Preferred B	Preferred C		Preferred A	Preferred B	Preferred C
Mr Sven-Erik Nilsson	45,995	855,458	129,555	1,054,239	45,995	855,458	129,555	1,054,239
Dr Richard Franklin+	46,128	-	-	-	46,128	-	-	-

+The interests of Dr Richard Franklin are held by a trust in which he has a beneficial interest

**PHAIRSON LIMITED**

**DIRECTORS' REPORT  
FOR THE YEAR ENDED  
31 DECEMBER 2005  
(continued)**

**Directors and their interests (continued)****Options**                      Number of options over Preferred A shares of the company

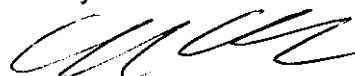
		At 1 January 2005 and 31 December 2005	Exercise price	Date from which exercisable	Expiry date
Mr Sven-Erik Nilsson		-	-	-	-
Dr Richard Franklin	~	46,200	£7.20	1 Jul 99	30 Jun 06
	~	46,200	£7.20	1 Jul 00	30 Jun 07
	~	25,000	£3.30	1 Jul 99	30 Jun 06
	~	25,000	£3.30	1 Jul 00	30 Jun 07
	~	25,000	£3.30	1 Jul 01	30 Jun 08
	~	25,000	£3.30	1 Jul 02	30 Jun 09

~ Options issued under the company's Management Share Option Scheme.

St James House  
13 Kensington Square  
London W8 5HD

10 March 2006

By order of the Board



Dr Richard Franklin  
Director

**PHAIRSON LIMITED****STATEMENT OF DIRECTORS' RESPONSIBILITIES  
31 DECEMBER 2005**

United Kingdom 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 profit or loss 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;
- 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 company and group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# PHAIRSON LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	2005 £	2004 £
<b>Fixed assets</b>			
Investment	1	<u>651,700</u>	<u>651,700</u>
<b>Creditors: Amounts falling due within one year:</b>			
Amount owed to subsidiary undertaking		12,000	12,000
Redeemable Secured Loan Notes	2	<u>1,955,100</u>	<u>-</u>
		<u>(1,967,100)</u>	<u>(12,000)</u>
<b>Total assets less current liabilities</b>		(1,315,400)	639,700
<b>Creditors: Amounts falling due after more than one year:</b>			
Redeemable Secured Loan Notes	2	<u>-</u>	<u>651,700</u>
<b>Net liabilities</b>		<u>(1,315,400)</u>	<u>(12,000)</u>
<b>Capital and reserves</b>			
Called up share capital	3	2,624,661	2,624,661
Share premium account	4	17,123,228	17,123,228
Profit and loss account	4	<u>(21,063,289)</u>	<u>(19,759,889)</u>
<b>Equity shareholders' funds (deficit)</b>		<u>(1,315,400)</u>	<u>(12,000)</u>

The company is entitled to exemption from audit under Section 249A(1) of the Companies Act 1985 for the year ended 31 December 2005.

The members have not required the company to obtain an audit of its financial statements for the year ended 31 December 2005 in accordance with Section 249B(2) of the Companies Act 1985.

The directors acknowledge their responsibilities for:

- ensuring that the company keeps accounting records which comply with Section 221 of the Companies Act 1985 and
- preparing financial statements which give a true and fair view of the state of affairs of the company as at the end of each financial year and of its profit or loss for each financial year in accordance with the requirements of Section 226 and which otherwise comply with the requirements of the Companies Act 1985 relating to financial statements, so far as applicable to the company.

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective June 2002).

### ON BEHALF OF THE BOARD:



Dr Richard Franklin  
Director

10 March 2006

**PHAIRSON LIMITED****STATEMENT OF ACCOUNTING POLICIES  
AS AT 31 DECEMBER 2005**

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

**Basis of accounting**

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

The financial statements contain information about Phairson Limited as an individual company and do not contain consolidated information as the parent of a group. The company is exempt under Section 248 of the Companies act 1985 from the requirement to produce consolidated financial information as the group it heads qualifies as a small group.

The company has not received any income and its expenses have been borne by a subsidiary company during the year and therefore no profit and loss account is presented.

The company is a small company under Section 246 of the Companies Act 1985 and is exempt from the requirement of FRS 1 (Revised) to prepare a cash flow statement.

**Basis of preparation**

The company is reliant on receiving additional funding from two of its shareholders. The company has received assurances from these shareholders that, if required, they will consider making additional funds available.

**Taxation**

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Provision is made for deferred taxation, using the liability method, on all material timing differences only to the extent that they are expected to reverse in the future without being replaced.

**Investments**

Fixed asset investments are shown at cost less provision for impairment.

**PHAIRSON LIMITED**

NOTES TO THE ACCOUNTS  
AS AT 31 DECEMBER 2005  
(continued)

**1) FIXED ASSET INVESTMENT**

	2005 £	2004 £
Subsidiary undertakings	<u>-</u>	<u>-</u>

**a) Group investments**

The company owns the whole of the issued share capital of Phairson Medical Limited, a company incorporated in England & Wales. Phairson Medical Limited in turn owns the whole of the issued share capital of Phairson Medical Inc, an undertaking incorporated in the United States. Phairson Medical Limited and Phairson Medical Inc both hold shares in an unlisted undertaking incorporated in the United States.

**b) Investment in subsidiary undertaking**

Company	2005 £	2004 £
<b>Cost</b>		
Beginning of year	15,525,630	15,365,630
Additions at cost - loans	<u>-</u>	<u>160,000</u>
End of year	<u>15,525,630</u>	<u>15,525,630</u>
<b>Amounts written off</b>		
Beginning and end of year	<u>14,873,930</u>	<u>14,873,930</u>
<b>Net book value</b>	<u>651,700</u>	<u>651,700</u>

The subsidiary undertakings have been excluded from the group accounts because the group satisfies the requirements for exemption under Section 248 of the Companies Act 1985 as amended.

**2) CREDITORS: AMOUNTS FALLING DUE AFTER  
MORE THAN ONE YEAR**

	2005 £	2004 £
Redeemable Secured Loan Notes	<u>-</u>	<u>651,700</u>

On 19 June 2003 the company by deed poll constituted £1,200,000 Secured Loan Notes 2003. The Loan Notes are secured by a first floating charge over the whole of the company's undertakings and assets and do not accrue interest. The Loan Notes were repayable on 16 December 2005 at a premium of £1,303,400, equal to twice the principal amount payable in respect of the Notes.



**PHAIRSON LIMITED**

NOTES TO THE ACCOUNTS  
AS AT 31 DECEMBER 2005  
(continued)

**3) CALLED UP SHARE CAPITAL**

	2005 £	2004 £
<i>Authorised:</i>		
1,000,000 ordinary shares of £0.10 each		
(2002: 1,000,000 ordinary shares of £0.10 each)	100,000	100,000
20,000,000 preferred A shares of £0.10 each		
(2002: 20,000,000 preferred A shares of £0.10 each)	2,000,000	2,000,000
9,000,000 preferred B shares of £0.10 each		
(2002: 9,000,000 preferred B shares of £0.10 each)	900,000	900,000
20,000,000 preferred C shares of £0.10 each		
(2002: 20,000,000 preferred C shares of £0.10 each)	<u>2,000,000</u>	<u>2,000,000</u>
	<u>5,000,000</u>	<u>5,000,000</u>
 <i>Allotted, called up and fully paid</i>		
650,133 ordinary shares of £0.10 each	65,013	65,013
10,554,048 preferred A shares of £0.10 each	1,055,406	1,055,406
4,672,304 preferred B shares of £0.10 each	467,230	467,230
10,370,124 preferred C shares of £0.10 each	<u>1,037,012</u>	<u>1,037,012</u>
	<u>2,624,661</u>	<u>2,624,661</u>

The company's preferred A, preferred B and preferred C shares rank *pari passu* with the ordinary shares (including the right to vote at general meetings of the company and entitlement to dividend) except that:

- i) on a winding-up of the company the holders of the preferred C shares shall be entitled, in priority to any entitlement of the holders of the preferred B shares, preferred A shares and ordinary shares to any payment or other distribution, to be repaid the amount paid up (and any premium paid on their issue) on the preferred C shares held by them.
- ii) on a winding-up of the company the holders of the preferred B shares shall be entitled, in priority to any entitlement of the holders of the preferred A shares and ordinary shares to any payment or other distribution, to be repaid the amount paid up (and any premium paid on their issue) on the preferred B shares held by them; and
- iii) on a winding-up of the company the holders of the preferred A shares shall be entitled, in priority to any entitlement of the holders of the ordinary shares to any payment or other distribution, to be repaid the amount paid up (and any premium paid on their issue) on the preferred A shares held by them.

**PHAIRSON LIMITED**

NOTES TO THE ACCOUNTS  
AS AT 31 DECEMBER 2005  
(continued)

**3) CALLED UP SHARE CAPITAL (continued)**

The company has granted options in respect of the following shares:

<i>Preferred A shares</i>	<b>Number of shares subject to option</b>	<b>Period of option</b>	<b>Price per share</b>
Management options	192,400	Apr 99 – Feb 10	£3.30 - £7.20

The movement on options in issue under the scheme and details of the scheme are set out below:

	<b>Management options</b>
Options in issue at 1 January 2005	238,600
Options cancelled during the year	<u>(46,200)</u>
Options in issue at 31 December 2005	<u>192,400</u>

The management share option scheme was established in 1996 by the company's subsidiary undertaking, Phairson Medical Limited, as a mechanism for rewarding management for enhancing shareholder value. The scheme has an approved and unapproved part with parallel options being granted under both. To the extent that an option is exercised under the approved part of the scheme its parallel option under the unapproved part of the scheme will lapse. Similarly, the exercise of an option under the unapproved part of the scheme will give rise to the lapse of an approved option. Under the terms of the company's recommended offer for Phairson Medical Limited in 1999, options over Phairson Medical Limited shares were exchanged for options over shares in the company on identical terms. Under the terms of the company's one for ten share consolidation on 17 November 2000 the company's management options were consolidated on a similar basis.

**PHAIRSON LIMITED**

**NOTES TO THE ACCOUNTS  
AS AT 31 DECEMBER 2005  
(continued)**

**4) RESERVES**

Reserves shown in the company's balance sheet are not considered to be distributable:

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Profit and loss account	(19,759,889)	(19,759,889)
Premium on redemption of Secured Loan Notes	<u>(1,303,400)</u>	<u>-</u>
	(21,063,289)	(19,759,889)
Share premium account	<u>17,123,228</u>	<u>17,123,228</u>
Total deficit	<u>(3,940,061)</u>	<u>(2,636,661)</u>

**5) GUARANTEES AND OTHER FINANCIAL COMMITMENTS****a) Capital commitments**

The company has no capital commitments which were unprovided for at 31 December 2005 (31 December 2004: £nil).

**6) RELATED PARTY TRANSACTIONS**

At 31 December 2005 the company owed its subsidiary company, Phairson Medical Limited, £12,000 (2004: £12,000). The indebtedness is interest free, unsecured and has no fixed repayment date or repayment schedule.

At 31 December 2005 the company had lent its subsidiary company, Phairson Medical Limited, £651,700 (2004: £651,700). The loan is interest free, unsecured and has no fixed repayment date or repayment schedule.

During the year Phairson Medical Limited bore the cost of fees in respect of company secretarial matters to the value of £9,192 on behalf of the company. The subsidiary company bears all of the accounting costs and fees for taxation advice in respect of both companies.