



mediawatch PLC

Diagnostic Innovation
For A Global Market

Annual Report and Accounts 2006

Welcome to *mediwatch*

Suppliers and manufacturers of high technology products for assessment, diagnosis and screening of a variety of clinical conditions.



BIOSCAN™ reader



DUET LOGIC G2™

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innovative diagnostic solutions . . .



MULTISCAN™ 17



PORTASCAN+™

Our mission. To develop innovative, “near-patient”, medical diagnostic solutions using leading edge technology

. . . bringing technology closer to you.

Current Mediwatch products



Multiscan™ One-Stop System

Multiscan™ One-Stop System

The Multiscan™ is a dedicated urological scanner, for imaging the bladder, kidneys, prostate and testes. It is a real-time ultrasound scanner, which may be used as the basis for a family of devices tailored to individual specialities. The Multiscan™ uses Bluetooth® wireless communication to receive information from other Mediwatch devices, allowing it to create comprehensive bladder and prostate reports. In addition it can work with a PC database, integrating data into a hospital records system.

New Portascan+™

The New Portascan+™ is a fully portable device and is the next generation of our successful Portascan™ / Bardscan™ unit, adding a touch-screen and Bluetooth® integration to the automatic bladder scanner. The Portascan+™ provides on the spot bladder volumes with an instant printout, as well as real-time visualisation of the bladder or kidneys for clinicians.



New Portascan+™



Duet Logic G2™

Duet Logic G2™, Duet Encompass™ & Urodyn 1000™ from Medtronic

The Urodyn 1000™ is used as the standard flow machine in drug trials, and recognised world-wide. The spinning-disc mechanism is artefact-free, extremely accurate, and provides an alternative to the weight-cell uroflow devices in the Mediwatch Portaflo™ range. The Duet Logic G2™ is the market-leading clinical urodynamics system, while the Duet Encompass offers software and hardware for research and specialised studies. Together with the Urodyn 1000™ it improves the ability of Mediwatch to cover the range of urology diagnostics.

Bladderwatch™

The Bladderwatch™ system offers rapid results as an adjunct to cystoscopy. The cost-effective five-minute urine test facilitates early detection for priority assessment within clinical pathway.



Bladderwatch™

“...Mediwatch technology is pivotal and incorporated in a range of products which are rapidly becoming an industry standard.

Philip Stimpson, CEO Mediwatch

”

Future Mediwatch products



Sensic G3™

New Sensic G3™ from Medtronic

This system adds a new generation of software to the well-established hardware of the Duet Logic G2™. The Sensic G3™ is designed for ease of use and increased suitability for modern procedures. In the future this system will be integrated into the one-stop system with the other Mediwatch systems. The upcoming portable variant offers genuine office urodynamics, working with a laptop for a minimal footprint.

New Portaflow™ Mobile

The Portaflow™ Mobile is our new Bluetooth® weight cell uroflow machine. The new logger system works directly with the Multiscan™, Portascan+™ or with a Bluetooth enabled laptop computer. It allows total mobility in urodiagnostics and is ideal for general practice, continence advisors or other out-reach workers.



Portaflow™ Mobile



Multiscan™ 17

Multiscan™ 17

The Multiscan™ 17 offers high-quality urology ultrasound designed for clinic or hospital use, with a mobile floor stand and the opportunity for upgrading to integrate with other Mediwatch units, as the core of an expanded One-Stop system. The 17" touchscreen allows reports to be easily generated from imaging and data from other Mediwatch devices.

BioScan & PSAwatch™

The first, rapid, quantitative, point-of-care PSA test, on whole blood. Giving a numerical result in just ten minutes from only a finger-prick blood sample. The PSAwatch™ system is ideal for outreach clinics, GPs, outpatient departments and urology clinics. The PSAwatch™ system allows urology clinics to provide a true one-stop service, rather than relying on external support, thus removing the common need for the patient to have two appointments, taking up their time and that of clinicians. The Bioscan™ reader integrates with the other Mediwatch products, allowing the PSA to be added directly to a patient's report, or can be used independently.



Bioscan™ & PSAwatch™

Chairman's statement

Key Highlights

- US-based sales & marketing operation established
- Significant progress in new product development
- Increased range of complementary products
- International Distribution Agreement with T-DOC Company llc. to market air-charged catheters
- On-going improvement in underlying trading performance
- New capital issued raising £2.6 million (net)

Financial Overview

Shareholders will see reflected in this report the change to the Company's financial year end to 31 October as announced in September 2006. This period under review is based on an 18-month period ended on 31 October 2006. The change of financial year end has, amongst other benefits, given the Company more time to prepare itself for the considerable additional disclosure requirements that will be required to comply with IFRS.

In the 18-month trading period ended 31 October 2006, sales on an annualised basis were similar to that of the 2005 comparable period at £2.65 million (Year ended 30 April 2005: £1.77m).

These revenues reflect both an underlying improvement in sales to CR Bard under our long-term supply agreement as well as an increase in exports both through the Medtronic relationship and others around the world.

However, whilst we would have liked to have made further advances in revenues at this stage, it must be noted that our performance was impacted by some negative factors which influenced our progress, namely:

- Significant pressure on prices within the sector have come from both volume discounting and alternative cheaper scanner products from the Far East, which although having a lower specification compared to our own high-spec product, they have met the basic requirements of market procurement.

- Protracted negotiations in relation to the Medtronic acquisition which, due to its complexity, involved substantial senior management commitment. This being said, the Medtronic acquisition which is covered in more detail later in this Statement gives us a tremendous opportunity to build our urodynamics business, as we now have a stronger knowledge base, expertise and understanding of this marketplace.

The Group's operating loss of £1.4 million was, when annualised, 7% lower (April 2005: £1.06m), whilst the loss before amortisation of goodwill (£520,500) and R&D expenditure (£808,000) at £144,000 when annualised represents an 8% improvement when compared to the equivalent 2005 figure of £104,000.

During the period under review, there were two equity fund raising exercises. In December 2005, £466,000 (net of expenses) was raised to progress the development of the Bioscan reader and the desk-top derivative of the Multiscan. This was followed in October 2006 when we successfully raised £2.1million (net of expenses) to fund the Medtronic acquisition and to provide on-going working capital requirements for the business.

At 31 October 2006, the Group's cash balance was £1.26 million and had a medium-term loan of £208,000 (at 30 April 2005: £179,000 cash balance and a medium term loan of £250,000). In addition, in October 2005, the Company entered into a trade finance agreement to ensure that there would be working capital funding as sales increase in the future.



Trading Overview

Mediwatch UK Limited

Sales in the period were affected by the factors outlined above, however our focus on the export market remained and continues to be a major priority for business development.

Despite increased pressure on gross margins, especially in the European markets as a result of imports from the Far East, all costs continue to be rigorously controlled and Mediwatch UK has reported an improved underlying trading performance.

Development of the product range and adding new complementary products is an on-going activity and, again, significant progress has been made in the period, including:

- The Multiscan™ was completed in December 2005. The innovative Multiscan™ provides clinicians with mobile, real time, ultrasound imaging, accurate measurement and organ volume calculation of the bladder, kidney and prostate. It has been designed to facilitate further development which can be used in other areas of pathology, vascular, emergency and veterinary medicine in particular.
- Considerable progress with the desk top derivative of the innovative Multiscan™. This higher specification version of the Multiscan™ will provide clinicians with a device suitable for detailed assessment of bladder, kidney and prostate disorders in a hospital or clinic environment. As with the complete family of Mediwatch products, it will link wirelessly to other devices. It is anticipated that the desk-top derivative of the Multiscan™ will provide a platform for several future products and is expected to be available early 2008.

- The new Portascan+ (Plus) – the second generation of the well established and successful Portascan has been re-designed to give it additional and greater potential in the marketplace. Marketing will begin shortly.

Mediwatch Biomedical Limited

Progress continues to be made with Mediwatch Biomedical's PSAwatch™ quantitative point of care diagnostic test.

The increasing awareness of prostate disease is generating greater demand for urology services and prostate specific antigen (PSA) test requests, particularly in a primary care environment. PSAwatch™ coupled with the BioScan™ reader takes testing for prostate disease out of the laboratory environment and will reduce the time taken to provide PSA results from days to minutes.

The quantitative point-of-care diagnostic test is reaching the final stage in the application for CE approval which is expected to be received during February 2007. Sales into the European market are therefore expected to commence in the second calendar quarter of 2007. The US FDA approval is being targeted for Summer 2007 and the Directors anticipate that marketing in the USA will commence in the Autumn.

Research & Development

Over the last four years, the Group has invested £2 million on a programme of research & development that has culminated in a number of exciting and innovative products.

The major part of this programme has been completed and it is expected that development in the immediate future will be limited to the evolution of these products, concentrating on developing new applications and new areas of medical diagnostics.

Chairman's statement (continued)



Acquisition from Medtronic A/S

In September 2006, we announced the acquisition of certain equipment, stock and licensing of intellectual property relating to urology diagnostics from Medtronic A/S, which was completed on 8 December 2006.

The value of the assets purchased was US\$2.0 million (£1.1 million), which relates to stock, and will be satisfied by monthly payments which commenced this month. These payments are based on the amount of stock utilised but subject to minimum monthly payments of US\$100,000 (£54,000).

Discussions with Medtronic relating to the Acquisition took considerably longer than the Directors had originally anticipated. However, this proved beneficial as during this period, Mediwatch was able to enter into a Manufacturing & Supply Agreement with Medtronic and commenced the manufacture of some of Medtronic's urology diagnostic products in May 2006. We believe that this initial period has provided our team with a much better working knowledge of the products and the intellectual property acquired from Medtronic.

The acquired intellectual property relates to software and other rights in urology diagnostic equipment which is complementary to the existing Mediwatch range together with Medtronic's established urology equipment customers and access to Medtronic's international distribution network. Mediwatch also acquired tools and equipment necessary to manufacture the urology products. The stock which was acquired represents component parts for the manufacture of urology diagnostics equipment and finished products.

The acquisition of the Medtronic urodynamic business brings a number of complementary and well established capital equipment and disposable products to our existing business.

International Distribution Agreement with T-DOC

On 22 January, 2007, we announced that we had entered into a distribution agreement with US based T-DOC. Under the agreement which covers USA, Canada and the EU, Mediwatch will be distributing the T-DOC range of disposable, pressure-sensing, air charged catheters. These pressure sensing catheters are key to performing diagnostic procedures with the new range of urodynamic equipment recently from Medtronic Inc. and this relationship is a significant step forward for our new urodynamics business.

Considerable, recurring sales of these disposable catheters in excess of US\$3.0 million per annum have already been established by Medtronic over the last three years. Looking ahead, we believe that the distribution of disposable catheters will provide Mediwatch with a recurring income stream from within an established market, whilst also strengthening our urodynamics business.

Strengthening our US presence

Since completing the Medtronic acquisition, we have established an American-based sales, service and marketing operation to support our urology diagnostic and consumable products business within this Continental region including the recently announced International distribution agreement with T-DOC. Our Florida based facility will be fully operational in February 2007 and will employ 10 staff, some of whom have joined from Medtronic's Urology Diagnostic Division.

Board Changes

Kevin Middis joined the Board of Mediwatch as Acting Finance Director in March 2003, on a part-time basis, to assist with the restructuring of the business. Following the recent developments it is now an appropriate time to appoint a full time Finance Director and, therefore, Kevin will not be offering himself for re-election at the AGM. He will stand down at the conclusion of the AGM, but will remain



available to us to ensure a smooth handover. The Board would like to thank Kevin for his tremendous contribution to Mediwatch over the last few years and wish him well for the future.

The Board expect to announce the appointment of a new Finance Director shortly.

People

The Board would like to welcome the new employees who have joined the Company during the last two months, both here in the UK and in the USA and at the same time, thank all of the employees who have worked unstintingly during the last 12 months or so to achieve the current position and the opportunities to progress.

Outlook

Awareness of urological disorders and patient-specific disease management is increasing with on-going advances in the quality and specificity of diagnostic testing. Mediwatch is striving to develop and market faster, simpler, and less invasive diagnostic products to save lives and restore quality of life for people with urological conditions.

The Directors consider there is considerable optimism for 2007 and beyond and, as we stated in our December trading update, the new financial year (ending 31 October 2007) has started in-line with management expectations and budgets.

The challenge now is to ensure that we have the resource and capability to match the anticipated demand for the enlarged product range and to this end, we have reviewed resources and made the necessary changes to support our growth.

We have already commenced establishing independent relationships with Medtronic's worldwide distribution network and as part of this process we co-hosted an international dealer conference to introduce the established Medtronic distributors to the new and extended range of Mediwatch equipment. I am pleased to report that we have had very positive feedback to date.

The Directors expect that there will continue to be an improving trading performance in the current year following the acquisition of the Medtronic Urodynamics business, the establishment of the US sales, service and marketing operation coupled with the on-going development programme and marketing of new products.

Overall, the Group is in an excellent position to exploit and benefit from the opportunities it has already identified and we will keep shareholders updated of our progress as appropriate.

Dr. John R. Forrest, CBE, FREng.

Chairman

31 January 2007

Directors and advisors

Directors

P. G. Stimpson (Chief Executive)
Dr. J. R. Forrest (non – executive Chairman)
M. Emberton (non – executive)
O. M. A. Karim (non – executive)
K. J. Middis (non – executive)
Dr. G. W. Chong (non – executive)

Secretary

K. J. Middis FCMA

Registered office

Swift House
Cosford Lane
Swift Valley Industrial Estate
Rugby
Warwickshire
CV21 1QN

Registered number

3971079

Auditors

RSM Robson Rhodes LLP
Chartered Accountants
Centre City Tower
7 Hill Street
Birmingham
B5 4UU

Bankers

HSBC plc
15 High Street
Market Harborough
Leicestershire
LE16 7NN

Nominated Advisor and Broker

Canaccord Adams
Cardinal Place
7th Floor
80 Victoria Street
London
SW1E 5JL

Financial Advisor

Cattaneo LLP
One Victoria Square
Birmingham
B1 1BD

Report of the Directors

The directors present their annual report and the audited financial statements for the period ended 31 October 2006.

Principal activities

The Group's principal activities during the period were the development of primary care products used in the diagnosis of urological disorders and early prostate cancer detection. The Company's principal activity is that of a holding company.

Business review

A review of the Group's trading during the financial period, including research and development activity, is included in the Chairman's Statement on pages 4-7.

The Group's loss for the financial period was £1,473,000 (Year ended 30 April 2005: £1,056,000).

Key performance indicators

Key performance indicator		Target	2006	2005
Annualised sales growth	1	10%	0%	59%
Gross margin	2	38%	37%	41%
Administration costs	3	60%	50%	81%

Source data is taken from the audited financial statements.

Notes to KPIs

- 1 Annualised sales growth = the annualised increase in revenue as a percentage of revenue from the prior year.

The Group aims to increase shareholder value through growth in revenue, linked to profitability (see Gross Margin below).

The Group has maintained sales, on an annualised basis, during the period, but, whilst failing to achieve the target, it must be noted that our performance was impacted by some negative factors which influenced our progress including:

- Significant pressure on prices within the sector from both volume discounting and alternative cheaper scanner products from the Far East,
- The protracted negotiations in relation to the Medtronic acquisition.

Both points are referred to in greater detail within the Chairman's Statement on page 4.

The Group's growth strategies can be achieved through the constant development and successful launch of new products. The major part of the R&D programme has been completed and it is expected that development in the immediate future will be limited to the evolution of the resultant products, concentrating on developing new applications and new areas of medical diagnostics.

- 2 Gross Margin = Gross profit as a percentage of Turnover

The Group aims to maximise profit as measured by Gross Margin.

Improvements in product design have reduced material usage resulting in the achievement of improved gross margins. However, these benefits have been offset by the impact of downward pressure on prices caused by cheaper similar products being imported from the Far East. In addition, the gross profit earned from the sales to Medtronic under the Supply Agreement fell short of the typical gross margin, leading to a reduction in the overall gross margin in the period.

- 3 Administration costs = the annualised administration costs as a percentage of revenue when compared with the previous year and the target.

The Group continually seeks to minimise administration costs as a proportion of revenue with a rigorous cost control regime. It is gratifying to report that the ongoing management of administration costs has resulted in a reduction exceeding the target on an annualised basis during the financial period to end October and an improvement over the previous year.

Given the protracted negotiations in relation to the Medtronic acquisition which, due to its complexity, involved senior management more than had originally been anticipated, the KPIs for the period ended 31st October 2006 have been influenced to a material extent and, therefore, cannot be considered directly comparable with either the previous year or the target.

It is important to note that the KPIs used by the Group will be reviewed in the wake of the acquisition of the urology diagnostics assets from Medtronic A/S and the establishment of a US based division to service the existing North American customer base.

Principal risks and uncertainties facing the Company

The market for primary care products used in the diagnosis of urological disorders and early cancer detection is increasing as the demographics show that the ageing population and greater awareness of certain disorders results in increased demand for diagnostic tests.

As the market continues to mature and seeks further product diversification, the life cycle of the Company's products is likely to shorten. It is expected that sales will remain strong, however margins may come under pressure as competition intensifies, particularly from the Far East. The Company manages this risk by continuing its research and development programmes and seeks to introduce innovative products on a timely and competitive basis.

Report of the Directors (continued)

Financial instrument

The Company's operations expose it to a variety of financial risks including the effects of changes in interest rates on debt, foreign currency exchange rates, credit risk and liquidity risk.

The Company does not have material exposures in any of the areas identified above and, consequently does not use derivative instruments to manage these exposures.

The Company's principal financial instruments comprise sterling cash and bank deposits, bank loans and overdrafts, other loans and obligations under finance leases together with trade debtors and trade creditors that arise directly from its operations.

The main risks arising from the Company's financial instruments can be analysed as follows:

Price risk

The Company has no significant exposure to securities price risk, as it holds no listed equity investments.

Foreign currency risk

The Company is exposed in its trading operations to the risk of changes in foreign currency exchange rates. As the Company both buys and sells goods within Europe and the US the overall risk is not significant. The main foreign currencies in which the Company operates are the euro and the US dollar.

Credit risk

The Company's principal financial assets are bank balances, cash, and trade debtors, which represent the Company's maximum exposure to credit risk in relation to financial assets.

The Company's credit risk is primarily attributable to its trade debtors. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the third parties involved are banks with high credit ratings assigned by international credit rating agencies. The Company has no significant concentration of credit risk, with exposure spread over a significant number of third parties and customers.

Liquidity risk

The Company's policy has been to ensure continuity of funding through acquiring an element of the Group's fixed assets under finance leases, and arranging funding for operations via medium-term loans and additional revolving credit facilities to aid short term flexibility.

Cash flow interest rate risk

Interest bearing assets comprise cash and bank deposits. The interest rate on the bank overdraft is at market rate and the Company's policy is to keep the overdraft within defined limits such that the risk that could arise from a significant change in interest rates would not have a material impact on cash flows. The Company's policy is to maintain other borrowings at commercial rates to reflect the nature of the borrowing. The directors monitor the overall level of borrowings and interest costs to limit any adverse effects on financial performance of the Company.

Environment

The Company's policy with regard to the environment is to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. Our operations are conducted such that we comply with all legal requirements relating to the environment in all areas where we carry out our business. During the period covered by this report the Company has not incurred any fines or penalties or been investigated for any breach of environmental regulations.

It is Company policy to continually carry out research and develop new products and processes to minimise the impact of its operations on the environment.

Employees

The quality and commitment of our employees have played a major role in the Company's success. This has been demonstrated in many ways, including the development of our product lines and the flexibility they have shown in adapting to changing business requirements and new ways of working.

Dividend

The directors do not recommend the payment of a dividend (Year ended 30th April 2005: £Nil).

Payment of creditors

Whilst the Company does not follow any external code or standard on payment practice, the policy for the year to 31 October 2007, for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure that the supplier is aware of those terms, and to abide by the agreed terms of payment. The number of days trade creditors at 31 October 2006 was 43 (2005: 38) for the Group.

As the Company is a holding company, it has no trade creditors and accordingly no disclosure can be made of the period end creditor days.

Going concern

The directors have negotiated a funding package with HSBC and believe it, combined with the recent fund raising exercise, resulting in some £2.1m (net of expenses) new capital being raised, provides adequate funding for the Company's projected requirements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Research and development

The Group has continued to undertake the development of primary care urology products.

The research and development expenditure during the period amounted to £808,000 (2005: £551,000), reflecting the investment and commitment to developing state of the art point of care diagnostic systems.

Donations

Charitable and political donations made by the Group during the period amounted to £Nil (2005: £Nil).

Post balance sheet event

On 8th December 2006, the Company completed the agreement to purchase certain stock and to license certain intellectual property ("Acquisition") relating to urology diagnostics from Medtronic A/S ("Medtronic").

The value of the assets to be purchased was agreed at US\$2.0 million (£1.1 million), which relates to stock, and will be satisfied by monthly payments, which will be based on the amount of stock utilised but subject to minimum monthly payments of US\$100,000 (£54,000).

The establishment by Mediwatch of a US-based sales and marketing operation to service the existing Medtronic North American customer base is progressing well and the directors of Mediwatch expect this business to be fully operational by the end of February 2007.

As part of the acquisition, Mediwatch is working to establish independent relationships with Medtronic's world-wide distribution network. In anticipation of the successful acquisition of the Urodynamic division, Mediwatch and Medtronic have already co-hosted an international dealer conference to introduce the established Medtronic distributors to the new and extended range of Mediwatch equipment.

Directors

The directors in office at the date of this report are set out on page 1. Sir Frank Davies and A G Hicks resigned as directors on 29th July 2005. Dr J R Forrest was appointed as a director on 27th June 2005 and Dr G W Chong was appointed as a director on 6th January 2006.

The interests of the directors in office during the period in the shares of the Company, were as follows:

	At 31 October 2006 or earlier date of resignation		At 1 May 2005 or later date of appointment	
	Ordinary shares	Share options	Ordinary shares	Share options
Dr J R Forrest	64,454	—	—	—
P G Stimpson	16,194,696	350,000	15,525,000	350,000
M Emberton	2,295,454	250,000	2,250,000	250,000
O M A Karim	8,148,750	250,000	6,033,600	250,000
K J Middis	510,908	250,000	260,000	250,000
Dr G W Chong	—	—	—	—
Sir Frank Davies	100,000	500,000	100,000	500,000
A G Hicks	180,000	250,000	180,000	250,000

The share options held by Sir Frank Davies and A G Hicks were exercised in September 2005.

No other options were exercised during the period.

Directors' share options in existence at the 2006 period end are as follows:

	Date of issue	Number	Option Price	Date of expiry
P. G. Stimpson	23.10.03	350,000	4.13p	22.10.13
M. Emberton	23.10.03	250,000	4.13p	22.10.08
O. M. A. Karim	23.10.03	250,000	4.13p	22.10.08
K. J. Middis	23.10.03	250,000	4.13p	22.10.08

No directors' share options lapsed during the period

Report of the Directors (continued)

Statement of directors' responsibilities for the financial statements

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

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

- select suitable accounting policies and then apply them consistently except for new accounting policies as included in note 1;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

At the date of making this report each of the Company's directors, as set out on page 8, confirm the following:

- so far as each director is aware, there is no relevant information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware, and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, RSM Robson Rhodes LLP, are willing to continue in office and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approval

The report of the directors was approved by the Board on 31 January 2007 and signed on its behalf by:

P. G. Stimpson

Director

Independent Auditors' Report to the Shareholders of Mediwatch Plc

We have audited the financial statements on pages 14 to 30. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Report of the Directors and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 October 2006 and of the Group's loss for the 18 month period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the report of the directors is consistent with the financial statements.

RSM Robson Rhodes LLP

Chartered Accountants and Registered Auditors
Birmingham, England
31 January 2007

Consolidated Profit and Loss Account for the period ended 31 October 2006

	Note	18 months ended 31 October 2006 £000	Year ended 30 April 2005 £000
Turnover	2	2,651	1,768
Cost of sales		(1,660)	(1,046)
Gross profit		991	722
Administrative expenses			
— General		(1,333)	(938)
— Amortisation of goodwill	10	(521)	(347)
— Research and development		(808)	(551)
		(2,662)	(1,836)
Other operating income		254	54
Operating loss	3	(1,417)	(1,060)
Interest receivable	4	6	7
Interest payable	5	(62)	(3)
Loss on ordinary activities before taxation		(1,473)	(1,056)
Tax on loss on ordinary activities	8	—	—
Loss for the financial period/year	21	(1,473)	(1,056)
Loss per share (pence) (Basic and diluted)	9	(1.5p)	(1.2p)

All results are from continuing operations.

There are no material differences between the loss on ordinary activities before taxation and the loss for the financial period/year stated above and their historical cost equivalents.

There are no recognised gains and losses other than those included in the profit and loss accounts above.

Consolidated Balance Sheet at 31 October 2006

	Note	31 October 2006 £000	30 April 2005 £000
Fixed assets			
Intangible assets	10	2,256	2,777
Tangible assets	11	228	178
		2,484	2,955
Current assets			
Stocks	13	243	177
Debtors	14	851	346
Cash at bank and in hand		1,255	179
		2,349	702
Creditors: Amounts falling due within one year	15	(682)	(582)
		1,667	120
Net current assets			
		1,667	120
Total assets less current liabilities			
		4,151	3,075
Creditors: Amounts falling due after more than one year	16	(152)	(235)
Provision for liabilities and charges	17	—	—
		3,999	2,840
Net assets			
		3,999	2,840
Capital and reserves			
Called up share capital	18	3,703	3,352
Share premium account	19	5,370	3,089
Other reserves	20	7,000	7,000
Profit and loss account	21	(12,074)	(10,601)
		3,999	2,840
Shareholders' funds			
		3,999	2,840
Shareholders' funds			
Equity		1,565	406
Non-equity		2,434	2,434
		3,999	2,840

The financial statements were approved by the Board on 31 January 2007 and signed on its behalf by:

P. G. Stimpson
Director

Company Balance Sheet at 31 October 2006

	Note	31 October 2006 £000	30 April 2005 £000
Fixed assets			
Tangible assets	11	—	-
Investments	12	1,201	1,201
		1,201	1,201
Current assets			
Debtors	14	7,163	4,496
Cash at bank and in hand		—	—
		7,163	4,496
Creditors: Amounts falling due within one year	15	(120)	(66)
Net current assets		7,043	4,430
Total assets less current liabilities		8,244	5,631
Creditors: Amounts falling due after more than one year	16	(146)	(235)
Provision for liabilities and charges	17	—	—
Net assets		8,098	5,396
Capital and reserves			
Called up share capital	18	3,703	3,352
Share premium account	19	5,370	3,089
Profit and loss account	21	(975)	(1,045)
Shareholders' funds		8,098	5,396
Shareholders' funds			
Equity		5,664	2,962
Non-equity		2,434	2,434
		8,098	5,396

The financial statements were approved by the Board on 31 January 2007 and signed on its behalf by:

P. G. Stimpson
Director

Consolidated Cash Flow Statement for the period ended 31 October 2006

	Note	18 months ended 31 October 2006 £000	Year ended 30 April 2005 £000
Net cash outflow from operating activities	23	(1,360)	(718)
Returns on investment and servicing of finance			
Bank interest received		6	7
Bank Interest paid		(62)	(3)
Interest element of hire purchase agreements		—	—
		(56)	4
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(98)	(30)
Proceeds of tangible fixed assets disposed		2	—
		(96)	(30)
Net cash outflow before financing		(1,512)	(744)
Financing			
Issue of shares		2,753	615
Share issue costs		(121)	(5)
New bank loans		—	250
Repayment of bank loans		(42)	(6)
Repayment of hire purchase agreements		(2)	—
Net cash inflow from financing		2,588	854
Increase in cash	24	1,076	110

Notes to the Financial Statements at 31 October 2006

1. ACCOUNTING POLICIES

Basis of accounting

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

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

Financial Reporting Standard (FRS) 17 "Retirement Benefits", FRS 21 "Events after the balance sheet date", FRS 25 "Financial instruments: presentation" and FRS 28 "Corresponding amounts", have been adopted from 1 May 2005. These new accounting standards have had no material impact on the results for the current or corresponding period.

The principal accounting policies of the Group are set below.

Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiary undertakings drawn up to 31 October 2006. The results of subsidiary undertakings acquired during the period are included from the date of acquisition.

The Company is entitled to the relief offered by section 131 of the Companies Act 1985 in respect of consideration received in excess of the nominal value of the equity shares issued in connection with the acquisition of its subsidiary undertakings.

Goodwill arising on consolidation, representing the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised and amortised on a straight line basis over its estimated useful economic life up to a maximum of 20 years. Provision is made for any impairment.

Profits or losses on intra group transactions are eliminated on consolidation.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate ruling at the date that the transaction occurred. Monetary assets and liabilities denominated in foreign currency are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences are taken to the profit and loss account.

Turnover

Turnover consists of the invoiced value (excluding VAT) for goods and services supplied in the period, net of trade discounts.

Investments

Investments in subsidiaries are stated at cost less provision for impairment where necessary to reduce book value to recoverable amount. Cost is purchase price including acquisition expenses, but excluding any payment for accrued interest or fixed dividend entitlement.

Research and development

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

Tangible fixed assets and depreciation

Depreciation is provided evenly on the cost of tangible fixed assets (excluding freehold land), to write them down to their estimated residual values over their expected useful lives. The principal annual rates used for assets are:

Short leasehold property	Over the period of the lease
Plant and fixtures	15% reducing balance
Motor vehicles	20% straight line

Where there is evidence of impairment, fixed assets are written down to recoverable amount.

Warranties

Provision is made for the estimated liability on all products still under warranty, including claims already received. The provision is based on past experience of claims arising in the warranty periods.

Government grants

Grants in respect of fixed assets are credited to the profit and loss account in annual instalments over the useful lives of the assets concerned. Other grants are credited to the profit and loss account in the same period as the expenditure to which they contribute.

Stocks

Stocks and work in progress are valued at the lower of cost and estimated net realisable value. Cost is determined on a first-in first-out basis. The cost of work in progress and finished goods comprises materials, direct labour and attributable production overheads. Net realisable value is based on the estimated sales price after allowing for all further costs of completion and disposal.

Deferred taxation

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences in the treatment of certain items for accounting and taxation purposes.

In accordance with FRS 19 deferred tax is not provided on timing differences arising from:

- a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date; and
- b) gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses.

Hire purchase contracts and leased assets

Assets held under hire purchase contracts and finance leases are included in the balance sheet and depreciated in accordance with the Company's normal accounting policies. The present value of future rentals is shown as a liability. The interest element of rental obligations is charged to the profit and loss account over the period of the contract / lease in proportion to the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the terms of the leases.

Pensions

The Company operates a defined contribution pension scheme for senior management. The assets of the scheme are invested and managed independently of the finances of the Company. The pension cost charge represents contributions payable in the period.

2. TURNOVER

A geographical analysis of the Group's turnover by destination is as follows:

	18 months ended 31 October 2006	Year ended 30 April 2005
	£000	£000
United Kingdom	1,786	1,439
Rest of the world	865	329
Total	2,651	1,768

All turnover has originated within the United Kingdom.

The turnover, loss on ordinary activities and net assets of the Group are attributable to one business segment, the supply of primary care products used in the diagnosis of urological disorders and early prostate cancer detection.

Notes to the Financial Statements at 31 October 2006 (continued)

3. OPERATING LOSS

Operating loss is arrived at after charging:

	18 months ended 31 October 2006 £000	Year ended 30 April 2005 £000
Research and development:	808	551
Depreciation and amortisation:		
– Goodwill	521	347
– Tangible fixed assets		
– owned assets	57	36
– hire purchase assets	1	–
Operating lease rentals		
– land and buildings	172	108
– other assets	10	–
Auditors' remuneration		
– Audit services	22	18
– Non-audit services	19	2

4. INTEREST RECEIVABLE

	18 months ended 31 October 2006 £000	Year ended 30 April 2005 £000
Bank interest receivable	6	7

5. INTEREST PAYABLE

	18 months ended 31 October 2006 £000	Year ended 30 April 2005 £000
On bank loans and overdrafts	62	3

6. EMPLOYEES

Average monthly number of employees, including executive directors:

	18 months ended 31 October 2006 No.	Year ended 30 April 2005 No.
Sales	4	5
Production, research and development	11	9
Administration	5	5
	20	19

The Company has no employees other than the directors.

6. EMPLOYEES (continued)

Staff costs, including directors:

	18 months ended 31 October 2006 £000	Year ended 30 April 2005 £000
Wages and salaries	1,019	608
Social security costs	109	69
Other pension costs	10	4
	1,138	681

7. DIRECTORS

Emoluments of the Company's directors:

	18 months ended 31 October 2006 £000	Year ended 30 April 2005 £000
As directors	237	147

The emoluments of the chairmen were £32,000 (2005: £12,000). The emoluments of the highest paid director were £158,000 (2005: £123,000). No director (2005: Nil) participated in a money purchase pension scheme.

Sir Frank Davies and A G Hicks exercised share options during the period. No other directors exercised any share options during the period, (2005: Nil).

Fees were also paid to two non-executive directors under consultancy arrangements totalling £98,000 (2005: £46,000).

8. TAXATION

Taxation charge for the period:

	18 months ended 31 October 2006 £000	Year ended 30 April 2005 £000
Current tax		
United Kingdom Corporation tax @ 30%	—	—
Adjustments in respect of prior periods	—	—
Total current tax charge	—	—
Deferred tax		
Origination and reversal of timing differences	—	—
Tax on loss on ordinary activities	—	—

Notes to the Financial Statements at 31 October 2006 (continued)

8. TAXATION (continued)

	18 months ended 31 October 2006 £000	Year ended 30 April 2005 £000
Current tax reconciliation		
Loss on ordinary activities before taxation	(1,473)	(1,056)
Theoretical tax at UK Corporation Tax rate of 30%	(442)	(317)
Effects of:		
– amortisation of goodwill	156	104
– other expenditure that is not tax deductible	17	7
– movement in unprovided ACA's	16	(2)
– movement in unprovided STTD's	7	8
– movement in unprovided deferred tax debtor	(125)	139
– losses surrendered for R&D tax credit	447	77
– R&D tax credit receipt not taxable	(76)	(16)
Actual current taxation charge	—	—

The Group has losses to carry forward against future taxable profits amounting to approximately £ 3,328,000 (2005: £3,740,000).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to ordinary shareholders of £1,473,000 (2005: £1,056,000) divided by the weighted average number of shares in issue during the period which was 95,941,940 (2005: 89,907,296).

The issue of additional shares on the exercise of options would decrease the basic loss per share and there is, therefore, no dilutive effect of share options.

10. INTANGIBLE FIXED ASSETS

	Goodwill on consolidation £000
Cost	
At 1 May 2005 and 31 October 2006	9,453
Amortisation	
At 1 May 2005	6,676
Charge for the period	521
At 31 October 2006	7,197
Net book value	
At 31 October 2006	2,256
At 30 April 2005	2,777

11. TANGIBLE ASSETS

The Group

	Land and buildings £'000	Plant, fixtures and vehicles £'000	Total £'000
Cost			
At 1 May 2005	30	336	366
Additions	2	108	110
Disposals	—	(14)	(14)
At 31 October 2006	32	430	462
Depreciation			
At 1 May 2005	14	174	188
Charge for the period	4	54	58
Disposals	—	(12)	(12)
At 31 October 2006	18	216	234
Net book value			
At 31 October 2006	14	214	228
At 30 April 2005	16	162	178

The land and buildings carrying value relates to a short leasehold property.

The net book value of tangible fixed assets includes £18,375 (2005: Nil) in respect of assets held under hire purchase contracts. Depreciation charged in the period on those assets amounted to £780 (2005: Nil).

The Company

	Plant and fixtures £'000
Cost	
At 1 May 2005 and 31 October 2006	1
Depreciation	
At 1 May 2005 and 31 October 2006	1
Net book value	
At 31 October 2006	—
At 30 April 2005	—

Notes to the Financial Statements at 31 October 2006 (continued)

12. INVESTMENTS

	Shares in subsidiary undertakings £'000
Cost	
At 1 May 2005 and 31 October 2006	1,921
Provision for impairment	
At 1 May 2005 and 31 October 2006	720
Net book value	
At 31 October 2006	1,201
At 30 April 2005	1,201

At 31 October 2006 the Company held directly the whole of the allotted share capital of the following subsidiary undertakings, all incorporated in England and Wales:

Mediwatch UK Limited – engaged in the development of primary care urology products and services.

Mediwatch Biomedical Limited – engaged in the development of medical equipment.

Mediwatch Diagnostic Clinics Limited – dormant.

13. STOCKS

	31 October 2006 £000	30 April 2005 £000
Finished goods and goods for resale	243	177

14. DEBTORS

	Group		Company	
	31 October 2006 £000	30 April 2005 £000	31 October 2006 £000	30 April 2005 £000
Trade debtors	450	296	—	—
Amounts owed by group undertakings	—	—	6,937	4,480
Other taxes and social security	42	2	—	—
Prepayments and accrued income	359	48	226	16
	851	346	7,163	4,496

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	31 October 2006 £000	30 April 2005 £000	31 October 2006 £000	30 April 2005 £000
Bank loan (note 16)	62	15	62	15
Hire purchase	4	—	—	—
Trade creditors	314	258	—	—
Amounts owed to Group undertakings	—	—	51	41
Other taxes and social security	28	18	—	—
Accruals and deferred income	274	291	7	10
	682	582	120	66

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

	Group		Company	
	31 October 2006 £000	30 April 2005 £000	31 October 2006 £000	30 April 2005 £000
Bank loan	146	235	146	235
Hire Purchase	6	—	—	—
	152	235	146	235

The bank loan is secured by a fixed and floating charge over the Group's assets. The bank loan is repayable in monthly instalments commencing in February 2006 until January 2010. Interest is charged at a floating rate of 3% above the prevailing base rate.

DEBT OBLIGATIONS

The Group's borrowings are analysed by maturity below:

	31 October 2006 £000	30 April 2005 £000
Repayable in more than five years	—	—
Repayable in more than two years, but not more than five years	85	173
Repayable in more than one year, but not more than two years	67	62
Amount repayable after more than one year	152	235
Repayable in one year or less, or on demand	66	15
	218	250

17. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation

Deferred taxation provided for and not provided for is set out below. The unprovided amount represents a contingent asset at the balance sheet date at a rate of 30%.

	Amount provided		Amount unprovided	
	31 October 2006 £000	30 April 2005 £000	31 October 2006 £000	30 April 2005 £000
Group				
Accelerated capital allowances	(4)	(5)	(4)	(5)
Short term timing differences	4	5	68	61
Unutilised losses	—	—	998	1,122
	—	—	1,062	1,178
Company				
Accelerated capital allowances	—	—	—	—
Short term timing differences	—	—	—	—
Unutilised losses	—	—	68	92
	—	—	68	92

Notes to the Financial Statements at 31 October 2006 (continued)

18. SHARE CAPITAL

	31 October 2006 £000	30 April 2005 £000
Authorised		
1,756,682,336 Ordinary shares of 1p each	17,566	17,566
27,035,296 Deferred shares of 9p each	2,434	2,434
	20,000	20,000
Allotted and fully paid		
126,915,298 Ordinary shares of 1p each	1,269	918
27,035,296 Deferred shares of 9p each	2,434	2,434
	3,703	3,352

The Company allotted shares during the period for a net aggregate cash consideration as follows:

Date	Number of shares allotted	Aggregate nominal value £	Net Consideration £
September 2005	750,000	7,500	30,975
December 2005	4,277,264	42,773	466,127
October 2006	30,012,737	300,127	2,134,232
		350,400	2,631,334

The deferred shares do not attract dividends or other distributions, have no voting rights, have limited rights of return of capital on winding up and are liable to be cancelled without payment of any consideration to the holders.

The Company has granted share options in existence at the balance sheet date as follows:

Number	Exercise price	Dates exercisable
750,000	4.13p	23 October 2003 to 22 October 2008
350,000	4.13p	23 October 2006 to 22 October 2013
810,000	8.75p	29 January 2007 to 22 January 2014
552,500	8.87p	21 January 2008 to 20 January 2015

No share options (2005: 552,500) over ordinary shares of 1p each were granted during the period under the Company Share Option Plan. Options over 750,000 ordinary shares of 1p each were exercised during the period (2005: Nil). Options over 679,059 (2005: 409,000) shares have lapsed during the period.

19. SHARE PREMIUM ACCOUNT

	Group and Company £'000
At 1 May 2005	3,089
On shares issued in the period	2,402
Expenses of share issues	(121)
At 31 October 2006	5,370

20. OTHER RESERVES

	Group £'000
Arising in the year ended 30 April 2001:	
Fair value of shares issued as consideration for the acquisition of Mediwatch UK Limited	8,000
Less nominal value of shares issued as consideration for the acquisition of Mediwatch UK Limited	(1,000)
At 30 April 2005 and 31 October 2006	7,000

The Company has no other reserves at the period end (2005: £Nil)

21. PROFIT AND LOSS ACCOUNT

	Group £'000	Company £'000
At 1 May 2005	(10,601)	(1,045)
(Loss)/profit for the period	(1,473)	70
At 31 October 2006	(12,074)	(975)

The Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in the financial statements.

22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31 October 2006 £000	30 April 2005 £000
At 1 May 2005	2,840	3,286
Shares issued	2,632	610
Loss for the period/year	(1,473)	(1,056)
At 31 October 2006	3,999	2,840

23. NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	18 months ended 31 October 2006 £000	Year ended 30 April 2005 £000
Operating loss	(1,417)	(1,060)
Depreciation	58	36
Amortisation of goodwill	521	347
Increase in stocks	(66)	(17)
Increase in debtors	(505)	(105)
Increase in creditors	49	81
Net cash outflow from operating activities	(1,360)	(718)

Notes to the Financial Statements at 31 October 2006 (continued)

24. ANALYSIS OF NET DEBT

	At 1 May 2005 £000	Inception of hire purchase contract £000	Cash flow £000	At 31 October 2006 £000
Cash at bank and in hand	179	—	1,076	1,255
Bank loans	(250)	—	42	(208)
Obligations under hire purchase contracts	—	(12)	2	(10)
	(250)	(12)	44	(218)
Net debt	(71)	(12)	1,120	1,037

25. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	18 months ended 31 October 2006 £000	Year ended 30 April 2005 £000
Increase in cash	1,076	110
Cash outflow/(inflow) from decrease/(increase) in debt finance	44	(244)
Inception of hire purchase contracts	(12)	—
Increase/(decrease) in net funds	1,108	(134)
Opening net debt/(funds)	(71)	63
Closing funds/(net debt)	1,037	(71)

26. FINANCIAL ASSETS AND LIABILITIES

Financial instruments

The Group uses financial instruments, other than derivatives, comprising borrowings, cash, liquid resources and various items such as trade debtors, trade creditors etc that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The directors review and agree policies for managing these risks and these are summarised below.

Short term debtors and creditors have been excluded from all the following disclosures.

Interest rate risk

The Group finances its operations through share capital and loans, and has a bank borrowing facility. The Group mixes the duration of its deposits and borrowings to reduce the impact of interest rate fluctuations.

Interest receivable and payable is accrued and credited/charged to the profit and loss account in the period to which it relates.

Liquidity risk

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Borrowing facilities

The Group had undrawn bank borrowing facilities available of £80,000 at 31 October 2006 (2005: £80,000) which expire within one year, secured by a fixed and floating charge.

Fair values

The fair values of the Group's financial instruments are considered equal to the book value.

26. FINANCIAL ASSETS AND LIABILITIES (Continued)

Financial assets

The only financial assets held are cash at bank which attract interest rates that vary with bank rates in the UK. Amounts held were:

	31 October 2006 £000	30 April 2005 £000
Floating rate	1,255	179

Financial liabilities: excluding non-debt liabilities

	31 October 2006 £000	30 April 2005 £000
Floating rate	208	250
Fixed rate	10	—
	218	250

The floating rate liabilities have an interest rate of 3% (2005: 3%) above the prevailing Base Rate and have a term of 41 months (2005: 59 months).

Fixed rate financial liabilities bear interest at an average rate of 6%. The weighted average period until maturity for fixed rate financial liabilities is 30 months.

27. LEASING COMMITMENTS

Operating lease payments amounting to £106,000 (2005: £80,000) are due within one year. The leases to which these amounts relate expire as follows:

	31 October 2006		30 April 2005	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
In one year or less	70	—	—	—
Between one and five years	36	—	106	10
	106	—	106	10

Notes to the Financial Statements at 31 October 2006 (continued)

28. CAPITAL COMMITMENTS

The Group had no capital commitments at 31 October 2006 or 30 April 2005.

29. CONTINGENT LIABILITIES

The Group had no contingent liabilities at 31 October 2006 or 30 April 2005.

The Company has guaranteed the bank borrowings of Mediwatch UK Limited which at 31 October 2006 amounted to £ Nil (2005: £1,000).

30. POST BALANCE SHEET EVENTS

On 8 December 2006, the Company completed the the agreement to purchase certain stock and to license certain intellectual property ("Acquisition") relating to urology diagnostics from Medtronic A/S ("Medtronic").

The value of the assets to be purchased was agreed at US\$2.0 million (£1.1 million), which relates to stock, and will be satisfied by monthly payments, which will be based on the amount of stock utilised but subject to minimum monthly payments of US\$100,000 (£54,000).

The establishment by Mediwatch of a US-based sales and marketing operation to service the existing Medtronic North American customer base is progressing well and the directors of Mediwatch expect this business to be fully operational by the end of February 2007.

As part of the acquisition, Mediwatch is working to establish independent relationships with Medtronic's world-wide distribution network. In anticipation of the successful acquisition of the Urodynamic division, Mediwatch and Medtronic have already co-hosted an international dealer conference to introduce the established Medtronic distributors to the new and extended range of Mediwatch equipment.

Notice of the Annual General Meeting

Notice is hereby given that the Annual General Meeting of Mediwatch plc will be held at Swift House, Cosford Lane, Swift Valley Industrial Estate, Rugby, CV21 1QN on 1 March 2007 at 10.00 am to transact the following business:

Ordinary Business

1. To receive the reports of the Directors and the Auditors and the Financial Statements for the period ended 31 October 2006.
2. To reappoint RSM Robson Rhodes LLP as auditors of the Company and to authorise the Directors to determine their remuneration.

Special Business

3. To consider and, if thought fit, pass the following resolution as an Ordinary resolution:

THAT the Directors be and are hereby generally and unconditionally authorised in substitution for all previous powers granted to them to exercise all powers of the Company to allot and make offers to allot relevant securities within the meaning of Section 80 of the Companies Act ("the Act"), up to an aggregate nominal amount of £431,000. This authority shall expire on the earlier of fifteen months from the date of this resolution or the conclusion of the Annual General Meeting of the Company to be held in the year 2008 save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

4. Subject to the passing of the previous resolution under Agenda item 3, to consider and, if thought fit, pass the following resolution as a Special Resolution:

THAT the Directors be and are hereby authorised pursuant Section 95 of the Act to allot equity securities of up to an aggregate nominal amount of £64,500 (within the meaning of Section 94 of the Act in substitution for all previous powers granted thereunder) for cash pursuant to the authority conferred by the resolution under Agenda item 3 above as if Section 89(1) of the Act did not apply to any such allotment provided that this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2008, save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

By order of the Board

K. J. Middis

Company Secretary

Registered Office
Swift House
Cosford Lane
Swift Valley Industrial Estate
Rugby
CV21 1QN

Notice of the Annual General Meeting (continued)

Explanatory Notes

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company. The appointment of a proxy will not preclude a member from attending and voting in person. A proxy may be appointed by completing and returning the enclosed Form of Proxy (and any power of attorney or other authority under which it is executed or a notarially certified copy thereof) and depositing the same with the Company's registrars, Share Registrars Limited, Craven House, West Street, Farnham, Surrey GU9 7EN;
2. In any event a Form of Proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority must be received by the Company's registrars, Share Registrars Limited, Craven House, West Street, Farnham, Surrey GU9 7EN not later than 48 hours before the time fixed for the Annual General Meeting.
3. There will be available at the Registered Office of the Company during normal business hours on weekdays (excluding Saturday and Public holidays) from the date of this Notice until the conclusion of the Annual General Meeting and at the place of the meeting from 9.45 am until the conclusion of the Annual General Meeting, the register of Directors' interests and copies of all service contracts of the Directors of the Company having an unexpired term of at least 12 months.
4. In accordance with Regulation 41(1) of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders who are registered in the Company's register of members at 9.00 am on 27th February 2007 (or, in the case of an adjournment, 48 hours before the time of the adjourned meeting) will be entitled to attend or vote at the Meeting and that the number of votes which any such shareholder may cast, upon a poll, will be determined by reference to the number of shares registered in such shareholder's name at that time.





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