



CELLTECH THERAPEUTICS LIMITED

1997 REPORT AND ACCOUNTS

Registered Number: 1472269
Registered Office
216 Bath Road
Slough
Berkshire SL1 4EN



Directors' Report

The Directors submit their report and accounts for the year ended 30 September 1997.

Review of business operations and future developments

The principal activities of the Company undertaken during the year were the ongoing research and development of novel therapeutic products for human use. A detailed review of operations is contained within the accounts of the parent company, Celltech plc (see note 23).

Results and dividends

The Company's operating result for the year was a loss of £14.4m (1996 - £10.8m). After taking account of exceptional items, interest and taxation the loss on ordinary activities for the year amounted to £14.5m (1996 - £0.3m). The Directors do not recommend the payment of any dividend.

Directors and their interests

The Directors who held office during the year ended 30 September 1997 and their interests in the share capital of the ultimate holding company, Celltech plc, are listed below. No director held any interest in the share capital of the Company.

	50p Ordinary Shares owned	
	At 30.09.97	At 30.09.96
Dr P J Fellner	151,492	100,000
P V Allen	10,000	10,000
Dr D P Bloxham	44,400	42,400

There has been no change in Directors' interests since the year end.

There were no contracts of significance subsisting during or at the end of the financial year in which any Director is or was materially interested.

There were no other interests of Directors requiring disclosure under the Companies Act 1985.

Fixed assets

Expenditure on tangible fixed assets during the year amounted to £1.1m mainly on leasehold improvements, laboratory equipment, and computer equipment.

Loans from parent company

Loans from Celltech plc to the Company have been subordinated in favour of any third party liabilities that may accrue.

Disabled employees

The Company gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by a handicapped or disabled person.

With regard to existing employees and those who may become disabled, the Company's policy is to examine ways and means to provide continuing employment under normal terms and conditions and to provide training and career development, including promotion, wherever appropriate.

Employee Involvement

During the year the Company continued its policy of providing employees with information about its activities and this has been done through presentations by Directors. In addition, regular meetings are held between management and employees to allow a free flow of information and ideas. Employees are encouraged directly to participate in the success of the business through the Savings Related Share Option Schemes of Celltech plc.

The Company has a good record of safety performance and gives a high priority to ensuring that the health and safety standards are maintained.

Political and charitable donations

During the year the Company made contributions amounting to £286 to charitable organisations in the UK. There were no political donations.

Supplier Payment Policy

The Company has due regard to the payment terms of suppliers and normally settles all undisputed accounts within 30 days of the due date for payment.

The average number of days purchases for which payment was outstanding during the year was 33 days.

Auditor

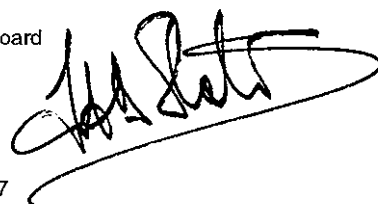
Ernst & Young have expressed their willingness to continue in office as Auditor.

By order of the Board

J.A.D. Slater

Secretary

5 December 1997



Statement of Directors' Responsibilities in respect of the accounts

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the statement of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, 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 accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company 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 to enable them to ensure that the accounts comply with the Companies Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor's report

To the members of Celltech Therapeutics Limited

We have audited the accounts on pages 3 to 12 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 5.

Respective responsibilities of directors and auditors

As described above the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

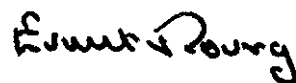
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 30 September 1997 and of the loss of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young

Chartered Accountants

Registered Auditor

London, 5 December 1997

Profit and Loss Account

for the year ended 30 September 1997

Notes		1997	1996
		£m	£m
2	Turnover	4.3	1.0
	Cost of Sales	-	-
	Gross profit	4.3	1.0
	Investment in research and development	(20.9)	(17.4)
3	Other operating income - research and development milestones	2.2	5.6
4	Operating loss	(14.4)	(10.8)
5	Exceptional profit	-	9.8
6	Net interest (payable) / receivable	(0.1)	0.7
	Loss on ordinary activities before taxation	(14.5)	(0.3)
	Taxation	-	-
	Retained loss for the year	(14.5)	(0.3)

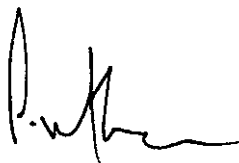
There were no recognised gains or losses other than the retained loss for the year, which also represents the movement in shareholders' funds for the year.

A statement of the movement in reserves is given in Note 19.

Balance Sheet

at 30 September 1997

Notes		1997	1996
		£m	£m
	Fixed assets		
9	Tangible assets	6.5	6.3
10	Investments	-	-
		<u>6.5</u>	<u>6.3</u>
	Current assets		
11	Stock	-	1.0
12	Debtors	0.8	0.8
13	Cash	-	0.5
		<u>0.8</u>	<u>2.3</u>
14	Creditors: amounts falling due within one year	<u>(4.5)</u>	<u>(4.7)</u>
	Net current liabilities	<u>(3.7)</u>	<u>(2.4)</u>
	Total assets less current liabilities	<u>2.8</u>	<u>3.9</u>
15	Creditors: amounts falling due after more than one year	<u>(68.3)</u>	<u>(54.9)</u>
	Net liabilities	<u>(65.5)</u>	<u>(51.0)</u>
	Capital and reserves		
18	Called up share capital	18.6	18.6
19	Share premium account	9.0	9.0
19	Profit and loss account	<u>(93.1)</u>	<u>(78.6)</u>
	Shareholders' funds	<u>(65.5)</u>	<u>(51.0)</u>



Approved on 5 December 1997

P V Allen

DIRECTOR

Notes to the Financial statements

at 30 September 1997

1 Accounting policies

Accounting convention

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

The financial statements present information about the Company as an individual undertaking. No group accounts have been prepared, as permitted by section 228 of the Companies Act 1985, because the Company is a subsidiary of a parent company registered in the European Community.

Related party transactions

As permitted by FRS8, details of transactions with the parent undertaking, Celltech plc, have not been disclosed since the Company is a wholly owned subsidiary of a parent company whose financial statements are publicly available (see note 23).

Depreciation

Depreciation is provided on all fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Leasehold properties and improvements	- the shorter of 20 years or the lease term
Laboratory equipment	- 6 to 8 years
Office and computer equipment	- 3 to 8 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Stock of material for use in scheduled clinical trials is written off to Investment in Research and Development upon use.

Income recognition

Research and development milestones and royalties receivable under collaborative agreements are recognised as they accrue; patent royalties receivable under licensing agreements are recognised on a receipts basis.

Research and development

Investment in research and development, including centrally allocated overheads, is written off as incurred, except for clinical trial material stocks which are written off upon use.

Leased assets

Assets acquired under finance leasing arrangements are capitalised upon inception at cost and depreciated over their expected useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to profit and loss account as they accrue.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the previous month's close. All foreign exchange differences are taken to the profit and loss account.

Deferred taxation

Deferred taxation is calculated using the liability method on all timing differences.

Notes to the Financial statements

at 30 September 1997

2 Turnover

Turnover represents the amounts received in respect of royalty agreements during the year, stated net of value added tax. All turnover derives from United Kingdom operations. Income receivable as milestones arising from Research and Development collaborations is treated as Other operating income.

3 Other operating income

	1997	1996
	£m	£m
Milestones	2.2	5.6

Milestones are receivable under research and development collaborative agreements.

4 Operating loss

The operating loss is stated after charging/(crediting):

	1997	1996
	£m	£m
Auditor's remuneration	-	0.1
Depreciation		
- owned assets	0.7	0.6
- assets held under finance leases	0.2	0.2
Operating lease rentals		
- land and buildings	0.9	0.9
- other	0.3	0.3
Corporate services to fellow subsidiary Celltech Biologics plc	-	(1.6)

Auditor's remuneration comprises payments for audit services totalling £22,000 (1996 - £21,000) and payments for non-audit services totalling £19,000 (1996 - £54,000). Auditor's remuneration was charged to the Company on behalf of the Celltech group of companies.

5 Exceptional profit

	1997	1996
	£m	£m
Profit on sale of intellectual property to Alusuisse-Lonza	-	9.8

In conjunction with the sale of Celltech plc's shares in Celltech Biologics plc to Alusuisse-Lonza on 28 June 1996, the Company transferred certain intellectual property to Alusuisse-Lonza for consideration of £9.8m. A further £3.2m is due to be received by the Company on 31st December 1997.

Notes to the Financial statements

at 30 September 1997

6 Interest

	1997	1996
	£m	£m
Bank interest receivable	-	0.8
Finance charges payable under finance leases	(0.1)	(0.1)
	<u>(0.1)</u>	<u>0.7</u>

7 Directors' Remuneration

The Directors received total remuneration for the year (excluding pension contributions) of £817,500 (1996 - £844,000). The emoluments, excluding pension contributions, of the highest paid director were £386,000 (1996 - £386,000).

The Directors do not believe that it is practicable to apportion their remuneration between their services as Directors of the Company and their services as Directors of Celltech plc and fellow subsidiary companies.

Full details of Directors' emoluments, including pension contributions are shown in detail in the accounts of Celltech plc under the report of the Remuneration committee (see note 23).

8 Staff costs

Staff costs, including the emoluments of the Executive Directors, amounted to:

	1997	1996
	£m	£m
Salaries	7.1	7.2
Social security costs	0.7	0.7
Other pension costs	0.6	0.6
	<u>8.4</u>	<u>8.5</u>

	1997	1996
	No.	No.
Average number of employees during the year	202	211
Number of employees at 30 September	203	214

On 1 October 1996 14 corporate staff transferred to Lonza Biologics Plc.

Notes to the Financial statements

at 30 September 1997

9 Tangible Fixed Assets

	Short leasehold properties and improvements	Laboratory equipment	Office equipment	Computer equipment	Total
	£m	£m	£m	£m	£m
Cost:					
At 30 September 1996	6.9	5.4	1.0	1.6	14.9
Additions	0.2	0.5	-	0.4	1.1
Disposals	-	(0.1)	-	(0.1)	(0.2)
At 30 September 1997	7.1	5.8	1.0	1.9	15.8
Depreciation:					
At 30 September 1996	2.1	4.5	0.9	1.1	8.6
Provided during year	0.3	0.3	-	0.3	0.9
Disposals	-	(0.1)	-	(0.1)	(0.2)
At 30 September 1997	2.4	4.7	0.9	1.3	9.3
Net book value:					
At 30 September 1997	4.7	1.1	0.1	0.6	6.5
At 30 September 1996	4.8	0.9	0.1	0.5	6.3

Included above are items held under finance leases with a net book value of £0.4m (1996 - £0.6m).

10 Investments

	1997	1996
	£m	£m
Investments in subsidiary undertakings	-	-

The following information relates to the Company's subsidiary undertakings:

Name of Company	Country of Incorporation/ operation	Holding	Proportion held at at 30 September 1997	Nature of business
Celltech U.S. Limited	England	Ordinary Shares	100%	Commercial
Celltech Europe Limited	England	Ordinary Shares	100%	Commercial
Celltech Therapeutics Inc.	USA	Common Stock	100%	Commercial

On 26 November 1996 Celltech Therapeutics Inc. was incorporated in the State of Delaware, USA as a subsidiary of the Company.

Notes to the Financial statements

at 30 September 1997

11 Stock

	1997	1996
	£m	£m
Clinical trial material stocks	-	1.0

12 Debtors

	1997	1996
	£m	£m
Trade debtors	0.1	-
Other debtors	0.2	0.3
Prepayments	0.5	0.5
	<u>0.8</u>	<u>0.8</u>

13 Cash and liquid resources

	1997	1996
	£m	£m
Cash at bank and in hand	-	0.5

14 Creditors: amounts falling due within one year

	1997	1996
	£m	£m
Trade creditors	1.4	1.1
Taxation and social security	0.2	0.2
Other creditors	0.7	0.2
Accruals	1.9	2.9
Current portion of leasing obligations (see note 16)	0.3	0.3
	<u>4.5</u>	<u>4.7</u>

Included in other creditors are pension contributions totalling £115,666 (1996 - £48,543) payable to the pension funds.

Notes to the Financial statements

at 30 September 1997

15 Creditors: amounts falling after more than one year

	1997	1996
	£m	£m
Amounts due to Celltech plc	68.0	54.4
Obligations under finance leases (see note 16)	0.3	0.5
	<u>68.3</u>	<u>54.9</u>

Loans from Celltech plc to the Company have been subordinated in favour of any third party liabilities that may accrue.

16 Obligations under finance and operating leases

Finance Leases

	1997	1996
	£m	£m
Amounts payable:		
within one year	0.3	0.3
between two and five years	0.3	0.5
over five years	-	-
	<u>0.6</u>	<u>0.8</u>

Analysis of changes in finance leasing during the year:

At 30 September 1996	0.8	1.0
Transfer of finance lease obligations to fellow subsidiary Celltech Biologics plc	-	(0.3)
Inception of finance lease contracts	-	0.2
Capital element of finance lease rental payments	(0.2)	(0.1)
At 30 September 1997	<u>0.6</u>	<u>0.8</u>

Operating leases

The Company has annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	1997	1996	1997	1996
	£m	£m	£m	£m
Operating leases which expire:				
within one year	-	-	0.1	-
between two and five years	-	-	0.1	0.2
over five years	1.1	0.9	-	-
	<u>1.1</u>	<u>0.9</u>	<u>0.2</u>	<u>0.2</u>

Notes to the Financial statements

at 30 September 1997

17 Deferred taxation

Due to the availability of taxation losses no provision for deferred taxation has been made. There are taxation losses of approximately £59.2m (1996 - £45.5m), and a pool of unclaimed capital allowances of £2.8m (1996 - £5.2m), available for carrying forward against future profits.

18 Called up share capital

	Authorised		Allotted, called up and fully paid	
	1997 No.	1996 No.	1997 £m	1996 £m
Ordinary shares of £1 each	<u>24,000,000</u>	<u>24,000,000</u>	<u>18.6</u>	<u>18.6</u>

19 Reserves

	Share Premium Account £m	Profit and Loss Account £m	Total £m
At 30 September 1996	9.0	(78.6)	(69.6)
Retained loss for the year	-	(14.5)	(14.5)
At 30 September 1997	<u>9.0</u>	<u>(93.1)</u>	<u>(84.1)</u>

20 Capital commitments

	1997 £m	1996 £m
Contracted	<u>-</u>	<u>0.1</u>

Notes to the Financial statements

at 30 September 1997

21 Pension Arrangements

The Celltech Group of Companies operates a defined benefit scheme for the majority of its UK employees. In addition, the Group operates a defined contribution scheme for certain UK employees. Further details of these schemes are contained within the accounts of the parent company, Celltech plc.

The pension cost charge represents contributions payable by the Company to the schemes. For the defined contribution scheme, contributions are charged to the profit and loss account as incurred; for the defined benefit scheme contributions are calculated to spread the cost of pensions over the employees remaining service lives.

Costs charged in the accounts were as follows;

	1997	1996
	£m	£m
Celltech Pension and Life Assurance Scheme	0.4	0.4
Celltech Executive Pension Scheme	0.2	0.2
	<u>0.6</u>	<u>0.6</u>

22 Contingent liabilities

The Company has provided Midland Bank plc with a cross guarantee in respect of facilities provided to Celltech plc for a maximum of £1,500,000 (1996 - £1,500,000) of which none (1996 - none) has been utilised.

There was a bank indemnity of £15,000 (1996 - £15,000).

23 Ultimate holding company

The parent undertaking, and ultimate holding company and controlling company, is Celltech plc, a company registered in England and Wales.

Copies of Celltech plc accounts can be obtained from the Company Secretary at 216 Bath Road, Slough, Berkshire, SL1 4EN.