

Cobra Therapeutics Limited

Registration Number: 2710654

Cobra Therapeutics Limited

Reports and Financial Statements

For the Year Ended 30 September 2002



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Report of the Directors

The directors of Cobra Therapeutics Limited present their report to the shareholders, together with the audited financial statements for the year ended 30 September 2002.

Group Reconstruction

Under a group reconstruction on the 6 June 2002, Cobra Bio-Manufacturing Plc acquired the whole of the issued share capital of the Company, satisfied by the issue and transfer of 6,000,000 ordinary shares of 10p each in the Company.

Principle Activities and Trading Review

The principle activity of the Company is the manufacture of both DNA and proteins based pharmaceuticals.

Results and Dividend

The profit for the period after providing for taxation was £92,918 (2001 loss £4,654,095) and an equivalent amount has been transferred to reserves. The directors do not propose the payment of an ordinary dividend.

The accumulated deficit carried forward is £31,799,919.

Directors

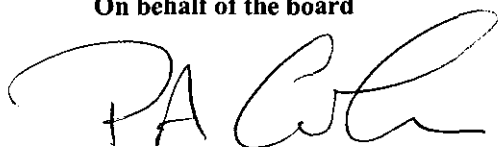
The directors who held office during the year were as follows:

Peter Fothergill	
Peter Shennan	Resigned 6 June 2002
Robert Nichol Boyes	Resigned 6 June 2002
John Wynne	Resigned 6 June 2002
David Smith	Resigned 6 June 2002
Peter Coleman	Appointed 6 June 2002
David Thatcher	Appointed 13 June 2002

Auditors

Ernst & Young LLP were appointed auditors on the 20 May 2002. They have expressed their willingness to continue in office and a resolution to reappoint them as auditors and to authorise the directors to determine their remuneration will be proposed at the annual general meeting.

On behalf of the board



Peter A. Coleman
Finance Director
23 January 2003

Statement of Directors' Responsibilities

Company Law requires the directors to prepare accounts 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 of the Company for that period. In preparing those accounts, the directors are required to:

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
4. prepare the financial statements on a going concern basis unless it is inappropriate to presume 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.

Report of the Auditors to the members of Cobra Therapeutics Limited

We have audited the Company's financial statements for the year ended 30 September 2002, which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses and the related notes 1 to 20. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' responsibilities.

This report has been prepared for the members of the Company pursuant to Section 235 of the Companies Act 1985 (the "Act") and for no other purpose.

No person is entitled to rely on this report unless such person;

1. is a person who is entitled to rely on this report by virtue of and for the purpose of the Act; or
2. has been expressly authorised to do so by our prior written consent

Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions with the Company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

Basis of audit opinion

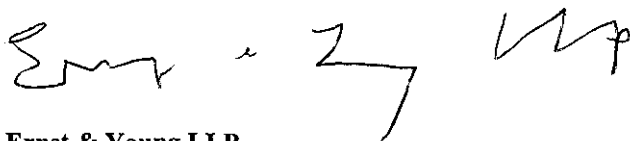
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Report of the Auditors to the members of Cobra Therapeutics Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 30 September 2002 and of the loss of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to be 'Ernst & Young' followed by a stylized flourish.

Ernst & Young LLP
Registered Auditor
Manchester
23 January 2003

Profit and Loss Account for the Year Ended 30 September 2002

	Notes	2002 £	Restated 2001 £
Turnover			
Continuing operations		2,539,812	1,134,074
Discontinued operations		30,000	14,435
Turnover	2	2,569,812	1,148,509
Cost of sales	4	(1,700,067)	(876,595)
Gross profit		869,745	271,914
Research and development	4	(1,916,254)	(2,743,113)
Sales marketing and distribution costs	4	(65,015)	(43,020)
Administrative expenses	3&4	(2,184,214)	(2,124,459)
Operating loss			
Continuing operations		(775,478)	(845,298)
Discontinued operations		(2,520,260)	(3,793,380)
Operating loss	4	(3,295,738)	(4,638,678)
Profit on transfer of discontinued operations	5	2,517,810	-
Reorganisation costs	5	(123,501)	-
Loss on ordinary activities before Investment income, interest and taxation		(901,429)	(4,638,678)
Bank interest receivable	7	539	409
Interest payable	7	(32,184)	(15,826)
Loss before tax		(933,074)	(4,654,095)
Taxation	8	1,025,992	-
Retained profit / (loss) for the year		92,918	(4,654,095)

Statement of Total Recognised Gains and Losses

There are no recognised gains or losses other than the profit for the year of £92,918 in the year ended 30 September 2002 and the loss of £4,654,095 in the year ended 30 September 2001

Balance Sheet at 30 September 2002

	Notes	2002 £	2001 £
Fixed Assets			
Tangible Assets	9	2,168,393	920,222
		<u>2,168,393</u>	<u>920,222</u>
Current Assets			
Stocks and work in progress	10	441,178	346,931
Debtors	11	2,275,181	895,392
Cash		104,808	333
		<u>2,821,167</u>	<u>1,242,656</u>
Creditors: amounts falling due within one year	12	<u>(2,395,314)</u>	<u>(3,636,285)</u>
Net Current Assets / (Liabilities)		<u>425,853</u>	<u>(2,393,629)</u>
Total Assets less Current Liabilities		<u>2,594,246</u>	<u>(1,473,407)</u>
Current Liabilities			
Creditors: amounts falling due after more than one year	13	(4,065,292)	(90,557)
Net Liabilities		<u>(1,471,046)</u>	<u>(1,563,964)</u>
Capital and Reserves			
Called up share capital	17	1,388,991	1,388,991
Share premium	17	28,939,881	28,939,881
Profit and loss account	17	(31,799,918)	(31,892,836)
Equity Shareholders' Deficit		<u>(1,471,046)</u>	<u>(1,563,964)</u>

Approved by the Board on the 23 January 2003



David R. Thatcher
Chief Executive



Peter A. Coleman
Finance Director

Notes to the Financial Statements for the Year Ended 30 September 2002**1 Accounting Policies****Basis of preparation**

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

The financial statements have been prepared on the going concern basis due to the continuing support of the ultimate parent undertaking, Cobra Bio-Manufacturing Plc.

Turnover and revenue recognition

Turnover, which excludes value added tax, represents amounts receivable in respect of the sale of goods and services during the year.

Turnover on fixed contracts is invoiced in accordance with the terms of the agreement with the customer and is recognised based upon stage of completion when the outcome of the contract can be foreseen with reasonable certainty and after allowing for costs of completion.

Licence income is credited to the profit and loss account when received.

Depreciation

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

Plant and equipment	between 6.67 and 10 years
Office equipment	4 years
Short leasehold building improvements	6.67 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are valued in the balance sheet at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value. Cost is calculated on a first in first out basis.

Raw materials	purchase cost on a first in first out basis
Work in progress	cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Research and development

Research and development expenditure is written off in the period in which it is incurred, inter alia all internal and external costs incurred in patenting, external studies and consultancy.

Notes to the Financial Statements for the Year Ended 30 September 2002

1 Accounting Policies (continued)

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Company, are capitalised in the balance sheet and are depreciated over their 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 income on a straight-line basis over the lease term.

Statement of cash flows

The Company has adopted the provisions of Financial Reporting Standard 1 (Revised) from preparing a statement of cash flows as it is a wholly owned subsidiary undertaking.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Pension costs

The Company operates a defined contribution scheme, covering all employees. Contributions are charged to the profit and loss account on an accruals basis.

Notes to the Financial Statements for the Year Ended 30 September 2002**2 Turnover**

The Company operated in two principal areas of activities, that of contract manufacture and licensing.

The geographical analysis of turnover by destination is shown as follows:

	2002 £	2001 £
Continuing		
United Kingdom	842,714	396,479
North America	553,280	301,078
Europe	971,737	436,517
Rest of the World	172,081	-
	<hr/> 2,539,812	<hr/> 1,134,074
Discontinued		
United Kingdom	10,000	-
North America	20,000	4,435
Europe	-	10,000
	<hr/> 30,000	<hr/> 14,435
	<hr/> 2,569,812	<hr/> 1,148,509

3 Restatement of results

There has been a change in accounting classification whereby direct manufacturing overheads previously charged to administrative expenses have now been charged to cost of sales. For consistency the 2001 numbers have been restated to reflect the same classification as follows:

	2002 £	Restated 2001 £
Administrative expenses before reclassification	2,750,208	2,614,163
Costs previously classified as administrative expenses moved to cost of sales	(565,994)	(489,704)
Administrative expenses after reclassification	<hr/> 2,184,214	<hr/> 2,124,459

Notes to the Financial Statements for the Year Ended 30 September 2002**4 Operating loss**

	2002	2001
	£	£
This is stated after charging		
Auditor's remuneration		
- audit services	8,500	7,835
- non audit services	2,500	325
Sale of tangible assets	1,702	-
Depreciation of owned assets	371,333	398,707
Depreciation of assets held under finance leases	61,660	20,952
Operating leases		
- hire of other assets	3,632	20,050
- rental of premises	192,431	262,499

The allocation of operating costs between continuing and discontinued operations are as follows:

	2002	Restated 2001
	£	£
Cost of sales		
Continuing	1,700,067	876,595
Discontinued	-	-
Total	<u>1,700,067</u>	<u>876,595</u>
Research and development		
Continuing	219,852	220,910
Discontinued	1,696,402	2,522,203
Total	<u>1,916,254</u>	<u>2,743,113</u>
Selling, marketing and distribution costs		
Continuing	34,843	21,510
Discontinued	30,172	21,510
Total	<u>65,015</u>	<u>43,020</u>
Administrative expenditure		
Continuing	1,360,528	860,357
Discontinued	823,686	1,264,102
Total	<u>2,184,214</u>	<u>2,124,459</u>

Notes to the Financial Statements for the Year Ended 30 September 2002**5 Exceptional items**

Recognised below operating profit:

(a) Profit on transfer of discontinued operations

On 6 June 2002 the Company entered into an agreement with ML Laboratories Plc to transfer the Research and Development division of the Company to ML Laboratories Plc. Details of the transaction are as follows:

	2002 £
Consideration received	<u>3,298,391</u>
Net assets transferred:	
Tangible assets	359,089
Stock	67,899
Debtors	1,169,355
Creditors	<u>(815,762)</u>
	780,581
Profit on transfer of business	<u>2,517,810</u>

The agreement defined the consideration for the discontinued R&D business as the bank overdraft of the Company at the 12 June 2002 in excess of £3 million attributable to the continuing operations, plus the amounts owed by the Company to ML Laboratories Plc.

A transfer of cash from ML Laboratories Plc to the bank account of the Company satisfied the consideration.

Details of the calculation are as follows:

	2002 £
Bank overdraft attributable to the R&D business	3,266,097
Amounts owed to former parent undertaking at 12 June 2002	32,294
Consideration received	<u>3,298,391</u>

(b) Reorganisation costs

The professional costs associated with the transfer of the discontinued operations were £123,501.

Notes to the Financial Statements for the Year Ended 30 September 2002**6 Staff costs**

	2002 £	2001 £
Wages and salaries	2,123,886	2,152,817
Social security costs	200,672	207,109
Other pension costs	96,733	126,759
	<u>2,421,291</u>	<u>2,486,685</u>

The average monthly number of employees during the year was made up as follows:

	2002 No	2001 No
Manufacturing	37	23
Research and development	23	37
Administration	14	9
	<u>74</u>	<u>69</u>

Directors' remuneration

	2002 £	2001 £
Aggregate emoluments	88,514	-
Company contributions to defined contributions pension scheme	8,117	-
	<u>96,631</u>	<u>-</u>

Remuneration to highest paid director

	2002 £	2001 £
Aggregate emoluments	38,360	-
Company contributions to defined contributions pension scheme	2,415	-
	<u>40,775</u>	<u>-</u>

7 Investment income and interest payable

	2002 £	2001 £
Income from short term investments	<u>539</u>	<u>409</u>
Interest payable on finance leases	<u>32,184</u>	<u>15,826</u>

Notes to the Financial Statements for the Year Ended 30 September 2002**8 Taxation**

The Company is entitled to Research and Development tax relief under Schedule 20 of the Finance Act 2000, in respect of the year ended 30 September 2000, 30 September 2001 and 30 September 2002.

	2002 £	2001 £
Taxation on loss on ordinary activities		
UK corporation tax		
UK corporation tax on loss of the period	(289,862)	-
Adjustments in respect of previous periods	(736,130)	-
Total current tax	(1,025,992)	-

Factors that may affect the tax charge for the period

The tax assessed for the period is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2002 £	2001 £
Loss on ordinary activities before tax	(933,074)	(4,654,095)
Loss on ordinary activities multiplied by the standard rate of Corporation Tax in the UK of 30% (2001 30%)	(279,922)	(1,396,229)
Effect of:		
Disallowed expenses and non taxable income	(867,614)	3,150
Capital allowances in excess of depreciation	(93,259)	(102,861)
Other timing differences	-	(150)
Adjustments in respect of previous periods	(736,130)	-
Tax losses	697,303	1,806,416
Difference in tax rates on losses used for R&D tax claim	253,630	-
R&D claim	-	(310,326)
Current tax charge for the period	(1,025,992)	-

Factors that may affect future charges

Trading losses associated with the Research and Development business, which was disposed of in the period, are estimated to be in the region of £15 million and these losses have been transferred as part of the business disposed of. The effect of this on the Company has been to reduce the trading losses carried forward available for set off against future profits arising from the same trade to approximately £14 million.

The Company has deferred tax assets of £8,452,262 at 30 September 2001 and £3,956,023 at 30 September 2002, which have arisen mainly due to trading losses carried forward. The deferred tax asset has not been provided for because it is uncertain whether the trading losses giving rise to the asset will be utilised in the foreseeable future.

Notes to the Financial Statements for the Year Ended 30 September 2002**9 Tangible fixed assets**

	Plant & equipment £	Office equipment £	Short leasehold building improvements £	Total £
Cost				
At 1 st October 2001	2,669,630	415,734	1,845,427	4,930,791
Additions	1,980,751	59,502	-	2,040,253
Disposals	(10,378)	-	-	(10,378)
Transfer of discontinued R&D assets	(1,463,389)	(47,839)	-	(1,511,228)
At 30 September 2002	3,176,614	427,397	1,845,427	5,449,438
Depreciation				
At 1 st October 2001	1,957,317	298,964	1,754,288	4,010,569
Charge for the year	292,755	49,099	91,139	432,993
Disposals	(10,378)	-	-	(10,378)
Transfer of discontinued R&D assets	(1,144,703)	(7,436)	-	(1,152,139)
At 30 September 2002	1,094,991	340,627	1,845,427	3,281,045
Net book value				
At 30 September 2002	2,081,623	86,770	-	2,168,393
At 30 September 2001	712,313	116,770	91,139	920,222

The net book value of tangible fixed assets includes £299,782 (2001 £205,352) in respect of assets held under finance leases.

10 Stocks and work in progress

	2002 £	2001 £
Raw materials & consumables	125,903	157,532
Work in progress	315,275	189,399
	441,178	346,931

Notes to the Financial Statements for the Year Ended 30 September 2002**11 Debtors**

	2002 £	2001 £
Trade debtors	1,267,878	464,654
Corporation tax	786,385	-
Other debtors	29,915	292,263
Prepayments	191,003	138,475
	2,275,181	895,392

12 Creditors: Amounts falling due within one year

	2002 £	2001 £
Bank overdraft	-	2,326,517
Obligations under finance leases	131,431	65,320
Trade creditors	693,626	709,835
Amounts due to former parent undertaking	786,385	-
Other taxation and social security costs	41,550	60,221
Deferred income	519,669	191,601
Other creditors	64,998	67,328
Accruals	157,655	215,463
	2,395,314	3,636,285

13 Creditors: Amounts falling due after one year

	2002 £	2001 £
Obligations under finance leases	162,292	73,275
Amount owed to parent company	3,903,000	-
Amount owed to former parent company	-	13,804
Amount owed to former other Group undertakings	-	3,478
	4,065,292	90,557

Notes to the Financial Statements for the Year Ended 30 September 2002**14 Obligations under finance leases**

	2002 £	2001 £
Payable within one year	131,431	65,320
Payable between one and two years	114,979	62,219
Payable between two and five years	47,313	11,056
	293,723	138,595

15 Other financial commitments

At the 30 September 2002 the Company had annual commitments under non-cancellable operating leases as follows:

	2002 Land & Buildings £	2001 £	2002 Other £	2001 £
Expiring within one year	44,020	69,600	-	988
Expiring between one and two years	-	-	1,541	-
Expiring between two and five years	-	-	191	1,602
Expiring in greater than five years	77,221	154,442	-	382
	121,241	224,042	1,732	2,972

16 Called up share capital

	No	2002 £	No	2001 £
Authorised				
10p ordinary shares	5,015,904	501,590	5,015,904	501,590
10p preferred ordinary shares	5,949,999	595,000	5,949,999	595,000
10p "A" preferred ordinary shares	6,666,667	666,667	6,666,667	666,667
	17,632,570	1,763,257	17,632,570	1,763,257
	No	2002 £	No	2001 £
Allocated, called up and fully paid				
10p ordinary shares	1,520,510	152,051	1,520,510	152,051
10p preferred ordinary shares	5,949,999	595,000	5,949,999	595,000
10p "A" preferred ordinary shares	6,419,404	641,940	6,419,404	641,940
	13,889,913	1,388,991	13,889,913	1,388,991

Dividends shall be applied pari passu amongst all the issued ordinary, preferred ordinary and "A" preferred ordinary shareholders of the Company when they are declared. In the event of a return of capital the preferred ordinary and "A" preferred ordinary take priority over the ordinary shareholders. The preferred ordinary and "A" preferred ordinary shareholders are entitled to receive, in respect of each share held, a sum equal to the amount subscribed for each share. Amounts subscribed on each share are then returned to the ordinary shareholder. The balance of the Company's assets are then divided amongst the preferred ordinary, "A" preferred ordinary and ordinary shareholders. Holders of all classes of share have one vote per share.

Notes to the Financial Statements for the Year Ended 30 September 2002**17 Reconciliation of shareholders' funds and movement on reserves**

	Share Capital £	Share Premium £	Profit & Loss Account £	Total £
As at 1 October 2000	1,388,991	28,939,881	(27,238,741)	3,090,131
Loss for the year			(4,654,095)	(4,654,095)
As at 1 October 2001	1,388,991	28,939,881	(31,892,836)	(1,563,964)
Profit for the year	-	-	92,918	92,918
At 30 September 2002	1,388,991	28,939,881	(31,799,918)	(1,471,046)

18 Related Party Transactions

During the year, the Company sold goods in the normal course of business to ML Laboratories Plc, its former parent undertaking for £260,600 (2001 £ nil), £102,557 of which related to an agreement entered into on the 6 June 2002 in which ML Laboratories Plc would continue to occupy a proportion of the property leased by the Company in return for an annual license fee and an agreed contribution to the shared facility costs.

At the balance sheet date the amount due by the former parent undertaking was £176,760 and is included in trade debtors.

The Company also sold goods in the normal course of business to Evolutech Limited for £71,936. The Chief Executive of Evolutech Limited is David Bloxham a non-executive director of the Company. At the balance sheet date the amount due from Evolutech Limited was £359.

19 Pension Commitments

The Company operates a defined contribution pension scheme established with Scottish Widows Plc. The assets of the scheme are held separately from those of the Company and are independently administered. The pension costs charge represents contributions payable by the Company under the scheme and amounted to £96,733 (2001 £126,759). Contributions totalling £9,217 (2001 £nil) were payable at the year end.

20 Ultimate Holding Company

The ultimate holding company is Cobra Bio-Manufacturing Plc, incorporated in England and Wales. Copies of the parent's consolidated financial statements may be obtained from the Company Secretary, Cobra Bio-Manufacturing Plc, Stephenson Building, Keele University Science Park, Keele, Staffordshire, ST5 5SP.