

Cobra Biologies Limited

Registration Number: 2710654

Cobra Biologies Limited

Annual Report and Accounts

For the Year Ended 30 September 2003



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Report of the Directors

The directors of Cobra Biologics Limited (formerly Cobra Therapeutics Limited) present their report to the shareholders, together with the audited financial statements for the year ended 30 September 2003.

Change of Name

On 13 August 2003 the Company changed its name from Cobra Therapeutics Limited to Cobra Biologics Limited.

Principle Activities and Trading Review

The principle activity of the Company is the manufacture of DNA, Virus and Protein based pharmaceuticals.

Results and Dividend

The profit for the period after providing for taxation was £1,044,914 (2002 £92,918) 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 £30,755,004.

Directors

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

Peter Fothergill
Peter Coleman
David Thatcher

Auditors

Ernst & Young LLP were re-appointed auditors on 28 February 2003. 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

A handwritten signature in dark ink, appearing to read 'PA Coleman', is written over the printed name of Peter Coleman.

**Peter Coleman
Finance Director
2 December 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 Biologics Limited

We have audited the Company's financial statements for the year ended 30 September 2003, which comprise Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Reconciliation of Shareholders' Funds and the related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, 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 members 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 members 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 are responsible for preparing the Annual Report and the financial statements, which are required to be prepared in accordance with United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

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 Report of the Directors 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Report of the Directors. 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.

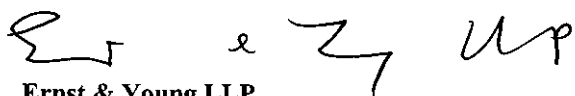
Basis of audit opinion

We conducted our audit in accordance with 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the Company as at 30 September 2003 and of the profit of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Manchester
2 December 2003

Profit and Loss Account for the Year Ended 30 September 2003

	Notes	2003 £	2002 £
Turnover			
Continuing operations		6,020,293	2,539,812
Discontinued operations		-	30,000
Turnover	2	6,020,293	2,569,812
Cost of sales	3	(2,617,732)	(1,700,067)
Gross profit		3,402,561	869,745
Research and development	3	(199,976)	(1,916,254)
Sales marketing and distribution costs	3	(384,299)	(65,015)
Administrative expenses	3	(1,953,870)	(2,184,214)
Operating profit/(loss)		864,416	(775,478)
Continuing operations		-	(2,520,260)
Discontinued operations		-	(2,520,260)
Operating profit/(loss)	3	864,416	(3,295,738)
Profit on transfer of discontinued operations		-	2,517,810
Discontinued reorganisation costs		-	(123,501)
Profit/(loss) on ordinary activities before investment income, interest and taxation		864,416	(901,429)
Bank interest receivable	5	2,021	539
Interest payable	5	(46,523)	(32,184)
Profit/(loss) before tax		819,914	(933,074)
Taxation	6	225,000	1,025,992
Retained profit for the year		1,044,914	92,918

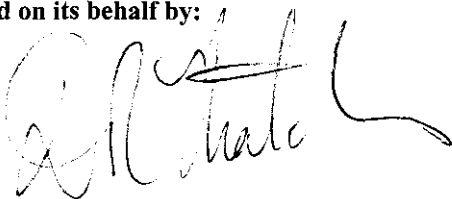
Statement of Total Recognised Gains and Losses

There are no recognised gains or losses other than the profit for the year of £1,044,914 in the year ended 30 September 2003 and the profit of £92,918 in the year ended 30 September 2002

Balance Sheet at 30 September 2003

	Notes	2003 £	2002 £
Fixed assets			
Tangible assets	7	4,925,058	2,168,393
		<u>4,925,058</u>	<u>2,168,393</u>
Current assets			
Stocks and work in progress	8	206,919	441,178
Debtors	9	2,451,517	2,275,181
Cash		553,463	104,808
		<u>3,211,899</u>	<u>2,821,167</u>
Creditors: amounts falling due within one year	10	(2,856,407)	(2,395,314)
Net current assets		<u>355,492</u>	<u>425,853</u>
Total assets less current liabilities		<u>5,280,550</u>	<u>2,594,246</u>
Current liabilities			
Creditors: amounts falling due after more than one year	11	(5,706,682)	(4,065,292)
Net liabilities		<u>(426,132)</u>	<u>(1,471,046)</u>
Capital and reserves			
Called up share capital	15&16	1,388,991	1,388,991
Share premium	16	28,939,881	28,939,881
Profit and loss account	16	(30,755,004)	(31,799,918)
Equity shareholders' deficit		<u>(426,132)</u>	<u>(1,471,046)</u>

The financial statements on pages 4 to 14 were approved by the board of directors on 2 December 2003 and were signed on its behalf by:



David Thatcher
Chief Executive



Peter Coleman
Finance Director

Notes to the Financial Statements for the Year Ended 30 September 2003**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:

Freehold buildings	25 years
Plant and laboratory equipment	between 6.67 and 10 years
Short leasehold building improvements	6.67 years
Office equipment	4 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, and includes 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 2003**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 ("FRS") No. 1 (Revised) not to prepare 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 2003**2 Turnover**

The Company operated in one principal area of activity, that of contract manufacturing.

All turnover originates from within the UK. The geographical analysis of turnover by destination is shown as follows:

	2003 £	2002 £
Continuing		
United Kingdom	2,114,096	842,714
North America	1,425,841	553,280
Europe	711,303	971,737
Rest of the World	1,769,053	172,081
	6,020,293	2,539,812
Discontinued		
United Kingdom	-	10,000
North America	-	20,000
	-	30,000
	6,020,293	2,569,812

3 Operating profit/(loss)

	2003 £	2002 £
This is stated after charging		
Auditor's remuneration		
- audit services	9,000	8,500
- non audit services	7,750	2,500
Loss on sale of fixed tangible assets	-	1,702
Depreciation of owned assets	250,098	371,333
Depreciation of assets held under finance leases	49,739	61,660
Operating leases		
- hire of other assets	3,915	3,632
- rental of premises	153,211	192,431

The allocation of operating costs between, ongoing operations, acquisitions and discontinued operations are as follows:

	Continuing 2003 £	Discontinued 2003 £	2003 Total £	Continuing 2002 £	Discontinued 2002 £	2003 Total £
Cost of sales	2,617,732	-	2,617,732	1,700,067	-	1,700,067
Research and development	199,976	-	199,976	219,852	1,696,402	1,916,254
Selling, marketing and distribution	384,299	-	384,299	34,843	30,172	65,015
Administrative expenditure	1,953,870	-	1,953,870	1,360,528	823,686	2,184,214

Notes to the Financial Statements for the Year Ended 30 September 2003**4 Staff costs**

	2003 £	2002 £
Wages and salaries	1,949,531	2,113,111
Social security costs	185,803	200,126
Other pension costs	91,401	96,733
	<u>2,226,735</u>	<u>2,409,970</u>

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

	2003 No	2002 No
Manufacturing	41	37
Selling, marketing and distribution	4	1
Research and development	3	23
Administration	16	13
	<u>64</u>	<u>74</u>

Directors' remuneration

	2003 £	2002 £
Aggregate emoluments	373,469	95,513
Company contributions to defined contributions pension scheme	28,887	8,117
	<u>402,356</u>	<u>103,630</u>

Remuneration to highest paid director

	2003 £	2002 £
Aggregate emoluments	181,943	38,431
Company contributions to defined contributions pension scheme	8,837	2,415
	<u>190,780</u>	<u>40,846</u>

5 Interest receivable and interest payable

	2003 £	2002 £
Interest receivable		
Bank interest receivable	<u>2,021</u>	<u>539</u>
Interest payable		
Interest payable on finance leases	<u>46,523</u>	<u>32,184</u>

Notes to the Financial Statements for the Year Ended 30 September 2003**6 Taxation**

The Company is entitled to Research and Development tax relief under Schedule 20 of the Finance Act 2000, in respect of the years ended 30 September 2002 and 30 September 2003.

The deferred tax asset has been recognised to the extent that deferred taxation is expected to be recoverable out of future profits. This is based on profit forecasts for the 12 months ended 30 September 2004. The unrecognised deferred tax asset will be available for offset against qualifying taxable profits arising in future periods. The effect of the utilisation of the unrecognised deferred tax assets in future periods will be to reduce the future tax rate to below the standard rate for UK Corporation Tax.

	2003 £	2002 £
Taxation on profit/(loss) on ordinary activities		
Current tax		
UK corporation tax on profit/(loss) of the period	-	(289,862)
Adjustments in respect of previous periods	-	(736,130)
Total current tax	-	(1,025,992)
Deferred tax:		
Origination and timing differences	(225,000)	-
Total deferred tax	-	-
Total tax	(225,000)	(1,025,992)

Factors affecting the tax charge for the period

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

	2003 £	2002 £
Profit/(loss) on ordinary activities before tax	819,914	(933,074)
Profit/(loss) on ordinary activities multiplied by the standard rate of Corporation Tax in the UK of 30% (2002 30%)	245,974	(279,922)
Effect of:		
Expenses not deductible for tax purposes	321	(867,614)
Depreciation in excess of capital allowances	89,951	(93,259)
Other timing differences	41,521	-
Adjustments in respect of previous periods	-	(736,130)
Utilisation of tax losses	(377,161)	697,303
Difference in tax rates on losses used for R&D tax claim	-	253,630
Other	(606)	-
Current tax charge for the period	-	(1,025,992)

Notes to the Financial Statements for the Year Ended 30 September 2003**6 Taxation (continued)****Factors affecting future charges**

The trading losses carried forward available for set off against future profits arising from the same trade amounted to £12,500,000.

The Company has deferred tax assets of £3,956,023 at 30 September 2002 and £3,700,000 at 30 September 2003, which have arisen mainly due to trading losses carried forward.

7 Tangible fixed assets

	Plant & laboratory equipment £	Office equipment £	Short leasehold building improvements £	Freehold land & buildings £	Assets under construction £	Total £
Cost						
At 1 October 2002	3,176,614	427,397	1,845,427	-	-	5,449,438
Additions	406,054	78,133	-	1,387,001	1,185,314	3,056,502
At 30 September 2003	3,582,668	505,530	1,845,427	1,387,001	1,185,314	8,505,940
Depreciation						
At 1 October 2002	1,094,991	340,627	1,845,427	-	-	3,281,045
Charge for the year	255,140	44,697	-	-	-	299,837
At 30 September 2003	1,350,131	385,324	1,845,427	-	-	3,580,882
Net book value						
At 30 September 2003	2,232,537	120,206	-	1,387,001	1,185,314	4,925,058
At 30 September 2002	2,081,623	86,770	-	-	-	2,168,393

The net book value of tangible fixed assets includes £250,043 (2002 £299,782) in respect of assets held under finance leases. The assets held under finance leases consist of plant and laboratory equipment.

The cost of tangible assets includes £15,593 (2002 nil) of capitalised interest relating to the mortgage provided to purchase freehold land and buildings.

8 Stocks and work in progress

	2003 £	2002 £
Raw materials & consumables	198,155	125,903
Work in progress	8,764	315,275
	206,919	441,178

Notes to the Financial Statements for the Year Ended 30 September 2003**9 Debtors**

	2003 £	2002 £
Trade debtors	1,476,915	1,267,878
Corporation tax	323,278	786,385
Other debtors	129,210	29,915
Prepayments	297,114	191,003
Deferred taxation	225,000	-
	2,451,517	2,275,181

10 Creditors: Amounts falling due within one year

	2003 £	2002 £
Current instalments on loans	36,250	-
Obligations under finance leases	377,070	131,431
Trade creditors	1,648,264	693,626
Amount payable to former parent undertaking	323,278	786,385
Other taxation and social security costs	62,318	41,550
Deferred income	124,700	519,669
Other creditors	31,287	64,998
Accruals	253,240	157,655
	2,856,407	2,395,314

11 Creditors: Amounts falling due after one year

	2003 £	2002 £
Loans	1,051,250	-
Obligations under finance leases	122,247	162,292
Amount to parent company	4,533,185	3,903,000
	5,706,682	4,065,292

12 Loans

	2003 £	2002 £
Amounts falling due:		
In one year or less or on demand	36,250	-
In more than one year but less than two years	108,750	-
In more than two years but less than five years	326,250	-
In more than five years	616,250	-
	1,087,500	-

The long-term loan is a mortgage facility secured against freehold buildings. The loan is repayable in equal instalments monthly, over a ten-year period commencing June 2004. The rate of interest payable is 1.65% over HSBC Bank Plc's base rate.

Notes to the Financial Statements for the Year Ended 30 September 2003**13 Obligations under finance leases**

	2003 £	2002 £
Payable within one year	377,070	131,431
Payable between one and two years	122,247	114,979
Payable between two and five years	-	47,313
	499,317	293,723

14 Other financial commitments

At the 30 September 2003 the Company had annual commitments under non-cancellable operating leases as follows:

	Land & Buildings		Other	
	2003 £	2002 £	2003 £	2002 £
Expiring within one year	66,795	44,020	1,600	-
Expiring between one and two years	-	-	3,157	1,541
Expiring between two and five years	-	-	191	191
Expiring in greater than five years	77,221	77,221	-	-
	144,016	121,241	4,948	1,732

15 Called up share capital

	No	2003 £	No	2002 £
Authorised				
10p ordinary shares	17,632,570	1,763,257	5,015,904	501,590
10p preferred ordinary shares	-	-	5,949,999	595,000
10p "A" preferred ordinary shares	-	-	6,666,667	666,667
	17,632,570	1,763,257	17,632,570	1,763,257
	No	2003 £	No	2002 £
Allocated, called up and fully paid				
10p ordinary shares	13,889,913	1,388,991	1,520,510	152,051
10p preferred ordinary shares	-	-	5,949,999	595,000
10p "A" preferred ordinary shares	-	-	6,419,404	641,940
	13,889,913	1,388,991	13,889,913	1,388,991

On 28 May 2003 the Company converted 5,949,999 10p preferred and 6,419,404 10p "A" preferred into 10 pence ordinary shares.

Notes to the Financial Statements for the Year Ended 30 September 2003**16 Reconciliation of shareholders' funds and movement on reserves**

	Share Capital £	Share Premium £	Profit & Loss Account £	Total £
As at 1 October 2002	1,388,991	28,939,881	(31,799,918)	(1,471,046)
Profit for the year	-	-	1,044,914	1,044,914
At 30 September 2003	1,388,991	28,939,881	(30,755,004)	(426,132)

17 Related Party Transactions

During the year the Company sold goods in the normal course of business to ML Laboratories Plc (whose shareholding in Cobra Biomanufacturing Plc was reduced from 46% to 5% on 28 May 2003) for £689,469 (2002 £260,600), £353,433 (2002 £102,577) of which related to an agreement entered into on 6 June 2002 and revised on 28 July 2003 in which ML Laboratories Plc would continue to occupy a proportion of the property leased by the Company until 30 September 2004 in return for a licence fee in respect of rent and an agreed proportion of the shared facility costs.

The Company also purchased goods in the normal course of business from ML Laboratories Plc for £13,673 (2002 £58,788)

At the balance sheet date the amount due from ML Laboratories Plc was £167,914 (2002 £176,760) and the amount owed to them was £323,278 (2002 £855,461)

18 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 contributions payable by the Company under the scheme amounted to £93,181 (2002 £96,733). Contributions totalling £ nil (2002 £9,217) were payable at the year-end.

19 Ultimate Holding Company

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