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THEREXSYS LIMITED
ABBREVIATED ACCOUNTS
PERIOD ENDED 31 DECEMBER 1996

Pannell Kerr Forster



**PANNELL
KERR
FORSTER**
CHARTERED ACCOUNTANTS

THEREXSYS LIMITED

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**AUDITORS' REPORT TO
THEREXXSYS LIMITED
PURSUANT TO PARAGRAPH 24
OF SCHEDULE 8 TO THE COMPANIES ACT 1985**

**PANNELL
KERR
FORSTER**
CHARTERED ACCOUNTANTS

We have examined the abbreviated accounts on pages 3 to 7 together with the full financial statements of Therexsys Limited prepared for shareholders for the period ended 31 December 1996.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the abbreviated accounts in accordance with Schedule 8 to the Companies Act 1985. It is our responsibility to form an independent opinion as to the company's entitlement to the exemptions claimed in the directors' statement on page 3 and whether the abbreviated accounts have been properly prepared in accordance with that Schedule.

Basis of opinion

We have carried out the procedures we considered necessary to confirm, by reference to the audited financial statements, that the company is entitled to the exemptions and that the abbreviated accounts have been properly prepared from those financial statements. The scope of our work for the purpose of this report does not include examining or dealing with events after the date of our report on the full financial statements.

Opinion

In our opinion the company is entitled under sections 246 and 247 of the Companies Act 1985 to the exemptions conferred by Section A of Part III of Schedule 8 to that Act in respect of the period ended 31 December 1996, and the abbreviated accounts on pages 3 to 7 have been properly prepared in accordance with that Schedule.

Other information

On 25 April 1997 we reported, as auditors of Therexsys Limited to the shareholders on the full financial statements prepared under section 226 of the Companies Act 1985 for the period ended 31 December 1996 and our audit report was as follows:

"We have audited the financial statements on pages 6 to 16 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards. 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.

AUDITORS' REPORT (continued)

**PANNELL
KERR
FORSTER**
CHARTERED ACCOUNTANTS

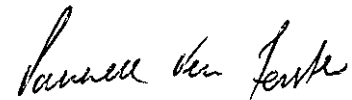
Fundamental uncertainty

In forming our opinion we have considered the adequacy of the disclosures made in the financial statements concerning the finance requirements of the company. The financial statements have been drawn up on a going concern basis, the validity of which depends on future adequate finance being available to complete the research programme and develop technologies into commercial products.

Should the company be unable to raise adequate finance, adjustments would have to be made to restate the value of assets to their recoverable amount and provide for any further liabilities which might arise. Our opinion is not qualified in this respect, and on the basis of our discussions with the directors together with other information we obtained during the course of our audit, we consider that it is appropriate for the directors to prepare the financial statements on a going concern basis.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 1996 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985."



PANNELL KERR FORSTER
Chartered Accountants
Registered Auditors

Manchester

25 April 1997

THEREXSYS LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 1996

| | Notes | 1996 £ | 1995 £ |
|---|-------|--------------------------|-------------------------|
| FIXED ASSETS | | | |
| Intangible | 2 | 806,383 | 902,332 |
| Tangible | 3 | 2,221,596 | 1,322,122 |
| | | <u>3,027,979</u> | <u>2,224,454</u> |
| CURRENT ASSETS | | | |
| Stocks | | 30,638 | 15,833 |
| Debtors | | 217,524 | 61,718 |
| Cash at bank and in hand | | 19,324,114 | 2,263,160 |
| | | <u>19,572,276</u> | <u>2,340,711</u> |
| CREDITORS: amounts falling due within one year | | <u>(840,180)</u> | <u>(225,530)</u> |
| NET CURRENT ASSETS | | <u>18,732,096</u> | <u>2,115,181</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u><u>21,760,075</u></u> | <u><u>4,339,635</u></u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 4 | 1,352,848 | 697,412 |
| Share premium account | | 28,809,093 | 7,022,337 |
| Profit and loss account | | (8,401,866) | (3,380,114) |
| SHAREHOLDERS' FUNDS | | <u><u>21,760,075</u></u> | <u><u>4,339,635</u></u> |

The directors have taken advantage of the exemptions conferred by Section A of Part III of Schedule 8 to the Companies Act 1985 on the grounds that the company is entitled to the benefit of those exemptions as a small company.

The financial statements were approved by the board on 26 March 1997.

Signed on behalf of the board of directors

Mr D Gibbons
Director



THEREXSYS LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 1996


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|---|-------|--------------------------|-------------------------|
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Signed on behalf of the board of directors

Mr D Gibbons
Director



THEREXSYS LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
FOR THE PERIOD ENDED 31 DECEMBER 1996

1 ACCOUNTING POLICIES

Basis of preparation of financial statements

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

Tangible fixed assets and depreciation

Tangible fixed assets are written off over their estimated useful lives on a straight line basis at the following annual rates:

| | |
|---------------------------------------|------|
| Short leasehold building improvements | 25 % |
| Motor vehicles | 25 % |
| Computers and office equipment | 25 % |
| Laboratory equipment | 25 % |

Operating leases

Operating lease rentals are charged in the profit and loss account on a straight line basis over the lease term.

Stocks and work in progress

Stock is stated at cost. The cost is determined on a first-in first-out basis.

Pensions

The company operates a defined contributions to a group personal pension scheme providing benefits for employees additional to those from the State. The pension cost charge represents contributions payable by the company to the fund in respect of the year.

Research and development

All research and development costs are written off as incurred.

Licence fees

Licences for the exclusive rights to LCR technology are capitalised and written off on a straight line basis over their expected lives.

Government grants

Revenue grants are credited to the profit and loss account. Capital grants are included in deferred income and amortised in the profit and loss account over the expected useful life of the qualifying assets.

THEREXSYS LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
FOR THE PERIOD ENDED 31 DECEMBER 1996

2 INTANGIBLE FIXED ASSETS

| | Total £ |
|------------------------|--------------------|
| Cost | |
| At 1 October 1995 | 1,060,602 |
| Additions | 125,001 |
| | <hr/> |
| At 31 December 1996 | 1,185,603 |
| | <hr/> |
| Amortisation | |
| At 1 October 1995 | 158,270 |
| Charge for the period | 220,950 |
| | <hr/> |
| At 31 December 1996 | 379,220 |
| | <hr/> |
| Net book amount | |
| At 31 December 1996 | 806,383 |
| | <hr/> |
| At 30 September 1995 | 902,332 |
| | <hr/> |

THEREXSYS LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
FOR THE PERIOD ENDED 31 DECEMBER 1996

3 TANGIBLE FIXED ASSETS

| | Total £ |
|------------------------|-----------------------|
| Cost | |
| At 1 October 1995 | 1,750,936 |
| Additions | 1,557,044 |
| Disposals | (23,441) |
| | <hr/> 3,284,539 <hr/> |
| Depreciation | |
| At 1 October 1995 | 428,814 |
| Charge for year | 647,308 |
| On disposals | (13,179) |
| | <hr/> 1,062,943 <hr/> |
| Net book amount | |
| At 31 December 1996 | 2,221,596 |
| | <hr/> <hr/> |
| At 30 September 1995 | 1,322,122 |
| | <hr/> <hr/> |

4 SHARE CAPITAL

| | Authorised £ | Allotted, called up and fully paid No. | £ |
|---|-----------------------|--|-----------------------|
| At 1 October 1995 | | | |
| Ordinary shares of 10p each | 190,064 | 1,040,783 | 104,079 |
| Preferred ordinary shares of 10p each | 595,000 | 5,933,333 | 593,333 |
| | <hr/> 785,064 <hr/> | <hr/> 6,974,116 <hr/> | <hr/> 697,412 <hr/> |
| Movements in period: | | | |
| Ordinary shares of 10p each | 168,544 | 126,627 | 12,662 |
| Preferred ordinary shares of 10p each | - | 8,333 | 834 |
| "A" preferred ordinary shares of 10p each | 666,667 | 6,419,404 | 641,940 |
| | <hr/> 835,211 <hr/> | <hr/> 6,554,364 <hr/> | <hr/> 655,436 <hr/> |
| At 31 December 1996 | | | |
| Ordinary shares of 10p each | 358,608 | 1,167,410 | 116,741 |
| Preferred ordinary shares of 10p each | 595,000 | 5,941,666 | 594,167 |
| "A" preferred ordinary shares of 10p each | 666,667 | 6,419,404 | 641,940 |
| | <hr/> 1,620,275 <hr/> | <hr/> 13,528,480 <hr/> | <hr/> 1,352,848 <hr/> |

THEREXSYS LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
FOR THE PERIOD ENDED 31 DECEMBER 1996

4 SHARE CAPITAL - continued

Authorised share capital was increased as follows:-

On 15 March 1996 the company's authorised share capital was increased by special resolution from £785,064.10 to £831,022.70 by the creation of 459,586 new ordinary shares of 10p each.

On 25 March 1996 the company's authorised share capital was increased by special resolution from £831,022.70 to £1,620,275.00 by the creation of 1,225,856 new ordinary shares of 10p each and 6,666,667 new 'A' preferred ordinary shares of 10p each.

Ordinary shares were allotted as follows:-

On 8 March 1996 24,057 and 2,708 share options were exercised at a premium of 2p and £1.10 respectively for cash under the terms of the unapproved employee share option scheme.

On 14 August 1996 25,000 share options were exercised for cash at a premium of £1.10 per share in respect of 10,000 shares and 2p per share in respect of 15,000 shares. On 16 October 1996 a further 5,417 options were exercised for cash at a premium of £1.10 per share.

On 29 November 1996 69,445 shares were issued at a premium of £1.70 per share in exchange for patent rights.

Preferred ordinary shares were allotted as follows:-

On 17 May 1996 8,333 warrants were exercised for cash in exchange for preferred ordinary shares at a premium of £1.10 per share.

"A" preferred ordinary shares were allotted as follows:-

On 10 April 1996 5,044,569 "A" preferred ordinary shares were issued for cash at a premium of £3.40 per share. A further 1,374,835 "A" preferred ordinary shares were issued for cash at a premium of £3.40 on 29 May 1996. These shares were issued to raise finance to fund research.

The company operates an unapproved share option scheme. At 31 December 1996 options have been granted to subscribe for ordinary shares of 10p each in the company as follows:-

| Number | Amount | Exercise price | Period within |
|---------|--------|----------------|-------------------------|
| | £ | per share | which options |
| | | | exercisable |
| 415,962 | 41,596 | 12p | 01/01/1997 - 22/07/2003 |
| 18,860 | 1,886 | 63p | 01/01/1997 - 01/09/2000 |
| 681,192 | 68,119 | £1.20 | 01/01/1997 - 28/10/2003 |