

**COBRA THERAPEUTICS LIMITED**  
**REPORTS AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30TH SEPTEMBER 2001**

**REGISTERED NO. 2710654**

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## **COBRA THERAPEUTICS LIMITED**

### **DIRECTORS' REPORT**

The Directors present their report and the audited financial statements of the Company for the year ended 30th September 2001.

### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The Company is engaged in the scientific research and commercialisation of DNA delivery and expression.

### **RESULTS AND DIVIDENDS**

The results for the year are shown in the profit and loss account on page 4.

The Directors are unable to recommend the payment of a dividend. M. L. Laboratories PLC has confirmed its intention to maintain financial support for the Company in order that, as long as Cobra Therapeutics Limited remains a subsidiary, as defined in S736 of the Companies Act 1985, the Company will be in a position to meet its obligations as they fall due for at least a year from the date of approval of this Directors' report. The circumstances surrounding this financial support are referred to in note 1 to the financial statements.

### **RESEARCH AND DEVELOPMENT**

The loss for the year is stated after charging research and development expenditure of £3,616,914 (2000 £2,851,797).

### **DIRECTORS' INTERESTS**

The Directors who held office during the period were:-

G. P. FOTHERGILL  
P. J. SHENNAN  
R. N. BOYES  
J. WYNNE (Appointed 24th July 2001) \*

\* J. Wynne has no interests in the shares of the Company.

The other Directors' interests in the share capital of the Company are only by virtue of their interests as shareholders in of M.L. Laboratories PLC. Their interests in the share capital of M. L. Laboratories PLC are disclosed in that company's financial statements for the year ended 30th September 2001.

### **AUDITORS**

A resolution to re-appoint the Auditors, PricewaterhouseCoopers, will be proposed at the Annual General Meeting.

### **BY ORDER OF THE BOARD**

P. J. Shennan



Director  
20th March 2002

## **COBRA THERAPEUTICS LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the Directors to prepare financial statements for each financial year that 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 financial statements, 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 financial statements.
- Prepare the financial statements 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 that disclose with reasonable accuracy at any time the financial position of the Company 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



**P. J. Shennan**  
**Director**

20th March 2002

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COBRA THERAPEUTICS LIMITED**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

### **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.

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

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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report.

### **BASIS OF AUDIT 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 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.

#### **Uncertainty - going concern**

In forming our opinion, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the uncertainty as to the Company's future financial position. For the reasons explained in the note, the financial statements do not include any adjustments that would arise if they were not drawn up on a going concern basis. In view of the significance of this fundamental uncertainty we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

### **OPINION**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 30th September 2001 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

**Chartered Accountants and Registered Auditors**

**Liverpool**

20th March 2002

**COBRA THERAPEUTICS LIMITED**

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH SEPTEMBER 2001**

	Notes	2001 £	Nine months to 30th September 2000 £
Turnover	2	1,148,509	1,505,989
Cost of sales		(386,891)	(137,581)
Gross profit		761,618	1,368,408
Research and development expenditure		(3,616,914)	(2,851,797)
Sales, marketing and distribution costs		(43,020)	(33,911)
Administrative expenses		(1,740,362)	(1,283,304)
Operating loss		(4,638,678)	(2,800,604)
Investment Income	3	409	89,214
Interest payable	3	(15,826)	(3,833)
Loss on ordinary activities before taxation	4	(4,654,095)	(2,715,223)
Taxation	5	-	-
Loss for year	12	(4,654,095)	(2,715,223)

The Company has no recognised gains or losses other than those included in the loss for the year above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above, and their historical cost equivalents.

All operations are continuing.

**COBRA THERAPEUTICS LIMITED**

**BALANCE SHEET AT 30TH SEPTEMBER 2001**

	Notes	2001 £	2000 £
<b>Fixed Assets</b>			
Tangible assets	7	920,222	865,692
		<u>920,222</u>	<u>865,692</u>
<b>Current Assets</b>			
Stocks	8	157,532	-
Debtors	9	1,084,791	1,463,326
Cash		333	1,799,260
		<u>1,242,656</u>	<u>3,262,586</u>
<b>Current Liabilities</b>			
Creditors: amounts falling due within one year	10(a)	(3,636,285)	(709,546)
<b>Net Current (Liabilities) / Assets</b>		<u>(2,393,629)</u>	<u>2,553,040</u>
<b>Total Assets Less Current Liabilities</b>		(1,473,407)	3,418,732
Creditors: amounts falling due after more than one year	10(b)	(90,557)	(328,601)
<b>Net (Liabilities) / Assets</b>		<u>(1,563,964)</u>	<u>3,090,131</u>
<b>Capital And Reserves</b>			
Called-up share capital	11	1,388,991	1,388,991
Share premium account	12	28,939,881	28,939,881
Profit and loss account	12	(31,892,836)	(27,238,741)
<b>Equity shareholders' funds</b>	18	<u>(1,563,964)</u>	<u>3,090,131</u>

The financial statements on pages 4 to 12 were approved by the Board of Directors on 20th March 2002 and signed on its behalf by:

P. J. Shennan } DIRECTOR



**COBRA THERAPEUTICS LIMITED**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH SEPTEMBER 2001**

**Nine months to  
30th September  
2000**  
£

	Notes	£	2001 £	£	
<b>Net Cash Outflow from Operating Activities</b>	13		(3,532,227)		(3,599,362)
<b>Servicing of Finance</b>					
Investment income received		409		89,214	
Interest paid on finance leases		(15,826)		(3,833)	
<b>Net Cash (Outflow)/Inflow from Servicing of Finance</b>			(15,417)		85,381
<b>Capital Expenditure</b>					
Purchase of tangible fixed assets		(381,161)		(81,862)	
<b>Net Cash Outflow for Capital Expenditure</b>			(381,161)		(81,862)
<b>Net Cash Outflow before Financing</b>			(3,928,805)		(3,595,843)
<b>Financing</b>					
Issue of Shares		-		48	
Capital element of finance lease rental payments		(48,414)		(11,374)	
Lease finance acquired		116,189		-	
(Decrease) / increase in amount owed to parent		(264,414)		278,218	
<b>Net Cash Inflow/(Outflow) from Financing</b>			(196,639)		266,892
<b>Decrease in Cash in Year</b>	14		(4,125,444)		(3,328,951)

## **COBRA THERAPEUTICS LIMITED**

### **STATEMENT OF ACCOUNTING POLICIES**

#### **PRINCIPAL ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with Accounting and Financial Reporting Standards applicable in the United Kingdom. A summary of the most significant accounting policies, which have been applied consistently, is set out below.

#### **BASIS OF ACCOUNTING**

The financial statements have been prepared under the historical cost basis of accounting.

#### **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, analysis and consultancy.

#### **TANGIBLE FIXED ASSETS**

Tangible fixed assets are stated at their purchase cost to the Company less accumulated depreciation.

Depreciation is provided on a straight line basis to write off the cost of the tangible fixed assets over their estimated useful lives at the following rates:

Plant & equipment	-	15% per annum
Office equipment	-	25% per annum
Short leasehold buildings improvements	-	15% per annum

#### **FINANCE LEASES**

Tangible fixed assets include assets held under finance leases which are capitalised at their purchase cost with a corresponding amount treated as a liability. Interest is charged to the profit and loss account over the period of the lease agreements by reference to the capital balance outstanding.

#### **TURNOVER**

Turnover, which excludes value added tax, represents the invoiced value of goods and services supplied to customers during the year.

#### **OPERATING LEASES**

Rentals payable in respect of operating leases are charged to the profit and loss account as incurred.

#### **RELATED PARTY TRANSACTIONS**

The company has taken advantage of the exemption available under FRS8 "Related Party Disclosures" not to disclose transactions with group companies where 90% or more of the voting rights of the company are controlled within the group.

#### **PENSION COSTS**

The Company operates a defined contribution pension scheme covering certain of its employees. Contributions are charged to the profit and loss account on an accruals basis.



**COBRA THERAPEUTICS LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH SEPTEMBER 2001****1. BASIS OF PREPARING THE FINANCIAL STATEMENTS - GOING CONCERN**

The Company is reliant on the continuing financial support of its parent company, M. L. Laboratories PLC ("M L"), which has confirmed that, as long as the Company remains a subsidiary of M L, it will continue to provide such support. The cash flow projections of the M L Group include receipt of milestone and similar income the Group anticipates will arise on the commercialisation of its products and divestment proceeds arising from the implementation of the Group's strategic review. The M L Directors recognise that the timing and amount of such receipts is not guaranteed and that as a result the Group's financial position cannot be certain. However, the M L Directors have a reasonable expectation that the Group will have sufficient working capital for the future and consequently the Directors of the Company believe that it is appropriate for the Company's financial statements to be prepared on a going concern basis. The financial statements do not contain any adjustments that would arise if the financial statements were not drawn up on a going concern basis. If required these adjustments would be made to the balance sheets of the Company to increase or reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets and long term liabilities as current assets and liabilities.

**2. SEGMENTAL ANALYSIS BY CLASS OF BUSINESS**

The analysis by class of business of the Company's turnover is set out below:

Segmental Reporting	2001	Nine months to 30th September 2000
	£	£
Licensing, evaluation & development fees	14,435	1,009,751
Product sales	1,134,074	496,238
Total	<u>1,148,509</u>	<u>1,505,989</u>
<b>Geographical Segments</b>		
	2001	2000
	£	£
United Kingdom	396,479	83,800
North America	315,513	1,390,939
Europe	436,517	31,250
Total	<u>1,148,509</u>	<u>1,505,989</u>
<b>3. INVESTMENT INCOME AND INTEREST PAYABLE</b>		
	2001	2000
	£	£
Income from short term investments	409	89,214
Interest payable on finance leases	<u>15,826</u>	<u>3,833</u>
<b>4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		
	2001	2000
	£	£
Loss on ordinary activities before taxation is stated after charging:		
Depreciation - tangible owned fixed assets	398,707	291,836
- tangible fixed assets held under finance leases	20,982	11,059
Auditors' remuneration for audit services	8,160	9,865
Operating leases - hire of other assets	20,050	5,036
- rental of premises	<u>262,499</u>	<u>139,174</u>

Remuneration of the Company's Auditors for the provision of non-audit services was (£325) (2000 £800). This consists principally of fees in respect of taxation advisory work.

**5. TAXATION**

The Company will not be subject to taxation during this year due to losses sustained.

**COBRA THERAPEUTICS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH SEPTEMBER 2001**

**6. DIRECTORS AND EMPLOYEES**

**Employees**

The average weekly number of persons (including Directors) employed by the Company during the year was :

2001 Number	2000 Number
69	73

**Staff costs (for the above persons):**

	£	£
Wages and salaries	2,152,817	1,608,202
Social security costs	207,109	161,375
Other pension costs	126,759	104,980
	<u>2,486,685</u>	<u>1,874,557</u>

**Directors' Remuneration**

Aggregate emoluments	-	205,147
Aggregate gains made on the exercise of share options	-	599,415
Company contributions to defined contributions pension scheme	-	17,663
	<u>-</u>	<u>822,225</u>

Remuneration to the highest paid Director

Aggregate emoluments including gains on share options	-	325,954
Company contributions to defined contributions pension scheme	-	9,000
	<u>-</u>	<u>334,954</u>

No Director waived emoluments in respect of the year ended 30th September 2001 (2000 None).

**7. TANGIBLE FIXED ASSETS**

	Plant & Equipment £	Office Equipment £	Short Leasehold Buildings Improvements £	Total £
<b>Cost</b>				
At 1st October 2000	2,267,490	343,655	1,845,427	4,456,572
Additions	402,140	72,079	-	474,219
At 30th September 2001	<u>2,669,630</u>	<u>415,734</u>	<u>1,845,427</u>	<u>4,930,791</u>
<b>Depreciation</b>				
At 1st October 2000	1,717,626	258,697	1,614,557	3,590,880
Charge for the year	239,691	40,267	139,731	419,689
At 30th September 2001	<u>1,957,317</u>	<u>298,964</u>	<u>1,754,288</u>	<u>4,010,569</u>
<b>Net book value</b>				
At 30th September 2001	<u>712,313</u>	<u>116,770</u>	<u>91,139</u>	<u>920,222</u>
At 30th September 2000	<u>549,864</u>	<u>84,958</u>	<u>230,870</u>	<u>865,692</u>

The net book value of tangible fixed assets includes £205,352 (2000 £64,759) in respect of assets held under finance leases.

**8. STOCK**

	2001 £	2000 £
Raw materials and consumables	157,532	-
	<u>157,532</u>	<u>-</u>

**9. DEBTORS**

	2001 £	2000 £
<b>Amounts falling due within one year:</b>		
Trade debtors	464,654	250,596
Amount owed by Group undertakings	-	632
Other debtors	481,662	69,518
Prepayments	138,475	1,142,580
	<u>1,084,791</u>	<u>1,463,326</u>

**COBRA THERAPEUTICS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH SEPTEMBER 2001**

**10. CREDITORS**

	2001 £	2000 £
<b>(a) Amounts falling due within one year:</b>		
Bank overdraft	2,326,517	-
Obligations under finance leases	65,320	23,695
Trade creditors	709,835	283,207
Taxation and social security	60,221	65,000
Accruals and deferred income	474,392	337,644
	<u>3,636,285</u>	<u>709,546</u>
	£	£
<b>(b) Amounts falling due after more than one year:</b>		
Obligations under finance leases	73,275	47,125
Amount owed to parent company	13,804	278,218
Amount owed to other Group undertakings	3,478	3,258
	<u>90,557</u>	<u>328,601</u>

The Company has entered into an arrangement to provide an unlimited multilateral guarantee in respect of the bank overdraft of the immediate holding company and its fellow subsidiaries, which at 30th September 2001 amounted to £21,124,667 (2000 £10,303,269). No loss is expected to arise from this arrangement.

**11. CALLED-UP SHARE CAPITAL**

	2001 £	2000 £
<b>Authorised</b>		
5,015,904 ordinary shares of 10p each	501,590	501,590
5,949,999 preferred ordinary shares of 10p each	595,000	595,000
6,666,667 "A" preferred ordinary shares of 10p each	666,667	666,667
	<u>1,763,257</u>	<u>1,763,257</u>
<b>Allotted, called up and fully paid</b>		
1,520,510 ordinary shares of 10p each	152,051	152,051
5,949,999 preferred ordinary shares of 10p each	595,000	595,000
6,419,404 "A" preferred ordinary shares of 10p each	641,940	641,940
	<u>1,388,991</u>	<u>1,388,991</u>

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 shareholders 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 shareholders. 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 held.

**12. SHARE PREMIUM ACCOUNT AND RESERVES**

	Share Premium Account £	Profit and Loss Account £
<b>At 1st October 2000</b>	28,939,881	(27,238,741)
Loss for year	-	(4,654,095)
<b>At 30th September 2001</b>	<u>28,939,881</u>	<u>(31,892,836)</u>

**13. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

	2001 £	2000 £
Operating loss	(4,638,678)	(2,800,604)
Depreciation of tangible fixed assets	419,689	302,895
Increase in stock	(157,532)	-
Decrease/(increase) in debtors	377,906	(1,086,164)
Increase/(decrease) in creditors	465,537	(18,115)
Increase in amount owed to other Group undertakings	851	2,626
Net cash outflow from operating activities	<u>(3,532,227)</u>	<u>(3,599,362)</u>

**COBRA THERAPEUTICS LIMITED**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH SEPTEMBER 2001**

14. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT	2001 £	2000 £
Decrease in Cash in Year	(4,125,444)	(3,328,951)
Cash outflow from decrease in Debt and Lease Financing	196,639	(266,844)
<b>Change in Net Debt Resulting from Cash Flows</b>	<b>(3,928,805)</b>	<b>(3,595,795)</b>
<b>Other Non Cash Items</b>		
New Finance Leases	-	(40,675)
<b>Movement in Net Debt</b>	<b>(3,928,805)</b>	<b>(3,636,470)</b>
Opening Net Debt	1,450,222	5,086,692
<b>Closing Net Debt</b>	<b>(2,478,583)</b>	<b>1,450,222</b>

15. ANALYSIS OF NET DEBT	2000 £	Cash Flow £	2001 £
Cash at bank and in hand	1,799,260	(1,798,927)	333
Bank overdraft	-	(2,326,517)	(2,326,517)
	1,799,260	(4,125,444)	(2,326,184)
Amount owed to parent	(278,218)	264,414	(13,804)
Finance leases due within one year	(23,695)	(41,625)	(65,320)
Finance leases due in more than one year	(47,125)	(26,150)	(73,275)
	1,450,222	(3,928,805)	(2,478,583)

The majority of finance leases are arranged in respect of sale and leaseback transactions. Accordingly new finance leases are shown as a separate component of cash flow in the cash flow statement.

16. FINANCE LEASE OBLIGATIONS	2001 £	2000 £
At 30th September 2001 the Company had obligations under finance leases as follows:-		
Payable within one year	65,320	23,695
Payable between one and two years	62,219	26,474
Payable between two and five years	11,056	20,651
	<b>138,595</b>	<b>70,820</b>

17. OTHER FINANCIAL COMMITMENTS	2001 Land & Buildings £	2000 Land & Buildings £	2001 Other £	2000 Other £
At 30th September 2001 the Company had annual commitments under non-cancellable operating leases as follows :				
Expiring within one year	69,600	3,412	988	1,541
Expiring between one and two years	-	26,000	-	3,952
Expiring between two and five years	-	-	1,602	-
Expiring in greater than five years	154,442	154,442	382	-
	<b>224,042</b>	<b>183,854</b>	<b>2,972</b>	<b>5,493</b>

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	2001 £	2000 £
Opening equity shareholders' funds	3,090,131	5,805,305
Share capital issued	-	40
Premium arising on share issues	-	8
Loss for year	(4,654,095)	(2,715,223)
<b>Closing equity shareholders' funds</b>	<b>(1,563,964)</b>	<b>3,090,131</b>

**19. CONTINGENT LIABILITIES**

At 30th September 2001 there were no contingent liabilities other than the guarantee referred to in note 10 and those arising from the ordinary course of business in respect of which no material losses are expected to arise.

**COBRA THERAPEUTICS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH SEPTEMBER 2001**

**20. PENSIONS**

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 cost charge represents contributions payable by the Company under the scheme and amounted to £126,759 (2000 £104,980). Contributions totalling £Nil (2000 £Nil) were payable at the year end.

**21. ULTIMATE HOLDING COMPANY**

The ultimate holding company is M.L. Laboratories PLC, incorporated in England and Wales. Copies of the parent's consolidated financial statements may be obtained from Stringer Saul, 17 Hanover Square, London, W1S 1HU.