

3006674 KS Biomedix Holdings PLC

## Directors' Report

For the year ended 31 May 2000

The Directors present their annual report on the affairs of the Group together with the accounts and auditors' report, for the year ended 31 May 2000.

### Principal activities and business review

The principal activities of the Group are the development of pharmaceutical products, scientific consultancy, the management of patents and the commercial exploitation of its scientific discoveries and intellectual property.

Details of developments during the year and comments on expected future developments are given in the Chairman's statement.

### Results and dividends

The Group's results are described in the profit and loss account on page 18. The audited accounts for the year ended 31 May 2000 are set out on pages 18 to 30.

The Directors do not recommend the payment of a dividend (1999: £nil).

### Directors and their interests

The Directors who served during the year, together with their interests in the shares of the Company, are as follows:

	Ordinary shares of 2p each	
	2000 Number	1999 Number
Dr K S Tan	28,951,460	28,951,460
J J Wright	472,000	517,000
M W Myerscough	—	—
B R R Butler	190,937	100,937
B Morgan	—	—
S J Powell (appointed 13 April 2000)	—	—

There were no changes in the interests of Directors between 31 May 2000 and 1 September 2000.

Details of Directors' share options are given on page 15.

The market price of the Company's shares at 31 May 2000 was 504½p and the range during the year was 349p – 822½p. On 1 September 2000 the Company's shares were trading at a price of 693p on the London Stock Exchange.

### Board of Directors

#### Mr Basil Richard Ryland Butler CBE, FREng – (70) Chairman and Non-Executive Director

Mr Butler is an organic chemist and an engineer by training and was formerly Managing Director of the British Petroleum Company Plc until his retirement. He is the former Chairman of Brown and Root Limited and is a member of the Board of Murphy Oil Corporation Inc. He is also formerly Chairman of EuroCASE, the European Council of Applied Science and Engineering and was Senior Vice-President of the Royal Academy of Engineering, 1996-1999. Mr Butler was appointed to the board on 17 January 1995.

#### Mr Jeffrey John Wright MSI(DIP) – (56) Non-Executive Director

Mr Wright is presently a Director of the stockbroking firm of Brewin-Dolphin Securities Ltd. He was formerly a Director of Citicorp Scrimgeour Vickers. Mr Wright was appointed to the board on 17 January 1995.



## Directors' Report continued

### Dr Brian Morgan – (58) Senior Non-Executive Director

Dr Morgan was formerly a Director and Vice President of Scientific Licensing within Worldwide Business Development for SmithKline Beecham until retiring in 1997. Dr Morgan was appointed to the board on 20 November 1998.

### Dr Steven John Powell – (39) Chief Executive Officer

Dr Powell joined KS Biomedix at the end of 1999. He brings to the group considerable experience in the pharmaceutical industry and a proven track record in management of life science companies.

### Mr Martin William Myerscough Beng, ACA, ATII – (43) Finance Director

Mr Myerscough is an engineer by training. Mr Myerscough worked for a number of accountancy firms before joining Arthur Andersen, London as a Manager.

### Dr Kim Sze Tan BSc, PhD – (44) Director

Dr Tan is the founder of KS Biomedix and the inventor of the sheep monoclonal technology. He was formerly the Managing Director of Guildhay Antisera Limited, a diagnostic company. He is the author of more than 40 scientific publications and is a Fellow of the Royal Society of Medicine.

### Substantial shareholdings

On 1 September 2000 the following shareholders were registered as being interested in 3% or more of the Company's ordinary share capital:

	Number of shares held	%
Dr K S Tan	28,951,460	59.73

Dr K S Tan has entered into an agreement with the company pursuant to which he and his associates have agreed to exercise the voting rights attached to the shares to maintain the independence of the Board.

### Research and development

The Directors consider that research and development continues to play a vital role in the Group's success.

### Share capital

Information relating to shares issued in the year is given in note 16 to the accounts.

### Corporate governance

In June 1998 the Hampel Committee and the London Stock Exchange published the Combined Code on corporate governance. This combines the Cadbury Code on corporate governance, the Greenbury Code on directors' remuneration and new requirements arising from the findings of the Hampel Committee. The Group has complied during the year with the Provisions of the Code of Best Practice set out in section 1 of the Combined Code.

The Board, which currently comprises three independent Non-Executive Directors and three Executive Directors, meets regularly throughout the year (normally monthly) and deals with important aspects of the Group's affairs including setting and monitoring strategy, reviewing performance, ensuring that the Group has adequate financial resources and reporting to shareholders. The Board has an Audit Committee, comprising the three Non-Executive Directors under the Chairmanship of Jeffrey Wright, to review the scope of work and the findings of the Company's auditors, to commission any additional investigation work and to consider the adequacy of accounting controls and procedures. The Audit Committee reviews the non audit services provided by the Company's auditors. The Remuneration Committee comprising the three Non-Executive Directors under the Chairmanship of Dr Brian Morgan is responsible for setting the remuneration of Executive Directors and reviewing the Group's remuneration policy for employees. A remuneration report is included on pages 13 to 15. The Board, which is Chaired by the Group Chairman, reviews all Board and senior management appointments.

## Internal control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding the reliability of financial information used both within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The Combined Code introduced a requirement that directors review the effectiveness of the group's system of internal controls. This extends the existing requirements in respect of internal financial controls to cover all controls including financial, operational, compliance, and risk management.

Guidance for Directors, Internal Control, Guidance for Directors on the Combined Code (the Turnbull guidance) was published in September 1999. However, the directors have taken advantage of the transitional rules and have continued to review and report upon internal financial controls in accordance with the ICAEW's 1994 guidance Internal Control and Financial Reporting.

Nevertheless, the Board confirm that they have established the procedures necessary to implement the Turnbull guidance such that they can fully comply with it for the accounting period ending 31 May 2000.

The key features of the internal control system that operated throughout the year covered by the accounts are described under the following headings:

- **Control environment**

The Directors have implemented an organisation structure with clearly defined lines of responsibility and delegation of authority. Ethical values and control consciousness are communicated to managers and staff via performance appraisal and development and training programmes.

- **Risk management**

Executive Directors have a responsibility for identifying the risks facing the businesses, and for putting in place procedures to mitigate and monitor such risks. Risks are formally assessed by the Board during the annual business planning process.

- **Information systems**

The Group has a comprehensive system of financial reporting. The annual budget and rolling three-year forecast is approved by the Executive Directors, and the Board approves the Group's budget. Actual results are reported monthly to the Board and variances against budget are monitored by the Executive Directors. Revised forecasts for the year are prepared each month and there is also monthly cash reporting.

- **Control procedures**

The Group maintains written financial procedures. Large capital expenditure projects require Board approval.

A monitoring system of rolling checks is in place to ensure compliance with control procedures and results are reported back to the Audit Committee.

The Board reviews the operation and effectiveness of the control procedures on a regular basis. Internal controls are constantly reviewed and updated where necessary. The Directors consider that there have been no weaknesses in internal control that have resulted in any material losses, contingencies or uncertainties requiring disclosure in the accounts.

## Authority to issue shares and waiver of pre-emption rights

The Directors are seeking general authority to issue up to a maximum amount of 14,541,304 ordinary shares of 2 pence each being 30% of the issued share capital at the date of this report and the waiver of pre-emption rights over the issue of up to a maximum amount of 2,423,550 ordinary shares of 2 pence each being 5% of the issued share capital at the date of this report. The waiver will enable the issue of shares without first offering those shares to existing shareholders. The current authority expires at the conclusion of the Annual General Meeting being held on 31 October 2000.

There are no plans at present to issue any new shares. The authority and waiver sought will lapse at the earlier of the conclusion of the 2001 Annual General Meeting or fifteen months from the date of approval of the resolution.

## Directors' Report continued

### Supplier payment policy

The company's policy, which is also applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the UK group at the year end were equivalent to 22 (1999: 27) days' purchases, based on the average daily amount invoiced by suppliers during the year.

### Charitable and political contributions

During the year the Group made a charitable donation for the amount of £3,000 (1999: £Nil) to the Institute of Cancer Research in memory of Dr Christopher Dean, who was a Scientific Adviser for K S Biomedix, and who died during the year. There were no political contributions.

### Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of employees who are disabled persons should, as far as possible, be identical with that of all other employees.

### Employee consultation

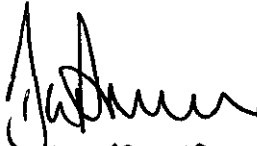
The group places considerable value on the involvement of its employees and has a practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the group.

### Auditors

The Directors will place a resolution before the Annual General Meeting to reappoint Arthur Andersen as auditors for the ensuing year.

42-46 High Street  
Esher  
Surrey  
KT10 9QY  
12 September 2000

By order of the Board,  
Dr S J Powell  
Chief Executive Officer

  
D W ARMOUR  
COMPANY SECRETARY

# Remuneration Report

## Report of the Board on the remuneration of Directors

The Committee comprises the Non-Executive Chairman, Basil Butler and the two Non-Executive Directors. The Chairman of the remuneration committee is Dr Brian Morgan. The committee meets as required and at least once a year.

The task of the Committee is to make recommendations to the Board on the framework of Executive remuneration and to determine annually the individual salaries and other terms and conditions of employment of the Executive Directors and other senior executives. The Committee also determines the terms of any discretionary share schemes in which Executive Directors and senior executives may be invited to participate.

The objective of the Group's remuneration policy is:

- To reward all employees competitively, enabling the Company to recruit, motivate and retain employees of high calibre, while avoiding paying more than is necessary.
- To ensure that senior management remuneration and incentives are aligned with the performance of the Group and the interests of the shareholders.

## Salaries

Salaries of Executive Directors are reviewed by the Committee annually. The Committee uses surveys conducted by external remuneration consultants and information available in the annual reports of similar companies as a source of market information. The Committee takes account of pay and employment conditions elsewhere in the Group when determining annual salary increases.

The board has agreed performance criteria with the executive directors for determining their performance.

## Director's remuneration

Name of Director	Basic salary £	Taxable benefits £	Fees £	Annual bonus £	2000 Total £	1999 Total £
<i>Executive</i>						
Dr K S Tan	76,000	—	—	1,500	<b>77,500</b>	64,200
M W Myerscough	76,000	—	—	1,500	<b>77,500</b>	64,200
Dr S J Powell	36,667	—	—	—	<b>36,667</b>	—
<i>Non-Executive</i>						
B R R Butler	—	—	12,000	1,500	<b>13,500</b>	10,500
J J Wright	—	—	12,000	1,500	<b>13,500</b>	10,500
Dr B Morgan	—	—	12,000	1,500	<b>13,500</b>	7,000
	<u>188,667</u>	<u>—</u>	<u>36,000</u>	<u>7,500</u>	<u><b>232,167</b></u>	<u>156,400</u>

## Remuneration Report continued

### Non-Executive Directors' remuneration

The fees of Non-Executive Directors are set by the Executive Directors. Non-Executive Directors currently participate in the Group's share option scheme and annual discretionary bonus scheme.

### Bonus schemes

The Company operates an annual discretionary bonus scheme for all employees. The maximum bonus payment is 30% of salary. The maximum amount of bonus paid during the year was £1,500.

### Long term incentive plan

The company does not operate a long term incentive plan.

### Service contracts

Service contracts of Executive Directors have a notice period of one year. In the event of early termination, compensation to Directors is capped at one year's salary. Service contracts are to be amended where possible and new contracts will require any compensation payments to be paid over a twelve-month period, to be reduced in the event of termination for poor performance and to cease in the event that new employment is found.

### Share schemes

The Company operates an Approved Employee Share Option Scheme for qualifying employees. Options granted under these schemes are not subject to performance criteria. Share options are granted at the mid market price prevailing on the date of grant.

On 19 October 1999 Dr M Wiles and on 1 December 1999 Dr S J Powell were granted options to acquire up to 150,000 and 350,000 ordinary shares of 2p each respectively at an exercise price of £3.57 and £4.21 per share respectively.

The granting of these options was recommended by the remuneration committee and were granted under individual options agreements to facilitate the recruitment and long term retention of the services of Dr Wiles and Dr Powell which would otherwise not have been possible.

Both option agreements contain identical terms.

Benefits under the option agreements are not pensionable. The options are exercisable (while the participant remains a Director or employee of the Company or a subsidiary of the Company) at any time during the period starting three years after the date of grant and ending ten years after the date of grant. If the options are not exercised within ten years of their grant, they will lapse. If the option holder leaves employment with the Company or a participating subsidiary, he may at the sole discretion of the Board exercise his options for a period of six months following his departure if the reason for his leaving is injury, disability, redundancy, retirement or the sale of the business or subsidiary for which he works. If the option holder dies, his personal representatives may exercise his option during the twelve months following his death. Early exercise is also allowed in the event of an amalgamation, reconstruction, voluntary winding-up or take-over of the Company.

Options granted are not transferable other than with the Directors' approval.

In the event of any variation in the share capital of the Company, the number of ordinary shares comprising any option and/or the exercise price may be adjusted by the board, subject to the auditors confirming in writing that such adjustment is, in their opinion, fair and reasonable.

During the year options over 150,000 ordinary shares issued under an identical option agreement lapsed.

**Directors' interests in shares**

	At start of year Beneficial ownership	At end of year Beneficial ownership
Dr K S Tan	28,951,460	28,951,460
M W Myerscough	—	—
Dr S J Powell	—	—
B R R Butler	100,937	190,937
J J Wright	517,000	472,000
Dr B Morgan	—	—

**Director's share options**

	At 1 June 1999	Granted	Exercised	At 31 May 2000	Date of Expiry	Exercise price	Gain on Exercise in 2000 (1999) £	Notional gain on options held at 31 May 2000 £
B R R Butler	300,000	—	150,000	150,000	6/9/2001	20p	1,017,000 (190,000)	726,750
J J Wright	470,000	—	300,000	170,000	6/9/2001	20p	2,034,000 (152,000)	823,650
Dr B Morgan	100,000	—	—	100,000	7/12/2008	233½p	—	271,000
M W Myerscough	800,000	—	345,000	455,000	6/9/2001	20p	2,339,100 (190,000)	2,204,475
Dr S J Powell	—	350,000	—	350,000	31/12/2009	421p	—	292,250
							<u>5,390,100</u>	

Dr B Morgan  
Chairman

Remuneration Committee  
12 September 2000

## Statement of Directors' Responsibilities

### Statement of 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 Group and of the profit or loss of the Group for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Going concern

After making enquiries the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.



# Auditors' Report

## To the Shareholders of K S Biomedix Holdings Plc

We have audited the accounts on pages 18 to 30 which have been prepared under the historical cost convention and the accounting policies set out on pages 21 to 23.

### Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report including, as described on page 16, preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, 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 or the Listing Rules regarding directors' remuneration and transactions with the company and the group is not disclosed.

We review whether the corporate governance statement on pages 10 and 11 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

### 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 accounts. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company and of the group, 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 and of the group at 31 May 2000 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen  
Chartered Accountants and Registered Auditors

Abbots House  
Abbey Street  
Reading  
Berkshire  
RG1 3BD

12 September 2000

# Consolidated Profit & Loss Account

For the year ended 31 May 2000

	Notes	2000 £	1999 £
<b>Turnover</b>	3	<b>286,845</b>	16,528
Cost of sales		<u>(98,464)</u>	<u>(6,518)</u>
<b>Gross profit</b>		<b>188,381</b>	10,010
Administrative expenses		<u>(2,994,321)</u>	<u>(1,846,888)</u>
<b>Operating loss</b>		<b>(2,805,940)</b>	(1,836,878)
Finance income (net)	4	<u>490,917</u>	<u>477,911</u>
<b>Loss on ordinary activities before taxation</b>	5	<b>(2,315,023)</b>	(1,358,967)
Tax on loss on ordinary activities	6	<u>—</u>	<u>—</u>
<b>Loss on ordinary activities after taxation</b>		<b>(2,315,023)</b>	(1,358,967)
Minority interests	22	<u>158,588</u>	<u>57,574</u>
<b>Retained loss for the year</b>		<b>(2,156,435)</b>	(1,301,393)
<b>Loss per share – basic</b>	8	<b>(4.7p)</b>	(2.8p)
<b>Loss per share – diluted</b>	8	<b>(4.7p)</b>	(2.8p)

All of the results relate to continuing operations. A statement of movements on reserves is given in note 17.

The accompanying notes are an integral part of this consolidated profit and loss account.

# Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 May 2000

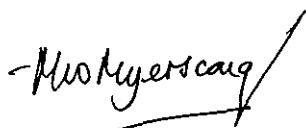
	2000 £	1999 £
Loss for the year	<b>(2,156,435)</b>	(1,301,393)
Gain on foreign currency translation	<u>30,234</u>	<u>12,874</u>
<b>Total losses recognised</b>	<b>(2,126,201)</b>	(1,288,519)

## Balance Sheet

31 May 2000

	Notes	Group		Company	
		2000 £	1999 £	2000 £	1999 £
<b>Fixed assets</b>					
Tangible assets	9	1,385,409	1,183,252	—	—
Investments	10	—	—	754,001	754,001
		<u>1,385,409</u>	<u>1,183,252</u>	<u>754,001</u>	<u>754,001</u>
<b>Current assets</b>					
Stocks	12	49,387	59,362	—	—
Debtors	13	392,992	141,959	5,732,410	4,017,045
Cash at bank and in hand		<u>19,965,993</u>	<u>6,246,056</u>	<u>19,935,922</u>	<u>5,989,506</u>
		<u>20,408,372</u>	<u>6,447,377</u>	<u>25,668,332</u>	<u>10,006,551</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>(580,695)</u>	<u>(186,586)</u>	<u>(33,411)</u>	<u>(11,937)</u>
<b>Net current assets</b>		<u>19,827,677</u>	<u>6,260,791</u>	<u>25,634,921</u>	<u>9,994,614</u>
<b>Total assets less current liabilities</b>		<u>21,213,086</u>	<u>7,444,043</u>	<u>26,388,922</u>	<u>10,748,615</u>
<b>Creditors: amounts falling due after more than one year</b>	15	<u>(127,103)</u>	—	—	—
Provisions for liabilities and charges	11	<u>(324,333)</u>	—	<u>(324,333)</u>	—
<b>Net assets</b>		<u>20,761,650</u>	<u>7,444,043</u>	<u>26,064,589</u>	<u>10,748,615</u>
<b>Share capital and reserves</b>					
Called-up share capital	16	969,420	906,781	969,420	906,781
Share premium account	17	25,302,475	9,781,247	25,302,475	9,781,247
Other reserves	17	916,254	916,254	—	—
Profit and loss account	17	<u>(6,549,745)</u>	<u>(4,423,544)</u>	<u>(207,306)</u>	<u>60,587</u>
<b>Equity shareholders' funds</b>	18	<u>20,638,404</u>	<u>7,180,738</u>	<u>26,064,589</u>	<u>10,748,615</u>
Minority equity interests	22	<u>123,246</u>	<u>263,305</u>	—	—
<b>Total capital employed</b>		<u>20,761,650</u>	<u>7,444,043</u>	<u>26,064,589</u>	<u>10,748,615</u>

On behalf of the Board



M W Myerscough Director  
12 September 2000

The accompanying notes are an integral part of this balance sheet.

# Consolidated Cash Flow Statement

For the year ended 31 May 2000

	Notes	2000 £	1999 £
<b>Net cash outflow from operating activities</b>	19	<b>(1,942,311)</b>	(1,827,912)
Returns on investments and servicing of finance	20	<b>316,057</b>	430,974
Capital expenditure	20	<b>(478,484)</b>	(1,016,923)
<b>Cash outflow before management of liquid resources and financing</b>		<b>(2,104,738)</b>	(2,413,861)
Management of liquid resources	20	<b>(13,840,428)</b>	2,400,781
Financing	20	<b>15,817,049</b>	66,000
<b>(Decrease) increase in cash in the year</b>	20	<b>(128,117)</b>	52,920

The accompanying notes are an integral part of this cash flow statement.

# Notes to the Accounts

31 May 2000

## 1 History and basis of presentation

The K S Biomedix Group has focused its efforts on the research and development of pharmaceutical products associated with several scientific patents held by the Company or its subsidiary undertakings and has yet to generate significant revenues from sales. To date, the Group's activities have been financed by the issue of securities, the sale of investments and advances from shareholders.

The Directors have prepared cash flow projections for the Group through to 30 November 2001. On the basis of these projections, the Directors consider that the Group has sufficient funds to continue its current operations for the foreseeable future and have prepared these financial statements on the going concern basis. However, the Group may require further funding to complete the development of its products before it is able to generate significant revenues. The terms on which such funding may be available, if at all, will be dependent upon the results of future research and development activities.

## 2 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year is set out below.

### (a) Basis of accounting

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

### (b) Basis of consolidation

The Group accounts consolidate the accounts of K S Biomedix Holdings Plc and all its subsidiary undertakings made up to 31 May 2000.

As part of a Group reconstruction K S Biomedix Holdings Plc acquired K S Biomedix Limited in April 1995. This purchase was accounted for under merger accounting principles. Under this method, results are reported as if the acquiring and acquired companies have been combined since the earlier date of incorporation. No purchased goodwill is created on acquisition and the assets and liabilities of the acquired company are not adjusted to reflect their fair or market values.

All other subsidiaries are accounted for under the acquisition method, where the results are consolidated from the date of acquisition.

Goodwill arising on acquisitions in the year ended 31 May 1998 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal. No acquisitions have been made subsequent to 31 May 1998.

### (c) Intangible fixed assets

Research and development expenditure is written off in the year of expenditure.

Patent costs comprising legal fees and other direct costs incurred in obtaining patents are written off in the year of expenditure.

### (d) Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on the following basis at the following annual rates:

Freehold property	5% per annum (straight line)
Property improvements	25% per annum (reducing balance)
Fittings and equipment	25% per annum (reducing balance)
Motor vehicles	25% per annum (reducing balance)

### (e) Government grants

Government grants in respect of capital items are accounted for as deferred income and amortised over the expected useful life of the asset concerned. Government grants in respect of revenue items are credited to the profit and loss account in the related period as the related expenditure is incurred.

Notes to the Accounts *continued*

31 May 2000

**2 Accounting policies continued***(f) Fixed asset investments*

Fixed asset investments are shown at cost less any provision for impairment.

In the company balance sheet, for investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

*(g) Stocks*

Stocks are stated at the lower of cost and net realisable value. Cost includes materials and expenditure incurred in order to bring stock to its present location. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

*(h) Taxation*

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

*(i) Turnover*

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Annual royalty payments are recognised evenly over the period to which they relate.

*(j) Leases*

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

*(k) Foreign currency*

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

The results of overseas operations are translated at the closing rates of exchange at the end of the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets are dealt with through reserves. All other exchange differences are included in the profit and loss account.

*(l) Derivative financial instruments*

The Group's financial instruments comprise cash, liquid resources and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group does not enter into derivative transactions for speculative purposes. It has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are interest rate risk, and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged during the year.

## 2 Accounting policies continued

### (m) Interest rate risk

The Group finances its operations through existing funds placed on the money markets. The risk is that movements in interest rates will affect investment income from cash on deposit. The risk is managed by monitoring of banking arrangements.

### (n) Foreign currency risk

The Group has one significant overseas subsidiary Asiaprise Sdn Bhd which operates in Malaysia and whose revenues and expenses are denominated mainly in Malaysian ringits.

## 3 Segment information

Classes of business/Turnover by origin:

	R&D/United Kingdom		Hospital/Far East		Group	
	2000	1999	2000	1999	2000	1999
	£	£	£	£	£	£
<i>Turnover</i>						
Sales to third parties	163,725	13,380	123,120	3,148	286,845	16,528
<i>Segment loss</i>	(2,398,019)	(1,654,638)	(407,921)	(182,240)	(2,805,940)	(1,836,878)
<i>Net assets</i>						
Segment net assets						
Group	20,437,317	6,751,136	201,087	429,602	20,638,404	7,180,738
Minority interest	—	—	123,246	263,305	123,246	263,305
	20,437,317	6,751,136	324,333	692,907	20,761,650	7,444,043

## 4 Finance income (net)

	2000	1999
	£	£
Bank interest receivable	502,728	477,911
Interest element of finance lease rentals	(11,811)	—
	490,917	477,911

## 5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging (crediting):

	2000	1999
	£	£
Auditors' remuneration		
— audit services	17,034	15,500
— non-audit services	6,500	8,100
Depreciation of tangible fixed assets		
— owned	261,115	167,545
— held under finance lease contracts	58,025	—
Property rentals under operating leases	36,935	38,001
Research and development costs	978,189	671,670
Government grants receivable	(9,063)	(9,063)
Provision for Asiaprise net assets	324,333	—

## 6 Tax on loss on ordinary activities

Tax losses available to be carried forward at 31 May 2000 are estimated at approximately £5.5M (1999: £3.5M), subject to the agreement of the Inland Revenue.

Notes to the Accounts continued

31 May 2000

**7 Staff costs**

Particulars of employees (including Executive Directors) are shown below:

The average monthly number of employees (including Executive Directors) was:

	2000 Number	1999 Number
R & D	10	7
Hospital	31	3
Administration	7	7
	<u>48</u>	<u>17</u>

Their aggregate remuneration comprised:

	2000 £	1999 £
Wages and salaries	745,872	456,080
Social security costs	145,383	45,380
	<u>891,255</u>	<u>501,460</u>

Directors' emoluments:

Name of Director	Basic salary £	Fees £	Annual bonus £	2000 Total £	1999 Total £
<i>Executive</i>					
Dr K S Tan	76,000	—	1,500	77,500	64,200
M W Myerscough	76,000	—	1,500	77,500	64,200
Dr S J Powell	36,667	—	—	36,667	—
<i>Non-Executive</i>					
J J Wright	—	12,000	1,500	13,500	10,500
B R R Butler (Chairman)	—	12,000	1,500	13,500	10,500
Dr B Morgan	—	12,000	1,500	13,500	7,000
	<u>188,667</u>	<u>36,000</u>	<u>7,500</u>	<u>232,167</u>	<u>156,400</u>

Annual bonuses were determined by the Remuneration Committee.

Directors did not receive any taxable benefits or pensions from the group during the year.

The aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company.

Share options over ordinary shares have been granted to Directors of K S Biomedix Holdings Plc as follows:

	1999 Number	Granted Number	Exercised Number	2000 Number	Exercise date	Exercise price	Gains on Exercise 2000 £	Gains on Exercise 1999 £
J J Wright	470,000	—	300,000	170,000	Before 6/9/2001	20p	2,034,000	152,000
M W Myerscough	800,000	—	345,000	455,000	Before 6/9/2001	20p	2,339,100	190,000
B R R Butler	300,000	—	150,000	150,000	Before 6/9/2001	20p	1,017,000	190,000
Dr B Morgan	100,000	—	—	100,000	After 7/12/2001 & Before 7/12/2008	233½p	—	—
Dr S J Powell	—	350,000	—	350,000	After 1/12/2002 & Before 31/12/2009	421p	—	—
							<u>5,390,100</u>	<u>532,000</u>

The market price of ordinary shares at 31 May 2000 was 504½ p and the range during the year was 349p – 822½p. The options were exercised on 29 February 2000 at a price of 698p.



## 8 Loss per share

The calculations of loss per share are based on the following losses and numbers of shares.

	Basic		Diluted	
	2000 £	1999 £	2000 £	1999 £
Loss for the financial year	<b>2,156,435</b>	1,301,393	<b>2,156,435</b>	1,301,393
Weighted average number of shares:				
			2000 Number of shares	1999 Number of shares
For basic loss per share			<b>46,130,386</b>	45,233,805
Exercise of share options			<b>1,459,303</b>	1,917,362
For diluted loss per share			<b>47,589,689</b>	47,151,167

Since the Group reported a net loss, diluted loss per share is equal to basic loss per share.

## 9 Tangible fixed assets

	Freehold property £	Property improvements £	Fittings and equipment £	Motor vehicles £	Total £
<b>Group</b>					
<i>Cost</i>					
1 June 1999	359,099	69,173	1,002,492	27,149	1,457,913
Additions	230,721	—	247,763	—	478,484
Currency translation adjustment	—	—	46,991	1,277	48,268
<b>31 May 2000</b>	<b>589,820</b>	<b>69,173</b>	<b>1,297,246</b>	<b>28,426</b>	<b>1,984,665</b>
<i>Depreciation</i>					
1 June 1999	17,955	38,957	209,336	8,413	274,661
Charge for the year	29,491	9,051	275,703	4,895	319,140
Currency translation adjustment	—	—	5,021	434	5,455
<b>31 May 2000</b>	<b>47,446</b>	<b>48,008</b>	<b>490,060</b>	<b>13,742</b>	<b>599,256</b>
<i>Net book value</i>					
31 May 1999	341,144	30,216	793,156	18,736	1,183,252
<b>31 May 2000</b>	<b>542,374</b>	<b>21,165</b>	<b>807,186</b>	<b>14,684</b>	<b>1,385,409</b>

The Company does not own any tangible fixed assets.

The net book value of all tangible fixed assets held under finance lease contracts is £233,909.

Notes to the Accounts continued

31 May 2000

**10 Investments**

## Fixed asset investments

	Company	
	2000	1999
	£	£
Subsidiary undertakings	<b>754,001</b>	<b>754,001</b>

Fixed asset investments comprise the following subsidiary undertakings:

	Country of incorporation and operation	Principal activity	Proportion of ordinary shares held
K S Biomedix Limited*	UK	Development of pharmaceutical products	100%
Asiaprise Sdn Bhd	Malaysia	Research facility and cancer hospital	62%

\*Held directly by KS Biomedix Holdings plc.

**11 Asiaprise**

## (a) Provision for net assets

The net assets of Asiaprise at 31 May 2000 were £324,333. Due to uncertainty in the current economic environment in Malaysia, the Directors have provided for the assets in the accounts of KSB Holdings Plc to reflect the holding value of the investment of £1.

## (b) Loan from Directors

During the year, Dr K S Tan, a Director of K S Biomedix Holdings Plc and also a Director of Asiaprise Sdn. Bhd, loaned Asiaprise for the amount equivalent to £86,845 (RM493,994) which is included in creditors. The loan is unsecured, bearing interest of 6.5% which is paid monthly in arrears.

**12 Stocks**

	Group		Company	
	2000	1999	2000	1999
	£	£	£	£
Finished goods for resale	<b>49,387</b>	59,362	—	—

There is no material difference between the balance sheet value of stocks and their replacement cost.

**13 Debtors**

	Group		Company	
	2000	1999	2000	1999
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	<b>24,949</b>	1,100	—	—
Amounts due from subsidiary undertaking	—	—	<b>5,450,917</b>	3,936,252
VAT	<b>61,834</b>	50,583	<b>10,014</b>	6,018
Other debtors	<b>306,209</b>	90,276	<b>271,479</b>	74,775
	<b>392,992</b>	141,959	<b>5,732,410</b>	4,017,045

**14 Creditors:** amounts falling due within one year

	Group		Company	
	2000 £	1999 £	2000 £	1999 £
Trade creditors	<b>153,879</b>	52,074	<b>4,693</b>	10,331
Accruals	<b>276,033</b>	108,450	<b>28,718</b>	1,606
Obligations under finance leases	<b>106,079</b>	—	—	—
Taxation and social security	<b>24,073</b>	16,999	—	—
Deferred income	<b>20,631</b>	9,063	—	—
	<b>580,695</b>	186,586	<b>33,411</b>	11,937

**15 Creditors:** amounts falling due after more than one year

	Group		Company	
	2000 £	1999 £	2000 £	1999 £
Obligations under finance leases	<b>127,103</b>	—	—	—

**16 Share capital**

The authorised share capital of the Company and the called-up and fully-paid amounts were as follows:

	2000		1999	
	Number	£	Number	£
<i>Authorised</i>				
Ordinary shares of 2p each	<b>100,000,000</b>	<b>2,000,000</b>	100,000,000	2,000,000
<i>Called-up, issued and fully-paid</i>				
Ordinary shares of 2p each	<b>48,471,015</b>	<b>969,420</b>	45,339,065	906,781
			Number	£
At beginning of year			45,339,065	906,781
Issued for cash consideration			3,131,950	62,639
At end of year			<b>48,471,015</b>	<b>969,420</b>

During the year the company issued 3,131,950 ordinary shares, including 795,000 options exercised by Director (details included in note 7) and 70,000 exercised by employees.

In addition to the Directors' share options in note 7 above, other employees have been granted options over shares in the company as follows:

	1999 Number	Number of options lapsed	Number of options exercised	Number of options granted	2000 Number	Exercise price	Exercise date Before
Executive scheme	250,000	—	(70,000)	—	<b>180,000</b>	20p	6.9.2001
Individual option agreements	150,000	(150,000)	—	—	—	233½p	7.12.2001 to 7.12.2008
Individual option agreements	—	—	—	150,000	<b>150,000</b>	357p	19.10.2002 to 18.10.2009
Employee scheme	117,387	—	—	—	<b>117,387</b>	115p	28.1.2001 to 27.1.2008
Employee scheme	14,400	—	—	—	<b>14,400</b>	312½p	22.3.2002 to 22.3.2009
Employee scheme	—	—	—	7,653	<b>7,653</b>	392p	11.10.2002 to 10.10.2009

Notes to the Accounts continued

31 May 2000

**17 Reserves**

The movements on reserves during the year were as follows:

	Group			Company	
	Non-distributable Share premium account £	Other reserves £	Distributable Profit and loss account £	Non- distributable Share premium account £	Distributable Profit and loss account £
As at 1 June 1999	9,781,247	916,254	(4,423,544)	9,781,247	60,587
Issue of shares	15,521,228	—	—	15,521,228	—
(Loss) for the year	—	—	(2,156,435)	—	(267,893)
Currency translation adjustment	—	—	30,234	—	—
As at 31 May 2000	<u>25,302,475</u>	<u>916,254</u>	<u>(6,549,745)</u>	<u>25,302,475</u>	<u>(207,306)</u>

No profit and loss account is presented for the Company as provided by section 230 of the Companies Act 1985. The loss for the financial year dealt with in the accounts of the Company was £267,893 (1999: profit £19,051).

Other reserves comprise negative goodwill on acquisition of Asiaprise of £496,967 and share premium recorded on shares issued by KS Biomedix Limited prior to the group reconstruction.

**18 Movement on equity shareholders' funds**

	Group	
	2000 £	1999 £
Loss for the financial year	<b>(2,126,201)</b>	(1,288,519)
Proceeds of share issues (net of issue costs)	<b>15,583,867</b>	66,000
Net increase (decrease) in equity shareholders' funds	<b>13,457,666</b>	(1,222,519)
Opening equity shareholders' funds	<b>7,180,738</b>	8,403,257
Closing equity shareholders' funds	<b>20,638,404</b>	7,180,738

**19 Reconciliation of operating loss to net cash outflow from operating activities**

	Group	
	2000 £	1999 £
Operating loss	<b>(2,805,940)</b>	(1,836,878)
Depreciation	<b>319,140</b>	167,545
Decrease (increase) in stock	<b>9,975</b>	(59,362)
Increase in debtors	<b>(75,898)</b>	(34,833)
Increase (decrease) in creditors	<b>610,412</b>	(64,384)
Net cash outflow from operating activities	<b>(1,942,311)</b>	(1,827,912)

**20 Analysis of cash flows**

	2000 £	1999 £
<i>Return on investments and servicing of finance</i>		
Interest received	327,868	430,974
Interest element of finance lease rentals	(11,811)	—
	<u>316,057</u>	<u>430,974</u>
<i>Capital expenditure and financial investment</i>		
Purchase of tangible fixed assets	(478,484)	(1,019,817)
Sale of tangible fixed assets	—	2,894
	<u>(478,484)</u>	<u>(1,016,923)</u>
<i>Financing</i>		
Issue of ordinary share capital	15,583,867	66,000
Financing of existing fixed assets	233,182	—
	<u>15,817,049</u>	<u>66,000</u>
<i>Management of liquid resources</i>		
Movement in cash placed on term deposit	(13,840,428)	2,400,781

*Analysis of net funds*

	1998 £	Cashflow £	Exchange movement £	1999 £	Cashflow £	Other changes £	Exchange movement £	2000 £
Cash	104,325	52,920	—	157,245	(128,117)	—	386	29,514
Liquid resources*	8,473,145	(2,400,781)	16,447	6,088,811	—	13,840,428	7,240	19,936,479
Finance lease due within one year	—	—	—	—	—	(106,079)	—	(106,079)
Finance lease due after one year	—	—	—	—	—	(127,103)	—	(127,103)
Net funds	<u>8,577,470</u>	<u>(2,347,861)</u>	<u>16,447</u>	<u>6,246,056</u>	<u>(128,117)</u>	<u>13,607,246</u>	<u>7,626</u>	<u>19,732,811</u>

\*Liquid resources represent term deposits of less than one year.

**21 Reconciliation of net cash flow to movement in net funds**

	2000 £	1999 £
(Decrease) increase in cash in the year	(128,117)	52,920
Cash inflow from increase in financing	(233,182)	—
Cash inflow (outflow) from movement in liquid resources	13,840,428	(2,400,781)
Exchange movement	7,626	16,447
Movement in net funds in the year	<u>13,486,755</u>	<u>(2,331,414)</u>
Net funds at start of year	6,246,056	8,577,470
Net funds at end of year	<u>19,732,811</u>	<u>6,246,056</u>

Notes to the Accounts *continued*

31 May 2000

**22 Minority interests**

	£
At 1 June 1999	263,305
Loss on ordinary activities after taxation	(158,588)
Currency translation adjustment	18,529
<b>At 31 May 2000</b>	<b>123,246</b>

**23 Guarantees and commitments***(a) Operating leases*

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings	
	2000 £	1999 £
<i>Group</i>		
Expiring in less than one year	18,378	—
Expiring between two and five years	—	36,756
	<b>18,378</b>	<b>36,756</b>

The Company has not entered into any operating leases.

*(b) Capital commitments*

	2000 £	1999 £
<i>Group</i>		
Contracted for but not provided for	—	282,460

**24 Derivatives and other financial instruments**

The notes to the accounts provide an explanation of the role that financial instruments have had during the year in creating or changing the risks the group faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in FRS 13: Derivatives and other financial instruments.

As permitted by FRS 13, short-term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

*Interest rate profile*

The group has no financial assets other than sterling cash deposits of £19,957,041 (1999: £6,137,689), which are part of the financing arrangements of the group and 50,922 Malaysian ringits (1999: 659,795 Malaysian ringits). The sterling cash deposits comprise deposits placed on money market at call, monthly and six monthly rates.

*Currency exposures*

There are no currency exposures from transactional sources. Such exposures would be the monetary assets and liabilities of the group that are not denominated in the operating currency of the operating unit.

The group has an investment of £1 in the Malaysian subsidiary resulting in minimal exposure.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the 2000 Annual General Meeting of the Company will be held at West LB Panmure Limited, New Broad Street House, 35 New Broad Street, London EC2M 1NH on 31 October 2000 at 10.00 a.m. for the following purpose:

	Resolution on Proxy Form
1. To receive the report of the Directors and the audited accounts of the Company for the year ended 31 May 2000.	1
2. To receive the report of the remuneration Committee.	2
3. To re-elect Mr Basil Butler as a Director of the Company.	3
4. To re-elect Dr Kim Tan as a Director of the Company.	4
5. To re-elect Mr Martin Myerscough as a Director of the Company.	5
6. To re-elect Mr Jeffrey Wright as a Director of the Company.	6
7. To re-elect Dr Brian Morgan as a Director of the Company.	7
8. To re-appoint Dr Steven Powell as a Director of the Company.	8
9. To re-appoint Messrs Arthur Andersen the retiring auditors and to authorise the Directors to determine their remuneration.	9

As Special Business to consider and if deemed fit to approve the following resolution as a Special Resolution.

10. (a) **THAT**, for the purposes of section 80 of the Companies Act 1985 ("the Act"), the Directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £290,826, provided that this authority shall expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling fifteen months from the date of the passing of this Resolution, except that the Company may, before the expiry of such period, make an offer or agreement which would, or might, require relevant securities to be allotted after the expiry of such period and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired, this authority to replace any existing like authority which is hereby revoked with immediate effect; and
- (b) **THAT** the Directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) pursuant to the authority conferred upon them by paragraph (a) above (as varied from time to time by the Company in general meeting) as if section 89(1) of the Act did not apply to any such allotment **PROVIDED THAT** such power shall be limited to:
- (i) the allotment of equity securities in connection with a rights issue or any other pre-emptive offer in favour of holders of equity securities where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be) to the respective amounts of equity securities held by them subject only to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or legal or practical difficulties under the laws of or the requirements of any recognised regulatory body in any territory or otherwise;

## Directors and Advisers

Directors	B R R Butler (Chairman and Non-Executive Director) Dr S J Powell (Chief Executive Officer) Dr K S Tan (Director) M W Myerscough (Finance Director) Dr B Morgan (Non-Executive Director) J J Wright (Non-Executive Director)
Secretary and Registered Office	D W Armour 42-46 High Street Esher Surrey KT10 9QY
Registered number	3006674
Sponsor	English Trust Company Limited 12a Charterhouse Square London EC1M 6AX
Nominated Brokers	WestLB Panmure Limited New Broad Street House 35 New Broad Street London EC2M 1NH
Corporate Finance advisers	NM Rothschild & Sons Limited New Court St. Swithin's Lane London EC4P 4DU
Auditors	Arthur Andersen Abbots House Abbey Street Reading Berkshire RG1 3BD
Solicitors	CMS Cameron McKenna Mitre House 160 Aldersgate Street London EC1A 4DD