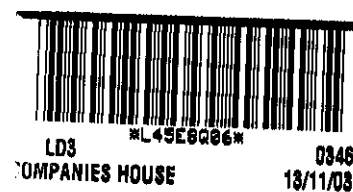


Sterix Limited
Annual report
for the year ended 30 June 2003

Registered Number 03337831



Sterix Limited
Annual report
for the year ended 30 June 2003
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Sterix Limited

Directors and advisers

Directors

Dr J Burt
A Goodman
Dr P Johnson
Dr J Normanton
Professor B Potter
Professor M Reed

Secretary and Registered Office

A Booth
The Magdalen Centre
Robert Robinson Avenue
Oxford Science Park
Oxford
OX4 4GA

Auditors

PricewaterhouseCoopers LLP
Abacus House
Castle Park
Cambridge
CB3 0AN

Bankers

Barclays Bank plc
54 Lombard Street
London
EC3P 3AH

Sterix Limited

Directors' report for the year ended 30 June 2003

The directors present their report and the audited financial statements of the company for the year ended 30 June 2003.

Principal activities

The principal business of Sterix Limited is to research and develop human therapeutic products.

Review of business and future developments

The profit and loss account for the year is set out on page 5.

During the year the company's research and development activities were in the main undertaken via contract research with external academic institutions. In addition, limited research and development activities were undertaken at the company's laboratories at its Oxford headquarters. However, the Oxford laboratory operation was discontinued in August 2003 in response to the company's funding situation.

The directors intend to pursue further funding arrangements to enable the company to continue its research and development activities for the foreseeable future.

Post balance sheet events

On 2 October 2003 the company received the proceeds of the second tranche of investor funding, comprising £475,000 of non-convertible loan stock at par and an equity investment of £25,000 (see note 26).

Research and development

The company is currently engaged in the research and development of pharmaceuticals for the treatment of human disease. Expenditure in the year was £3,435,080 (2002: £3,647,560).

Dividends

The directors do not recommend the payment of a dividend (2002: £nil).

Directors

The directors are listed below:

Dr J Burt	(Non-Executive Director)	(appointed 12 February 2003)
A Cannon	(Non-Executive Director)	(resigned 11 April 2003)
A Goodman	(Non-Executive Director & Deputy Chairman)	
Dr P Johnson	(Executive Director & Chairman)	
S Lambert	(Non-Executive Director)	(resigned 22 April 2003)
Professor G Lunt	(Non-Executive Director)	(appointed 12 February 2003, resigned 5 June 2003)
Dr J Normanton	(Executive Director)	
Professor B Potter	(Executive Director)	
Professor M Reed	(Executive Director)	
S Searle	(Non-Executive Director)	(appointed 9 October 2002, resigned 11 April 2003)
K Woodley	(Non-Executive Director)	(resigned 5 June 2003)

Sterix Limited

Directors' interests in shares

The interests of the directors in the shares of the company at 30 June 2002 and 30 June 2003 were as follows:

Directors	'B' ordinary shares of 5p each Number
Dr J R Normanton	572
Professor B V L Potter	1,714
Professor M J Reed	857

Directors' interests in share options

	Share options held at 30 June 2002 and at 30 June 2003 Number	Exercise price 5p per share
Dr P Johnson	392	

The share options are exercisable at the earliest of:

- 20 December 2003;
- the listing of the whole of any class of the company's share capital on the London Stock Exchange or Alternative Investment Market; or
- the unconditional completion of the sale of the whole of the issued share capital of the company in a single transaction.

The share options were granted on 11 May 2001. They are not exercisable on or after the tenth anniversary of the date of grant. No share options were exercised during the year. No share options lapsed in the year.

Other than as shown above, no director had any interest in the shares of the company at 30 June 2003 or during the year.

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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently, that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 30 June 2003 and that applicable accounting standards have been followed.

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.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the annual general meeting.

By order of the board



A Booth
Company Secretary

Sterix Limited

Independent auditors' report to the members of Sterix Limited

We have audited the financial statements on pages 5 to 19.

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. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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.

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 disclosures made in the financial statements concerning the basis of preparation. The financial statements have been prepared on a going concern basis and the validity of this depends on the company being able to secure its financial position. The financial statements do not include any adjustments that would result from a failure to secure such finance. Details of the circumstances relating to this fundamental uncertainty are described in note 1 to the financial statements. 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 30 June 2003 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 LLP
Chartered Accountants and Registered Auditors
Cambridge

10 November 2003

Sterix Limited

Profit and loss account for the year ended 30 June 2003

	Notes	2003 £	2002 £
Turnover	2	1,646,402	198,585
Operating expenses	3	(4,116,701)	(4,374,753)
Operating loss		(2,470,299)	(4,176,168)
Interest receivable and similar income	6	34,985	70,497
Interest payable and similar charges	7	(295,963)	(32,997)
Loss on ordinary activities before taxation	8	(2,731,277)	(4,138,668)
Tax on loss on ordinary activities	9	159,487	-
Loss for the year	20, 21	(2,571,790)	(4,138,668)

All activities relate to continuing operations.

The company has no recognised gains and losses other than those included in the results above, and accordingly no separate statement of total recognised gains and losses has been presented.

Sterix Limited

Balance sheet as at 30 June 2003

	Notes	2003 £	2002 £
Fixed assets			
Intangible assets	10	-	651,643
Tangible assets	11	66,873	37,670
		66,873	689,313
Current assets			
Debtors	12	917,885	127,852
Short-term investments	13	775,000	1,170,000
Cash at bank and in hand		28,775	64,564
		1,721,660	1,362,416
Creditors: amounts falling due within one year	14	(1,512,196)	(480,170)
Convertible loan stock	15	(1,440,697)	(1,004,602)
Net current liabilities		(1,231,233)	(122,356)
Total assets less current liabilities		(1,164,360)	566,957
Net (liabilities)/assets		(1,164,360)	566,957
Capital and reserves			
Called up share capital	18	1,724	950
Share premium account	20	8,385,621	7,612,195
Profit and loss account	20	(9,551,705)	(7,046,188)
Equity shareholders' (deficit)/funds	21	(1,164,360)	566,957

The financial statements on pages 5 to 19 were approved by the board of directors on **5 NOVEMBER 2003** and were signed on its behalf by:


 DR PETER JOHNSON
 Director

Sterix Limited

Cash flow statement for the year ended 30 June 2003

	Notes	2003 £	2002 £
Net cash outflow from continuing operating activities	27	(1,760,137)	(3,209,271)
Returns on investment and servicing of finance			
Interest received		35,967	74,184
Interest element of finance leases		(374)	(522)
Overdraft interest paid		(7)	(20)
Net cash inflow from returns on investment and servicing of finance		35,586	73,642
Capital expenditure			
Purchase of intangible fixed assets		(35,671)	-
Purchase of tangible fixed assets		(63,444)	(4,248)
Net cash outflow from capital expenditure		(99,115)	(4,248)
Management of liquid resources			
Decrease in short term investments		395,000	2,130,000
Net cash inflow from management of liquid resources		395,000	2,130,000
Net cash outflow before financing		(1,428,666)	(1,009,877)
Financing			
Capital element of finance leases		(1,893)	(1,951)
Share issue costs	21	-	(23,673)
Issue of ordinary share capital	18	25,000	-
Net proceeds from issue of convertible loan stock	15	960,451	972,147
Net proceeds from issue of non-convertible loan stock	16	409,319	-
Net cash inflow from financing		1,392,877	946,523
Decrease in cash in the period	28, 29	(35,789)	(63,354)

Sterix Limited

Notes to the financial statements for the year ended 30 June 2003

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, and which have been reviewed by the Board in accordance with Financial Reporting Standard ('FRS') 18 'Accounting Policies', is set out below.

Basis of preparing the financial statements – going concern assumption

The directors estimate that the cash and short term investments held by the company at the date of approval of the financial statements are not sufficient to continue funding its trading activities for a further twelve months from the date of approval of the financial statements. Accordingly, the directors are in discussions to secure the future financial position of the company. The directors are confident that this will be resolved within a timescale that will secure the future of the company for twelve months from the date of approval of the financial statements and therefore believe that it is appropriate that these financial statements are prepared on the going concern basis. This basis of preparation assumes that the company will continue in operational existence for the foreseeable future, the validity of which depends on the directors securing the financial position of the company.

If the company was unable to continue in operational existence for the foreseeable future, adjustments would have to be made to revise the balance sheet value of assets to their recoverable amounts, to provide for further liabilities that might arise, and to reclassify fixed assets as current assets.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Laboratory equipment	25%
Computer equipment - leased and owned	50%
Furniture and fixtures	25%

Depreciation is charged on assets in use from the commencement of the month in which they are brought into use.

Intangible fixed assets

Purchased intangible fixed assets are capitalised at cost and are amortised over a prudent estimate of the economic life of the asset after taking into account the risk factors associated with developing human therapeutic products. The principal annual rate used for this purpose is:

Patents	25%
---------	-----

The amortisation period is determined by reference to the estimated useful economic life of the intangible fixed asset. Provision is made against the carrying value of intangible fixed assets where an impairment in value is deemed to have occurred. Intangible assets generated internally are expensed as the costs associated with them are incurred.

Sterix Limited

1 Principal accounting policies (continued)

Short-term investments

Bank deposits, which are not repayable on demand without penalty, are treated as short-term investments.

Operating and finance leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Where fixed assets are financed by leasing agreements which transfer to the company substantially all the benefits and risks of ownership, the assets are treated as if they had been purchased outright and included in tangible fixed assets. The capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets.

Research and development

Research and development expenditure is written off as incurred.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange effective at the balance sheet date. Transactions in foreign currencies are recorded at the rate effective at the date of the transaction. All differences are taken to the profit and loss account.

Revenue recognition

Amounts received or receivable for services provided are recognised as revenue when the services are provided. Amounts received or receivable in respect of licence and royalty fees are recognised as revenue when the specific conditions stipulated in the relevant contracts or agreements have been satisfied or are recognised on a straight-line basis over the period of the agreement where there are no milestones. The residual income that has been received in advance is shown within creditors as deferred income. Recharges of costs relating to Intellectual Property are included in turnover.

Pension costs

The company contributes to individual pension plans held by some employees. The pension costs charged represent contributions paid by the company to individual pension plans and have been included as part of employment costs. The company provides no other post retirement benefits to its employees.

Deferred taxation

Provision is made for deferred taxation in accordance with FRS 19, 'Deferred taxation' on all material timing differences. Deferred tax assets are recognised to the extent that they are regarded as recoverable. Deferred tax assets and liabilities are not discounted.

Share options

In accordance with the provisions of Urgent Issues Task Force Abstract 17 ('UITF 17'), 'Employee share schemes', the company makes charges to the profit and loss account when options are granted or shares issued, the charge being the estimated intrinsic value of the shares at the date of grant less the exercise price of the options, or subscription price of the shares as the case may be. The charge is then credited back to reserves. The charge and credit are recognised on a straight line basis over the period between the date of grant and the earliest date of exercise.

Convertible and non-convertible debt

Convertible and non-convertible debt are initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the amortised finance cost each year and reduced by the interest paid. The finance cost is calculated as the difference between the total repayments and the net proceeds and amortised to the profit and loss account over the term of the loan stock. Convertible debt is reported as a liability until conversion occurs.

Sterix Limited

2 Turnover

The analysis by geographical area of the turnover is set out below:

	2003 £	2002 £
Japan	1,341,529	-
Europe	304,873	198,585
	1,646,402	198,585

3 Operating expenses

	2003 £	2002 £
Research and development	3,435,080	3,647,560
Administrative expenses	681,621	727,193
	4,116,701	4,374,753

Administrative expenses include a compensation charge of £66,273 (2002: £66,273) in respect of share options.

4 Directors' emoluments

	2003 £	2002 £
Aggregate emoluments	271,006	374,529
Company pension contributions to defined contribution schemes	32,886	31,608
Sums paid to third parties for directors' services	125,996	131,786
	429,888	537,923

Retirement benefits accrued to three directors (2002: three) under defined contribution schemes.

Highest paid director

	2003 £	2002 £
Aggregate emoluments	91,978	121,037
Company pension contributions to defined contribution schemes	14,640	14,105
	106,618	135,142

Sterix Limited

5 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was:

	2003 Number	2002 Number
By activity		
Research and development	5	3
Administration	4	4
	9	7

	2003 £	2002 £
Staff costs (for the above persons)		
Wages and salaries	492,079	541,212
Social security costs	50,218	47,543
Other pension costs	53,636	46,797
	595,933	635,552

6 Interest receivable and similar income

	2003 £	2002 £
On bank balances and short term investments	34,985	70,497

7 Interest payable and similar charges

	2003 £	2002 £
On bank overdrafts	7	20
On finance leases	374	522
On convertible debt	224,844	32,455
On non-convertible debt	70,738	-
	295,963	32,997

Sterix Limited

8 Loss on ordinary activities before taxation

	2003 £	2002 £
Loss on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year:		
Tangible owned fixed assets	34,241	26,704
Tangible fixed assets held under finance leases	-	4,393
Amortisation of intangible owned fixed assets	687,314	868,835
Auditors' remuneration:		
Audit	10,600	8,975
Non-audit services	5,450	6,225
Premises rent	89,604	85,683
Hire of plant and machinery under operating leases	3,663	3,360

9 Tax credit on loss on ordinary activities

	2003 £	2002 £
United Kingdom research and development tax credit at 16% (2002: 19.75%):		
Current year	159,487	-

No corporation tax liability arises on the results for the year due to the loss incurred. A tax credit has arisen as a result of tax losses being surrendered in respect of research and development expenditure.

At 30 June 2003, there were tax losses available for carry forward of approximately £6.0 million (2002: £4.4 million) subject to agreement with the Inland Revenue.

The value of the research and development tax credit for the year does not equal the value that would be produced by applying the UK standard rate of 16% (2002: 19.75%) for research and development tax credits to the loss before tax for the year. The differences are explained below:

	2003 £	2002 £
Loss on ordinary activities before tax	(2,731,277)	(4,138,668)
Loss on ordinary activities multiplied by applicable rate of UK corporation tax of 16% (2002: 19.75%)	(437,004)	(817,387)
Effects of:		
Accelerated capital allowances	109,741	177,737
Other short term timing differences	(8,148)	965
Losses carried forward	224,810	609,615
Expenses not deductible for tax purposes	(48,886)	29,070
Current year tax credit	(159,487)	-

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10 Intangible fixed assets

	Patents £
Cost	
At 1 July 2002	3,864,519
Additions	35,671
At 30 June 2003	3,900,190
Amortisation	
At 1 July 2002	3,212,876
Charge for the year	687,314
At 30 June 2003	3,900,190
Net book value	
At 30 June 2003	-
Net book value	
At 30 June 2002	651,643

Patent payments of £35,671 have been capitalised in accordance with FRS 10, 'Goodwill and intangible assets'. However, due to the early stage nature of the research programmes, the directors believe that it is appropriate to immediately write off the intangible assets created. Accordingly, net operating expenses in the year reflect a £35,671 charge relating to the amortisation of these assets.

11 Tangible fixed assets

	Plant and equipment £
Cost	
At 1 July 2002	110,295
Additions	63,444
At 30 June 2003	173,739
Depreciation	
At 1 July 2002	72,625
Charge for the year	34,241
At 30 June 2003	106,866
Net book value	
At 30 June 2003	66,873
Net book value	
At 30 June 2002	37,670

Sterix Limited

12 Debtors

	2003 £	2002 £
Amounts falling due within one year		
Trade debtors	527,213	-
VAT recoverable	22,362	11,633
Corporation tax recoverable	159,487	-
Prepayments and accrued income	125,837	55,692
Other debtors	82,986	60,527
	917,885	127,852

13 Short-term investments

Short-term investments, which are stated at cost, relate to bank deposits which are not repayable on demand.

14 Creditors: amounts falling due within one year

	2003 £	2002 £
Unsecured non-convertible loan (see note 16)	480,057	-
Trade creditors	676,597	23,456
Obligations under finance leases	-	1,893
Other taxation and social security	-	12,431
Other creditors	4,063	-
Accruals and deferred income	351,479	442,390
	1,512,196	480,170

15 Convertible loan stock

	2003 £	2002 £
At 1 July	1,004,602	-
Issued during the year at par	1,000,000	1,000,000
Less: issue costs	(39,549)	(27,853)
Net proceeds	960,451	972,147
Finance costs charged	224,844	32,455
Converted to preferred shares (see note 18)	(749,200)	-
	1,440,697	1,004,602

Sterix Limited

15 Convertible loan stock (continued)

Convertible loan stock and accrued interest is repayable or convertible on demand at the option of the holder, on or before any of: 30 August 2004; the date of any sale of the company; or any listing of the company on a recognised stock exchange; or any funding round entered into by the company. In case of conversion it shall convert into preferred shares at a price of £50 per share or, if lower, the lowest price at which the company has issued shares subsequent to 27 June 2003. In case of redemption it is redeemable at its par value of £1,312,500.

Interest accrues at 12% per annum, on a daily basis, on the balance drawn down. Interest not converted into preferred shares is payable in cash on the date of conversion or repayment of the principal amount.

16 Unsecured non-convertible loan stock

	2003 £	2002 £
Issued during the year at par	475,000	-
Less: issue costs	(65,681)	-
Net proceeds	409,319	-
Finance costs charged	70,738	-
	480,057	-

Unsecured non-convertible loan stock is repayable on or after an event of default, including but not limited to a sale of the company or a listing of the company on a recognised stock exchange. If no event of default occurs, £250,000 of the par value amount falls due for repayment on 30 August 2004 with a premium of £1,750,000 and £225,000 of the par value amount falls due for repayment on 28 June 2008 with a premium of £1,775,000. If the second tranche is subscribed for, the premiums are reduced to £1,500,000 and £1,550,000 respectively and the repayment date on the latter non-convertible loan is moved to 2 October 2008.

The non-convertible loan stock ranks in priority for repayment over the convertible loan stock.

17 Deferred tax

At 30 June 2003, the company had potential deferred tax assets as follows:

	Amount recognised 2003 £	Amount recognised 2002 £	Amount unrecognised 2003 £	Amount unrecognised 2002 £
Tax effect of timing differences due to:				
Excess of capital allowances over depreciation	-	-	(602,265)	(471,947)
Short term timing differences	-	-	(967)	(1,619)
Losses	-	-	(1,156,051)	(837,817)
	-	-	(1,759,283)	(1,311,383)

The potential deferred tax asset has not been recognised due to uncertainty as to whether it will be recoverable.

Sterix Limited

18 Called up share capital

	2003 £	2002 £
Authorised share capital		
60,000 (2002: Nil) preferred shares of 5p each	3,000	-
15,000 (2002: 15,000) 'A' ordinary shares of 5p each	750	750
15,000 (2002: 12,000) 'B' ordinary shares of 5p each	750	600
16,000 (2002: 8,000) 'C' ordinary shares of 5p each	800	400
2,000 (2002: 200) ordinary shares of 5p each	100	10
	5,400	1,760
Allotted, called up and fully paid		
14,718 (2002: Nil) preferred shares of 5p each	736	-
7,236 (2002: 7,236) 'A' ordinary shares of 5p each	362	362
4,000 (2002: 4,000) 'B' ordinary shares of 5p each	200	200
7,656 (2002: 7,656) 'C' ordinary shares of 5p each	383	383
858 (2002: 92) ordinary shares of 5p each	43	5
	1,724	950

On 27 June 2003, the authorised share capital of the company was increased by the creation of 60,000 preferred shares of 5 pence each, 3,000 'B' ordinary shares of 5 pence each, 8,000 'C' ordinary shares of 5 pence each and 1,800 ordinary shares of 5 pence each.

The five classes of share capital carry equal voting rights and rights to dividends. On a winding-up of the company, the preferred shares take precedence: once the holders of preferred shares have received the amount of any premium paid up and then the par value of their shares, the holders of 'A' ordinary shares receive the amount of any premium paid up and then the par value of their shares. Next, the holders of 'B' ordinary shares, 'C' ordinary shares and ordinary shares receive the amount of any premium paid up then the par value of their shares. Thereafter any remaining balance is distributed pari passu pro rata as to the number of shares held.

The preferred, 'A' ordinary, 'B' ordinary and 'C' ordinary shares are convertible into ordinary shares at any time, on a one-for-one basis.

During the year, 14,718 preferred shares and 766 ordinary shares were issued. The nominal value of 14,718 preferred shares and 266 ordinary shares allotted on the conversion of debt was £749 and the value of the debt converted was £749,200 (see note 15). In addition, 500 ordinary shares were issued for cash. The nominal value of these shares was £25 and the consideration received was £25,000.

Sterix Limited

19 Options over shares in Sterix Limited

Options have been granted over the following number of 'B' ordinary shares of 5p each:

Date granted	Number of options	Exercise price per share	Date of first vesting	Date of expiry
22.12.00	100	£175.00	22.12.03	22.12.10
11.05.01	392	£0.05	20.12.03	11.05.11

20 Share premium account and reserves

	Share premium account £	Profit and loss account £
At 1 July 2002	7,612,195	(7,046,188)
Premium on shares issued	773,426	-
Reversal of share compensation charge	-	66,273
Loss for the year	-	(2,571,790)
At 30 June 2003	8,385,621	(9,551,705)

21 Reconciliation of movement in shareholders' funds

	2003 £	2002 £
Opening shareholders' funds	566,957	4,663,025
Net proceeds of issue of share capital	774,200	-
Issue costs	-	(23,673)
Loss for the year	(2,571,790)	(4,138,668)
Reversal of share compensation charge	66,273	66,273
Closing shareholders' (deficit)/funds	(1,164,360)	566,957

22 Financial commitments

At 30 June 2003, the company had annual commitments under non-cancellable operating leases as follows:

	Other than land and buildings 2003 £	2002 £
Expiring within one year	-	910

At the year end, the company had commitments relating to contracted services to be carried out by Imperial College, the University of Bath, the University of Southampton, and Cancer Research UK. The commitments under these contracts total £0.7 million over the next year (2002: £0.3 million).

Sterix Limited

23 Capital commitments

There were no contracted capital commitments at 30 June 2003 (2002: nil).

24 Pension commitments

The company operates a defined contribution scheme whereby the company contributes to individual pension plans held by some employees.

The pension cost charge for the year was £53,636 (2002: £46,797), of which £5,450 (2002: £8,520) was accrued at 30 June 2003.

25 Related party transactions

Transactions with Imperial College of Science, Technology and Medicine

Imperial College ('Imperial') is a related party as its subsidiary, Imperial FF&P Gordon House LLP, is a significant shareholder of Sterix Limited. Dr J Burt is the representative of Imperial on the board of Sterix Limited.

During the year a total of £734,751 (2002: £937,934) was payable to Imperial by Sterix Limited in relation to research and development activities. There was an amount payable to Imperial of £255,039 at 30 June 2003 (2002: amount receivable from Imperial of £60,527).

Transactions with the University of Bath

The University of Bath ('Bath') is a related party as it is a significant shareholder of Sterix Limited.

During the year a total of £715,105 (2002: £780,177) was payable to Bath by Sterix Limited in relation to research and development activities. There was an amount outstanding of £344,200 at 30 June 2003 (2002: £237,674).

Transactions with Avlar BioVentures Fund 1 Limited Partnership

Avlar BioVentures Fund 1 Limited Partnership ('Avlar') is a related party as it is a significant shareholder of Sterix Limited.

During the year, Avlar subscribed for £250,000 of convertible loan stock, increasing their convertible loan stock to £562,500. On 27 June 2003, Avlar subscribed for £250,000 unsecured, non-convertible loan stock (see note 16) and as part of the new agreement, converted their outstanding loans and rolled up interest of £616,200, being £562,500 loan stock at par value and interest of £53,700, into 12,324 5p preferred shares (see note 18).

26 Subsequent events

On 2 October 2003 the company received the proceeds of the second tranche of investor funding, comprising £475,000 of non-convertible loan stock at par and an equity investment of £25,000.

Sterix Limited

27 Reconciliation of operating loss to net cash outflow from operating activities

	2003 £	2002 £
Operating loss	(2,470,299)	(4,176,168)
Depreciation of tangible fixed assets	34,241	31,097
Amortisation of intangible fixed assets	687,314	868,835
Share option compensation charge	66,273	66,273
(Increase)/decrease in debtors	(631,528)	85,034
Increase/(decrease) in creditors	553,862	(84,342)
Net cash outflow from continuing operating activities	(1,760,137)	(3,209,271)

28 Reconciliation of net cash flow to movement in net debt

	2003 £	2002 £
Decrease in cash	(35,789)	(63,354)
Decrease in short term investments	(395,000)	(2,130,000)
Finance lease repayments	2,267	2,473
Increase in convertible loan stock	(960,451)	(972,147)
Increase in non-convertible loan stock	(409,319)	-
Non cash movements	453,244	(32,977)
Movement in net debt	(1,345,048)	(3,196,005)
Opening net funds	228,069	3,424,074
Net (debt)/funds at 30 June 2003	(1,116,979)	228,069

29 Analysis of changes in net funds

	1 July 2002 £	Cash flows £	Other £	30 June 2003 £
Funds				
Cash at bank and in hand	64,564	(35,789)	-	28,775
Short term investments	1,170,000	(395,000)	-	775,000
Debt				
Convertible loan stock	(1,004,602)	(960,451)	524,356	(1,440,697)
Non-convertible loan stock	-	(409,319)	(70,738)	(480,057)
Finance leases	(1,893)	2,267	(374)	-
Net funds/(debt)	228,069	(1,798,292)	453,244	(1,116,979)