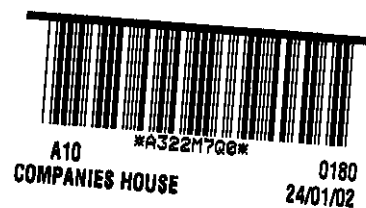


Sterix Limited
Annual report
for the year ended 30 June 2001

Registered Number 03337831



Sterix Limited
Annual report
for the year ended 30 June 2001
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Directors' report for the year ended 30 June 2001

The directors present their report and the audited financial statements for the year ended 30 June 2001.

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 4.

During the year the company's research and development activities were in the main undertaken via contract research with external academic institutions. However, limited research and development activities were undertaken at the company's laboratories at its Oxford headquarters.

In May 2001, the company raised venture capital funding to finance the company's activities and operations.

Research and development

The company is currently engaged in the research and development of pharmaceuticals for the treatment of human disease.

Dividends

The directors do not recommend the payment of a dividend.

Directors and company secretaries

The directors and company secretaries are listed below:

A Cannon	(Non-Executive Director	(appointed 3 April 2001)
A Goodman	(Non-Executive Director & Deputy Chairman)	(appointed 15 May 2001)
D Gough	(Non-Executive Director)	(appointed 15 May 2001)
Dr P Johnson	(Executive Director & Chairman)	
S Lambert	(Non-Executive Director	(appointed 15 May 2001)
Dr J Normanton	(Executive Director)	
Professor B Potter	(Executive Director)	
Professor M Reed	(Executive Director)	
K Woodley	(Non-Executive Director)	
B Castle	(Non-Executive Director)	(resigned 4 January 2001)
Dr C Vaughan	(Non-Executive Director)	(resigned 15 May 2001)
P Virley	(Non-Executive Director)	(resigned 15 May 2001)
Dr J Normanton	(Company Secretary)	(resigned 9 January 2002)
A Booth	(Company Secretary)	(appointed 9 January 2002)

Directors' interests

The interests of the directors in the shares of the company at 30 June 2000 and 31 June 2001 were as follows:

Directors	'B' ordinary shares of 5p each held at 30 June 2001	Ordinary shares of 5p each held at 30 June 2000
	Number	Number
Dr J R Normanton	572	572
Professor B V L Potter	1,714	1,714
Professor M J Reed	857	857

Sterix Limited

During the year, the ordinary shares were reclassified as 'B' ordinary shares.

Directors' interests in share options

	Share options held at 30 June 2000 Number	Share options granted in the year Number	Share options held at 30 June 2001 Number	Exercise price
Dr P Johnson	Nil	392	392	5p per share

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;
- 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 2001 or during the year.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year 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.

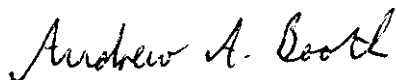
The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 30 June 2001. The directors also confirm that applicable accounting standards 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 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 as auditors to the company will be proposed at the annual general meeting.

By order of the board



AA Booth
Company Secretary

Sterix Limited

Independent auditors' report to the members of Sterix 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.

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 of 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 June 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

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Cambridge

21 January 2002

Sterix Limited

Profit and loss account for the year ended 30 June 2001

	Notes	2001 £	2000 £
Turnover	2	1,086,169	812,258
Operating expenses	3	(2,861,545)	(2,244,386)
Operating loss		(1,775,376)	(1,432,128)
Interest receivable		34,881	13,028
Interest payable and similar charges	6	(217)	(232)
Loss on ordinary activities before taxation	7	(1,740,712)	(1,419,332)
Tax on loss on ordinary activities	8	-	40,000
Loss for the year	18	(1,740,712)	(1,379,332)

All activities relate to continuing operations.

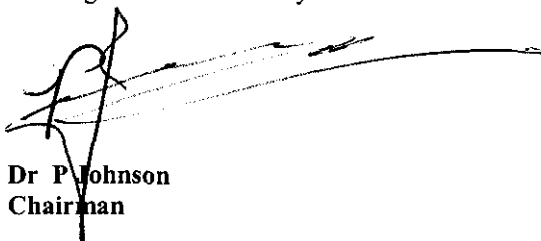
The company has no recognised gains and losses other than those included in the results above, and accordingly no separate statement of total recognised gains and losses has been presented.

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Balance sheet as at 30 June 2001

	Notes	2001 £	2000 £
Fixed assets			
Intangible assets	9	1,520,478	2,389,321
Tangible assets	10	64,519	90,287
		1,584,997	2,479,608
Current assets			
Debtors	11	212,887	254,143
Short-term investments	12	3,300,000	400,000
Cash at bank and in hand		127,918	34,179
		3,640,805	688,322
Creditors: amounts falling due within one year	13	(560,833)	(558,841)
Net current assets		3,079,972	129,481
Total assets less current liabilities		4,664,969	2,609,089
Creditors: amounts falling due after more than one year	14	(1,944)	(4,758)
Net assets		4,663,025	2,604,331
Capital and reserves			
Called up share capital	16	950	583
Share premium account	18	7,635,868	3,847,875
Profit and loss account	18	(2,973,793)	(1,244,127)
Total shareholders' funds	19	4,663,025	2,604,331
Analysis of shareholders' funds			
Equity		4,663,025	2,231,449
Non-equity	23	-	372,882
		4,663,025	2,604,331

The financial statements on pages 4 to 17 were approved by the board of directors on **16 JANUARY 2002** and were signed on its behalf by:


Dr P Johnson
Chairman

Sterix Limited

Cash flow statement for the year ended 30 June 2001

	Notes	2001 £	2000 £
Net cash (outflow) from continuing operating activities	25	(819,818)	(232,415)
Returns on investment and servicing of finance			
Interest received		29,752	13,028
Interest paid		(217)	(232)
Net cash inflow from returns on investment and servicing of finance		29,535	12,796
Capital expenditure			
Purchase of tangible fixed assets		(860)	(44,029)
Net cash (outflow) from capital expenditure		(860)	(44,029)
Management of liquid resources			
(Increase)/decrease in short term investments		(2,900,000)	100,000
Net cash (outflow)/inflow from management of liquid resources		(2,900,000)	100,000
Net cash (outflow) before financing		(3,691,143)	(163,648)
Financing			
Capital elements of finance leases		(3,478)	(371)
Net proceeds from issue of shares		3,788,360	-
Net cash inflow/(outflow) from financing		3,784,882	(371)
Increase/(decrease) in cash in the period	26, 27	93,739	(164,019)

Sterix Limited

Notes to the financial statements for the year ended 30 June 2001

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, is set out below. The company adopted the provisions of the following Financial Reporting Standards ("FRS") in the year: FRS 17 'Retirement benefits' and FRS 18 'Accounting policies'. This has not resulted in any restatement of comparative figures.

Basis of preparing the financial statements – going concern assumption

In May 2001, the company received £4,000,000 as part of a fund raising. The investment agreement states that, subject to the achievement of specific milestones, the company will receive a further £4,000,000 from the fund raising in May 2002. The directors believe that the milestones will be achieved, and therefore that sufficient cash resources will be available for the 12 month period from the date of the approval of the financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

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	33 1/3 %
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. Intangible assets generated internally are expensed as the costs associated with them are incurred. The principal annual rate used for this purpose is:

Patents	25%
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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.

Short-term investments

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

Sterix Limited

1 Principal accounting policies (continued)

Finance and operating 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

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 immediately when the company has no obligation to provide any services under the agreement. Recharges of costs relating to licence fees are included in turnover.

Pension costs

The company contributes to individual pension plans held by some of the 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 using the liability method on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

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 market 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.

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2 Turnover

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

	2001 £	2000 £
Europe	1,086,169	812,258

3 Operating expenses

	2001 £	2000 £
Research and development	2,267,885	2,071,969
Administrative expenses	593,660	172,417
	2,861,545	2,244,386

4 Directors' emoluments

	2001 £	2000 £
Aggregate emoluments	334,744	262,749
Company pension contributions to defined contribution schemes	36,275	35,526
Sums paid to third parties for directors' services	37,501	91,917
	408,520	390,192

Retirement benefits accrued to three directors (2000: three) under defined contribution schemes.

Highest paid director

	2001 £	2000 £
Aggregate emoluments	95,520	84,584
Company pension contributions to defined contribution schemes	12,542	11,842
	108,062	96,426

Sterix Limited

5 Employee information

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

	2001 Number	2000 Number
By activity		
Research and development	3	3
Administration	3	2
	2001 £	2000 £
Staff costs (for the above persons)		
Wages and salaries	388,480	334,528
Social security costs	35,168	30,207
Other pension costs	34,970	35,526
	458,618	400,261

6 Interest payable and similar charges

	2001 £	2000 £
On finance leases	217	232

7 Loss on ordinary activities before taxation

	2001 £	2000 £
Loss on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year:		
Tangible owned fixed assets	23,699	10,978
Tangible fixed assets held under finance leases	2,929	371
Amortisation of intangible owned fixed assets	868,843	868,844
Auditors' remuneration:		
Audit	7,500	6,000
Non-audit services	216,671	9,000
Research and development expenditure including amortisation of intangible fixed assets	2,267,885	2,071,969
Premises rent	80,734	5,593
Hire of plant and machinery under operating leases	3,470	1,152

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8 Tax on loss on ordinary activities

	2001 £	2000 £
UK corporation tax:		
Deferred tax	-	(40,000)

The company has accumulated losses for tax purposes carried forward in excess of £2.6 million (2000: £1.4 million).

9 Intangible fixed assets

	Patents £
Cost	
At 1 July 2000 and 30 June 2001	3,864,519
Amortisation	
At 1 July 2000	1,475,198
Charge for the year	868,843
At 30 June 2001	2,344,041
Net book value	
At 30 June 2001	1,520,478
Net book value	
At 30 June 2000	2,389,321

10 Tangible fixed assets

	Plant and equipment £
Cost	
At 1 July 2000	105,187
Additions	860
At 30 June 2001	106,047
Depreciation	
At 1 July 2000	14,900
Charge for the year	26,628
At 30 June 2001	41,528
Net book value	
At 30 June 2001	64,519
Net book value	
At 30 June 2000	90,287

The net book value of tangible fixed assets held under finance leases included in the above balance is £4,393 (2000: £7,322).

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11 Debtors

	2001 £	2000 £
Amounts falling due within one year		
Trade debtors	105,558	24,039
Other debtors	-	349
VAT recoverable	45,994	47,426
Prepayments and accrued income	61,335	182,329
	212,887	254,143

12 Short-term investments

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

13 Creditors: amounts falling due within one year

	2001 £	2000 £
Trade creditors	197,065	303,657
Other taxation and social security	11,044	9,576
Accruals	350,824	243,044
Obligations under finance leases (see note 14)	1,900	2,564
	560,833	558,841

14 Creditors: amounts falling due after more than one year

	2001 £	2000 £
Obligations under finance leases	1,944	4,758

The net finance lease obligations to which the company is committed are:

	2001 £	2000 £
In one year or less	1,900	2,564
Between one and two years	1,944	2,564
Between two and five years	-	2,194
	3,844	7,322

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15 Provisions for liabilities and charges

The movement on the company's deferred tax provision is as follows:

	2001 £	2000 £
At 1 July	-	40,000
Provided/(released) in the year	-	(40,000)
At 30 June	-	-

At 30 June 2001, the company had potential deferred tax (assets)/liabilities as follows:

	Amount provided 2001 £	Amount provided 2000 £	Amount unprovided 2001 £	Amount unprovided 2000 £
Tax effect of timing differences due to:				
Excess of capital allowances over depreciation	-	-	(31,268)	20,269
Short term timing differences	-	-	(4,202)	-
Other	-	-	(531,231)	(267,927)
	-	-	(566,701)	(247,658)

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16 Called up share capital

	2001 £	2000 £
Authorised share capital		
Attributable to equity interests		
15,000 (2000: 7,229) 'A' ordinary shares of 5p each	750	361
12,000 (2000: 4,000) 'B' ordinary shares of 5p each	600	200
8,000 (2000: nil) 'C' ordinary shares of 5p each	400	-
200 (2000: 8,000) ordinary shares of 5p each	10	400
Attributable to non-equity interests		
Nil (2000: 771) preferred 'A' ordinary shares of 5p each	-	39
	1,760	1,000
Allotted, called up and fully paid		
Attributable to equity interests		
7,236 (2000: 6,885) 'A' ordinary shares of 5p each	362	344
4,000 (2000: nil) 'B' ordinary shares of 5p each	200	-
7,656 (2000:nil) 'C' ordinary shares of 5p each	383	-
92 (2000: 4,000) ordinary shares of 5p each	5	200
Attributable to non-equity interests		
Nil (2000: 771) preferred 'A' ordinary shares of 5p each	-	39
	950	583

During the year, the company reclassified its preferred 'A' ordinary shares of 5p each and those 'A' ordinary shares of 5p each which were in existence at the start of the year as 'C' ordinary shares of 5p each. The ordinary shares of 5p each which were in existence at the start of the year were reclassified as 'B' ordinary shares of 5p each. In addition, 15,000 new 'A' ordinary shares of 5p each and 200 new ordinary shares of 5p each were created.

7,236 of the newly created 'A' ordinary shares of 5p each were issued for consideration of £3,950,000 and 92 of the newly created ordinary shares of 5p each were issued for consideration of £50,000. Net proceeds of these issues after issue expenses were £3,788,360.

The four classes of share capital carry equal voting rights and rights to dividends. On a winding-up of the company, the 'A' ordinary shares take precedence: once the holders of 'A' ordinary shares have received their subscription price, any premium paid on 'B' ordinary, 'C' ordinary and ordinary shares is paid to those shareholders, followed by the par value of those shares.

The 'A' ordinary, 'B' ordinary and 'C' ordinary shares are convertible into ordinary shares at any time.

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17 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

18 Share premium account and reserves

	Share premium account £	Profit and loss account £
At 1 July 2000	3,847,875	(1,244,127)
Issue of share capital	3,999,633	-
Issue costs	(211,640)	-
Reversal of share compensation charge	-	11,046
Loss for the year	-	(1,740,712)
	7,635,868	(2,973,793)

19 Reconciliation of movement in shareholders' funds

	2001 £	2000 £
Opening shareholders' funds	2,604,331	3,983,663
Issue of share capital	4,000,000	-
Issue costs	(211,640)	-
Loss for the year	(1,740,712)	(1,379,332)
Reversal of share compensation charge	11,046	-
Closing shareholders' funds	4,663,025	2,604,331

20 Financial commitments

At 30 June 2001, the company had annual commitments under non-cancellable operating leases as follows:

	Other than land and buildings 2001 £	2000 £
Expiring between one and two years	3,181	3,470

Sterix Limited

20 Financial commitments (continued)

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 the Cancer Research Campaign. The commitments under these contracts total £1.6 million over the next year.

21 Capital commitments

There were no contracted capital commitments at 30 June 2001 (2000: nil).

22 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 £34,970 (2000: £35,526), of which £3,632 (2000: £6,525) was accrued at 30 June 2001.

23 Non-equity shareholders' funds

	2001 £	2000 £
Opening non-equity shareholders' funds	372,882	389,182
Less issue costs	-	(16,300)
Reclassified as equity shares ('C' ordinary shares of 5p each)	(372,882)	-
Closing non-equity shareholders' funds	-	372,882

During the year the preferred 'A' ordinary shares of 5p each were reclassified as 'C' ordinary shares of 5p each.

24 Related party transactions

Transactions with the Imperial College of Science, Technology and Medicine

Imperial College ('Imperial') is a related party as it is a significant shareholder of Sterix Limited. Mr A S D Cannon is the representative of Imperial on the board of Sterix Limited.

During the year a total of £194,336 (2000: £197,920) was payable to Imperial by Sterix Limited in relation to research and development activities. There was an amount outstanding of £59,733 at 30 June 2001 (2000: £80,662).

Transactions with the University of Bath

The University of Bath ('Bath') is a related party as it is a significant shareholder of Sterix Limited. Mr K S Woodley is the representative of Bath on the board of Sterix Limited.

During the year a total of £421,989 (2000: £298,516) was payable to Bath by Sterix Limited in relation to research and development activities. There was an amount outstanding of £199,700 at 30 June 2001 (2000: £70,288).

Sterix Limited

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

	2001 £	2000 £
Operating loss	(1,775,376)	(1,432,128)
Depreciation of tangible fixed assets	26,628	11,349
Amortisation of intangible fixed assets	868,843	868,844
Share option compensation charge	11,046	-
Decrease/(increase) in debtors	46,385	(55,534)
Increase in creditors	2,656	375,054
Net cash (outflow) from continuing operating activities	(819,818)	(232,415)

26 Reconciliation of net cash flow to movement in net funds

	2001 £	2000 £
Increase/(decrease) in cash	93,739	(164,019)
Increase/(decrease) in short term investments	2,900,000	(100,000)
Finance lease repayments	3,478	371
Inception of new finance leases	-	(7,693)
Movement in net funds	2,997,217	(271,341)
Opening net funds	426,857	698,198
Net funds at 30 June	3,424,074	426,857

27 Analysis of changes in net funds

	1 July 2000 £	Cash flows £	30 June 2001 £
Funds			
Cash at bank and in hand	34,179	93,739	127,918
Short term investments	400,000	2,900,000	3,300,000
Debt			
Finance leases	(7,322)	3,478	(3,844)
Net funds	426,857	2,997,217	3,424,074