

Sterix Limited
Annual report
for the year ended 30 June 2002

Registered Number 03337831



Sterix Limited
Annual report
for the year ended 30 June 2002
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Sterix Limited

Directors and advisers

Directors

Dr J Burt
A Goodman
Dr P Johnson
Professor G Lunt
Dr J Normanton
Professor B Potter
Professor M Reed
K Woodley

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 2002

The directors present their report and the audited financial statements for the year ended 30 June 2002.

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. However, limited research and development activities were undertaken at the company's laboratories at its Oxford headquarters.

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 25 July 2002, the company entered into a licensing agreement with Kyowa Hakko Kogyo. A licence issue fee of £1 million was received on 9 August 2002.

New convertible loan stock of £1 million was issued on 6 December 2002 (see note 27).

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 £3,647,560 (2001: £2,267,885).

Dividends

The directors do not recommend the payment of a dividend.

Directors and company secretaries

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)	
D Gough	(Non-Executive Director)	(resigned 28 March 2002)
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)
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)	

Dr J Normanton resigned as company secretary and was replaced by A Booth on 9 January 2002.

Sterix Limited

Directors' interests in shares

The interests of the directors in the shares of the company at 30 June 2001 and 30 June 2002 were as follows:

Directors	'B' ordinary shares of 5p each held at 30 June 2002	'B' ordinary shares of 5p each held at 30 June 2001
	Number	Number
Dr J R Normanton	572	572
Professor B V L Potter	1,714	1,714
Professor M J Reed	857	857

Directors' interests in share options

	Share options held at 30 June 2001	Share options granted in the year	Share options held at 30 June 2002	Exercise price
	Number	Number	Number	
Dr P Johnson	392	Nil	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; 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 2002 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 2002. 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

Following the conversion of our auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned and the directors appointed its successor, PricewaterhouseCoopers LLP, as 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 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. 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 judgments 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 obtaining adequate additional funds to continue its activities. The financial statements do not include any adjustments that would result from a failure to secure such funds. 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 2002 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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cambridge

30 April 2003

Sterix Limited

Profit and loss account for the year ended 30 June 2002

	Notes	2002 £	2001 £
Turnover	2	198,585	1,086,169
Operating expenses	3	(4,374,753)	(2,861,545)
Operating loss		(4,176,168)	(1,775,376)
Interest receivable	6	70,497	34,881
Interest payable and similar charges	7	(32,997)	(217)
Loss on ordinary activities before taxation	8	(4,138,668)	(1,740,712)
Tax on loss on ordinary activities	9	-	-
Loss for the year	20, 21	(4,138,668)	(1,740,712)

All activities relate to continuing operations.

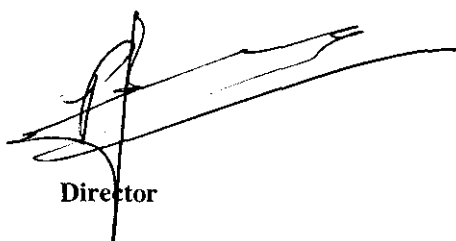
The company has no recognised gains and losses other than those included in the results above, and accordingly no separate statement of total recognised gains and losses has been presented.

Sterix Limited

Balance sheet as at 30 June 2002

	Notes	2002 £	2001 £
Fixed assets			
Intangible assets	10	651,643	1,520,478
Tangible assets	11	37,670	64,519
		689,313	1,584,997
Current assets			
Debtors	12	127,852	212,887
Short-term investments	13	1,170,000	3,300,000
Cash at bank and in hand		64,564	127,918
		1,362,416	3,640,805
Creditors: amounts falling due within one year	14	(480,170)	(560,833)
Convertible loan stock	15	(1,004,602)	-
Net current (liabilities)/assets		(122,356)	3,079,972
Total assets less current liabilities		566,957	4,664,969
Creditors: amounts falling due after more than one year	16	-	(1,944)
Net assets		566,957	4,663,025
Capital and reserves			
Called up share capital	18	950	950
Share premium account	20	7,612,195	7,635,868
Profit and loss account	20	(7,046,188)	(2,973,793)
Total shareholders' funds	21	566,957	4,663,025
Analysis of shareholders' funds			
Equity		566,957	4,663,025
Non-equity	25	-	-
		566,957	4,663,025

The financial statements on pages 5 to 19 were approved by the board of directors on 29 APRIL 2003 and were signed on its behalf by:



Director

Sterix Limited

Cash flow statement for the year ended 30 June 2002

	Notes	2002 £	2001 £
Net cash (outflow) from continuing operating activities	28	(3,209,271)	(819,818)
Returns on investment and servicing of finance			
Interest received		74,184	29,752
Interest elements of finance leases		(522)	(217)
Overdraft interest paid		(20)	-
Net cash inflow from returns on investment and servicing of finance		73,642	29,535
Capital expenditure			
Purchase of tangible fixed assets		(4,248)	(860)
Net cash (outflow) from capital expenditure		(4,248)	(860)
Management of liquid resources			
Decrease/(increase) in short term investments		2,130,000	(2,900,000)
Net cash inflow/(outflow) from management of liquid resources		2,130,000	(2,900,000)
Net cash (outflow) before financing		(1,009,877)	(3,691,143)
Financing			
Capital elements of finance leases		(1,951)	(3,478)
Net (costs)/proceeds from issue of shares		(23,673)	3,788,360
Net proceeds from issue of convertible loan stock		972,147	-
Net cash inflow from financing		946,523	3,784,882
(Decrease)/increase in cash in the period	29, 30	(63,354)	93,739

Sterix Limited

Notes to the financial statements for the year ended 30 June 2002

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. The company adopted the provisions FRS 19 'Deferred Tax' during the year. This has not resulted in any restatement of the amounts recognised in the financial statements.

Basis of preparing the financial statements – going concern assumption

The directors estimate that 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 plan to secure additional funds, by raising further finance or by entering into commercial agreements, which would enable the company to continue its activities for the foreseeable future. There is uncertainty over the amount of funds that would be obtained and whether they would be received within the expected timescale. However, the directors believe that the company will be able to obtain such additional funds and therefore 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 it being able to obtain adequate additional funds to continue its activities.

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%
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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. 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 immediately when the company has no obligation to provide any services under the agreement. 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 debt

Convertible debt is 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:

	2002 £	2001 £
Europe	198,585	1,086,169

3 Operating expenses

	2002 £	2001 £
Research and development	3,647,560	2,267,885
Administrative expenses	727,193	593,660
	4,374,753	2,861,545

Administrative expenses include a compensation charge of £66,273 (2001: £11,046) in respect of share options.

4 Directors' emoluments

	2002 £	2001 £
Aggregate emoluments	374,529	334,744
Company pension contributions to defined contribution schemes	31,608	36,275
<i>Sums paid to third parties for directors' services</i>	131,786	37,501
	537,923	408,520

Retirement benefits accrued to three directors (2001: three) under defined contribution schemes.

Highest paid director

	2002 £	2001 £
Aggregate emoluments	121,037	95,520
Company pension contributions to defined contribution schemes	14,105	12,542
	135,142	108,062

Sterix Limited

5 Employee information

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

	2002 Number	2001 Number
By activity		
Research and development	3	3
Administration	4	3

	2002 £	2001 £
Staff costs (for the above persons)		
Wages and salaries	541,212	388,480
Social security costs	47,543	35,168
Other pension costs	46,797	34,970
	635,552	458,618

6 Interest receivable and similar income

	2002 £	2001 £
On bank balances and short term investments	70,497	34,881
	70,497	34,881

7 Interest payable and similar charges

	2002 £	2001 £
On bank overdrafts	20	-
On finance leases	522	217
On convertible debt	32,455	-
	32,997	217

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8 Loss on ordinary activities before taxation

	2002 £	2001 £
Loss on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year:		
Tangible owned fixed assets	26,704	23,699
Tangible fixed assets held under finance leases	4,393	2,929
Amortisation of intangible owned fixed assets	868,835	868,843
Auditors' remuneration:		
Audit	8,975	7,500
Non-audit services	6,225	216,671
Premises rent	85,683	80,734
Hire of plant and machinery under operating leases	3,360	3,470

9 Tax on loss on ordinary activities

There is no tax charge due to the availability of tax losses. The company has accumulated losses for tax purposes carried forward of approximately £4.4 million (2001: £2.6 million).

The tax result for the period is different from the standard rate of corporation tax in the UK. The differences are explained below:

	2002 £	2001 £
Loss on ordinary activities before tax	(4,138,668)	(1,740,712)
Loss on ordinary activities multiplied by applicable rate of UK corporation tax of 19.75% (2001: 20.0%)	(817,387)	(348,142)
Effects of:		
Accelerated capital allowances	177,737	62,971
Other short term timing differences	965	(579)
Losses carried forward	609,615	248,893
Expenses not deductible for tax purposes	29,070	36,857
Current year tax charge	-	-

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10 Intangible fixed assets

	Patents £
Cost	
At 1 July 2001 and 30 June 2002	3,864,519
Amortisation	
At 1 July 2001	2,344,041
Charge for the year	868,835
At 30 June 2002	3,212,876
Net book value	
At 30 June 2002	651,643
Net book value	
At 30 June 2001	1,520,478

11 Tangible fixed assets

	Plant and equipment £
Cost	
At 1 July 2001	106,047
Additions	4,248
At 30 June 2002	110,295
Depreciation	
At 1 July 2001	41,528
Charge for the year	31,097
At 30 June 2002	72,625
Net book value	
At 30 June 2002	37,670
Net book value	
At 30 June 2001	64,519

Tangible fixed assets include assets held under finance leases with a net book value of nil (2001: £4,393).

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12 Debtors

	2002 £	2001 £
Amounts falling due within one year		
Trade debtors	-	105,558
VAT recoverable	11,633	45,994
Prepayments and accrued income	55,692	61,335
Other debtors	60,527	-
	127,852	212,887

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

	2002 £	2001 £
Trade creditors	23,456	197,065
Other taxation and social security	12,431	11,044
Accruals	442,390	350,824
Obligations under finance leases (see note 16)	1,893	1,900
	480,170	560,833

15 Convertible loan stock

	2002 £	2001 £
Par value of convertible loan stock	1,000,000	-
Less: issue costs	(27,853)	-
Proceeds of issue of convertible loan stock	972,147	-
Finance costs charged	27,853	-
Interest payable	4,602	-
	1,004,602	-

Convertible loan stock is repayable or convertible on demand, on or before any of: 15 May 2003; the date of any sale of the company; or any listing of the company on a recognised stock exchange. In case of conversion it shall convert into a total of 1,832 fully paid 'A' Ordinary shares. In case of redemption it is redeemable at its par value of £1,000,000.

Interest accrues at 12% per annum, on a daily basis, on the balance drawn down. Interest is payable in cash on the date of conversion or repayment.

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16 Creditors: amounts falling due after more than one year

	2002 £	2001 £
Obligations under finance leases	-	1,944

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

	2002 £	2001 £
In one year or less	1,893	1,900
Between one and two years	-	1,944
	1,893	3,844

17 Deferred tax

At 30 June 2002, the company had potential deferred tax assets as follows:

	Amount recognised 2002 £	Amount recognised 2001 £	Amount unrecognised 2002 £	Amount unrecognised 2001 £
Tax effect of timing differences due to:				
Excess of capital allowances over depreciation	-	-	(471,947)	(31,268)
Short term timing differences	-	-	(1,619)	(4,202)
Losses	-	-	(837,817)	(531,231)
	-	-	(1,311,383)	(566,701)

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

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18 Called up share capital

	2002 £	2001 £
Authorised share capital		
Attributable to equity interests		
15,000 (2001: 15,000) 'A' ordinary shares of 5p each	750	750
12,000 (2001: 12,000) 'B' ordinary shares of 5p each	600	600
8,000 (2001: 8,000) 'C' ordinary shares of 5p each	400	400
200 (2001: 200) ordinary shares of 5p each	10	10
Attributable to non-equity interests		
Nil (2001: nil) preferred 'A' ordinary shares of 5p each	-	-
	1,760	1,760
Allotted, called up and fully paid		
Attributable to equity interests		
7,236 (2001: 7,236) 'A' ordinary shares of 5p each	362	362
4,000 (2001: 4,000) 'B' ordinary shares of 5p each	200	200
7,656 (2001: 7,656) 'C' ordinary shares of 5p each	383	383
92 (2001: 92) ordinary shares of 5p each	5	5
Attributable to non-equity interests		
Nil (2001: nil) preferred 'A' ordinary shares of 5p each	-	-
	950	950

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.

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

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20 Share premium account and reserves

	Share premium account £	Profit and loss account £
At 1 July 2001	7,635,868	(2,973,793)
Issue costs	(23,673)	-
Reversal of share compensation charge	-	66,273
Loss for the year	-	(4,138,668)
At 30 June 2002	7,612,195	(7,046,188)

Issue costs incurred in the year are in respect of an issue of equity share capital in the year ended 30 June 2001.

21 Reconciliation of movement in shareholders' funds

	2002 £	2001 £
Opening shareholders' funds	4,663,025	2,604,331
Issue of share capital	-	4,000,000
Issue costs	(23,673)	(211,640)
Loss for the year	(4,138,668)	(1,740,712)
Reversal of share compensation charge	66,273	11,046
Closing shareholders' funds	566,957	4,663,025

22 Financial commitments

At 30 June 2002, the company had annual commitments under non-cancellable operating leases as follows:

	Other than land and buildings	
	2002 £	2001 £
Expiring within one year	910	3,181

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 £0.3 million over the next year. (2001: £1.6 million).

After the year end the company entered into additional contracts with Imperial College, the University of Bath and the University of Southampton. The commitments under these additional contracts total £1.1million over the next year (2001: Nil).

23 Capital commitments

There were no contracted capital commitments at 30 June 2002 (2001: nil).

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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 £46,797 (2001: £34,970), of which £8,520 (2001: £3,632) was accrued at 30 June 2002.

25 Non-equity shareholders' funds

	2002 £	2001 £
Opening non-equity shareholders' funds	-	372,882
Less issue costs	-	-
Reclassified as equity shares ('C' ordinary shares of 5p each)	-	(372,882)
Closing non-equity shareholders' funds	-	-

26 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 J Burt is the representative of Imperial on the board of Sterix Limited.

During the year a total of £937,934 (2001: £194,336) was payable to Imperial by Sterix Limited in relation to research and development activities. There was an amount receivable from Imperial of £60,527 at 30 June 2002 (2001: amount payable to Imperial of £59,733).

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 Woodley is the representative of Bath on the board of Sterix Limited.

During the year a total of £780,177 (2001: £421,989) was payable to Bath by Sterix Limited in relation to research and development activities. There was an amount outstanding of £237,674 at 30 June 2002 (2001: £199,700).

27 Subsequent events

On 25 July 2002, the company entered into a licensing agreement with Kyowa Hakko Kogyo. A licence issue fee of £1 million was received on 9 August 2002.

On 5 December 2002 the company entered into a second convertible loan facility agreement with its investors for £1 million. The terms of this facility are identical to those recorded for the first convertible loan outstanding at the balance sheet date, as disclosed in note 15. The loan was drawn down by the company on 6 December 2002.

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

	2002 £	2001 £
Operating loss	(4,176,168)	(1,775,376)
Depreciation of tangible fixed assets	31,097	26,628
Amortisation of intangible fixed assets	868,835	868,843
Share option compensation charge	66,273	11,046
Decrease in debtors	85,034	46,385
(Decrease)/increase in creditors	(84,342)	2,656
Net cash (outflow) from continuing operating activities	(3,209,271)	(819,818)

29 Reconciliation of net cash flow to movement in net funds

	2002 £	2001 £
(Decrease)/increase in cash	(63,354)	93,739
(Decrease)/increase in short term investments	(2,130,000)	2,900,000
Finance lease repayments	2,473	3,478
(Increase) in convertible loan stock	(972,147)	-
Non cash movements	(32,977)	-
Movement in net funds	(3,196,005)	2,997,217
Opening net funds	3,424,074	426,857
Net funds at 30 June 2002	228,069	3,424,074

30 Analysis of changes in net funds

	1 July 2001 £	Cash flows £	Other £	30 June 2002 £
Funds				
Cash at bank and in hand	127,918	(63,354)	-	64,564
Short term investments	3,300,000	(2,130,000)	-	1,170,000
Debt				
Convertible loan stock	-	(972,147)	(32,455)	(1,004,602)
Finance leases	(3,844)	2,473	(522)	(1,893)
Net funds	3,424,074	(3,163,028)	(32,977)	228,069