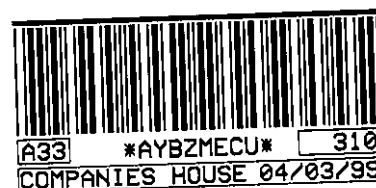


3401800

## Andaris Group Limited

Annual Report and Group Accounts

Year ended 31 December 1997



# Andaris Group Limited

---

Registered Number: 3401800

## **DIRECTORS**

R Cooper  
R Uppal  
I G Ross  
R P Lyman

## **REGISTERED OFFICE**

1 Mere Way  
Ruddington  
Nottingham  
NG11 6JS

## **AUDITORS**

Ernst & Young  
Compass House  
80 Newmarket Road  
Cambridge  
CB5 8DZ

## **BANKERS**

Midland Bank Plc  
6 Victoria Street  
Nottingham  
NG1 2FF

# Andaris Group Limited

## DIRECTORS' REPORT

The directors present their first report and group accounts for the period ended 31 December 1997. The company was incorporated on 10 July 1997 as Keljed Limited., and was renamed Andaris Group Limited on 12 September 1997.

### PRINCIPAL ACTIVITY

The principal activities of the group are the research and development of drugs, chemicals, pharmaceuticals, genetic and medicinal preparations, articles and compounds.

### REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The loss of the group for the year is set out on page 7. The Group's activities continue to be almost exclusively scientific research development.

### DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend.

### DIRECTORS' INTERESTS

The directors who served during the year and their interests in the shares of the company were:

Ordinary shares of 50p each

	31 December 1997 No.	On incorp- oration or appointment if later No.
K E Lewington (resigned 18 December 1997)	-	2
R J Doekes (appointed 18 December 1997, resigned 11 November 1998)	-	-
J W R Den Toom (appointed 18 December 1997, resigned 4 June 1998)	-	-
D Heath (appointed 18 December 1997, resigned 11 November 1998)	25,714	25,714
S Wood (appointed 18 December 1997, resigned 11 November 1998)	126,000	126,000

In addition the following changes in directors took place after the year end:

S J Collinson (appointed 10 June 1998, resigned 11 November 1998)  
S J Quist (appointed 4 June 1998, resigned 11 November 1998)  
R Cooper (appointed 6 October 1998)  
R Uppal (appointed 11 November 1998)  
I G Ross (appointed 11 November 1998)  
R P Lyman (appointed 11 November 1998)

# Andaris Group Limited

---

## DIRECTORS' REPORT


### EVENTS SINCE THE BALANCE SHEET DATE

Since the year end Gist-Brocades International BV have been allotted 5,000,000 ordinary shares of £0.50 each for £5 million and 8,518,518 class B shares of £0.10 each for £2.3 million.

### AUDITORS

Following the acquisition of Andaris Group Limited by Quadrant Healthcare Plc, Ernst & Young will resign as auditors, and are to be replaced by Arthur Andersen.

By order of the Board.



R. Uppal  
Company Secretary

23 February 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE  
ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

**REPORT OF THE AUDITORS**  
to the members of Andaris Group Limited

We have audited the accounts on pages 7 to 22, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 10 and 11.

*Respective responsibilities of directors and auditors*

As described on page 5 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

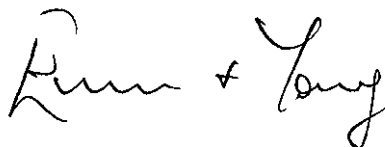
*Basis of opinion*

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

*Opinion*

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 1997 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young  
Registered Auditor  
Cambridge

23 February 1999

# Andaris Group Limited

## GROUP PROFIT AND LOSS ACCOUNT for the year ended 31 December 1997

	Notes	1997 £'000	1996 £'000
<b>TURNOVER</b>		162	23
Operating expenses	2	(5,834)	(4,499)
<b>OPERATING LOSS</b>		(5,672)	(4,476)
Bank interest receivable		57	75
Interest payable and similar charges	5	(33)	(33)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	6	(5,648)	(4,434)
Tax on loss on ordinary activities	7	-	-
<b>RETAINED LOSS FOR THE YEAR</b>	19	(5,648)	(4,434)

## GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 1997

Loss for the financial year		(5,648)	(4,434)
Goodwill arising on acquisition	9	(2,900)	-
<b>TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR</b>		(8,548)	(4,434)

All revenue and expenses included in the profit and loss account relate to continuing operations.

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

# Andaris Group Limited

## BALANCE SHEETS

As at 31 December 1997

		<b>GROUP</b>		<b>COMPANY</b>
	<i>Notes</i>	<i>1997</i>	<i>1996</i>	<i>1997</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>FIXED ASSETS</b>				
Tangible assets	8	1,695	2,115	-
Investments	9	-	-	9,969
		<u>1,695</u>	<u>2,115</u>	<u>9,969</u>
<b>CURRENT ASSETS</b>				
Debtors	10	250	161	1,413
Investments	11	1,150	2,800	-
Cash at bank and in hand		45	22	-
		<u>1,445</u>	<u>2,983</u>	<u>1,413</u>
<b>CREDITORS: amounts falling due within one year</b>	12	1,148	859	-
<b>NET CURRENT ASSETS</b>		<u>297</u>	<u>2,124</u>	<u>1,413</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,992</u>	<u>4,239</u>	<u>11,382</u>
<b>CREDITORS: amounts falling due after more than one year</b>	13	485	3,634	-
<b>NET ASSETS</b>		<u>1,507</u>	<u>605</u>	<u>11,382</u>
<b>CAPITAL and RESERVES</b>				
Called up share capital	16	9,225	4,500	9,225
Share premium account	18	2,157	-	2,157
Other reserves	18	7,065	4,497	-
Goodwill reserve	18	(2,900)	-	-
Profit and loss account	18	(14,040)	(8,392)	-
<b>EQUITY SHAREHOLDERS' FUNDS</b>	19	<u>1,507</u>	<u>605</u>	<u>11,382</u>

The financial statements on pages 7 to 22 were approved by the Board of Directors on 23 February 1999 and were signed on its behalf by:

  
R Uppal  
Director



# Andaris Group Limited

## GROUP STATEMENT OF CASH FLOWS for the year ended 31 December 1997

	<i>Notes</i>	<i>1997 £000</i>	<i>1996 £000</i>
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	20	(5,106)	(3,735)
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		57	78
Interest paid		-	-
<b>NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		57	78
<b>CAPITAL EXPENDITURE</b>			
Purchase of tangible fixed assets		(96)	(1,492)
Proceeds of sale of tangible fixed assets		-	4
<b>NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>		(96)	(1,488)
<b>MOVEMENT IN LIQUID RESOURCES</b>			
Sale of short term investments		22,490	6,865
Purchase of short term investments		(20,840)	(7,007)
<b>NET CASH INFLOW/(OUTFLOW) FROM MANAGEMENT OF LIQUID RESOURCES</b>	21	1,650	(142)
<b>NET CASH OUTFLOW BEFORE FINANCING</b>		(3,495)	(5,287)
<b>FINANCING</b>			
Issue of ordinary share capital	16	3,550	2,300
New loan		-	3,000
<b>Net cash inflow from financing</b>		3,550	5,300
<b>INCREASE IN CASH</b>	21/22	55	13

# Andaris Group Limited

## NOTES TO THE ACCOUNTS

as at 31 December 1997

### 1. PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with applicable accounting standards.

A summary of the more important accounting policies is set out below.

#### (a) Basis of consolidation

The group accounts consolidate the accounts of Andaris Group Limited and its subsidiary undertakings made up to 31 December 1997. As part of a group reconstruction Andaris Group Limited acquired Andaris Limited in December 1997. This purchase has been accounted for under merger accounting principles. Under this method, results are reported as if the acquiring and acquired companies had been combined since the earlier date of incorporation. No purchased goodwill is created on acquisition and the assets and liabilities of the acquired company are not adjusted to reflect their fair or market values. Consequently, while Andaris Group Limited was not incorporated until 10 July 1997, consolidated profit and loss accounts, consolidated balance sheets and consolidated cashflow statements are presented in these accounts for each of the two years ended 31 December 1997.

Andaris Limited was renamed Quadrant Healthcare (UK) Limited with effect from 4 January 1999.

In the Company's accounts the investment in Quadrant Healthcare (UK) Limited is stated at the nominal value of the shares issued as consideration for the purchase.

With the exception of Quadrant Healthcare (UK) Limited, Andaris Group Limited accounts for its subsidiary undertakings using the acquisition method of accounting. Purchased positive goodwill is written off and negative goodwill is credited in full against reserves in the year of acquisition.

#### (b) Basis of accounting

The accounts are prepared in accordance with the historical cost convention.

#### (c) Basis of preparing the financial statements - going concern

During the year the Group incurred a loss of £5,648,000. The Group is involved in research and development activities and until it is able to complete the development of the Group's products and generate a revenue stream it will continue to require financial support.

The accounts have been prepared under the going concern concept as the parent undertaking, Quadrant Healthcare plc has agreed to provide adequate funds for the Group to continue its activities.

#### (d) Tangible fixed assets

The cost of tangible fixed assets is stated at their purchase cost, together with any incidental costs of acquisition. The cost of assets acquired by deferred consideration is determined by the recognition of the related liability.

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:

	%
Plant and machinery	20
Office equipment	15-20
Fixtures and fittings	15
Motor vehicles	25

In addition leasehold improvements are depreciated over the related lease term.

NOTES TO THE ACCOUNTS

as at 31 December 1997

1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

*(e) Investment in subsidiaries*

Shares in subsidiary companies are stated in the parent company balance sheet at cost less any permanent diminution in value.

*(f) Operating leases*

Costs in respect of operating leases are charged on a straight line basis over the lease term.

*(g) 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. Full provision is made for deferred taxation on timing differences arising from the provision of employee pensions.

*(h) Pension scheme arrangements*

The Group does not operate its own pension scheme, but pays defined contributions for employees into their individual pension plans. Full accrual is made for any outstanding contributions at the end of the accounting year.

*(i) Issue costs*

In accordance with Financial Reporting Standard 4 'Capital Instruments' the net proceeds of shares issued in the year have been credited directly to shareholders' funds.

*(j) Research and development expenditure*

Expenditure on research and development is written off as incurred.

*(k) Government grants*

In accordance with SSAP 4 (revised) 'Accounting for government grants', grants received against capital investment are treated as deferred credits and released to the profit and loss account over the life of the related assets. Grants received against revenue expenditure are taken to the profit and loss account when the conditions for their receipt have been complied with.

*(l) Foreign currency transactions*

Transactions in foreign currencies are converted into sterling at the rate ruling on the transaction date. Outstanding balances are converted at the rate ruling at the balance sheet date. Exchange differences are taken to the profit and loss account.

*(m) Turnover*

Turnover represents the amount receivable in the ordinary course of business for services provided and goods sold after deducting value added tax. All turnover relates to sales made in the European Community.

*(n) Company profit and loss account*

No profit and loss account is presented for the Company as allowed by the Companies Act 1985. The Company made a profit of £nil in the period from incorporation on 10 July 1997 to 31 December 1997

# Andaris Group Limited

## NOTES TO THE ACCOUNTS

as at 31 December 1997

### 2. NET OPERATING EXPENSES

	1997 £'000	1996 £'000
Administrative	2,783	1,638
Scientific (including research and development)	3,051	2,861
	<u>5,834</u>	<u>4,499</u>

### 3. DIRECTORS' EMOLUMENTS

	1997 £'000	1996 £'000
Emoluments (including pension contributions)	190	314
Compensation for loss of office	-	104
	<u>190</u>	<u>418</u>

The highest paid Director's emoluments (excluding pension contributions) in 1997 were £172,000 with pension contributions of £18,000.

The Directors' emoluments included for the year ended 31 December 1996 are the emoluments paid to directors of Quadrant Healthcare (UK) Limited, then the only active company in the Group, in that year.

### 4. EMPLOYEE INFORMATION

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

	1997 No.	1996 No.
<b>BY ACTIVITY</b>		
Scientific (including research and development)	44	39
Administration	14	14
	<u>58</u>	<u>53</u>
	£'000	£'000
<b>STAFF COSTS (FOR THE ABOVE PERSONS)</b>		
Wages and salaries	1,868	1,715
Social security costs	193	150
Other pension costs (see note 15)	107	79
	<u>2,168</u>	<u>1,944</u>

### 5. INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £'000	1996 £'000
On bank loans, overdrafts and other loans	<u>33</u>	<u>33</u>

# Andaris Group Limited

## NOTES TO THE ACCOUNTS

as at 31 December 1997

### 6. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	1997 £'000	1996 £'000
Loss on ordinary activities before taxation is stated after charging:		
Loss/(profit) on disposal of tangible fixed assets	13	(2)
Depreciation of tangible owned fixed assets	503	393
Research and development expenditure (excluding related depreciation charge disclosed above)	1,264	931
Auditors' remuneration:		
Audit services	6	6
Non-audit services	2	3
Hire of land and buildings - operating leases	294	193
Hire of equipment - operating leases	18	-
	<u>          </u>	<u>          </u>

### 7. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no tax charge for the year (1996 - £Nil) due to tax losses incurred.

### 8. TANGIBLE FIXED ASSETS

GROUP	Leasehold improvements £'000	Plant & machinery £'000	Motor vehicles £'000	Office equipment £'000	Fixtures & fittings £'000	Total £'000
Cost:						
At 1 January 1997	974	1,510	5	282	149	2,920
Additions	3	62	-	19	12	96
Disposals	(7)	-	-	(8)	(6)	(21)
At 31 December 1997	<u>970</u>	<u>1,572</u>	<u>5</u>	<u>293</u>	<u>155</u>	<u>2,995</u>
Depreciation:						
At 1 January 1997	211	502	2	65	25	805
Charge for year	117	309	2	57	18	503
Eliminated in respect of disposals	(1)	-	-	(3)	(4)	(8)
At 31 December 1997	<u>327</u>	<u>811</u>	<u>4</u>	<u>119</u>	<u>39</u>	<u>1,300</u>
Net book value:						
At 31 December 1997	<u>643</u>	<u>761</u>	<u>1</u>	<u>174</u>	<u>116</u>	<u>1,695</u>
Net book value:						
At 31 December 1996	<u>763</u>	<u>1,008</u>	<u>3</u>	<u>217</u>	<u>124</u>	<u>2,115</u>

The Company owns no tangible fixed assets.

# Andaris Group Limited

## NOTES TO THE ACCOUNTS

as at 31 December 1997

### 9. FIXED ASSETS INVESTMENTS

COMPANY	1997 £'000
Investment in subsidiaries	9,969

#### *Subsidiary undertakings*

As at 31 December 1997 the Company had the following subsidiary undertakings in which it owns 100% of the issued share capital:

Quadrant Healthcare (UK) Limited	- Pharmaceutical research and development
Pharmaceutical Projects Limited	- Investment holding company

Quadrant Healthcare (UK) Limited also owns 100% of the issued share capital of Protosome Limited, Microshot Limited and Andaris (DDS) Limited, which are all dormant.

All these companies are registered in England and Wales.

#### *Movement during the year*

	1997 £'000
Acquisition of Quadrant Healthcare (UK) Limited	7,069
Acquisition of Pharmaceutical Projects Limited	2,900
	9,969

#### *Quadrant Healthcare (UK) Limited (formerly Andaris Limited)*

Quadrant Healthcare (UK) Limited was acquired on 18 December 1997 as part of a group reconstruction. The consideration was 3,897,000 "A" ordinary shares of 50p each and 10,239,700 "B" ordinary shares of 50p each in the Company.

This transaction has been accounted for under merger accounting principles and merger relief has been taken under section 131 of the Companies Act 1985.

#### *Pharmaceutical Projects Limited ("PPL")*

PPL was acquired on 18 December 1997. The consideration was 2,900,000 "A" ordinary shares of 50p each in the Company, treated as paid up as to £1 each.

# Andaris Group Limited

## NOTES TO THE ACCOUNTS

as at 31 December 1997

### 9. FIXED ASSETS INVESTMENTS (CONTINUED)

*Pharmaceutical Projects Limited ("PPL") - continued*

The book and fair values on the date of acquisition were as follows:

	<i>Book value £'000</i>	<i>Adjustments £'000</i>	<i>Fair value £'000</i>
Intangible fixed assets	1	(1)	-
Cash	1	-	1
Pre-acquisition dividend payable	(1)	-	(1)
	<u>1</u>	<u>(1)</u>	<u>-</u>
Consideration			2,900
Goodwill			<u>2,900</u>

PPL made a profit of £nil in the period from acquisition to 31 December 1997 and contributed £nil to the cash flows of the Group.

### 10. DEBTORS

#### GROUP

	<i>1997 £'000</i>	<i>1996 £'000</i>
Amounts falling due within one year:		
Trade debtors	23	-
Other debtors	106	129
Prepayments and accrued income	120	32
Amounts owed by fellow group undertaking	1	-
	<u>250</u>	<u>161</u>

#### COMPANY

	<i>1997 £'000</i>
Amounts owed by subsidiary undertaking	<u>1,413</u>

### 11. CURRENT INVESTMENTS

#### GROUP

Short term investments comprise deposits which are not repayable on demand

# Andaris Group Limited

## NOTES TO THE ACCOUNTS

as at 31 December 1997

### 12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

<i>GROUP</i>	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Bank overdraft	-	32
Loan from non-group undertaking (see note 13)	150	-
Trade creditors	567	515
Other taxation and social security	49	53
Pre-acquisition dividend payable to former PPL shareholders (see note 9)	1	-
Accruals and deferred income	381	259
	<u>1,148</u>	<u>859</u>

### 13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

<i>GROUP</i>	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Loan from non-group undertaking	400	550
Loan from fellow group undertaking	-	3,000
Accruals	85	84
Deferred consideration	-	-
	<u>485</u>	<u>3,634</u>

#### *Loan and accrued interest*

	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Repayable as follows:		
Between one and two years	242	173
Between two and five years	243	3,461
	<u>485</u>	<u>3,634</u>

The loan from the non-group undertaking is secured by a fixed charge over specific items of plant and machinery and leasehold improvements.

Accruals due outside one year consists of the interest payable on the secured loan. This interest is calculated at 6% pa and is payable with the capital instalment to which it relates.

The loan from the fellow group undertaking was unsecured and non-interest bearing. It was repaid by the issue of ordinary 'B' share capital of Quadrant Healthcare (UK) Limited on 18 December 1997 prior to the later company being acquired by the Company.

#### *Deferred consideration*

Deferred consideration is expected to arise on the acquisition of intellectual property and certain patents. The crystallisation of this consideration is dependent on the generation of revenue from the development of the intellectual property. As the Directors are currently unable to determine whether any revenue will be generated in the foreseeable future no consideration has been accrued in the financial statements. Accordingly no asset has been capitalised in keeping with FRS 7. This treatment will be reviewed again by the Directors in 1998.



# Andaris Group Limited

## NOTES TO THE ACCOUNTS as at 31 December 1997

### 14. DEFERRED TAXATION

	31 December 1997		31 December 1996	
	Amount provided £'000	Amount unprovided £'000	Amount provided £'000	Amount unprovided £'000
Accelerated capital allowances	-	361	-	624
Carried forward tax losses	-	(4,513)	-	(3,332)
	-	(4,152)	-	(2,708)

Deferred taxation at 31 December 1997 has been calculated using a Corporation Tax rate of 30% (1996 - 33%).

### 15. PENSION COSTS

The Group pays defined contributions for employees into their individual pension plans. There were no unpaid amounts outstanding for pension costs at the end of 1997 (1996 - Nil).

### 16. CALLED UP SHARE CAPITAL

	1997 £'000
Authorised: 20,295,000 ordinary shares of 50p each	10,148
Allotted, called up and fully paid: 18,450,000 ordinary shares of 50p each	9,225

The balance shown in the Group balance sheet as issued share capital as at 31 December 1996 represents the capital of the Company which would have been issued to acquire the share capital of Andaris Limited as at that date.

#### *Changes in authorised share capital*

On incorporation on 10 July 1997 the Company had an authorised share capital of 1,000 ordinary shares of £1 each. On 18 December 1997 the following changes in authorised share capital took place:

- the 1,000 shares of £1 each were each sub-divided into two shares of 50p each and reclassified as "A" ordinary shares of 50p each
- the authorised share capital of the Company was increased to £9,225,000 by the creation of a further 6,795,000 "A" ordinary shares of 50p each and 11,653,000 "B" ordinary shares of 50p each

Following the acquisitions of Quadrant Healthcare (UK) Limited and Pharmaceutical Projects Limited and Gist-Brocades International BV's subscription (see below) both the "A" ordinary shares and the "B" ordinary shares were reclassified as ordinary shares of 50p each.

The authorised share capital has since been increased by 6,787,500 ordinary shares of £0.50 each, and subsequently converted into class A ordinary shares.

In addition to the above, the authorised share capital was further increased by 8,518,518 class B ordinary shares of £0.10 each.

# Andaris Group Limited

## NOTES TO THE ACCOUNTS

as at 31 December 1997

### 16. CALLED UP SHARE CAPITAL (CONTINUED)

#### Options

Since year end two option schemes have been adopted by the Company, the Unapproved Executive Share Option Scheme 1998 and the Approved Executive Share Option Scheme.

#### Changes in issued share capital

The following changes in issued share capital took place during the period:

	Ordinary 50 p shares Number	"A" ordinary 50 p shares Number	"B" ordinary 50 p shares Number
2 shares issued on incorporation	2		
Reclassification of shares and acquisition of Quadrant Healthcare (UK) Limited	(2)	3,897,000	10,239,700
Acquisition of Pharmaceutical Projects Limited		2,900,000	-
Subscription by Gist-brocades International BV		-	1,413,300
		<u>6,797,000</u>	<u>11,653,000</u>
Reclassification of shares	18,450,000	(6,797,000)	(11,653,000)
At 31 December 1997	<u>18,450,000</u>		

Merger relief has been taken with respect to the shares issued to acquire Quadrant Healthcare (UK) Limited and therefore no premium has been recorded on the issue. The shares issued to acquire Pharmaceutical Projects Limited and subscribed for by Gist-Brocades International BV were issued at a premium of 50p per share.

Since the year end Gist-Brocades has subscribed for 5,000,000 ordinary shares for a consideration of £1 each, and 8,518,518 class B ordinary £0.10 shares for a consideration of £0.27. The ordinary shares were acquired prior to their conversion into class A ordinary shares.

#### Shares issued by Quadrant Healthcare (UK) Limited (formerly Andaris Limited) prior to acquisition

During the year and prior to its acquisition by the Company, Quadrant Healthcare (UK) Limited converted £3 million of loans and £2.137 million of un-utilised loan facilities into capital by the issue of 79,904 "B" ordinary shares to Gist-Brocades International BV.

#### Summary of funds raised from share issues

	1997 £'000	1996 £'000
Issue of shares by subsidiary prior to acquisition	2,137	2,300
Issue of shares by the Company	1,413	-
	<u>3,550</u>	<u>2,300</u>

# Andaris Group Limited

## NOTES TO THE ACCOUNTS

as at 31 December 1997

### 17. OPTIONS IN SHARES OF QUADRANT HEALTHCARE (UK) LIMITED (FORMERLY ANDARIS LIMITED)

As at 31 December 1997 the following options were outstanding over the shares of Quadrant Healthcare (UK) Limited:

<i>Number of shares</i>	<i>Subscription price per share</i>	<i>Period of option</i>
3,000	£0.10	Before 31 December 1999

The rights of the option holders under these options were waived on 13 March 1998.

### 18. SHARE PREMIUM ACCOUNT AND RESERVES

#### GROUP

	<i>Share premium account £'000</i>	<i>Other reserves £'000</i>	<i>Goodwill reserve £'000</i>	<i>Profit and loss account £'000</i>
At 1 January 1997	-	4,497	-	(8,392)
On the purchase of:				
Shares issued by				
Quadrant Healthcare (UK) Limited	-	2,568	-	-
Pharmaceutical Projects Limited	1,450	-	(2,900)	-
Premium on share issue	707	-	-	-
Retained loss for the year	-	-	-	(5,648)
At 31 December 1997	<u>2,157</u>	<u>7,065</u>	<u>(2,900)</u>	<u>(14,040)</u>

Other reserves represent the difference between the nominal value of the shares issued to acquire Quadrant Healthcare (UK) Limited and the amounts recorded in the books of Quadrant Healthcare (UK) Limited as paid up on the shares acquired.

The goodwill reserve arises on the acquisition of Pharmaceutical Projects Limited as set out in note 9. This represents the total amount of goodwill written off by the Group on consolidation.

#### COMPANY

	<i>Share premium account £'000</i>	<i>Profit and loss account £'000</i>
At 10 July 1997	-	-
On the purchase of		
Pharmaceutical Projects Limited	1,450	-
Premium on share issue	707	-
Retained profit for the year	-	-
At 31 December 1997	<u>2,157</u>	<u>-</u>

# Andaris Group Limited

## NOTES TO THE ACCOUNTS

as at 31 December 1997

### 19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

#### GROUP

	1997 £'000	1996 £'000
Proceeds of issue of equity shares in subsidiary undertaking	5,137	2,300
Shares issued to acquire Pharmaceutical Projects Limited	2,900	-
Goodwill on acquisition	(2,900)	-
Proceeds of share issues	1,413	-
Loss for the financial year	(5,648)	(4,434)
Net increase (decrease) in shareholders' funds	902	(2,134)
Opening shareholders' funds	605	2,739
Closing shareholders' funds	1,507	605

#### COMPANY

	1997 £'000
Shares issued to acquire subsidiaries	9,969
Proceeds of share issues	1,413
Net increase in shareholders' funds	11,382
Opening shareholders' funds	-
Closing shareholders' funds	11,382

### 20. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	1997 £'000	1996 £'000
Operating loss	(5,672)	(4,476)
Loss/(profit) on disposal of fixed assets	13	(1)
Depreciation of tangible fixed assets	503	393
(Increase) in debtors	(89)	(40)
Increase in creditors	139	389
Net cash outflow from continuing operating activities	(5,106)	(3,735)

# Andaris Group Limited

## NOTES TO THE ACCOUNTS as at 31 December 1997

### 21. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS

	1997 £'000	1996 £'000
Increase in cash in the period	55	13
Cash (inflow)/outflow from increase in liquid resources	(1,650)	142
Interest accrued on loans	(33)	(33)
New loan	-	(3,000)
Repayment of loan	3,000	-
Movement in net funds in the period	1,372	(2,878)
Net (debt)/funds at 1 January 1997	(844)	2,034
Net funds/(debt) at 31 December 1997	528	(844)

### 22. ANALYSIS OF MOVEMENT IN NET (DEBT) / FUNDS

	1 January 1997 £'000	Cash flows £'000	Other changes £'000	31 December 1997 £'000
<i>Net cash</i>				
Cash at bank and in hand	22			45
Overdraft	(32)			-
	(10)	55	-	45
<i>Liquid resources</i>				
Current assets investment	2,800	(1,650)	-	1,150
<i>Debt</i>				
Loans	(3,634)	-	2,967	(667)
<b>NET (DEBT)/FUNDS</b>	<b>(844)</b>	<b>(1,595)</b>	<b>2,967</b>	<b>528</b>

### 23. SIGNIFICANT NON-CASH TRANSACTIONS

During the year the Company acquired the entire issued share capital of Quadrant Healthcare (UK) Limited and Pharmaceutical Projects Limited for consideration comprising shares in itself.

Interest on the Group's loan from a non-group undertaking is not due for payment until the loan is repaid but is accrued and included in the analysis of net debt.

Prior to its acquisition by the Company, Quadrant Healthcare (UK) Limited converted £3 million of loans into capital by issuing "B" ordinary shares to the loan provider, Gist-Brocades International BV.

# Andaris Group Limited

## NOTES TO THE ACCOUNTS

as at 31 December 1997

### 24. CAPITAL COMMITMENTS

	1997 £'000	1996 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	17	11

### 25. FINANCIAL COMMITMENTS

At 31 December 1997 the Group had annual commitments under non-cancellable operating leases as follows:

	1997 <i>Land and buildings</i> £'000	1996 <i>Land and buildings</i> £'000
Expiring within one year	25	24
Expiring outside five years	279	220
	304	244

### 26. RELATED PARTY TRANSACTIONS

During the year Quadrant Healthcare (UK) Limited (formerly Andaris Limited) undertook the following material transactions with Gist-Brocades International BV, a subsidiary undertaking of Royal Gist-Brocades NV, the ultimate parent undertaking of the former Andaris Limited until 18 December 1997:

- conversion of a loan of £3.5 million to 55,222 'B' shares of 10p each at a premium of £3,544,478.
- conversion of a loan of £1.5 million to 24,682 'B' shares of 10p each at a premium of £1,584,232.

During the year the former Andaris Limited paid patent fees amounting to £9,034 to Pharmaceutical Projects Limited, in which three of the former company's directors - D Heath, R A Johnson and S Wood - were shareholders until its acquisition by the Company on 18 December 1997.

### 27. ULTIMATE AND IMMEDIATE HOLDING COMPANY AND ULTIMATE CONTROLLING PARTY

At the year end the Company's immediate parent undertaking was Gist-Brocades International BV which does not produce consolidated accounts including the result of the Group.

Up to 18 December 1997 the ultimate parent undertaking was Royal Gist-Brocades NV, a company incorporated in the Netherlands. On 18 December 1997 this company was acquired and the ultimate parent undertaking at the year end became DSM NV, Heerlen, incorporated in the Netherlands.

### 28. EVENTS SINCE THE BALANCE SHEET DATE

Subsequent to the year end the company was acquired by Quadrant Healthcare PLC.