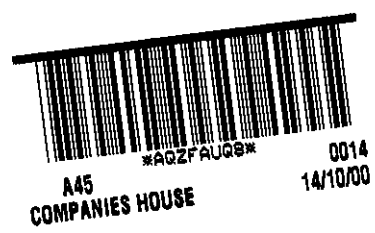


Registered no: 3459808

Cambridge Genetics Limited
Consolidated annual report
for the year ended 31 December 1999



Cambridge Genetics Limited

Annual report for the period ended 31 December 1999

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Cambridge Genetics Limited

1

Directors and advisers

Directors

Simon Kerr
Dr Mark Bushfield
Dr Jonathan Treherne
David Brister
Dr Alison Campbell
Ian Kent
Dr Gerard McGarrity
Dr David Needham
Dr Roger Newton

Company secretary and registered office

Leigh Palmer
Babraham Hall
Babraham
Cambridge
CB2 4AT

Bankers

Barclays Bank plc
Corporate Banking
PO Box 326
Cambridge
CB4 3UT

Solicitors

Weil Gotshal Manges
One South Place
London
EC2M 2WG

Registered auditors

PricewaterhouseCoopers
Abacus House
Castle Park
Cambridge
CB3 0AN

Directors' report for the period ended 31 December 1999

The directors present their report and the audited financial statements for the period ended 31 December 1999.

Principal activities

The profit and loss account for the year is set out on page 8.

Cambridge Genetics Limited is a biotechnology company engaged in research into potential new drugs for the treatment of cancer and other diseases. The company has acquired intellectual property from the Medical Research Council and other sources during 1998, which has provided a strong base from which to expand its research activities and grow its intellectual property portfolio. During the year, the company filed a number of new patent disclosures to strengthen its position in the area of high throughput screening for the detection of potential drug candidates.

Review of business and future developments

Refitting of laboratories at Babraham Hall was completed by April 1999 to enable the development of the company's proprietary technologies, principally its retroviral display technology, as a novel platform for high throughput screening of chemical libraries. As part of the fitting out process, the company purchased considerable laboratory equipment for molecular biology including a sophisticated robotics workstation.

The company was successful in being awarded a European Framework V programme exceeding Euro 2 million over 36 months for the development of novel technologies for the identification and validation of new drug targets. As part of this programme, the company undertakes research work and coordinates a consortium that includes research partners from France, Germany and Spain.

The company continued to support the development of its gene therapy targeting technologies through a sponsored research agreement with Mayo Clinic in Rochester, Minnesota.

On 24 December 1999, the company acquired Cambridge Drug Discovery Limited, details are given in Note 11 to the financial statements, in order to expand its activities in the provision of contract research services. During 2000, the company plans to consolidate onto one site on the Cambridge Science Park and increase its scientific headcount in order to broaden its research activities and range of contract research services.

Dividends

The directors do not recommend the payment of a dividend.

Post balance sheet events

Pursuant to a subscription agreement dated 24 December 1999, a further 27,318 "B" ordinary £1 shares were issued in July 2000 for a total consideration of £1,365,900.

Directors

The directors of the company at 31 December 1999 are listed below:

Simon Kerr	
Dr Mark Bushfield	(appointed 24 December 1999)
Dr Jonathan Treherne	(appointed 24 December 1999)
David Brister	(appointed 17 February 1999)
Dr Alison Campbell	
Ian Kent	
Dr Gerard McGarrity	(appointed 18 March 1999)
Dr David Needham	
Dr Roger Newton	

Directors' interests

Directors' interests in shares

The interests of the directors of the company in the shares of the company at 31 December 1999 were:

Ordinary shares of £1 each

	31 December 1998 or on appointment Number	31 December 1999 Number
Dr Mark Bushfield	3,750	3,750
Simon Kerr	1,459	1,459
Ian Kent	1,459	1,459
Dr Roger Newton	417	417
Dr Jonathan Treherne	3,750	3,750

Interests in share options

Details of the options held in the ordinary shares of £1 each of the company by Directors are set out below:

	Number of options		At 31	Exercise	Date from	Expiry
	31 December	Granted in	December	price per	which	date
	1998	period	1999	share	exercisable	
Simon Kerr	2,916	-	2,916	£21	(1)	12 January 2005
Ian Kent	2,916	-	2,916	£21	(1)	12 January 2005
Dr Gerard McGarrity	-	2,500	2,500	£50	(2)	31 March 2006
Dr Roger Newton	833	-	833	£21	(1)	12 January 2005

(1) The options are exercisable only on completion of certain fundraising targets after which option holders will be notified of the number of options which can be exercised and the period of exercise. No option holders had been notified of exercise periods at the balance sheet date.

(2) The options are exercisable on or at anytime after the making of an application for listing or a sale of the company.

Other than shown in the tables above no other director had any interest in the shares or options of the company at 31 December 1999.

Year 2000

The company did not experience any problems with its computer systems as a consequence of the date change on 1 January 2000 nor have any material problems emerged to date as a result. We are not aware of any issues that may have arisen as a result of date-related computer problems at third parties or suppliers. The cost of the company's preparation for the year 2000 was not considered to be material.

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 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 period ended 31 December 1999. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

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

Auditors

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

By order of the ~~board~~

A handwritten signature in black ink, appearing to be 'LP', written over the text 'By order of the board'.

Leigh Palmer
Company secretary

Report of the auditors to the members of Cambridge Genetics Limited

We have audited the financial statements on pages 8 to 25.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 4, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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.

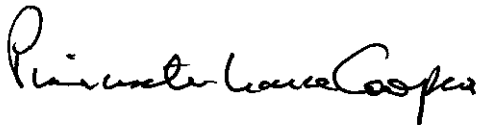
Basis of opinion

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 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 affairs of the company and the group at 31 December 1999 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in cursive script, appearing to read "PricewaterhouseCoopers".

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Cambridge

11 October 2000.

Profit and loss account for the period ended 31 December 1999

	Notes	Year ended 31 December 1999	14 months ended 31 December 1998
		£	£
Turnover - continuing operations	2	-	8,200
Net operating expenses - continuing operations	3	(1,573,834)	(518,817)
Operating loss - continuing operations		(1,573,834)	(510,617)
Interest receivable and similar income		147,311	119,271
Interest payable and similar charges	6	(44,698)	(10,272)
Loss on ordinary activities before taxation and retained loss for the financial year	7,19	(1,471,221)	(401,618)

The above revenue and expenses relate only to the operations of Cambridge Genetics Limited. Those of Cambridge Drug Discovery Limited are not included as the company was acquired only six days before the year-end, and no material transactions occurred in this period.

The group has no recognised gains and losses other than the losses above and therefore no separate statement of total recognised gains and losses has been presented.

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.

Balance sheets at 31 December 1999

	Notes	Group 1999 £	Company 1999 £	Company 1998 £
Fixed assets				
Intangible assets	9	1,291,254	173,790	217,910
Tangible assets	10	2,039,670	372,993	201,044
Investments	11	-	2,080,310	-
		<u>3,330,924</u>	<u>2,627,093</u>	<u>418,954</u>
Current assets				
Stocks	12	370,800	214,000	-
Debtors	13	1,680,635	1,473,023	46,257
Short-term investments	14	1,800,000	1,800,000	2,670,000
Cash at bank and in hand		200,609	642	27,538
		<u>4,052,044</u>	<u>3,487,665</u>	<u>2,743,795</u>
Creditors: amounts falling due within one year	15	<u>1,679,622</u>	<u>1,019,626</u>	<u>325,541</u>
Net current assets		<u>2,372,422</u>	<u>2,468,039</u>	<u>2,418,254</u>
Total assets less current liabilities		<u>5,703,346</u>	<u>5,095,132</u>	<u>2,837,208</u>
Creditors: amounts falling due after more than one year	16	<u>1,013,470</u>	<u>405,256</u>	<u>122,961</u>
Net assets		<u><u>4,689,876</u></u>	<u><u>4,689,876</u></u>	<u><u>2,714,247</u></u>
Capital and reserves				
Called up share capital	17	167,712	167,712	96,730
Share premium account	19	6,395,003	6,395,003	3,019,135
Profit and loss account	19	(1,872,839)	(1,872,839)	(401,618)
Equity shareholders' funds	20	<u><u>4,689,876</u></u>	<u><u>4,689,876</u></u>	<u><u>2,714,247</u></u>

The financial statements on pages 8 to 25 were approved by the board of directors on 14th September 2000 and were signed on its behalf by:



Director

**Notes to the financial statements
for the period ended 31 December 1999****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 group accounting policies, which have been applied consistently, is set out below.

Basis of accounting

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

Adoption of new accounting policies

Financial Reporting Standard Number 12 "Provisions, contingent liabilities and contingent assets", has been adopted in this year's financial statements. No restatement of prior year information has been necessary.

Basis of consolidation

The consolidated financial statements include the company and its subsidiary undertakings. The turnover and results of subsidiary companies are included in the financial statements from the date of acquisition. Intra-group transactions and profit are eliminated fully on consolidation.

Intangible fixed assets**Goodwill**

Purchased goodwill, being the difference between the fair value of the consideration and the fair value of the net assets acquired, is capitalised and amortised on a straight line basis over a prudent estimate of the period that the company is expected to benefit from it. Goodwill amortisation periods are determined on a case by case basis.

Goodwill on acquisition of Cambridge Drug Discovery Limited will be amortised systematically over the estimated economic life of the asset which is ten years, based on the directors' estimates of the acquired company's future performance.

Purchased intangible fixed assets

Purchased intangible fixed assets are capitalised at cost and are amortised systematically over the estimated economic life of the asset, which for existing intangible assets, is four years. These assets relate to intellectual property and a compound database.

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 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	3-4 years
Fixtures and fittings	3-4 years
Computer equipment	3-4 years
Leasehold improvements	10 years

Short-term investments

Deposits which are not repayable on demand are treated as short-term investments in accordance with Financial Reporting Standard No 1, revised in 1996.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and 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.

The group ensures that such leases include an option to purchase the asset at the end of the lease term and so assets held under finance leases are depreciated over the useful lives of the equivalent owned assets.

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

Research and development expenditure

Expenditure on all research and development is written off to the profit and loss account as it is incurred.

Foreign currency

Transactions denominated in foreign currencies are recorded in sterling at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the exchange rate prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

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.

Cash flow statement

The group qualifies as a small-sized group under the Companies Act criteria. Consequently, advantage has been taken of the exemption from preparing a cash flow statement under Financial Reporting Standard 1 "Cash Flow Statements", revised in 1996.

2 Turnover

Turnover consists entirely of sales made in the United Kingdom.

3 Net operating expenses

	1999 £	1998 £
<i>Continuing operations</i>		
Research and development	1,172,438	302,814
Administrative expenses	401,396	216,003
	<u>1,573,834</u>	<u>518,817</u>

4 Directors' emoluments

	1999 £	1998 £
Aggregate emoluments and benefits	143,722	113,999
Company pension contributions to money purchase schemes	9,257	16,000
	<u>152,979</u>	<u>129,999</u>

The company entered into a Consultancy agreement dated 31 March 1999 with Bio-GM Inc, for whom Dr G McGarrity is also a director. In respect of the year ended 31 December 1999 Bio-GM Inc received consultancy fees of £110,857 (1998: £nil).

The two directors appointed on 24 December 1999 received no emoluments from the company.

5 Employee information

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

	1999 Number	1998 Number
By activity		
Research and development	10	5
Administration	3	2
	<u>13</u>	<u>7</u>
	<u>1999</u>	<u>1998</u>
	£	£
Staff costs (for the above persons)		
Wages and salaries	379,166	192,818
Social security costs	39,189	18,984
Other pension costs	19,417	17,231
	<u>437,772</u>	<u>229,033</u>

There were no pension costs accruing at the year end.

6 Interest payable and similar charges

	1999 £	1998 £
Finance leases	44,698	10,272

7 Loss on ordinary activities before taxation

	1999 £	1998 £
Loss on ordinary activities before taxation is stated after charging:		
Operating lease rentals - buildings	74,979	3,280
Depreciation charge for the year:		
Tangible fixed assets	11,842	-
Tangible fixed assets held under finance leases	91,398	5,229
Intangible fixed assets	77,595	68,710
Provision for diminution in value	30,377	-
Auditors' remuneration		
- audit services	4,000	3,000
- non-audit services	12,000	9,900

8 Tax on loss on ordinary activities

There is no corporation tax charge for the period. At 31 December 1999 there were estimated tax losses to carry forward in excess of £4,300,000, subject to agreement with the Inland Revenue.

9 Intangible fixed assets

Group	Goodwill	Intellectual property	Compound database	Total
	£	£	£	£
Cost				
At 1 January 1999	-	286,620	-	286,620
Additions	772,464	33,475	-	805,939
Acquisitions	-	-	460,000	460,000
	<u>772,464</u>	<u>320,095</u>	<u>460,000</u>	<u>1,552,559</u>
At 31 December 1999	772,464	320,095	460,000	1,552,559
Amortisation				
At 1 January 1999	-	68,710	-	68,710
Charge to profit and loss account	-	77,595	-	77,595
Acquisitions	-	-	115,000	115,000
	<u>-</u>	<u>146,305</u>	<u>115,000</u>	<u>261,305</u>
At 31 December 1999	-	146,305	115,000	261,305
Net book value				
At 31 December 1999	<u>772,464</u>	<u>173,790</u>	<u>345,000</u>	<u>1,291,254</u>
Net book value				
At 31 December 1998	<u>-</u>	<u>217,910</u>	<u>-</u>	<u>217,910</u>

Company
**Intellectual
property**
£

Cost	
At 1 January 1999	286,620
Additions	33,475
	<u>320,095</u>
At 31 December 1999	320,095
Amortisation	
At 1 January 1999	68,710
Charge to profit and loss account	77,595
	<u>146,305</u>
At 31 December 1999	146,305
Net book value	
At 31 December 1999	<u>173,790</u>
Net book value	
At 31 December 1998	<u>217,910</u>

10 Tangible fixed assets

Group

	Laboratory equipment £	Computer equipment £	Fixtures and fittings £	Leasehold improvements £	Total £
Cost					
At 1 January 1999	175,924	24,643	5,706	-	206,273
Additions	219,562	31,746	12,642	42,219	306,169
Acquisitions	1,264,112	1,386,623	43,167	404,929	3,098,931
Disposals	(627)	-	-	-	(627)
At 31 December 1999	1,658,971	1,443,012	61,515	447,636	3,610,646
Depreciation					
At 1 January 1999	3,012	1,957	260	-	5,229
Charge for year	77,663	10,504	3,231	11,842	103,240
Disposals	(24)	-	-	-	(24)
Provision for diminution in value	-	-	-	30,377	30,377
Acquisitions	490,220	887,792	13,630	40,512	1,432,154
At 31 December 1999	570,871	900,253	17,121	82,731	1,570,956
Net book value					
At 31 December 1999	1,088,100	542,759	44,394	364,417	2,039,670
Net book value					
At 31 December 1998	172,912	22,686	5,446	-	201,044

Tangible fixed assets with a total net book value of £1,136,031 (1998: £201,044) are held under finance leases, of which £763,038 relates to technical equipment, fixtures and fittings and computers, which were sold and leased back from Oxford Molecular Limited in June 1999.

Company

	Laboratory equipment £	Computer equipment £	Fixtures and fittings £	Leasehold improvements £	Total £
Cost					
At 1 January 1999	175,924	24,643	5,706	-	206,273
Additions	219,562	31,746	12,642	42,219	306,169
Disposals	(627)	-	-	-	(627)
At 31 December 1999	394,859	56,389	18,348	42,219	511,815
Depreciation					
At 1 January 1999	3,012	1,957	260	-	5,229
Charge for year	77,663	10,504	3,231	11,842	103,240
Disposals	(24)	-	-	-	(24)
Provision for diminution in value	-	-	-	30,377	30,377
At 31 December 1999	80,652	12,461	3,491	42,219	138,822
Net book value					
At 31 December 1999	314,207	43,928	14,857	-	372,993
Net book value					
At 31 December 1998	172,912	22,686	5,446	-	201,044

Tangible fixed assets with a total net book value of £372,993 (1998: £201,044) are held under finance leases.

11 Investments

Company

	Group undertakings £
Cost and net book value	-
At 1 January 1999	-
Additions	2,080,310
	<u>2,080,310</u>

Interests in group undertakings

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held by	
			Group %	Company %
Cambridge Drug Discovery Limited	England and Wales	Ordinary Preference	100% 100%	100% 100%

The above subsidiary undertaking has been consolidated in the financial statements using the acquisition method.

The principal activity of the subsidiary is the provision of advanced high throughput screening and bioinformatics services.

12 Stocks

	Group 1999 £	Company 1999 £	Company 1998 £
Compound library	<u>370,800</u>	<u>214,000</u>	<u>-</u>

13 Debtors

	Group 1999 £	Company 1999 £	Company 1998 £
Amounts falling due within one year			
Trade debtors	51,758	-	8,813
Other debtors	158,688	53,929	26,646
Called up share capital not paid	1,399,100	1,399,100	-
Prepayments and accrued income	71,089	19,994	10,798
	<u>1,680,635</u>	<u>1,473,023</u>	<u>46,257</u>

14 Short-term investments

Short-term investments comprise amounts held on deposit which are not repayable on demand.

15 Creditors: amounts falling due within one year

	Group 1999 £	Company 1999 £	Company 1998 £
Bank overdraft	428,146	428,146	-
Trade creditors	261,672	127,406	185,765
Obligations under finance leases	536,335	189,423	104,001
Other taxation and social security	44,240	14,735	10,418
Other creditors	-	-	112
Accruals and deferred income	409,229	259,916	25,245
	<u>1,679,622</u>	<u>1,019,626</u>	<u>325,541</u>

16 Creditors: amounts falling due after more than one year

	Group 1999 £	Company 1999 £	Company 1998 £
Loan note	305,310	305,310	-
Obligations under finance leases	708,160	99,946	122,961
	<u>1,013,470</u>	<u>405,256</u>	<u>122,961</u>

The loan note represents the fair value of deferred consideration on the acquisition of Cambridge Drug Discovery Limited. £1,000,000 is due on 24 December 2006, with no interest payable.

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

	Group 1999 £	Company 1999 £	Company 1998 £
In one year or less	536,335	189,423	104,001
Between one and five years	708,160	99,946	122,961
	<u>1,244,495</u>	<u>289,369</u>	<u>226,962</u>

Under finance lease agreements £233,000 cash was received by the company during the year. At the balance sheet date, fixed assets of £219,602 had been acquired under these agreements and the balance remaining will be used against future capital expenditure.

17 Called up share capital

	1999 £	1998 £
Authorised		
88,914 (1998: 67,414) ordinary shares of £1 each	89,914	67,414
88,634 (1998: 68,634) "A" ordinary shares of £1 each	88,634	68,634
55,300 (1998: nil) "B" ordinary shares of £1 each	55,300	-
	<u>233,848</u>	<u>136,048</u>
Issued, allotted, called up and fully paid		
51,096 (1998: 28,096) ordinary shares of £1 each	51,096	28,096
88,634 (1998: 68,634) "A" ordinary shares of £1 each	88,634	68,634
	<u>139,730</u>	<u>96,730</u>
Issued, allotted, called up, not paid		
27,982 (1998: nil) "B" ordinary shares of £1 each	27,982	-
	<u>167,712</u>	<u>96,730</u>

The "A" and "B" ordinary shares are convertible into a like number of ordinary shares at any time. In the event of a return of capital the "B" ordinary shareholders have first priority, followed secondly by the "A" ordinary shareholders and finally by the ordinary shareholders. In all other respects the "A" and "B" ordinary shares are identical to the ordinary shares.

Changes in authorised share capital

The authorised share capital of the company was increased during the year in order to allow for the share issues stated below. The authorised ordinary share capital increased by 22,500, the "A" ordinary share capital by 20,000 and the "B" ordinary share capital by 55,300.

Share issues

On 17 February 1999 the company issued 20,000 "A" ordinary £1 shares at £50 per share in order to provide working capital.

On 23 February and 7 October 1999 the company issued 200 and 300 ordinary £1 shares respectively, at £50 per share, to an employee and a consultant to the company.

On 24 December 1999 the company issued 22,500 ordinary £1 shares and 27,982 "B" ordinary £1 shares at £50 per share under the terms of the Cambridge Drug Discovery Limited share purchase agreement.

18 Options in shares of Cambridge Genetics Limited

Options have been granted over the following £1 ordinary shares:

Grant date	Number of shares	Subscription price	Period when exercisable
13 January 1998	10,165	£21 per share	Note i
12 August 1998	4,666	£46 per share	Note ii
12 August 1998	9,334	Note iii	Note iii
31 March 1999	3,000	£50 per share	Note iv
22 December 1999	1,600	£50 per share	Note v

(i) The options are exercisable only on completion of certain fundraising targets after which option holders will be notified of the number of options which can be exercised and the period of exercise. No option holders had been notified of exercise periods at the balance sheet date. The options lapse on the seventh anniversary of the date of grant, 12 January 2005.

(ii) The options are exercisable from 12 August 1998 until the earlier of:

- 11 August 2001
- the making of an application for Listing; or
- a sale of the company.

(iii) The options are exercisable after certain income targets are met. The exercise price of the options will equal the price paid for ordinary shares in the preceding fundraising at which a minimum of £1 million in equity is raised. The options will lapse on the earlier of:

- 11 August 2008
- the making of an application for Listing; or
- a sale of the company.

(iv) The options are exercisable on or at any time after the making of an application for Listing or a sale of the company. The options lapse on the seventh anniversary of the date of grant, 31 March 2006.

(v) The options are exercisable from 22 December 2002 and lapse on the tenth anniversary of the grant, 22 December 2009.

19 Reserves

Group and company

	Share premium account £	Profit and loss account £
At 1 January 1999	3,019,135	(401,618)
Retained loss for the period	-	(1,471,221)
Premium on shares issued	3,478,119	-
Expenses of share issues	(102,251)	-
At 31 December 1999	<u>6,395,003</u>	<u>(1,872,839)</u>

20 Reconciliation of movements in Group shareholders' funds

	1999 £	1998 £
Opening shareholders' funds	2,714,247	-
Loss for the financial period	(1,471,221)	(401,618)
Net proceeds from issue of ordinary share capital	<u>3,446,850</u>	<u>3,115,865</u>
Closing shareholders' funds	<u>4,689,876</u>	<u>2,714,247</u>

21 Acquisitions

On 24 December 1999 the company acquired 100% of the ordinary share capital and 100% of the preference share capital of Cambridge Drug Discovery Limited for a total consideration of £2,775,000, as detailed on page 24.

The summarised profit and loss account for Cambridge Drug Discovery Limited for the period from 1 January 1999, the beginning of that company's financial year, to the 31 December 1999 is as follows:

Profit and loss account

	Year ended 31 December 1999 £
Turnover	1,016,084
Operating loss	(1,981,974)
Loss on ordinary activities before taxation	(2,173,902)
Tax on ordinary activities	-
Loss on ordinary activities after taxation	<u>(2,173,902)</u>

The loss on ordinary activities before taxation for the year ended 31 December 1998 was £1,644,956.

Cambridge Drug Discovery Limited had no recognisable gains and losses in the period ended 31 December 1999, other than those included in the loss above. Therefore, no separate statement of total recognised gains and losses has been presented.

The assets and liabilities of Cambridge Drug Discovery Limited acquired are set out below:

	Book value	Fair value adjustments	Fair value
	£	£	£
Fixed assets			
Intangible assets	345,000	-	345,000
Tangible assets	1,666,677	-	1,666,677
	<u>2,011,677</u>	<u>-</u>	<u>2,011,677</u>
Current assets			
Stock	156,800	-	156,800
Debtors	207,612	-	207,612
Cash at bank and in hand	199,967	-	199,967
	<u>2,576,056</u>	<u>-</u>	<u>2,576,056</u>
Total assets	<u>2,576,056</u>	<u>-</u>	<u>2,576,056</u>
Liabilities	<u>(1,268,210)</u>	<u>-</u>	<u>(1,268,210)</u>
Net assets	<u>1,307,846</u>	<u>-</u>	<u>1,307,846</u>
Goodwill			772,464
			<u>2,080,310</u>
Satisfied by:			
Cash			650,000
Share capital (see note 17)			1,125,000
Loan note (see note 16)			305,310
			<u>2,080,310</u>

The acquired operations will be integrated into the existing operations of Cambridge Genetics Limited. The profit and loss account of Cambridge Drug Discovery Limited has not been consolidated with Cambridge Genetics Limited, as the company was only acquired six days before the year-end and no material transactions occurred in this period.

Goodwill arising on the acquisition has been capitalised, and will be amortised over ten years. The fair value of the goodwill reflects the £1,000,000 loan note included as part of the consideration, which has been discounted to its present value, based on its repayment at par on 24 December 2006.

22 Capital commitments

	1999 £	1998 £
Contracts placed for future capital expenditure not provided for in the financial statements	-	21,000

22 Financial commitments

At 31 December 1999, the group was committed to making the following payments during the next year in respect of operating leases:

	1999		1998	
	Land and buildings £	Other £	Land and buildings £	Other £
Expiring within one year	14,107	-	67,176	-
Expiring between two and five years inclusive	-	1,000	-	-
Expiring after five years	138,000	-	-	-
	<u>152,107</u>	<u>1,000</u>	<u>67,176</u>	<u>-</u>

The company's lease commitments are in respect of properties which are cancellable with six months notice.

23 Related party transactions

During the year a compound library was acquired from Maybridge Limited for £258,000. Roger Newton, director, is also a director of Maybridge Limited; however he took no part in the negotiations of the transaction, which was made in the normal course of business and at arm's length.

24 Post balance sheet events

On 31 July 2000, 27,318 "B" ordinary £1 shares were issued at £50 per share for a consideration of £1,365,900 to provide further working capital.