Registered no: 3459808

Cambridge Genetics Limited

Annual report

for the period ended 31 December 1998

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Directors' report for the period ended 31 December 1998

The directors present their report and the audited financial statements for the period ended 31 December 1998.

Principal activities

The profit and loss account for the year is set out on page 6.

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 the year for use in carrying out high throughput screening of chemical libraries to detect potential drug candidates for optimisation, development and safety testing.

Review of business and future developments

The company was incorporated on 3 November 1997 as Bindstem Limited. The company changed its name to Cambridge Genetics Limited on 12 January 1998.

The company was formed by scientists at The Medical Research Council Laboratory of Molecular Biology and management from the pharmaceutical industry. During the year the company secured equity finance from venture capitalists which has provided working capital for the company to recruit scientists and management, establish research operations in the UK and enter into a Licence and Collaboration Agreement with the Mayo Clinic in Rochester, USA. The company has research laboratories at Babraham Hall, Cambridge and at the year end had nine employees.

During 1999 the company plans to increase further its investment into its research activities and its provision of contract research services with the recruitment of additional scientists.

Dividends

The directors do not recommend the payment of a dividend.

Post balance sheet events

Details of post balance sheet events are given in note 20 to the financial statements.

Directors

The directors of the company at 31 December 1998, all of whom have been directors for the whole of the year ended on that date, are listed below:

Pinsent Curtis Director Limited	(Appointed and resigned 8 January 1998)
Ian Kent	(Appointed 8 January 1998)
Dr Stephen Russell	(Appointed 8 January 1998, resigned 1 September 1998)
Simon Kerr	(Appointed 13 January 1998)
Dr Roger Newton	(Appointed 8 January 1998)
Dr Alison Campbell	(Appointed 10 February 1998)
Dr David Needham	(Appointed 13 January 1998)

Directors' interests

Directors' interests in shares

The interests of the directors of the company in the shares of the company at 31 December 1998 were:

Ordinary shares of £1 each

	Date of appointment Number	31 December 1998 Number
Simon Kerr	1	1,459
Ian Kent	-	1,459
Dr Roger Newton	-	417

Interests in share options

Details of options held by Directors are set out below:

The company (ordinary £1 shares)	Number of options At date of appointment	Granted in period	At 31 December 1998	Exercise price per share	Date from which exercisable	Expiry date
Simon Kerr	Nil	2,916	2,916	£21	(1)	12 January 2005
Ian Kent	Nil	2,916	2,916	£21	(1)	12 January 2005
Dr Roger Newton	Nil	833	833	£21	(1)	12 January 2005

(1) The options are exercisable only on completion of certain fundraising targets after which optionholders 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.

Other than shown in the tables above no other director had any interest in the shares or options of the company at 31 December 1998.

Year 2000

Many computer systems express dates using only the last two digits of the year. These systems require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. The operation of our business depends not only on our computer systems, but also to some degree on those of our suppliers. There is, therefore, an exposure to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

The company has, therefore, obtained Year 2000 compliance statements from all suppliers and will continue to do so as equipment is replaced. The cost incurred to ensure compliance is not considered significant.

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 1998. 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

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors.

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

By order of the board

Company secretary

Report of the auditors to the members of Cambridge Genetics Limited

We have audited the financial statements on pages 6 to 15 which have been prepared under the historical cost convention and according to the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report including, as described on page 3, the financial statements. Our responsibilities, as independent auditors, are established 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 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 the company's affairs at 31 December 1998 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Cambridge

4 May 1999.

Profit and loss account for the period ended 31 December 1998

	Notes	14 months ended 31 December 1998
		£
Turnover - continuing operations	2	**8,200**
Net operating expenses - continuing operations	3	**(518,817)**
Operating loss - continuing operations		**(510,617)**
Interest receivable and similar income		**119,271**
Interest payable and similar charges	6	**(10,272)**
Retained loss for the financial period	7,16	**(401,618)**

The company 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 period stated above, and their historical cost equivalents.

Cambridge Genetics Limited

Balance sheet
at 31 December 1998

	Notes	1998 £
Fixed assets		
Intangible assets	9	**217,910**
Tangible assets	10	**201,044**
		418,954
Current assets		
Debtors	11	**46,257**
Short term investments		**2,670,000**
Cash at bank and in hand		**27,538**
		2,743,795
Creditors: amounts falling due within one year	12	**325,541**
Net current assets		**2,418,254**
Total assets less current liabilities		**2,837,208**
Creditors: amounts falling due after more than one year	13	**122,961**
Net assets		**2,714,247**
Capital and reserves		
Called up share capital	14	**96,730**
Share premium account	16	**3,019,135**
Profit and loss account	16	**(401,618)**
Equity shareholders' funds	17	**2,714,247**

The financial statements on pages 6 to 15 were approved by the board of directors on 28 April 1999 and were signed on its behalf by:

Director

Notes to the financial statements for the period ended 31 December 1998

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

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

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.

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 - leased	20
Fixtures and fittings - leased	20 - 25

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.

Research and development expenditure

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

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 company 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 company 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.

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 company qualifies as a small-sized company 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

	1998 £
Continuing operations	
Research and development - current year	**302,814**
Administrative expenses	**216,003**
	518,817

4 Directors' emoluments

	1998 £
Aggregate emoluments	113,999
Company pension contributions to money purchase schemes	16,000
	129,999

5 Employee information

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

	1998 Number
By activity	
Research and development	5
Administration	2
	7

	1998 £
Staff costs (for the above persons)	
Wages and salaries	192,818
Social security costs	18,984
Other pension costs	17,231
	229,033

6 Interest payable and similar charges

	1998 £
Finance leases	10,272

7 Loss on ordinary activities before taxation

	1998 £
Loss on ordinary activities before taxation is stated after charging:	
Operating lease rentals	3,280
Depreciation charge for the year:	
Tangible fixed assets held under finance leases	5,229
Intangible owned fixed assets	68,710
Auditors' remuneration	
- audit services	3,000
- non-audit services	9,900

8 Tax on loss on ordinary activities

There is no corporation tax charge for the period. At 31 December 1998 there were estimated tax losses to carry forward in excess of £305,000, although these still have to be agreed with the Inland Revenue.

9 Intangible fixed assets

	Intellectual property 1998 £
Cost	
Additions and at 31 December 1998	286,620
Amortisation	
Charge to profit and loss account and at 31 December 1998	68,710
Net book value at 31 December 1998	217,910

10 Tangible fixed assets

	Laboratory Equipment £	Fixtures and fittings £	Total £
Cost			
Additions for the period and at 31 December 1998	200,567	5,706	206,273
Depreciation			
Charge for the period and at 31 December 1998	4,969	260	5,229
Net book value			
At 31 December 1998	195,598	5,446	201,044

The total net book value of tangible fixed assets of £201,044 are held under finance leases.

11 Debtors

	1998 £
Amounts falling due within one year	
Trade debtors	8,813
Other debtors	26,646
Prepayments and accrued income	10,798
	46,257

12 Creditors: amounts falling due within one year

	1998 £
Trade creditors	185,765
Obligations under finance leases	104,001
Other taxation and social security	10,418
Other creditors	112
Accruals and deferred income	25,245
	325,541

13 Creditors: amounts falling due after more than one year

	1998 £
Obligations under finance leases	122,961

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

	1998 £
In one year or less	104,001
Between one and two years	122,961
	226,962

Under the finance lease agreement £250,000 cash was received by the company. At the balance sheet date, fixed assets of £206,273 had been acquired and the balance remaining will be used against future capital expenditure.

14 Called up share capital

	1998 £
Authorised	
67,414 ordinary shares of £1 each	67,414
68,634 "A" ordinary shares of £1 each	68,634
	136,048
Issued, allotted, called up and fully paid	
28,096 ordinary shares of £1 each	28,096
68,634 "A" ordinary shares of £1 each	68,634
	96,730

The "A" ordinary shares are convertible into a like number of ordinary shares at any time. In all other respects they are identical to the ordinary shares.

Share issues

The Company issued two £1 ordinary shares on incorporation.

On 13 January 1998 the Company issued 8,160 ordinary £1 shares and 14,286 "A" ordinary £1 shares at £21 per share, and 16,673 ordinary £1 shares at £1.20 per share in order to provide working capital.

On 22 May 1998 the Company issued 3,261 ordinary £1 shares at £46 per share on the conversion of an unsecured loan note for £150,006.

On 22 May 1998 the Company issued 54,348 "A" ordinary £1 shares at £46 per share in order to provide further working capital.

15 Options in shares of Cambridge Genetics Limited

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

	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

i The options are exercisable only on completion of certain fundraising targets after which optionholders 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.

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

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

16 Reserves

	Share premium account £	Profit and loss account £
At 13 November 1997	-	-
Retained loss for the period	-	(401,618)
Premium on shares issued	3,044,663	-
Expenses of share issues	(25,528)	-
At 31 December 1998	**3,019,135**	**(401,618)**

17 Reconciliation of movements in shareholders' funds

	1998 £
Opening shareholders' funds	-
Loss for the financial period	**(401,618)**
Net proceeds from issue of ordinary share capital	**3,115,865**
Closing shareholders' funds	**2,714,247**

18 Capital commitments

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

19 Financial commitments

At 31 December 1998, the Company had lease commitments in respect of properties which are cancellable with six months notice.

	Land and buildings 1998 £
Within one year	67,176

20 Post balance sheet events

On 17 February 1999, 20,000 £1 "A" ordinary shares and 200 £1 ordinary shares were issued at £50 per share for a consideration of £1,010,000 to provide further working capital.