

Paradigm Therapeutics Limited
Annual report and accounts
for the year ended 31 December 2001

Registered Number 3585995



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Paradigm Therapeutics Limited

Annual report and accounts for the year ended 31 December 2001

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Paradigm Therapeutics Limited

Directors and advisors

Directors

Dr S A J R Aparicio

Dr M B L Carlton

Mr C F M Cox

Dr R M Goodfellow

Mr A G Goodman

Dr D Roach

Secretary

Mr J Sutcliffe

Auditors

PricewaterhouseCoopers

Abacus House

Castle Park

Cambridge

CB3 0AN

Registered Office

C/o Avlar BioVentures

Compass House

Vision Park

Chivers Way

Histon

Cambridge

CB4 9ZR

Paradigm Therapeutics Limited

Directors' report for the year ended 31 December 2001

The directors present their report and the audited financial statements for the year ended 31 December 2001.

Principal activities and business review

The company's main activity in the year continued to be research and development dedicated to the discovery and validation of novel human drug targets, with a focus on orphan drugable protein targets from the human genome.

On 3 September 2001 Avlar BioVentures Fund I Limited Partnership invested £500,000 for equity in the company.

The directors are currently seeking further funding to enable the company to further develop its activities.

Dividends

The directors do not recommend the payment of a dividend (period to 31 December 2000: £nil)

Directors and their interests

The directors who served during the year or have been appointed since the year end, and their interests in the shares of the company at 31 December 2001 are as follows:

	2001 Number of ordinary shares of 10p each	2000 Number of ordinary shares of 10p each
Dr S A J R Aparicio	2,530	2,530
Dr M B L Carlton	2,530	2,530
Mr C F M Cox	600	600
Dr R M Goodfellow	1,800	1,800
Mr A G Goodman	-	-
Mr D Gough (resigned 28 March 2002)	-	-
Dr D Roach (appointed 28 March 2002)	-	-

No directors had any interest in share options at 31 December 2001 or 2000.

Research and development

During the year the company spent £479,256 on research and development relating to the discovery and validation of novel human drug targets.

Paradigm Therapeutics Limited

Directors' report (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company 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. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2001 and 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 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

PricewaterhouseCoopers were appointed auditors during the year to fill a casual vacancy and their appointment will be ratified at the Annual General Meeting.

By order of the Board



James Sutcliffe
Company Secretary
14 May 2002

Paradigm Therapeutics Limited

Independent auditors' report to the members of Paradigm Therapeutics Limited

We have audited the financial statements on pages 5 to 14.

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 on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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.

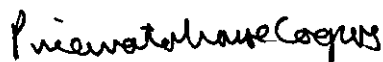
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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 successfully 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. 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 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Cambridge

14 May 2002

Paradigm Therapeutics Limited

Profit and loss account for the year ended 31 December 2001

	Note	Year ended 31 December 2001 £	7 month period ended 31 December 2000 £
Turnover	2	48,750	-
Cost of sales		(27,228)	-
Gross profit		21,522	-
Net operating expenses	3	(627,677)	(90,991)
Exceptional operating expenses	3	-	(608,326)
Operating loss		(606,155)	(699,317)
Interest receivable and similar income	4	17,397	1,340
Loss on ordinary activities before taxation	5	(588,758)	(697,977)
Tax credit on loss on ordinary activities	8	71,462	-
Loss for the financial year	15,16	(517,296)	(697,977)

All amounts related to continuing activities.

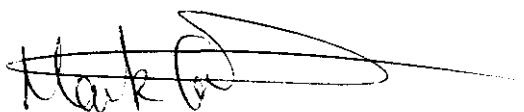
There were no recognised gains or losses other than the loss for the year. Therefore, a statement of total recognised gains and losses has not been prepared.

Paradigm Therapeutics Limited

Balance sheet as at 31 December 2001

	Note	2001 £	2000 £
Fixed assets			
Intangible assets	9	-	-
Tangible assets	10	37,828	-
		37,828	-
Current assets			
Debtors	11	126,845	12,579
Cash at bank and in hand		497,641	493,352
		624,486	505,931
Creditors: amounts falling due within one year	12	(267,711)	(94,032)
Net current assets		356,775	411,899
Net assets		394,603	411,899
Capital and reserves			
Called up share capital	14	2,036	1,679
Share premium account	15	1,607,130	1,107,487
Profit and loss account	15	(1,214,563)	(697,267)
Shareholders' funds – all equity	16	394,603	411,899

The financial statements on pages 5 to 14 were approved by the board of directors on 14 May 2002 and signed on its behalf by:



Mark Carlton
Director

Paradigm Therapeutics Limited

Notes to the financial statements for the year ended 31 December 2001

1 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 reviewed by the board of directors in accordance with Financial Reporting Standard ("FRS") 18, 'Accounting Policies', and have been applied consistently, is set out below.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of preparation – going concern basis

The directors estimate that cash and short term investments held at the date of approval of the financial statements are not sufficient to continue funding the trading activities of the company for a further twelve months from the date of approval of the financial statements. Accordingly, the directors currently plan to obtain additional funds, by raising further finance, which would enable the company to continue its activities for the foreseeable future. There is uncertainty over the amount of funds which would be obtained and whether they will be received within the expected timescale. However, the directors believe that the company will be able to obtain such 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 the company being able to obtain adequate additional funds to continue its activities.

If the company were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to revise the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise, and to reclassify fixed assets as current assets.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided so as to write off the cost of tangible fixed assets on a straight line basis over their estimated useful lives at the following rates:

Computer equipment	3 years
Laboratory equipment	5 years

Intangible assets – intellectual property

Intellectual property rights are included at cost and amortised in equal annual instalments over their estimated useful economic life. Provision is made for any impairment.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of VAT and other sales related taxes. Amounts received under development contracts are recognised in the period over which the related costs are incurred.

Grants

Revenue grants are credited to the profit and loss account on a case by case basis, assessed by the level of expenditure incurred on the specific grant project, when receipt of the grant is reasonably certain and it is reasonably certain that amounts will not need to be repaid.

Paradigm Therapeutics Limited

Notes to the financial statements (continued)

Taxation

UK corporation tax is provided at amounts expected to be paid or received using the rates and laws that have been enacted at the balance sheet date.

Deferred taxation is provided using the liability method on all timing differences, only to the extent that they are expected to crystallise in the future without being replaced.

Pension costs

The company operates a group personal pension plan. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. The differences between contributions payable and contributions actually paid are shown as accruals in the balance sheet. FRS 17, 'Retirement benefits', has been adopted with no resulting change in presentation, because the company does not have any defined benefit pension schemes.

Leases

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard 1 "Cash flow statements" from including a cash flow statement in the financial statements on the grounds that the company is small.

Research and development

Research and development expenditure is written off as incurred.

2 Turnover

All revenue arose on sales to customers within the UK.

3 Net operating expenses

Net operating expenses comprise the following:

	Year ended 31 December 2001 £	7 month period ended 31 December 2000 £
Administrative expenses	199,472	83,725
Exceptional administrative expenses	-	608,326
Total administrative expenses	199,472	692,051
Research and development costs	479,256	7,266
Other operating income - grant income	(51,051)	-
	627,677	699,317

In the prior period, a review of the carrying value of intellectual property rights acquired in return for the issue of ordinary share capital resulted in an exceptional impairment charge of £608,326.

Paradigm Therapeutics Limited

Notes to the financial statements (continued)

4 Interest receivable and similar income

	Year ended 31 December 2001 £	7 month period ended 31 December 2000 £
Bank interest receivable and similar income	17,397	1,340

5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	Year ended 31 December 2001 £	7 month period ended 31 December 2000 £
Impairment of intellectual property rights (note 3)	-	608,326
Auditors' remuneration:		
- audit services	4,000	2,250
- non audit services	4,200	-
Research and development		
- current year expenditure	475,797	7,266
Operating lease rentals		
- equipment	-	1,085
- other	25,000	6,799

6 Employee information

In the year to 31 December 2001 the average monthly number of employees (including executive directors) was as shown below:

	Year ended 31 December 2001 Number	Period from 11 December 2000 to 31 December 2000 Number
Research	11	3
Administration	1	1
Sales	1	1
	13	5

The company had no employees from 1 June 2000 to 11 December 2000.

Paradigm Therapeutics Limited

Notes to the financial statements (continued)

The aggregate remuneration of the above persons comprised:

	2001	2000
	£	£
Wages and salaries	290,176	8,536
Social security costs	26,707	448
Pension costs	19,730	275
	336,613	9,259

The company makes defined contributions under a Group Personal Pension plan on behalf of its employees. The pension costs charged represent contributions payable by the company. At 31 December 2001, an amount of £19,730 is included in creditors (see note 12) in respect of pension costs.

7 Directors' remuneration

The total amounts for directors' remuneration were as follows:

	2001	2000
	£	£
Aggregate emoluments	160,222	6,292
Contributions to defined contribution scheme	4,875	275
Sums paid to third parties for directors' services (see note 18)	20,000	2,244
	185,097	8,811

One director is a member of the company's group personal pension plan (31 December 2000: nil).

8 Tax on loss on ordinary activities

The tax credit comprises:

	2001	2000
	£	£
Corporation tax recoverable	(71,284)	-
Adjustment in respect of prior periods	(178)	-
	(71,462)	-

The company's utilisation of the research and developments tax credits available for small and medium-sized companies is expected to result in a tax credit of £71,284 (2000: £nil).

Paradigm Therapeutics Limited

Notes to the financial statements (continued)

9 Intangible fixed assets

	Intellectual property £
Cost	
At 1 January and 31 December 2001	608,326
Amortisation	
At 1 January and 31 December 2001	608,326
Net book value	
At 31 December 2001 and 31 December 2000	-

10 Tangible fixed assets

	Computer equipment £	Research equipment £	Total £
Cost			
At 1 January 2001	-	-	-
Additions	1,574	38,136	39,710
At 31 December 2001	1,574	38,136	39,710
Depreciation			
At 1 January 2001	-	-	-
Charge in year	131	1,751	1,882
At 31 December 2001	131	1,751	1,882
Net book value			
At 31 December 2001	1,443	36,385	37,828
At 1 January 2001	-	-	-

Paradigm Therapeutics Limited

Notes to the financial statements (continued)

11 Debtors

	2001 £	2000 £
Corporation tax recoverable	71,573	-
Other debtors	54,222	10,976
Called-up share capital not paid	-	10
Prepayments	1,050	1,583
	126,845	12,579

12 Creditors: amounts falling due within one year

	2001 £	2000 £
Trade creditors	66,713	12,349
Taxation and social security	14,029	178
Other creditors (note 6)	19,730	-
Accruals and deferred income	167,239	81,505
	267,711	94,032

13 Deferred taxation

The company had potential deferred tax liabilities/(assets) as follows:

	Amount provided 2001 £	Amount provided 2000 £	Amount unprovided 2001 £	Amount unprovided 2000 £
Tax effect of timing differences because of:				
Excess of capital allowances over depreciation	11,226	-	-	-
Losses carried forward	(11,226)	-	(106,905)	(10,565)
Other	-	-	(5,919)	-
	-	-	(112,824)	(10,565)

Paradigm Therapeutics Limited

Notes to the financial statements (continued)

14 Called up share capital

	2001 £	2000 £
Authorised		
92,865 ordinary shares of 10p each	9,286	9,286
7,135 'A' ordinary shares of 10p each	714	714
	10,000	10,000
Allotted, called up and fully paid		
13,225 (2000: 13,125) ordinary shares of 10p each	1,322	1,312
7,135 (2000 : 3,567) 'A' ordinary shares of 10p each	714	357
	2,036	1,669
Allotted, called up share capital not paid		
100 ordinary shares of 10p each	-	10
Allotted, called up share capital	2,036	1,679

On 3 September 2001, the company issued 3,568 'A' ordinary shares of 10p each, with a nominal value of £357, to Avlar BioVentures Fund I Limited Partnership in return for cash consideration of £500,000.

The 'A' ordinary shares of 10p each rank pari passu with the ordinary shares of 10p each with respect to the rights to dividend and voting rights. On the return of assets on liquidation or capital reduction or otherwise, the assets of the company shall be distributed first to the holders of 'A' ordinary shares with the amount of any premium paid thereon and secondly to the holders of ordinary shares with any premium paid thereon. In the division of any remaining assets the shares shall rank pari passu.

As at 31 December 2001 the company has outstanding options over 757 ordinary shares at an exercise price of 10p and options over 605 ordinary shares at an exercise price of £50.00 all of which are only exercisable upon the sale or flotation of the company.

15 Reserves

	Share premium account £	Profit and loss account £	Total £
At 1 January 2001	1,107,487	(697,267)	410,220
Shares issued	499,643	-	499,643
Retained loss for the year	-	(517,296)	(517,296)
At 31 December 2001	1,607,130	(1,214,563)	392,567

Paradigm Therapeutics Limited

Notes to the financial statements (continued)

16 Reconciliation of movement in shareholders' funds

	2001	2000
	£	£
Loss for the financial year	(517,296)	(697,977)
Issue of new shares (net)	500,000	1,108,157
Net (decrease)/increase in shareholders' funds	(17,296)	410,180
Opening shareholders' funds	411,899	1,719
Closing shareholders' funds	394,603	411,899

17 Financial commitments

At 31 December 2001 the company had annual commitments under non-cancellable operating leases expiring within one year of £25,000 (2000: £25,000) relating to land and buildings.

18 Related party transactions

During the year the company incurred charges of £20,000 (31 December 2000: £2,244) from Avlar BioVentures Limited, the manager of Avlar BioVentures Fund I Limited Partnership, a shareholder in the company, in respect of the services of the two directors, as set out in note 7.