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Lion Bioscience Limited

Report and Financial Statements

31 March 2005

 **ERNST & YOUNG**



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Lion Bioscience Limited

Registered No: 3598020

Director

T M Etzold

Secretary

L Thurston

Auditors


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

Bankers

Barclays Bank Plc
PO Box 885
Mortlock House
Histon
Cambridgeshire
CB4 9DE

Registered office

St Andrews House
St Andrews Road
Cambridge
CB4 1DL

 **ERNST & YOUNG**

Director's report

The director presents his report and financial statements for the year ended 31 March 2005.

Results and dividends

The profit for the year, after taxation, amounted to £38,262. The director does not recommend the payment of any dividends.

Principal activity and review of the business

The principal activity of the company during the year was to render technical and related support services to its immediate holding company Lion Bioscience AG, in connection with the parent company's integrated genomics and informatics solutions for the Life Sciences industry.

Future developments

The Lion group strives to be the world leader of transforming information into life science products. With our solutions, customers are reaching the cutting edge in the race for scientific and business success.

Director

The director who served the company during the year was as follows:

T M Etzold

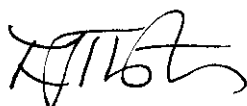
There are no director's interests requiring disclosure under the Companies Act 1985.

At the year-end T M Etzold owned 56,266 Ordinary shares of £1 each (2004: 56,266) in the ultimate parent undertaking, Lion Bioscience AG.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board



L Thurston
Secretary

18 JULY 2005

Statement of director's responsibilities in respect of the financial statements

Company law requires the director to prepare financial statements for each financial year which 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. In preparing those financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable him to ensure that the financial statements comply with the Companies Act 1985. He is 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.

Independent auditors' report

to the members of Lion Bioscience Limited

We have audited the company's financial statements for the year ended 31 March 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of director and auditors

As described in the Statement of Director's Responsibilities the company's director is responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

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

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 Director's 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 director's remuneration and transactions with the company is not disclosed.

We read the Director's Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 director 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.

Independent auditors' report

to the members of Lion Bioscience Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Cambridge

26 July 2005

Profit and loss account

for the year ended 31 March 2005

	Notes	2005 £	2004 £
Turnover	3	2,829,832	2,868,858
Administrative expenses		2,747,522	2,855,845
Operating profit	4	82,310	13,013
Bank interest receivable	7	4,913	2,750
Interest payable and similar charges	8	(12,391)	(12,493)
		(7,478)	(9,743)
Profit on ordinary activities before taxation		74,832	3,270
Tax on profit on ordinary activities	9	36,570	99,197
Profit retained/(loss) for the financial year		38,262	(95,927)

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £38,262 attributable to the shareholders for the year ended 31 March 2005 (2004 - loss of £95,927).

Balance sheet

at 31 March 2005

	Notes	2005 £	2004 £
Fixed assets			
Tangible assets	10	486,643	298,512
Investments	11	22,252	—
		<u>508,895</u>	<u>298,512</u>
Current assets			
Debtors	12	557,318	587,377
Cash at bank and in hand		47,715	105,656
		<u>605,033</u>	<u>693,033</u>
Creditors: amounts falling due within one year	13	579,262	622,134
		<u>25,771</u>	<u>70,899</u>
Net current assets			
		<u>534,666</u>	<u>369,411</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	14	144,870	—
Accruals and deferred income			
Deferred government grants	16	95,303	113,180
		<u>294,493</u>	<u>256,231</u>
Capital and reserves			
Called up share capital	19	50,000	50,000
Capital contribution	20	120,000	120,000
Profit and loss account	20	124,493	86,231
		<u>294,493</u>	<u>256,231</u>
Equity shareholders' funds			



T M Etzold
Director

18 JULY 2005

Notes to the financial statements

at 31 March 2005

1. Fundamental accounting concept

The financial statements are prepared on the going concern basis because the parent undertaking has agreed not to seek repayment, in part or whole, of loans due to it if to do so would prevent the company from meeting its liabilities as they arise.

2. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention.

Cash flow statement

The director has taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

Related parties transactions

The company is a wholly owned subsidiary of Lion Bioscience AG, the consolidated accounts of which are publicly available.

Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members or investees of the group.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Leasehold Property	-	over lease term
Equipment	-	1-8 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account over the expected useful lives of the relevant assets by equal annual instalments.

Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Notes to the financial statements

at 31 March 2005

2. Accounting policies (continued)

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Operating lease agreements

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

3. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to group companies and relates to the one continuing activity of the company.

An analysis of turnover by geographical market is given below:

	2005 £	2004 £
Europe	<u>2,829,832</u>	<u>2,868,858</u>

4. Operating profit

This is stated after charging/(crediting):

	2005 £	2004 £
Auditors' remuneration - audit services	13,750	11,500
- non-audit services	<u>7,450</u>	<u>17,625</u>
Research and development expenditure written off	<u>1,796,315</u>	<u>1,714,306</u>
Depreciation of owned fixed assets	<u>219,381</u>	<u>254,498</u>
Operating lease rentals - land and buildings	162,902	162,905
- plant and machinery	12,393	14,796
Net loss on foreign currency translation	48,330	2,899
Government grants released	(84,984)	-
Write off debt due from fellow subsidiary	<u>-</u>	<u>7,769</u>

Notes to the financial statements

at 31 March 2005

5. Staff costs

	2005 £	2004 £
Wages and salaries	1,648,076	1,733,015
Social security costs	181,797	195,285
Staff pension contributions (note 15)	60,693	67,136
	<u>1,890,566</u>	<u>1,995,436</u>

The monthly average number of employees during the year was as follows:

	2005 No.	2004 No.
Staff	<u>41</u>	<u>39</u>

6. Director's emoluments

	2005 £	2004 £
Emoluments	<u>118,415</u>	<u>126,323</u>
Value of company pension contributions to money purchase schemes	<u>5,311</u>	<u>4,000</u>
	2005 No.	2004 No.
Members of money purchase pension schemes	<u>1</u>	<u>1</u>

7. Interest receivable

	2005 £	2004 £
Bank interest receivable	<u>4,913</u>	<u>2,750</u>

8. Interest payable and similar charges

	2005 £	2004 £
Interest on loans from group undertakings	12,344	12,493
Other interest	47	—
	<u>12,391</u>	<u>12,493</u>

Notes to the financial statements

at 31 March 2005

9. Taxation on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2005 £	2004 £
<i>Current tax:</i>		
UK corporation tax	44,879	86,457
Tax (over)/under provided in previous years	(8,309)	2,188
Total current tax (note 9(b))	36,570	88,645
<i>Deferred tax:</i>		
Origination and reversal of timing differences	–	10,552
Tax on profit on ordinary activities	36,570	99,197

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2004 - 30%). The differences are reconciled below:

	2005 £	2004 £
Profit on ordinary activities before taxation	74,832	3,270
Profit on ordinary activities multiplied by rate of tax	22,450	981
Disallowed expenses and non-taxable income	33,126	52,365
Adjustments in respect of previous periods	(8,309)	2,188
Short term timing differences	3,545	(132)
Capital allowances in excess of depreciation	(13,033)	34,452
Capital gains	(1,209)	(1,209)
Total current tax (note 9(a))	36,570	88,645

(c) Deferred tax

The deferred taxation asset not recognised in the financial statements is as follows:

	2005 £	2004 £
Capital allowances in advance of depreciation	8,112	43,258
Other timing differences	8,907	1,615
	17,019	44,873

Notes to the financial statements

at 31 March 2005

10. Tangible fixed assets

	<i>Leasehold Property £</i>	<i>Equipment £</i>	<i>Total £</i>
Cost:			
At 1 April 2004	262,115	749,243	1,011,358
Additions	89,738	317,775	407,513
Disposals	–	(18,395)	(18,395)
At 31 March 2005	351,853	1,048,623	1,400,476
Depreciation:			
At 1 April 2004	168,237	544,609	712,846
Provided during the year	67,125	152,256	219,381
Disposals	–	(18,394)	(18,394)
At 31 March 2005	235,362	678,471	913,833
Net book value:			
At 31 March 2005	116,491	370,152	486,643
At 1 April 2004	93,878	204,634	298,512

11. Investments

	<i>Shares in group companies £</i>
Cost:	
Addition	22,252
At 31 March 2005	22,252

Lion Bioscience Asset Vehicle Inc. is a wholly owned subsidiary undertaking which was incorporated in the year, has not traded since incorporation and its aggregate capital and reserves consists of the shares issued to Lion Bioscience Limited.

Under the provision of section 228 of the Companies Act 1985 the company is exempt from preparing consolidated accounts and has not done so, therefore the accounts show information about the company as an individual entity.

Notes to the financial statements

at 31 March 2005

12. Debtors

	2005 £	2004 £
Trade debtors	–	4,841
Amounts owed by group undertakings	252,163	419,039
Other debtors	51,132	20,012
Prepayments and accrued income	254,023	143,485
	<u>557,318</u>	<u>587,377</u>

Included in prepayments is an amount of £21,200 (2004 £21,200) which is secured by a mortgage charge dated 4 January 2001 and an amount of £69,908 (2004 £nil) which is secured by a mortgage charge dated 15 March 2005.

13. Creditors: amounts falling due within one year

	2005 £	2004 £
Trade creditors	60,119	136,466
Amounts owed to group undertakings	228,802	199,770
Corporation tax	26,836	78,954
Other taxation and social security	107,185	113,294
Other creditors	10,171	10,077
Accruals and deferred income	146,149	83,573
	<u>579,262</u>	<u>622,134</u>

14. Creditors: amounts falling due after more than one year

	2005 £	2004 £
Accruals and deferred income	<u>144,870</u>	<u>–</u>

15. Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension premiums paid in the year represent contributions payable by the company to the fund and amounted to £60,693 (2004 £67,136).

Contributions totalling £10,171 (2004 £10,077) are outstanding at the balance sheet date and are included in other creditors.

16. Accruals and deferred income

	<i>Deferred government grants</i>	
	2005 £	2004 £
Balance as at 1 April	113,180	–
Received during the year	67,107	113,180
Released during the year	(84,984)	–
Balance as at 31 March	<u>95,303</u>	<u>113,180</u>

Notes to the financial statements

at 31 March 2005

17. Commitments under operating leases

At 31 March 2005 the company had annual commitments under non-cancellable operating leases as set out below:

	2005		2004	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£	£	£	£
Operating leases which expire:				
In two to five years	—	—	162,095	16,248

18. Related party transactions

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.

19. Share capital

Share capital		2005		Authorised
		2005		2004
		£		£
Ordinary shares of £1 each		50,000		50,000
		Allotted, called up and fully paid		
	No.	2005		2004
		£	No.	£
Ordinary shares of £1 each	50,000	50,000	50,000	50,000

20. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Capital contribution</i>	<i>Profit and loss account</i>	<i>Total share- holders' funds</i>
	£	£	£	£
At 1 April 2003	50,000	120,000	182,158	352,158
Loss for the year	—	—	(95,927)	(95,927)
At 31 March 2004	50,000	120,000	86,231	256,231
Profit for the year	—	—	38,262	38,262
At 31 March 2005	50,000	120,000	124,493	294,493

21. Ultimate parent company

The company's ultimate and immediate parent company is LION Bioscience AG, a company incorporated in Germany. LION Bioscience AG has included the company in its group accounts which may be obtained from its registered office PO Box 103780, 69027 Heidelberg, Germany.