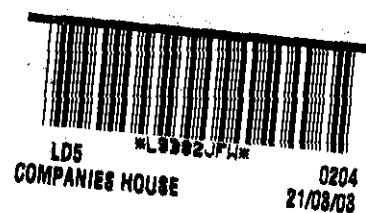


Phairson Limited

Financial statements for the year ended 31 December 2001
together with directors' and independent auditors' reports

Registered number: 3649486



Directors' report

For the year ended 31 December 2001

The directors present their annual report on the affairs of the group, together with the financial statements and independent auditors' report, for the year ended 31 December 2001.

Principal activities and business review

The principal activities of the group are the research and development of novel biopharmaceutical products and medical devices, and negotiating with potential partners with a view to obtaining a licensing deal for its products.

The group made further progress in its research and development programmes during the year. The Group has commenced its second Phase II study into the treatment of chronic wounds with PHM-101, the Group's lead product. This study will be concluded in June 2003.

The group received additional loan finance totalling £400,000 in the first quarter of 2002 and £40,000 in January 2003 principally from companies where Mr Jan-Eric Österlund and Mr Sven-Erik Nilsson are the beneficiaries. These directors have agreed to provide any additional funding necessary in order to complete the plans as set out in the board's strategy.

Results and dividends

The group's loss for the year of £725,851 (2000: £3,510,590) is set out on page 7 and has been transferred to group reserves. The directors do not recommend the payment of a dividend (2000: £nil).

Directors and their interests

The directors of the company who served during the year are as shown below:

Executive

Dr Richard Franklin (Chief Executive)

Non-Executive

Mr Jan-Eric Österlund (Chairman)

Mr Sven-Erik Nilsson

Mr Laurence Rostron

Directors' report (continued)

Directors and their interests (continued)

The directors who held office at 31 December 2001 had no interests (including options) other than those shown below in the shares of the group.

Shares	At 31 December 2001				At 1 January 2001			
	Number of shares				Number of shares			
Name of director	Ordinary	Preferred A	Preferred B	Preferred C	Ordinary	Preferred A	Preferred B	Preferred C
Mr Jan-Eric Österlund ^①	46,589	1,765,653	112,444	1,932,821	46,589	1,765,653	112,444	1,932,821
Mr Sven-Erik Nilsson	45,995	846,904	128,993	1,049,362	45,995	846,904	128,993	1,049,362
Mr Laurie Rostron ^③	-	-	-	-	-	-	-	-
Dr Richard Franklin ^②	46,128	-	-	-	46,128	-	-	-

① The interests of Mr Jan-Eric Österlund are held by a family trust.

② The interests of Dr Richard Franklin are held by a trust in which he has a beneficial interest.

③ Mr Laurie Rostron has a carried interest in the shareholding of Alta Berkeley III CV. At 1 January 2001 and 31 December 2001 Alta Berkeley III CV had an interest in 738,050 preferred A shares and 277,779 preferred B shares of the company.

Directors' report (continued)

Directors and their interests (continued)

Options	Number of options over Preferred A Shares of the company			
	At 1 January 2001 and 31 December 2001	Exercise price	Date from which exercisable	Expiry date
Mr Jan-Eric Österlund ①	92,400	£1.80	1 Jan 97	31 Dec 03
①	4,620	£1.80	31 Jul 97	31 Dec 03
Mr Sven-Erik Nilsson	-	-	-	-
Mr Laurie Rostron	-	-	-	-
Dr Richard Franklin ① ③	147,840	£1.80	1 Jan 97	31 Dec 03
②	46,200	£1.80	31 Jul 97	30 Jun 04
②	16,665	£1.80	28 Aug 97	30 Jun 04
②	46,200	£3.60	1 Jul 98	30 Jun 05
②	46,200	£7.20	1 Jul 99	30 Jun 06
②	46,200	£7.20	1 Jul 00	30 Jun 07
②	25,000	£3.30	1 Jul 99	30 Jun 06
②	25,000	£3.30	1 Jul 00	30 Jun 07
②	25,000	£3.30	1 Jul 01	30 Jun 08
②	25,000	£3.30	1 Jul 02	30 Jun 09

① Options issued under the terms of the company's Founder/Non-Management Option Scheme.

② Options issued under the company's Management Share Option Scheme.

③ Options granted to Dr Richard Franklin of which 104,482 are held by a trust in which Dr Franklin has a beneficial interest and 43,358 are held by a trust in which Dr Franklin has no beneficial interest.

Liability insurance for company officers

The company has purchased insurance cover for the directors against liability arising from negligence, default, breach of duty and breach of trust in relation to the company.

Directors' report (continued)

Auditors

On 31 July 2002 Arthur Andersen resigned as auditors and Deloitte & Touche were appointed. In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Deloitte & Touche be reappointed as auditors of the Group will be put to the Annual General Meeting.

29 Abingdon Road
London
W8 6AH

By order of the Board



Dr Richard Franklin
Director

03 March 2003

Statement of directors' responsibilities

31 December 2001

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

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

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

Independent auditors' report**To the members of Phairson Limited:**

We have audited the financial statements of Phairson Limited for the year ended 31 December 2001 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the statement of accounting policies and the related notes numbered 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

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. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and 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 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 with the company is not disclosed.

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

Basis of 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 directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

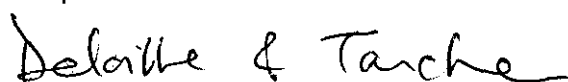
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in statement of accounting policies concerning the uncertainty of the financial condition of the company and the directors' abilities to raise the necessary additional funds. In view of the significance of this uncertainty, we consider that it should be drawn to your attention but 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 affairs of the company and of the group at 31 December 2001 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors

Reading
14 March 2003

Consolidated profit and loss account

For the year ended 31 December 2001

	Notes	2001 £	2000 £
Operating expenses	1	(1,009,473)	(1,641,522)
Operating loss		<u>(1,009,473)</u>	<u>(1,641,522)</u>
Interest receivable and similar income	5	27,062	27,708
Interest payable and similar charges	6	(1,620)	(1,896,776)
Loss on ordinary activities before taxation	7	<u>(984,031)</u>	<u>(3,510,590)</u>
Tax on loss on ordinary activities	8	258,180	-
Loss on ordinary activities after taxation, being retained loss for the year	14	<u>(725,851)</u>	<u>(3,510,590)</u>

All of the above results arise from continuing operations.

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2001

	2001 £	2000 £
Loss for the financial year	(725,851)	(3,510,590)
Loss on foreign currency translation	(2,876)	(1,185)
Total recognised gains and losses relating to the year	<u>(728,727)</u>	<u>(3,511,775)</u>

The accompanying notes are an integral part of these consolidated statements.

Balance Sheets

For the year ended 31 December 2001

	Notes	Group		Company	
		2001 £	2000 £	2001 £	2000 £
Fixed assets					
Tangible assets	9	-	14,256	-	-
Investments	10	-	-	-	-
		<u>-</u>	<u>14,256</u>	<u>-</u>	<u>-</u>
Current assets					
Debtors	11	388,868	136,160	-	-
Cash at bank and in hand		82,972	1,258,408	-	-
		<u>471,840</u>	<u>1,394,568</u>	<u>-</u>	<u>-</u>
Creditors: Amounts falling due within one year	12	(170,298)	(378,555)	(12,000)	(12,000)
Net current assets (liabilities)		<u>301,542</u>	<u>1,016,013</u>	<u>(12,000)</u>	<u>(12,000)</u>
Net assets (liabilities)		<u>301,542</u>	<u>1,030,269</u>	<u>(12,000)</u>	<u>(12,000)</u>
Capital and reserves					
Called-up share capital	13	2,624,661	2,624,661	2,624,661	2,624,661
Share premium account	14	17,123,228	17,123,228	17,123,228	17,123,228
Merger reserve	14	(1,772,949)	(1,772,949)	-	-
Other reserves	14	(4,345)	(1,469)	-	-
Profit and loss account	14	(17,669,053)	(16,943,202)	(19,759,889)	(19,759,889)
Equity shareholders' funds (deficit)	15	<u>301,542</u>	<u>1,030,269</u>	<u>(12,000)</u>	<u>(12,000)</u>

These financial statements were approved by the Board and were signed on its behalf by:



Dr Richard Franklin - Director

3 MARCH
27 January 2003

The accompanying notes are an integral part of these balance sheets.

Statement of accounting policies

31 December 2001

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

Basis of accounting

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

The company is a small company under Section 246 of the Companies Act 1985 and is exempt from the requirement of FRS 1 (Revised) to prepare a cash flow statement.

Basis of preparation

The group continues to focus its efforts on the research and development of pharmaceutical products and medical devices associated with its scientific patents and has yet to generate any revenues from sales although the group has been in discussions with other firms for potential partnering and licensing deals. To date the group's activities have been financed by the issue of securities and advances from shareholders.

The group is currently conducting a second Phase II study into the healing effects of PHM-101 (the group's main product) on patients with chronic wounds. Once the outcome of these trials is known, the directors will decide whether to continue the activities of the group. The results of the trials are expected to be known in June 2003.

The company is reliant on receiving additional funding from two of the company's directors. The company has received assurances from these directors that, if required, additional funds will be made available to fund the completion of the trial.

Whilst there is some uncertainty that these funds may be forthcoming, the directors believe that it is appropriate to prepare these financial statements on a going concern basis. Accordingly, the financial statements do not contain any adjustments that would result if the funding necessary to complete the trials was not forthcoming.

Basis of consolidation

The group financial statements consolidate the financial statements of Phairson Limited and its subsidiary undertakings drawn up to 31 December 2001.

As part of a group reconstruction in 1999, Phairson Limited acquired Phairson Medical Limited, a company incorporated in the United Kingdom. This purchase has been accounted for under merger accounting principles. Under this method, results are reported as if the acquiring and acquired companies have been combined since the earlier date of incorporation. No purchased goodwill is created on acquisition and the assets and liabilities of the acquired company are not adjusted to reflect their fair or market values.

Statement of accounting policies (continued)

Basis of consolidation (continued)

In the company's financial statements, the investment in Phairson Medical Limited is stated at the fair value of the shares issued as consideration for the purchase, less amounts written off for impairment. Only dividends received and receivable are credited to the company's profit and loss account.

No profit and loss account is presented for Phairson Limited as provided by section 230 of the Companies Act 1985. The company's loss for the year to 31 December 2001, determined in accordance with the Act, was £nil (2000: £19,746,971).

Tangible fixed assets

Tangible fixed assets are shown at cost, net of depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Production plant	3 years
Computer equipment	3 years
Fixtures and fittings	5 years

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. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Research and development

Research and development expenditure is written off in the year of expenditure.

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Provision is made for deferred taxation, using the liability method, on all material timing differences only to the extent that they are expected to reverse in the future without being replaced.

Statement of accounting policies (continued)

Pension costs

The group does not maintain any pension plans but makes defined supplementary salary payments to certain employees to cover the cost of such pension arrangements. It is at the discretion of employees receiving such supplementary salary payments to contribute into a personal pension plan if they so desire. The cost of supplementary salary payments is included in these financial statements as part of employment costs.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate at the forward contract rate. All exchange differences are included in the profit and loss account.

Related party transactions

In accordance with the exemption in Financial Reporting Standard Number 8, transactions between group companies are not disclosed.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Notes to the financial statements

31 December 2001

1 Operating expenses

	2001 £	2000 £
Research and development	608,377	1,097,922
General and administrative	401,096	543,600
	<u>1,009,473</u>	<u>1,641,522</u>

2 Employee information

The average monthly number of employees (including executive directors) was:

	2001 Number	2000 Number
Research and development	1	2
General and administrative	2	3
	<u>3</u>	<u>5</u>

3 Staff Costs

	2001 £	2000 £
Wages and salaries	334,325	538,654
Social security costs	33,005	61,633
Pension	4,380	-
	<u>371,710</u>	<u>600,287</u>

4 Directors' emoluments and interests

Directors' emoluments

Full details of the remuneration of each director during the year are given below.

	Salary £	Other £	Total 2001 £	Total 2000 £
Dr Richard Franklin	146,538	4,380	150,738	196,617
Mr Jan-Eric Österlund	5,000	-	5,000	10,000
Mr Sven-Erik Nilsson	-	-	-	-
Mr Laurie Rostron	1,500	-	1,500	-
	<u>153,038</u>	<u>4,380</u>	<u>157,238</u>	<u>206,617</u>

Mr Patrick Banks, a former director of Phairson Ltd, was paid £41,514 during the year by the company as compensation for loss of office as a director following his resignation from the board on 17 November 2000.

Notes to the financial statements (continued)

4 Directors' emoluments and interests (continued)

Director fees of £25,000 due to Dr Richard Franklin (2000:nil) included in the amount shown above were paid for management services to Disease Model Systems Data Limited, a company in which Dr Franklin has a beneficial interest.

Mr Sven-Erik Nilsson waived emoluments of £10,000 during the year (2000: £10,000).

Fees of £1,500 (2000: nil) paid to Linn Medical were paid by Phairson Medical Limited, and have been charged through the Phairson Medical Limited profit and loss account for the provision of services by Mr Laurie Rostron.

Director fees of £5,000 (2000: £10,000) due to Mr Jan-Eric Österlund and shown above were paid by way of charge for management services to Tenframe Limited, a company in which Mr Österlund has a beneficial interest.

Pensions

One director (2000: nil) is a member of a money purchase scheme.

Directors' interests

The interests of the directors who held office at 31 December 2001 in the shares of the company at that date, together with their interests at the beginning of the year and movements in their share options in the year are shown in the directors' report.

5 Investment income

	2001 £	2000 £
Interest receivable and similar income	27,062	27,708

6 Interest payable and similar charges

	2001 £	2000 £
Interest on secured loan stock	-	1,893,950
Bank charges	1,620	2,826
	<u>1,620</u>	<u>1,896,776</u>

Notes to the financial statements (continued)

7 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging (crediting):

	2001 £	2000 £
Foreign exchange losses	2,359	4,316
Depreciation and amounts written off tangible fixed assets		
- owned	14,256	42,661
(Profit)/Loss on disposal of tangible fixed assets	(3,609)	14,521
Auditors' remuneration		
- audit fees	15,000	15,000
- other	10,000	7,500
Property lease rentals payable	53,821	41,214
Property lease premiums receivable	<u>(75,922)</u>	<u>(48,340)</u>

8 Tax on loss on ordinary activities

The tax credit comprises:

	2001 £	2000 £
Current tax		
Research & development tax relief	127,645	-
Adjustments in respect of prior years		
Research & development tax relief	<u>130,535</u>	<u>-</u>
	<u>258,180</u>	<u>-</u>

No deferred tax asset has been recognised during the year (2000: £nil).

Notes to the financial statements (continued)

9 Tangible fixed assets

Group	Production plant £	Computer equipment £	Fixtures & fittings £	Total £
Cost				
Beginning of year	80,772	25,960	65,625	172,357
Disposals	-	-	(30,637)	(30,637)
End of year	80,772	25,960	34,988	141,720
Depreciation				
Beginning of year	74,597	22,255	61,249	158,101
Charge	6,175	3,705	4,376	14,256
Disposals	-	-	(30,637)	(30,637)
End of year	80,772	25,960	34,988	141,720
Net book value				
Beginning of year	6,175	3,705	4,376	14,256
End of year	-	-	-	-

10 Fixed asset investments

	Group		Company	
	2001 £	2000 £	2001 £	2000 £
Subsidiary undertakings	-	-	-	-

a) Principal group investments

The company owns the whole of the issued share capital of Phairson Medical Limited, a company incorporated in England & Wales. Phairson Medical Limited in turn owns the whole of the issued share capital of Phairson Medical Inc., a company incorporated in the United States. Both Phairson Medical Limited and Phairson Medical, Inc. are engaged in the research and development of novel biopharmaceutical products.

Notes to the financial statements (continued)

10 Fixed asset investments (continued)

b) Investment in subsidiary undertakings

	2001 £	2000 £
Company		
Cost		
Beginning of year	14,873,930	14,873,930
Additions at cost	-	-
End of year	14,873,930	14,873,930
Amounts written off		
Beginning of year	14,873,930	-
Amounts written off in relation to permanent impairment	-	14,873,930
End of year	14,873,930	14,873,930
Net book value	-	-

11 Debtors

	Group		Company	
	2001 £	2000 £	2001 £	2000 £
Amounts falling due within one year:				
Research and development tax credits recoverable	258,180	-	-	-
VAT	25,716	14,674	-	-
Other debtors	70,176	54,215	-	-
Prepayments and accrued income	34,796	67,271	-	-
	388,868	136,160	-	-

Notes to the financial statements (continued)

12 Creditors: Amounts falling due within one year

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Trade creditors	80,002	250,592	-	-
Amounts owed to subsidiary undertaking	-	-	12,000	-
Other creditors				
- social security and PAYE	1,027	35,901	-	-
- other creditors	6,820	-	-	-
Accruals and deferred income	82,449	92,062	-	12,000
	<u>170,298</u>	<u>378,555</u>	<u>12,000</u>	<u>12,000</u>

13 Called-up share capital

	2001	2000
	£	£
<i>Authorised</i>		
1,000,000 ordinary shares of £0.10 each (2000:10,000,000 ordinary shares of £0.01 each)	100,000	100,000
20,000,000 preferred A shares of £0.10 each (2000:200,000,000 preferred A shares of £0.01 each)	2,000,000	2,000,000
9,000,000 preferred B shares of £0.10 each (2000:40,000,000 preferred B shares of £0.01 each)	900,000	900,000
20,000,000 preferred C shares of £0.10 each (2000:Nil)	<u>2,000,000</u>	<u>2,000,000</u>
	<u>5,000,000</u>	<u>5,000,000</u>
<i>Allotted, called-up and fully-paid</i>		
650,133 ordinary shares of £0.10 each	65,013	65,013
10,554,048 preferred A shares of £0.10 each	1,055,406	1,055,406
4,672,304 preferred B shares of £0.10 each	467,230	467,230
10,370,124 preferred C shares of £0.10 each	<u>1,037,012</u>	<u>1,037,012</u>
	<u>2,624,661</u>	<u>2,624,661</u>

Notes to the financial statements (continued)

13 Called-up share capital (continued)

The company's preferred A, preferred B and preferred C shares rank *pari passu* with the ordinary shares (including the right to vote at general meetings of the company and entitlement to dividend) except that:

- i. on a winding-up of the company the holders of the preferred C shares shall be entitled, in priority to any entitlement of the holders of the preferred B shares, preferred A shares and ordinary shares to any payment or other distribution, to be repaid the amount paid up (and any premium paid on their issue) on the preferred C shares held by them
- ii. on a winding-up of the company the holders of the preferred B shares shall be entitled, in priority to any entitlement of the holders of the preferred A shares and ordinary shares to any payment or other distribution, to be repaid the amount paid up (and any premium paid on their issue) on the preferred B shares held by them; and
- iii. on a winding-up of the company the holders of the preferred A shares shall be entitled, in priority to any entitlement of the holders of the ordinary shares to any payment or other distribution, to be repaid the amount paid up (and any premium paid on their issue) on the preferred A shares held by them.

The company has granted options in respect of the following shares:

<i>Preferred A shares</i>	Number of shares subject to option	Period of option	Price per share
Founder/non-management options	378,840	Apr 99 – Dec 03	£1.80
Management options	304,465	Apr 99 – Feb 10	£1.80 - £7.20

The company operates two separate share option schemes. The movement on options in issue under these schemes and details of each of the schemes are set out below:

	Founder options	Management Options
Options in issue at 1 January 2001	378,840	618,500
Options cancelled during the year	-	(314,035)
Options in issue at 31 December 2001	<u>378,840</u>	<u>304,465</u>

Notes to the financial statements (continued)

13 Called-up share capital (continued)

The founder/non-management share option scheme was established by the company's subsidiary undertaking, Phairson Medical Inc., principally for the benefit of founder shareholders, consultants and non-executive directors. Under the terms of Phairson Medical Limited's acquisition of Phairson Medical, Inc. in 1996, options over Phairson Medical Inc. shares were exchanged for options over shares in Phairson Medical Limited. Under the terms of the company's recommended offer for Phairson Medical Limited in 1999, options over Phairson Medical Limited shares were exchanged for options over shares in the company on identical terms. Under the terms of the company's one for ten share consolidation on 17 November 2000 the company's founder options were consolidated on a similar basis. All options issued under this scheme have substantially the same terms.

The management share option scheme was established in 1996 by the company's subsidiary undertaking, Phairson Medical Limited, as a mechanism for rewarding management for enhancing shareholder value. The scheme has an approved and unapproved part with parallel options being granted under both. To the extent that an option is exercised under the approved part of the scheme its parallel option under the unapproved part of the scheme will lapse. Similarly, the exercise of an option under the unapproved part of the scheme will give rise to the lapse of an approved option. Under the terms of the company's recommended offer for Phairson Medical Limited in 1999, options over Phairson Medical Limited shares were exchanged for options over shares in the company on identical terms. Under the terms of the company's one for ten share consolidation on 17 November 2000 the company's management options were consolidated on a similar basis.

14 Reserves

Reserves shown in the company's balance sheet are not considered to be distributable:

	2001 £	2000 £
Profit and loss account	(19,759,889)	(19,759,889)
Share premium account	17,123,228	17,123,228
Total deficit	<u>(2,636,661)</u>	<u>(2,636,661)</u>

Group	Share premium account £	Other reserves		Profit and loss account £	Total £
		Merger reserve £	Other reserve £		
Beginning of year	17,123,228	(1,772,949)	(1,469)	(16,943,202)	(1,594,392)
Net loss on foreign currency translation	-	-	(2,876)	-	(2,876)
Retained loss for the year	-	-	-	(725,851)	(725,851)
End of year	<u>17,123,228</u>	<u>(1,772,949)</u>	<u>(4,345)</u>	<u>(17,669,053)</u>	<u>(2,323,119)</u>

Notes to the financial statements (continued)

14 Reserves (continued)

Other reserve represents foreign currency differences arising on the revaluation of the assets and liabilities of Phairson Medical, Inc - which are non-sterling denominated.

Company	Share premium account £	Profit and loss account £	Total £
Beginning of period	17,123,228	(19,759,889)	(2,636,661)
End of period	17,123,228	(19,759,889)	(2,636,661)

15 Reconciliation of movements in group equity shareholders' funds

	Group 2001 £	2000 £
New share capital subscribed, including premium	-	4,873,959
Net loss on foreign currency translation	(2,876)	(1,185)
Loss for the financial period	(725,851)	(3,510,590)
Net (reduction in) addition to equity shareholders' funds	(728,727)	1,362,184
Opening equity shareholders' funds (deficit)	1,030,269	(331,915)
Closing equity shareholders' funds	301,542	1,030,269

16 Guarantees and other financial commitments

a) Capital commitments

The group had no capital commitments which were unprovided for at 31 December 2001 (31 December 2000: £Nil).

b) Lease commitments

The group leases certain office accommodation on a short-term operating lease. The minimum annual rental under the group's lease is £55,500 and is fixed until its expiry in September 2002. The group pays all insurance, maintenance and repairs of the property. Under the terms of the group's assignment of its previous lease, the group receives a lease premium of £68,064 per annum, payable quarterly until the expiry of that lease in September 2002.

17 Subsequent events

During February 2002 the company created a new 100% subsidiary, Tarix Pharmaceuticals, a company registered in Cyprus. This company currently has no activity, but is expected to develop the group's melanoma technology in the future.