

Biolitec Pharma Limited

Directors' report and financial statements

Registered number 4266115

30 June 2003



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2003.

Principal activities of the company

The principal activity of the company is that of pharmaceutical research and manufacture.

Results and dividends

The results for the period are set out on page 4 and the directors recommend that no dividend be declared.

Names of directors

The following were directors of the company during the period.

Prof Dr V Albrecht
Dr R J Dow
Dr W Neuberger

None of the directors have a beneficial interest in the share capital of the company.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Dr R J Dow
Director

c/o Dundas & Wilson CS
Bush House
Aldwych
London
WC2B 4EZ

8 October 2003

Statement of directors' responsibilities

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 of the profit or loss 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



24 Blythswood Square
Glasgow
G2 4QS
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Report of the independent auditors to the members of Biolitec Pharma Limited

We have audited the financial statements on pages 4 to 10.

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 auditor's 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 directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by 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 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.

Basis of audit 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 as at 30 June 2003 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

10 October 2003

Profit and loss account
for the year ended 30 June 2003

	<i>Note</i>	Year to 30 June 2003	Period from 7 August 2001 to 30 June 2002
		£	£
Turnover		443,322	72,289
Cost of sales		(357,210)	(1,738)
		<hr/>	<hr/>
Gross profit		86,112	70,551
Production expenses		(514,389)	(306,982)
Research and development costs		(1,050,091)	(316,756)
Selling expenses		(822,618)	(79,532)
Administrative expenses		(494,856)	(333,906)
Other operating expenses		(51,207)	(4,797)
		<hr/>	<hr/>
Loss before taxation and for the financial period	2	(2,847,049)	(971,422)
		<hr/>	<hr/>

The company has no recognised gains and losses other than those stated above.

Balance sheet
at 30 June 2003

	Note	2003	2002
		£	£
Fixed assets			
Intangible assets	6	432,722	455,745
Tangible assets	7	218,179	147,833
		<u>650,901</u>	<u>603,578</u>
Current assets			
Stocks	8	844,327	145,208
Debtors	9	367,494	169,042
Cash in hand		48,867	289
		<u>1,260,688</u>	<u>314,539</u>
Creditors: amounts falling due within one year	10	<u>(622,347)</u>	<u>(805,020)</u>
Net current liabilities		<u>638,341</u>	<u>(490,481)</u>
Total assets less current liabilities		<u>1,289,242</u>	<u>113,097</u>
Creditors: amounts falling due after one year	11	<u>(5,106,713)</u>	<u>(1,083,519)</u>
Net liabilities		<u>(3,817,471)</u>	<u>(970,422)</u>
Capital and reserves			
Called up share capital	12	1,000	1,000
Profit and loss account	13	(3,818,471)	(971,422)
Equity shareholders' deficit		<u>(3,817,471)</u>	<u>(970,422)</u>

These financial statements were approved by the board of directors on its behalf by:

8 October 2003 and were signed on



Dr RJ Dow
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The financial statements have been prepared on the going concern basis, notwithstanding the net liability position, as Biolitec AG, the company's parent company has undertaken to provide the company with sufficient funding to allow it to continue to trade for the foreseeable future.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds of its size.

Financial reporting standard 8 - Related party transactions

As the company is a wholly owned subsidiary of Biolitec AG, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Biolitec AG, within which this company is included, can be obtained from the address given in note 14.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised. Goodwill is amortised to nil by equal annual instalments over its estimated useful life of 20 years.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Leasehold improvements	-	life of lease
Machinery and equipment	-	10 - 25%
Office furniture and equipment	-	10%

Taxation

Deferred taxation is recognised at the current rate of taxation in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Stocks

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

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to the customers.

Notes (continued)

2 Retained loss for the period

	Year to 30 June 2003	Period from 7 August 2001 to 30 June 2002
	£	£
<i>Retained loss for the period is stated after charging</i>		
Auditors' remuneration:		
Audit	9,656	5,000
Depreciation and other amounts written off tangible fixed assets:		
Owned	17,251	3,257
Amortisation of goodwill	23,023	4,797
Hire of plant and machinery - rentals payable under operating leases	1,414	4,841
Hire of other assets - operating leases	41,411	21,125

3 Remuneration of directors

	Year to 30 June 2003	Period from 7 August 2001 to 30 June 2002
	£	£
Directors emoluments	378,876	107,506

The aggregate emoluments of the highest paid director were £378,876 (*Period from 7 August 2001 to 30 June 2002: £79,002*), and company pension contributions of £37,500 (*Period from 7 August 2001 to 30 June 2002: £0*) were made to a money purchase scheme on his behalf.

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the trading period, analysed by category, was as follows:

	Year to 30 June 2003	Period from 7 August 2001 to 30 June 2002
	Number of employees	Number of employees
Manufacturing	23	24
Development	6	16
Commercial	4	4
Administration	7	8
	40	52

The aggregate payroll costs of these persons were as follows:

	Year to 30 June 2003	Period from 7 August 2001 to 30 June 2002
	£	£
Wages and salaries	1,673,575	588,873
Social security costs	163,373	111,688
	1,836,948	700,561

Notes (continued)

5 Taxation

No corporation tax is payable as a result of the loss in the period.

6 Intangible assets

	Purchased Goodwill £
<i>Cost</i>	
At beginning and end of year	460,542
<i>Amortisation</i>	
At beginning of year	(4,797)
Charge for period	(23,023)
At end of year	(27,820)
<i>Net book value</i>	
At 30 June 2003	432,722
<i>Net book value</i>	
At 30 June 2002	455,745

7 Tangible fixed assets

	Machinery and equipment £	Office furniture and equipment £	Construction in progress £	Total £
<i>Cost</i>				
At beginning of year	148,495	2,595	-	151,090
Additions	22,516	638	64,443	87,597
At end of year	171,011	3,233	64,443	238,687
<i>Depreciation</i>				
At beginning of year	3,203	54	-	3,257
Charge for year	17,203	48	-	17,251
At end of year	20,406	102	-	20,508
<i>Net book value</i>				
At 30 June 2003	150,605	3,131	64,443	218,179
<i>Net book value</i>				
At 30 June 2002	145,292	2,541	-	147,833

Notes (continued)

8 Stocks

	2003 £	2002 £
Raw materials and consumables	32,082	9,782
Work in progress	792,771	50,230
Finished goods	19,474	85,196
	<hr/> 844,327 <hr/>	<hr/> 145,208 <hr/>

9 Debtors

	2003 £	2002 £
Trade debtors	285,597	80,123
Prepayments and accrued income	56,341	70,005
Other debtors	17,682	18,914
Amounts due from group undertakings	7,874	-
	<hr/> 367,494 <hr/>	<hr/> 169,042 <hr/>

10 Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	184,898	140,904
Taxation and social security	81,053	346,074
Accruals and deferred income	120,206	318,042
Amounts due to group undertakings	236,190	-
	<hr/> 622,347 <hr/>	<hr/> 805,020 <hr/>

11 Creditors: amounts falling due after one year

	2003 £	2002 £
Amounts due to parent undertaking	4,956,713	933,519
Amounts due to group undertakings	150,000	150,000
	<hr/> 5,106,713 <hr/>	<hr/> 1,083,519 <hr/>

Notes (continued)

12 Called up share capital

	2003 £	2002 £
<i>Authorised, allotted, called up and fully paid</i>		
Ordinary shares of £1 each	1,000	1,000
	<u> </u>	<u> </u>

13 Reconciliation of movement in shareholders' funds

	2003 £	2002 £
Opening shareholders' funds	(970,422)	-
Issue of share capital on incorporation	-	1,000
Loss for period	(2,847,049)	(971,422)
	<u> </u>	<u> </u>
Closing shareholders' deficit	(3,817,471)	(970,422)
	<u> </u>	<u> </u>

14 Parent undertaking

The parent undertaking of the company is Biolitec AG, Winzerlaer Str. 2a, 07745, Jena, Germany.