

**Lectus Therapeutics Limited (formerly Interaction
Pharmaceuticals Limited, formerly Fleetness 327
Limited)**

**Directors' report and financial
statements**

Registered number 4562659

31 October 2003



Directors

Dr Roland Kozlowski
Dr Paul Gerskowitch
Dr Philip Gould

Secretary

Mr Simon Wallwork

Registered Office

123 Deansgate
Manchester
M3 2BU

Bankers

National Westminster Bank Plc
1 Town Hall Buildings
Bridge Street
Banbury
Oxon OX16 5JS

Auditors

KPMG LLP
37 Hills Road
Cambridge
CB2 1XL

Contents

Directors' report	1
Statement of directors' responsibilities	3
Report of the independent auditors to the members of Lectus Therapeutics Limited	4
Profit and loss account	5
Balance sheet	6
Cash flow statement	7
Reconciliation of net cash flow to movement in net debt	7
Reconciliation of movements in shareholders' funds	8
Notes	9

Directors' report

The directors present their report and the audited financial statements of the company for the period from 15 October 2002 (date of incorporation) to 31 October 2003.

Principal activities

The principal activities of the company are pharmaceutical drug research and development.

Review of business and events since the balance sheet date

The company was incorporated on 15 October 2002 as Fleetness 327 limited.

On the 7th March 2003 the Company changed its name to Interaction Pharmaceuticals Limited, and then on 13th June 2003 to Lectus Therapeutics Limited.

A £250,000 convertible loan from SULIS fund, managed by Quester, was invested in the Company in September 2003, with a further investment from Takeda Research Investments in May 2004.

Results and dividends

The company made a loss before taxation for the period ended 31 October 2003 amounting to £100,416. The directors do not recommend the payment of a dividend.

Research and development

The company incurred research and development expenditure of £46,995 during the period.

Directors and directors' interests

The directors who held office during the period were as follows:

	Date of appointment
Dr Philip Gould	14 May 2003
Dr Roland Kozlowski	8 January 2003
Dr Paul Gerskowitch	14 May 2003

The directors who held office at the end of the financial period had the following interest in the shares of the company.

	Number of shares
Dr Roland Kozlowski	118 Ordinary shares
Dr Paul Gerskowitch	70 Ordinary shares

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the financial period.

Directors report *(continued)*

Political and charitable contributions

The company made no political contributions or charitable donations during the period.

Auditors

KPMG LLP were appointed as auditors during the period.

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG LLP will therefore continue in office.

By order of the Board.

A handwritten signature in black ink, appearing to read 'Roland Kozlowski', with a stylized, cursive script.

Dr Roland Kozlowski
Director

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.



KPMG LLP

37 Hills Road
Cambridge
CB2 1XL
United Kingdom

Report of the independent auditors to the members of Lectus Therapeutics Limited (formerly Interaction Pharmaceuticals Limited, formerly Fleetness 327 Limited)

We have audited the financial statements on pages 5 to 16.

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 3, 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 at 31 October 2003 and of the loss of the company for the period from incorporation to 31 October 2003 and have been properly prepared in accordance with the Companies Act 1985.


KPMG LLP

Chartered Accountants
Registered Auditor

28 July 2004

Profit and loss account

for the period from incorporation (15 October 2002) to 31 October 2003

	<i>Note</i>	Period from incorporation to 31 October 2003 £
Administrative expenses		84,890
Operating loss		(84,890)
Interest payable and similar charges	5	(15,526)
Loss on ordinary activities before taxation	2-4	(100,416)
Tax on loss on ordinary activities	6	-
Loss for the financial period	12	(100,416)

The company has no recognised gains or losses other than the results for the period as set out above.

All of the activities of the company relate to continuing operations.

Balance sheet**at 31 October 2003**

	<i>Note</i>	<i>Note</i>	£	2003 £
Fixed assets				
Intangible assets	9	7		8
Current assets				
Debtors	11	8	3,005	
Cash at bank and in hand			218,496	
			221,501	
Creditors: amounts falling				
Due within one year	12	9	(56,224)	
Net current assets				165,277
Total assets less current liabilities				165,285
Creditors: amounts falling due after				
more than one year	13	10		(265,501)
				(100,216)
Capital and reserves				
Called up share capital	14	11		200
Profit and loss account	15	12		(100,416)
Deficit on equity shareholders funds				(100,216)

These financial statements were approved by the board of directors on 27th July 2004 and were signed on its behalf by:



Dr Royland Kozlowski
Director

Cash flow statement*for the period from incorporation (15 October 2002) to 31 October 2003**Note***Period from
incorporation to
31 October
2003
£**

Cash flow from operating activities	13	(31,669)
Returns on investments and servicing of finance	14	(25)
Capital expenditure and financial investment	14	(10)
Acquisitions and disposals		-
		<hr/>
Cash (outflow) before financing		(31,704)
Financing	14	250,200
		<hr/>
Increase in cash in the period	15	218,496
		<hr/>

**Reconciliation of net cash flow
To movement in net debt**

Increase in cash in the period	218,496
	<hr/>
Movement in net debt in the period	218,496
Net funds at the start of the period	-
	<hr/>
Net funds at the end of the period	218,496
	<hr/>

Reconciliation of movements in shareholders' funds
for the period from incorporation to 31 October 2003

	2003 £
Loss for the financial period	(100,416)
<i>New share capital subscribed</i>	<u>200</u>
Net addition to shareholders' funds	(100,216)
Opening shareholders' funds	<u>-</u>
Closing shareholders' funds	<u>(100,216)</u>

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 accounting

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

Going concern

The financial statements have been drawn up on the going concern basis. Since the balance sheet date, the company has received significant investment from Takeda Research Investments in May 2004. The directors have forecast activities for a period of 12 months from the date of approval of these financial statements. The above funding is sufficient to finance the activities of the company for this period. In addition, the company is engaged in current activities to gain new licensing revenues and raising further funding. The directors are therefore satisfied that the going concern basis is appropriate.

Intangible fixed assets and amortisation

Intellectual property and patents purchased by the company are amortised to nil by equal annual instalments over their useful economic lives of 5 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:

Computer hardware and office equipment – 3 years.

Research and development

Expenditure on research and development is written off to the profit and loss account in the period in which it is incurred.

Leases

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

Taxation

Deferred tax is recognised, without discounting, 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, except as otherwise required by Financial Reporting Standard 19.

Cash resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Notes (continued)

2 Loss on ordinary activities before taxation

	Period from incorporation to 31 October 2003 £
<i>Loss on ordinary activities before taxation is stated:</i>	
Auditors' remuneration:	
Audit	1,500
Other services – fees paid to the auditor and its associates	500
Amortisation and other amounts written off intangible fixed assets	2
Research and development expenditure	46,965
	<hr/>

3 Staff numbers and costs

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

	Period from incorporation to 31 October 2003 Number of employees
Management and administration	4
	<hr/>
	4
	<hr/>

The aggregate payroll costs of these persons were as follows:

	Period from incorporation to 31 October 2003 £
Wages and salaries	4,000
Social security costs	413
	<hr/>
	4,413
	<hr/>

4 Remuneration of directors

None of the directors received a salary during the period

Notes *(continued)*

5 Interest payable and similar charges

	Period from incorporation to 31 October 2003 £
Amounts payable on other loans	15,526
	<hr/> 15,526 <hr/>

6 Tax on loss on ordinary activities

Analysis of credit in period

	Period from incorporation to 31 October 2003 £
<i>UK corporation tax</i>	
Current tax on income for the period	-
	<hr/> - <hr/>

Notes (continued)

6 Tax on loss on ordinary activities (continued)

Factors affecting the tax credit for the current period

The current tax credit for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	Period from incorporation to 31 October 2003 £
<i>Current tax reconciliation</i>	
Loss on ordinary activities before tax	<u>(100,416)</u>
Current tax at 30%	<u>(30,125)</u>
<i>Effects of:</i>	
Tax losses carried forward to future periods not recognised	<u>30,125</u>
Total current tax charge (see above)	<u><u>-</u></u>

The company has tax losses of approximately £100,000 (subject to agreement with HM Inspector of Taxes) available for offset against future taxable profits. In accordance with FRS19, no deferred tax asset has been provided due to the lack of historical trading profits since incorporation.

7 Intangible fixed assets

	Intellectual property £
<i>Cost</i>	10
At end of period	<u>10</u>
<i>Amortisation</i>	
Charge for the period	<u>2</u>
At end of period	<u>2</u>
<i>Net book value</i>	
At 31 October 2003	<u><u>8</u></u>

Notes *(continued)*

8 Debtors

	2003 £
Other debtors	2,198
Prepayments	807
	<hr/> 3,005 <hr/>

9 Creditors: amounts falling due within one year

	2003 £
Trade creditors	3,304
Other taxes and social security costs	720
Accruals	52,200
	<hr/> 56,224 <hr/>

Notes (continued)

10 Creditors: amounts falling due after more than one year

	2003 £
Loan Note	250,000
Accrued Interest	15,501
	<hr/> 265,501 <hr/>

The Loan Note is a convertible loan granted to Lectus Therapeutics Limited on 11 September 2003, by Qvester Venture Managers Limited as a general partner of the SULIS Seedcorn Fund Limited Partnership. The £250,000 loan together with interest is either repayable or convertible depending on certain events. The interest is 'simple'; if redemption or conversion occurs before 11 March 2005 an amount equivalent to 40% is added to the original loan to provide for the interest, and thereafter it is 60%.

The accounts have charged interest at 40% for the period 11 September 2003 to 31 October 2003 on an annualised basis. It is the Directors' expectation that the loan will either be repaid, or converted into equity before the interest is charged at 60%.

11 Called up share capital

	2003 £
Authorised share capital:	
200 Ordinary shares of £1 each	200
	<hr/> 200 <hr/>
Allotted, called up and fully paid:	
200 Ordinary shares of £1 each	£ 200
	<hr/> <hr/>

On incorporation 100 £1 Ordinary shares were issued at par.

12 Reserves

	Profit and loss account £
Retained loss for the year	(100,416)
	<hr/> (100,416) <hr/>
At end of period	

Notes (continued)

13 Reconciliation of operating loss to net cash flow from operating activities

	12 months ended 31 October 2003 £
Reconciliation of operating profit to net cash flow from operating activities	
Operating loss	(84,890)
Depreciation and amortisation charges	2
(Increase) in debtors	(3,005)
Increase in creditors	56,224
Net cash outflow from operating activities	(31,669)

14 Analysis of cash flows

	12 months ended 31 October 2003 £
Returns on investment and servicing of finance	
Interest paid	25
	<u>25</u>
Capital expenditure and financial investment	
Purchase of intangible fixed assets	10
	<u>10</u>
Financing	
Issue of Convertible loan notes	250,000
Issue of ordinary share capital	200
	<u>250,200</u>

15 Analysis of net debt

	At beginning of Period £	Cash flow £	At end of period £
Cash in hand, at bank	-	218,496	218,496

Notes *(continued)*

16 Commitments

There are no annual commitments under non-cancellable operating leases.

17 Related party disclosures

The company is controlled by Roland Kozlowski who owns 59% of the ordinary share capital.