

# **Lectus Therapeutics Limited**

Directors' report and financial statements

Registered number 4562659

Period ended 30 April 2009

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**Directors**

Dr Edwin Moses  
Dr Philip Gould  
Dr Raymond Hill  
Dr Roland Kozlowski  
Dr Vincent Mutel  
Mr Antoine Papiernik

**Secretary**

Mr Simon Wallwork

**Registered Office**

123 Deansgate  
Manchester  
M3 2BU

**Bankers**

National Westminster Bank Plc  
Cambridge Commercial Centre  
Conqueror House  
Chivers Way  
Vision Park  
Histon  
Cambridge  
CB24 9NL

**Auditors**

KPMG LLP  
37 Hills Road  
Cambridge  
CB2 1XL

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## Directors' report

The directors present their report and the audited financial statements of the company for the period ended 30 April 2009.

### Principal activities

The principal activity of the company during the period to 30 April 2009 was pharmaceutical research to identify novel first-in-class ion channel therapeutics for pain management

### Review of business and events since the balance sheet date

During the period the company focussed expenditure on the more mature assets within its research programme portfolio, and in doing so reduced the average monthly expenditure on research 30% over the previous 9 month period.

During the last quarter of 2008 the company secured £2.0 million of further funding from existing shareholders which included £1.0 million of Deep Discounted Bond Instruments and £1.0 million of Unsecured Convertible Loan Notes. Both financial instruments are due for repayment on the 23 July 2013 unless an earlier repayment is triggered by a sale, listing or liquidation of the company. The Deep Discount Bond Instrument repayment is ten times the issue price. The Unsecured Convertible Loan Note has a zero coupon. In May 2009 the company raised a further £0.46 million by issuing further Deep Discount Bond Instruments with identical terms of repayment to the first Deep Discount Bond Instrument.

This has enabled Lectus to continue to progress its research activities and also to engage in commercial discussions with a number of pharmaceutical companies. The commercial discussions are to secure either a sale of the business or to out-licence one or more of the research programmes. This will provide either returns for the bond- and shareholders, or revenues for the ongoing business. Term sheets have been offered with interest being generated in particular by the company's lead asset within the calcium channel field.

The Directors recognise the principal risks and uncertainties to the business depend primarily on two areas; (a) continued success in the research activities, and (b) continued funding of the business. The funding risks are managed through regular reviews of the operational plan and available funds, keeping investors fully briefed, and continuing to seek further funding from current investors, potential new investors and also through potential collaborative partnerships.

At the financial period end cash resources were £0.3 million with total net liabilities of £4.8 million. The total net liabilities include £5.5 million of creditors falling due after more than one year. This includes £1.1 million of a loan (with accrued interest) from the Wellcome Trust, £1.3 million of Deep Discount Bonds with accrued interest, £1.0 million of Unsecured Convertible Loan Notes, and £2.0 million of accrued interest on 'A' Preferred Shares. None of those liabilities are due for repayment within one year; essentially the liability to repay or convert to shares (as described in note 13) is triggered on the earlier a sale, a listing, liquidation of the business, or maturity of the various instruments.

Notwithstanding the net liabilities as the period end, the Directors have considered the financial position of the company, the further commitment to funding provided by the company's investors and the strong likelihood of a commercial transaction conclude it is appropriate to prepare the financial statements on a Going Concern basis.

### Results and dividends

The company made a loss before taxation for the 9 months ended 30 April 2009 amounting to £3.7 million (*9 months ended 31 July 2008: £4.5 million*). The directors do not recommend the payment of a dividend (*9 months ended 31 July 2008: £nil*).

### Research Expenditure

The company incurred research expenditure for the 9 months ended 30 April 2009 of £2.1 million (*9 months ended 31 July 2008: £3.4 million*).

## **Directors' report** *(continued)*

### **Directors**

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

Dr Edwin Moses	appointed 29 August 2008
Dr Philip Gould	
Dr Raymond Hill	
Dr Roland Kozłowski	
Dr Vincent Mutel	
Mr Antoine Papiernik	

The Directors benefitted from qualifying third party indemnity provisions in place during the period and at the date of this report.

### **Political and charitable contributions**

The company made no political contributions or charitable donations during the 9 month period (*9 months ended 31 July 2008: £nil*).

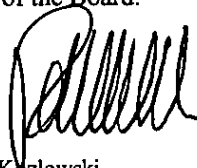
### **Disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **Auditors**

Pursuant to Section 487 of Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board.



Dr Roland Kozłowski  
*Director*

## **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 company will continue in business.

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 its financial statements comply with the Companies Act 2006. 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

### **Independent auditor's report to the members of Lectus Therapeutics Limited**

We have audited the financial statements of Lectus Therapeutics Limited for the 9 month period ended 30 April 2009 set out on pages 6 to 21. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. 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**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2009 and of its loss for the year then ended
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we are required to report by exception**

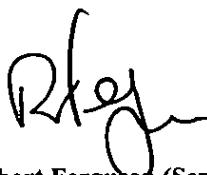
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

## **Report of the independent auditors to the members of Lectus Therapeutics Limited** *(continued)*

### **Emphasis of matter - Going concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning company's ability to continue as a going concern, in particular that the company's forecasts indicate a need to raise additional funding from investors and / or to achieve the sale or licensing of certain of the company's in-research products and technology. The company incurred a net loss of £3,419,667 during the period ended 30 April 2009 and, at that date the company's liabilities exceeded its total assets by £4,782,413. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.



**Robert Ferguson (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*

24 June 2009

**Profit and loss account**  
*for the period ended 30 April 2009*

	<i>Note</i>	<b>9 months ended 30 April 2009</b>	<b>9 months ended 31 July 2008</b>
		<b>£</b>	<b>£</b>
Research, Development and administrative expenses		<b>(2,789,537)</b>	(3,982,520)
<b>Operating loss</b>		<b>(2,789,537)</b>	(3,982,520)
Interest receivable and similar income	6	<b>11,250</b>	94,683
Interest payable and similar charges	7	<b>(916,052)</b>	(624,849)
<b>Loss on ordinary activities before taxation</b>	<b>2</b>	<b>(3,694,339)</b>	(4,512,686)
Tax on loss on ordinary activities	8	<b>274,672</b>	482,103
<b>Loss for the financial period</b>	<b>16</b>	<b>(3,419,667)</b>	(4,030,583)

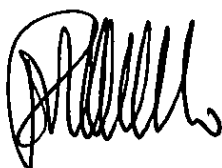
The company has no recognised gains or losses other than the results for the period as set out above.

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

**Balance sheet**  
*at 30 April 2009*

	<i>Note</i>	<b>30 April 2009</b>	<b>31 July 2008</b>
		<b>£</b>	<b>£</b>
<b>Fixed assets</b>			
Intangible assets	9	183,219	201,410
Tangible assets	10	175,727	316,416
		<u>358,946</u>	<u>517,826</u>
<b>Current assets</b>			
Debtors	11	507,406	749,201
Cash at bank and in hand		281,655	903,024
		<u>789,061</u>	<u>1,652,225</u>
<b>Creditors: amounts falling due within one year</b>	12	<u>(473,816)</u>	<u>(992,245)</u>
<b>Net current assets</b>		<u>315,245</u>	<u>659,980</u>
<b>Total assets less current liabilities</b>		<u>674,191</u>	<u>1,177,806</u>
<b>Creditors: amounts falling due after more than one year</b>	13	<u>(5,456,604)</u>	<u>(2,540,552)</u>
<b>Net (liabilities)/assets</b>		<u><u>(4,782,413)</u></u>	<u><u>(1,362,746)</u></u>
<b>Capital and reserves</b>			
Called Up Share Capital	14	19,437	19,437
Share Premium Account	15	9,875,896	9,875,896
Profit and Loss Reserve	16	(14,677,746)	(11,258,079)
<b>Shareholders' (deficit)/funds</b>		<u><u>(4,782,413)</u></u>	<u><u>(1,362,746)</u></u>

These financial statements were approved by the board of directors on 12 June 2009 and were signed on its behalf by:



Dr Roland Kozłowski  
Director

**Cash flow statement**  
*for the period ended 30 April 2009*

	Note	9 months ended 30 April 2009 £	9 months ended 31 July 2008 £
Cash flow from operating activities	18	(3,052,645)	(3,379,999)
Returns on investments and servicing of finance	19	11,250	94,683
Taxation		471,025	469,224
Capital expenditure and financial investment	19	(50,999)	(193,491)
		<hr/>	<hr/>
Cash (outflow) before financing		(2,621,369)	(3,009,583)
Financing	19	2,000,000	1,774
		<hr/>	<hr/>
Decrease in cash in the period	20	(621,369)	(3,007,809)
		<hr/>	<hr/>

**Reconciliation of net cash flow to movement in net debt**  
*for the period ended 30 April 2009*

	Note	9 months ended 30 April 2009 £	9 months ended 31 July 2008 £
Decrease in cash in the period		(621,369)	(3,007,809)
Financing	19	(2,000,000)	-
Other non-cash changes	7	(916,052)	(624,849)
		<hr/>	<hr/>
Movement in net debt in the period		(3,537,421)	(3,632,658)
Net (debt)/funds at the start of the period	20	(1,637,528)	1,995,130
		<hr/>	<hr/>
Net debt at the end of the period	20	(5,174,949)	(1,637,528)
		<hr/>	<hr/>

**Reconciliation of movements in shareholders' funds**  
*for the period ended 30 April 2009*

	9 months ended 30 April 2009 £	9 months ended 31 July 2008 £
Loss for the financial period	(3,419,667)	(4,030,583)
Issue of Share Capital	-	-
Conversion of Warrants to 'A' Preferred Shares	-	1,774
	<hr/>	<hr/>
Net (reduction)/increase to shareholders' funds	(3,419,667)	(4,028,809)
Opening shareholders' funds	(1,362,746)	2,666,063
	<hr/>	<hr/>
Closing shareholders' (deficit)/funds	(4,782,413)	(1,362,746)
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## 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 prepared on a going concern basis which the directors believe is appropriate for the following reasons, notwithstanding the overall net liabilities at the end of the financial period.

The company is at an advanced stage of research for its core programmes and the Directors are confident that they will achieve a commercial sale. During this phase, the company has been and continues to be reliant upon the receipt of additional funding from its investors to continue its research activities and to meet its day-to-day working capital requirements. In May 2009 an additional £460,000 of funding from the company's investors was secured in the form of a Deep Discounted Bond (see note 22).

The directors have produced cash flow forecasts for the period ending 12 months from the date of the approval of these financial statements that assume the continuation of research activities. These cash flow forecasts indicate that, in order for the company to be able to continue its research activities and meet its day-to-day working capital requirements during this period, it will need additional funding. Accordingly, the directors have been in discussions with its investors (share and bond holders) to secure further funding, and also have a number of parties interested in acquiring or licensing certain of the company's programmes and technology, in particular within the calcium channel field.

After making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that a combination of the sale or licensing of new products and technology and / or additional funding from investors will result in the company having adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and financial statements. However, the directors have concluded that the combination of these circumstances represents a material uncertainty that casts significant doubt upon the company's ability to continue as a going concern. It may therefore be unable to continue realising its assets and discharging their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

#### *Intangible fixed assets and amortisation*

Intangible fixed assets purchased separately from a business are capitalised at their cost.

Intellectual property and patents purchased by the company are amortised to £nil by equal annual instalments over their useful economic lives of 5 years, or, where appropriate, over the remainder of 5 years from initial in-licencing.

#### *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
- Plant and laboratory equipment – 3 years
- Office Furniture – 3 years
- Leasehold improvements – over the remaining period of the lease

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### ***Share based payments***

FRS 20 requires companies to recognise the fair value of the employee services received by reference to the fair value of the share options granted. In determining the fair value the directors have given consideration to the likelihood of an event occurring which will enable the share options to be exercised in accordance with FRS 20. The terms of the Lectus share option scheme prevent exercise of the option until there is a change of control. At the date of signing the financial statements the Directors concluded that the probability of an exercisable event is reasonably low, and even if there was such an event the magnitude of the likely charge would not be material. Accordingly no charge has been recognised in the accounts.

#### ***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 FRS 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.

#### ***Post-retirement benefits***

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 amount charged to profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

#### ***Foreign Exchange Policy***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The Company incurs very little expenditure denominated in other currencies, and therefore does not require any risk management techniques to be implemented. This position is constantly under review, and appropriate measures will be implemented should the potential exposure become material. The company does not hold cash deposits in other currencies.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Classification of financial instruments issued by the Company*

Financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

### 2 Loss on ordinary activities before taxation

	9 months ended 30 April 2009	9 months ended 31 July 2008
	£	£
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Amortisation and other amounts written off intangible fixed assets	56,849	43,500
Depreciation and other amounts written off tangible fixed assets	153,030	153,577
Operating lease payment	192,411	177,271
Research and development expenditure	2,111,488	3,355,290
Loss on foreign currency translation	22,267	6,066
	<hr/>	<hr/>
<i>Auditors remuneration:</i>		
Audit of these financial statements	12,000	11,000
Other services relating to taxation	4,050	3,675
	<hr/>	<hr/>

## Notes (continued)

### 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:

	9 months ended 30 April 2009 No	9 months ended 31 July 2008 No
Scientific Research	17	24
Management and Support	9	10
	<hr/>	<hr/>
Total average headcount	26	34
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	9 months ended 30 April 2009 £	9 months ended 31 July 2008 £
Wages and salaries	958,259	1,338,097
Social security costs	112,494	148,855
Pension contributions	42,413	58,425
	<hr/>	<hr/>
	1,113,166	1,545,377
	<hr/>	<hr/>

### 4 Remuneration of directors

	9 months ended 30 April 2009 £	9 months ended 31 July 2008 £
Directors' emoluments	180,380	145,285
	<hr/>	<hr/>
Contributions to Directors' pension funds made by the Company	5,657	5,370
	<hr/>	<hr/>

The highest paid director received total emoluments of £144,093 (9 months ended 31 July 2008: £108,915), and employer pension contributions of £5,657 (9 months ended 31 July 2008: £5,370).

Only one Director was eligible for pension contributions.

Five Directors who held office at the end of the period held share options in the Company; 945,192 were granted (2008: nil) and none were exercised (2008: nil) during the period.

The terms of the share options are included in note 5.

## Notes (continued)

### 5 Share based payments

The Company operates two equity-settled share-based payment schemes for employee remuneration known as Enterprise Management Incentive Scheme ("EMIS") and Executive Share Scheme ("ESS"). These schemes provide members of the Board of Directors, and all other employees of Lectus, with the opportunity to obtain the right to purchase Ordinary Shares in the Company. The grant of the share options is at the discretion of the Remuneration Committee, whose members are appointed by the Board of Directors of Lectus. The following table sets out share option activity under this plan during the period to 30 April 2009.

	Number of options					Exercise price £	Expiry Date
	At start of period	Granted during the period	Forfeited during the period	Exercised during the period	Outstanding at end of period		
Total share option pool	3,697,602	1,030,566	(796,868)	-	3,931,300	£0.01	19 June 2016

The share options are only exercisable if there is a change of control of the company; each share option provides the holder with the opportunity to purchase one Ordinary Share with a nominal value per share of £0.001. At the point of the share option becoming exercisable the option holder must be employed by the company at the point of exercise. The maximum number of shares in respect of which the option is capable of being exercised is reduced by 1/96<sup>th</sup> of the total share options for each month the change of control occurs before 31 December 2009.

Under FRS 20 the Directors are required to assess whether any provision for share based payments is required. The Directors have assessed the fair value of the share options and conclude that this is £nil (9 months ended 31 July 2008: nil), and accordingly no provision has been made in the accounts for share based payments.

In reaching this conclusion the Directors considered the likelihood of an event allowing the options to be exercised is relatively low, and even if it did occur the value of the options is relatively immaterial.

### 6 Interest receivable and similar income

	9 months ended 30 April 2009 £	9 months ended 31 July 2008 £
Amounts receivable on cash deposits	11,250	94,683
	<u>11,250</u>	<u>94,683</u>

### 7 Interest payable and similar charges

	9 months ended 30 April 2009 £	9 months ended 31 July 2008 £
Amounts accrued on 'A' Preferred Shares	562,879	567,201
Amounts accrued on Wellcome Trust Loan	31,993	57,648
Amounts accrued on Deep Discount Bond Instrument	321,180	-
	<u>916,052</u>	<u>624,849</u>

The 'A' Preferred Shares attract a fixed dividend at a rate of 8% per annum, based on the allotment of £0.50 per share.

The accrued interest on the Wellcome Trust Loan is calculated at NatWest Bank Plc Base Rate plus 2%.

The accrued interest on the Deep Discount Bond Instrument is calculated at the effective interest rate of 61.7% per annum.

## Notes (continued)

### 8 Tax on loss on ordinary activities

Analysis of credit in period

	9 months ended 30 April 2009 £	9 months ended 31 July 2008 £
<i>UK corporation tax</i>		
Current tax on income for the period (R&D tax credits)	274,672	482,103

The current tax credit for the period is lower (2008: lower) than the standard rate of corporation tax in the UK of 28% (2008: 28%). The differences are explained below.

	9 months ended 30 April 2009 £	9 months ended 31 July 2008 £
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(3,694,339)	(4,512,686)
Current tax at 28% (2008: 28%)	(1,034,415)	(1,263,552)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	262,377	163,486
Depreciation in excess of capital allowances	35,607	21,498
Tax losses relating to trading carried forward to future years not recognised	337,982	512,653
Tax losses relating to non-trading items carried forward to future years not recognised	89,930	-
Net impact of research and development tax claims	38,854	80,349
Other timing differences	(5,008)	3,463
Total current tax credit (see above)	(274,672)	(482,103)

The company has tax losses of £7,323,375 (31 July 2008: £5,795,118) (subject to agreement with HMRC) available for offset against future taxable profits.

The unrecognised deferred tax assets relating to the tax losses are explained below:

	Taxable loss relating to Trading £	Taxable loss relating to non-trade loans £	Total £
At 31 July 2008	1,622,633	-	1,622,633
Relating to trading losses incurred during the period	337,982	-	337,982
Relating to non-trading losses incurred during the period	-	89,930	89,930
At 30 April 2009	1,960,615	89,930	2,050,545

The deferred tax asset has not been recognised in the accounts as the Directors believe that the timing of this is difficult to predict and is likely to be a number of years into the future

## Notes (continued)

### 9 Intangible fixed assets

	Intellectual property £
<i>Cost</i>	
At 1 August 2008	315,833
Additions during the period	38,658
	<hr/>
At 30 April 2009	354,491
	<hr/>
<i>Amortisation</i>	
At 1 August 2008	114,423
Charge for the period	56,849
	<hr/>
At 30 April 2009	171,272
	<hr/>
<i>Net book value</i>	
At 30 April 2009	183,219
	<hr/>
At 31 July 2008	201,420
	<hr/>

There are two Intangible Assets (a) an exclusive licence the Company has over Intellectual Property involved in research and development activities, and (b) the costs of in-licencing a compound to expand the development portfolio.

### 10 Fixed assets

	Leasehold Improvements £	Plant & Laboratory Equipment £	Office Furniture £	Computer Equipment & Software £	Total £
<i>Cost</i>					
At 1 August 2008	20,163	505,040	23,318	155,169	703,690
Additions during the period	1,988	1,570	-	8,783	12,341
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 April 2009	22,151	506,610	23,318	163,952	716,031
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At 1 August 2008	17,500	277,185	10,321	82,268	387,274
Charge for the period	4,030	108,953	5,808	34,239	153,030
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 April 2009	21,530	386,138	16,129	116,507	540,304
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 30 April 2009	621	120,472	7,189	47,445	175,727
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2008	2,663	227,855	12,997	72,901	316,416
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 11 Debtors

	30 April 2009 £	31 July 2008 £
Taxation	285,750	482,103
Other debtors	110,244	162,175
Prepayments	111,412	104,923
	<u>507,406</u>	<u>749,201</u>

### 12 Creditors: amounts falling due within one year

	30 April 2009 £	31 July 2008 £
Trade creditors	341,213	563,775
Other taxes and social security costs	35,662	109,912
Accruals	96,941	318,558
	<u>473,816</u>	<u>992,245</u>

### 13 Creditors: amounts falling due after more than one year

	30 April 2009 £	31 July 2008 £
Wellcome Trust Loan	1,029,866	1,029,866
Accrued interest on Wellcome Trust Loan	98,731	66,738
Accrued dividends on 'A' Preferred Shares	2,006,827	1,443,948
Deep Discount Bond Instrument	1,000,000	-
Accrued Interest on Deep Discount Bond Instrument	321,180	-
Unsecured Convertible Loan Note	1,000,000	-
	<u>5,456,604</u>	<u>2,540,552</u>

The Wellcome Trust Loan of £1,029,866 relates to a loan to fund a research programme. Under the terms of the Loan agreement interest is accrued at NatWest Bank Plc Base Rate plus 2% per annum. The accumulated accrued interest at 30 April 2009 is £98,731 (31 July 2008: £66,738). The interest becomes payable if the Wellcome Trust elect to have the loan and interest repaid; the loan is not repayable until 24 August 2010. The Wellcome Trust can elect instead to have their loan settled through conversion to Ordinary Shares immediately before the next round of funding; the loan converts at a price equivalent to the higher of a 20% discount to the next round valuation, or at the £0.50 per share paid at the last round of funding. The terms of the loan prevent the Wellcome Trust from requiring the loan to be repaid if that forces the company into an insolvent position.

## Notes (continued)

### 13 Creditors: amounts falling due after more than one year (continued)

The Accrued dividends on the 'A' Preferred Shares are calculated on a fixed rate of 8% per annum, based on a subscription price of £0.50 per share. The dividend, together with the 'A' Preferred Share capital either (a), becomes payable on the earlier of (i) a return of assets on liquidation after payment of its liabilities, or (ii) a sale of the business, or (b) converts to Ordinary Shares at £0.50 per Ordinary share. The 'A' Preferred Shares have a liquidation preference over Ordinary Shares to an aggregate amount of the original subscription (£0.50 each) plus accrued dividend to the point of liquidation. Thereafter they share in any balance *pari passu* with Ordinary shareholders pro rata based on the holding of each shareholder. At 30 April 2009 the total dividends accrued was £2,006,827 (31 July 2008: £1,443,948)

On 23 July 2008 a Deep Discount Bond Instrument of £1,000,000 was created, and during the period 1<sup>st</sup> October 2008 to 31 January 2009 these were issued in full. Under the terms of the Deep Discount Bond Instrument repayment can occur on or before 23 July 2013; the liability to repay earlier than 23 July 2013 is triggered on the sale, the listing or the liquidation of the company. Any proceeds received by the company in relation to a sale, a listing or a liquidation shall first be applied in redeeming the bonds. The redemption amount is equal to ten times the original subscription price; accordingly this will create a liability on the company of £10 million. The £9 million premium on redemption is treated as an interest on the original £1 million subscription, and accrues over the expected life of the financial instrument. The effective compound rate of interest is 61.7% per annum. The interest accrued as at 30 April 2009 was £321,180 (31 July 2008: nil).

On 23 July 2008 an Unsecured Convertible Loan Note of £1,000,000 was created, and during the period 1<sup>st</sup> October 2008 to 31 January 2009 these were issued in full. Under the terms of the Loan Note Instrument the Holder has the option to either convert into 'A' Preferred Shares or demand repayment. Repayment is on or before 23 July 2013; earlier repayment is triggered by the sale, listing or liquidation of the company. In the event of a conversion to 'A' Preferred Shares the conversion rate is £0.51 for each fully paid 'A' Preferred Share. This is a zero coupon Loan Note and therefore does not attract a premium on redemption.

## Notes (continued)

### 14 Share Capital

	30 April 2009 £	31 July 2008 £
<b>Authorised share capital:</b>		
5,949,201 Ordinary Shares £0.001 each	5,949	5,949
22,927,196 (2008: 22,927,196) 'A' Preferred Shares £0.001 each	22,927	22,927
	<u>28,876</u>	<u>28,876</u>
	30 April 2009 No.	31 July 2008 No.
<b>Allotted, called up and fully paid:</b>		
Ordinary Shares £0.001 each fully paid	432,001	432,001
'A' Preferred Shares £0.001 each fully paid	19,005,627	19,005,627
	<u>19,437,628</u>	<u>19,437,628</u>
	30 April 2009 £	31 July 2008 £
<b>Allotted, called up and fully paid:</b>		
Ordinary Shares £0.001 each fully paid	432	432
'A' Preferred Shares £0.001 each fully paid	19,005	19,005
	<u>19,437</u>	<u>19,437</u>
	Ordinary Shares £0.001 No	'A' Preferred Shares £0.001 No
		Total No
At 31 July 2008	432,001	19,005,627
	<u>432,001</u>	<u>19,005,627</u>
At 30 April 2009	432,001	19,005,627
	<u>432,001</u>	<u>19,005,627</u>

The 'A' Preferred Shares have a liquidation preference over Ordinary Shares to an aggregate amount of the original subscription (£0.50 each) plus accrued dividend (see note 13) to the point of liquidation. Thereafter they share in any balance *pari passu* with Ordinary shareholders pro rata based on the holding of each shareholder.

## Notes (continued)

### 15 Share Premium Account

	Ordinary Shares	'A' Preferred Shares	Total
	£	£	£
At 31 July 2008	139,720	9,736,176	9,875,896
At 30 April 2009	139,720	9,736,176	9,875,896

### 16 Profit and Loss Reserve

	£
At 31 July 2008	(11,258,079)
Retained loss for the period	(3,419,667)
At 30 April 2009	(14,677,746)

### 17 Pensions

The company operates a defined contribution scheme in which all employees are invited to participate. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £42,413 (9 months ended 31 July 2008: £58,425). The assets of the scheme are held separately from those of the company in independently administered funds. Unpaid contributions at the period end, included in accruals are £11,665 (31 July 2008: £21,302).

### 18 Reconciliation of operating loss to net cash flow from operating activities

	30 April 2009	31 July 2008
	£	£
<b>Reconciliation of operating loss to net cash flow from operating activities</b>		
Operating loss	(2,789,537)	(3,982,520)
Depreciation and amortisation charges	209,879	197,077
Decrease/(increase) in debtors	45,442	34,025
(Decrease)/increase in creditors	(518,429)	358,538
Taxation	(196,353)	12,881
<b>Net cash outflow from operating activities</b>	<b>(3,052,645)</b>	<b>(3,379,999)</b>

## Notes (continued)

### 19 Analysis of cash flows

	£	Period ended 30 April 2009 £	£	9 months ended 31 July 2008 £
<b>Returns on investment and servicing of finance</b>				
Interest paid	-	-	-	-
Interest received	11,250		94,683	
		11,250		94,683
<b>Capital expenditure and financial investment</b>				
Purchase of intangible fixed assets	38,658		122,423	
Purchase of tangible fixed assets	12,341		71,068	
		50,999		193,491
<b>Financing</b>				
Warrants converted to 'A' Preferred share capital	-		1,774	
Issue of Deep Discount Bond Instrument	1,000,000		-	
Issue of Unsecured Convertible Loan Notes	1,000,000		-	
		2,000,000		1,774

### 20 Analysis of net debt

	At beginning of period £	Cash flow £	Other non-cash changes £	At end of period £
Cash at bank and in hand	903,024	(621,369)	-	281,655
Debt due after one year	(2,540,552)	(2,000,000)	(916,052)	(5,456,604)
	(1,637,528)	(2,621,369)	(916,052)	(5,174,949)

### 21 Commitments

There are lease commitments on two premises under operating leases with 2 year and 3 year commitments. The annual commitment on outstanding leases and on communications between the premises at the balance sheet date was £249,079 (31 July 2008: £237,934).

### 22 Post Balance Sheet Events

In May 2009 a commitment to further funding of £460,000 was secured from existing shareholders in the form of Deep Discount Bond Instrument with the same terms as the existing Deep Discount Bond Instrument (identified in note 13). Under the terms of the Deep Discount Bond Instrument repayment can occur on or before 23 July 2013; the liability to repay earlier than 23 July 2013 is triggered on the sale, the listing or the liquidation of the company. Any proceeds received by the company in relation to a sale, a listing or a liquidation shall first be applied in redeeming the bonds. The redemption amount is equal to ten times the original subscription price; accordingly this will create a liability on the company of £4.6 million. The £4,140,000 premium on redemption is recognised as an interest on the original £460,000 subscription, and accrues over the expected life of the financial instrument. The effective compound rate of interest is 72 per cent per annum.

## Notes (continued)

### 23 Related party disclosures

The following Directors who served during the period also had the following interests:

<i>Director</i>	<i>Nature of related party transaction</i>
Dr Philip Gould	<p>Jadara Pharma Ltd, a company controlled by Dr Philip Gould, provided consulting services to Lectus. The total fees earned during the 9 months to 30 April 2009 by Jadara Pharma Ltd was £12,250 (9 months to 31 July 2008: £11,250). The amount outstanding at 30 April 2009 is £nil (31 July 2008: £2,003).</p> <p>During the 9 months to 30 April 2009 Dr Philip Gould invested £1,795.12 in Deep Discount Bonds and £1,795.12 in Unsecured Convertible Loan Notes, details of which are included in note 13.</p>
Dr Roland Kozlowski	<p>During the 9 months to 30 April 2009 Dr Roland Kozlowski invested £6,290.31 in Deep Discount Bonds and £6,290.31 in Unsecured Convertible Loan Notes, details of which are included in note 13.</p>

### 24 Controlling Party

There is no overall controlling party of Lectus Therapeutics Ltd.