

BioFocus Discovery Limited

FINANCIAL STATEMENTS

31 December 2003



Registered Number: 4622227

BioFocus Discovery Limited

DIRECTORS' REPORT

For the period ended 31 December 2003

DIRECTORS: H G McMillan
S J R France

The directors present their annual report and the audited financial statements for the period from 19 December 2002 to 31 December 2003.

PRINCIPAL ACTIVITIES

The Company's principal activity is the provision of drug discovery products and services to the pharmaceutical and biotechnology industries.

REVIEW OF DEVELOPMENTS

On 1 January 2003, as part of a group reorganisation, the assets, liabilities and trades of BioFocus plc and Cambridge Discovery Limited were transferred to the Company. The Company commenced to trade on that date. The Company is the only trading subsidiary of BioFocus plc and carries on all of the business for the Group. Its activities are expected to continue for the foreseeable future.

RESULTS AND DIVIDENDS

The loss for the period after taxation was £129,000. The directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The directors who served during the period are as follows:

H G McMillan (appointed 19 December 2002)
S J R France (appointed 19 December 2002)
D Stone (appointed 19 December 2002 and resigned 31 August 2003)

The directors are also directors of the ultimate holding company, BioFocus plc, and details of their interests in the shares of group companies are shown in the directors' report of that company.

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 of the company for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 December 2003 and that applicable Accounting Standards have been followed.

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

The directors are also responsible for ensuring that the directors' report and other information included in the annual report are prepared in accordance with company law in the United Kingdom.

BioFocus Discovery Limited

DIRECTORS' REPORT

For the period ended 31 December 2003

PAYMENTS TO SUPPLIERS

The company does not follow any formal code or standard on payment practice.

The company's policy is to pay all suppliers within their prescribed terms. Advantage is taken of available discounts for prompt payment wherever possible. The average period of credit taken on the outstanding balances at the year end is 55 days.

AUDITORS

A resolution for the reappointment of Baker Tilly as the company's auditors will be proposed at the Annual General Meeting.

By order of the Board



S J R France
Secretary

Registered office:

Chesterford Research Park
Saffron Walden
Essex
CB10 1XL

1 March 2004

BioFocus Discovery Limited

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BIOFOCUS DISCOVERY LIMITED

We have audited the financial statements on pages 4 to 15.

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' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the paragraph headed "Directors' responsibilities" in the directors' report.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the 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 other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

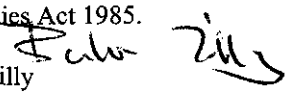
BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the 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 31 December 2003 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


Baker Tilly
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

1 March 2004

BioFocus Discovery Limited

PROFIT AND LOSS ACCOUNT

For the period ended 31 December 2003

	Note	Excluding exceptional costs £'000	Exceptional costs £'000	2003 Total £'000
TURNOVER	2	15,837	-	15,837
Change in stocks of finished goods and work in progress		682	-	682
Raw materials and consumables		(2,277)	-	(2,277)
Staff costs		(4,643)	(264)	(4,907)
Depreciation and amortisation of intellectual property		(1,284)	-	(1,284)
Other operating charges		(4,505)	(583)	(5,088)
Other operating income		59	-	59
		<u>3,869</u>	<u>(847)</u>	<u>3,022</u>
Research and development costs		(2,055)	-	(2,055)
Amortisation of goodwill		(1,050)	-	(1,050)
OPERATING PROFIT (LOSS)	4	<u>764</u>	<u>(847)</u>	<u>(83)</u>
Interest receivable and similar income				36
Interest payable and similar charges	5			<u>(240)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION				(287)
Tax on profit on ordinary activities	6			<u>158</u>
LOSS FOR THE FINANCIAL PERIOD				<u><u>(129)</u></u>

All of the company's activities are classed as continuing.

The company had no recognised gains or losses for the period except as shown above.

The notes on pages 6 to 14 form part of these financial statements.

BioFocus Discovery Limited

BALANCE SHEET

As at 31 December 2003

	Note	2003 £'000
FIXED ASSETS		
Intangible assets	7	19,322
Tangible assets	8	5,144
Investments	9	28,196
		<u>52,662</u>
CURRENT ASSETS		
Stocks	10	2,863
Deferred tax asset	11	2,248
Debtors	12	7,319
Cash at bank and in hand		4,172
		<u>16,602</u>
CREDITORS: amounts falling due within one year	13	(5,175)
NET CURRENT ASSETS		<u>11,427</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		64,089
CREDITORS: amounts falling due after more than one year	14	(28,571)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(425)
NET ASSETS		<u><u>35,093</u></u>
EQUITY CAPITAL AND RESERVES		
Called up share capital	16	20,000
Share premium account	17	15,222
Profit and loss account	17	(129)
EQUITY SHAREHOLDERS' FUNDS	18	<u><u>35,093</u></u>

The financial statements on pages 4 to 14 were approved by the board of directors on 1 March 2004 and were signed on its behalf by:

S J R France

Director



The notes on pages 6 to 14 form part of these financial statements.

BioFocus Discovery Limited

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2003

1 ACCOUNTING POLICIES

(a) *Accounting convention*

The financial statements are prepared under the historical cost convention in accordance with applicable United Kingdom Accounting Standards.

(b) *Intangible fixed assets*

Goodwill

Purchased goodwill, being the difference between the fair value of the consideration and the fair value of the net assets acquired, is capitalised and amortised on a straight line basis over a prudent estimate of the period that the Company is expected to benefit from it. Goodwill amortisation periods are determined on a case by case basis up to a maximum of 20 years.

Intellectual property

Intellectual property, which comprises patents and licences, is capitalised at cost and amortised systematically over the estimated economic life of the assets, which, for existing assets, is four years. In the case of patents, amortisation is charged from the date of grant.

(c) *Tangible fixed assets*

Depreciation is calculated to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Short leasehold improvements	8 - 10 years (or the period of the lease if shorter)
Laboratory equipment	4 - 10 years
Office equipment, fixtures and fittings	4 years
Motor vehicles	4 years

Depreciation is charged from the beginning of the month following the month of acquisition.

(d) *Stocks*

Stocks are stated at the lower of cost and net realisable value. Cost includes an appropriate percentage of overheads.

(e) *Deferred taxation*

Provision is made at current rates for taxation liabilities deferred in respect of all material timing differences. Deferred tax assets are only recognised where recovery is more likely than not. Deferred taxation is measured on a non-discounted basis.

(f) *Foreign exchange*

Transactions denominated in foreign currencies are recorded in sterling at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the exchange rate prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

(g) *Leasing and hire purchase transactions*

Leasing agreements, which transfer to the group substantially all the benefits and risks of ownership of an asset, are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Hire purchase agreements are accounted for in a similar manner.

BioFocus Discovery Limited

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2003

1 ACCOUNTING POLICIES (continued)

The company ensures that finance leases include an option to purchase the asset at the end of the lease term and so assets held under finance leases are depreciated over the useful lives of the equivalent owned assets.

Amounts payable or receivable in respect of operating leases are charged or credited to the profit and loss account on a straight-line basis over the lease term.

(h) *Research and development expenditure*

Expenditure on all research and development is written off to the profit and loss account as it is incurred.

(i) *Pension costs*

The company makes defined contributions to group pension schemes and a number of personal pension schemes on behalf of its employees. The pension cost represents contributions payable to those pension schemes in respect of the accounting period.

(j) *Government grants*

Grants are credited to the profit and loss account when the relevant expenditure has been incurred and there is reasonable assurance that the grant is receivable.

(k) *Cash flow statement*

The company is a wholly owned subsidiary of BioFocus plc, which prepares a consolidated cash flow statement, and consequently a cash flow statement is not presented with these financial statements.

2 TURNOVER

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and value added tax.

The analysis of turnover was:	2003
By geographical destination	£'000
United Kingdom	2,187
Rest of Europe	6,579
North America	4,097
Asia Pacific	2,974
	<hr/>
	15,837
	<hr/>
By type of product or service	
Discovery products	6,576
Technology access fees and milestones	2,412
Contract services	6,849
	<hr/>
	15,837
	<hr/>

BioFocus Discovery Limited
NOTES TO THE FINANCIAL STATEMENTS
For the period ended 31 December 2003

3	EMPLOYEES	2003 No.
(a)	The average monthly number of persons employed by the company during the period was:	
	Technical, research and development	127
	Sales and administration	28
		<u>155</u>
(b)	Staff costs	£'000
	Wages and salaries	4,714
	Social security costs	495
	Pension contributions	236
	Compensation for loss of office	115
	Relocation costs	172
		<u>5,732</u>
	Disclosed as:	
	Staff costs	4,907
	Research and development costs	825
		<u>5,732</u>
4	OPERATING PROFIT (LOSS)	2003 £'000
	Operating profit (loss) is stated after charging (crediting):	
	Exceptional relocation costs	847
	Auditors' remuneration - audit services	47
	- non audit services	26
	Depreciation and amortisation for the year:	
	- Tangible fixed assets	649
	- Tangible fixed assets held under finance leases	479
	- Tangible fixed assets held under hire purchase agreements	111
	- Intangible fixed assets	1,098
	Loss on sale of fixed assets	1
	Rentals under operating leases - buildings	920
	- equipment	216
	Profit on exchange	(63)
	Rent receivable	(59)
	Loss on disposal of fixed asset investments	2
		<u></u>
	Auditors' remuneration for non-audit services comprises tax compliance (£12,000), tax advisory (£10,000) and review of interim report (£4,000).	
5	INTEREST PAYABLE AND SIMILAR CHARGES	2003 £'000
	Bank interest	30
	Hire purchase interest	30
	Finance lease interest	180
		<u>240</u>

BioFocus Discovery Limited
NOTES TO THE FINANCIAL STATEMENTS
For the period ended 31 December 2003

6	TAX ON PROFIT ON ORDINARY ACTIVITIES	2003 £'000
(a)	Analysis of tax credit for the period	
	Overprovision in previous year transferred from parent company	(318)
	Total current tax credit for the period	(318)
	Deferred taxation	160
	Total tax credit for the period	(158)
(b)	Factors affecting tax credit for the period	2003 £'000
	The tax assessed for the year is less than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:	
	Loss on ordinary activities before taxation	(287)
	Loss on ordinary activities multiplied by the standard rate of corporation tax (30%)	(86)
	Effects of:	
	Expenses not deductible for corporation tax purposes	335
	Difference between depreciation and capital allowances	(41)
	Tax losses for the year not utilised	130
	Research and development tax credits	(338)
	Adjustment in respect of previous periods transferred from parent company	(318)
	Total current tax credit for the period	(318)
(c)	Factors affecting tax charges for future periods	
	The company has losses for tax purposes, estimated at £10,030,000, available to carry forward at 31 December 2003 against future profits. These losses form part of the deferred tax asset in Note 11.	

BioFocus Discovery Limited

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2003

7	INTANGIBLE FIXED ASSETS	Intellectual property £'000	Goodwill £'000	Total £'000
	COST			
	At 19 December 2002	-	-	-
	Additions	459	19,961	20,420
	At 31 December 2003	459	19,961	20,420
	AMORTISATION			
	At 19 December 2002	-	-	-
	Charge for the year	48	1,050	1,098
	At 31 December 2003	48	1,050	1,098
	NET BOOK AMOUNT			
	At 31 December 2003	411	18,911	19,322

The goodwill arising on the acquisition of the net assets and trading businesses of BioFocus plc and Cambridge Discovery Limited is being amortised over 20 years from the date of acquisition, being the expected useful life of the goodwill.

8	TANGIBLE FIXED ASSETS	Short leasehold improvements £'000	Laboratory equipment £'000	Office equipment fixtures and fittings £'000	Motor vehicles £'000	Total £'000
	COST					
	At 19 December 2002	-	-	-	-	-
	Additions	1,563	3,948	872	1	6,384
	Disposals	-	-	-	(1)	(1)
	At 31 December 2003	1,563	3,948	872	-	6,383
	DEPRECIATION					
	At 19 December 2002	-	-	-	-	-
	Charge for the year	164	776	299	-	1,239
	Disposals	-	-	-	-	-
	At 31 December 2003	164	776	299	-	1,239
	NET BOOK AMOUNT					
	At 31 December 2003	1,399	3,172	573	-	5,144

The net book amount of assets held under finance lease agreements at 31 December 2003 was £1,685,000 and of assets held under hire purchase agreements was £793,000.

BioFocus Discovery Limited

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2003

9	FIXED ASSET INVESTMENTS	Investments in subsidiary companies £'000	Listed investments £'000	Total £'000
	At 19 December 2002	-	-	-
	Additions	28,035	345	28,380
	Disposals	-	(184)	(184)
	At 31 December 2003	<u>28,035</u>	<u>161</u>	<u>28,196</u>

The subsidiary companies at 31 December 2003, all of which are wholly owned, were:

Name of company	Description of shares held	Company of incorporation and principal operations	Principal activities during the year
Cambridge Drug Discovery Holdings Limited	£1 ordinary shares £1 'A' ordinary shares £1 'B' ordinary shares	Great Britain	Intermediate holding company
Cambridge Discovery Limited	10p ordinary shares 10p preference shares	Great Britain	Non-trading
Cambridge Genetics Limited	£1 ordinary shares	Great Britain	Non-trading

The shares in Cambridge Discovery Limited and Cambridge Genetics Limited are held by a subsidiary company.

As the company is a wholly owned subsidiary company of BioFocus plc, consolidated financial statements have not been prepared. These financials statements therefore present information about the company only and not about its group.

The listed investments represent less than 3% of the issued share capital of Australian Cancer Technology Limited, a company incorporated in Australia and listed on the Australian Stock Exchange.

The market value of the company's investment in Australian Cancer Technology Limited at 31 December 2003 was £140,000. This investment was sold after the year end for proceeds in excess of book value at 31 December 2003.

10	STOCKS	2003 £'000
	Work in progress	279
	Finished goods	2,584
		<u>2,863</u>

BioFocus Discovery Limited
NOTES TO THE FINANCIAL STATEMENTS
For the period ended 31 December 2003

11	DEFERRED TAX ASSET		Fixed asset timing differences £'000	Tax losses carried forward £'000	Short term timing differences £'000
		Total £'000			
	At 19 December 2002	-	-	-	-
	Transferred from other group companies	2,408	(199)	2,606	1
	Profit and loss account	(160)	(562)	403	(1)
		<u>2,248</u>	<u>(761)</u>	<u>3,009</u>	<u>-</u>
	At 31 December 2003	<u>2,248</u>	<u>(761)</u>	<u>3,009</u>	<u>-</u>
	The deferred tax asset is calculated at a corporation tax rate of 30%.				
12	DEBTORS				2003 £'000
	Trade debtors				6,281
	Corporation tax recoverable				91
	Amounts due from other group companies				104
	Other debtors				122
	Prepayments and accrued income				721
					<u>7,319</u>
13	CREDITORS: amounts falling due within one year				2003 £'000
	Bank loan (note (i))				123
	Trade creditors				1,093
	Other taxation and social security				131
	Obligations under hire purchase agreements (note (ii))				298
	Obligations under finance leases (note (ii))				858
	Other creditors (note (iii))				286
	Accruals and deferred income				2,386
					<u>5,175</u>
	(i) The bank loan is secured on certain tangible fixed assets.				
	(ii) The obligations under hire purchase agreements and finance leases are secured on the related tangible fixed assets as shown in note 8.				
	(iii) Other creditors include unpaid pension contributions of £1,000.				
14	CREDITORS: amounts falling due after more than one year				2003 £'000
	Bank loan (note (i))				101
	Obligations under hire purchase agreements (note (ii))				418
	Obligations under finance leases (note (ii))				339
	Amounts owed to subsidiary companies				27,713
					<u>28,571</u>
	(i) The bank loan is secured on certain tangible fixed assets.				
	(ii) The obligations under hire purchase agreements and finance leases are secured on the related tangible fixed assets as shown in note 8.				

BioFocus Discovery Limited

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2003

The payment terms of creditors falling due after more than one year are as follows:		2003 £'000
Between one and two years		696
Between two and five years		162
No fixed terms		27,713
		<u>28,571</u>
15	PROVISIONS FOR LIABILITIES AND CHARGES	
	Deferred taxation £'000	Provision for future costs on vacant property £'000
		Total £'000
	19 December 2002	-
	Transferred from parent company	210
	Profit and loss account	(210)
		<u>425</u>
	31 December 2003	-
		<u>425</u>
16	SHARE CAPITAL	2003 £'000
	Authorised 20,000,002 ordinary shares of £1 each	20,000
	Allotted, called up and fully paid 20,000,002 ordinary shares of £1 each	20,000
	20,000,002 ordinary shares of £1 each were issued during the year for a total consideration of £35,222,000.	
17	STATEMENT OF MOVEMENTS ON RESERVES	
	Share premium account £'000	Profit and loss account £'000
	At 19 December 2002	-
	Loss for the period	-
	Allotment of ordinary shares	15,222
		<u>15,222</u>
	At 31 December 2003	15,222
		<u>(129)</u>
18	RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	2003 £'000
	Loss for the period	(129)
	Allotment of ordinary shares	35,222
	Opening shareholders' funds	-
	Closing shareholders' funds	<u>35,093</u>

BioFocus Discovery Limited

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2003

19 LEASING AND HIRE PURCHASE COMMITMENTS

(a) Finance lease and hire purchase commitments

Future commitments under finance leases and hire purchase agreements at 31 December 2003 are as follows:

	Finance leases 2003 £'000	Hire purchase agreements 2003 £'000
Due within one year	858	298
Due between one and five years	339	418
	<u>1,197</u>	<u>716</u>

(b) Operating lease commitments

At 31 December 2003 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 2003 £'000	Other 2003 £'000
Leases which expire:		
Under one year	35	175
Between one and five years	425	96
After more than five years	108	-
	<u>568</u>	<u>271</u>

20 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemptions available to 90% subsidiaries under Financial Reporting Standard No 8 "Related party disclosures" not to disclose transactions with other group companies.

21 CONTINGENT LIABILITIES

The company has a contingent liability under a group VAT registration with its holding company and certain of its subsidiary companies. The maximum potential liability under the terms of the Registration at 31 December 2003 was £Nil.

22 ULTIMATE PARENT COMPANY

The ultimate parent company and controlling party is BioFocus plc, a company registered in England and Wales. Copies of the consolidated financial statements may be obtained from the Secretary, BioFocus plc, Chesterford Research Park, Saffron Walden, Essex, CB10 1XL.