

**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2003
FOR
ECTOPHARMA LIMITED**



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for the Year Ended 31 July 2003

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ECTOPHARMA LIMITED

COMPANY INFORMATION
for the Year Ended 31 July 2003

DIRECTORS:

M. Benson
J. Campbell
P.A. Campbell Fraser (Audit Comm. Chair)
A Carver
I. Parsons

SECRETARY:

WJM Secretarial Services

REGISTERED OFFICE:

40 Torphichen Street
Edinburgh
EH3 8JB

REGISTERED NUMBER:

SC15 1763 (Scotland)

ACCOUNTANT:

George Lewis Limited
Chartered Accountant
50 Polwarth Crescent
Edinburgh
EH11 1HL

BANKERS:

HSBC
76 Hanover Street
Edinburgh
EH2 1HQ

SOLICITORS:

Burness WS
Festival Square
50 Lothian Road
Edinburgh
EH3 9WJ

ECTOPHARMA LIMITED

REPORT OF THE DIRECTORS

for the Year Ended 31 July 2003

The directors present their report with the financial statements of the company for the year ended 31 July 2003.

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was that of the development of innovative and environmentally safe products for the treatment of ectoparasites.

REVIEW OF BUSINESS

The results for the year and financial position of the company are as shown in the annexed financial statements.

The loss for the year, after taxation, amounted to £199,680 (2002 - £147,673).

RESEARCH AND DEVELOPMENT

The company has incurred expenditure in respect of investigating, developing and lodging patent applications. At 31 July 2003 this amounted to £90,676 (2002, £77,283). This expenditure will be capitalised at such time as the patent(s) are awarded.

DIRECTORS

The directors during the year under review were:

M. Benson
J. Campbell
P.A. Campbell Fraser (Audit Comm. Chair)
A Carver
I. Parsons

The beneficial interests of the directors holding office on 31 July 2003 in the issued share capital of the company were as follows:

	31.7.03	1.8.02
Ordinary 1p shares		
M. Benson	220,816	196,850
J. Campbell	-	-
P.A. Campbell Fraser (Audit Comm. Chair)	220,000	200,000
A Carver	120,048	-
I. Parsons	167,850	163,850

RECLASSIFICATION OF SHARES

The Convertible A Ordinary 1p. shares were re-classified as Ordinary 1p. shares at the E.G.M. held in January 2003.

OPTIONS AND WARRANTS

The following directors have additional interests in the company:-

J.Campbell has options to subscribe for 167,213 Ordinary Shares.

A. Carver has options to subscribe for 334,426 Ordinary Shares.

P. Campbell-Fraser has warrants to subscribe for 100,000 Ordinary Shares.

M. Benson has warrants to subscribe for 100,000 Ordinary Shares.

ECTOPHARMA LIMITED

**REPORT OF THE DIRECTORS
for the Year Ended 31 July 2003**

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

ON BEHALF OF THE BOARD:



FOR WJM SECRETARIES LIMITED

VLD.

WJM Secretarial Services - Secretary
SECRETARIES LIMITED

Date: 9/3/04

ECTOPHARMA LIMITED

PROFIT AND LOSS ACCOUNT
for the Year Ended 31 July 2003

		31.7.03	31.7.02
	Notes	£	£
TURNOVER		-	-
Administrative expenses		202,310	221,236
		(202,310)	(221,236)
Other operating income	2	-	69,868
OPERATING LOSS	3	(202,310)	(151,368)
Interest receivable and similar income		2,630	3,695
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(199,680)	(147,673)
Tax on loss on ordinary activities	4	-	-
LOSS FOR THE FINANCIAL YEAR AFTER TAXATION		(199,680)	(147,673)
Deficit brought forward		(1,137,129)	(989,456)
DEFICIT CARRIED FORWARD		<u>£(1,336,809)</u>	<u>£(1,137,129)</u>

The notes form part of these financial statements

ECTOPHARMA LIMITED

BALANCE SHEET

31 July 2003

		31.7.03		31.7.02	
	Notes	£	£	£	£
FIXED ASSETS:					
Tangible assets	5		1,109		132
CURRENT ASSETS:					
Debtors	6	3,486		49,202	
Cash at bank		160,262		68,866	
		163,748		118,068	
CREDITORS: Amounts falling due within one year	7	23,120		9,411	
NET CURRENT ASSETS:			140,628		108,657
TOTAL ASSETS LESS CURRENT LIABILITIES:			<u>£141,737</u>		<u>£108,789</u>
CAPITAL AND RESERVES:					
Called up share capital	8		38,276		33,443
Share premium	9		1,440,270		1,212,475
Profit and loss account			(1,336,809)		(1,137,129)
SHAREHOLDERS' FUNDS:			<u>£141,737</u>		<u>£108,789</u>

The company is entitled to exemption from audit under Section 249A(1) of the Companies Act 1985 for the year ended 31 July 2003.

The members have not required the company to obtain an audit of its financial statements for the year ended 31 July 2003 in accordance with Section 249B(2) of the Companies Act 1985.

The directors acknowledge their responsibilities for:

- ensuring that the company keeps accounting records which comply with Section 221 of the Companies Act 1985 and
- preparing financial statements which give a true and fair view of the state of affairs of the company as at the end of each financial year and of its profit or loss for each financial year in accordance with the requirements of Section 226 and which otherwise comply with the requirements of the Companies Act 1985 relating to financial statements, so far as applicable to the company.

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective June 2002).

ON BEHALF OF THE BOARD:


P.A. Campbell Fraser (Audit Comm. Chair) - Director

Approved by the Board on 1st March 2004

The notes form part of these financial statements

ECTOPHARMA LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 31 July 2003

1. ACCOUNTING POLICIES

Basis of preparing the financial statements

The financial statements have been prepared under the historical cost convention.

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

Tangible fixed assets

Depreciation is provided at an annual rate of 33% on each item of Computer Equipment, until fully depreciated.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Government Grants

Grants towards revenue expenditure are released to the Profit and Loss Account as the related expenditure is incurred.

2. OTHER OPERATING INCOME

	31.7.03	31.7.02
	£	£
Government grant income	-	69,868
	<u> </u>	<u> </u>

3. OPERATING LOSS

The operating loss is stated after charging:

	31.7.03	31.7.02
	£	£
Depreciation - owned assets	433	1,060
Auditor's remuneration	6,590	4,340
	<u> </u>	<u> </u>
Directors' emoluments and other benefits etc	72,000	72,000
	<u> </u>	<u> </u>

4. TAXATION

Analysis of the tax charge

No liability to UK corporation tax arose on ordinary activities for the year ended 31 July 2003 nor for the year ended 31 July 2002.

ECTOPHARMA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
for the Year Ended 31 July 2003**

5. TANGIBLE FIXED ASSETS

	Plant and machinery etc
	£
COST:	
At 1 August 2002	8,434
Additions	1,410
	<u>9,844</u>
At 31 July 2003	<u>9,844</u>
DEPRECIATION:	
At 1 August 2002	8,302
Charge for year	433
	<u>8,735</u>
At 31 July 2003	<u>8,735</u>
NET BOOK VALUE:	
At 31 July 2003	<u>1,109</u>
At 31 July 2002	<u>132</u>

**6. DEBTORS: AMOUNTS FALLING
DUE WITHIN ONE YEAR**

	31.7.03 £	31.7.02 £
V.A.T.	1,481	1,619
Grant debtors	-	45,789
Sundry debtors and prepayments	2,005	1,794
	<u>3,486</u>	<u>49,202</u>

**7. CREDITORS: AMOUNTS FALLING
DUE WITHIN ONE YEAR**

	31.7.03 £	31.7.02 £
Bank loans and overdrafts	1,190	-
Trade creditors	8,460	1,375
Social security & other taxes	2,735	2,656
Accrued expenses	10,735	5,380
	<u>23,120</u>	<u>9,411</u>

ECTOPHARMA LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the Year Ended 31 July 2003

8. CALLED UP SHARE CAPITAL

Authorised:		Nominal value:	31.7.03	31.7.02
Number:	Class:		£	£
6,308,149 (31.7.02 - 4,559,250)	Ordinary	1p	63,081	45,593
NIL (31.7.02 - 262,560)	Convertible A Ordinary	1p	-	2,626
			<u>63,081</u>	<u>48,219</u>
Allotted, issued and fully paid:		Nominal value:	31.7.03	31.7.02
Number:	Class:		£	£
3,565,049 (31.7.02 - 3,081,701)	Ordinary	1p	38,276	30,817
NIL (31.7.02 - 262,560)	Convertible A Ordinary	1p	-	2,626
			<u>38,276</u>	<u>33,443</u>

The following fully paid shares were allotted during the year at a premium as shown below:

483,348 Ordinary shares of 1p each at 49p. per share

During the year, all Convertible A Ordinary 1p. shares were reclassified as Ordinary 1p. shares.

In addition to the above, there are options to subscribe for a further 501,639 Ordinary 1p. shares, and warrants to subscribe for a further 200,000 shares of the same class.

9. SHARE PREMIUM

	31.7.03	31.7.02
	£	£
Brought forward	1,212,475	897,240
Cash share issue	236,841	329,135
Expenses of issue	(9,046)	(13,900)
	<u>1,440,270</u>	<u>1,212,475</u>