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GRANNUS BIOSCIENCES LTD

REPORT OF DIRECTORS AND UNAUDITED FINANCIAL STATEMENTS

Year to 31 December 2004



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REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2004

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COMPANY INFORMATION

Directors	Dr Robert Scott Goodenow Dr Elizabeth McLaughlin-Taylor Dr Steven Joseph Mento Graham Paterson John Kingston Pool
Secretary	D.W. Company Services Ltd
Bankers	Bank of Scotland 600 Gorgie Road Edinburgh EH11 3XP
Registered Office	191 West George Street Glasgow G2 2LD
Company Registration Number	SC240992

DIRECTORS REPORT

The directors present their report and accounts for the year ended 31 December 2004.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activity is that of biosciences and the development of biomedical products

DIVIDENDS

No dividend will be distributed for the year ended 31 December 2004.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:

Dr Robert Scott Goodenow (appointed 9 January 2004)
Dr Elizabeth McLaughlin-Taylor (appointed 9 January 2004)
Dr Steven Joseph Mento (appointed 2 February 2004)
Graham Paterson (appointed 25 November 2003)
John Kingston Pool (appointed 2 February 2004)

Dr Goodenow and Dr McLaughlin-Taylor have an interest in the company through their shareholding in the Pharmetix Corporation, a US based company that has a 30% shareholding in Grannus Biosciences Ltd.

AUDITORS

For the year ended 31 December 2004 the company is entitled to the exemption from an annual audit permitted by subsection (1) of section 249A of the Companies Act 1985 and no notice has been deposited under subsection (2) of section 249B by a member requiring an audit. The directors are responsible for keeping accounting records which comply with section 221 of the Companies Act 1985 and for preparing accounts which give a true and fair view and which otherwise comply with the requirements of the Companies Act 1985 applicable to small companies.

SPECIAL PROVISIONS RELATING TO SMALL COMPANIES

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

By order of the Board



Graham Paterson
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Company law requires the directors to prepare accounts 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 year. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- *make judgements and estimates that are reasonable and prudent;*
- prepare the accounts 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 accounts 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.

PROFIT & LOSS ACCOUNT
for the year to 31 December 2004

	Note	2004 £	2003 £
TURNOVER	2	NIL	NIL
Cost of Sales		<u>NIL</u>	<u>NIL</u>
GROSS PROFIT		NIL	NIL
Grant Income		32,906	NIL
Administration expenses		<u>(263,605)</u>	<u>(4,252)</u>
OPERATING LOSS	4	(230,699)	(4,252)
Interest Receivable		<u>3,010</u>	<u>40</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(227,689)	(4,212)
Tax on profit on ordinary activities	5	<u>NIL</u>	<u>NIL</u>
LOSS FOR THE FINANCIAL YEAR		<u>(227,689)</u>	<u>(4,212)</u>

CONTINUING OPERATIONS

None of the company's activities were acquired or discontinued during the current and previous years.

TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the losses for the current and previous years.

BALANCE SHEET
as at 31 December 2004

	Note	2004 £	2003 £
FIXED ASSETS	6	<u>2,328</u>	<u>NIL</u>
CURRENT ASSETS			
Debtors	7	1,666	670
Cash at bank and in hand		<u>68,274</u>	<u>150,670</u>
		69,940	151,340
CREDITORS: amounts falling due within one year	8	<u>(52,869)</u>	<u>(154,252)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>17,071</u>	<u>(2,912)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>19,399</u>	<u>(2,912)</u>
CAPITAL AND RESERVES			
Called up share capital	9	1,300	1,300
Loan Stock	10	250,000	NIL
Accumulated Loss		(231,901)	(4,212)
EQUITY SHAREHOLDERS FUNDS	11	<u>19,399</u>	<u>(2,912)</u>

The accounts have been prepared in accordance with the special provisions of part VII of the Companies Act 1985 relating to small companies.

The company is entitled to exemption from audit for the year ended 31 December 2004 under Section 249A(1) of the Companies Act 1985.

The members have not required the company to obtain an audit of its financial statements for the year ended 31 December 2004 in accordance with Section 249B(2) of the Companies Act 1985.

The Directors have acknowledged their responsibilities for ensuring that the company keeps accounting records which comply with Section 221 of the Companies Act 1985.

The Directors have acknowledged their responsibilities for preparing accounts which give a true and fair view of the company and of its loss for the year then ended in accordance with the requirements of Section 226 of the Companies Act 1985 and which otherwise comply with the requirements of this Act relating to accounts, so far as applicable to this company.

Approved by the Board of Directors on 22 June 2005


Graham Paterson, Director

NOTES TO THE FINANCIAL STATEMENTS for the year to 31 December 2004

1. ACCOUNTING POLICIES*Accounting Convention*

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

Deferred Taxation

Deferred taxation is provided where there is a reasonable probability of the amount becoming payable in the foreseeable future.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows: 33.3% straight line

2. TURNOVER

Turnover represents the total invoice value, excluding value added tax, of goods sold and services rendered during the year.

3. DATE OF INCORPORATION

The company was incorporated on 11 December 2002 as Dunwilco (1011) Limited and changed its name on 4 July 2004 to Grannus Biosciences Ltd

4. OPERATING LOSS

	2004 £	2003 £
The operating loss for the year is stated after charging:		
Emoluments of Directors	5,000	NIL
Staff costs	<u>38,528</u>	<u>1,375</u>
The average monthly number of employees during the year was	1	

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

The Company has no taxable profits arising during the year.

6. FIXED ASSETS

	2004 £	2003 £
Acquired during the year	3,492	NIL
Depreciation	<u>(1,164)</u>	<u>NIL</u>
Net Book Value	<u>2,328</u>	<u>NIL</u>

7. DEBTORS

	2004 £	2003 £
Share capital	670	670
Loan Stock	996	NIL
	<u>1,666</u>	<u>670</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year to 31 December 2004

8. CREDITORS: amounts due within one year

	2004	2003
	£	£
Prepaid income	NIL	150,000
Trade creditors	16,342	NIL
Accruals	36,527	4,252
	<u>52,869</u>	<u>154,252</u>

9. SHARE CAPITAL

	2004	2003
	£	£
Authorised:		
Equity Interests: 2,000,000 ordinary shares of £0.01 each	<u>2,000</u>	<u>2,000</u>
Allotted, called up and fully paid:		
Equity interests: 1,300,000 ordinary shares of £0.01 each	<u>1,300</u>	<u>1,300</u>

10. LOAN STOCK

	2004	2003
	£	£
Convertible Loan Notes	<u>250,000</u>	<u>NIL</u>

11. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

	£
Shareholders funds at 1 January 2004	(4,212)
Result for the year	<u>(227,689)</u>
Shareholders' funds at 31 December 2004	<u>(231,901)</u>

12. RELATED PARTY TRANSACTIONS

The Pharmetix Corporation has a 30.77% shareholding in the ordinary shares of the company and holds £250,000 convertible loan notes in the company. During the year, the company paid the Pharmetix Corporation £13,600 for market research consultancy and £7,400 for the supply of management services.