

Synaptica Limited

**Directors' report and financial
statements**

Registered number 3375681

30 September 2000



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2000.

Principal activities

The principal activity of the company is research leading to the development of therapeutic and diagnostic products in the field of neurodegenerative diseases.

Business review

During the past 12 months the company's research programmes and the development of the commercial foundations of the company have both moved forward significantly. The multidisciplinary programmes in the Departments of Pharmacology, Pathology, Chemistry and Experimental Psychology have all made progress towards the goal of understanding the fundamental mechanisms responsible for Alzheimers Disease. This year the work of these departments has also been augmented by electrophysiology experiments performed under Synaptica's direction in Oxford Brookes University. The results from these research programmes have enabled the company to file a number of additional patent applications to consolidate the Intellectual Property which will form the basis of the future commercial development of the company.

In May 2000 the first meeting of the independent Science Review Committee, chaired by Sir James Gowans, took place. Following their review of the research programmes the committee praised the high quality of the research that had been undertaken and confirmed the company's view that the main thrust of the research programme showed great promise and should be "vigorously pursued". The committee also made helpful suggestions on new lines of research that should be considered.

On the business development side, the planned fund raising announced at last year's AGM was ultimately successful in raising a further £1.27m, which is sufficient to cover operating costs until well beyond April 2001. The plan to commence discussions with major pharmaceutical companies on areas for collaboration has also moved forward this year and initial discussions have been held with 2 organisations. Arrangements are in hand now to continue with more detailed discussions which will take place under Confidentiality Disclosure Agreements with the relevant organisations.

Considerable effort has also been made this year in recruiting a Chief Executive, and the directors are pleased to report that the position is to be taken up in December 2000 by an excellent candidate whose skills and experience should become a major asset for the business. In June 2000 Professor Nick Rawlins, who directs the research in the Department of Experimental Psychology, was also appointed to the board of directors.

Following internal reviews and discussions with advisors, including 3i, on future business strategy, three key decisions were made. The first was to expand the portfolio of research in order to develop a pipeline of projects that can be carried forward in collaboration with big pharmaceutical companies. The second was to maximise the commercial return on collaborations by delaying for as long as possible the point at which collaborative agreements are made. The third was to establish a laboratory separate from the University where work on the more advanced projects would be carried out. A new business plan, based on this new strategy, is nearing completion and the funds required to pursue it over the next 2-3 years have been estimated at £6-8m. The raising of these funds is planned to take place over the next few months.

The directors believe that the progress in the research, the strengthening of the management structure and the re-focussing of the business strategy have all added value to the business and should make the company an attractive opportunity for future investment.

Directors' report (*Continued*)

Directors

The directors who held office during the year, and their interests directly or indirectly held in the share capital of the company were as follows:

	<i>Ordinary £0.05 shares at</i>	
	<i>beginning of year</i>	<i>At end of year</i>
Sir Martin Wood	31,200	41,600
Professor Susan Greenfield	7,667	9,367
Dr David Vaux	7,467	7,467
Dr Peter Fellner	700	932
Professor Nicholas Rawlins (appointed 13 June 2000)	-	-

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

Results for the year and dividends

The loss for the year was £921,000 (1999: £944,000). The loss will be transferred to reserves.

The directors do not recommend the payment of a dividend.

Year 2000

The directors considered the risks and uncertainties associated with the Year 2000 problem. The company implemented a plan to address these issues and its relationships with customers, suppliers and other relevant parties. The costs incurred to date have been written off to the profit and loss account and these and future costs are not expected to be significant.

The company has not experienced any problems as a result of Year 2000 issues on computer systems, applications or products and do not believe results and operations have been adversely affected. The directors do not know of any inability of third parties to manage their Year 2000 problems which may adversely affect the company nor of any potential liability to third parties as a result of Year 2000 failures.

Economic marketing union

The introduction of the Euro on 1st January 1999 did not have a material impact on the company or its systems.

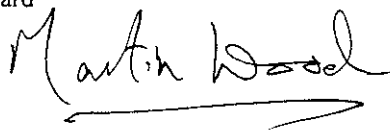
Political and charitable contributions

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

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Sir Martin Wood
Chairman

Oxford Centre for Innovation
Mill Street
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Statement of 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 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.



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Report of the auditors to the members of Synaptica Limited

We have audited the financial statements on pages 5 to 11.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 as at 30 September 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants
Registered Auditors

30/10/00

Profit and loss account
for the year ended 30 September 2000

	<i>Note</i>	2000 £000	1999 £000
Administrative expenses		(944)	(961)
Operating loss	2-4	(944)	(961)
Interest receivable	5	29	27
Loss on ordinary activities before taxation for the year		(915)	(934)
Loss on tax on ordinary activities	6	(6)	(10)
Loss for the financial year		(921)	(944)
Retained loss brought forward		(1,413)	(469)
Loss carried forward		(2,334)	(1,413)

All transactions arose from continuous operations. There are no recognised gains and losses other than disclosed above.

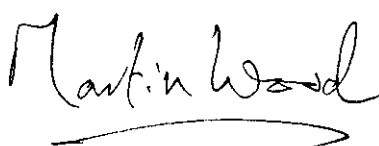
Balance sheet

at 30 September 2000

	Note	2000 £000	1999 £000
Fixed assets			
Intangible assets	7	-	-
Tangible assets	8	101	176
		<u>101</u>	<u>176</u>
Current assets			
Debtors	9	35	44
Cash at bank and in hand		678	435
		<u>713</u>	<u>479</u>
Creditors: amounts falling due within one year	10	(193)	(238)
		<u></u>	<u></u>
Net current assets		520	241
		<u>621</u>	<u>417</u>
Net assets			
		<u></u>	<u></u>
Capital and reserves			
Called up share capital	11	12	8
Share premium account	12	2,943	1,822
Profit and loss account		(2,334)	(1,413)
		<u>621</u>	<u>417</u>
Equity shareholders' funds			
		<u>621</u>	<u>417</u>

These financial statements were approved by the board of directors on 27/10/00 and were signed on its behalf by:

Sir Martin Wood
Chairman



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 preparation

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

The financial statements have been prepared on a going concern basis for the following reasons. The company meets its day to day working capital requirements from existing cash resources. At the present rate of cash absorption the company will not have sufficient resources to enable it to continue its operations at their present level for the next twelve months. However, with the encouragement of the company's main institutional investor, a new round of fundraising is in preparation. Subject to satisfactory progress in the research programmes, and development of the management structure, the directors believe that further resources, sufficient to cover operating costs for at least the next 2 years, will be placed at the company's disposal when formal application is made. Whilst there can be no certainty that these additional funds will be made available, the directors consider it appropriate to prepare the financial statements on a going concern basis.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds of its size.

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:

Scientific and office equipment - 3 years

Research and development expenditure

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

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Notes (continued)

2 Operating loss

	2000 £000	1999 £000
<i>Operating loss is stated after charging:</i>		
Auditors' remuneration:		
Audit	2	2
Non audit	1	1
Depreciation	82	56
Research and development expenditure	742	850
	<hr/>	<hr/>

3 Remuneration of directors

	2000 £000	1999 £000
Directors' emoluments	57	42
	<hr/>	<hr/>

During the year the company made payments to the University of Oxford, relating to scientific research projects, amounting to £636,000 (1999:£797,000). Professor Greenfield and Dr Vaux were employed on the teaching staff of the university during the year under terms which allowed them to undertake personal research. Of their own volition they devoted some of their personal research time to supervising staff employed by the university on the Synaptica contract, for which they received no additional remuneration.

4 Staff numbers and costs

The company does not have any employees other than the directors. The company has however accounted for PAYE and National Insurance on certain payments made to consultants.

5 Other interest receivable and similar income

	2000 £000	1999 £000
Interest receivable	29	27
	<hr/>	<hr/>

Notes (continued)

6 Taxation

	2000 £000	1999 £000
Tax charge for the year	6	6
Under provision in respect of prior years	-	4
	<hr/> 6	<hr/> 10

7 Intangible fixed assets

	Total £000
<i>Cost</i>	
At beginning and end of year	331
	<hr/>
<i>Provisions</i>	
At beginning and end of year	331
	<hr/>
<i>Net book value</i>	
At 30 September 2000 and 1999	-
	<hr/>

Intangible fixed asset relates to a patent and the related know how, arising from research and development previously undertaken on the research project, acquired as consideration for the issue of 33,186 ordinary shares of £10.00.

The company's policy is to write-off research and development costs against profits in the year in which they are incurred. This intangible fixed asset has therefore been fully provided against in the year of acquisition

Notes (continued)

8 Tangible fixed assets

	Scientific and office equipment £000
<i>Cost</i>	
At beginning of year	242
Additions	7
	<hr/>
At end of year	249
	<hr/>
<i>Depreciation</i>	
At beginning of year	66
Charge for year	82
	<hr/>
At end of year	148
	<hr/>
<i>Net book value</i>	
At 30 September 2000	101
	<hr/>
At 30 September 1999	176
	<hr/>

9 Debtors

	2000 £000	1999 £000
Other debtors and prepayments	35	44
	<hr/>	<hr/>

10 Creditors: amounts falling due within one year

	2000 £000	1999 £000
Accruals	187	232
Tax payable	6	6
	<hr/>	<hr/>
	193	238
	<hr/>	<hr/>

Notes (continued)

11 Called up share capital

	2000 £000	1999 £000
<i>Authorised</i>		
Equity: 250,000 shares of 5p each	13	13
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Equity: 232,933 ordinary shares of 5p each	12	8
	<hr/>	<hr/>

In July 2000 the company allotted 64,113 shares for cash consideration of £1,125,000. The funds were raised to allow continuation of the research.

12 Share premium

	Share premium account £000
At beginning of year	1,822
Premium on shares issued	1,121
	<hr/>
At end of year	2,943
	<hr/>

13 Reconciliation of movements in shareholders' funds

	2000 £000	1999 £000
Loss for the financial year/(period)	(921)	(944)
New share capital subscribed	1,125	872
	<hr/>	<hr/>
Net reduction of addition to shareholders' funds	204	(72)
Opening shareholders' funds	417	489
	<hr/>	<hr/>
	621	417
	<hr/>	<hr/>