

3246469

Oxygen Limited

Annual Report & Accounts

Year ended 31 December 2000



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Oxagen Limited

Registered No 3246469

SECRETARY

P. Baddeley

AUDITORS

Ernst & Young

Apex Plaza

Reading

RG1 1YE

REGISTERED OFFICE

Oxagen Limited

3 Worcester Street

Oxford

OX1 2PZ

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DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2000.

PRINCIPAL ACTIVITY

Oxagen is a privately held genomics company that seeks to use genetics to predict and prevent disease. The Company undertakes research and development activities aimed at finding new prognostics, diagnostics and therapeutics to improve the management of a range of common human diseases. Oxagen's research is centred on the use of large population-based, disease-focused clinical genetic studies to discover biological insights into the genetic under-liers for disease.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The progress in the discovery programmes during 2000 was significant as was the development of the Company's technology base. A new commercial partner was found in Boehringer Ingelheim, and good progress made in the collaboration with AstraZeneca.

In December 2000 the Company raised a total of £30 million after expenses from the issue of 26.4million new convertible preference shares. Oxagen's technological capabilities will be greatly enhanced through access to the APBiotech SNIPer high-throughput genotyping system, agreed in December 2000.

Shortly after the year-end a collaboration agreement with InCyte Genomics to study osteoporosis went unconditional. This represents a significant opportunity for the two businesses to create novel understandings of the biology of bone metabolism.

RESULTS AND DIVIDENDS

The company's loss for the period of £4,296k (1999: £3,409k) has been transferred to reserves. The directors do not recommend the payment of a dividend, although an allocation of £70k has been made to Other Reserves in respect of the dividend entitlement of the preferred shareholders for the period. Expenditure on tangible fixed assets in the year was £1,750k (1999: £1,180k).

DIRECTORS

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

David F White	<i>Non-executive Chairman</i>
Trevor J Nicholl	<i>Chief Executive Officer</i>
R. Mark Edwards	<i>Chief Scientific Officer</i>
Christine H Soden (Appointed 12 April 2000)	<i>Chief Financial Officer</i>
<i>Non-executive Directors</i>	
John Bell	
Peter Doyle	
James Noble*	
Ian Laing	
Jerry Benjamin (Appointed 22 March 2000)	
Tom Daniel (Appointed 13 December 2000)	

Mr Cross, Dr Gordon and Prof Iversen retired as directors on 30 June 2000.

*Mr Noble acted as Finance Director of the Company until 11 April 2000.

The interests of the Directors in shares and share options are set out in the Remuneration Report.

DIRECTORS' REPORT

CHARITABLE AND POLITICAL DONATIONS

The company made no contributions to charitable or political organisations.

PAYMENT OF CREDITORS

It is Oxagen's policy with respect to the payment of its suppliers either to use standard terms or to settle terms of payment when agreeing the terms of a transaction and to abide by those terms.

DISABLED EMPLOYEES

Oxagen gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by a disabled person. With regard to existing employees who may become disabled, Oxagen's policy is to examine ways and means to provide continuing employment under normal terms and conditions, providing training wherever appropriate.

SIGNIFICANT SHAREHOLDINGS

The following hold significant actual or beneficial shareholdings in the Company (>5%).

	Ordinary Shares	Preferred Shares
IM Laing	9.6%	
NC Cross	9.6%	
Wellcome Trust	34.4%	
University of Oxford	6.7%	
Advent Funds *	17.0%	16.0%
3i Group*	14.6%	16.0%
Schroder Funds*		35.0%
Abingworth Bioventures III		9.0%
CSFB Private Equity*		9.0%
Oppenheimer Funds*		5.0%

*Shares owned by funds under common management with the above.

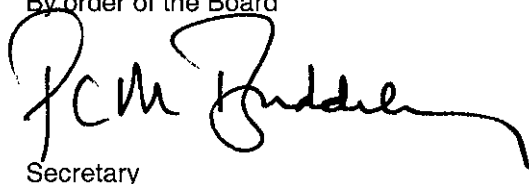
BIOINDUSTRY ASSOCIATION CODE OF BEST PRACTICE

The Directors have reviewed the provisions of the BIA Code of Best Practice and believe that they comply with all applicable areas.

AUDITORS

A resolution to re-appoint Ernst & Young as auditors and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting. Ernst & Young has stated that, subject to the approval of its partners, it is intending to transfer its business to a limited liability partnership during the year. If this happens, it is the current intention of the Directors to use their statutory powers to treat the appointment of Ernst & Young as extending to Ernst & Young LLP.

By order of the Board



Secretary

DIRECTORS' REPORT

REMUNERATION REPORT

Composition and remit of the Remuneration Committee

The Remuneration Committee consists entirely of Non-Executive Directors and its members are Professor Bell (Chairman), Mr White, Mr Laing and Mr Daniel.

The Committee meets not less than twice a year for the purpose of determining all aspects of the remuneration of the Executive Directors and other senior managers and the overall remuneration, benefits and incentives policy for the Company. The Committee takes independent advice where appropriate.

The fees of the Non-Executive Directors are determined by the Board as a whole.

Policy on remuneration of Executive Directors

The Committee aims to ensure that the remuneration packages offered are competitive and designed to attract, retain and motivate Executive Directors and senior managers of the highest calibre. In doing so, the Committee takes account of information from internal and independent sources on the remuneration for similar jobs in companies in the sector.

Components of the Remuneration Package

The main components of the Executive Directors' and senior managers' remuneration packages are:

- **Competitive Base Salary**
Salaries are reviewed annually in April and take into account recommendations on individual performance and comparable salaries.
- **Longer Term Performance Incentives**
The Executive Directors and senior managers are rewarded for improvement in the performance of the Company through the award of share options under the Approved and Unapproved Share Option Schemes on a discretionary basis. The allocation of share options will take into account the future potential contribution of the individuals.
- **Pensions & Other Benefits**
All Directors and employees have the right to participate in the Company's defined contribution pension plan and to receive medical, life and permanent disability benefits. Under the pension plan the Company contributes 5% of salary to the plan if matched by the individual.
- **Service Contracts**
Service contracts for the Executive Directors are for a rolling period of 12 months. Non-Executive directors do not have service contracts.

DIRECTORS' REPORT

DIRECTORS' REMUNERATION

	Salary	Fees	Bonus	Benefits in kind	Pension Con- tribution	Total 31/12/00	Total 31/12/99
	£000	£000	£000	£000	£000	£000	£000
TJ Nicholls*	128				6	134	124
M Edwards	103				5	108	100
CH Soden**	76		32		4	112	-
DF White		30				30	1
JJ Noble	17		20			37	27
I M Laing		15				15	20
J Bell		24				24	24
J Benjamin		-				-	-
P Doyle		12				12	6
T Daniel		1				1	-
N Cross		5				5	12
J Gordon		8				8	10
S Iversen		-				-	-
TOTAL	324	95	52	-	15	486	324

* Highest paid director

** Ms Soden joined Oxagen on 11 April 2000.

The beneficial interests of the directors (including the interests of their families) in the share capital of the company were as follows:

	<i>At 31 December 2000</i>		<i>At 31 December 1999</i>	
	<i>Ordinary Shares</i>	<i>Deferred Shares</i>	<i>Ordinary Shares</i>	<i>Deferred Shares</i>
T. Nicholls	555,000	-	555,000	-
J. Noble	222,000	-	222,000	-
M. Edwards	442,180	-	442,180	-
P. Doyle	80,000	-	80,000	-
I. Laing	4,555,556	2,250,000	4,555,556	2,250,000
D. White	100,000	-	100,000	-
J. Gordon	10,000	-	10,000	-
N. Cross	4,555,556	2,250,000	4,555,556	2,250,000

Mr. Benjamin is a Partner in Advent Venture Partners who have an interest in 8,097,223 Ordinary Shares and 4,125,000 Preferred Shares in the Company. Mr. Daniel is a Partner in Schroder Venture Funds who have an interest (directly or indirectly) in 9,166,667 Preferred Shares in the Company.

DIRECTORS' REPORT

Directors Share Options

The Directors hold options over ordinary shares as follows:

	As at 01/01/00	Granted in year	Exercised lapsed	As at 31/12/00	Exer- cise Price	Scheme *	Date from which exercisable	Expiry Date
TJ Nicholls	300,000	-	-	300,000	10p	App	Jun 2000	Jun 2007
	255,000	-	-	255,000	10p	Unapp	Aug 2000	Jul 2004
	555,555	-	-	555,555	40p	Unapp	Mar 2001	Mar 2005
	-	140,625	-	140,625	80p	Unapp	Apr 2003	Apr 2008
	1,110,555	140,625	-	1,251,180				
RM Edwards	222,000	-	-	222,000	10p	App	Jun 2000	Jun 2007
	19,500	-	-	19,500	40p	App	Mar 2001	Mar 2008
	313,500	-	-	313,500	40p	Unapp	Mar 2001	Mar 2005
	-	199,500	-	199,500	80p	Unapp		
	555,000	199,500	-	754,500				
CH Soden	-	37,500	-	37,500	80p	Unapp	Apr 2003	Apr 2010
	-	487,500	-	487,500	80p	Unapp	Apr 2003	Apr 2008
	-	525,000	-	525,000				
JJ Noble	222,000	-	-	222,000	10p	Unapp	Apr 2000	Apr 2004
	55,000	-	-	55,000	40p	Unapp	Mar 2001	Mar 2005
	277,000	-	-	277,000				
P Doyle	80,000	-	-	80,000	45p	Unapp	Dec 2002	Dec 2006
D F White	80,000			80,000	45p	Unapp	Dec 2002	Dec 2006
		120,000	-	120,000	45p	Unapp	Jun 2003	Jun 2007
	80,000	120,000	-	200,000				
J Gordon	10,000			10,000	10p	Unapp	Apr 2000	Apr 2004
	55,000			55,000	40p	Unapp	Mar 2001	Mar 2005
	65,000	-	-	65,000				
TOTAL	2,167,555	985,125	-	3,152,680				

* The options were granted under the Oxagen Limited Approved Share Option Scheme and the Oxagen Limited Unapproved Share Option Scheme.

CORPORATE GOVERNANCE

The Company strives to work within the relevant requirements of the Combined Code which is embodied in the Listing Rules of the London Stock Exchange. Areas where Oxagen is currently outside the Code are that the Company has not appointed a senior independent Non-Executive Director and certain of the Non-Executive Directors have been granted options over shares in the Company. Details of how the Board has applied the principles and provisions of the Code are set out below and in the Remuneration Report.

BOARD OF DIRECTORS

As at the 31 December 2000 the Board was comprised of 3 Executive Directors and 7 Non-Executive Directors. Of the Non-Executive Directors, Messrs White, Doyle and Noble have been granted options over shares in the Company. Messrs Daniel, Benjamin and Laing each hold or represent significant shareholdings in the Company. Nonetheless, the Board is satisfied that given the overall size and makeup of the Board and its committees, there is adequate independence amongst the Non-Executive Directors to ensure proper governance of the Company.

There are eight scheduled Board meetings each year and other meetings are held as necessary.

BOARD COMMITTEES

The Board has Audit, Remuneration and Nominations committees.

The Audit committee has operated throughout 2000 and its current members are Mr Laing (Chairman), Mr Noble, Mr Daniel and Mr White and the Committee will normally meet twice a year. The Committee's responsibilities include undertaking a critical review of the annual financial statements prior to their submission to the Board for approval and monitoring the effectiveness of internal control systems. The external auditors attend the Audit Committee meetings.

The composition and remit of the Remuneration Committee is described in the Remuneration Report.

The Nominations Committee is comprised of Mr White (Chairman), Dr Nicholls, Mr Daniel, Mr Laing and Professor Bell. This Committee considers the need to appoint new Board Members and recommends candidates for open positions to the Board.

INTERNAL CONTROLS

The Board acknowledges that it is responsible for the Company's system of internal control (including financial control) and for reviewing its effectiveness. Such a system can only provide reasonable assurance and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure of the business to reach business objectives.

The Board acknowledges the requirements of the Code to review the effectiveness of the system of internal control, including financial, operational, compliance and risk management. The Board will undertake an annual review of the business risks the Company faces in achieving its objectives, approve plans to manage those risks and review the effectiveness of Oxagen's risk based system of internal control including policies on managing risk through insurance or other vehicles.

CORPORATE GOVERNANCE

Internal Financial Control

The key procedures that the Directors have established with a view to providing effective internal control are as follows:

- There is a formal schedule of matters specifically reserved to the Board for its decision, including overall Company strategy, financing arrangements, material acquisitions and divestments, approval of the annual budget, major capital expenditure projects, risk management and treasury policies.
- Clear policies and authorisation procedures are in place in respect of all financial commitments. Key systems and rules are in operation relating to the delegation of authorities.
- Experienced and suitably qualified staff take responsibility for key operational functions.
- Budgets and forecasts are prepared which allow management to monitor the key business and financial activities and risks and the progress towards objectives set for the year and longer term; monthly management accounts are prepared promptly and significant variances from budget are investigated
- The Audit Committee reviews reports from management and the Auditor, in order to provide reasonable assurance that control procedures are in place and are being followed.

GOING CONCERN

The Directors consider that the funds available to the Company are sufficient for its operations for the foreseeable future and have prepared accounts on a going concern basis.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each period which give a true and fair view of the state of affairs of the Company and profit or loss of 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;
- 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 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.

REPORT OF THE AUDITORS to the members of Oxagen Limited

We have audited the accounts on pages 11 to 22, which have been prepared under the historical cost convention and the accounting policies set out on page 14.

Respective responsibilities of directors and auditors

As described on page 9 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, by the Auditing Practices Board, and by our profession's ethical guidance.

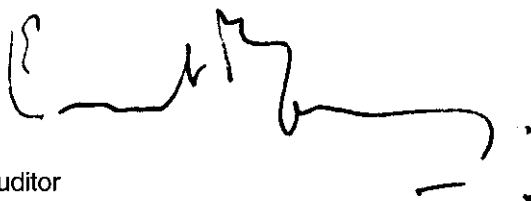
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 2000 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Registered Auditor
Reading

14 March 2001

Oxagen Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2000

	Note	2000 £'000	1999 £'000
REVENUES	3	2,132	1,467
Cost of services	3	(448)	-
GROSS PROFIT		1,684	1,467
OPERATING EXPENSES			
Research and development		(5,960)	(5,076)
Selling, general & administrative		(806)	(352)
Other operating income		560	367
OPERATING LOSS	4	(4,522)	(3,594)
Interest receivable and similar income	7	349	234
Interest payable and similar charges	8	(53)	(49)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(4,226)	(3,409)
TAXATION	9	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(4,226)	(3,409)
Preference share dividend		70	-
RETAINED LOSS FOR THE YEAR		(4,296)	(3,409)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The loss on ordinary activities, as stated above, recognises all gains and losses for the period, as defined by Financial Reporting Standard No.3.

Oxagen Limited

BALANCE SHEET

as at 31 December 2000

	Note	2000 £'000	1999 £'000
FIXED ASSETS			
Tangible assets	10	3,549	2,657
CURRENT ASSETS			
Debtors & other assets	11	1,753	863
Cash at bank and in hand		33,755	7,393
		<u>35,508</u>	<u>8,256</u>
CREDITORS: amounts falling due within one year	12	<u>(3,966)</u>	<u>(1,526)</u>
NET CURRENT ASSETS		<u>31,542</u>	<u>6,730</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>35,091</u>	<u>9,386</u>
CREDITORS: amounts falling due after more than one year	13	-	(15)
TOTAL NET ASSETS		<u>35,091</u>	<u>9,371</u>
CAPITAL AND RESERVES			
Called up share capital	14	8,298	5,652
Share premium account	15	37,997	10,697
Other reserve	15	70	-
Profit and loss account	15	(11,274)	(6,978)
		<u>35,091</u>	<u>9,371</u>
SHAREHOLDERS' FUNDS:			
Equity		4,121	8,471
Non-equity		30,970	900
		<u>35,091</u>	<u>9,371</u>



Director : C. H. Soden

Date: 12 February 2001

Oxagen Limited

STATEMENT OF CASH FLOWS for the year ended 31 December 2000

	Note	2000 £'000	1999 £'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	16(a)	(3,121)	(2,817)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		300	234
Interest paid under finance leases		(53)	(49)
		247	185
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payment to acquire tangible fixed assets		(1,750)	(1,180)
Deposit paid on tangible fixed assets		(360)	-
		(2,110)	(1,180)
MANAGEMENT OF LIQUID RESOURCES			
Net movement on liquid resources		(25,305)	(1,777)
FINANCING			
Issue of ordinary shares		50	5,868
Issue of preference shares		31,700	-
Costs of share issue		(204)	-
Capital repayments under finance leases		(200)	(184)
		31,346	5,684
INCREASE IN CASH		1,057	95
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
Increase in cash		1,057	95
Repayments under finance lease		200	184
Cash outflow from increase in liquid resources		25,305	1,777
Movement in net funds resulting from cash flows	16(b)	26,562	2,056
NET FUNDS AT 1 JANUARY	16(b)	7,193	5,137
NET FUNDS AT 31 DECEMBER	16(b)	33,755	7,193

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2000

1 FUNDAMENTAL ACCOUNTING CONCEPT

Having reviewed the company's operating and cashflow forecast the directors continue to consider it appropriate to prepare the accounts on a going concern basis.

2 ACCOUNTING POLICIES

The following accounting policies have been used 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 under the historical cost convention and in accordance with applicable accounting standards.

Costs of services

The costs of contract services rendered are calculated as the fully-burdened cost of staff time together with actual costs of materials used and equipment usage.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less residual value, of each asset over its expected useful economic life from the date of purchase as follows:

Fixtures & Fittings	10 years straight line
Equipment	3 to 5 years straight line

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All exchange gains and losses in the normal course of business are taken to the profit and loss account as they arise.

Research and development

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

Intangible fixed assets

The costs of acquiring or licensing patents are not capitalised unless the Directors believe revenues can be generated from those patents in the reasonably foreseeable future.

Leasing commitments

Assets held under finance leases are capitalised in the balance sheet and are depreciated over their useful lives. The corresponding lease obligation is capitalised in the balance sheet as a liability. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Pensions

The Company contributes to defined contribution pension plans for its Executive Directors and employees. Contributions are charged to the profit and loss account as they become payable.

Deferred Tax

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2000

3 REVENUES & COSTS OF SERVICES

Revenues are comprised of milestones arising from research and development, technology licence fees, contract service revenues and payments relating to collaborative research agreements receivable during the year, stated net of value added tax.

	2000	2000	1999	1999
	Revenues	Gross Profit	Revenues	Gross Profit
	£'000	£'000	£'000	£'000
Collaborative Research	1,580	1,580	1,467	1,467
Contract Services	552	104	-	-
	<u>2,132</u>	<u>1,684</u>	<u>1,467</u>	<u>1,467</u>

All of the activities and assets of the Company are located in the UK. All revenues have been earned from customers based in Continental Europe.

4 OPERATING LOSS

This is stated after charging:

	2000	1999
	£'000	£'000
Depreciation of owned fixed assets	745	501
Depreciation of assets held under finance leases	113	113
Auditors' remuneration - audit fees	11	7
Operating lease rentals-land and buildings	500	500
	<u>1,369</u>	<u>1,121</u>

5 STAFF COSTS

	2000	1999
	£'000	£'000
Wages and salaries	1,956	1,432
Social security costs	266	145
Benefits	71	52
	<u>2,293</u>	<u>1,628</u>

The above costs include the remuneration of the directors as set out in Note 6

The average weekly number of full time equivalent persons employed by the company during the period was as follows:

	2000	1999
Research and development	58	45
Selling, general & administrative	10	8
	<u>68</u>	<u>53</u>

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2000

6 DIRECTORS' REMUNERATION

	2000 £'000	1999 £'000
Total emoluments	486	324
Contribution to money purchase pension schemes	15	11
Emoluments of the highest paid director	134	124

7 INTEREST RECEIVABLE AND SIMILAR INCOME

	2000 £'000	1999 £'000
Bank interest	349	234

8 INTEREST PAYABLE AND SIMILAR CHARGES

	2000 £'000	1999 £'000
Finance charges payable under finance leases	53	49

9 TAXATION

There is no corporation tax charge for the period. Tax losses available to be carried forward against profits in future years are estimated to be £13,000k (1999: £9,000k). No deferred tax asset in respect of losses and other timing differences has been recognised.

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2000

10 TANGIBLE FIXED ASSETS

	<i>Computer Equipment £'000</i>	<i>Laboratory Equipment £'000</i>	<i>Office Equipment £'000</i>	<i>Fixtures & Fittings £'000</i>	<i>Total £'000</i>
Cost:					
1 January 2000	635	1,870	87	1,193	3,785
Additions	223	1,357	57	113	1,750
31 December 2000	858	3,227	144	1,306	5,535
Depreciation:					
1 January 2000	257	608	34	230	1,128
Charge for the period	225	485	22	125	858
At 31 December 2000	482	1,093	56	355	1,986
Net Book Value:					
At 31 December 2000	376	2,134	88	951	3,549
At 31 December 1999	378	1,262	54	963	2,657

The net book value of tangible fixed assets includes an amount of £nil (1999: £310k) in respect of assets held under finance leases.

11 DEBTORS & OTHER ASSETS

	<i>2000 £'000</i>	<i>1999 £'000</i>
Trade debtors	578	180
Other debtors	111	427
Deposit in respect of future capital purchases	360	-
Amounts recoverable on contracts	345	-
Prepayments and accrued income	359	256
	1,753	863

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2000

12 CREDITORS: amounts falling due within one year

	2000	1999
	£'000	£'000
Trade creditors	1,203	408
Other taxes and social security	74	58
Accruals	570	382
Accrued expenses of share issue	1,600	-
Deferred income	519	494
Obligations under finance leases and hire purchase contracts	-	184
	3,966	1,526

13 CREDITORS: amounts falling due after more than one year

	2000	1999
	£'000	£'000
Obligations under finance leases	-	15

14 ANALYSIS OF SHARE CAPITAL

<i>Authorised</i>	2000	1999	2000	1999
	Number	Number	£'000	£'000
Ordinary shares of 10p	103,350,543	54,176,200	10,335	5,418
Deferred shares of 10p	9,000,000	9,000,000	900	900
8% Convertible Preference shares of 10p	26,416,667	-	2,642	-
			13,877	6,318

Allotted, called up and fully paid

Ordinary shares of 10p	47,564,451	47,522,784	4,756	4,752
Deferred shares of 10p	9,000,000	9,000,000	900	900
8% Convertible preference shares of 10p	26,416,667	-	2,642	-
			8,298	5,652

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2000

14 ANALYSIS OF SHARE CAPITAL (CONTINUED)

On 24 November 2000, 41,667 new ordinary shares of 10p each were issued at a price of £1.20 per share for an aggregate consideration of £50k. During 1999 13,063,784 ordinary shares were issued at a price of £0.45 per share and for an aggregate consideration of £5,879k.

On 21 December 2000, 26,416,667 new 8% Convertible Preference shares of 10p each were issued at a price of £1.20 per share and for an aggregate consideration of £30,700k before expenses.

The deferred shares carry no voting rights and no dividend rights and in the event of the liquidation or winding-up of the company, each shareholder has the right to receive only 0.001p per share.

The 8% Convertible Preference Shares carry a number of additional rights over the ordinary shares, including the right to receive a fixed cumulative dividend at the rate of 8% per annum on the issue price, accruing on a daily basis but payable semi-annually and accumulated up to the point of conversion to ordinary shares. The liability to settle this dividend, unless already paid from distributable reserves of the Company, will fall to be discharged as a first charge on any sale proceeds should an offer be made for all of the shares of the Company, as a first charge on any proceeds on a liquidation of the Company or as a deduction from the net proceeds of a flotation or other stock exchange listing.

The Preference Shares can be converted to Ordinary Shares at any time at the option of the holder of the Preference Shares and automatically upon the flotation or initial listing of the Company on a stock exchange where the gross proceeds raised in such flotation or listing exceed £15million. In the event of a sale or liquidation of the Company, the Preference Shares will be attributed with a deemed conversion into Ordinary Shares for purposes of determining the division of the proceeds of such sale or liquidation.

The number of Ordinary Shares into which the Preference Shares will actually convert or be deemed to convert will be between 1 and 1.7143 to 1, depending on the timing of the conversion and the value of the Company at that date.

Upon a sale or liquidation of the Company where the proceeds do not generate a certain return on investment for the Preference Shares, those shares become participating shares in that the distribution of any proceeds after settling arrears of dividends will be applied firstly in returning the capital subscribed by the Preference Shareholders, then in returning the capital subscribed by holders of Ordinary Shares, with the balance being distributed amongst the Ordinary and Preferred shareholders as if conversion to Ordinary Shares had taken place. In determining the conversion rate in such circumstances, the return received by the investors will be assessed on the basis of the residual proceeds after return of all capital.

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2000

On 30 April 1997, the company adopted an unapproved share option scheme and on 28 May 1997 adopted an Inland Revenue approved share option scheme to regulate the grant of options over the 10p ordinary shares to certain directors, employees and consultants. The options granted since the inception of the schemes and which had not lapsed as at 31 December 2000 were as follows:

	<i>Number</i>	<i>Option price</i>	<i>Period in which exercisable</i>
Approved share option scheme			
	522,000	10p	Jun 2000-Jun 2007
	514,099	40p	Apr 2001-Apr 2008
	489,173	45p	Jul 2002-Jul 2009
	286,750	80p	Apr 2003-Apr 2010
Unapproved share option scheme			
	487,000	10p	Jun 2000-Jun 2004
	1,091,030	40p	Mar 2001-Mar 2005
	367,800	40p	Oct 2001-Oct 2005
	944,148	45p	Jul 2002-Jul 2006
	288,889	45p	Apr 2003-Apr 2008
	1,290,592	80p	Apr 2003-Apr 2008
	120,000	45p	Jun 2003-Jun 2007

	<i>As at 01/01/00</i>	<i>Granted in Year</i>	<i>Exercised/ Lapsed in Year</i>	<i>As at 31/12/00</i>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Approved	1,683	295	(166)	1,812
Unapproved	3,160	1,699	(270)	4,589
Other	54	-	-	54
Total	4,897	1,994	(436)	6,455

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2000

15 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Share Premium</i>	<i>Share Capital</i>	<i>Other Reserve</i>	<i>Profit & Loss Account</i>	<i>Total Share- holders funds</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
At 31 December 1999	10,697	5,652	-	(6,978)	9,371
Loss for the year	-	-	-	(4,296)	(4,296)
Dividend accrued on preferred shares	-	-	70	-	70
Shares issued during the year	29,104	2,646	-	-	31,750
Costs of share issue	(1,804)	-	-	-	(1,804)
Total	37,997	8,298	70	(11,274)	35,091

16 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating loss to net cash outflow from operating activities

	<i>2000 £'000</i>	<i>1999 £'000</i>
Operating loss	(4,522)	(3,594)
Depreciation	858	614
Increase in debtors	(481)	(335)
Increase in creditors	1,024	498
Net cash outflow from operating activities	<u>(3,121)</u>	<u>(2,817)</u>

(b) Analysis of net funds

	<i>At start of year £'000</i>	<i>Cash flow £'000</i>	<i>At end of year £'000</i>
Cash at bank and in hand	168	1,057	1,225
Liquid resources	7,225	25,305	32,530
Finance leases and hire purchase contracts	(200)	200	-
	<u>7,193</u>	<u>26,562</u>	<u>33,755</u>

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2000

17 OTHER FINANCIAL COMMITMENTS

Capital Commitments

As at 31 December 2000 the company had served notice on its tenant requiring them to vacate the relevant leased premises as of 30 September 2001. As a consequence, the company is obliged to acquire certain fixtures and fittings belonging to the tenant at the time they vacate the building for a sum of £360k. A deposit in respect of this obligation has been set aside with the company's lawyers (see Note 11).

Operating leases

As at 31 December 2000 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>		<i>Other</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Operating leases which expire:				
Within one year		-		-
In two to five years		-	11	11
In over five years	500	500	-	-
	<u>500</u>	<u>500</u>	<u>11</u>	<u>11</u>

18 RELATED PARTY TRANSACTIONS

The shareholders of the company include the Wellcome Trust and the University of Oxford. In the course of undertaking certain research the company contracts with the University for the provision of research services and licences. All such arrangements are provided on an arms length basis, and are the subject of formal agreements.