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Oxagen Limited
Annual Report & Accounts

Year ended 31 December 2001



OXAGEN



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Oxagen Limited

Registered No 3246469

SECRETARY

Gillian K Mitchell

AUDITORS

Ernst & Young

Apex Plaza

Reading

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REGISTERED OFFICE

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DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2001.

PRINCIPAL ACTIVITY

Oxagen is a privately held genomics company that seeks to use genetics to help find ways to predict, treat or 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 variations that pre-dispose for disease.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

RESULTS AND DIVIDENDS

The company's loss for the period of £11,299k (2000: £4,296k) has been transferred to reserves. The directors do not recommend the payment of a dividend, although the above losses include an allocation of £2,540k (2000: £70k) which has been credited 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 £1,742k (2000: £1,750k).

DIRECTORS

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

David F White	<i>Non-executive Chairman</i>
Trevor J Nicholls	<i>Chief Executive Officer</i>
R. Mark Edwards	<i>Chief Scientific Officer</i>
Christine H Soden	<i>Chief Financial Officer</i>
<i>Non-executive Directors</i>	
John Bell	
Peter Doyle	
Jerry Benjamin	
Tom Daniel	
Stuart Collinson (Appointed 1 September 2001)	

Mr Noble retired as a director on 31 March 2001 and Mr Laing on 17 October 2001. Dr Doyle retired from the Board in March 2002.

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. Where no specific terms have been agreed, the average days outstanding on trade creditors was 40 days (2000: 41days).

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

As at 31 December 2001 the following parties held (actually or beneficially) the percentages of issued shares in each of the ordinary and preferred classes of share in the Company as set out below;

	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 LLP as auditors and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board


Gillian K Mitchell

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 Benjamin 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	Pension Con- tribution	Total 31/12/01	Total 31/12/00
	£000	£000	£000	£000	£000
TJ Nicholls*	149		7	156	134
M Edwards	120		6	126	108
CH Soden	124		6	130	112
DF White		29		29	30
J Bell		29		29	24
J Benjamin		13		13	-
P Doyle		13		13	12
T Daniel		13		13	1
S Collinson		6		6	-
JJ Noble		3		3	37
I M Laing		10		10	15
N Cross				-	5
J Gordon				-	8
TOTAL	393	116	19	528	486

* Highest paid director

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

	At 31 December 2001		At 31 December 2000	
	Ordinary Shares	Deferred Shares	Ordinary Shares	Deferred Shares
T. Nicholls	555,000	-	555,000	-
D. White	100,000	-	100,000	-
M. Edwards	442,180	-	442,180	-
P. Doyle	80,000	-	80,000	-

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.

Oxagen Limited

DIRECTORS' REPORT

Directors Share Options

The Directors hold options over ordinary shares as follows:

	As at 01/01/01	Granted in year	Exercised lapsed	As at 31/12/01	Exercise 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
	555,000	-	-	555,000	40p	Unapp	Mar 2001	Mar 2005
	140,625	-	-	140,625	80p	Unapp	Apr 2003	Apr 2007
	-	75,000	-	75,000	100p	Unapp	May 2004	May 2008
	1,250,625	75,000	-	1,325,625				
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	Apr 2003	Apr 2007
	-	50,000	-	50,000	100p	Unapp	May 2004	May 2008
	754,500	50,000	-	804,500				
CH Soden	37,500	-	-	37,500	80p	Unapp	Apr 2003	Apr 2010
	487,500	-	-	487,500	80p	Unapp	Apr 2003	Apr 2007
	-	50,000	-	50,000	100p	Unapp	May 2004	May 2008
	525,000	50,000	-	575,000				
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
	200,000	-	-	200,000				
TOTAL	2,810,125	175,000	-	2,985,125				

* 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 Financial Services Authority. 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 2001 the Board was comprised of 3 Executive Directors and 6 Non-Executive Directors. Of the Non-Executive Directors, Messrs White, Doyle and Collinson have been or will be granted options over shares in the Company. Messrs Daniel and Benjamin each 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 2001 and its current members are Mr Daniel (Chairman), Dr Collinson 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 Benjamin 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 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.

The above-mentioned systems of internal control have been applied throughout 2001 and processes to regularly identify, evaluate and manage the risks faced by the business have been operated throughout the last financial year and up to the date these financial statements were approved.

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 INDEPENDENT AUDITORS to the members of Oxagen Limited

We have audited the company's financial statements for the year ended 31 December 2001, which comprise the Profit and Loss Account, Balance Sheet, Cash Flow Statement, Statement of Total Recognised Gains and Losses and the related notes 1 to 18. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 affairs of the company as at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor

Reading

2 May 2002

Oxagen Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2001

	Note	2001 £'000	2000 £'000
REVENUES	3	3,203	2,132
Cost of services	3	(640)	(448)
GROSS PROFIT		<u>2,563</u>	<u>1,684</u>
OPERATING EXPENSES			
Research and development		(11,677)	(5,960)
Selling, general & administrative		(1,522)	(806)
Other operating income		408	560
OPERATING LOSS	4	<u>(10,228)</u>	<u>(4,522)</u>
Interest receivable and similar income	7	1,469	349
Interest payable and similar charges	8	-	(53)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(8,759)</u>	<u>(4,226)</u>
TAXATION	9	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		<u>(8,759)</u>	<u>(4,226)</u>
Preference share dividend		(2,540)	(70)
RETAINED LOSS FOR THE YEAR		<u><u>(11,299)</u></u>	<u><u>(4,296)</u></u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

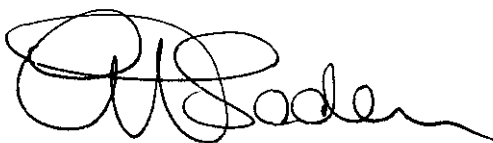
The loss on ordinary activities, as stated above, recognises all gains and losses for the period, as defined by Financial Reporting Standard No.3.

Oxagen Limited

BALANCE SHEET as at 31 December 2001

	Note	2001 £'000	2000 £'000
FIXED ASSETS			
Tangible assets	10	3,334	3,549
CURRENT ASSETS			
Debtors & other assets	11	2,865	1,344
Cash and short term investments	16b	23,589	33,755
		<u>26,454</u>	<u>35,099</u>
CREDITORS: amounts falling due within one year	12	<u>(3,456)</u>	<u>(3,557)</u>
NET CURRENT ASSETS		<u>22,998</u>	<u>31,542</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>26,332</u>	<u>35,091</u>
CREDITORS: amounts falling due after more than one year		-	-
TOTAL NET ASSETS		<u><u>26,332</u></u>	<u><u>35,091</u></u>
CAPITAL AND RESERVES			
Called up share capital	13	8,298	8,298
Share premium account	14	37,997	37,997
Other reserve	14	2,610	70
Profit and loss account	14	(22,573)	(11,274)
		<u>26,332</u>	<u>35,091</u>
SHAREHOLDERS' FUNDS:			
Equity		(7,178)	4,121
Non-equity		33,510	30,970
		<u>26,332</u>	<u>35,091</u>

Signed on behalf of the Board



C. H. Soden, Director

Date: 30 April 2002

Oxagen Limited

STATEMENT OF CASH FLOWS

for the year ended 31 December 2001

	Note	2001 £'000	2000 £'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	16(a)	(8,308)	(3,121)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		1,154	300
Interest paid under finance leases		-	(53)
		<u>1,154</u>	<u>247</u>
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payment to acquire tangible fixed assets		(1,742)	(1,750)
Proceeds of disposal of fixed assets		330	-
Deposit paid on tangible fixed assets		-	(360)
		<u>(1,412)</u>	<u>(2,110)</u>
MANAGEMENT OF LIQUID RESOURCES			
Net movement on liquid resources		<u>9,530</u>	<u>(25,305)</u>
FINANCING			
Issue of ordinary shares		-	50
Issue of preference shares		-	31,700
Costs of share issue		(1,600)	(204)
Capital repayments under finance leases		-	(200)
		<u>(1,600)</u>	<u>31,346</u>
(DECREASE)/INCREASE IN CASH		<u>(636)</u>	<u>1,057</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
(Decrease)/increase in cash		(636)	1,057
Repayments under finance lease		-	200
Cashflow from (decrease)/increase in liquid resources		<u>(9,530)</u>	<u>25,305</u>
Movement in net funds resulting from cash flows	15(b)	(10,166)	26,562
NET FUNDS AT 1 JANUARY	15(b)	<u>33,755</u>	<u>7,193</u>
NET FUNDS AT 31 DECEMBER	15(b)	<u>23,589</u>	<u>33,755</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2001

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	5 to 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 2001

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.

	2001	2001	2000	2000
	Revenues	Gross Profit	Revenues	Gross Profit
	£'000	£'000	£'000	£'000
Collaborative Research	1,746	1,746	1,580	1,580
Access to disease databases	845	536	-	-
Contract Services	612	281	552	104
	<u>3,203</u>	<u>2,563</u>	<u>2,132</u>	<u>1,684</u>

All of the activities and assets of the Company are located in the UK. The geographic analysis of revenues by customer base was as follows:

	2001	2000
	£'000	£'000
United Kingdom	35	-
Rest of Europe	2,235	2,132
United States	845	-
Rest of World	88	-
	<u>3,203</u>	<u>2,132</u>

4 OPERATING LOSS

This is stated after charging:

	2001	2000
	£'000	£'000
Depreciation of owned fixed assets	1,627	745
Depreciation of assets held under finance leases	-	113
Auditors' remuneration - audit fees	15	11
Operating lease rentals-land and buildings	500	500
	<u>2,142</u>	<u>1,369</u>

5 STAFF COSTS

	2001	2000
	£'000	£'000
Wages and salaries	3,201	1,956
Social security costs	260	266
Benefits	153	71
	<u>3,614</u>	<u>2,293</u>

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2001

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:

	2001	2000
Research and development	77	58
Selling, general & administrative	21	10
	98	68

6 DIRECTORS' REMUNERATION

	2001 £'000	2000 £'000
Total emoluments	528	486
Contribution to money purchase pension schemes	19	15
Emoluments of the highest paid director	149	129

Contributions to the pension scheme were made on behalf of 3 directors in each year. The contributions made on behalf of the highest paid director were £7k(2000:£5k).

7 INTEREST RECEIVABLE AND SIMILAR INCOME

	2001 £'000	2000 £'000
Investment income	1,469	349

8 INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £'000	2000 £'000
Finance charges payable under finance leases	-	53

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 £24million (2000: £13million). No deferred tax asset in respect of losses and other timing differences has been recognised.

Oxagen Limited

NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2001

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 2001	858	3,227	144	1,306	5,535
Additions	703	958	26	55	1,742
Disposals	-	(330)	-	-	(330)
31 December 2001	1,561	3,855	170	1,361	6,947
Depreciation:					
1 January 2001	482	1,093	56	355	1,986
Charge for the period	368	1,045	20	194	1,627
At 31 December 2001	850	2,138	76	549	3,613
Net Book Value:					
At 31 December 2001	711	1,717	94	812	3,334
At 31 December 2000	376	2,134	88	951	3,549

During the period the useful economic life of Fixtures & Fittings and Laboratory Equipment was revised downwards from 5 years to 3 to 4 years for Laboratory Equipment, and from 10 years to 5 to 10 years for the Fixtures & Fittings. This was done in order to recognise the pace of change in technological advances in Laboratory Equipment and to match the Fixtures & Fittings asset life to that of the property lease. The impact on the depreciation charge for the year was an increase of £430k, including £280k in respect of assets owned at 31 December 2000 and provisions for impairment in value of specific laboratory equipment of £100k.

11 DEBTORS & OTHER ASSETS

	<i>2001 £'000</i>	<i>2000 £'000</i>
Trade debtors	494	169
Other debtors	381	111
Deposit in respect of future capital purchases	360	360
Amounts recoverable on contracts	-	345
Prepayments and accrued income	1,630	359
	2,865	1,344

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2001

12 CREDITORS: amounts falling due within one year

	2001 £'000	2000 £'000
Trade creditors	893	1,203
Other taxes and social security	116	74
Accruals	1,254	570
Accrued expenses of share issue	-	1,600
Deferred income	1,193	110
	<u>3,456</u>	<u>3,557</u>

The accruals figure above includes £28k (2000: £17k) in respect of contributions to employee pension schemes accrued at the year-end but not yet paid to the pension providers.

13 ANALYSIS OF SHARE CAPITAL

<i>Authorised</i>	2001 <i>Number</i>	2000 <i>Number</i>	2001 £'000	2000 £'000
Ordinary shares of 10p	103,350,543	103,350,543	10,335	10,335
Deferred shares of 10p	9,000,000	9,000,000	900	900
8% Convertible Preference shares of 10p	26,416,667	26,416,667	2,642	2,642
			<u>13,877</u>	<u>13,877</u>

Allotted, called up and fully paid

Ordinary shares of 10p	47,564,451	47,564,451	4,756	4,756
Deferred shares of 10p	9,000,000	9,000,000	900	900
8% Convertible preference shares of 10p	26,416,667	26,416,667	2,642	2,642
			<u>8,298</u>	<u>8,298</u>

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2001

ANALYSIS OF SHARE CAPITAL (CONTINUED)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2001

ANALYSIS OF SHARE CAPITAL (CONTINUED)

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 2001 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
	463,285	45p	Jul 2002-Jul 2009
	258,812	80p	Apr 2003-Apr 2010
	582,508	100p	May 2004-May 2011
	30,000	100p	Jul 2004-Jul 2011
	30,000	100p	Sep 2004-Sep 2011
Unapproved share option scheme			
	487,000	10p	Jun 2000-Jun 2003
	1,091,030	40p	Mar 2001-Mar 2004
	367,800	40p	Oct 2001-Oct 2004
	944,148	45p	Jul 2002-Jul 2004
	288,889	45p	Apr 2003-Apr 2007
	1,289,342	80p	Apr 2003-Apr 2007
	120,000	45p	Jun 2003-Jun 2007
	693,143	100p	May 2004-May 2008
	120,000	100p	Jul 2004-Jul 2008
	320,000	100p	Sep 2004-Sep 2008

	<i>As at 01/01/01 '000</i>	<i>Granted in Year '000</i>	<i>Lapsed in Year '000</i>	<i>As at 31/12/01 '000</i>
Approved	1,812	654	(65)	2,401
Unapproved	4,589	1133	(1)	5,721
Other	54	-	-	54
Total	6,455	1,787	(66)	8,176

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2001

14 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 2000	37,997	8,298	70	(11,274)	35,091
Loss for the year	-	-	-	(8,759)	(8,759)
Dividend accrued on preferred shares	-	-	2,540	(2,540)	-
Total	37,997	8,298	2,610	(22,573)	26,332

15 NOTES TO THE STATEMENT OF CASH FLOWS

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

	<i>2001 £'000</i>	<i>2000 £'000</i>
Operating loss	(10,228)	(4,522)
Depreciation	1,627	858
Increase in debtors	(1,206)	(72)
Increase in creditors	1,499	615
Net cash outflow from operating activities	(8,308)	(3,121)

(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 in hand	1,225	(636)	589
Liquid resources	32,530	(9,530)	23,000
	33,755	(10,166)	23,589

The liquid resources as at 31 December 2001 were comprised of certificates of deposit, each with maturity dates of under 12 months and with coupon rates of between 3.75% and 5.48%. The market value of these investments as at 31 December 2001 was £23,014k.

NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2001

16 OTHER FINANCIAL COMMITMENTS

Capital Commitments

As at 31 December 2001 the company had served notice on its tenant requiring them to vacate the relevant leased premises as of 30 September 2001, extended to March 2002. 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 originally set at £360k but reducing by £5k per month from October 2001 until the tenants vacate. A deposit in respect of this obligation has been set aside with the company's lawyers (see Note 11).

In addition, orders had been placed as at 31 December 2001 for capital equipment items valued at £219k, which items were delivered in January 2002.

Operating leases

As at 31 December 2001 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>		<i>Other</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Operating leases which expire:				
Within one year	-	-	3	-
In two to five years	-	-	-	11
In over five years	500	500	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	500	500	3	11
	<hr/>	<hr/>	<hr/>	<hr/>

17 SUBSIDIARY COMPANIES

On 17 July 2001 Oxagen Limited acquired, for £1, 100% of the share capital of Oxagen Australia Limited, a company registered in the UK which is a holding company that has been dormant since incorporation. Oxagen Australia Limited is the beneficial owner of 50% of the interest in a partnership, The Endogene Partnership, which is registered in Melbourne, Australia and is presently dormant.

The subsidiary undertakings have not been consolidated within the accounts owing to the immaterial movement in the entities, both being dormant from acquisition, in accordance with s229(2) of the Companies Act 1985.

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.