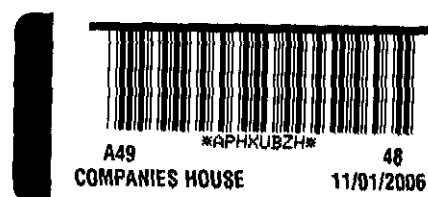


KuDOS Pharmaceuticals Limited
Annual report
for the year ended 31 March 2005

Registered Number 3479984



KuDOS Pharmaceuticals Limited

Annual report for the year ended 31 March 2005

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KuDOS Pharmaceuticals Limited

Directors and advisors

Directors

Professor S P Jackson
Dr J B Ward
Dr R Auty
Dr M Carter
Dr R Kuijten
Mr P Lee
Mr R Long
Dr R Whitaker
Mr Z Zehavi

Secretary and registered office

Mr D Dally
327 Cambridge Science Park
Milton Road
Cambridge
CB4 0WG

Auditors

PricewaterhouseCoopers LLP
Abacus House
Castle Park
Cambridge
CB3 0AN

Bankers

Barclays Bank plc
PO Box 326
Cambridge
CB4 3UT

Solicitors

Arnold & Porter
Tower 42, Level 30
25 Old Broad Street
London
EC2N 1HQ

Morrison & Foerster MNP
Citypoint
One Ropemaker Street
London
EC2Y 9AW

KuDOS Pharmaceuticals Limited

Directors' report for the year ended 31 March 2005

The directors present their report and the audited financial statements for the year ended 31 March 2005.

Principal activities

The principal activities of the group are research into DNA repair mechanisms and the development of compounds to inhibit such repair in cancer cells.

Review of business and future developments

KuDOS Pharmaceuticals Limited is focused on the discovery and development of novel therapeutic agents for use in cancer therapy. Inhibitors of enzymes involved in DNA repair have been identified and these compounds are the basis of the company's drug discovery and development programme. During the forthcoming year, the company plans to increase further its investment into its development activities.

In November 2004 the company's subsidiary, Chemovation Limited, ceased providing contract chemistry services to third parties and restructured its operations so as to provide chemistry services exclusively to KuDOS. On 7 January 2005 Chemovation Limited changed its registered name to KuDOS Horsham Limited.

Dividends

The directors do not recommend the payment of a dividend (2004: £nil). However, the profit and loss account reflects an appropriation of £2,391,908 (2004: £2,389,506) in connection with the B ordinary shares, which is detailed in note 11.

Research and development activities

The group is committed to a significant level of research and development expenditure which totalled £9,860,893 during the year (2004: £9,039,412).

Directors

The directors of the company during the whole of the year are listed below:

Executive directors

Professor S P Jackson
Dr J B Ward

Non-executive directors

Dr R Auty
Dr M Carter
Dr R Kuijten
Mr P Lee
Mr R Long
Dr R Whitaker
Mr Z Zehavi

KuDOS Pharmaceuticals Limited

Directors (continued)

Biographical details of the non-executive directors of the company as at 31 March 2005 are shown below:

Dr R Auty held several positions at Zeneca Pharmaceuticals and was appointed Development Director in 1994 and Research and Development Director in 1997. At Fisons plc, Pharmaceutical Division, he held posts including Head of Clinical Pharmacology, Medical Director, Director of Drug Development and Deputy R&D Director. Dr Auty was a non-Executive Director of Cantab Pharmaceuticals plc from 1997 to 2000. He is a medical doctor and sat on the UK Medical Research Council from 1998 to 2000, established Salient Consulting in 1999 and is Chairman of MNLpharma Limited.

Dr M Carter was for 12 years on the Board of Zeneca Pharmaceuticals, initially as Medical Director and latterly as International Marketing Director with responsibilities for global medical development and product investment and licensing. Dr Carter was involved in the medical and commercial development of a variety of global product launches, including several innovative oncology products. Dr Carter is currently a Venture Partner at Schroder Ventures and is non-Executive Director of Galen Holdings plc, Metris Therapeutics Ltd, Micromet AG, Cancervax Inc, Santarus Inc and Fulcrum Pharma plc.

Dr R Kuijten has been a partner at Life Science Partners since 2001. Dr Kuijten was previously at McKinsey & Company for 8 years as a senior consultant and co-leader of the European Pharma and Health Care Practice, with responsibility for multinational pharmaceutical strategic and organizational assignments. Dr Kuijten is a medical doctor with a PhD in oncology and MBA from INSEAD, and is also a member of the Supervisory Boards of Kreatech Diagnostics BV, Hybrigenics SA, Octopus BV and DNAge BV.

Mr P Lee is a general partner of Advent Venture Partners. From 1988 to 1998, Mr Lee held a variety of key positions at Rhone-Poulenc Rorer including, Vice President of Mergers & Acquisitions, Vice President of New Business & Product Development, and Director of Business Development and Strategic Marketing. Prior to joining Advent, Mr Lee was Group Vice President, Mergers & Acquisitions for Rhone-Poulenc SA in Paris. There Mr Lee was responsible for mergers and acquisitions for the entire group involving pharmaceuticals, agriculture and speciality chemical products. Mr Lee is also a director of Infinity Pharmaceuticals, Rhytec and the Casella Group.

Mr R Long was appointed Chairman and Chief Executive Officer of Procognia Ltd in 2002. He was previously Vice Chairman of Amersham plc where he had been an Executive Director since 1990. Whilst with Amersham he held positions as Commercial Director from 1990 to 1996 and then as Chief Executive Officer of Amersham Pharmacia Biotech after the merger of the Life Science Division with Pharmacia Biotech AB in 1997. Mr Long is also Deputy Chairman of The Automation Partnership plc, Senior non-Executive Director of Pharmagene plc, a Non Executive Director of Gyros AB and Non-Executive Director of Biacore AB.

Dr R Whitaker has been General Partner of Euclid SR Partners LP since its formation in January 2000. From January 1997 to July 2004, Dr. Whitaker served as a Vice President of S.R. One Limited, the venture investment affiliate of GlaxoSmithKline. Dr Whitaker's previous appointments include senior positions at SmithKline Beecham where he was Director of Worldwide Business Development from 1992 to 1996, at Recordati SpA (Milan, Italy) where he was Director of Corporate Development from 1987 to 1992, and prior to that in a similar role at Laboratoires Delagrange (Paris, France). Dr. Whitaker's current private company directorships also include Avalon Pharmaceuticals.

Mr Z Zehavi was appointed as a Vice President at Johnson & Johnson Development Corporation in October 1999 and is responsible for venture capital investments in the United Kingdom, Scandinavia and Israel. Prior to this Mr Zehavi spent over 10 years with Teva Pharmaceuticals, including a 5 year assignment as President of the bulk chemicals business in North America. Following this he returned to Israel as President of Clal Pharmaceutical Industries and for 4 years led investments in companies in the areas of drug development, drug delivery and chemical specialties.

KuDOS Pharmaceuticals Limited

Directors' interests

The interests of the directors in the ordinary shares of the company were:

| | 31 March 2005 Number | 31 March 2004 Number |
|-----------------------------------|----------------------------|----------------------------|
| Ordinary shares of 1p each | | |
| Professor S P Jackson | 39,375 | 39,375 |

There were no contracts of significance subsisting during or at the end of the financial year in which a director of the company held a material interest.

Interest in share options

Details of options over shares in KuDOS Pharmaceuticals Limited held by directors are set out below:

| | | At 1 April 2004 Number | Granted during year Number | At 31 March 2005 Number | Exercise price | Date of grant |
|---------------------|---------------------------|---------------------------------|-------------------------------------|----------------------------------|-------------------|-------------------|
| Prof S P Jackson | Approved ⁽¹⁾ | 11,363 | - | 11,363 | £8.80 | 15 March 2002 |
| | Unapproved ⁽²⁾ | 1,138 | - | 1,138 | £8.80 | 15 March 2002 |
| | Unapproved ⁽²⁾ | 48,750 | - | 48,750 | £4.00 | 2 December 2002 |
| | Unapproved ⁽²⁾ | 14,000 | - | 14,000 | £4.00 | 21 January 2004 |
| | | 75,251 | - | 75,251 | | |
| Dr J B Ward | Unapproved ⁽²⁾ | 31,831 | - | 31,831 | £0.01 | 29 September 2000 |
| | Unapproved ⁽²⁾ | 33,750 | - | 33,750 | £4.00 | 2 December 2002 |
| | Approved ⁽¹⁾ | 25,000 | - | 25,000 | £4.00 | 31 January 2003 |
| | Unapproved ⁽²⁾ | 24,000 | - | 24,000 | £4.00 | 21 January 2004 |
| | | 114,581 | - | 114,581 | | |
| Dr M Carter | Unapproved ⁽²⁾ | 6,250 | - | 6,250 | £0.32 | 1 December 2000 |
| | Unapproved ⁽²⁾ | 2,000 | - | 2,000 | £4.00 | 2 December 2002 |
| | Unapproved ⁽²⁾ | 1,500 | - | 1,500 | £4.00 | 21 January 2004 |
| | | 9,750 | - | 9,750 | | |
| Mr R Long | Unapproved ⁽²⁾ | 12,500 | - | 12,500 | £8.80 | 5 April 2002 |
| | Unapproved ⁽²⁾ | 6,000 | - | 6,000 | £4.00 | 2 December 2002 |
| | Unapproved ⁽²⁾ | 4,500 | - | 4,500 | £4.00 | 21 January 2004 |
| | | 23,000 | - | 23,000 | | |

⁽¹⁾ Exercisable three years after the date of grant.

⁽²⁾ 25% of these options are exercisable one year from the date of grant, with the remainder vesting on a straight-line basis over the following three years.

Options expire ten years from the date of grant.

No other directors have been granted share options in the shares of the company.

KuDOS Pharmaceuticals Limited

Employee involvement

The group is committed to the involvement of its employees in the group's affairs. This is achieved in a number of ways, including regular staff and committee meetings. Approved, unapproved and EMI share option schemes have been established and all full time employees are eligible to participate in these schemes.

Post balance sheet events

On 30 June 2005 the company entered into a convertible loan agreement for £5m from certain of its shareholders.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

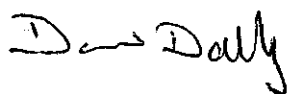
The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2005 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the board



D Dally
Company Secretary

KuDOS Pharmaceuticals Limited

Independent auditors' report to the members of KuDOS Pharmaceuticals Limited

We have audited the financial statements, which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes which have been prepared under the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

Basis of audit 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.

Fundamental uncertainty – going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation. The financial statements have been prepared on a going concern basis and the validity of this depends on the company successfully obtaining adequate additional funds to continue its activities. The financial statements do not include any adjustments that would result from a failure to secure such funds. Details of the circumstances relating to this fundamental uncertainty are described in Note 1. Our opinion is not qualified in this respect.

KuDOS Pharmaceuticals Limited

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 2005 and of the group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cambridge
16 August 2005

KuDOS Pharmaceuticals Limited

Consolidated profit and loss account for the year ended 31 March 2005

| | | Note | 2005 £ | 2004 £ |
|--|--|------|--------------|--------------|
| Turnover | Continuing | 2 | 516,857 | 73,529 |
| | Discontinued | 2 | 315,977 | 1,004,841 |
| | | 2 | 832,834 | 1,078,370 |
| Cost of sales | Continuing | | - | - |
| | Discontinued | | (356,699) | (600,080) |
| | | | (356,699) | (600,080) |
| Gross profit | Continuing | | 516,857 | 73,529 |
| | Discontinued | | (40,722) | 404,761 |
| | | | 476,135 | 478,290 |
| Net operating expenses | Continuing | 3 | (11,755,526) | (11,008,907) |
| | Discontinued | 3 | (444,788) | (475,689) |
| | Exceptional restructuring costs in discontinued activities | 3 | (158,737) | - |
| | | | (12,359,051) | (11,484,596) |
| Operating loss | Continuing | | (11,238,669) | (10,935,378) |
| | Discontinued | | (644,247) | (70,928) |
| | | | (11,882,916) | (11,006,306) |
| Interest receivable | | 6 | 411,879 | 678,287 |
| Interest payable and similar charges | | 7 | (23,027) | (19,038) |
| Loss on ordinary activities before taxation | | 8 | (11,494,064) | (10,347,057) |
| Tax credit on loss on ordinary activities | | 9 | 1,203,045 | 1,104,356 |
| Loss on ordinary activities after taxation | | | (10,291,019) | (9,242,701) |
| Dividends (including dividends and other appropriations in respect of non-equity shares) | | 11 | (2,391,908) | (2,389,506) |
| Loss for the financial year | | 23 | (12,682,927) | (11,632,207) |

See note 3 for an analysis of the operating loss between continuing and discontinued business segments. The group has no recognised gains and losses other than the results above and therefore no separate statement of total recognised gains and losses is presented.

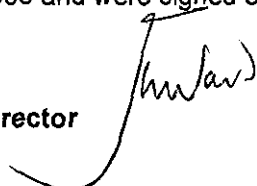
KuDOS Pharmaceuticals Limited

Consolidated balance sheet as at 31 March 2005

| | Note | 2005 £ | 2004 £ |
|--|------|--------------------|--------------------|
| Fixed assets | | | |
| Intangible assets | 12 | - | - |
| Tangible assets | 13 | 1,399,998 | 1,793,411 |
| | | 1,399,998 | 1,793,411 |
| Current assets | | | |
| Stocks | 15 | - | 32,370 |
| Debtors | 16 | 1,905,771 | 1,995,445 |
| Short term investments | 17 | 1,031,902 | 14,050,726 |
| Cash at bank and in hand | | 4,682,083 | 858,328 |
| | | 7,619,756 | 16,936,869 |
| Creditors: amounts falling due within one year | 18 | (3,164,332) | (2,520,865) |
| Net current assets | | 4,455,424 | 14,416,004 |
| Total assets less current liabilities | | 5,855,422 | 16,209,415 |
| Creditors: amounts falling due after more than one year | 19 | (140,271) | (203,246) |
| Net assets | | 5,715,151 | 16,006,169 |
| Capital and reserves | | | |
| Called up share capital | 21 | 52,590 | 52,487 |
| Shares to be issued | 21 | - | 123,066 |
| Share premium account | 23 | 31,088,691 | 30,965,727 |
| Capital redemption reserve | 23 | 12,495,151 | 12,495,151 |
| Merger reserve | 23 | 633,991 | 633,991 |
| Profit and loss account | 23 | (38,555,272) | (28,264,253) |
| Shareholders' funds | 24 | 5,715,151 | 16,006,169 |
| Shareholders' funds analysed as: | | | |
| Equity shareholders' deficit | | (29,997,856) | (17,314,930) |
| Non-equity shareholders' funds | 25 | 35,713,007 | 33,321,099 |
| | | 5,715,151 | 16,006,169 |

The financial statements on pages 9 to 33 were approved by the board of directors on 16 August 2005 and were signed on its behalf by:

Director



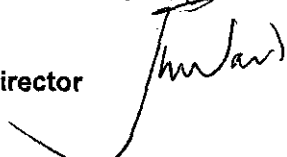
KuDOS Pharmaceuticals Limited

Company balance sheet as at 31 March 2005

| | Note | 2005 £ | 2004 £ |
|--|------|--------------------|--------------------|
| Fixed assets | | | |
| Intangible assets | 12 | - | - |
| Tangible assets | 13 | 707,337 | 935,093 |
| Investments | 14 | - | - |
| | | 707,337 | 935,093 |
| Current assets | | | |
| Debtors | 16 | 1,747,039 | 4,397,466 |
| Short term investments | 17 | 1,031,902 | 14,050,726 |
| Cash at bank and in hand | | 4,681,959 | 858,328 |
| | | 7,460,900 | 19,306,520 |
| Creditors: amounts falling due within one year | 18 | (2,957,166) | (2,297,324) |
| Net current assets | | 4,503,734 | 17,009,196 |
| Total assets less current liabilities | | 5,211,071 | 17,944,289 |
| Creditors: amounts falling due after more than one year | 19 | (214,060) | (203,246) |
| Net assets | | 4,997,011 | 17,741,043 |
| Capital and reserves | | | |
| Called up share capital | 21 | 52,590 | 52,487 |
| Shares to be issued | 21 | - | 123,066 |
| Share premium account | 23 | 31,088,691 | 30,965,727 |
| Capital redemption reserve | 23 | 12,495,151 | 12,495,151 |
| Merger reserve | 23 | 633,991 | 633,991 |
| Profit and loss account | 23 | (39,273,412) | (26,529,379) |
| Shareholders' funds | 24 | 4,997,011 | 17,741,043 |
| Shareholders' funds analysed as: | | | |
| Equity shareholders' deficit | | (30,715,996) | (15,580,056) |
| Non-equity shareholders' funds | 25 | 35,713,007 | 33,321,099 |
| | | 4,997,011 | 17,741,043 |

The financial statements on pages 9 to 33 were approved by the board of directors on 16 August 2005 and were signed on its behalf by:

Director



KuDOS Pharmaceuticals Limited

Consolidated cash flow statement for the year ended 31 March 2005

| | Note | 2005 £ | 2004 £ |
|---|------|--------------|-------------|
| Net cash outflow from continuing operating activities | 26 | (10,145,394) | (9,103,510) |
| Returns on investment and servicing of finance | | | |
| Bank interest received | | 528,321 | 835,616 |
| Bank interest paid | | (167) | (447) |
| Interest paid on finance leases | | (22,859) | (18,591) |
| | | 505,295 | 816,578 |
| Taxation | | 1,000,000 | 598,171 |
| Capital expenditure | | | |
| Purchase of intangible fixed assets | | (275,000) | (200,000) |
| Purchase of tangible fixed assets | | (139,352) | (278,006) |
| Proceeds from disposal of fixed assets | | - | 24,681 |
| | | (414,352) | (453,325) |
| Cash outflow before management of liquid resources and financing | | (9,054,451) | (8,142,086) |
| Management of liquid resources | | | |
| Sale of short term investments | 28 | 13,018,824 | 8,699,274 |
| Net cash inflow before financing activities | | 3,964,373 | 557,188 |
| Financing | | | |
| Repayment of finance leases | 28 | (140,618) | (110,117) |
| Issue of shares (2004: net of £166,330 expenses) | | - | 401 |
| | | (140,618) | (109,716) |
| Increase in cash in the year | 27 | 3,823,755 | 447,472 |

KuDOS Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2005

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been reviewed by the Board of Directors in accordance with Financial Reporting Standard ("FRS") 18, "Accounting policies", and have been applied consistently, is set out below.

Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention.

Basis of preparing the financial statements - going concern assumption

The directors estimate that cash and short term investments held at the date of approval of the financial statements are not sufficient to continue funding the trading activities of the group for a further twelve months from the date of approval of the financial statements. Accordingly, the directors currently plan to obtain additional funds, by raising further finance, which would enable the group to continue its activities for the foreseeable future. There is uncertainty over the amount of funds which would be obtained and whether they will be received within the expected timescale. However, the directors believe that the group will be able to obtain such funds and therefore that it is appropriate that these financial statements are prepared on a going concern basis. This basis of preparation assumes that the group will continue in operational existence for the foreseeable future, the validity of which depends on the group being able to obtain adequate additional funds to continue its activities.

If the company and group were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to revise the balance sheet values of assets to their recoverable amounts, to provide for any further liabilities that might arise, and to reclassify fixed assets as current assets.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary, made up to 31 March 2005 and have been prepared using acquisition accounting. Intra-group transactions, profits and balances are eliminated fully on consolidation.

Intangible assets

Purchased goodwill, being the difference between the fair value of consideration and the fair value of net assets acquired, is capitalised and amortised over the period considered by the directors to be the period that the company is expected to benefit from it. The carrying value of goodwill is subject to review and any impairment is charged to the profit and loss account.

Rights purchased for use in development are capitalised and amortised over the period in which the group is expected to benefit from the asset. Licences for early stage technology are written off immediately. Provision is made against the carrying value of intangible assets where an impairment in value is deemed to have occurred.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

| | |
|-------------------------------|-----------|
| Fixtures and fittings | 3-6 years |
| Computer and office equipment | 2-5 years |
| Laboratory equipment | 3-5 years |

KuDOS Pharmaceuticals Limited

Leasehold improvements are depreciated over the period of the lease.

1 Principal accounting policies (continued)

Investment in subsidiary

The investment in the subsidiary is recorded at the total value of consideration payable plus all identifiable expenses less any provision for impairment in value.

Stocks

Stocks for sale are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete and slow moving stock.

Short term investments

Bank deposits which are not repayable on demand without penalty are treated as short term investments in accordance with FRS 1. Movement in such investments are included under "management of liquid resources" in the group's cash flow statement.

Finance and operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Assets acquired under finance leases are capitalised in the balance sheet and depreciated over their expected useful lives. The capital element of the leasing commitment is shown as obligations under finance leases. The interest element of the leases is charged to the profit and loss account over the term of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Revenue recognition

Amounts received or receivable for goods sold or services provided are recognised as revenue when the goods are delivered or the services are provided. Amounts received or receivable in respect of licence and royalty fees are recognised as revenue when the specific conditions stipulated in the relevant contracts or agreements have been satisfied or in the absence of any specific conditions, over an estimate of the period that the group expects to benefit from the licence or royalty.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Government grants

Government grants are credited to the profit and loss account (as other operating income) on a case-by-case basis, assessed by the level of expenditure incurred on the specific grant project, when receipt of the grant is reasonably certain, and it is reasonably certain that the amounts will not need to be repaid.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling on the date of the transaction. Monetary assets and liabilities expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year. All foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Deferred taxation

Provision is made for deferred tax in accordance with FRS 19, "Deferred tax" on all material timing differences. Deferred tax assets and liabilities are not discounted and deferred tax assets are recognised to the extent that they are regarded as recoverable.

KuDOS Pharmaceuticals Limited

1 Principal accounting policies (continued)

Pension scheme arrangements

The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. The difference between contributions payable and contributions actually paid is shown as accruals in the balance sheet.

The group provides no other post-retirement benefits to its employees.

Share options

In accordance with the provisions of Urgent Issues Task Force Abstract 17 ("UITF 17"), "Employee share schemes", the group makes charges to the profit and loss account when options are granted or shares issued, the charge being the estimated market value of the shares at the date of grant less the exercise price of the options or subscription price of the shares as the case may be. Where there are performance conditions to be met, the charge is made and spread over the performance period if there is a reasonable expectation that the performance criteria will be met. The charge is then credited back to reserves.

2 Segmental analysis

The group has carried on two classes of business during the year. These are research and development and contract development services. In 2005 turnover of £315,977 (2004: £1,004,841) arose from sales made for contract development services. Contract development services ceased in November 2004.

| Turnover by destination | | 2005 £ | 2004 £ |
|-------------------------|--------------|-----------|-----------|
| United Kingdom | Continuing | - | - |
| | Discontinued | 76,076 | 539,364 |
| | | 76,076 | 539,364 |
| US | Continuing | 516,857 | 73,529 |
| | Discontinued | 25,861 | 321,618 |
| | | 542,718 | 395,147 |
| Rest of the world | Continuing | - | - |
| | Discontinued | 214,040 | 143,859 |
| | | 214,040 | 143,859 |
| | | 832,834 | 1,078,370 |

All turnover originates in the United Kingdom.

KuDOS Pharmaceuticals Limited

3 Net operating expenses

| | 2005 £ | 2004 £ |
|---|--------------|--------------|
| Administrative expenses | (2,472,475) | (2,586,417) |
| Exceptional administrative expenses (restructuring costs) | (158,737) | - |
| Total administrative expenses | (2,631,212) | (2,586,417) |
| Research and development | (9,860,893) | (9,039,412) |
| Other operating income | 133,054 | 141,233 |
| | (12,359,051) | (11,484,596) |

Analysed by:

| | 2005 £ | 2004 £ |
|----------------------------|--------------|--------------|
| Continuing operations | (11,755,526) | (11,008,907) |
| Discontinued contributions | (603,525) | (475,689) |
| | (12,359,051) | (11,484,596) |

4 Directors' emoluments

| | 2005 £ | 2004 £ |
|-----------------------|-----------|-----------|
| Aggregate emoluments | 248,849 | 355,325 |
| Pension contributions | 81,177 | 22,465 |
| | 330,026 | 377,790 |

At the year end, retirement benefits were accruing to two directors (2004: two directors) under a defined contribution pension scheme.

Emoluments payable to the highest paid director are as follows:

| | 2005 £ | 2004 £ |
|-----------------------|-----------|-----------|
| Aggregate emoluments | 166,849 | 228,681 |
| Pension contributions | 75,033 | 16,500 |
| | 241,882 | 245,181 |

For part of the year the highest paid director elected to sacrifice an element of this salary in exchange for which the company increased its payments to his pension scheme by an equivalent amount.

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5 Employee information

The average monthly number of persons (including executive directors) employed by the group during the year was:

| | 2005 Number | 2004 Number |
|--------------------------|----------------|----------------|
| By activity | | |
| Research and development | 66 | 64 |
| Administration | 20 | 20 |
| | 86 | 84 |

| | 2005 £ | 2004 £ |
|--|-----------|-----------|
| Staff costs (for the above persons) | | |
| Wages and salaries | 2,985,705 | 2,846,026 |
| Social security costs | 324,862 | 300,327 |
| Pension costs (see note 30) | 299,913 | 231,711 |
| | 3,610,480 | 3,378,064 |

6 Interest receivable

| | 2005 £ | 2004 £ |
|---|-----------|-----------|
| Interest receivable on bank balances and deposits | 411,879 | 678,287 |

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7 Interest payable and similar charges

| | 2005 £ | 2004 £ |
|---|---------------|---------------|
| Interest payable on bank loans and overdrafts | 167 | 447 |
| Interest payable on finance leases | 22,860 | 18,591 |
| | 23,027 | 19,038 |

8 Loss on ordinary activities before taxation

| | 2005 £ | 2004 £ |
|---|-----------|-----------|
| Loss on ordinary activities before taxation is stated after charging: | | |
| Loss on disposal of fixed assets | - | 18,219 |
| Depreciation charge for tangible fixed assets | | |
| - owned assets | 535,782 | 693,594 |
| - assets held under finance leases | 105,921 | 78,582 |
| Amortisation of license fees | 275,000 | 699,994 |
| Auditors' remuneration for: | | |
| - audit services (company: £13,500; 2004: £10,000) | 13,500 | 13,000 |
| - non-audit services | 13,400 | 49,315 |
| Operating lease charges for: | | |
| - land and buildings | 365,500 | 368,943 |

9 Tax credit on loss on ordinary activities

| | 2005 £ | 2004 £ |
|--|------------------|------------------|
| United Kingdom research and development tax credit at 16% (2004: 16%): | | |
| Current year | 1,203,045 | 1,104,356 |

No corporation tax liability arises on the results for the year due to the loss incurred. A tax credit has arisen as a result of tax losses being surrendered in respect of research and development expenditure in respect of the current year.

At 31 March 2005, there were tax losses available for carry forward of approximately £28.6 million (2004: £21.6 million) subject to agreement with the Revenue and HM Customs.

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9 Tax credit on loss on ordinary activities (cont)

The research and development tax credit for the year is different from the loss before tax at the standard rate for research and development tax credits in the UK of 16%. The differences are as follows:

| | 2005 £ | 2004 £ |
|---|-------------|------------|
| Loss on ordinary activities before taxation | 11,494,064 | 10,347,057 |
| Loss on ordinary activities multiplied by the research and development tax credit rate of 16% (2004: 16%) | 1,839,050 | 1,655,529 |
| Effects of: | | |
| Excess of capital allowances over depreciation | (62,945) | (63,064) |
| Expenses not deductible for tax purposes | 495,195 | 380,245 |
| Short term timing differences | (964) | (1,077) |
| Utilisation of losses | (1,067,291) | (867,277) |
| Current tax credit for the year | 1,203,045 | 1,104,356 |

10 Loss for the financial period

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss for the year is £15,135,941 (2004: loss of £11,532,357).

11 Dividends and appropriations

| | 2005 £ | 2004 £ |
|--|-----------|-----------|
| B ordinary shares | | |
| Appropriation for B ordinary share dividend | 2,360,000 | 2,360,000 |
| Appropriation for finance costs on issue of shares | 31,908 | 29,506 |
| | 2,391,908 | 2,389,506 |

The company currently has no distributable reserves from which to pay the B ordinary cumulative preferential dividend and consequently the dividend of £2,360,000 has been recognised, with a corresponding entry crediting it back to the profit and loss account reserve. The cumulative dividend arrears arising since 28 August 2002, the date of allotment, on the B ordinary shares as at 31 March 2005 were £6,103,671 (2004: £3,743,671).

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12 Intangible fixed assets

| Group | Licence fees £ | Goodwill £ | Total £ |
|--|-------------------|------------------|------------------|
| Cost | | | |
| At 1 April 2004 | 2,254,994 | 1,183,907 | 3,438,901 |
| Additions | 275,000 | - | 275,000 |
| At 31 March 2005 | 2,529,994 | 1,183,907 | 3,713,901 |
| Aggregate amortisation | | | |
| At 1 April 2004 | 2,254,994 | 1,183,907 | 3,438,901 |
| Charge for the year | 275,000 | - | 275,000 |
| At 31 March 2005 | 2,529,994 | 1,183,907 | 3,713,901 |
| Net book value at 31 March 2005 | - | - | - |
| Net book value at 31 March 2004 | - | - | - |

| Company | Licence fees £ |
|--|-------------------|
| Cost | |
| At 1 April 2004 | 2,254,994 |
| Additions | 275,000 |
| At 31 March 2005 | 2,529,994 |
| Aggregate amortisation | |
| At 1 April 2004 | 2,254,994 |
| Charge for the year | 275,000 |
| At 31 March 2005 | 2,529,994 |
| Net book value at 31 March 2005 | - |
| Net book value at 31 March 2004 | - |

Licence fees

Due to the early stage nature of the development programmes, in which the licences above are used, the directors believe it is appropriate to write off the intangible asset capitalised in the year.

Goodwill

Purchased goodwill arose on the acquisition of KuDOS Horsham Limited. Following a review by the directors in 2003, it was determined that there was sufficient uncertainty as to its carrying value such that it was prudent to accelerate the amortisation such that its carrying value was reduced to £nil. The Directors believe that there has been no change during the year ended 31 March 2005.

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13 Tangible fixed assets

| Group | Laboratory equipment £ | Leasehold improvements £ | Office equipment £ | Computer equipment and software £ | Fixtures and fittings £ | Total £ |
|-------------------------|---------------------------------------|---|-----------------------------------|---|--|--------------------|
| Cost | | | | | | |
| At 1 April 2004 | 2,595,583 | 971,207 | 65,480 | 690,209 | 20,472 | 4,342,951 |
| Additions | 165,918 | 25,307 | 4,601 | 52,464 | - | 248,290 |
| At 31 March 2005 | 2,761,501 | 996,514 | 70,081 | 742,673 | 20,472 | 4,591,241 |
| Depreciation | | | | | | |
| At 1 April 2004 | 1,492,385 | 411,110 | 42,265 | 594,169 | 9,611 | 2,549,540 |
| Charge for the year | 445,508 | 99,627 | 7,413 | 85,771 | 3,384 | 641,703 |
| At 31 March 2005 | 1,937,893 | 510,737 | 49,678 | 679,940 | 12,995 | 3,191,243 |
| Net book value | | | | | | |
| At 31 March 2005 | 823,608 | 485,777 | 20,403 | 62,733 | 7,477 | 1,399,998 |
| Net book value | | | | | | |
| At 31 March 2004 | 1,103,198 | 560,097 | 23,215 | 96,040 | 10,861 | 1,793,411 |
| Company | Laboratory equipment £ | Leasehold improvements £ | Office equipment £ | Computer equipment £ | Fixtures and fittings £ | Total £ |
| Cost | | | | | | |
| At 1 April 2004 | 1,620,050 | 337,404 | 46,583 | 231,419 | 20,472 | 2,255,928 |
| Additions | 119,953 | 6,630 | - | 46,216 | - | 172,799 |
| At 31 March 2005 | 1,740,003 | 344,034 | 46,583 | 277,635 | 20,472 | 2,428,727 |
| Depreciation | | | | | | |
| At 1 April 2004 | 877,641 | 243,636 | 34,209 | 155,738 | 9,611 | 1,320,835 |
| Charge for the year | 289,871 | 30,495 | 3,768 | 73,037 | 3,384 | 400,555 |
| At 31 March 2005 | 1,167,512 | 274,131 | 37,977 | 228,775 | 12,995 | 1,721,390 |
| Net book value | | | | | | |
| At 31 March 2005 | 572,491 | 69,903 | 8,606 | 48,860 | 7,477 | 707,337 |
| Net book value | | | | | | |
| At 31 March 2004 | 742,409 | 93,768 | 12,374 | 75,681 | 10,861 | 935,093 |

Included above are tangible fixed assets with a net book value of £347,548 (2004: £344,531) in respect of assets held under finance leases, for the group and the company.

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14 Fixed asset investments

| | Cost £ | Provision £ | Net book amount £ |
|-----------------------------------|-----------|----------------|-------------------------|
| At 1 April 2004 and 31 March 2005 | 1,103,694 | (1,103,694) | - |

Following a review by the directors, it has been determined that there is sufficient uncertainty as to the carrying value of the investment such that the whole investment has been provided against.

The company's investment comprises interests in a group undertaking, details of which are as shown below:

| Name of undertaking | Country of incorporation | Description of shares held | Proportion of nominal values of shares held by the Group % |
|-----------------------|-----------------------------|-------------------------------|---|
| KuDOS Horsham Limited | England and Wales | Ordinary £1 shares | 100 |

On 7 January 2005 ChemOvation Limited changed its name to KuDOS Horsham Limited. The principal activities of the company are the manufacture and supply of novel chemical compounds and the provision of chemistry services.

15 Stocks

| Group | 2005 £ | 2004 £ |
|-------------------------------------|-----------|-----------|
| Raw materials and consumables | - | 30,700 |
| Finished goods and goods for resale | - | 1,670 |
| | - | 32,370 |

Following the exit from the third party contract chemistry business in the year, the group carries no stock at 31 March 2005.

The company has no stock (2004: £nil).

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16 Debtors

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2005 £ | 2004 £ | 2005 £ | 2004 £ |
| Amounts falling due within one year | | | | |
| Trade debtors | 8,026 | 162,575 | 4,975 | 5,446 |
| Corporation tax recoverable | 1,307,401 | 1,104,356 | 1,307,401 | 1,104,356 |
| Other debtors | 139,568 | 204,078 | 139,381 | 194,860 |
| Prepayments and accrued income | 450,776 | 524,436 | 295,282 | 379,584 |
| | 1,905,771 | 1,995,445 | 1,747,039 | 1,684,246 |
| Amounts falling due after one year | | | | |
| Amounts owed by group undertakings | - | - | - | 2,713,220 |
| | 1,905,771 | 1,995,445 | 1,747,039 | 4,397,466 |

The Company waived all amounts due from KuDOS Horsham Limited as at 31 December 2004.

17 Short term investments

Short-term investments, which are stated at cost, relate to bank deposits that are not repayable on demand.

18 Creditors: amounts falling due within one year

| | Group | | Company | |
|------------------------------------|------------------|------------------|------------------|------------------|
| | 2005 £ | 2004 £ | 2005 £ | 2004 £ |
| Trade creditors | 1,704,085 | 1,403,129 | 1,558,145 | 1,239,343 |
| Other taxation and social security | 123,786 | 119,790 | 123,786 | 119,790 |
| Finance lease obligations | 145,413 | 114,116 | 145,413 | 114,116 |
| Accruals and deferred income | 1,191,048 | 883,830 | 1,129,822 | 824,075 |
| | 3,164,332 | 2,520,865 | 2,957,166 | 2,297,324 |

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19 Creditors: amounts falling due after one year

| | Group | | Company | |
|------------------------------------|-----------|-----------|-----------|-----------|
| | 2005 £ | 2004 £ | 2005 £ | 2004 £ |
| Finance lease obligations | 140,271 | 203,246 | 140,271 | 203,246 |
| Amounts owed to group undertakings | - | - | 73,789 | - |
| | 140,271 | 203,246 | 214,060 | 203,246 |

Finance lease obligations repayable within five years are repayable as follows:

| Group and company | Finance leases 2005 £ | Finance leases 2004 £ |
|----------------------------|--------------------------------|--------------------------------|
| Within one year | 145,413 | 114,116 |
| Between one and two years | 97,041 | 109,100 |
| Between two and five years | 43,230 | 94,146 |
| | 285,684 | 317,362 |

20 Provisions for liabilities and charges

Deferred taxation provided in the financial statements, and the amount unprovided or not recognised of the total potential liability or (asset), are as follows:

| Group | Amount provided | | Amount unprovided | |
|--|-----------------|-----------|-------------------|-------------|
| | 2005 £ | 2004 £ | 2005 £ | 2004 £ |
| Tax effect of timing differences due to: | | | | |
| Depreciation in excess of capital allowances | - | - | 26,629 | 101,378 |
| Short term timing differences | - | - | (11,343) | (10,199) |
| Losses | - | - | (5,374,580) | (4,103,659) |
| Net deferred tax asset | - | - | (5,359,294) | (4,012,480) |

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20 Provisions for liabilities and charges (cont)

| Company | Amount provided | | Amount unprovided | |
|--|-----------------|-----------|-------------------|-------------|
| | 2005 £ | 2004 £ | 2005 £ | 2004 £ |
| Tax effect of timing differences due to: | - | | | |
| Depreciation in excess of capital allowances | - | - | (103,106) | (59,832) |
| Short term timing differences | - | - | (8,752) | (7,608) |
| Losses | - | - | (4,706,259) | (3,526,649) |
| Net deferred tax asset | - | - | (4,818,117) | (3,594,089) |

For the group and company, the potential deferred tax assets in respect of cumulative losses have not been recognised in these financial statements as there is no immediate prospect of these being utilised.

21 Called up share capital

| | Group and company 2005 £ | Group and company 2004 £ |
|--|--------------------------------|--------------------------------|
| Authorised | | |
| 2,000,000 ordinary shares of 1p each | 20,000 | 20,000 |
| 1,500,000 A ordinary shares of 1p each | 15,000 | 15,000 |
| 6,500,000 B ordinary shares of 1p each | 65,000 | 65,000 |
| | 100,000 | 100,000 |
| Issued, allotted, called up and fully paid | | |
| 696,397 (2004: 686,141) ordinary shares of 1p each | 6,964 | 6,861 |
| 1,007,851 A ordinary shares of 1p each | 10,079 | 10,079 |
| 3,554,735 B ordinary shares of 1p each | 35,547 | 35,547 |
| | 52,590 | 52,487 |

Rights of shares

All shares carry one vote per share.

Any profits of the company that the directors resolve to be available for distribution shall be used to pay dividends in the following order of priority:

- (i) first in paying to the holders of B ordinary shares a fixed cumulative preferential dividend at the rate of 8% per annum which shall accrue from 28 August 2002 on a daily basis on the subscription price of each B ordinary share;

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21 Called up share capital (cont)

Rights of shares (cont)

- (ii) second, in paying to the holders of A ordinary shares, a fixed cumulative preferential dividend at the rate of 8% per annum which shall accrue from 26 June 2008 on a daily basis on the subscription price of each A ordinary share provided the A ordinary preference dividend shall cease to accrue on the day following the day on which the aggregate of all A ordinary preference dividends accrued in respect of all A ordinary shares is equal to £13,000,000; and
- (iii) third, in paying dividends to the holders of A ordinary shares, B ordinary shares and ordinary shares.

Every dividend shall be distributed to the appropriate shareholders pro rata according to the number of shares held by them respectively.

On liquidation or sale of the company, the assets of the company remaining after the payment of its liabilities or the proceeds of such sale shall be applied amongst the holders of shares in the following order of priority:

- (i) first, in paying to the holders of the B ordinary shares in respect of their holdings of such shares pari passu and pro rata as to the number of such shares held, an amount equal to the subscription price of such B ordinary shares;
- (ii) second, in paying to the holders of B ordinary shares in respect of their holdings of such shares pari passu and pro rata as to the number of such shares held, an amount equal to any accrued but unpaid dividend;
- (iii) third, in paying to the holders of A ordinary shares in respect of their holdings of such shares pari passu and pro rata as to the number of such shares held, an amount equal to the subscription price of such A ordinary shares;
- (iv) fourth, in paying to the holders of A ordinary shares in respect of their holdings of such shares pari passu and pro rata as to the number of such shares held, an amount equal to any accrued but unpaid dividend; and
- (v) fifth, in paying the balance, if any, to the holders of B ordinary shares, A ordinary shares and ordinary shares pro rata to the number of shares of all such classes held by such persons.

In the event of a sale which is a sale of the entire issued share capital of the company or a business sale, and the proceeds of which are not less than the total amount actually subscribed for shares prior to such sale then the proceeds of such sale shall be paid to the holders of shares pro rata to the number of shares held by such persons.

On or at any time after 28 August 2007, any holder of B ordinary shares may serve notice on the company and require that the company redeem some or all of the B ordinary shares held by such shareholder. Upon receipt of such notice the company shall pay an amount equal to the subscription price of such B ordinary shares plus an amount equal to any accrued but unpaid dividend.

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21 Called up share capital (cont)

Share issues

In June 2004 further consideration of 10,256 ordinary shares was issued to certain former shareholders of KuDOS Horsham Limited following the fulfilment of certain performance targets specified at its acquisition in 2001.

Shares to be issued

| | Group and company | |
|------------------|------------------------------|-----------------------|
| | Number of ordinary 1p shares | Shares to be issued £ |
| At 31 March 2005 | - | - |
| At 1 April 2004 | 10,256 | 123,066 |

22 Options in shares of KuDOS Pharmaceuticals Limited

Options over 1p ordinary shares which have been granted and remain outstanding at the year end are as follows:

| Date granted | Granted | Exercise price | Period when exercisable |
|-------------------|---------|----------------|---|
| 17 December 1999 | 17,500 | £0.32 | 17 December 2000 to 17 December 2009 ⁽¹⁾ |
| 17 December 1999 | 16,876 | £0.32 | 17 December 2002 to 17 December 2009 |
| 29 September 2000 | 31,831 | £0.01 | 29 September 2001 to 29 September 2010 ⁽¹⁾ |
| 1 December 2000 | 15,314 | £0.32 | 1 December 2003 to 1 December 2010 |
| 16 November 2001 | 29,444 | £8.80 | 16 November 2004 to 16 November 2011 |
| 16 November 2001 | 2,500 | £8.80 | 16 November 2002 to 16 November 2011 ⁽¹⁾ |
| 15 March 2002 | 68,178 | £8.80 | 5 April 2005 to 5 April 2012 |
| 15 March 2002 | 21,828 | £8.80 | 5 April 2003 to 5 April 2012 ⁽¹⁾ |
| 2 December 2002 | 184,700 | £4.00 | 2 December 2003 to 2 December 2012 ⁽¹⁾ |
| 31 January 2003 | 124,160 | £4.00 | 31 January 2006 to 31 January 2013 |
| 21 January 2004 | 96,000 | £4.00 | 21 January 2005 to 21 January 2014 ⁽¹⁾ |
| 18 February 2004 | 83,300 | £4.00 | 18 February 2007 to 18 February 2014 |

⁽¹⁾ 25% of these options are exercisable on the first anniversary of their grant with the remainder vesting on a straight line basis over the following three years.

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23 Reserves

| Group | Share premium account £ | Capital redemption reserve £ | Merger reserve £ | Profit and loss account £ |
|---|----------------------------------|---------------------------------------|------------------------|------------------------------------|
| At 1 April 2004 | 30,965,727 | 12,495,151 | 633,991 | (28,264,253) |
| Premium arising on issuing ordinary shares | 122,964 | - | - | - |
| Loss for the financial year | - | - | - | (12,682,927) |
| Reversal of non-equity share appropriations | - | - | - | 2,391,908 |
| At 31 March 2005 | 31,088,691 | 12,495,151 | 633,991 | (38,555,272) |

| Company | Share premium account £ | Capital redemption reserve £ | Merger reserve £ | Profit and loss account £ |
|---|----------------------------------|---------------------------------------|------------------------|------------------------------------|
| At 1 April 2004 | 30,965,727 | 12,495,151 | 633,991 | (26,529,379) |
| Premium arising on issuing ordinary shares | 122,964 | - | - | - |
| Loss for the financial year | - | - | - | (15,135,941) |
| Reversal of non-equity share appropriations | - | - | - | 2,391,908 |
| At 31 March 2005 | 31,088,691 | 12,495,151 | 633,991 | 39,273,412 |

24 Reconciliation of movements in shareholders' funds

| | Group | | Company | |
|---|------------------|-------------------|------------------|-------------------|
| | 2005 £ | 2004 £ | 2005 £ | 2004 £ |
| Opening shareholders' funds | 16,006,170 | 24,748,477 | 17,741,044 | 26,383,502 |
| Loss for the financial year | (12,682,927) | (11,632,207) | (15,135,941) | (11,532,357) |
| New share capital issued (net of expenses) | - | 500,393 | - | 500,393 |
| Reversal of non-equity share appropriations | 2,391,908 | 2,389,506 | 2,391,908 | 2,389,506 |
| Closing shareholders' funds | 5,715,151 | 16,006,169 | 4,997,011 | 17,741,043 |

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25 Non-equity shareholders' funds

| | Group and company | |
|--|-------------------|-------------------|
| | 2005 £ | 2004 £ |
| A ordinary shares | | |
| Called up share capital | 10,079 | 10,079 |
| Premium on shares issued | 187,662 | 187,662 |
| | 197,741 | 197,741 |
| B ordinary shares | | |
| Called up share capital | 35,547 | 35,547 |
| Premium on shares issued (net of expenses) | 29,298,123 | 29,298,123 |
| Reversal of appropriations (note 11) | 6,181,596 | 3,789,688 |
| | 35,515,266 | 33,123,358 |
| Non-equity shareholders' funds | 35,713,007 | 33,321,099 |

26 Reconciliation of operating loss to net cash outflow from operating activities

| | Group | |
|---|---------------------|--------------------|
| | 2005 £ | 2004 £ |
| Operating loss | (11,882,916) | (11,006,306) |
| Depreciation charges | 641,703 | 772,176 |
| Loss on sale of fixed assets | - | 18,219 |
| Amortisation of other intangible fixed assets | 275,000 | 699,994 |
| Decrease/(increase) in stock | 32,370 | (4,368) |
| Decrease/(increase) in debtors | 176,279 | (68,957) |
| Increase in creditors | 612,170 | 485,732 |
| Net cash outflow from operating activities | (10,145,394) | (9,103,510) |

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27 Reconciliation of net cash flow to movement in net funds

| | Group | |
|--|--------------------|--------------------|
| | 2005 £ | 2004 £ |
| Increase in cash for the year | 3,823,755 | 447,472 |
| Cash outflow from decrease in debt and lease financing | 140,618 | 110,117 |
| Cash (inflow) from decrease in liquid resources | (13,018,824) | (8,699,274) |
| Change in net funds resulting from cash flow | (9,054,451) | (8,141,685) |
| Non cash changes: | | |
| New finance leases | (108,939) | (142,914) |
| Movement in net funds in the year | (9,163,390) | (8,284,599) |
| Net funds at 1 April 2004 | 14,591,692 | 22,876,291 |
| Net funds at 31 March 2005 | 5,428,302 | 14,591,692 |

28 Analysis of net funds

| | At 1 April 2004 £ | Cash flow £ | Other non- cash changes £ | At 31 March 2005 £ |
|--------------------------|-------------------------|-------------------|------------------------------------|--------------------------|
| Cash at bank and in hand | 858,328 | 3,823,755 | - | 4,682,083 |
| Finance leases | (317,362) | 140,618 | (108,939) | (285,683) |
| Short term investments | 14,050,726 | (13,018,824) | - | 1,031,902 |
| | 14,591,692 | (9,054,451) | (108,939) | 5,428,302 |

29 Financial commitments

At 31 March 2005, the group and company had annual commitments under non-cancellable operating leases as follows:

| | 2005 Land and buildings £ | 2004 Land and buildings £ |
|-----------------------------------|------------------------------------|------------------------------------|
| Group | | |
| Expiring within two to five years | 277,500 | 277,500 |
| Expiring after five years | 88,000 | 88,000 |
| | 365,500 | 365,500 |

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29 Financial commitments (cont)

| Company | 2005 | 2004 |
|-----------------------------------|----------------------------|----------------------------|
| | Land and buildings £ | Land and buildings £ |
| Expiring within two to five years | 277,500 | 277,500 |

Capital expenditure authorised and contracted for but not provided in the accounts at 31 March 2005 is £nil (2004: £50,881) for both the group and the company.

30 Pensions

The group contributes to the KuDOS Group Personal Pension Scheme and the KuDOS Horsham Pension Plan. The nature of the schemes are defined contribution.

The pension charge for the year was £299,913 (2004: £231,711). At 31 March 2005, an amount of £36,062 (2004: £30,040) was included in creditors in respect of pension costs.

31 Related party transactions

The company has taken advantage of the exemption available to parent companies under FRS 8, "Related party disclosures", where transactions and balances between group companies have been eliminated on consolidation, not to disclose details of those transactions.

Dr M Carter is a director of the company. During the year the company was invoiced by Dr M Carter £14,200 (2004: £13,983) in respect of consultancy services provided to the company. At the year end £3,723 (2004: £3,723) is included within creditors. In addition during the year the company paid £118,963 (2004: £nil) to Fulcrum Pharma Development Limited, a subsidiary of Fulcrum Pharma plc, of which Dr Carter is director. At the year end £nil (2004: £nil) was included within creditors. All figures stated exclude VAT.

32 Ultimate controlling party

The directors do not consider there to be an ultimate controlling party.

33 Post balance sheet events

On 30 June 2005 the company entered into a convertible loan agreement for £5m from certain of its shareholders.

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Company profit and loss account for the year ended 31 March 2005

Appendix

| | 2005 £ | 2004 £ |
|---|--------------|--------------|
| Turnover | 516,857 | 73,529 |
| Net operating expenses – non-exceptional | (11,730,084) | (10,980,456) |
| Net operating expenses – exceptional (*) | (3,126,570) | - |
| Net operating expenses – total | (14,856,654) | (10,980,456) |
| Operating loss | (14,339,797) | (10,906,927) |
| Interest receivable | 411,879 | 678,287 |
| Interest payable and similar charges | (19,160) | (18,567) |
| Loss on ordinary activities before taxation | (13,947,078) | (10,247,207) |
| Tax credit on loss on ordinary activities | 1,203,045 | 1,104,356 |
| Loss for the financial year | (12,744,033) | (9,142,851) |
| B ordinary share dividend appropriation | (2,391,908) | (2,389,506) |
| Deficit for the financial year | (15,135,941) | (11,532,357) |

(*) Waiver of intercompany balance

Approved by the board of directors on 16 August 2005 and signed on its behalf by:

Director

