

KuDOS Pharmaceuticals Limited
Annual report
for the year ended 31 March 2004

Registered Number 3479984



KuDOS Pharmaceuticals Limited

Annual report

for the year ended 31 March 2004

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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
Ms S Lambert (resigned 5 November 2003)
Mr P Lee
Mr R Long
Dr R Whitaker
Mr Z Zehavi (appointed 5 November 2003)

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

KuDOS Pharmaceuticals Limited

Directors' report for the year ended 31 March 2004

The directors present their report and the audited financial statements for the year ended 31 March 2004.

Principal activities

The principal activity of the group is research into DNA repair mechanisms and the research and development of compounds to inhibit such repair in cancer cells, together with the provision of related consultancy services. The group also has a subsidiary whose principal activity is the manufacture and supply of novel chemical compounds.

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. In addition, the company is developing strategies to combat other diseases, including those caused by viruses and other pathogens. 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. There are a number of plans in place to generate additional revenue generating contracts in the manufacture and supply of novel chemical compounds.

During the forthcoming year, the company plans to increase further its investment into its development activities.

Dividends

The directors do not recommend the payment of a dividend (2003: £nil). However, the profit and loss account reflects appropriations of £2,389,506 (2003: £1,400,182) in connection with the B ordinary shares, which are detailed in note 11.

Research and development activities

The group is committed to a significant level of research and development expenditure which totalled £9,039,412 during the year (2003: £7,548,163).

Directors

The directors of the company during the whole of the year, except where noted, 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
Ms S Lambert (resigned 5 November 2003)
Mr P Lee
Mr R Long
Dr R Whitaker
Mr Z Zehavi (appointed 5 November 2003)

KuDOS Pharmaceuticals Limited

Directors (continued)

Biographical details of the non-executive directors of the company as at 31 March 2004 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 MNL Pharmaceuticals Ltd.

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, Genosis Inc and Provensis Ltd.

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 is also a member of the Supervisory Boards of Kretech Diagnostics BV and Hybrigenics SA.

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 (US) including, Vice President of Mergers & Acquisitions, Vice President of New Business & Product Development, and Director of Business Development and Strategic. 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, Microscience Ltd and 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 and a Non Executive Director of Gyros AB.

Dr R Whitaker has been General Partner of Euclid SR Partners LP since its formation in January 2000. From January 1997 to July 2003, 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 Delagrang (Paris, France). Dr. Whitaker's current private company directorships also include Avalon Pharmaceuticals Inc and Xenogen Corporation.

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 2004 Number	31 March 2003 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 2003 Number	Granted during year Number	At 31 March 2004 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
		61,251	14,000	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
		90,581	24,000	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
		8,250	1,500	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
		18,500	4,500	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.

Corporate governance

The board supports the highest standards of corporate governance and is in the process of considering the implications of, the new Combined Code.

Post balance sheet events

Following the acquisition of ChemOvation Limited in 2001, further contingent consideration of 10,256 ordinary 1p shares remained payable upon fulfilment by ChemOvation Limited of £1.7 million of non-intra group post-completion revenue. These shares, with a total consideration of £123,066, were accounted for as 'shares to be issued' in the balance sheet at 31 March 2004 and 31 March 2003 in accordance with FRS 7 'Fair values in acquisition accounting'. These shares were issued on 7 June 2004 following fulfilment of this milestone.

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.

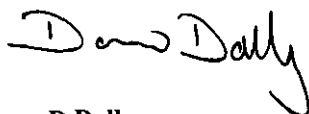
The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2004 and that applicable accounting standards have been 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 profit and loss account, the balance sheets, the cash flow statement and the related notes.

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.

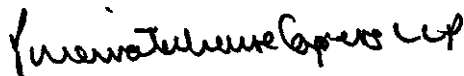
Basis of audit opinion

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.

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 2004 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cambridge
22 July 2004

KuDOS Pharmaceuticals Limited

Consolidated profit and loss account for the year ended 31 March 2004

	Note	2004 £	2003 £
Turnover	2	1,078,370	622,979
Cost of sales		(600,080)	(444,179)
Gross profit		478,290	178,800
Net operating expenses	3	(11,484,596)	(10,379,287)
Operating loss		(11,006,306)	(10,200,487)
Interest receivable	6	678,287	605,670
Interest payable and similar charges	7	(19,038)	(199,515)
Loss on ordinary activities before taxation	8	(10,347,057)	(9,794,332)
Tax credit on loss on ordinary activities	9	1,104,356	597,739
Loss for the financial year		(9,242,701)	(9,196,593)
Dividends (including dividends and other appropriations in respect of non-equity shares)	11	(2,389,506)	(1,400,182)
Loss for the financial year	23, 24	(11,632,207)	(10,596,775)

All results relate to continuing activities.

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.

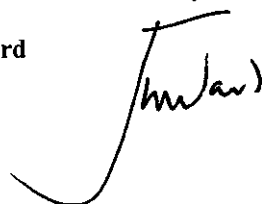
KuDOS Pharmaceuticals Limited

Consolidated balance sheet as at 31 March 2004

	Note	2004 £	2003 £
Fixed assets			
Intangible assets	12	-	-
Tangible assets	13	1,793,411	2,187,567
		1,793,411	2,187,567
Current assets			
Stocks	15	32,370	28,002
Debtors	16	1,995,445	1,577,632
Short term investments	17	14,050,726	22,750,000
Cash at bank and in hand		858,328	410,856
		16,936,869	24,766,490
Creditors: amounts falling due within one year	18	(2,520,865)	(1,979,273)
Net current assets		14,416,004	22,787,217
Total assets less current liabilities		16,209,415	24,974,784
Creditors: amounts falling due after more than one year	19	(203,246)	(226,307)
Net assets		16,006,169	24,748,477
Capital and reserves			
Called up share capital	21	52,487	51,872
Shares to be issued	21	123,066	123,066
Share premium account	23	30,965,727	30,465,949
Capital redemption reserve	23	12,495,151	12,495,151
Merger reserve	23	633,991	633,991
Profit and loss account	23	(28,264,253)	(19,021,552)
Shareholders' funds	24	16,006,169	24,748,477
Shareholders' funds analysed as:			
Equity shareholders' deficit		(17,314,930)	(6,183,116)
Non-equity shareholders' funds	25	33,321,099	30,931,593
		16,006,169	24,748,477

The financial statements on pages 9 to 33 were approved by the board of directors on 14 July 2004 and were signed on its behalf by:

J Barrie Ward
Director



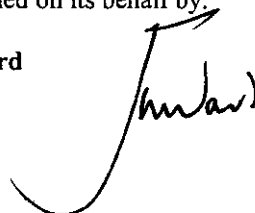
KuDOS Pharmaceuticals Limited

Company balance sheet as at 31 March 2004

	Note	2004 £	2003 £
Fixed assets			
Intangible assets	12	-	-
Tangible assets	13	935,093	1,022,311
Investments	14	-	-
		935,093	1,022,311
Current assets			
Debtors	16	4,397,466	4,119,259
Short term investments	17	14,050,726	22,750,000
Cash at bank and in hand		858,328	410,856
		19,306,520	27,280,115
Creditors: amounts falling due within one year	18	(2,297,324)	(1,692,618)
Net current assets		17,009,196	25,587,497
Total assets less current liabilities		17,944,289	26,609,808
Creditors: amounts falling due after more than one year	19	(203,246)	(226,307)
Net assets		17,741,043	26,383,501
Capital and reserves			
Called up share capital	21	52,487	51,872
Shares to be issued	21	123,066	123,066
Share premium account	23	30,965,727	30,465,949
Capital redemption reserve	23	12,495,151	12,495,151
Merger reserve	23	633,991	633,991
Profit and loss account	23	(26,529,379)	(17,386,528)
Shareholders' funds	24	17,741,043	26,383,501
Shareholders' funds analysed as:			
Equity shareholders' deficit		(15,580,056)	(4,548,092)
Non-equity shareholders' funds	25	33,321,099	30,931,593
		17,741,043	26,383,501

The financial statements on pages 9 to 33 were approved by the board of directors on 14 July 2004 and were signed on its behalf by:

J Barrie Ward
Director



KuDOS Pharmaceuticals Limited

Consolidated cash flow statement for the year ended 31 March 2004

	Note	2004 £	2003 £
Net cash outflow from continuing operating activities	26	(9,103,510)	(9,094,431)
Returns on investment and servicing of finance			
Bank interest received		835,616	331,900
Bank interest paid		(447)	(2,463)
Interest paid on finance leases		(18,591)	(9,390)
		816,578	320,047
Taxation		598,171	691,446
Capital expenditure			
Purchase of intangible fixed assets		(200,000)	(305,000)
Purchase of tangible fixed assets		(278,006)	(318,896)
Proceeds from disposal of fixed assets		24,681	-
		(453,325)	(623,896)
Cash outflow before management of liquid resources and financing		(8,142,086)	(8,706,834)
Management of liquid resources			
Sale/(purchase) of short term investments	28	8,699,274	(20,750,000)
Net cash inflow before financing activities		557,188	(29,456,834)
Financing			
Repayment of finance leases	28	(110,117)	(36,771)
New loans received		-	2,000,000
Repayment of loans		-	(4,668)
Issue of shares (2003: net of £166,330 expenses)		401	27,334,140
		(109,716)	29,292,701
Increase/(decrease) in cash in the year	27	447,472	(164,133)

KuDOS Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 March 2004

1 Principal accounting policies

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently and have been reviewed by the board of directors in accordance with Financial Reporting Standard (FRS) 18, "Accounting policies" is set out below.

Basis of accounting

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary made up to 31 March 2004 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

Leasehold improvements are depreciated over the period of the lease.

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 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.

KuDOS Pharmaceuticals Limited

1 Principal accounting policies (continued)

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 the shorter of the lease period and 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.

Loans

Where loans are issued with warrants attached, an interest charge is recognised based on the difference between the fair value of the shares over which the warrants are granted and the proceeds from exercise of the warrants.

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.

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.

KuDOS Pharmaceuticals Limited

2 Segmental analysis

The group has carried on two classes of business during the year. These are research and development and contract development services. Turnover in 2004 and 2003 consists principally of sales made for contract development services.

Turnover by destination	2004 £	2003 £
United Kingdom	539,364	597,336
US	395,147	-
Rest of the world	143,859	25,643
	1,078,370	622,979

All turnover originates in the United Kingdom

3 Net operating expenses

	2004 £	2003 £
Research and development	(9,039,412)	(7,548,163)
Administrative expenses:		
Administrative expenses	(2,586,417)	(1,911,867)
Impairment of goodwill	-	(994,507)
Total administrative expenses	(2,586,417)	(2,906,374)
Other operating income	141,233	75,250
Net operating expenses	(11,484,596)	(10,379,287)

The impairment of goodwill in the prior year related to the provision made against the carrying value of the goodwill arising from KuDOS' investment in ChemOvation Limited.

4 Directors' emoluments

	2004 £	2003 £
Aggregate emoluments	355,325	308,514
Sums paid to third parties for services of directors	-	4,252
Pension contributions	22,465	19,785
	377,790	332,551

At the year end, retirement benefits were accruing to two directors (2003: two directors) under a defined contribution pension scheme.

KuDOS Pharmaceuticals Limited

4 Directors' emoluments (continued)

Emoluments payable to the highest paid director are as follows:

	2004 £	2003 £
Aggregate emoluments	228,681	194,985
Pension contributions	16,500	14,050
	245,181	209,035

5 Employee information

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

	2004 Number	2003 Number
By activity		
Research and development	64	57
Administration	20	17
	84	74

	£	£
Staff costs (for the above persons)		
Wages and salaries	2,846,026	2,424,380
Social security costs	300,327	253,856
Pension costs (see note 30)	231,711	193,696
	3,378,064	2,871,932

KuDOS Pharmaceuticals Limited

6 Interest receivable

	2004 £	2003 £
Interest receivable on bank balances and deposits	678,287	605,670

7 Interest payable and similar charges

	2004 £	2003 £
Interest payable on bank loans and overdrafts	447	2,463
Interest on bridging loan	-	187,662
Interest payable on finance leases	18,591	9,390
	19,038	199,515

8 Loss on ordinary activities before taxation

	2004 £	2003 £
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	693,594	781,555
- assets held under finance leases	78,582	29,747
Amortisation of license fees	699,994	305,000
Impairment of goodwill	-	994,507
Auditors' remuneration for:		
- audit services (company: £8,000; 2003: £10,000)	13,000	15,000
- non-audit services	49,315	15,465
Operating lease charges for:		
- land and buildings	368,943	331,318

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9 Tax credit on loss on ordinary activities

	2004 £	2003 £
United Kingdom research and development tax credit at 16% (2003: 16%):		
Current year	1,104,356	598,171
Overprovision for tax credit in respect of prior years	-	(432)
Total current tax	1,104,356	597,739

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 2004, there were tax losses available for carry forward of approximately £21.6 million (2003: £16.1 million) subject to agreement with the Inland Revenue.

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:

	2004 £	2003 £
Loss on ordinary activities before taxation	10,347,057	9,794,332
Loss on ordinary activities multiplied by the research and development tax credit rate of 16% (2003: 16%)	1,655,529	1,567,093
Effects of:		
Depreciation in excess of capital allowances	(63,064)	(22,313)
Expenses not deductible for tax purposes	380,245	127,684
Short term timing differences	(1,077)	(614)
Carry forward losses	(867,277)	(1,073,679)
Overprovision for tax credit in respect of prior years	-	(432)
Current tax credit for the year	1,104,356	597,739

KuDOS Pharmaceuticals Limited

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 £11,532,357 (2003: loss of £10,109,816).

11 Dividends and appropriations

	2004 £	2003 £
B ordinary shares		
Appropriation for B ordinary share dividend	2,360,000	1,383,671
Appropriation for finance costs on issue of shares	29,506	16,511
	2,389,506	1,400,182

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 2004 were £3,743,671 (2003: £1,383,671).

KuDOS Pharmaceuticals Limited

12 Intangible fixed assets

Group	Licence fees £	Goodwill £	Total £
Cost			
At 1 April 2003	1,555,000	1,183,907	2,738,907
Additions (see Note 21)	699,994	-	699,994
At 31 March 2004	2,254,994	1,183,907	3,438,901
Aggregate amortisation			
At 1 April 2003	1,555,000	1,183,907	2,738,907
Charge for the year	699,994	-	699,994
At 31 March 2004	2,254,994	1,183,907	3,438,901
Net book value at 31 March 2004	-	-	-
Net book value at 31 March 2003	-	-	-

Company	Licence fees £
Cost	
At 1 April 2003	1,555,000
Additions	699,994
At 31 March 2004	2,254,994
Aggregate amortisation	
At 1 April 2003	1,555,000
Charge for the year	699,994
At 31 March 2004	2,254,994
Net book value At 31 March 2004	-
Net book value At 31 March 2003	-

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 ChemOvation 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 2004.

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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 2003	2,391,040	950,386	46,917	599,070	12,618	4,000,031
Additions	282,543	20,821	18,563	91,139	7,854	420,920
Disposals	(78,000)	-	-	-	-	(78,000)
At 31 March 2004	2,595,583	971,207	65,480	690,209	20,472	4,342,951
Depreciation						
At 1 April 2003	1,029,285	314,464	35,225	427,357	6,133	1,812,464
Charge for the year	498,200	96,646	7,040	166,812	3,478	772,176
Disposals	(35,100)	-	-	-	-	(35,100)
At 31 March 2004	1,492,385	411,110	42,265	594,169	9,611	2,549,540
Net book value						
At 31 March 2004	1,103,198	560,097	23,215	96,040	10,861	1,793,411
Net book value						
At 31 March 2003	1,361,755	635,922	11,692	171,713	6,485	2,187,567

Company	Laboratory equipment £	Leasehold improvements £	Office equipment £	Computer equipment £	Fixtures and fittings £	Total £
Cost						
At 1 April 2003	1,444,164	330,255	34,799	150,158	12,618	1,971,994
Additions	253,886	7,149	11,784	81,261	7,854	361,934
Disposals	(78,000)	-	-	-	-	(78,000)
At 31 March 2004	1,620,050	337,404	46,583	231,419	20,472	2,255,928
Depreciation						
At 1 April 2003	604,414	214,500	30,089	94,547	6,133	949,683
Charge for the year	308,327	29,136	4,120	61,191	3,478	406,252
Disposals	(35,100)	-	-	-	-	(35,100)
At 31 March 2004	877,641	243,636	34,209	155,738	9,611	1,320,835
Net book value						
At 31 March 2004	742,409	93,768	12,374	75,681	10,861	935,093
Net book value						
At 31 March 2003	839,750	115,755	4,710	55,611	6,485	1,022,311

Included above are tangible fixed assets with a net book value of £344,531 (2003: £334,025) in respect of assets held under finance leases, for the group and the company.

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14 Fixed asset investments

	Group £	Company £
At 1 April 2003	-	1,103,694
Provision	-	(1,103,694)
31 March 2004	-	-

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 %
ChemOvation Limited	England and Wales	Ordinary £1 shares	100

The principal activity of the company is the manufacture and supply of novel chemical compounds.

15 Stocks

Group	2004 £	2003 £
Raw materials and consumables	30,700	15,589
Finished goods and goods for resale	1,670	12,413
	32,370	28,002

The company holds no stock.

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16 Debtors

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Amounts falling due within one year				
Trade debtors	162,575	107,796	5,446	10,282
Corporation tax recoverable	1,104,356	598,171	1,104,356	598,171
Other debtors	204,078	246,727	194,860	243,100
Prepayments and accrued income	524,436	624,938	379,584	517,791
	1,995,445	1,577,632	1,684,246	1,369,344
Amounts falling due after one year				
Amounts owed by group undertakings	-	-	2,713,220	2,749,915
	1,995,445	1,577,632	4,397,466	4,119,259

17 Short term investments

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

18 Creditors: amounts falling due within one year

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Trade creditors	1,403,129	1,149,114	1,239,343	1,008,672
Other taxation and social security	119,790	96,250	119,790	69,239
Finance lease obligations	114,116	58,258	114,116	58,258
Accruals and deferred income	883,830	675,651	824,075	556,449
	2,520,865	1,979,273	2,297,324	1,692,618

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19 Creditors: amounts falling due after one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Finance lease obligations	203,246	226,307	203,246	226,307

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

Group and company	Finance leases 2004 £	Finance leases 2003 £
Within one year	114,116	58,258
Between one and two years	109,100	58,251
Between two and five years	94,146	168,056
	317,362	284,565

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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	
	2004 £	2003 £	2004 £	2003 £
Tax effect of timing differences because of:				
Depreciation in excess of capital allowances	-	-	101,378	176,267
Short term timing differences	-	-	(10,199)	(8,920)
Losses	-	-	(4,103,659)	(3,073,768)
Net deferred tax asset	-	-	(4,012,480)	(2,906,421)

Company	Amount provided		Amount unprovided	
	2004 £	2003 £	2004 £	2003 £
Tax effect of timing differences because of:	-			
Depreciation in excess of capital allowances	-	-	(59,832)	(43,261)
Short term timing differences	-	-	(7,608)	(4,354)
Losses	-	-	(3,526,649)	(2,459,138)
Net deferred tax asset	-	-	(3,594,089)	(2,506,753)

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.

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21 Called up share capital

	Group and company 2004 £	Group and company 2003 £
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		
686,141 (2003: 624,642) ordinary shares of 1p each	6,861	6,246
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
	52,487	51,872

Rights of shares

All shares carry one vote per share.

Any profits of the company which 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;
- (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;

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Rights of shares (continued)

- (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.

Share issues

On 11 September 2003, 1,250 ordinary shares of 1p each were issued as the result of the exercise of Approved Share Options with an exercise price of £0.32.

In March 2002, KuDOS Pharmaceuticals Limited obtained a licence for early stage technology. Under the terms of this agreement cash of £0.2m and ordinary shares with a total value of £0.5 million were to be issued to the licensor by conversion of 60,249 warrants upon application for regulatory approval for the licensed product to enter clinical trials. On 31 March 2004, the application for regulatory approval was submitted, and the warrants were converted to ordinary 1p shares issued to the licensor. The consideration of £0.7 million was capitalised as an intangible asset and amortised in accordance with the group's accounting policy. (See Note 12).

Shares to be issued

	Group and company	
	Number of ordinary 1p shares	Shares to be issued £
At 1 April 2003 and 31 March 2004	10,256	123,066

Following its acquisition in 2001 and the fulfilment by ChemOvation Limited of £1.7 million of non intra-group post-completion revenue, further consideration of 10,256 ordinary shares was issued on 7 June 2004 (see Note 33).

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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.

KuDOS Pharmaceuticals Limited

23 Reserves

Group

	Share premium account £	Capital redemption reserve £	Merger reserve £	Profit and loss account £
At 1 April 2003	30,465,949	12,495,151	633,991	(19,021,552)
Premium arising on issuing ordinary shares	499,778	-	-	-
Loss for the financial year	-	-	-	(11,632,207)
Reversal of non-equity share appropriations	-	-	-	2,389,506
	30,965,727	12,495,151	633,991	(28,264,253)

Company

	Share premium account £	Capital redemption reserve £	Merger reserve £	Profit and loss account £
At 1 April 2003	30,465,949	12,495,151	633,991	(17,386,528)
Premium arising on issuing ordinary shares	499,778	-	-	-
Loss for the financial year	-	-	-	(11,532,357)
Reversal of non-equity share appropriations	-	-	-	2,389,506
At 31 March 2004	30,965,727	12,495,151	633,991	(26,529,379)

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24 Reconciliation of movements in shareholders' funds

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Opening shareholders' funds	24,748,477	4,423,268	26,383,501	5,571,333
Loss for the financial year	(11,632,207)	(10,596,775)	(11,532,357)	(10,109,816)
New share capital issued (net of expenses)	500,393	29,521,802	500,393	29,521,802
Reversal of non-equity share appropriations	2,389,506	1,400,182	2,389,506	1,400,182
Closing shareholders' funds	16,006,169	24,748,477	17,741,043	26,383,501

25 Non-equity shareholders' funds

	Group and company	
	2004 £	2003 £
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)	3,789,688	1,400,182
	33,123,358	30,733,852
Non-equity shareholders' funds	33,321,099	30,931,593

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

	Group	
	2004	2003
	£	£
Continuing operations		
Operating loss	(11,006,306)	(10,200,487)
Depreciation charges	772,176	811,302
Loss on sale of fixed assets	18,219	-
Impairment of goodwill	-	994,507
Amortisation of other intangible fixed assets	699,994	305,000
(Increase) in stock	(4,368)	(927)
(Increase)/decrease in debtors	(68,957)	5,453
Increase/(decrease) in creditors	485,732	(1,009,279)
Net cash outflow from operating activities	(9,103,510)	(9,094,431)

27 Reconciliation of net cash flow to movement in net funds

	Group	
	2004	2003
	£	£
Increase/(decrease) in cash for the year	447,472	(164,133)
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	110,117	(1,958,561)
Cash (inflow)/outflow from increase in liquid resources	(8,699,274)	20,750,000
Change in net funds resulting from cash flow	(8,141,685)	18,627,306
Non cash changes:		
New finance leases	(142,914)	(282,968)
Conversion of bridging loan	-	2,000,000
Movement in net funds in the year	(8,284,599)	20,344,338
Net funds at 1 April 2003	22,876,291	2,531,953
Net funds at 31 March 2004	14,591,692	22,876,291

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28 Analysis of net funds

	At 1 April 2003 £	Cash flow £	Other non- cash changes £	At 31 March 2004 £
Cash at bank and in hand	410,856	447,472	-	858,328
Finance leases	(284,565)	110,117	(142,914)	(317,362)
Short term investments	22,750,000	(8,699,274)	-	14,050,726
	22,876,291	(8,141,685)	(142,914)	14,591,692

29 Financial commitments

At 31 March 2004, the group and company had annual commitments under non-cancellable operating leases as follows:

	2004 Land and buildings £	2003 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

	2004 Land and buildings £	2003 Land and buildings £
Company		
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 2004 is £50,881 (2003: £83,677) for both the group and the company.

KuDOS Pharmaceuticals Limited

30 Pensions

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

The pension charge for the year was £231,711 (2003: £193,696). At 31 March 2004, an amount of £30,040 (2003: £27,156) 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 paid Dr M Carter £13,983 (2003: £14,200) in respect of consultancy services provided to the company. At the year end £3,723 (2003: £3,550) is included within creditors.

32 Ultimate controlling party

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

33 Post balance sheet events

Following the acquisition of ChemOvation Limited in 2001, further contingent consideration of 10,256 ordinary 1p shares remained payable upon fulfilment by ChemOvation Limited of £1.7 million of non-intra group post-completion revenue. These shares, with a total consideration of £123,066, were accounted for as 'shares to be issued' in the balance sheet at 31 March 2004 and 31 March 2003 in accordance with FRS 7 'Fair values in acquisition accounting'. These shares were issued on 7 June 2004 following fulfilment of this milestone.

KuDOS Pharmaceuticals Limited

Company profit and loss account for the year ended 31 March 2004

Appendix

	2004 £	2003 £
Turnover	73,529	-
Net operating expenses	(10,980,456)	(8,610,553)
Operating loss	(10,906,927)	(8,610,553)
Interest receivable	678,287	605,505
Amounts written off investments	-	(1,103,694)
Interest payable and similar charges	(18,567)	(198,631)
Loss on ordinary activities before taxation	(10,247,207)	(9,307,373)
Tax credit on loss on ordinary activities	1,104,356	597,739
Loss for the financial year	(9,142,851)	(8,709,634)
B ordinary share dividend appropriation	(2,389,506)	(1,400,182)
Deficit for the financial year	(11,532,357)	(10,109,816)

Approved by the board of directors on 14 July 2004 and signed on its behalf by:

J. S. WARD

Director

J. S. WARD