



Sinclair Pharma Limited

Report and Financial Statements

30 June 2003

Corporate Information

Registered No: 03816616

Directors

AJ Sinclair	Non-executive Chairman
Dr MJ Flynn	Chief Executive Officer
JAP Randall ACA	Chief Financial Officer
ADS Prens	Non-executive Director
RS Harris	Non-executive Director

Secretary

JAP Randall ACA

Auditors

Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Bankers

Barclays Bank plc
PO Box 68
Saffron Ground
Ditchmore Lane
Stevenage
SG1 3UU

Registered Office

Borough Road
Godalming
Surrey
GU7 2AB

Directors' Report

The directors present their report and financial statements for the year to 30 June 2003.

Results and Dividends

The group trading profit for the year, after taxation, amounted to £440,000 (2002: loss of £1,231,000 (restated)).

The directors do not recommend the payment of a dividend (2002: £nil).

Review of the business and post balance sheet events

The company's principal activity is that of a holding company. The principal activity of the group has continued to be that of the development and exploitation of pharmaceutical products. During the year, the business has continued to invest in and develop new pharmaceutical products. The worldwide rights to all oncological indications for Gelclair were licensed to one partner who will now continue the exploitation of the Gelclair product in this area. The group received an upfront licence payment and will receive ongoing royalties.

On 24 September 2003, the group sold its UK Aspirin telesales and distribution business, as it was considered no longer part of the core activities of the group. The results of this business are presented within the group profit and loss account as discontinued operations.

Research and development expenditure

The group has a policy of not performing pure research, however continues to invest in the development of new pharmaceutical products.

Directors and their interests

The directors during the period and their beneficial interests in the share capital, share options and share warrants of the company were as follows:

	<i>Ordinary shares of £0.01 each</i>	
	<i>30 June 2003</i>	<i>30 June 2002</i>
AJ Sinclair	3,770,000	3,770,000
Dr MJ Flynn*	3,723,100	3,723,100
RS Harris	—	—
Dr GWR Hill (resigned 14 February 2003)	—	—
JAP Randall	400,000	400,000
ADS Prenn **	82,500	82,500

* Dr MJ Flynn's holding includes 1,020,000 shares held by his wife (2002: 1,020,000 shares).

** ADS Prenn's holding includes 12,500 shares held by his children (2002: 12,500).

Directors' Report (continued)

Directors and their interests (continued)

Options over ordinary £0.01 shares

	<i>Issue date</i>	<i>Number of options</i>	<i>Option price (£)</i>	<i>Dates normally exercisable</i>
Dr GWR Hill	1 May 2001	50,000	0.01	May 2003 – May 2011
	1 May 2001	300,000	2.00	May 2003 – May 2011

Warrants over ordinary £0.01 shares

	<i>Issue date</i>	<i>Number</i>	<i>Date first exercisable</i>	<i>Exercise price (£)</i>
Dr MJ Flynn	8 August 2000	1,000,000	On listing or sale	0.01
JAP Randall ACA	8 August 2000	400,000	On listing or sale	0.01
A Prenn	15 May 2001	25,000	On listing or sale	2.00
RS Harris	1 March 2002	25,000	On listing or sale	4.00

The warrants are only exercisable immediately prior to a listing or sale. In addition, the holder must be an employee, director or consultant of the company at the time of exercise.

Auditors

A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board

JAP Randall ACA

Secretary

31 October 2003

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Sinclair Pharma Limited

We have audited the group's financial statements for the year ended 30 June 2003 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows and the related notes 1 to 24. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group'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 of the group as at 30 June 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
Southampton
31 October 2003

Group Profit and Loss Account

for the year ended 30 June 2003

	Notes	2003 £000	restated 2002 £000
TURNOVER			
Continuing operations	2	8,113	1,997
Discontinued operations	2	966	1,407
		<u>9,079</u>	<u>3,404</u>
Cost of sales		(2,738)	(1,696)
		<u>6,341</u>	<u>1,708</u>
GROSS PROFIT			
Administrative expenses excluding National Insurance provision and goodwill amortisation		(3,436)	(2,526)
National Insurance provision on share options	4	(1,360)	–
Goodwill amortisation		(939)	(385)
		<u>(5,735)</u>	<u>(2,911)</u>
Total administrative expenses			
OPERATING PROFIT/(LOSS)			
Continuing operations	5	551	(1,340)
Discontinued operations	5	55	137
		<u>606</u>	<u>(1,203)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION			
		606	(1,203)
Interest receivable		4	3
Interest payable	8	(27)	(31)
		<u>583</u>	<u>(1,231)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION			
Tax charge on profit/(loss) on ordinary activities	9	143	–
		<u>440</u>	<u>(1,231)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION			
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR			
	21	<u>440</u>	<u>(1,231)</u>

Group Statement of Total Recognised Gains and Losses

for the year ended 30 June 2003

	2003	<i>restated</i> 2002
	£000	£000
Profit/(loss) for the financial year	440	(1,231)
Exchange difference on retranslation of net assets of subsidiary undertakings	(48)	–
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	<u>392</u>	<u>(1,231)</u>
Prior year adjustment (see note 1)	255	
TOTAL RECOGNISED GAINS AND LOSSES SINCE LAST ANNUAL REPORT	<u><u>647</u></u>	

Group Balance Sheet

at 30 June 2003

	Notes	2003 £000	restated 2002 £000
FIXED ASSETS			
Intangible assets	11	17,127	7,002
Tangible assets	12	164	90
		<u>17,291</u>	<u>7,092</u>
CURRENT ASSETS			
Stocks	14	260	563
Debtors	15	4,410	823
Cash at bank and in hand		364	751
		<u>5,034</u>	<u>2,137</u>
CREDITORS: amounts falling due within one year	16	4,766	3,344
		<u>268</u>	<u>(1,207)</u>
NET CURRENT ASSETS/(LIABILITIES)			
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>17,559</u>	<u>5,885</u>
CREDITORS: amounts falling due after more than one year	17	–	705
PROVISION FOR LIABILITIES AND CHARGES			
National Insurance provision on share options	18	1,360	–
Minority Interest	13	(4)	–
		<u>16,203</u>	<u>5,180</u>
CAPITAL AND RESERVES			
Called up share capital	20	118	106
Share premium	21	3,428	3,428
Shares to be issued	21	4,367	–
Merger reserve	21	10,062	3,810
Profit and loss account	21	(1,772)	(2,164)
		<u>16,203</u>	<u>5,180</u>
SHAREHOLDERS' FUNDS – EQUITY INTERESTS			

Approved by the Board on 31 October 2003

Dr MJ Flynn
Director

Company Balance Sheet

at 30 June 2003

	Notes	2003 £000	2002 £000
FIXED ASSETS			
Investments	13	23,411	12,729
		<u>23,411</u>	<u>12,729</u>
CURRENT ASSETS			
Debtors	15	1,799	348
Cash at bank and in hand		–	4
		<u>1,799</u>	<u>352</u>
CREDITORS: amounts falling due within one year	16	736	39
		<u>736</u>	<u>39</u>
NET CURRENT ASSETS		1,063	313
		<u>1,063</u>	<u>313</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>24,474</u>	<u>13,042</u>
CREDITORS: amounts falling due after more than one year	17	–	635
		<u>–</u>	<u>635</u>
PROVISION FOR LIABILITIES AND CHARGES			
National Insurance provision on share options	18	1,360	–
		<u>1,360</u>	<u>–</u>
		<u>23,114</u>	<u>12,407</u>
		<u><u>23,114</u></u>	<u><u>12,407</u></u>
CAPITAL AND RESERVES			
Called up share capital	20	118	106
Share premium	21	3,428	3,428
Shares to be issued	21	4,367	–
Merger reserve	21	15,162	8,910
Profit and loss account	21	39	(37)
		<u>23,114</u>	<u>12,407</u>
SHAREHOLDERS' FUNDS – EQUITY INTERESTS		<u><u>23,114</u></u>	<u><u>12,407</u></u>

Approved by the Board on 31 October 2003

Dr MJ Flynn
Director

Group Statement of Cash Flows

for the year ended 30 June 2003

	Notes	2003 £000	2002 £000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	22(a)	(789)	1,005
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		4	3
Interest paid		(27)	(31)
		(23)	(28)
TAXATION			
Corporation tax refunded/(paid)		42	(42)
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		(61)	(62)
ACQUISITIONS AND DISPOSALS			
Purchase of subsidiary undertaking	13	(51)	–
Net cash acquired with subsidiary undertaking	13	(3)	–
		(54)	–
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(885)	873
FINANCING			
Issue of ordinary share capital		–	40
Net movement in short term borrowings	22(b)	450	–
		450	40
(DECREASE)/INCREASE IN CASH	22(b)	(435)	913

Group Statement of Cash Flows (continued)

for the year ended 30 June 2003

	<i>Notes</i>	2003 £000	2002 £000
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
(Decrease)/increase in cash		(435)	913
Cash inflow from increase in loans		(450)	–
		<hr/>	<hr/>
Change in net debt resulting from cash flows	22(b)	(885)	913
Exchange differences		17	22
		<hr/>	<hr/>
MOVEMENT IN NET DEBT		(868)	935
NET DEBT AT 1 JULY	22(b)	(111)	(1,046)
		<hr/>	<hr/>
NET DEBT AT 30 JUNE	22(b)	(979)	(111)
		<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

at 30 June 2003

I. ACCOUNTING POLICIES

Basis of preparation and change in accounting policy

The financial statements are prepared under the historical cost convention and in accordance with UK applicable accounting standards.

In preparing the financial statements for the current year, there has been a change in the presentation relating to product rebates. This change has resulted in rebates now being netted off against turnover, rather than being grossed up and included within cost of sales, the treatment used in the 2002 financial statements.

The financial effect of this change in presentation is disclosed below:

		<i>restated</i> 2002 £000	<i>As</i> <i>previously</i> <i>stated</i> 2002 £000
Turnover			
– continuing	1,997		2,318
– discontinued	1,407		2,214
	<u> </u>	3,404	<u> </u>
Cost of Sales			
– continuing	(912)		(1,260)
– discontinued	(784)		(1,564)
	<u> </u>	(1,696)	<u> </u>
Gross Profit		<u> </u> 1,708	<u> </u> 1,708

Prior Year Adjustment

A prior year adjustment has been recorded in the consolidated financial statements to correct the treatment of the purchase of Pharmarights Limited. The purchase of Pharmarights Ltd was originally accounted for as an acquisition on formation of the group. The group was formed through the combination of Sinclair Pharma Ltd, Pharmarights Ltd and Sinclair Pharmaceuticals Ltd. Following the combination, the shareholders of Pharmarights Ltd represented the majority shareholders of the group. In accordance with FRS6 'Acquisitions and Mergers', the purchase of Pharmarights Ltd should have been treated as a merger and not as an acquisition, and the financial statements have been restated to reflect this treatment. This has resulted in a reduction in the recorded net book value of goodwill at 30 June 2002 of £4.6 million, a reduction in the amortisation of goodwill reflected in the profit and loss account for the year then ended of £255,000, and a reduction in the merger reserve at 30 June 2001 of £5.1 million.

Basis of consolidation

The group financial statements consolidate the financial statements of Sinclair Pharma Limited and all its subsidiary undertakings drawn up 30 June each year. No profit and loss account is presented for Sinclair Pharma Limited as permitted by section 230 of the Companies Act 1985.

Notes to the Financial Statements

at 30 June 2003

I. ACCOUNTING POLICIES (Continued)

Basis of consolidation (continued)

Acquisitions have been included in the group financial statements using the acquisition method of accounting. The results of acquired entities are included in the group financial statements from the date of acquisition. Purchase consideration is allocated to assets and liabilities on the basis of fair value at the relevant date of acquisition. Purchase consideration, settled by shares, is recorded at the directors' estimate of share price, based on their valuation of the business.

Pharmarights Ltd has been merger accounted, reflecting the substance of that business combination.

Turnover

Revenue from product sales is recognised upon shipment to customers. Provisions for rebates, product returns and discounts to customers are provided for as reductions to turnover in the same period as the related sales occurred.

Royalties receivable under licensing agreements are recognised as they are earned and are recorded within turnover.

The recognition of other payments received, such as licence fees, upfront payments and milestones, is dependent on the terms of the related arrangement, having regard to the ongoing risks and rewards of the arrangement, and the existence of any performance or repayment obligations, if any, with the third party. Amounts received are recognised immediately as turnover where there are no substantial remaining risks, no ongoing performance obligations and amounts received are not refundable. Amounts are deferred over an appropriate period where these conditions are not met.

The discontinued operations disclosed in the year to 30 June 2003 relate to the sale of the group's UK Aspirin telesales and distribution business, on 24 September 2003, and in the year ended 30 June 2002 also relate to the closure of the group's For Zest subsidiary.

Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. The directors review the estimated useful life of the goodwill on an annual basis and have not identified any need to adjust these amounts.

If a subsidiary or business is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Other intangible assets

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition.

Intangible assets are amortised on a straight-line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full financial year following the acquisition, and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. The directors are of the view that the useful economic life of the intellectual property acquired with the Pharmarights business on 18 August 2000 is 10 years, and the intellectual property is being amortised over that period.

Notes to the Financial Statements

at 30 June 2003

I. ACCOUNTING POLICIES (Continued)

Research and Development expenditure

Research and development expenditure is written off to the profit and loss account as incurred.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Office & Laboratory equipment	15 – 25% pa (reducing balance)
Leasehold improvements	100% in the year of purchase

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials and finished goods for resale – purchase cost on a first-in, first-out basis.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to disposal.

Provision for National Insurance Contributions on Share Option or Warrant Gains

A provision is booked by the company where a potential liability exists, arising on the exercise of share options or warrants, based upon the directors' estimate of the share price at the balance sheet date, and spread over the vesting period of the options or warrants. The directors' estimate of share price is based on the most recent value placed on the company's shares in a share issue.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less, or to receive more, tax, with the following exception:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or subsequently enacted at the balance sheet date.

Notes to the Financial Statements

at 30 June 2003

I. ACCOUNTING POLICIES (Continued)

Foreign currencies

Company

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

Group

The financial statements of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account.

Pensions

The group operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

2. TURNOVER

Turnover, which is stated net of discounts, rebates and value added tax, represents amounts invoiced to third parties, derived from the provision of goods and services which fall within the group's ordinary activities, the development and exploitation of pharmaceutical products, and can be analysed as follows:

	2003	<i>restated</i> 2002
	£000	£000
Licence Fees		
<i>Continuing operations</i>	4,545	370
<i>Discontinued operations</i>	–	–
Product Revenue		
<i>Continuing operations</i>	3,568	1,627
<i>Discontinued operations</i>	966	1,407
TOTAL	<u>9,079</u>	<u>3,404</u>

Notes to the Financial Statements

at 30 June 2003

2. TURNOVER (Continued)

The turnover relating to discontinued operations is analysed below:

	2003 £000	<i>restated</i> 2002 £000
For Zest Limited	-	23
Aspirin business	966	1,384
	<u>966</u>	<u>1,407</u>

For Zest Limited was a subsidiary of the company, selling vitamins and minerals, whose operations were terminated during the previous year following a strategic review. The Aspirin business, which comprised a UK based, telesales and distribution operation, was sold on 24 September 2003, as the business was considered no longer to be part of the core activities of the group.

An analysis of turnover by geographical market is given below:

	2003 £000	<i>restated</i> 2002 £000
United Kingdom		
– continuing operations	839	620
– discontinued operations	859	1,276
Rest of world		
– continuing operations	7,274	1,377
– discontinued operations	107	131
	<u>9,079</u>	<u>3,404</u>

3. ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS

	2003			<i>restated</i> 2002		
	<i>Contin- uing</i> £000	<i>Discon- tinued</i> £000	<i>Total</i> £000	<i>Contin- uing</i> £000	<i>Discon- tinued</i> £000	<i>Total</i> £000
Turnover	8,113	966	9,079	1,997	1,407	3,404
Cost of Sales	(2,070)	(668)	(2,738)	(912)	(784)	(1,696)
Administrative expenses excluding National Insurance provision and goodwill amortisation	(3,223)	(213)	(3,436)	(2,070)	(456)	(2,526)
National Insurance provision	(1,360)	-	(1,360)	-	-	-
Goodwill amortisation	(909)	(30)	(939)	(355)	(30)	(385)
Operating profit/(loss)	<u>551</u>	<u>55</u>	<u>606</u>	<u>(1,340)</u>	<u>137</u>	<u>(1,203)</u>

Notes to the Financial Statements

at 30 June 2003

3. ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS (Continued)

The operating profit/(loss) relating to discontinued operations is analysed below:

	2003 £000	2002 £000
For Zest Limited	–	(262)
Aspirin business	55	399
	<hr/>	<hr/>
Operating profit	55	137
	<hr/>	<hr/>

4. NATIONAL INSURANCE PROVISION ON SHARE OPTIONS

The results for the year include a charge and related provision for National Insurance on certain warrants and unapproved share options, calculated in accordance with UITF25 'National Insurance contributions on share option gains'. The charge represents the amount expected to settle the National Insurance cost. Recent changes in the taxation legislation on such instruments has meant that certain warrants and options previously issued by the company will be subject to National Insurance on exercise and therefore a provision has been recorded. No charge was included in prior years as the provision at that time was estimated to be £nil.

Subsequent to the year end the National Insurance liability has been transferred to the holders of the warrants and unapproved share options, and in consideration for the transfer, a further grant of 44,850 unapproved options and 216,775 warrants has been made on the same underlying terms. The current estimated charge for National Insurance is based on the estimated year end share price and reflects the cost of the agreement to transfer the liability.

Based on the position at 30 June 2003 and applying the vesting periods of the instruments based on expectations at the balance sheet date, and the estimated share price at 30 June 2002 and 30 June 2001, if the provision had been estimated on a similar basis at 30 June 2002, a provision of £270,000 would have been brought forward at 1 July 2001, and a charge of £279,000 recorded in the year ended 30 June 2002.

Notes to the Financial Statements

at 30 June 2003

5. OPERATING PROFIT/(LOSS)

This is stated after charging / (crediting):

	2003	<i>restated</i> 2002
	£000	£000
Auditors' remuneration – audit services	35	22
– non audit services	7	5
Depreciation of owned fixed assets	85	34
Amortisation of intangible fixed assets	946	392
Foreign exchange gain	(38)	(12)
Research and development	562	331
	<u> </u>	<u> </u>

6. STAFF COSTS

	2003	2002
	£000	£000
Wages and salaries	1,426	1,156
Social security costs	147	94
Other pension costs	96	60
	<u> </u>	<u> </u>
	<u>1,669</u>	<u>1,310</u>

The average monthly number of employees during the year was made up as follows:

	2003	2002
	No.	No.
Sales	9	11
Administration	17	11
Distribution and stores	3	4
	<u> </u>	<u> </u>
	<u>29</u>	<u>26</u>

Notes to the Financial Statements

at 30 June 2003

7. DIRECTORS' REMUNERATION

The employee costs above include the following remuneration in respect of the directors of the company:

	2003 £000	2002 £000
Emoluments	500	356
Fees	126	89
	<u>626</u>	<u>445</u>
Company contributions to defined contribution pension schemes	<u>49</u>	<u>48</u>
Members of defined contribution pension scheme	<u>3</u>	<u>3</u>

Amounts in respect of the highest paid director:

	2003 £000	2002 £000
Emoluments	209	136
Fees	–	–
	<u>28</u>	<u>26</u>
Company contributions to defined contribution pension scheme	<u>28</u>	<u>26</u>

The directors' costs are borne by subsidiary undertakings and in the opinion of the directors it is not practicable to split out the amount paid by that subsidiary for services performed on behalf of the company.

Directors' Interests

Information concerning the directors' interests in shares, share options and warrants is provided in the directors' report.

8. INTEREST PAYABLE

	2003 £000	2002 £000
Bank loans and overdrafts	<u>27</u>	<u>31</u>
	<u>27</u>	<u>31</u>

Notes to the Financial Statements

at 30 June 2003

9. TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

(a) Tax on profit/(loss) on ordinary activities

	2003 £000	2002 £000
Current tax:		
<i>UK Corporation Tax</i>		
Current tax on income for the year	143	–
	<u>143</u>	<u>–</u>
Group current tax	143	–
	<u>143</u>	<u>–</u>
Deferred tax:		
Origination and reversal of timing differences	–	–
	<u>–</u>	<u>–</u>
Group deferred tax	–	–
	<u>–</u>	<u>–</u>
Tax on profit/(loss) on ordinary activities	143	–
	<u>143</u>	<u>–</u>

(b) Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2002 – 30%). The differences are reconciled below:

	2003 £000	<i>restated</i> 2002 £000
Profit/(loss) on ordinary activities before tax	583	(1,231)
	<u>583</u>	<u>(1,231)</u>
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	175	(369)
Disallowed amortisation	281	117
Disallowed expenses	48	27
Disallowed provision	96	–
Research and development tax credit	(67)	(30)
Tax losses not recognised	–	255
Prior year UK tax losses	(314)	–
Prior year overseas tax losses	(85)	–
Depreciation in advance of capital allowances	9	–
	<u>143</u>	<u>–</u>
Taxation charge for the year	143	–
	<u>143</u>	<u>–</u>

10. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT UNDERTAKING

The profit dealt with in the financial statements of the parent undertaking was £76,000 (2002: loss of £37,000).

Notes to the Financial Statements

at 30 June 2003

11. INTANGIBLE FIXED ASSETS

<i>Group</i>	<i>Goodwill</i> £000	<i>Licenses</i> £000	<i>Total</i> £000
<i>Cost:</i>			
At 1 July 2002 (restated)	7,702	70	7,772
Additions in year	11,071	–	11,071
	<hr/>	<hr/>	<hr/>
At 30 June 2003	18,773	70	18,843
	<hr/>	<hr/>	<hr/>
<i>Amortisation:</i>			
At 1 July 2002 (restated)	756	14	770
Provided during the year	939	7	946
	<hr/>	<hr/>	<hr/>
At 30 June 2003	1,695	21	1,716
	<hr/>	<hr/>	<hr/>
<i>Net book value:</i>			
At 30 June 2003	17,078	49	17,127
	<hr/>	<hr/>	<hr/>
At 30 June 2002 (restated)	6,946	56	7,002
	<hr/>	<hr/>	<hr/>

The goodwill arose on the acquisition of three companies in previous years, and a further one company in November 2002, and is being amortised over a period of 20 years.

The licences are held in a subsidiary company and comprise product distribution rights that have been capitalised and are being amortised over their useful life, a period of 10 years.

Notes to the Financial Statements

at 30 June 2003

12. TANGIBLE FIXED ASSETS

Group

	<i>Office & Laboratory equipment £000</i>	<i>Leasehold improvements £000</i>	<i>Total £000</i>
Cost:			
At 1 July 2002	118	15	133
Additions	39	22	61
Acquisition of subsidiary undertaking	98	–	98
	<hr/>	<hr/>	<hr/>
At 30 June 2003	255	37	292
	<hr/>	<hr/>	<hr/>
Depreciation:			
At 1 July 2002	29	14	43
Provided during the year	62	23	85
	<hr/>	<hr/>	<hr/>
At 30 June 2003	91	37	128
	<hr/>	<hr/>	<hr/>
Net book value:			
At 30 June 2003	164	–	164
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 June 2002	89	1	90
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

13. INVESTMENTS

Company

	<i>Subsidiary undertakings £000</i>
Cost:	
At 1 July 2002	12,729
Additions	10,682
	<hr/>
At 30 June 2003	23,411
	<hr/> <hr/>

	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
Sinclair Pharmaceuticals Ltd	England	Ordinary shares	100%	Pharmaceutical products
Pharmarights Ltd	England	Ordinary shares	100%	Distribution rights
For Zest Ltd	England	Ordinary shares	100%	Medical products
Sinclair Pharma SRL*	Italy	Ordinary shares	100%	Pharmaceutical products
Salix Pharma AB	Sweden	Ordinary shares	100%	Pharmaceutical products
Sinclair Pharma AB	Sweden	Ordinary shares	99.1%	Pharmaceutical products

* 90% of the issued share capital is held by the company, 10% is held by a subsidiary undertaking, Sinclair Pharmaceuticals Ltd.

Notes to the Financial Statements

at 30 June 2003

13. INVESTMENTS (Continued)

On 11 November 2002 the group acquired Biosurface Pharma AB for a consideration £10,631,000, before expenses, satisfied by the allotment of 1,252,915 ordinary shares of £0.01, valued at £5 each, with a further 873,468 ordinary shares of £0.01, valued at £5 each, to be issued on a conditional basis. Further details in respect of the contingent consideration is provided below:

- (i) Additional consideration of £2,116,230, satisfied by the allotment of 423,246 ordinary shares of £0.01 each in the share capital of Sinclair Pharma Limited, issued on receipt of approval to advertise and sell the product (Decapinol) by the regulatory body in two of the following territories: UK, Germany, France, Italy, Sweden, Spain, USA and Japan;
- (ii) Additional consideration of £2,251,110 satisfied by the allotment of 450,222 ordinary shares of £0.01 each in the share capital of Sinclair Pharma Limited, issued on receipt of release of the product for sale in one of the following territories: UK, Germany, France, Italy, Spain, USA and Japan;

The investment in Sinclair Pharma AB (formerly Biosurface Pharma AB) has been included in the company's balance sheet at its fair value at the date of acquisition.

Analysis of the acquisition of Sinclair Pharma AB:

Net assets at date of acquisition:

	<i>Book Value £000</i>	<i>Adjustments £000</i>	<i>Fair value to group £000</i>
Tangible fixed assets	2,670	(2,572) (i)	98
Stocks	71	-	71
Debtors	45	-	45
Cash	(3)	-	(3)
Creditors due within one year	(604)	-	(604)
	<u>2,179</u>	<u>(2,572)</u>	
Net assets/(liabilities)			(393)
Minority Interest			4
Goodwill arising on acquisition			11,071
			<u>10,682</u>
Discharged by:			
Fair value of shares issued and to be issued (note 21)			10,631
Costs associated with the acquisition			51
			<u>10,682</u>

Accounting policy alignment:

- (i) Write-off of research and development costs capitalised.

The turnover for the period following acquisition amounted to £4,000 and the profit for the period after taxation was £12,000.

Notes to the Financial Statements

at 30 June 2003

13. INVESTMENTS (Continued)

Sinclair Pharma AB contributed £23,000 to the group's net operating cash flows, paid £nil in respect of net returns on investments and servicing of finance, paid £nil in respect of taxation and utilised £nil for capital expenditure and financial investment.

This acquisition is classified as a substantial acquisition under Financial Reporting Standard No 6, and as such the following additional information is provided:

Summarised profit and loss account for the period 1 January 2002 to 11 November 2002

	£000
Turnover	7
Operating loss	(26)
Loss before taxation	(27)
Taxation	–
Retained loss for the period	(27)

The loss after tax reported for the previous financial year, being the year ended 31 December 2001, was £133,000.

14. STOCKS

	<i>Group</i>		<i>Company</i>	
	2003	2002	2003	2002
	£000	£000	£000	£000
Raw materials	22	64	–	–
Finished goods	238	499	–	–
	<u>260</u>	<u>563</u>	<u>–</u>	<u>–</u>

15. DEBTORS

	<i>Group</i>		<i>Company</i>	
	2003	2002	2003	2002
	£000	£000	£000	£000
Trade debtors	4,217	617	–	–
Amounts owed by group undertakings	–	–	1,798	344
Other debtors	117	72	1	4
Corporation tax	–	42	–	–
Prepayments and accrued income	76	92	–	–
	<u>4,410</u>	<u>823</u>	<u>1,799</u>	<u>348</u>

Notes to the Financial Statements

at 30 June 2003

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<i>Group</i>		<i>Company</i>	
	2003	2002	2003	2002
	£000	£000	£000	£000
Bank loans and overdrafts	686	157	–	–
Trade creditors	1,803	1,307	17	–
Deferred consideration	587	–	587	–
Current corporation tax	143	–	32	–
Other taxes and social security costs	139	67	–	–
Other creditors	553	430	–	14
Accruals and deferred income	785	1,383	100	25
Other loan	70	–	–	–
	<u>4,766</u>	<u>3,344</u>	<u>736</u>	<u>39</u>

The group overdraft is secured by a fixed and floating charge over the assets of subsidiary undertakings. The company has issued a debenture and cross guarantee in respect of the overdraft. The group loan of £450,000 (2002: £nil) is also secured by a fixed and floating charge over the assets of subsidiary undertakings.

The deferred consideration arose on the acquisition of Sinclair Pharma Srl and comprises Loan Notes, which attract no interest and are repayable at par on the earlier of an initial public offering of the company's securities within 36 months of their issue on 17 May 2001, or 10 May 2004. If the loan notes are not repaid, they are convertible into ordinary shares, based on the market value of the shares at the date of conversion.

The other loan of £70,000 arises in a subsidiary undertaking and is owed to a company controlled by Dr M Flynn, a director. The loan is interest free, is unsecured and has no fixed repayment schedule. Repayment was deferred at 30 June 2002 for one year.

17. CREDITORS: AMOUNTS FALLING DUE IN GREATER THAN ONE YEAR

	<i>Group</i>		<i>Company</i>	
	2003	2002	2003	2002
	£000	£000	£000	£000
Deferred consideration (see note 16)	–	635	–	635
Other loan (see note 16)	–	70	–	–
	<u>–</u>	<u>705</u>	<u>–</u>	<u>635</u>

Notes to the Financial Statements

at 30 June 2003

18. PROVISIONS FOR LIABILITIES AND CHARGES

<i>Group and Company</i>	<i>National Insurance on share options £000</i>
At 1 July 2002	–
Arising during the year (see note 4)	1,360
	<hr/>
At 30 June 2003	1,360
	<hr/> <hr/>

19. DEFERRED TAXATION

The group has a potential deferred tax asset, which has not been recognised in the financial statements, as follows:

	<i>2003 £000</i>	<i>Group 2002 £000</i>	<i>2003 £000</i>	<i>Company 2002 £000</i>
Depreciation in advance of capital allowances	4	–	–	–
Other timing differences	–	–	–	–
Tax losses	–	263	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
Unrecognised deferred tax asset	4	263	–	–
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The deferred tax asset in respect of tax losses was not recognised in the prior year due to uncertainty over the timing and recoverability of the amount.

20. SHARE CAPITAL, SHARE OPTIONS AND SHARE WARRANTS

<i>Share Capital</i>	<i>2003 '000s</i>	<i>2002 '000s</i>	<i>2003 £000</i>	<i>2002 £000</i>
<i>Authorised</i>				
Ordinary shares of £0.01 each	19,500	14,000	195	140
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £0.01 each	11,849	10,591	118	106
	<hr/>	<hr/>	<hr/>	<hr/>

On 11 November 2002, 1,252,915 ordinary shares of £0.01 each, with aggregate nominal value of £12,529, were allotted as part of the consideration for the acquisition of a subsidiary undertaking, Sinclair Pharma AB (formerly Biosurface Pharma AB), in a share for share exchange (note 13).

Notes to the Financial Statements

at 30 June 2003

20. SHARE CAPITAL, SHARE OPTIONS AND SHARE WARRANTS (Continued)

Share Options

The company has an EMI share option scheme under which approved and unapproved options to subscribe for the company's shares have been granted to certain employees, as follows:

<i>Issue date</i>	<i>Number of options</i>	<i>Number of option holders</i>	<i>Option price (£)</i>	<i>Dates normally exercisable</i>
Approved:				
1 May 2001	50,000	1	0.01	May 2003 – May 2011
1 May 2001	50,000	1	1.00	May 2003 – May 2011
1 May 2001	138,900	9	2.00	May 2003 – May 2011
Unapproved:				
1 May 2001	300,000	1	2.00	May 2003 – May 2011
	538,900			
	538,900			

Share Warrants

The company has issued warrants over ordinary £0.01 shares as follows:

<i>Issue date</i>	<i>Number of warrants</i>	<i>Number of warrant holders</i>	<i>Warrant price (£)</i>
8 August 2000	1,450,000	3	0.01
1 April 2001	50,000	2	2.00
15 May 2001	25,000	1	2.00
9 June 2001	945	1	4.00
1 March 2002	75,000	2	4.00
	1,600,945		
	1,600,945		

The warrants are only exercisable immediately prior to a listing or sale. In addition, the holder must be an employee, director or consultant of the company at the time of exercise.

Notes to the Financial Statements

at 30 June 2003

21. RECONCILIATION OF SHAREHOLDERS' FUNDS & MOVEMENT ON RESERVES

<i>Group</i>	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Shares to be issued £000</i>	<i>Merger reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total share-holders' funds £000</i>
At 1 July 2001 (as originally stated)	106	3,388	–	8,910	(1,188)	11,216
Prior year adjustment (see note 1)	–	–	–	(5,100)	255	(4,845)
At 1 July 2001 (restated)	106	3,388	–	3,810	(933)	6,371
Shares issued in the year	–	40	–	–	–	40
Loss for the year (restated)	–	–	–	–	(1,231)	(1,231)
At 30 June 2002 (restated)	106	3,428	–	3,810	(2,164)	5,180
Shares issued in the year	12	–	–	6,252	–	6,264
Shares to be issued	–	–	4,367	–	–	4,367
Exchange differences on retranslation of net assets of subsidiary undertakings	–	–	–	–	(48)	(48)
Profit for the year	–	–	–	–	440	440
At 30 June 2003	118	3,428	4,367	10,062	(1,772)	16,203
<i>Company</i>						
	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Shares to be issued £000</i>	<i>Merger reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total share-holders' funds £000</i>
At 1 July 2001	106	3,388	–	8,910	(4)	12,400
Shares issued in the year	–	40	–	–	–	40
Loss for the year	–	–	–	–	(33)	(33)
At 30 June 2002	106	3,428	–	8,910	(37)	12,407
Shares issued in the year	12	–	–	6,252	–	6,264
Shares to be issued	–	–	4,367	–	–	4,367
Profit for the year	–	–	–	–	76	76
At 30 June 2003	118	3,428	4,367	15,162	39	23,114

Shares to be issued relate to the contingent allotment of shares as part of the consideration for the acquisition of Sinclair Pharma AB (note 13).

Notes to the Financial Statements

at 30 June 2003

22. NOTES TO THE STATEMENT OF CASH FLOWS

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

	2003 £000	2002 £000
Operating profit/(loss)	606	(1,203)
Depreciation of tangible fixed assets	85	34
Amortisation of intangible fixed assets	946	392
Increase in debtors	(3,620)	(384)
Decrease/(increase) in stocks	370	(159)
(Decrease)/increase in creditors	(519)	2,347
Increase in provisions (see note 18)	1,360	–
Exchange gains	(17)	(22)
	<u>(789)</u>	<u>1,005</u>

(b) Analysis of net debt

	<i>At</i> <i>1 July</i> <i>2002</i> £000	<i>Cash</i> <i>flow</i> £000	<i>Exchange</i> <i>differences</i> £000	<i>Other</i> <i>non-cash</i> <i>movements</i> £000	<i>At</i> <i>30 June</i> <i>2003</i> £000
Cash at bank and in hand	751	(364)	(23)	–	364
Bank overdrafts	(157)	(71)	(8)	–	(236)
	<u>594</u>	<u>(435)</u>	<u>(31)</u>	<u>–</u>	<u>128</u>
Cash	594	(435)	(31)	–	128
Short term loans	–	(450)	–	–	(450)
Long term loans	(70)	–	–	–	(70)
Loan stocks	(635)	–	48	–	(587)
	<u>(111)</u>	<u>(885)</u>	<u>17</u>	<u>–</u>	<u>(979)</u>

(c) Major non-cash transactions

See note 13 for an analysis of the acquisition of Sinclair Pharma AB.

23. CAPITAL COMMITMENTS

The group had capital commitments of £35,000 at 30 June 2003 (2002: Nil).

Notes to the Financial Statements

at 30 June 2003

24. POST BALANCE SHEET EVENTS

On 24 September 2003, the group sold its UK Aspirin telesales and distribution business, as it was considered no longer part of the core activities of the group. Accordingly the results of this business are presented within the group profit and loss account as discontinued operations.

On 21 October 2003, the group agreed to transfer the National Insurance liability on share options and warrants, as disclosed in note 4, to the holders of the underlying options and warrants, in exchange for a grant of further options and warrants.

On 22 October 2003 the group acquired the rights to Paradote, a pain relief product, for an upfront payment of £25,000, and milestones and royalties determined on the registration and subsequent sale of the product.

