



Phairson Limited

(formerly known as Phairson plc)
and subsidiary undertakings

Accounts for the year ended 31 December 2000
together with directors' and auditors' reports

Registered number: 3649486



Directors' report

For the year ended 31 December 2000

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report, for the year ended 31 December 2000.

Re-registration and change of name

On 28 November 2000 the company re-registered as a private company and changed its name to Phairson Limited.

Principal activities and business review

The principal activities of the group are the research and development of novel biopharmaceutical products and medical devices and negotiating with potential partners with a view to obtaining a licensing deal for its products. The group made further progress in its research and development programmes during the year. In October 2000 the group completed its Phase II study into the treatment of chronic wounds with PHM-101, the Group's lead product. The results from the study were encouraging and the group is in the process of conducting a further Phase II study into the healing effects of PHM-101 on patients with chronic wounds. The interim analysis of this study should be completed by 2002.

On 14 December 2000 the company raised £900,000 in cash through an issue of preferred C shares and simultaneously converted all outstanding loan stock, together with accrued interest thereon, into preferred C shares upon the same terms. Since year end, the group has received an undertaking from companies in which Mr Jan-Eric Österlund and Mr Sven-Erik Nilsson have a beneficial interest that they will provide additional loan finance totalling £400,000 in the first quarter of 2002 to fund the further phase II study.

Results and dividends

The audited financial statements for the year ended 31 December 2000 are set out on pages 6 to 22.

The group's loss for the year of £3,510,590 (1999: £2,598,332) is set out on page 6 and has been transferred to group reserves. The directors do not recommend the payment of a dividend.

Directors and their interests

The directors of the company who served during the year are as shown below:

Executive

Dr Richard Franklin (Chief Executive)

Mr Patrick Banks (Finance Director) (resigned 17 November 2000)

Non-Executive

Mr Jan-Eric Österlund (Chairman)

Mr Sven-Erik Nilsson

Dr Roger Brimblecombe (resigned 17 November 2000)

Mr Laurie Rostron

Dr Michael Carter (resigned 1 August 2000)

Dr Brian Morgan (resigned 17 November 2000)

Directors' report (continued)

Directors and their interests (continued)

The directors who held office at 31 December 2000 had no interests (including options) other than those shown below in the shares of the group.

Shares	At 31 December 2000				At 1 January 2000 ^④			
	Number of shares				Number of shares			
Name of director	Ordinary	Preferred A	Preferred B	Preferred C	Ordinary	Preferred A	Preferred B	Preferred C
Mr Jan-Eric Österlund ^①	46,589	1,765,653	112,444	1,932,821	46,589	882,826	30,667	-
Mr Sven-Erik Nilsson	45,995	846,904	128,993	1,049,362	45,995	423,452	35,180	-
Mr Laurie Rostron ^③	-	-	-	-	-	-	-	-
Dr Richard Franklin ^②	46,128	-	-	-	46,128	-	-	-

① The interests of Mr Jan-Eric Österlund are held by a family trust.

② The interests of Dr Richard Franklin are held by a trust in which he has a beneficial interest.

③ Mr Laurie Rostron has a carried interest in the shareholding of Alta Berkeley III CV. At 1 January 2000 Alta Berkeley III CV had an interest in 369,025 preferred A shares and 75,758 preferred B shares of the company after adjusting for the effects of the company's one for ten share consolidation. At 31 December 2000, Alta Berkeley III CV had an interest in 738,050 preferred A shares, 277,779 preferred B shares and 379,817 preferred C shares of the company.

④ Shareholdings as at 1 January 2000 have been re-stated to reflect the impact of the company's one for ten share capital consolidation during the year. No adjustment has been made to shareholdings as at 1 January 2000 to reflect the effect of bonus issues during the year.

Directors' report (continued)

Directors and their interests (continued)

Options	Number of options over Preferred A Shares of the company ^④			
	At 1 January 2000 and 31 December 2000	Exercise price	Date from which exercisable	Expiry date
Name of director				
Mr Jan-Eric Österlund ①	92,400	£1.80	1 Jan 97	31 Dec 03
①	4,620	£1.80	31 Jul 97	31 Dec 03
Mr Sven-Erik Nilsson	-	-	-	-
Mr Laurie Rostron	-	-	-	-
Dr Richard Franklin ① ③	147,840	£1.80	1 Jan 97	31 Dec 03
②	46,200	£1.80	31 Jul 97	30 Jun 04
②	46,200	£3.60	1 Jul 98	30 Jun 05
②	46,200	£7.20	1 Jul 99	30 Jun 06
②	46,200	£7.20	1 Jul 00	30 Jun 07
②	25,000	£3.30	1 Jul 99	30 Jun 06
②	25,000	£3.30	1 Jul 00	30 Jun 07
②	25,000	£3.30	1 Jul 01	30 Jun 08
②	25,000	£3.30	1 Jul 02	30 Jun 09

① Options issued under the terms of the company's Founder/Non-Management Option Scheme.

② Options issued under the company's Management Share Option Scheme.

③ Options granted to Dr Richard Franklin of which 104,482 are held by a trust in which Dr Franklin has a beneficial interest and 43,358 are held by a trust in which Dr Franklin has no beneficial interest.

④ The numbers and exercise price of options at 1 January 2000 have been re-stated to reflect the effect of the company's one for ten share consolidation during the year.

Liability insurance for company officers

The company has purchased insurance cover for the directors against liability arising from negligence, default, breach of duty and breach of trust in relation to the company.

Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

Directors' report (continued)

Directors' responsibilities (continued)

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

29 Abingdon Road
London
W8 6AH

By order of the Board



Dr Richard Franklin
Director

14 March 2002



To the Shareholders of Phairson Limited:

We have audited the accounts on pages 6 to 23 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 to 11.

Respective responsibilities of directors and auditors

As described on pages 3 and 4 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Fundamental uncertainty – going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1b) of the financial statements "Basis of preparation" concerning the financial condition of the company and the directors' plans to raise additional funds. In view of the significance of the fact that the preparation of the financial statements assumes the success of these plans, we consider that these disclosures should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

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

Arthur Andersen

Chartered Accountants and Registered Auditors

Abbots House
Abbey Street
Reading RG1 3BD

14 March 2002

Consolidated profit and loss account

For the year ended 31 December 2000

	Notes	2000 £	1999 £
Operating expenses	2	(1,641,522)	(2,650,955)
Operating loss		(1,641,522)	(2,650,955)
Interest receivable and similar income	5	27,708	57,258
Interest payable and similar charges	6	(1,896,776)	(4,635)
Loss on ordinary activities before and after taxation, being retained loss for the year	7, 13	(3,510,590)	(2,598,332)

All of the above results arise from continuing operations.

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2000

	2000 £	1999 £
Loss for the financial year	(3,510,590)	(2,598,332)
Loss on foreign currency translation	(1,185)	(284)
Total recognised gains and losses relating to the year	(3,511,775)	(2,598,616)

The accompanying notes are an integral part of these consolidated statements.

Balance sheets

31 December 2000

	Notes	Group		Company	
		2000 £	1999 £	2000 £	1999 £
Fixed assets					
Tangible assets	8	14,256	60,312	-	-
Investments	9	-	-	-	14,873,930
		<u>14,256</u>	<u>60,312</u>	<u>-</u>	<u>14,873,930</u>
Current assets					
Debtors	10	136,160	129,850	-	257,500
Cash at bank and in hand		<u>1,258,408</u>	<u>346,329</u>	<u>-</u>	<u>-</u>
		1,394,568	476,179	-	257,500
Creditors: Amounts falling due within one year	11	(378,555)	(868,406)	(12,000)	(270,417)
		<u>1,016,013</u>	<u>(392,227)</u>	<u>(12,000)</u>	<u>(12,917)</u>
Net current assets (liabilities)					
		<u>1,030,269</u>	<u>(331,915)</u>	<u>(12,000)</u>	<u>14,861,013</u>
Capital and reserves					
Called-up share capital	12	2,624,661	720,141	2,624,661	720,141
Share premium account	13	17,123,228	14,153,789	17,123,228	14,153,789
Other reserves	13	(1,774,418)	(1,773,233)	-	-
Profit and loss account	13	<u>(16,943,202)</u>	<u>(13,432,612)</u>	<u>(19,759,889)</u>	<u>(12,917)</u>
Equity shareholders' funds (deficit)	14	<u>1,030,269</u>	<u>(331,915)</u>	<u>(12,000)</u>	<u>14,861,013</u>

The accounts on pages 6 to 22 were approved by the Board on 14 March 2002 and were signed on its behalf by:



Dr Richard Franklin - Director

The accompanying notes are an integral part of these balance sheets.

Consolidated cash flow statement

For the year ended 31 December 2000

	Notes	2000 £	1999 £
Net cash outflow from operating activities	15(a)	<u>(1,824,186)</u>	<u>(2,371,197)</u>
Returns on investments and servicing of finance			
Interest received		27,708	68,230
Interest paid		<u>(1,896,776)</u>	<u>(3,727)</u>
Net cash (outflow) inflow from returns on investments and servicing of finance		<u>(1,869,068)</u>	<u>64,503</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		<u>(11,126)</u>	<u>(3,126)</u>
Net cash outflow before management of liquid resources and financing		<u>(3,704,380)</u>	<u>(2,309,820)</u>
Financing			
Secured loan stock		(257,500)	257,500
Issue of share capital		<u>4,873,959</u>	<u>-</u>
Net cash inflow from financing		<u>4,616,459</u>	<u>257,500</u>
Increase (decrease) in cash	15(b)	<u>912,079</u>	<u>(2,052,320)</u>

The accompanying notes are an integral part of this consolidated cash flow statement.

Notes to the accounts

31 December 2000

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Basis of preparation

The group continues to focus its efforts on the research and development of pharmaceutical products and medical devices associated with its scientific patents and has yet to generate any revenues from sales although the group has been in discussions with other firms for potential partnering and licensing deals. To date the group's activities have been financed by the issue of securities and advances from shareholders.

The group is currently conducting a second Phase II study into the healing effects of PHM-101 (the group's main product) on patients with chronic wounds. Once the outcome of these trials is known, the directors will decide whether to continue the activities of the group. The results of the trials are expected to be known in 2002.

The group would require further funding or a favourable conclusion to its discussions relating to partnership or licensing deals in order to complete the development of its products and generate revenues. The terms on which any such additional funding or partnership deals may be available, if at all, will be dependent on the results of the clinical trials currently underway. Such additional development work would only commence once the necessary funding was in place.

The directors have obtained undertakings from companies in which two major shareholders who are also directors have beneficial interests that they will underwrite loans totalling £400,000 to the company. The directors believe that these loans will allow the group to continue to pay its creditors as they fall due, as well as cover any winding up costs the group may incur, should the outcome of the trials be unfavourable. Accordingly the directors have prepared these financial statements on a going concern basis. The financial statements do not contain any adjustments that would result if the outcome of the trials were to prove unfavourable and the company were to be wound up.

c) Basis of consolidation

The group accounts consolidate the accounts of Phairson Limited and its subsidiary undertakings drawn up to 31 December 2000.

As part of a group reconstruction in 1999, Phairson Limited acquired Phairson Medical Limited, a company incorporated in the United Kingdom. This purchase has been accounted for under merger accounting principles. Under this method, results are reported as if the acquiring and acquired companies have been combined since the earlier date of incorporation. No purchased goodwill is created on acquisition and the assets and liabilities of the acquired company are not adjusted to reflect their fair or market values.

Notes to the accounts (continued)

1 Accounting policies (continued)

c) Basis of consolidation (continued)

In the company's accounts, the investment in Phairson Medical Limited is stated at the fair value of the shares issued as consideration for the purchase. Only dividends received and receivable are credited to the company's profit and loss account.

No profit and loss account is presented for Phairson Limited as provided by section 230 of the Companies Act 1985. The company's loss for the year to 31 December 2000, determined in accordance with the Act, was £19,746,971 (1999: £12,917).

d) Tangible fixed assets

Tangible fixed assets are shown at cost, net of depreciation and any provision for impairment.

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

Leasehold improvements	5 years (20% per annum)
Fixtures and fittings	5 years (20% per annum)
Production plant	3 years (33.33% per annum)
Computer equipment	3 years (33.33% per annum)

Operating lease rentals are charged to the profit and loss account as incurred. Rental incentives are amortised over the period to first rent review.

e) Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

f) Research and development

Research and development expenditure is written off in the year of expenditure.

g) Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Provision is made for deferred taxation, using the liability method, on all material timing differences only to the extent that they are expected to reverse in the future without being replaced.

Notes to the accounts (continued)

1 Accounting policies (continued)

h) Pension costs

The group does not maintain any pension plans but makes defined supplementary salary payments to certain employees to cover the cost of such pension arrangements. It is at the discretion of employees receiving such supplementary salary payments to contribute into a personal pension plan if they so desire. The cost of supplementary salary payments is included in these accounts as part of employment costs.

i) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate at the forward contract rate. All exchange differences are included in the profit and loss account.

j) Related party transactions

In accordance with the exemption in Financial Reporting Standard Number 8, transactions between group companies are not disclosed.

k) Investments

Fixed asset investments are shown at cost less provision for impairment.

2 Operating expenses

	2000 £	1999 £
Research and development	1,097,922	1,824,146
General and administrative	543,600	826,809
	<u>1,641,522</u>	<u>2,650,955</u>

Notes to the accounts (continued)

3 Employee information

The average monthly number of employees (including executive directors) was:

	2000 Number	1999 Number
Research and development	2	4
General and administrative	3	4
	<u>5</u>	<u>8</u>

Staff Costs

	2000 £	1999 £
Wages and salaries	538,654	694,314
Social security costs	61,633	78,874
	<u>600,287</u>	<u>773,188</u>

Notes to the accounts (continued)

4 Directors' emoluments and interests

Directors' emoluments

Full details of the remuneration of each director during the year are given below.

	Salary £	Other £	Total 2000 £	Total 1999 £
Dr Richard Franklin	191,987	4,630	196,617	188,820
Mr Patrick Banks (resigned 17 November 2000)	123,827	1,946	125,773	121,348
Mr Jan-Eric Österlund	10,000	-	10,000	10,000
Mr Sven-Erik Nilsson	-	-	-	-
Dr Roger Brimblecombe (resigned 17 November 2000)	7,500	-	7,500	10,000
Dr Michael Carter (resigned 1 August 2000)	7,000	-	7,000	13,500
Dr Brian Morgan (resigned 17 November 2000)	8,750	-	8,750	10,000
Mr Laurie Rostron	-	-	-	-
	<u>349,064</u>	<u>6,576</u>	<u>355,640</u>	<u>353,668</u>

The remuneration shown above includes £14,927 received by Mr Patrick Banks in respect of his services to the group after the date of his resignation as a director.

Mr Sven-Erik Nilsson waived emoluments of £10,000 during the year (1999: £10,000).

Director fees of £10,000 due to Mr Jan-Eric Österlund in 2000 and 1999 and shown above were paid by way of charge for management services to Tenframe Limited, a company in which Mr Österlund has a beneficial interest.

Directors' interests

The interests of the directors who held office at 31 December 2000 in the shares of the company at that date, together with their interests at the beginning of the year and movements in their share options in the year are shown in the directors' report.

Directors' transactions

On 22 December 1999 QueQuoin Biotech Limited, a company in which Mr Jan-Eric Österlund and Mr Sven-Erik Nilsson have an interest, entered into an agreement with the company to subscribe for £250,000 of the company's secured loan stock. £125,000 of this commitment was provided to the company on 29 December 1999 with the balance received during the year. On 15 June 2000, QueQuoin Biotech Limited advanced a further £500,000 to the company pursuant to a further issue of secured loan stock. On 14 December 2000 the foregoing loan stock, together with accrued interest thereon amounting to £678,911 was converted into 8,455,230 Preferred C Shares of the company (see notes 11 and 12)

Notes to the accounts (continued)

4 Directors' emoluments and interests (continued)

On 15 September 2000 the company entered into a joint underwriting agreement with Vangelis Limited, a company in which Mr Jan-Eric Österlund has a beneficial interest, and Cambo Holdings Limited, a company in which Mr Sven-Erik Nilsson has a beneficial interest. On 14 December 2000, pursuant to that underwriting agreement, Vangelis Limited and Cambo Holdings Limited each subscribed for 957,447 Preferred C Shares of the company for a combined consideration of £900,000 (see note 12).

5 Investment income

	2000 £	1999 £
Interest receivable and similar income	<u>27,708</u>	<u>57,258</u>

6 Interest payable and similar charges

	2000 £	1999 £
Interest on secured loan stock	1,893,950	908
Interest on other loans	-	262
Bank charges	<u>2,826</u>	<u>3,465</u>
	<u>1,896,776</u>	<u>4,635</u>

7 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging (crediting):

	2000 £	1999 £
Foreign exchange losses (gains)	4,316	5,006
Depreciation and amounts written off tangible fixed assets		
- owned	42,661	63,275
Loss on disposal of tangible fixed assets	14,521	2,784
Auditors' remuneration		
- audit fees	15,000	15,000
- other	7,500	36,700
Property lease rentals payable	41,214	49,150
Property lease premiums receivable	<u>(48,340)</u>	<u>-</u>

Notes to the accounts (continued)

8 Tangible fixed assets

Group	Leasehold improvements £	Production plant £	Computer equipment £	Fixtures & fittings £	Total £
Cost					
Beginning of year	43,476	74,104	42,104	74,086	233,770
Additions	-	6,668	4,458	-	11,126
Disposals	(43,476)	-	(20,602)	(8,461)	(72,539)
End of year	-	80,772	25,960	65,625	172,357
Depreciation					
Beginning of year	31,157	51,456	38,194	52,651	173,458
Charge	725	23,141	4,073	14,722	42,661
Disposals	(31,882)	-	(20,012)	(6,124)	(58,018)
End of year	-	74,597	22,255	61,249	158,101
Net book value					
Beginning of year	12,319	22,648	3,910	21,435	60,312
End of year	-	6,175	3,705	4,376	14,256

9 Fixed asset investments

	Group		Company	
	2000 £	1999 £	2000 £	1999 £
Subsidiary undertakings	-	-	-	14,873,930

a) Principal group investments

The company owns the whole of the issued share capital of Phairson Medical Limited, a company incorporated in England & Wales. Phairson Medical Limited in turn owns the whole of the issued share capital of Phairson Medical Inc., a company incorporated in the United States. Both Phairson Medical Limited and Phairson Medical, Inc. are engaged in the research and development of novel biopharmaceutical products.

Notes to the accounts (continued)

9 Fixed asset investments (continued)

b) Investment in subsidiary undertakings

	2000 £	1999 £
Cost		
Beginning of year	14,873,930	-
Additions at cost	-	14,873,930
End of year	14,873,930	14,873,930
Amounts written off		
Beginning of year	-	-
Amounts written off in relation to permanent impairment	14,873,930	-
End of year	14,873,930	-
Net book value	-	14,873,930

10 Debtors

	Group		Company	
	2000 £	1999 £	2000 £	1999 £
Amounts falling due within one year:				
Amounts owed by group undertakings	-	-	-	257,500
VAT	14,674	26,128	-	-
Other debtors	54,215	53,698	-	-
Prepayments and accrued income	67,271	50,024	-	-
	136,160	129,850	-	257,500

Notes to the accounts (continued)

11 Creditors: Amounts falling due within one year

	Group		Company	
	2000	1999	2000	1999
	£	£	£	£
Convertible debt	-	257,500	-	257,500
Trade creditors	250,592	485,516	-	-
Amounts owed to subsidiary undertaking	-	-	-	12,009
Other creditors				
- social security and PAYE	35,901	25,327	-	-
- other creditors	-	619	-	-
Accruals and deferred income	92,062	99,444	12,000	908
	<u>378,555</u>	<u>868,406</u>	<u>12,000</u>	<u>270,417</u>

On 24 December 1999 the company entered into a secured loan stock agreement with certain of its shareholders and certain other parties. Total commitments received under the secured loan stock agreement amounted to £944,100 at 31 December 1999 of which £257,500 had been drawn down at that date and the balance was received during the year. A further £20,000 was committed and received under this facility during the year. Security for stock issued under this agreement was provided by a floating charge over all of the company's assets.

On 15 June 2000 the company entered into a second secured loan stock agreement under which it received a further £1,115,000. Security for stock issued pursuant to this second secured loan stock agreement was provided by way of a first ranking floating charge over all of the company's assets.

The foregoing secured loan stock issues were repayable within 360 days of draw down and carried a rate of interest equivalent to 150 per cent. of funds drawn down over the period of the loan. The loan stock issues were convertible at the option of the company in the event that the company secured a fund raising of more than £2 million, including the funds advanced under the second loan stock issue. On 14 December 2000 the company concluded such a fund raising and exercised its option to convert all its secured loan stock and the accrued interest thereon of £1,894,858 into 8,455,230 Preferred C Shares (see note 12).

Notes to the accounts (continued)

12 Called-up share capital

	2000 £	1999 £
<i>Authorised</i>		
1,000,000 ordinary shares of £0.10 each (1999:10,000,000 ordinary shares of £0.01 each)	100,000	100,000
20,000,000 preferred A shares of £0.10 each (1999:200,000,000 preferred A shares of £0.01 each)	2,000,000	2,000,000
9,000,000 preferred B shares of £0.10 each (1999:40,000,000 preferred B shares of £0.01 each)	900,000	400,000
20,000,000 preferred C shares of £0.10 each (1999:Nil)	2,000,000	-
	<u>5,000,000</u>	<u>2,500,000</u>
<i>Allotted, called-up and fully-paid</i>		
650,133 ordinary shares of £0.10 each (1999:6,501,296 ordinary shares of £0.01 each)	65,013	65,013
10,554,048 preferred A shares of £0.10 each (1999:52,770,172 preferred A shares of £0.01 each)	1,055,406	527,702
4,672,304 preferred B shares of £0.10 each (1999:12,742,625 preferred B shares of £0.01 each)	467,230	127,426
10,370,124 preferred C shares of £0.10 each (1999:Nil)	1,037,012	-
	<u>2,624,661</u>	<u>720,141</u>

During the year there have been the following dealings with the company's capital:

- On 17 November 2000, pursuant to a special resolution, the company consolidated its authorised share capital of £2,500,000 (including the 6,501,296 issued ordinary shares, 52,770,172 issued preferred A shares and 12,742,625 issued preferred B shares of £0.01 each) into 1,000,000 ordinary shares, 20,000,000 preferred A shares and 4,000,000 preferred B shares, each with a par value of £0.10 each.
- On 17 November 2000 the company increased its authorised share capital to £5,000,000 by the creation of 5,000,000 preferred B shares and 20,000,000 preferred C shares, each with a par value of £0.10 each.
- On 14 December 2000 the Company issued 1,914,894 preferred C shares of £0.10 each for a cash consideration of £900,000, generating a premium of £708,511 upon their issue. On the same date, the company issued 8,455,230 preferred C shares of £0.10 each through the exercise of its right to convert all of its secured loan stock of £2,079,100, together with the accrued interest thereon of £1,894,858, into equity. This conversion, which occurred at the same price per share as the foregoing cash subscription, generated a premium on issue of £3,128,434.

Notes to the accounts (continued)

12 Called-up share capital (continued)

- d. On 14 December 2000 the company issued 5,277,024 preferred A shares of £0.10 each and 3,398,039 preferred B shares of £0.10 each by way of a bonus issue to the holders of such shares to anti-dilute such holders, to the extent required by the company's Articles of Association, for the effects of the foregoing fund raising and conversion of loan stock.

The company's preferred A, preferred B and preferred C shares rank *pari passu* with the ordinary shares (including the right to vote at general meetings of the company and entitlement to dividend) except that:

- i. on a winding-up of the company the holders of the preferred C shares shall be entitled, in priority to any entitlement of the holders of the preferred B shares, preferred A shares and ordinary shares to any payment or other distribution, to be repaid the amount paid up (and any premium paid on their issue) on the preferred C shares held by them
- ii. on a winding-up of the company the holders of the preferred B shares shall be entitled, in priority to any entitlement of the holders of the preferred A shares and ordinary shares to any payment or other distribution, to be repaid the amount paid up (and any premium paid on their issue) on the preferred B shares held by them;
- iii. on a winding-up of the company the holders of the preferred A shares shall be entitled, in priority to any entitlement of the holders of the ordinary shares to any payment or other distribution, to be repaid the amount paid up (and any premium paid on their issue) on the preferred A shares held by them;

The company has granted options in respect of the following shares:

<i>Preferred A shares</i>	Number of shares subject to option	Period of option	Price per share
Founder/non-management options	378,840	Apr 99 – Dec 03	£1.80
Management options	618,500	Apr 99 – Feb 10	£1.80 - £7.20

Notes to the accounts (continued)

12 Called-up share capital (continued)

The company operates two separate share option schemes. The movement on options in issue under these schemes and details of each of the schemes are set out below:

	Founder options	Management options
Options in issue at 1 January 2000	3,788,400	6,675,000
Options cancelled during the year	-	(454,000)
Options cancelled upon one for ten share consolidation	(3,409,560)	(5,602,500)
Options in issue at 31 December 2000	<u>378,840</u>	<u>618,500</u>

The founder/non-management share option scheme was established by the company's subsidiary undertaking, Phairson Medical Inc., principally for the benefit of founder shareholders, consultants and non-executive directors. Under the terms of Phairson Medical Limited's acquisition of Phairson Medical, Inc. in 1996, options over Phairson Medical Inc. shares were exchanged for options over shares in Phairson Medical Limited. Under the terms of the company's recommended offer for Phairson Medical Limited in 1999, options over Phairson Medical Limited shares were exchanged for options over shares in the company on identical terms. Under the terms of the company's one for ten share consolidation on 17 November 2000 the company's founder options were consolidated on a similar basis. All options issued under this scheme have substantially the same terms.

The management share option scheme was established in 1996 by the company's subsidiary undertaking, Phairson Medical Limited, as a mechanism for rewarding management for enhancing shareholder value. The scheme has an approved and unapproved part with parallel options being granted under both. To the extent that an option is exercised under the approved part of the scheme its parallel option under the unapproved part of the scheme will lapse. Similarly, the exercise of an option under the unapproved part of the scheme will give rise to the lapse of an approved option. Under the terms of the company's recommended offer for Phairson Medical Limited in 1999, options over Phairson Medical Limited shares were exchanged for options over shares in the company on identical terms. Under the terms of the company's one for ten share consolidation on 17 November 2000 the company's management options were consolidated on a similar basis.

13 Reserves

Reserves shown in the company's balance sheet are not considered to be distributable:

	2000 £	1999 £
Profit and loss account	(19,759,888)	(12,917)
Share premium account	<u>17,123,228</u>	<u>14,153,789</u>
Total reserves/(deficit)	<u>(2,636,660)</u>	<u>14,140,872</u>

Notes to the accounts (continued)

13 Reserves (continued)

Group	Share premium account £	Other reserves		Profit and loss account £	Total £
		Merger reserve £	Other reserve £		
Beginning of year	14,153,789	(1,772,949)	(284)	(13,432,612)	(1,052,056)
Net loss on foreign currency translation	-	-	(1,185)	-	(1,185)
Premium on allotments	3,836,945	-	-	-	3,836,945
Bonus issue of preferred A and preferred B shares	(867,506)	-	-	-	(867,506)
Retained loss for the year	-	-	-	(3,510,590)	(3,510,590)
End of year	<u>17,123,228</u>	<u>(1,772,949)</u>	<u>(1,469)</u>	<u>(16,943,202)</u>	<u>(1,594,392)</u>

Other reserve represents foreign currency differences arising on the revaluation of the assets and liabilities of Phairson Medical, Inc - which are non-sterling denominated.

Company	Share premium account £	Profit and loss account £	Total £
Beginning of period	14,153,789	(12,917)	14,140,872
Premium on allotments	3,836,945	-	3,836,945
Bonus issue of preferred A and preferred B shares	(867,506)	-	(867,506)
Retained loss for the year	-	(14,893,430)	(14,893,430)
End of period	<u>17,123,228</u>	<u>(14,906,347)</u>	<u>(2,216,881)</u>

Notes to the accounts (continued)

14 Reconciliation of movements in group equity shareholders' funds

	Group	
	2000	1999
	£	£
New share capital subscribed, including premium	4,873,959	-
Net (loss) on foreign currency translation	(1,185)	(284)
Loss for the financial period	(3,510,590)	(2,598,332)
Net addition to (reduction in) equity shareholders' funds	1,362,184	(2,598,616)
Opening equity shareholders' funds	(331,915)	2,266,701
Closing equity shareholders' funds	<u>1,030,269</u>	<u>(331,915)</u>

15 Cash flow information

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

	2000	1999
	£	£
Operating loss	(1,641,522)	(2,650,955)
Depreciation charges	42,661	63,275
Loss on disposal of fixed assets	14,521	2,784
(Increase) decrease in debtors	(6,310)	17,918
(Decrease) Increase in creditors	(232,351)	196,065
Effect of other non cash items	(1,185)	(284)
Net cash outflow from operating activities	<u>(1,824,186)</u>	<u>(2,371,197)</u>

b) Analysis and reconciliation of changes in cash

	Cash at bank and in hand £
Balance at 1 January 1999	2,398,649
Net cash outflow	<u>(2,052,320)</u>
Balance at 31 December 1999	346,329
Net cash inflow	<u>912,079</u>
Balance at 31 December 2000	<u>1,258,408</u>

Notes to the accounts (continued)

16 Analysis of changes in net debt

	At 1 January 2000 £	Cashflows £	Other changes £	At 31 December 2000 £
Cash in hand, at bank	346,329	912,079	-	1,258,408
Debt due within 1 year	(257,500)	-	257,500	-
	<u>88,829</u>	<u>912,079</u>	<u>257,500</u>	<u>1,258,408</u>

17 Guarantees and other financial commitments

a) Capital commitments

The group had no capital commitments which were unprovided for at 31 December 2000 (31 December 1999: £Nil).

b) Lease commitments

The group leases certain office accommodation on a short-term operating lease. The minimum annual rental under the group's lease is £38,696 and is fixed until its expiry in September 2002. The group pays all insurance, maintenance and repairs of the property. Under the terms of the group's assignment of its previous lease, the group receives a lease premium of £51,600 per annum, payable quarterly until the expiry of that lease in May 2001.

18 Subsequent events

During February 2002 the company created a new 100% subsidiary, Tarix Pharmaceuticals, a company registered in Cyprus. This company currently has no activity, but is expected to develop the group's melanoma technology in the future.