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CYPROTEX DISCOVERY LIMITED

Report and Accounts

For the fourteen months ended 31 December 2002



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Cyprotex Discovery Limited

Registered No. 4184635

DIRECTORS

D Leahy
J A Nicholson
M Egerton

SECRETARY

G E Ritchie

AUDITORS

Ernst & Young LLP
100 Barbirolli Square
Manchester
M2 3EY

SOLICITORS

Addleshaw Booth & Co
100 Barbirolli Square
Manchester
M2 3AB

REGISTERED OFFICE

100 Barbirolli Square
Manchester
M2 3AB

Cyprotex Discovery Limited

DIRECTORS' REPORT

The directors present their report and the accounts for the fourteen months ended 31 December 2002.

CHANGE OF REFERENCE DATE

On 7 May 2002, the Company changed its accounting reference date to 31 December.

RESULTS AND DIVIDENDS

The loss for the period after taxation amounted to £2,729,518. The directors do not recommend the payment of an ordinary dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company during the financial period has been that of providing *in vitro* and *in silico* ADME/PK information to the pharmaceutical industry.

RESEARCH AND DEVELOPMENT

Research and development in the business is concentrated on the development of predictive techniques.

DIRECTORS AND THEIR INTERESTS

The directors during the period were as follows:

J A Nicholson	appointed 15 November 2001
D E Leahy	appointed 15 November 2001
M Fairhurst	appointed 19 November 2001, resigned 11 December 2001
R W Long	resigned 11 April 2002
M Egerton	appointed 4 December 2001

No director had any interest in the share capital of the company during the year. The interests of the directors in the shares of the ultimate parent undertaking, Cyprotex PLC, are shown in those company's accounts.

POST BALANCE SHEET EVENT

On 6 March 2003 the Company learnt that in its litigation with The University of Sheffield over disputed software, the Court declared that the copyright in the software belongs to The University of Sheffield and that Cyprotex is entitled to a wide-ranging licence to use the program for its own research purposes. The Company has made a provision of £200,000 in these accounts to cover costs.

AUDITORS

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the Board



G E Ritchie
Company Secretary
1 April 2003

Cyprotex Discovery Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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 of the profit or loss of the company 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;
- 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 company will continue in business.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CYPROTEX DISCOVERY LIMITED

We have audited the Company's financial statements for the 14 months ended 31 December 2002 which comprise Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, and the related notes 1 to 22. 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 Company is not disclosed.

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

Basis of audit opinion

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

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

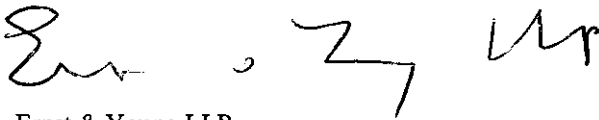
Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of their preparation. The accounts have been prepared on the going concern basis and the validity of this depends on the support of the parent undertaking and the Company generating projected revenue levels and operating within its existing liquid cash resources. The financial statements do not include any adjustments that would result from a failure to secure sufficient new revenue. Details of the circumstances relating to this fundamental uncertainty are described in Note 1.

Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2002 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to be 'Ernst & Young' followed by a stylized flourish.

Ernst & Young LLP
Registered Auditor
Manchester
1 April 2003

Cyprotex Discovery Limited

PROFIT AND LOSS ACCOUNT

for the 14 months ended 31 December 2002

	<i>Notes</i>	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
TURNOVER	2	638,292	98,614
Cost of sales		(62,836)	(4,029)
GROSS PROFIT		575,456	94,585
Administrative expenses excluding exceptional items		(3,331,230)	(477,013)
Exceptional Item	5	(200,000)	-
Administrative expenses including exceptional items		(3,531,230)	(477,013)
OPERATING LOSS	3	(2,955,774)	(382,428)
Interest receivable	6	111,475	146
Interest payable and similar charges	6	(38,564)	(4,470)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,882,863)	(386,752)
Tax on loss on ordinary activities	7	153,345	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(2,729,518)	(386,752)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains and losses other than the loss on ordinary activities after taxation of £2,729,518 in the 14 months ended 31 December 2002 and the loss of £386,752 in the 7 months ended 31 October 2001.

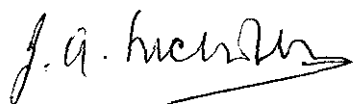
Cyprotex Discovery Limited

BALANCE SHEET

at 31 December 2002

	Notes	31 December 2002 £	31 October 2001 £
FIXED ASSETS			
Tangible assets	8	929,398	326,889
CURRENT ASSETS			
Stocks	9	50,783	21,250
Debtors	10	383,952	91,089
Cash at bank and in hand		2,258,530	-
		2,693,265	112,339
CREDITORS: amounts falling due within one year	11	(5,950,818)	(542,956)
NET CURRENT LIABILITIES		(3,257,553)	(430,617)
TOTAL ASSETS LESS CURRENT LIABILITIES		(2,328,155)	(103,728)
CREDITORS: amounts falling due after more than one year	12	(392,045)	(86,954)
PROVISIONS FOR LIABILITIES AND OTHER CHARGES	15	(200,000)	-
		(2,920,200)	(190,682)
CAPITAL AND RESERVES			
Called up share capital	16, 17	85	85
Share premium account	17	195,985	195,985
Profit and loss account	17	(3,116,270)	(386,752)
EQUITY SHAREHOLDERS' FUNDS	17	(2,920,200)	(190,682)

The financial statements were approved by the board of directors on 1 April 2003 and were signed on its behalf by:



John Nicholson
Director

Cyprotex Discovery Limited

NOTES TO THE ACCOUNTS

at 31 December 2002

1. ACCOUNTING POLICIES

Basis of preparation

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

In preparing the financial statements for the current period, the Company has adopted FRS 18 "Accounting Policies" and FRS 19 "Deferred Tax". Adoption of FRS 18 and FRS 19 has not required any revisions to the financial statements in either the current or prior periods.

The accounts are prepared on a going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future.

The Company's ability to meet its future working capital requirements and therefore continue as a going concern is dependant on it being able to generate significant revenues and free cash flow and on the continuing support of its parent undertaking. In common with many early stage businesses in the life sciences sector and given the current economic climate, it is very difficult to predict the timing and extent of future revenues. However, the directors have prepared projections which they consider to be prudent and which demonstrate that the business can operate within its existing cash resources, and have identified a series of realistically achievable actions that they are committed to taking to mitigate the rate of cash outflow should revenues not be secured as predicted. The parent undertaking has agreed to provide sufficient funds for the Company to enable it to continue to operate and to meet its liabilities as they fall due; it has also agreed not to recall the amounts advanced to the Company which as at 31 December 2002 amounted to £5,334,192 until all creditors have been met.

The directors have also taken legal advice in relation to the recent adverse outcome of litigation regarding disputed ownership of software, and are confident that the decision will not have a significant detrimental impact on the business going forward. They intend to appeal against the decision. The directors are also of the opinion that recent Board resignations will not significantly prejudice the ability of the Company to generate new revenues.

Whilst there is fundamental uncertainty in relation to the above matters, the directors consider that it is appropriate for the accounts to be prepared on a going concern basis. The accounts therefore do not include any adjustments that would result from the Company being unable to continue as a going concern.

Turnover and revenue recognition

Turnover on the outright sale of services and software, where no significant supplier obligations exist, is recognised on delivery to the customer and profit is taken at that time. Turnover on fixed contracts is invoiced in accordance with the terms of the agreement with the customer. Profit is attributed to each contract, while the contract is in progress, having regard to the proportion of the total contract that has been completed at the balance sheet date and after making provision for all foreseeable future costs or losses. Licence fees are invoiced to the customer at the beginning of each licence, but revenue arising from licences granted for the use of Company or third party software, is credited to the profit and loss account over the period of the licence.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value by equal instalments over their estimated useful economic lives as follows:

Laboratory equipment	-	over 5 years
Office equipment	-	over 10 years
Computers	-	over 3 years

The carrying values of fixed assets are revised for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

NOTES TO THE ACCOUNTS
at 31 December 2002

1. ACCOUNTING POLICIES (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value.

Research and development expenditure

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

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 exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposals of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures 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 an undiscounted 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 substantively enacted at the balance sheet date.

Statement of cash flows

The company has adopted the provisions of Financial Reporting Standard 1(Revised) from preparing a statement of cash flows as it is a wholly-owned subsidiary undertaking.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. 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 other exchange differences are taken to the profit and loss account.

Cyprotex Discovery Limited

NOTES TO THE ACCOUNTS at 31 December 2002

1. ACCOUNTING POLICIES (continued)

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pensions

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

2. TURNOVER

Turnover, which is stated after value added tax and trade discounts, represents amounts invoiced to customers for goods and services recognised in accordance with the accounting policy above.

All turnover, losses and operating assets relate to one principal business activity, that of providing *in vitro* and *in silico* ADME/PK information to the pharmaceutical industry, which is wholly undertaken in the UK.

An analysis of turnover by destination is as follows:

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
United Kingdom	372,157	94,058
USA	201,454	-
Rest of the World	64,681	4,556
	<u>638,292</u>	<u>98,614</u>

Cyprotex Discovery Limited

NOTES TO THE ACCOUNTS at 31 December 2002

3. OPERATING LOSS

This is stated after charging:

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
Auditors' remuneration		
-Audit services	8,500	3,000
-Non-audit	10,750	-
Depreciation of owned assets	242,726	18,073
Depreciation of assets held under finance lease and hire purchase contracts	5,833	14,057
Research and development expenditure written off	740,104	79,290
Loss on disposal of tangible fixed assets	7,989	-

4. STAFF COSTS AND DIRECTORS' EMOLUMENTS

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
Wages and salaries	952,644	128,172
Social security costs	89,539	15,226
Other pension costs (note 20)	85,595	15,877
	<u>1,127,778</u>	<u>159,275</u>

The average monthly number of employees during the period was as follows:

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
Operations Technical	4	2
Development Technical	19	8
Administration	3	2
	<u>26</u>	<u>12</u>

Cyprotex Discovery Limited

NOTES TO THE ACCOUNTS at 31 December 2002

4. STAFF COSTS AND DIRECTORS' EMOLUMENTS (continued)

Directors' remuneration

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
Emoluments	270,967	-
Pension	15,062	-
	<u>286,029</u>	<u>-</u>

Emoluments paid to the highest paid director during the period were £128,255 (2001: £nil). 2 Directors accrue benefits under a defined contribution scheme.

5. EXCEPTIONAL ITEMS

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
Provision for legal costs associated with the Simcyp case	200,000	-
	<u>200,000</u>	<u>-</u>

6. INTEREST INCOME AND INTEREST PAYABLE

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
Interest receivable:		
Income from money market	111,475	-
Bank interest receivable	-	146
	<u>111,475</u>	<u>146</u>
Interest Payable:		
Bank overdraft	5,508	-
Interest element of finance leases and hire purchase contracts	33,056	4,470
	<u>38,564</u>	<u>4,470</u>

Cyprotex Discovery Limited

NOTES TO THE ACCOUNTS at 31 December 2002

7. TAXATION ON LOSS ON ORDINARY ACTIVITIES

(a) Tax on loss on ordinary activities

The tax credit is made up as follows:

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
<i>Current tax</i>		
Tax credit in relation to R & D claim	(153,345)	-
Tax on loss on ordinary activities	(153,345)	-

(b) Factors affecting current tax charge

The current tax charged for the period is lower than the standard rate of corporation tax at 30% due to the differences explained below:

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
Loss on ordinary activities before tax	(2,882,863)	(386,752)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	(864,859)	(116,026)
Effects of:		
Expenses not deductible for tax purposes	39,000	6,927
Capital allowances in excess of depreciation	76,965	9,639
Short term timing differences	52,200	14,016
Tax losses current period	409,172	85,444
Difference in tax rates on losses surrendered for research & development tax credit	134,177	-
Current tax credit for the period	(153,345)	-

(c) Factors that may affect current and future tax charges

The Company has tax losses arising of £1,400,000 (2001: £250,000) that are available indefinitely for offset against future taxable profits. No provision has been made for deferred tax on losses carried forward in the Company. These losses will only be available for offset when the company makes taxable profits. As the timing of these profits is not certain it has been assumed the losses will not be recoverable in the foreseeable future.

Cyprotex Discovery Limited

NOTES TO THE ACCOUNTS at 31 December 2002

7. TAXATION ON LOSS ON ORDINARY ACTIVITIES (continued)

(d) Deferred Tax

The unprovided deferred tax comprises the following amounts:

	14 months ended 31 December 2002 £	7 months ended 31 October 2001 £
Accelerated capital allowances	(91,620)	(9,900)
Other timing differences	(61,200)	-
Tax losses	(494,616)	(75,000)
	<u>(647,436)</u>	<u>(84,900)</u>

All amounts are calculated at 30% (2001 30%) using the liability method.

8. TANGIBLE FIXED ASSETS

	Motor vehicles £	Office equipment £	Computer equipment £	Laboratory equipment £	Total £
Cost:					
At 1 November 2001	-	18,576	79,793	260,648	359,017
Additions	30,000	19,506	153,976	655,576	859,058
Disposals	-	-	(14,691)	-	(14,691)
At 31 December 2002	<u>30,000</u>	<u>38,082</u>	<u>219,078</u>	<u>916,224</u>	<u>1,203,384</u>
Depreciation:					
At 1 November 2001	-	775	10,308	21,045	32,128
Provided during this period	5,833	3,713	74,860	164,153	248,559
Disposals	-	-	(6,701)	-	(6,701)
At 31 December 2002	<u>5,833</u>	<u>4,488</u>	<u>78,467</u>	<u>185,198</u>	<u>273,986</u>
Net book value:					
At 31 December 2002	<u>24,167</u>	<u>33,594</u>	<u>140,611</u>	<u>731,026</u>	<u>929,398</u>
At 1 November 2001	-	17,801	69,485	239,603	326,889

Included in motor vehicles above are amounts relating to leased assets and assets under hire purchase contracts. The net book value of such assets was £24,167 (31 October 2001 - £nil). Included in laboratory equipment above are amounts relating to leased assets and assets under hire purchase contracts. The net book value of such assets was £nil (31 October 2001 - £149,000). The net book value of the laboratory equipment includes £539,884 (31 October 2001 - £nil) in respect of assets that have been mortgaged and charged with full title guarantee under a chattel mortgage.

Cyprotex Discovery Limited

NOTES TO THE ACCOUNTS

at 31 December 2002

9. STOCKS

	<i>At</i> <i>31 December</i> <i>2002</i> £	<i>At</i> <i>31 October</i> <i>2001</i> £
Raw materials and consumables	50,783	21,250

The difference between purchase price or production cost of stocks and their replacement cost is not material.

10. DEBTORS

	<i>At</i> <i>31 December</i> <i>2002</i> £	<i>At</i> <i>31 October</i> <i>2001</i> £
Trade debtors	56,763	73,966
Amounts owed by former director (see note 18)	3,852	-
Corporation Tax	153,345	-
Other debtors	41,857	991
VAT	35,353	-
Prepayments and accrued income	92,782	16,132
	<u>383,952</u>	<u>91,089</u>

11. CREDITORS: amount falling due within one year

	<i>At</i> <i>31 December</i> <i>2002</i> £	<i>At</i> <i>31 October</i> <i>2001</i> £
Bank overdraft	-	31,987
Bank loans (see note 13)	166,315	-
Obligations under finance leases and hire purchase contracts	8,310	44,311
Trade creditors	180,373	69,021
Other taxes and social security costs	44,067	65,858
Accruals and deferred income	202,713	153,780
Amounts owed to former director (see note 18)	-	100,030
Amounts owed to related parties (see note 19)	4,364	77,032
Amounts owed to parent undertaking	5,334,192	-
Other creditors	10,484	937
	<u>5,950,818</u>	<u>542,956</u>

Cyprotex Discovery Limited

NOTES TO THE ACCOUNTS at 31 December 2002

12. CREDITORS: amounts falling due after more than one year

	<i>At 31 December 2002 £</i>	<i>At 31 October 2001 £</i>
Bank loan (see note 13)	383,685	-
Obligations under finance leases and hire purchase contracts	8,360	86,954
	<u>392,045</u>	<u>86,954</u>

13. LOANS

	<i>At 31 December 2002 £</i>	<i>At 31 October 2001 £</i>
Wholly repayable within five years:		
Bank loan	550,000	-
Less: included in creditors: amounts falling due within one year	(166,315)	-
	<u>383,685</u>	<u>-</u>
	<i>At 31 December 2002 £</i>	<i>At 31 October 2001 £</i>
Amounts repayable:		
In one year or less or on demand	166,315	-
In more than one year but not more than two years	183,333	-
In more than two years but not more than five years	200,352	-
In more than five years	-	-
	<u>550,000</u>	<u>-</u>

The bank loan is secured by a chattel mortgage over certain of the Group's laboratory equipment and a sterling bank deposit of £330,000 which reduces over the term of the loan.

Cyprotex Discovery Limited

NOTES TO THE ACCOUNTS at 31 December 2002

14. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Amounts due under finance leases and hire purchase contracts:

	<i>At 31 December 2002 £</i>	<i>At 31 October 2001 £</i>
Amounts payable:		
Within one year	9,231	57,298
In two to five years	9,281	105,046
	<u>18,512</u>	<u>162,344</u>
Less: finance charges allocated to future periods	(1,842)	(31,079)
	<u>16,670</u>	<u>131,265</u>

Annual commitments under non-cancellable operating leases are as follows:

	<i>At 31 December 2002 £</i>	<i>At 31 October 2001 £</i>
Operating leases which expire:		
Within one year	95,000	-
In two to five years	-	2,000
In over five years	-	-
	<u>95,000</u>	<u>2,000</u>

15. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Provision for legal costs £</i>	<i>Deferred taxation £</i>	<i>Total £</i>
At 1 November 2001	-	-	-
Provided during the period	200,000	-	200,000
At 31 December 2002	<u>200,000</u>	<u>-</u>	<u>200,000</u>

On the basis of the information available a provision for the legal costs has been made following the judgement given in respect of the litigation with The University of Sheffield. The directors believe that the provision represents their best estimate of the outcome of the judgement and associated costs.

Cyprotex Discovery Limited

NOTES TO THE ACCOUNTS

at 31 December 2002

16. SHARE CAPITAL

<i>Authorised</i>	<i>31 December 2002</i>		<i>31 October 2001</i>	
	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
Ordinary shares of 0.000125p each	800,000,000	1,000	-	-
A Ordinary shares of £1 each	-	-	500	500
B Ordinary shares of £1 each	-	-	500	500
	<u>800,000,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
<i>Allotted, called up and fully paid</i>				
	<i>31 December 2002</i>		<i>31 October 2001</i>	
	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
Ordinary shares of 0.000125p each	68,000,000	85	-	-
A Ordinary shares of £1 each	-	-	70	70
B Ordinary shares of £1 each	-	-	15	15
	<u>68,000,000</u>	<u>85</u>	<u>85</u>	<u>85</u>

On 4 December 2001 each of the issued and unissued A Ordinary shares of £1 each and each of the issued and unissued B Ordinary shares of £1 each were subdivided into 800,000 Ordinary shares of 0.000125 pence each.

17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Share capital</i>	<i>Share premium</i>	<i>Profit and loss account</i>	<i>Total</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Issue of share capital	85	195,985	-	196,070
Retained loss for the period	-	-	(386,752)	(386,752)
At 31 October 2001	85	195,985	(386,752)	(190,682)
Retained loss for the period	-	-	(2,729,518)	(2,729,518)
At 31 December 2002	85	195,985	(3,116,270)	(2,920,200)

18. TRANSACTIONS WITH FORMER DIRECTORS

Included within creditors at 31 October 2001 is a loan to the company from P Davidson, a former director of Cyprotex Discovery Limited, amounting to £100,030. The loan was interest free with no specific repayment terms. During the 14 months ended 31 December 2002 the loan was repaid in full.

P Davidson resigned as a director of Cyprotex Discovery Limited on 8 November 2001.

At 31 December 2002 P Davidson owned 35.12% of the ordinary shares in Cyprotex PLC.

During the 14 months ended 31 December 2002 the Company purchased services in the ordinary course of business from P Davidson amounting to £85,029. The transactions represented rent and other related items. During the 14 months ended 31 December 2002 the Company charged costs in the ordinary course of business to P Davidson amounting to £3,852. The transactions represented recharged refurbishment costs and other related items. At 31 December 2002 the amounts due to the Company were £3,852.

Cyprotex Discovery Limited

NOTES TO THE ACCOUNTS at 31 December 2002

19. RELATED PARTY TRANSACTIONS

During the 14 months ended 31 December 2002, the Company entered into the following transactions, in the ordinary course of business, with the following parties:

	<i>Sales to related party £</i>	<i>Purchases from related party £</i>	<i>Amounts owed to related party £</i>	<i>Amounts owed from related party £</i>
<i>Related party</i>				
Medeval Limited				
31 December 2002	(13,517)	37,962	-	-
31 October 2001	27,034	92,771	13,813	-
Sense-Sonic Limited				
31 December 2002	203	4,412	-	-
31 October 2001	-	-	50,000	-
Oystertec PLC				
31 December 2002	-	82,139	2,139	-
31 October 2001	-	13,219	13,219	-
Galileo Innovation Public Limited Company				
31 December 2002	-	305,500	-	-
31 October 2001	-	-	-	-
PD Property Developments Limited				
31 December 2002	-	28,000	2,225	-
31 October 2001	-	-	-	-
Bradley Martin Specialist Cars Limited				
31 December 2002	-	30,000	-	-
31 October 2001	-	-	-	-

Medeval Limited

Medeval owned 17.6% of the ordinary shares in Cyprotex Discovery Limited. The transactions represent rent, rates, services and other related items recharged between the parties.

Sense-Sonic Limited

R W Long and P Davidson were directors of Sense-Sonic Limited during the five months ended 31 October 2001. The amounts owed to Sense-Sonic Limited relate to short term funding made during the five months ended 31 October 2001. The loan was repaid during the 14 months ended 31 December 2002.

Oystertec PLC

R W Long and P Davidson were directors of Oystertec PLC during the 14 months ended 31 December 2002. The transactions represent services and computer equipment recharged between the parties in the ordinary course of business.

Galileo Innovation Public Limited Company

R W Long and P Davidson were directors of Galileo Innovation Public Limited Company during the 14 months ended 31 December 2002. The transactions represent management services recharged between the parties in the ordinary course of business.

PD Property Developments Limited

P Davidson was a director of PD Property Developments Limited during the 14 months ended 31 December 2002. The transactions represent rent, other related services and office equipment recharged between the parties in the ordinary course of business.

Bradley Martin Specialist Cars Limited

P Davidson was a director of Bradley Martin Limited during the 14 months ended 31 December 2002. The amount represents the purchase of a motor vehicle in the ordinary course of business.

Cyprotex Discovery Limited

NOTES TO THE ACCOUNTS at 31 December 2002

20. PENSION COMMITMENTS

The Company operates a defined contribution scheme. The Cyprotex Group Stakeholder Pension Scheme, for its directors and employees. The assets of the scheme are held separately from those of the Company in an independently administered scheme. The unpaid contributions at 31 December 2002 are £12,048.

21. POST BALANCE SHEET EVENTS

On 6 March 2003 the Company learnt that in its litigation with the University of Sheffield over disputed software, the Court declared that the copyright in the software belongs to the University of Sheffield and that Cyprotex is entitled to a wide-ranging licence to use the program. The Company has made a provision of £200,000 in these accounts to cover costs.

22. PARENT UNDERTAKING AND CONTROLLING PARTY

Cyprotex Discovery Limited is a wholly owned subsidiary of Cyprotex PLC, a company registered in England and Wales. Copies of the accounts of Cyprotex PLC can be obtained from 15 Beech Lane, Macclesfield, Cheshire, SK10 2DR.