

CYPROTEX DISCOVERY LIMITED

Report and Financial Statements

For the year ended 31 December 2012

Registered number 4184635

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COMPANIES HOUSE

# Cyprotex Discovery Limited

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Registered No 4184635

## **DIRECTORS**

Anthony D Baxter  
John K Dootson

## **SECRETARY**

Mark C Warburton

## **AUDITOR**

Ernst & Young LLP  
100 Barbirolli Square  
Manchester  
M2 3EY

## **REGISTERED OFFICE**

100 Barbirolli Square  
Manchester  
M2 3AB

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 2012

**RESULTS AND DIVIDENDS**

The profit for the period after taxation amounted to £463,780 (2011 £286,703) The directors do not recommend the payment of an ordinary dividend (2011 £nil)

**PRINCIPAL ACTIVITY**

The principal activity of the company during the financial period has been that of providing *in vitro* and *in silico* ADMET/PK (Absorption, Distribution, Metabolism, Excretion, Toxicity/Pharmacokinetic) information to the pharmaceutical industry

**FINANCIAL REVIEW**

**Financial overview**

It is pleasing to report that the Company's revenues have more than held up in yet another challenging year in which a number of customers announced site closures and/or reductions in R&D expenditures Total revenues for the year were £6,219,094, up 17.1% on the comparative period (2011 £5,312,293)

So it is testament to the hard work and dedication of our staff that we have grown our underlying business to the point of achieving a fifth year of profitability

**Our Goal**

Our objective is to be the world's foremost ADME-Tox services company We aim to provide market - leading scientific expertise, broadest services portfolio, fastest turnaround times, and most cost-effective ADME-Tox services

**Our Business Model**

Cyprotex capitalises on the increasing trend of pharmaceutical and biotechnology companies of outsourcing ADME-Tox evaluation The Company's expertise and investments in ADME-Tox technologies allows us to provide a breadth, quality, speed, and cost-effectiveness of service superior to what our customers can achieve on their own Organically and by acquisition we have continued to build and diversify our offerings to allow us to address our customers' ADME-Tox requirements

## DIRECTORS' REPORT

### The ADME-Tox market

The ADME-Tox market is currently estimated to be in excess of US\$3billion and the current outsourced market up to US\$10 billion. Increased penetration of this substantial market is a key financial objective.

During the drug development process, the attrition rate attributed to toxicology is approximately 30%. There is now a clear trend in the market to introduce in vitro screening approaches to eliminate toxic compounds earlier in the drug discovery phase, when costs are lower. Traditionally large companies have been reluctant to outsource toxicology with large internal toxicology departments maintained. However with enhanced capabilities and expertise within the CRO market, an increasing number of companies are outsourcing these requirements and have in some instances made decisions to close internal departments.

It is reported ([www.bccresearch.com](http://www.bccresearch.com)) that the global in vitro toxicity testing market is valued at more than \$1.3 billion in 2010, and has an anticipated value of \$2.7 billion in 2015, a growth rate of 15% per year between 2010 and 2015. The pharmaceuticals segment, in which Cyprotex is primarily focused, has a market share of approximately 32% of the in vitro toxicity testing market, valued at \$424 million in 2010. Cyprotex only taps into a small proportion of this market share currently, however, the potential for growth is strong over the coming years as our business expands and the market increases in size.

### Performance

The Company shows growing maturity in 2012, achieved by further widening and strengthening its customer base to de-risk the business and make more resilient. In the year to 31 December 2012 sales finished at £6,219,094 up 17.1% on the prior year (2011: £5,312,293).

The Company remains cash generative and has available liquid resources. The Company is positioned to fund propriety developments to expand and diversify its offerings, and to actively seek opportunities for growth.

### Key Performance Indicators – Financial

The key financial performance indicators used by the Board in 2012 as a measure of the success of the business are as follows:

|                            | 2012 | 2011 | 2010 | Year on year growth/ (fall) |
|----------------------------|------|------|------|-----------------------------|
|                            | £m   | £m   | £m   |                             |
| Revenue                    | 6.22 | 5.31 | 5.38 | 17.1%                       |
| Operating profit           | 0.57 | 0.17 | 0.35 | 230%                        |
| Cash inflow from operation | 0.70 | 0.50 | 0.60 | 40%                         |
| Underlying EBITDA ^        | 0.97 | 0.57 | 0.72 | 70%                         |

^ Excluding share-based payment charges

# Cyprotex Discovery Limited

## DIRECTORS' REPORT

### Revenues and profitability

| Summary profit and loss account                          | 2012         | 2011         | 2010         |
|----------------------------------------------------------|--------------|--------------|--------------|
|                                                          | £m           | £m           | £m           |
| Revenue                                                  | 6 22         | 5 31         | 5 38         |
| Gross profit                                             | 5 09         | 4 39         | 4 60         |
| <i>Gross profit percentage</i>                           | <i>81 8%</i> | <i>82 6%</i> | <i>85 5%</i> |
| Operating costs                                          |              |              |              |
| - Net staff costs (excluding share based payment charge) | (2 96)       | (2 84)       | (2 59)       |
| - Share based payment charge                             | (0 06)       | (0 14)       | (0 14)       |
| - Depreciation                                           | (0 34)       | (0 26)       | (0 23)       |
| - Expensed acquisition costs                             | -            | -            | (0 09)       |
| - Other administrative expenses                          | (1 16)       | (0 98)       | (1 20)       |
| Operating profit                                         | 0 57         | 0 17         | 0 35         |
| Net finance costs                                        | (0 04)       | (0 01)       | (0 01)       |
| Taxation                                                 | (0 07)       | 0 13         | 0 40         |
| Profit after taxation                                    | 0 46         | 0 29         | 0 74         |

The Company achieved record revenues in the year of £6 22 million, an increase of 17 1% from the year ended 31 December 2011. We have noted that our competition in the ADME-Tox field have reported mixed success in their businesses with several smaller companies becoming insolvent or being acquired by larger players and the very large CRO's reporting losses, particularly in pre-clinical toxicology. Against this competitive back drop, we believe that the Company's 2012 performance is highly creditable. Gross profits were up £0 70 million at £5 09 million and with good cost control the Company recorded an operating profit for the fifth successive year, with its second highest ever recorded operating profits of £0 57 million, lower only by £0 02 million of that achieved in 2008.

The Company continued to actively manage its dependency on revenues from any single customer, with the proportion of 2012 revenues from the Company's largest customer down to 15 1% (2011 19 4%) and down from 34% four years ago.

|                              | 2012 | 2011 | 2010 |
|------------------------------|------|------|------|
|                              | £m   | £m   | £m   |
| EBITDA                       |      |      |      |
| Operating profit             | 0 57 | 0 17 | 0 35 |
| add back                     |      |      |      |
| - Share based payment charge | 0 06 | 0 14 | 0 14 |
| - Depreciation               | 0 34 | 0 26 | 0 23 |
| Underlying EBITDA            | 0 97 | 0 57 | 0 72 |

Operating profit for the year was £0 57 million, which was £0 40 million higher than the prior year. Underlying EBITDA from operations (defined as EBITDA excluding the share-based payment charge, which is a non-cash item) remains positive and robust at £0 97 million v £0 57 million. This confirms the continuing ability of the Company to consistently generate cash from its core operations.

# Cyprotex Discovery Limited

## DIRECTORS' REPORT

### Revenues and profitability (continued)

With a positive correlation between cash flow and profitability, the Company was again cash generative from operations for the fifth successive year

The Company made a profit overall for the fifth successive year with profit after taxation of £0.46 million in 2012 (2011: £0.29 million). Following the partial recognition of a deferred tax asset two years ago in respect of prior-period UK tax losses, post-tax profits have been reduced in 2012 by £0.07 million.

### Capital Structure

A summary company balance sheet is set out below

| Summary balance sheet                                   | 2012  | 2011  | 2010  |
|---------------------------------------------------------|-------|-------|-------|
|                                                         | £m    | £m    | £m    |
| Tangible assets                                         | 2.3   | 1.6   | 1.6   |
| Current assets (excluding cash)                         | 2.0   | 1.9   | 1.5   |
| Current liabilities (excluding debts and group funding) | (0.5) | (0.6) | (0.5) |
| Net assets before cash / (debt) and group funding       | 3.8   | 2.9   | 2.6   |
| Cash                                                    | 0.7   | 1.0   | 1.0   |
| Debt due within five years                              | (1.1) | (0.4) | (0.1) |
| Debt due after five years                               | (0.3) | (0.3) | (0.4) |
| Shareholders' funds before group funding                | 3.1   | 3.2   | 3.1   |
| Group funding                                           | (8.3) | (8.9) | (9.3) |
| Shareholders' (deficit) / funds                         | (5.2) | (5.7) | (6.2) |

At 31 December 2012, Shareholders' funds were a deficit of £5.2 million (2011: deficit £5.7 million). The reduction in the deficit in Shareholders' funds was due principally to profitable trading.

# Cyprotex Discovery Limited

## DIRECTORS' REPORT

### Cash Flows

A summary cash flow statement is set out below

| Summary cash flow                      | 2012   | 2011   | 2010   |
|----------------------------------------|--------|--------|--------|
|                                        | £m     | £m     | £m     |
| Inflow from operations                 | 0.70   | 0.50   | 0.60   |
| Net finance costs                      | (0.04) | (0.02) | (0.01) |
| Capital expenditure (net of disposals) | (0.99) | (0.23) | (0.63) |
| Net cash flow before financing         | (0.33) | 0.25   | (0.04) |
| Other financing (net)                  | 0.59   | 0.22   | (0.04) |
| Group funding                          | (0.62) | (0.41) | 0.28   |
| Net cash (outflow) / inflow            | (0.36) | 0.06   | 0.20   |
| Opening cash                           | 1.02   | 0.96   | 0.76   |
| Closing cash                           | 0.66   | 1.02   | 0.96   |

Capital expenditure includes the acquisition of four additional Waters XEVO Triple Quadrupole mass spectrometer at a cost of £0.61 million, the purchase of a Tecan EVO (robotic handling equipment) at a cost of £0.11 million and Acquity upgrades of £0.16 million

Included within other financing are additional finance lease proceeds of £0.79 million which assisted with the purchase of tangible fixed assets in the year

### Principal Risks and Uncertainties

Management has attempted to minimise its exposure to identified external and internal variables that may have an effect on the operations of the Company. Where possible, measures to monitor and mitigate such risks have been enacted, and processes adopted to formally identify and examine such situations. The nature of the Company's operations nevertheless requires the Board and its investors to assess the principal risks facing its operations and these are considered below

### Business Evolution

Trading activity is dependent on continuing global investment in new drug discovery and development. Adoption of new practices for such development, or significant regulatory changes by authorities such as the FDA, or the supplanting of molecular compounds by means of electronic simulation or software emulation or prediction, would have a direct impact on likely revenues achieved by the Company

# Cyprotex Discovery Limited

## DIRECTORS' REPORT

### Economic Activity

|                    | 2012 | 2011 | 2010 | 2009 | 2008 |
|--------------------|------|------|------|------|------|
| Sales by territory | %    | %    | %    | %    | %    |
| United Kingdom     | 30   | 31   | 26   | 28   | 24   |
| Rest of Europe     | 44   | 44   | 43   | 46   | 46   |
| North America      | 21   | 22   | 29   | 24   | 29   |
| Rest of the World  | 5    | 3    | 2    | 2    | 1    |
| Total              | 100  | 100  | 100  | 100  | 100  |

The above analysis demonstrates that the business is not dominated by customers from any specific region, providing a degree of insulation from local variations

In a more severe worldwide economic downturn than the one currently being experienced, marketing and pricing strategies would need to be modified to reflect those new conditions. Investment in drug discovery has the benefit of the fact that personal health and longevity has historically followed longer-term patterns and is made substantially by governments. As such, the business is not over reliant on short-term fluctuations in consumer confidence.

### Fixed Overheads

A large proportion of the Company's overheads are fixed. There is a potential risk that if revenues contract, these fixed costs will not be covered. The operating costs of the core operation have only limited scope for reduction without impacting the breadth and quality of services.

### Competition

The market in which the Company operates is competitive, highly fragmented, and subject to in-sourcing. Through technological and process innovation and investment, the Company endeavours to offer a breadth and quality of service unsurpassed by its competitors. The Company competes for market share not only with other contract research organisations, but also potential customers' own in-house ADME-Tox departments.

### Product Obsolescence

The Company offers highly technological services. Having developed a high degree of expertise and efficiency in delivering these services, management is confident of the Company's ability to remain competitive.

# Cyprotex Discovery Limited

## DIRECTORS' REPORT

### Seasonality

Variations in seasonal demand are driven by the budgeting, holiday, and project-planning cycles of the Company's customer base. Historically, trade is strongest during the final quarter as annual projects complete. Trade slows in the third quarter due to summer holidays, and briefly in the weeks immediately after the New Year. During the slower periods the Company utilises surplus resources for its internal research and product development programmes.

|                    | 2012 | 2011 | 2010 | 2009 | 2008 |
|--------------------|------|------|------|------|------|
| Revenue            | £m   | £m   | £m   | £m   | £m   |
| - First half year  | 2.71 | 2.27 | 2.48 | 2.45 | 2.24 |
| - Second half year | 3.51 | 3.04 | 2.90 | 2.55 | 2.94 |
| Total              | 6.22 | 5.31 | 5.38 | 5.00 | 5.18 |

|                    | 2012  | 2011  | 2010  | 2009  | 2008  |
|--------------------|-------|-------|-------|-------|-------|
| Revenue            | %     | %     | %     | %     | %     |
| - First half year  | 43.6  | 42.7  | 46.1  | 48.9  | 43.3  |
| - Second half year | 56.4  | 57.3  | 53.9  | 51.1  | 56.7  |
| Total              | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

### Fluctuations in Commodity Prices

The completion of our services relies on materials that are specific and specialist by nature. The prices of such products are susceptible to fluctuations dependent upon market conditions. To mitigate the impact of such price movements, management has established a number of regular supply arrangements that provide some forward visibility.

### Fluctuations in Currency Exchange Rates

|                   |     | 2012 | 2011 | 2010 | 2009 | 2008 |
|-------------------|-----|------|------|------|------|------|
| Sales by currency |     | %    | %    | %    | %    | %    |
| Sterling          | GBP | 60   | 65   | 47   | 50   | 36   |
| US dollar         | USD | 24   | 25   | 36   | 25   | 30   |
| Euro              | EUR | 16   | 10   | 16   | 23   | 34   |
| Swiss franc       | CHF | n/a  | n/a  | 1    | 2    | n/a  |
| Total             |     | 100  | 100  | 100  | 100  | 100  |

Approximately 40% of the Company's revenue (2011: 35%) was derived in US dollars, Euros, or Swiss francs. With the majority of operating costs incurred in Sterling, the Company could be exposed to foreign currency fluctuations. Some costs are hedged naturally. Forward book visibility is limited to a number of weeks. Whilst larger customers agree in principle to the volumes of compounds to be screened each year, workflows have no absolute certainty. It is against this operational background that the Company currently does not sell currency forward.

## DIRECTORS' REPORT

### **Regulatory Changes Affecting the Business**

The industry in which the Company operates is strictly regulated. Regulatory changes may increase or decrease revenues and/or expenditures. Management aims to mitigate such risks by keeping aware of potential regulatory changes. Currently, management foresees no such regulatory change likely to adversely affect its operations, rather, management anticipates regulatory guidance toward independent and more thorough verification to work in the Company's favour.

### **Our People**

The success of the Company is highly dependent upon the recruitment and retention of highly qualified and skilled staff. They are the key drivers of profitability and growth. Remuneration schemes are in place to mitigate the risk of losing key individuals and to reduce the risk arising from the absence of suitable resources.

### **Pension Funding**

The Company does not have a defined benefit pension scheme for any of its employees.

### **Treasury Policies and Financial Risk**

Surplus funds are intended to support the Company's working capital requirements and provide adequate resources to expand its service offerings, both organically and by acquisition. These funds are invested through the use of short-term and period deposits of up to three months. It is not Company policy to use financial derivatives to routinely manage exposure and other financial assets and liabilities. Financial risks are considered on a regular basis by the Board, including future interest rates, liquidity, and foreign currency risk. Apart from using short-term and period deposits, interest-rate risks are limited to the fixed element of finance lease/hire purchase agreements that the Company has occasionally used, and base-rate risk on bank loans.

Typically, the Company arranges lease finance and hire purchase for fixed periods ranging from three to five years, to enable acquisition of assets where it is considered to be an effective use of funds. On 17 January 2005, Cyprotex entered a 20-year mortgage facility of £704,000 with Bank of Scotland to substantially fund the acquisition of a long-leasehold interest in its operational premises. Interest payable on this bank loan is 1.75% over the bank's base rate.

On 17 May 2011, the Company entered into a 5-year term loan with Bank of Scotland. This term loan has a fixed rate of interest at 5.42%.

### **Liquidity Risk**

Surplus funds are invested on a short-term basis at money-market rates making such funds available at short notice.

### **Foreign Currency Risk**

The Company has considerable potential exposure to foreign currency fluctuations as around 40% of revenues are now denominated in US dollars, Euros, and Swiss francs. To limit this exposure the Company has sales price agreements with major customers. These agreements do not exceed one year and are not coterminous. Additionally, individual services contracts (known internally as 'Rounds') are short in time frame and normally completed within ten working days of a compound arriving on site. Control over debtor management within the Company is strong. Surplus currency is sold on receipt.

### **Financial Overview**

The year ended 31 December 2012 was another challenging year for companies within the preclinical contract research market. The Company finished the year with record revenues and registered a fifth year of profitability. The year saw significant expenditure on upgrading and increasing the bio-analytical capability and liquid handling facilities which when complete gives us added capacity and capability to readily meet customer requirements and service greater demands. Consequently the business remains well placed to grow and develop further in 2013 supported by a sound financial framework.

# Cyprotex Discovery Limited

## DIRECTORS' REPORT

### DIRECTORS AND THEIR INTERESTS

The directors who served during the period were as follows

A D Baxter

J K Dootson

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 as follows

|                | At 31 December 2012 |                           | At 1 January 2012  |                           |
|----------------|---------------------|---------------------------|--------------------|---------------------------|
|                | Percentage holding  | Number of ordinary shares | Percentage holding | Number of ordinary shares |
| Dr A D Baxter  | 0.48%               | 1,067,685                 | 0.48%              | 1,067,685                 |
| Mr J K Dootson | 0.26%               | 589,285                   | 0.26%              | 589,285                   |

### RESEARCH AND DEVELOPMENT

Research and development in the business is concentrated on the development of services and predictive techniques. The Company incurred research and development costs of £377,050 in the year (2011 £507,086)

In 2012, our product development efforts have focused on the commercialisation on several new technologies as well as significant improvements to our existing assays. We have worked closely with several collaborators including InSphero AG and Sigma® Life Science in validating and establishing new methods which assist the industry in profiling compounds

- InSphero's unique hanging drop technology allows the formation of 3D microtissues which have certain physiological advantages over standard 2D cellular models and allow for long term dosing studies. The Company have been instrumental in evaluating their utility in hepatotoxicity assessment and launched a new service in September for this application

- The Company was the first company to validate and license transporter knockout cell lines developed by Sigma® Life Science. The service, which was launched in October, offers several advantages over existing methods for identifying drug interactions

We continue to realise the potential of our CellCiphr® technology and have spent considerable resource in improving the predictive power of the system in collaboration with our customers. As well as expanding the number of endpoints assessed, we have incorporated a measure of exposure to enhance the relevance to the clinical situation. This has led to the launch of CellCiphr® Premier which offers customers a thorough evaluation of potential safety

DIRECTORS' REPORT

**GOING CONCERN**

Although at 31 December 2012, the company's liabilities exceeded its assets by £5,209,638, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis, due to the continued support which the Company expects to receive from Cyprotex PLC

The parent undertaking of the Company, Cyprotex PLC, 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 2012 amounted to £8,269,677 until all other creditors have been met

The directors have reviewed the budget, cash flow and other relevant information and believe that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis for the preparation of the financial statements. The financial statements do not include any adjustments that could result if the Company was unable to continue as a going concern.

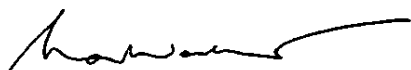
**DISCLOSURE OF INFORMATION TO THE AUDITORS**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquires of fellow Directors and the company's auditor, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

**AUDITOR**

Ernst & Young LLP offer themselves for reappointment as auditor in accordance with section 489 of the Companies Act 2006

By order of the Board



Mark C Warburton

Company Secretary

23 April 2013

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 AUDITOR'S REPORT TO THE MEMBERS OF CYPROTEX DISCOVERY LIMITED**

We have audited the financial statements of Cyprotex Discovery Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on the financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

*Ernst & Young LLP*

**Alastair John Richard Nuttall (Senior statutory auditor)**

**for and on behalf of Ernst & Young LLP, Statutory Auditor**

**Manchester, UK**

**23 April 2013**

# Cyprotex Discovery Limited

## PROFIT AND LOSS ACCOUNT for the year ended 31 December 2012

|                                                      | <i>Notes</i> | <i>2012</i><br>£ | <i>2011</i><br>£ |
|------------------------------------------------------|--------------|------------------|------------------|
| Continuing operations                                |              |                  |                  |
| <b>TURNOVER</b>                                      | 2            | 6,219,094        | 5,312,293        |
| Cost of sales                                        |              | (1,127,417)      | (926,415)        |
| <b>GROSS PROFIT</b>                                  |              | 5,091,677        | 4,385,878        |
| Administrative expenses                              |              | (4,520,607)      | (4,212,815)      |
| <b>OPERATING PROFIT</b>                              | 3            | 571,070          | 173,063          |
| Interest receivable                                  | 5            | 7,218            | 4,111            |
| Interest payable                                     | 5            | (44,408)         | (17,677)         |
| <b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b> |              | 533,880          | 159,497          |
| Taxation                                             | 6            | (70,100)         | 127,206          |
| <b>PROFIT FOR THE YEAR</b>                           | 13           | 463,780          | 286,703          |

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

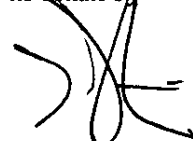
There are no recognised gains and losses other than the profit on ordinary activities after taxation of £463,780 in the year ended 31 December 2012 and the profit of £286,703 in the year ended 31 December 2011

# Cyprotex Discovery Limited

## BALANCE SHEET at 31 December 2012

|                                                      | Notes  | 2012<br>£          | 2011<br>£          |
|------------------------------------------------------|--------|--------------------|--------------------|
| <b>FIXED ASSETS</b>                                  |        |                    |                    |
| Tangible assets                                      | 7      | 2,255,315          | 1,599,594          |
| <b>CURRENT ASSETS</b>                                |        |                    |                    |
| Stocks                                               | 8      | 318,688            | 297,088            |
| Debtors                                              | 9      | 1,660,872          | 1,570,228          |
| Cash at bank and in hand                             |        | 660,348            | 1,023,381          |
|                                                      |        | <u>2,639,908</u>   | <u>2,890,697</u>   |
| <b>CREDITORS</b> amounts falling due within one year | 10     | (9,036,012)        | (9,562,177)        |
| <b>NET CURRENT LIABILITIES</b>                       |        | <u>(6,396,104)</u> | <u>(6,671,480)</u> |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>         |        | <u>(4,140,789)</u> | <u>(5,071,886)</u> |
| <b>CREDITORS</b> amounts falling due after one year  | 11     | (1,068,849)        | (662,305)          |
| <b>NET LIABILITIES</b>                               |        | <u>(5,209,638)</u> | <u>(5,734,191)</u> |
| <b>CAPITAL AND RESERVES</b>                          |        |                    |                    |
| Called up share capital                              | 12, 13 | 85                 | 85                 |
| Share premium account                                | 13     | 195,985            | 195,985            |
| Other reserve                                        | 13     | 765,383            | 704,610            |
| Profit and loss account                              | 13     | (6,171,091)        | (6,634,871)        |
| <b>SHAREHOLDERS' DEFICIT</b>                         | 13     | <u>(5,209,638)</u> | <u>(5,734,191)</u> |

The financial statements were approved by the Board of Directors on 23 April 2013 and were signed on its behalf by



J K Dootson  
Director

Registered number 4184635

# Cyprotex Discovery Limited

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## NOTES TO THE ACCOUNTS

For the year ended 31 December 2012

### 1 ACCOUNTING POLICIES

#### *Basis of preparation*

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

The principal accounting policies of the Company, which are set out below, have remained unchanged from the previous year

#### *Going concern*

The parent undertaking of the Company, Cyprotex PLC, 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 2012 amounted to £8,269,677 until all other creditors have been met

Cyprotex PLC and its subsidiaries ('the Group') recorded a profit after taxation of £202,502 in the year ended 31 December 2012 and the Group's cash and deposits were £858,539. The Directors have reviewed the budget, financial forecasts including cash flow forecasts and other relevant information and believe that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, these accounts are prepared on a going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future.

The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

#### *Statement of cash flows*

The Company has adopted the provisions of Financial Reporting Standard No 1 (Revised) as a wholly-owned subsidiary of a UK company and therefore no statement of cash flows is presented in these accounts.

#### *Tangible fixed assets*

Tangible fixed assets are shown at cost less accumulated depreciation and any provision for impairment.

#### *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:

|                                   |   |               |
|-----------------------------------|---|---------------|
| Long leasehold land and buildings | - | over 50 years |
| Office equipment                  | - | over 10 years |
| Computer equipment                | - | over 3 years  |
| Laboratory equipment              | - | over 5 years  |

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

#### *Turnover and revenue recognition*

Turnover on the outright sale of services and software, where no significant supplier obligations remain, is recognised on delivery to the customer. Turnover on fixed contracts is recognised 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.

# Cyprotex Discovery Limited

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## NOTES TO THE ACCOUNTS

For the year ended 31 December 2012

### 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.

#### *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.

#### *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,
- 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.

#### *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 differences are taken to the profit and loss account.

#### *Taxation*

Current tax, including UK corporation tax, is provided at amounts expected to be recovered (or paid) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

# Cyprotex Discovery Limited

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## NOTES TO THE ACCOUNTS

For the year ended 31 December 2012

### 1 ACCOUNTING POLICIES (continued)

#### *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.

#### *Liquid resources*

Liquid resources at 31 December 2012 and 31 December 2011 consisted of short-term bank deposits.

#### *Government and other grants*

Income from grants is recognised in the period in which the corresponding related expenditure is incurred.

Capital grants received are recorded within deferred income and amortised over the useful life of the corresponding asset.

#### *Share based payments*

In accordance with FRS20, the fair value of equity-settled share based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Company's estimate of when share options will eventually vest. In the case of options granted, fair value is measured by a Black-Scholes pricing model.

All share based payment arrangements granted after 7 November 2002 that had not vested at 1 January 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share based payment are measured at their fair value. Where employees are rewarded using share based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to other reserves.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

#### *Financial instruments*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. Finance costs and gains and losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

# Cyprotex Discovery Limited

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2012

### 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* ADMET/PK (Absorption, Distribution, Metabolism, Excretion, Toxicity/Pharmacokinetics) information to the pharmaceutical industry, which is wholly undertaken in the UK

An analysis of turnover by destination is as follows

|                   | 2012             | 2011             |
|-------------------|------------------|------------------|
|                   | £                | £                |
| United Kingdom    | 1,879,053        | 1,672,339        |
| Rest of Europe    | 2,730,553        | 2,320,924        |
| North America     | 1,330,912        | 1,168,387        |
| Rest of the World | 278,576          | 150,643          |
|                   | <u>6,219,094</u> | <u>5,312,293</u> |

### 3. OPERATING PROFIT

Operating profit is stated after charging/ (crediting)

|                                                                             | 2012     | 2011     |
|-----------------------------------------------------------------------------|----------|----------|
|                                                                             | £        | £        |
| Auditors' remuneration - audit services                                     | 12,000   | 12,000   |
| Depreciation of owned assets                                                | 218,272  | 247,276  |
| Depreciation of assets held under finance lease and hire purchase contracts | 117,128  | 9,979    |
| Research and development expenditure including staff costs                  | 377,050  | 507,086  |
| Loss / (gain) of foreign currency translation                               | 12,274   | (7,005)  |
| Profit on sale of tangible fixed assets                                     | (24,226) | -        |
| Government grants                                                           | (58,139) | (90,559) |
| Share based payment charge (see note 19)                                    | 60,773   | 143,100  |
|                                                                             | <u></u>  | <u></u>  |

Fees paid to the Company's auditors for services other than the statutory audit of the Company are not disclosed since the consolidated accounts of the Company's parent, Cyprotex PLC, are required to disclose non-audit fees on a consolidated basis

# Cyprotex Discovery Limited

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2012

### 4. STAFF COSTS AND DIRECTORS' REMUNERATION

|                                   | 2012<br>£        | 2011<br>£        |
|-----------------------------------|------------------|------------------|
| Wages and salaries                | 2,485,278        | 2,575,990        |
| Social security costs             | 277,205          | 257,337          |
| Other pension costs (see note 15) | 264,296          | 290,973          |
|                                   | <u>3,026,779</u> | <u>3,124,300</u> |

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

|                          | 2012<br>No | 2011<br>No |
|--------------------------|------------|------------|
| Operations Technical     | 14         | 14         |
| Development Technical    | 36         | 36         |
| Administration           | 3          | 3          |
| Selling and Distribution | 3          | 6          |
|                          | <u>56</u>  | <u>59</u>  |

Directors' remuneration

|            | 2012<br>£      | 2011<br>£      |
|------------|----------------|----------------|
| Emoluments | 285,245        | 251,023        |
| Pension    | 42,618         | 33,994         |
|            | <u>327,863</u> | <u>285,017</u> |

Total emoluments paid to the highest paid director during the period were £202,883 including pension contributions of £16,417 (2011 £170,942, including pension contributions of £15,500) Two Directors (2011 Two) accrue benefits under a defined contribution scheme

### 5. INTEREST RECEIVABLE AND INTEREST PAYABLE

|                                                                | 2012<br>£     | 2011<br>£     |
|----------------------------------------------------------------|---------------|---------------|
| Interest receivable                                            |               |               |
| Income from money market deposits                              | 7,218         | 4,111         |
| Interest payable                                               |               |               |
| Interest element of finance leases and hire purchase contracts | 22,620        | 1,180         |
| Other interest                                                 | 3,488         | -             |
| Term loans                                                     | 8,814         | 6,705         |
| Bank loans                                                     | 9,486         | 9,792         |
|                                                                | <u>44,408</u> | <u>17,677</u> |

# Cyprotex Discovery Limited

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2012

### 6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

#### (a) Tax on profit on ordinary activities

The tax charge/ (credit) is made up as follows

|                                                               | 2012<br>£     | 2011<br>£        |
|---------------------------------------------------------------|---------------|------------------|
| <i>Current tax</i>                                            |               |                  |
| UK Corporation tax at 24.5% (2011: 26.5%)                     | -             | -                |
| Adjustment in respect of prior year                           | -             | -                |
| <i>Deferred tax</i>                                           |               |                  |
| Tax losses derecognised/ (recognised)                         | 70,100        | (127,206)        |
| <b>Tax charge / (credit) on profit on ordinary activities</b> | <b>70,100</b> | <b>(127,206)</b> |

#### (b) Factors affecting current tax charge

The current tax charge for the period is lower than the standard rate of UK corporation tax at 24.5% (2011: 26.5%) due to the differences explained below

|                                                                                                                   | 2012<br>£ | 2011<br>£ |
|-------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Profit on ordinary activities before tax                                                                          | 533,880   | 159,497   |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%) | 130,801   | 42,267    |
| Effects of                                                                                                        |           |           |
| Expenses not assessable for tax purposes                                                                          | 4,900     | 41,897    |
| Difference between capital allowances and depreciation                                                            | 34,007    | 17,608    |
| Utilisation of tax losses                                                                                         | (29,958)  | -         |
| Research & development tax relief                                                                                 | (72,083)  | (70,960)  |
| Share based payments                                                                                              | 14,889    | 1,285     |
| Movement in unprovided deferred tax                                                                               | (75,667)  | (2,653)   |
| Change in rate                                                                                                    | (6,889)   | (29,444)  |
| <b>Current tax charge for the year</b>                                                                            | <b>-</b>  | <b>-</b>  |

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

The Company has tax losses arising of approximately £4,445,000 (2011: £4,856,000) that are available for offset against future taxable trading profits. These losses are available for offset when the company makes taxable profits from the same trade.

# Cyprotex Discovery Limited

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2012

### 6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES *(continued)*

#### (d) Deferred Tax

The Company has recognised a deferred tax asset of £454,600 (2011 £524,700) which represents the amount expected to be realised over the next two years. As the Company has been profitable for five consecutive accounting periods it is considered appropriate to recognise a deferred tax asset.

The unprovided deferred tax asset comprises the following amounts

|                                | 2012           | 2011           |
|--------------------------------|----------------|----------------|
|                                | £              | £              |
| Decelerated capital allowances | 90,764         | 109,153        |
| Other timing differences       | 10,797         | 4,410          |
| Tax losses                     | 567,744        | 689,291        |
|                                | <u>669,305</u> | <u>802,854</u> |

All amounts are calculated at 23% (2011 25%) using the liability method

The UK corporation tax rate reduced from 26% to 24% with effect from 1 April 2012. A further reduction in the corporation tax rate from 24% to 23% was substantially enacted on 17 July 2012 and will be effective from 1 April 2013. Accordingly, this rate has been applied in the measurement of the deferred tax balances.

In his annual budget of 20 March 2013, the Chancellor of the Exchequer announced certain tax changes which will have an effect on the Company's future tax position. The proposals included phased reductions in the UK corporation tax rate to 20% from 1 April 2015.

As at 31 December 2012, only the previously announced reduction in the rate to 23% had been 'substantively enacted' and this has been reflected in the Company's financial statements as at 31 December 2012.

The aggregate impact of the proposed reduction from 23% to 20% would reduce the recognised deferred tax assets by £59,296 and the unrecognised deferred tax assets by £87,301.

The effect on the Company of the proposed changes to the UK tax system will be reflected in the financial statements of the Company in future years, as appropriate, once the proposals have been substantially enacted.

# Cyprotex Discovery Limited

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2012

### 7. TANGIBLE FIXED ASSETS

|                           | <i>Long leasehold<br/>land and buildings</i> | <i>Office<br/>equipment</i> | <i>Computer<br/>equipment</i> | <i>Laboratory<br/>equipment</i> | <i>Total</i> |
|---------------------------|----------------------------------------------|-----------------------------|-------------------------------|---------------------------------|--------------|
|                           | £                                            | £                           | £                             | £                               | £            |
| Cost                      |                                              |                             |                               |                                 |              |
| 1 January 2012            | 1,078,135                                    | 61,471                      | 497,244                       | 2,720,723                       | 4,357,573    |
| Additions                 | 14,865                                       | 25,168                      | 30,571                        | 935,791                         | 1,006,395    |
| Disposals                 | -                                            | -                           | -                             | (303,320)                       | (303,320)    |
| At 31 December 2012       | 1,093,000                                    | 86,639                      | 527,815                       | 3,353,194                       | 5,060,648    |
| Depreciation              |                                              |                             |                               |                                 |              |
| At 1 January 2012         | 128,322                                      | 46,681                      | 434,901                       | 2,148,075                       | 2,757,979    |
| Provided during this year | 21,677                                       | 4,711                       | 40,447                        | 268,565                         | 335,400      |
| Disposals                 | -                                            | -                           | -                             | (288,046)                       | (288,046)    |
| At 31 December 2012       | 149,999                                      | 51,392                      | 475,348                       | 2,128,594                       | 2,805,333    |
| Net book value            |                                              |                             |                               |                                 |              |
| At 31 December 2012       | 943,001                                      | 35,247                      | 52,467                        | 1,224,600                       | 2,255,315    |
| At 31 December 2011       | 949,813                                      | 14,790                      | 62,343                        | 572,648                         | 1,599,594    |

Included in laboratory equipment above were amounts under hire purchase contracts. The net book value of such assets was £877,202 (2011: £109,767) and the depreciation charged in the year was £117,128 (2011: £9,979).

### 8. STOCKS

|                               | 2012    | 2011    |
|-------------------------------|---------|---------|
|                               | £       | £       |
| Raw materials and consumables | 318,688 | 297,088 |

The difference between the replacement cost and the book value of stocks is not material.

### 9. DEBTORS

|                                                 | 2012      | 2011      |
|-------------------------------------------------|-----------|-----------|
|                                                 | £         | £         |
| Trade debtors                                   | 804,860   | 707,714   |
| Other debtors                                   | 45,599    | 1         |
| Amounts due from fellow subsidiary undertakings | -         | 1,126     |
| VAT recoverable                                 | 31,403    | 20,211    |
| Prepayments and accrued income                  | 324,410   | 316,476   |
| Deferred tax (see note 6 also)                  | 454,600   | 524,700   |
|                                                 | 1,660,872 | 1,570,228 |

# Cyprotex Discovery Limited

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2012

### 10 CREDITORS: amount falling due within one year

|                                                              | 2012<br>£        | 2011<br>£        |
|--------------------------------------------------------------|------------------|------------------|
| Trade creditors                                              | 206,802          | 284,526          |
| Obligations under finance leases and hire purchase contracts | 208,274          | 27,181           |
| Bank loan                                                    | 33,350           | 30,000           |
| Term loan                                                    | 39,010           | 37,100           |
| Other taxes and social security costs                        | 71,003           | 71,823           |
| Accruals and deferred income                                 | 181,228          | 196,807          |
| Other creditors                                              | 26,668           | 21,136           |
| Amounts owed to parent undertaking                           | 8,269,677        | 8,893,604        |
|                                                              | <u>9,036,012</u> | <u>9,562,177</u> |

### 11. CREDITORS: amounts falling due after one year

|                                                              | 2012<br>£        | 2011<br>£      |
|--------------------------------------------------------------|------------------|----------------|
| Obligations under finance leases and hire purchase contracts | 530,356          | 47,905         |
| Term loan                                                    | 103,443          | 142,700        |
| Bank loan                                                    | 435,050          | 471,700        |
|                                                              | <u>1,068,849</u> | <u>662,305</u> |

| Maturity profiles        | Obligations<br>under finance<br>leases and hire<br>purchases | Term loan      | Bank Loan      | Obligations<br>under finance<br>leases and hire<br>purchases | Term loan      | Bank Loan      |
|--------------------------|--------------------------------------------------------------|----------------|----------------|--------------------------------------------------------------|----------------|----------------|
|                          | 2012                                                         | 2012           | 2012           | 2011                                                         | 2011           | 2011           |
|                          | £                                                            | £              | £              | £                                                            | £              | £              |
| In one year or on demand | 208,274                                                      | 39,010         | 33,350         | 27,181                                                       | 37,100         | 30,000         |
| In one to two years      | 209,177                                                      | 41,170         | 33,350         | 28,332                                                       | 39,700         | 30,000         |
| In two to five years     | 321,179                                                      | 62,273         | 100,050        | 19,573                                                       | 103,000        | 90,000         |
| Over five years          | -                                                            | -              | 301,650        | -                                                            | -              | 351,700        |
|                          | <u>738,630</u>                                               | <u>142,453</u> | <u>468,400</u> | <u>75,086</u>                                                | <u>179,800</u> | <u>501,700</u> |

A bank loan of £704,000 was obtained on 17 January 2005 from Bank of Scotland to assist with the purchase of the Company's operating premises in Macclesfield. The loan is repayable over 20 years and subject to interest at a rate of 1.75% over bank base rate. Amounts due under finance leases and hire purchase contracts are secured on the assets to which they relate.

On 17 May 2011, the Company entered into a 5-year term loan with Bank of Scotland. The amount advanced was £200,000. This term loan has a fixed rate interest at 5.42%.

# Cyprotex Discovery Limited

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2012

### 12. SHARE CAPITAL

#### *Authorised*

|                                   | <i>No</i>   | <i>2012</i><br><i>£</i> | <i>No</i>   | <i>2011</i><br><i>£</i> |
|-----------------------------------|-------------|-------------------------|-------------|-------------------------|
| Ordinary shares of 0 000125p each | 800,000,000 | 1,000                   | 800,000,000 | 1,000                   |

#### *Allotted, called up and fully paid*

|                                   | <i>No</i>  | <i>2012</i><br><i>£</i> | <i>No</i>  | <i>2011</i><br><i>£</i> |
|-----------------------------------|------------|-------------------------|------------|-------------------------|
| Ordinary shares of 0 000125p each | 68,000,000 | 85                      | 68,000,000 | 85                      |

### 13. RECONCILIATION OF SHAREHOLDERS' DEFICIT AND MOVEMENT ON RESERVES

|                            | <i>Share capital</i><br><i>£</i> | <i>Share premium</i><br><i>£</i> | <i>Other Reserve</i><br><i>£</i> | <i>Profit and loss account</i><br><i>£</i> | <i>2012</i><br><i>Total</i><br><i>£</i> | <i>2011</i><br><i>Total</i><br><i>£</i> |
|----------------------------|----------------------------------|----------------------------------|----------------------------------|--------------------------------------------|-----------------------------------------|-----------------------------------------|
| At 1 January 2012          | 85                               | 195,985                          | 704,610                          | (6,634,871)                                | (5,734,191)                             | (6,163,994)                             |
| Share based payment charge | -                                | -                                | 60,773                           | -                                          | 60,773                                  | 143,100                                 |
| Profit for the year        | -                                | -                                | -                                | 463,780                                    | 463,780                                 | 286,703                                 |
| At 31 December 2012        | 85                               | 195,985                          | 765,383                          | (6,171,091)                                | (5,209,638)                             | (5,734,191)                             |

### 14. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption conferred by FRS 8, paragraph 3c not to make disclosures concerning transactions with entities that are part of the Cyprotex PLC Group

### 15. 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 2012 are £21,690 (2011 £22,437)

### 16. PARENT UNDERTAKING AND CONTROLLING PARTY

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

### 17. CAPITAL COMMITMENTS

At 31 December 2012, the Company had outstanding capital commitments of £388,200 (2011 £nil), with two additional Waters Xevo TQ Mass Spectrometers ordered by the Company on 27 December 2012. To assist with the purchase of this equipment with a 5 year lease purchase facility covering 90% of the purchase price is to be utilised

# Cyprotex Discovery Limited

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2012

### 18. SHARE BASED PAYMENTS – SHARE OPTIONS

Cyprotex PLC, the immediate parent company of Cyprotex Discovery Limited, has a share option scheme for all employees of the Company. Options are exercisable at a price equal to the average quoted market price of Cyprotex PLC shares on the date of grant. Vesting periods vary with each grant and details are given in the tables below. If the option remains unexercised after a period of ten years from the date of grant the option expires. Options are forfeited if an employee leaves the Company before the options vest.

All awards are equity settled.

Details of the share options outstanding during the year are as follows:

|                                             | 2012                       | Weighted<br>average<br>exercise price | 2011                       | Weighted<br>average<br>exercise price |
|---------------------------------------------|----------------------------|---------------------------------------|----------------------------|---------------------------------------|
|                                             | Number of<br>share options |                                       | Number of<br>share options |                                       |
| Outstanding at beginning of year            | 3,573,739                  | 4 83p                                 | 3,573,739                  | 4 83p                                 |
| Forfeited during the year                   | -                          | -                                     | -                          | -                                     |
| Exercised during the year                   | -                          | -                                     | -                          | -                                     |
| Reduction due to surrender and substitution | -                          | -                                     | -                          | -                                     |
| Outstanding at the end of the year          | 3,573,739                  | 4 83p                                 | 3,573,739                  | 4 83p                                 |
| Exercisable at the end of the year          | 3,573,739                  | 4 83p                                 | 3,573,739                  | 4 83p                                 |

The weighted average share price of Cyprotex PLC at the date of exercise for share options exercised during the period was nil pence (2011: nil pence). The options outstanding at 31 December 2012 had a weighted average remaining contractual life of 2.08 years (2011: 3.08 years).

The fair value exchange ratio (options surrendered and substituted) was based on option expected values calculated as at the date of substitution. FRS 20 requires that where there is an option exchange (specifically where new options are identified as replacement awards for options which will be cancelled) the fair value must be determined on the actual date of exchange and where the value of the new options is greater than the value of cancelled options then this incremental value must be expensed to the profit and loss account (in addition to the remaining fair value of the original options). However there is no additional charge in the profit and loss account as the fair value of the original options has fallen due to them being further 'out of the money' and an equal value of options have been granted.

As a relatively young listed company, management did not consider information regarding the historic volatility of the Cyprotex PLC share price either sufficiently reliable or a realistic indicator on which to base a valid estimate of future performance. Accordingly, the Black-Scholes financial model adopted used price volatility from an appropriate basket of peer group companies in order to calculate the valuations.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions, and behavioural considerations.

The Company recognised total expenses of £nil related to equity-settled share based payment transactions in both 2012 and 2011 respectively.

The inputs into the Black-Scholes model are as follows:

# Cyprotex Discovery Limited

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2012

### 18 SHARE BASED PAYMENTS – SHARE OPTIONS (continued)

|                                 | 2012  | 2011  |
|---------------------------------|-------|-------|
| Weighted average share price    | 6 97p | 6 97p |
| Weighted average exercise price | 4 24p | 4 24p |
| Expected volatility             | 59%   | 59%   |
| Expected life                   | 4 yrs | 4 yrs |
| Risk-free rate                  | 5 25% | 5 25% |
| Expected dividends              | nil   | nil   |

### 19. SHARE BASED PAYMENTS – VALUE CREATION PLAN ('VCP')

The parent company adopted a VCP on 7 October 2009. The purpose is to allow participants a certain percentage of value created in excess of an annual hurdle rate, as calculated at the end of a four year performance period. Participants to this scheme are key management of the company including executive directors. The award is by way of nil cost share options and is calculated at 15% of any excess value over a compound 25% per annum growth rate in the market value of the company on a cumulative basis.

#### Criteria

|                                                   |                  |        |
|---------------------------------------------------|------------------|--------|
| Initial share price                               | — 3 June 2008    | 3 32p  |
| Share price at date of grant                      | — 7 October 2009 | 4 375p |
| Annual growth rate                                | — hurdle 25%     |        |
| Percentage payout in excess of annual growth rate | — 15%            |        |

| Measurement Target | date        | share price |
|--------------------|-------------|-------------|
| Measurement date   | 3 June 2012 | 8 105 pence |

The initial share price was the price on the day Dr A D Baxter joined the Company on 3 June 2008.

The share price would have to exceed the above target amount before any award would become payable on that date.

In order to calculate the fair value of potential awards a Monte Carlo simulation model was used.

The principal inputs to this valuation model were as follows:

#### Inputs into Monte Carlo model

|                     |            |
|---------------------|------------|
| Opening share price | 4 35 pence |
| Exercise price      | nil pence  |
| Expected volatility | 75%        |
| Expected life       | 3 years    |
| Risk-free rate      | 2 35%      |
| Expected dividends  | nil        |

Charge recognised relating to equity-settled share based payments in the year ended 31 December 2012 were £60,773 (2011: £143,100).