

Registered number: 05197494

**VASTOX PLC**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 January 2005**



# VASTOX PLC

## COMPANY INFORMATION

**DIRECTORS**

Professor S G Davies # *	(appointed 24/09/2004)
Dr S K C Lee *	(appointed 24/09/2004)
Dr A W Mulvaney	(appointed 24/09/2004)
J A Montgomery *	(appointed 24/09/2004)
D R Norwood # *	(appointed 29/09/2004)

\* - Remuneration Committee

# - Audit Committee

**SECRETARY** J A Montgomery FCA

**COMPANY NUMBER** 05197494 (incorporated in Great Britain)

**REGISTERED OFFICE**

91 Milton Park  
Abingdon  
Oxford  
OX14 4RY

**AUDITORS**

Wellers  
Accountants & Registered Auditors  
8 King Edward Street  
Oxford  
OX1 4HL

**BANKERS**

HSBC Bank plc  
65 Cornmarket Street  
Oxford  
OX1 3HY

**SOLICITORS**

Pinsent Masons  
30 Aylesbury Street  
London  
EC2V 6DN

**STOCKBROKERS**

KBC Peel Hunt Limited  
111 Old Broad Street  
London  
WC1X 8RL

**REGISTRARS & TRANSFER OFFICE**

Capita IRG Registrars  
The Registry  
311 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

# VASTOX PLC

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# VASTOX PLC

## CHAIRMAN'S STATEMENT For the year ended 31 January 2005

### Summary

This year has been one in which the VASTox business has taken tremendous strides towards its objective of being the World-leading chemical genomics technology company in the pharmaceutical industry.

As Chairman, I set out at the beginning of the year with the core objective of accelerating the growth of the business, having spent the past four years building the science and technology. I wanted to recruit the appropriate Chief Executive who would build the business, validate the technology with profitable commercial deals, and strengthen the balance sheet with both revenues and fundraising. I am pleased that we have achieved and indeed surpassed all the objectives that I had set.

### Our approach

VASTox uses innovative technology to address the problems associated with the current drug discovery process. For practical reasons, drugs are only trialed on significant numbers of animals at the late stages of development or actually in the marketplace, when those animals happen to be humans. With this process, over the past few years, the pharmaceutical industry has suffered productivity issues, and recently, even for marketed drugs, there has been a number of high profile recalls due to the late appearance of dangerous side effects.

VASTox's chemical genomics technology tests potential drugs on statistically significant numbers of fruitfly and zebrafish embryos at an early stage of research, thereby deriving far more information on the effect of the drug in whole animals. Fruitflies and zebrafish are extensively studied by scientists because they show a striking genetic similarity to humans. By using these organisms at an early stage of drug discovery we can improve the chances not only of drugs making it through the human stages of trials and being successful in the market, but also potentially reduce testing on higher animals, such as primates.

The company's business model is to use this technology to both provide services to other pharmaceutical companies and for proprietary drug programmes. The services business gained profitable new contracts with both a top-tier pharmaceutical company and a number of biotech companies, giving industry third party validation of your company's approach.

Our current focus on proprietary programmes is on areas where we have leveraged-off the leading positions of our academic scientific founders. Professor Kay Davies FRS, CBE is an expert on Duchenne Muscular Dystrophy (DMD) with over 20 years experience in the field. DMD is VASTox's lead programme and we have secured patents from both the University of Oxford and the Medical Research Council this year. Professor Edith Sim has discovered a potentially new therapeutic target for Tuberculosis called N-acetyl transferase (NAT). During the year, there have been considerable scientific and technical achievements on both of these programmes. Additionally, the company has engaged with some of the biggest charitable research organisations globally and progressed discussions around collaborations and alliances to tackle these diseases.

### Financing

In October, VASTox completed the placing of shares and was admitted to Listing on the Alternative Investment Market ("AIM"). £14.1m of new money, net of costs, was raised. The flotation finances a step-change in the company's operations, and strategically facilitates VASTox to do better deals by providing balance sheet strength, and improved status.

### Personnel

During the year we welcomed the appointment of Dr Steven Lee as the full-time Chief Executive, who left the main board of IP2IPO Group plc where he was executive director of Life Sciences. Steven brings a wealth of industry experience having worked in Business Development for Celltech and Vernalis, and as an industry management consultant with PA Consulting Group's Pharmaceutical and Bioindustries Team.

# VASTOX PLC

## **CHAIRMAN'S STATEMENT** **For the year ended 31 January 2005**

The board recognises that a key strength of VASTox is its people. Throughout the year all the employees have worked through the change that has occurred through the corporate progression of the business and shown skill, expertise, enthusiasm and a desire to succeed. The scientific founders are firmly engaged in the business as both shareholders and consultants. On behalf of the board we thank them all.

### **Looking forward**

In our first full year as a public company, we will strengthen our business and build value for our shareholders. In March we announced a deal to provide carbohydrate chemistry expertise to a UK biotech company. In April we added three prestigious scientists to our Scientific Advisory Board, giving your company access to an enviable range of skills. Later in April we signed a lease on state-of-art new facilities at Milton Science Park, Oxford. We look forward to continuing this progress throughout the year.

Signed:

**Professor SG Davies**

*Chairman*

Date 22<sup>nd</sup> April 2005

# VASTOX PLC

## Directors' report

The directors present their first report and audited financial statements for the year ended 31 January 2005.

VASTox plc was incorporated on 4 August 2004 as Cobradragon Limited. On 29 September 2004 it acquired the entire issued share capital of VASTox Limited in a share for share exchange. On 30 September 2004 the company changed its name to VASTox plc. On 14 October 2004, 11,111,111 ordinary 10 pence shares were admitted to listing on AIM.

The accounts on pages 14 to 28 have been prepared on merger accounting principles and the comparative information on a pro forma basis. Full details of the basis of consolidation are set out in note 1 to the accounts.

## RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £499,035. The directors do not recommend the payment of a dividend.

## PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The company is the holding company of VASTox Chemical Genomics Limited, a company engaged in the provision of chemistry and biology services to the pharmaceutical industry.

The group operates principally in the United Kingdom.

A review of the group's activities for the year and an indication of future developments are given in the chairman's statement on pages 1 and 2.

The results for the year are set out in the consolidated profit and loss account on page 14. The group's loss before taxation was £523,356.

The basic loss per share for the year was 2.62 pence per share. There were no exceptional items.

## Research and development

The group is committed to research and development activities in order to continue its work in the fields of drug research and discovery.

## DIRECTORS

The directors who served during the year were:

Professor S G Davies	(appointed 24/09/2004)
Dr S K C Lee	(appointed 24/09/2004)
Dr A W Mulvaney	(appointed 24/09/2004)
J A Montgomery	(appointed 24/09/2004)
D R Norwood	(appointed 29/09/2004)

The directors on incorporation were nominees of the registration agents. They resigned on 24 September 2004.

Biographical details of the directors are shown on page 10. A statement of directors' remuneration, their interests in shares and options of the company and terms and conditions of service is given on pages 7 to 9.

At the forthcoming Annual General Meeting, the first since incorporation, all directors, being eligible, offer themselves for election by the members.

# VASTOX PLC

## Directors' report (continued)

### Substantial shareholdings

On 4 April 2005, according to the register maintained in compliance with Section 211 of the Companies Act 1985, the company has been notified of, or is aware of, the following shareholdings of 3% or more of the issued share capital of the company:-

	Number of ordinary shares of 10p each	Percentage of issued share capital
Professor SG Davies	6,208,748	19.8%
IP2IPO Limited	4,040,400	12.9%
Professor K Davies	3,875,417	12.3%
Morstan Nominees Limited	1,885,000	6.0%
JA Montgomery	1,019,359	3.3%
Dr AW Mulvaney	1,013,804	3.2%
Professor G Richards	1,010,100	3.2%
University of Oxford	1,010,100	3.2%

### Employees

The group recognises the benefits of keeping employees informed of the progress of its business and, where appropriate, employees are provided with financial and economic information affecting the group's performance. The involvement of employees in the company's performance is encouraged through employee share plans.

### Supplier payment policy

The group has not adopted any recognised code or standard on payment practice. Its policy is to agree terms and conditions for transactions prior to supply and payment is generally made on these terms providing the suppliers meet their obligations to the business satisfactorily. The average number of days credit taken from trade creditors at 31 January 2005 was 34 days. The company had no trade creditors at 31 January 2005.

### Employment of disabled persons

It is the group's policy to offer equal opportunities to disabled persons in matters of recruitment, career development and promotion.

### Corporate Governance

As an AIM listed company, VASTox plc is not required to comply with the corporate governance principles contained in the Combined Code on Corporate Governance ("the Combined Code"). The directors however support the recommendations of the Combined Code and report as follows;

### The Board

The primary function of the board is to set and oversee the implementation of an overall strategy, acquisition and divestment policy, internal control procedures, treasury and risk management policies, the raising of finance and corporate governance and the approval of major capital expenditure. To enable it to carry out its responsibilities detailed information, including management accounts, are supplied to the board on a regular basis. In addition, directors are kept informed of changes to relevant rules and regulations.

Scheduled board meetings take place no less than six times a year. Additional meetings are convened if circumstances require. There is an established agenda of items to be considered at board meetings and the board also receives presentations from senior executives on specific issues.

During the financial year the board comprised a non-executive chairman, a chief executive, a chief operating officer, one part time executive director and one other independent non-executive director. The roles of chairman and chief executive are separate. The roles and responsibilities of chairman, chief executive, executive and non-executive directors are clearly defined and understood. Directors may obtain independent professional advice at the company's expense and have access to the advice and services of the company secretary, who is also a chartered accountant.



## **Directors' report (continued)**

There are two principal board committees, all of which have written terms of reference. Details of these committees are as follows:-

### **Audit committee**

The audit committee was chaired by DR Norwood, and the other member was Professor SG Davies. The committee will meet at least once a year and receive reports from the auditor who also attends. The company secretary acts as secretary and executive directors are invited to attend meetings if appropriate. The committee's terms of reference empower it to review the group's annual financial statements, accounting procedures, statutory and external compliance requirements and internal control procedures, as well as the fees of the auditors for both audit and non-audit services, and make recommendations to the board on these issues. The committee also reviews the independence and objectivity of the auditors. The committee is authorised to seek information from any employee of the group and to obtain external professional advice if it considers it necessary. The auditors have direct access to the committee.

### **Remuneration committee**

The committee is chaired by Professor SG Davies and its other members are DR Norwood, JA Montgomery and Dr. SKC Lee. The board is responsible for setting overall policy on director's remuneration. The committee determines individual remuneration packages and terms of employment of the executive directors. The committee is also responsible for the formulation and operation of the company's option schemes and incentive arrangements. The committee meets at least once a year. Whilst the chief executive attends meetings of the remuneration committee, he is not present when matters concerning his own remuneration are discussed.

### **Non-executive directors**

The directors believe that the presence of a strong independent element on the board is desirable. Biographies of all directors currently in office are set out on page 10.

### **Scientific advisory board**

The group has brought together a group of pre-eminent scientists from a range of disciplines to provide expertise covering the fields of human genomics, small animal model genomic tools, pharmacology, high speed chemistry and *in silico* chemistry. The scientific board acts in an advisory capacity, none of its members are directors of the company, with the exception of Professor SG Davies, and none received any remuneration in their capacity as members of the scientific advisory board in the year ended 31 January 2005. Details of its members are set out on page 11.

### **Internal control**

The Board has overall responsibility for the group's system of internal control that it deems appropriate for the group. Systems have been established to provide reasonable assurance of effective and efficient operation, financial monitoring, the prevention and detection of errors and irregularities and compliance with laws and regulations. A system of internal financial control cannot provide absolute assurance against material misstatement or loss.

### *Organisational structure*

The Board has put in place an organisational structure with clearly defined lines of accountability and delegated authority.

### *Risk management*

The group's strategy, policy on key business issues and risks, and short to medium term financial objectives are approved and monitored by the Board. Approval procedures for key areas such as treasury operations and capital expenditure are in place.

Key controls over major business risks include reviews against performance indicators and exception reporting. Managers make regular assessments of exposure to major financial operational and strategic risks and report on the extent to which these are controlled.

### *Quality and integrity of personnel*

It is the company's policy to retain personnel of high calibre, integrity and potential.

## **Directors' report (continued)**

### *Financial information*

The company has comprehensive systems for the reporting of financial results, and the setting of plans and budgets. Financial results are reviewed on a monthly basis with comparisons against budget and prior periods together with a forecast for the full financial year and the potential variances to that forecast. Treasury and credit control reports are also reviewed on a monthly basis.

### *Systems*

There are established controls and procedures over the security and integrity of data held on computer systems and the group has put in place appropriate disaster recovery arrangements which are reviewed regularly and tested. The company does not have an internal audit function. The Board, however, will review the need for this additional control on a regular basis.

The group's systems are designed to provide the directors with reasonable assurance that any material financial problems would be identified on a timely basis and dealt with appropriately. The Board has reviewed the key risks inherent in the group, together with the operating, financial and compliance controls that have been implemented to mitigate misstatement or loss.

### **Shareholder relationships**

The objective of the board is to create increased shareholder value by growing the business in a way that can deliver a sustainable improvement in earnings. The board regards the annual general meeting as an important opportunity to communicate with investors. Directors will make themselves available to shareholders both before and after the annual general meeting, on an ad-hoc basis, subject to normal disclosure rules.

### **Going concern**

After making due enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they have adopted the going concern basis in preparing the financial statements.

### **Political and charitable contributions**

During the year, the group made no charitable contributions. No donations were made to political parties.

### **Auditors**

The auditors, Wellers, are willing to continue in office and a resolution for their re-appointment as auditors to the company will be proposed at the forthcoming annual general meeting.

By order of the board and signed on its behalf by:

**J A Montgomery**

*Secretary*

Date 22<sup>nd</sup> April 2005

## Remuneration Report

As an AIM listed company, we are not required to produce a directors' remuneration report in accordance with Schedule 7A of the Companies Act 1985. Set out below however, are disclosures relating to directors' remuneration divided into sections for audited and unaudited information.

### *Unaudited information*

The company's remuneration policy is the responsibility of the remuneration committee.

This committee is chaired by Professor SG Davies and also comprises JA Montgomery, Dr. SKC Lee and DR Norwood. The committee is authorised, if it wishes, to seek independent specialist services to provide information and advice on remuneration at the company's expense.

The committee has specific responsibility for determining the remuneration and other benefits of executive directors, an overall policy in respect of remuneration of other employees of the group, and establishing the group's policy with respect to employee share option schemes. Dr. SKC Lee does not attend meetings where his remuneration package is discussed. In determining executive remuneration packages of individual directors the remuneration committee takes account of the levels of experience, performance and responsibility of each director, and the remuneration packages for similar executive positions in companies it considers are comparable. It also considers the remuneration packages offered within the group as a whole.

### **Remuneration policy**

#### Share options

The company has entered into option agreements with its executive directors and employees through the company's discretionary unapproved share option and EMI schemes.

#### a) Executive remuneration

The committee aims to ensure that the remuneration of executive directors is competitive, takes into account individual performance and provides a package that is sufficiently dependent on achievement to motivate and incentivise the individual executive directors. Executive remuneration currently comprises a base salary which is not performance related. The committee plans to provide an entitlement to private medical insurance, permanent health insurance, life assurance and pension contributions to individual money purchase schemes in the coming year.

#### b) Non-executive remuneration

Each of the non-executive directors provides their services for free. The non-executive directors are reimbursed for all reasonable expenses incurred in attending meetings. The executive directors are responsible for setting the level of non-executive remuneration.

#### c) Service contracts

Dr. SKC Lee has a service contract that commenced on 1 September 2004, and contains a contractual notice period of one year by either party.

Dr. AW Mulvaney has a service contract that commenced on 1 September 2004, and contains a notice period of six months by either party.

JA Montgomery has a service contract in respect of his appointment as a part time executive director, commencing 1 September 2004. The appointment is for an initial term of two years with provision for termination by either party on one month's notice.

The contracts for executive directors do not provide any predetermined amounts of compensation in the event of early termination. In the event of early termination, the remuneration committee would determine payment for loss of office after taking account of the particular circumstances of each case, including any unexpired term of a service contract.

# VASTOX PLC

## Remuneration report (continued)

Each of the non-executive directors has service agreements that commenced on 1 September 2004. That of Professor SG Davies is for an initial term of one year terminable by either party on one month's notice. That of DR Norwood is for an initial term of two years terminable by either party on one month's notice. Executive directors may accept other outside non-executive appointments.

### Directors' emoluments

*Audited*

The following information has been audited by the company's auditors, Wellers, as required by Schedule 7A to the Companies Act 1985.

The aggregate remuneration received by directors who served during the period, including remuneration paid through subsidiaries of the company was as follows:-

	Salary	Fees	Benefits	2005	Pension	2005	2004	2004	2004
	£			(exc pension)		Total	(exc pension)	pension	Total
<b>Executive</b>									
Dr. SKC Lee	41,667	-	-	41,667	-	41,667	-	-	-
Dr. AW Mulvaney	29,729	-	-	29,729	-	29,729	15,000	-	15,000
JA Montgomery	-	-	-	-	-	-	-	-	-
<b>Non executive</b>									
Prof. SG Davies	-	-	-	-	-	-	-	-	-
DR Norwood	-	-	-	-	-	-	-	-	-
<b>Total</b>	71,396	-	-	71,396	-	71,396	15,000	-	15,000

### Directors' interests in ordinary shares

The directors, who held office at 31 January 2005 had the following interests in and options to acquire ordinary shares of the company:-

	31 January 2005		31 January 2004	
	Beneficial	Share options	Beneficial	Share options
Dr. SKC Lee	148,148	2,020,000	-	-
Dr. AW Mulvaney	1,013,804	-	-	-
Professor SG Davies	6,208,748	-	-	-
JA Montgomery	1,019,359	-	-	-
DR Norwood	-	-	-	-

There has been no change in the interests set out above between 31 January 2005 and 22 April 2005, the date of the signing of the accounts.

## Remuneration report (continued)

### Directors' options

#### *Audited*

The following information has been audited by the company's auditors, Wellers, as required by Schedule 7A to the Companies Act 1985.

Non-executive directors do not participate in the company's share option schemes.

The executive directors have the following interests in options over the shares of the company under the share option scheme. No options have been exercised during the year by any director, nor have any options lapsed during the year. There are no performance criteria in connection with any of the outstanding options.

	Date of grant	At 4 Aug 2004 (date of incorporation)	Granted during the year	31 Jan 2005	Exercise price (p)	Earliest exercise date
Dr. SKC Lee	02.09.04(i)	-	2,020,200	2,020,200	10	02.09.04

(i) The right to exercise options vests in respect of 50% of the award on Dr. Lee's date of employment, 17% on admission of the company's shares to the AIM market and 33% 24 months after the date of admission.

The middle market price of the ordinary shares on 31 January 2005 was 173 pence. The high and low market prices during the year were 187 pence and 135 pence respectively.

The company's Register of Directors' interests, which is available for inspection at the registered office, contains full details of directors' shareholdings and share options.

This report was approved by the board and signed on its behalf by:

**Professor SG Davies**

*Chairman of the remuneration committee*

Date 22<sup>nd</sup> April 2005

## The Directors

### **Professor Stephen Davies, 54** (Non-Executive Chairman)

Professor Davies received his B.A. (1973) and D. Phil (1975) from the University of Oxford. He subsequently held an ICI Postdoctoral Fellowship (1975- 1977) with Prof. Malcolm Green and a NATO Fellowship (1977-1978) with Professor Sir Derek Barton before joining the Centre National de la Recherche Scientifique at Gif-sur-Yvette collaborating with Dr. Hugh Felkin. Professor Davies returned to Oxford in 1980 to a University Lectureship and then Professorship, as well as a Fellowship of New College. He has since published over 380 research papers and has been the recipient of a variety of awards for his contribution to organic synthesis, including the Hickinbottom Fellowship (1984), the Pfizer Award for Chemistry (1985, 1988), the Royal Society of Chemistry Award for Organometallic Chemistry (1987), the Royal Society of Chemistry Bader Award (1989), the Tilden Lecture Award (1996), the Royal Society of Chemistry Award in Stereochemistry (1997), and the Prize Lectureship of the Society of Synthetic Organic Chemistry, Japan (1998). Professor Davies is also a member of the executive editorial board for Tetrahedron Publications and founder and editor in chief for Tetrahedron: Asymmetry.

In 1992 Professor Davies founded the spin-out chemistry service company Oxford Asymmetry Limited followed in 1995 by the combinatorial chemistry company Oxford Diversity Limited. These were combined in 1998 for the IPO of Oxford Asymmetry International plc, which was subsequently merged for £316 million in 2000 with Evotec A.G. (to form Evotec-OAI AG).

### **Dr. Steven Lee, 37** (Chief Executive Officer)

Dr. Lee was executive director of life sciences and a founding member of IP2IPO Group plc. He was responsible for all life sciences business within the group, starting up ten biotechnology companies from within the University of Oxford, University of Southampton and King's College London.

Dr. Lee has held a number of senior commercial and business development roles with the major UK biotech companies British Biotech plc, PA Consulting Group, Chiroscience Group plc and Datamonitor plc. He has also acted as a consultant to multinational pharmaceutical companies on product strategy, working with Zeneca, Glaxo Wellcome, Novartis and Johnson & Johnson. Dr. Lee holds a PhD in parasite epidemiology from King's College London.

### **Dr. Andrew Mulvaney, 34** (Chief Operating Officer)

Dr. Mulvaney is a graduate of the University of Wales taking a BSc in chemistry from the University of Wales Swansea and read for a PhD in synthetic organometallic chemistry at Cardiff University where he was awarded an ICI Scholarship. In 1996, he took up a post-doctoral position with Professor Davies at the University of Oxford, working on a wide variety of medicinal and combinatorial chemistry programmes. Most notably in 1998, Dr. Mulvaney was responsible for commissioning and managing one of the first automated parallel synthesis facilities in UK academia.

### **John Montgomery, 61** (Finance Director (part time) and Company Secretary)

John Montgomery qualified as a chartered accountant in 1968. He was an audit manager at Whinney Murray (now Ernst & Young) for over ten years. In 1987, he became the finance bursar of St. John's College, University of Oxford. Mr Montgomery is also a director of Sci-Ink Ltd and a trustee of St. John's College Staff Pension Fund.

### **David Norwood, 36** (Non-Executive Director)

David Norwood is currently chief executive officer of IP2IPO Group plc, the AIM quoted technology commercialisation specialist. A modern history graduate from Keble College, Oxford, he began his financial career as a foreign exchange trader with Bankers Trust. Subsequently he joined Duncan Lawrie as an investment analyst for four years, before joining Williams de Broe. In July 1999, Mr Norwood founded IndexIT a technology advisory boutique, which in March 2000 was acquired by Beeson Gregory.

## The Scientific Advisory Board

### **Professor Kay Davies** (chairperson) FRS CBE

*Head of the Department of Human Anatomy and Genetics, honorary director MRC Functional Genetics Unit, co-director Henry Wellcome Centre for Gene Function, University of Oxford.*

Professor Davies established the first physical map of the DMD gene and discovered the closely related gene called utrophin that now forms a target for treating the disease.

### **Professor Edith Sim**

*Head of the Department of Pharmacology, University of Oxford.*

Professor Sim determined the first three-dimensional structure of the NAT enzyme that, in its various forms, is potentially a target for tuberculosis and other diseases.

### **Professor Graham Richards** CBE

*Chairman of the Department of Chemistry, University of Oxford*

One of the world's first and foremost computational chemists, Professor Richards is the author of over 300 scientific articles and 15 books.

### **Dr Derek Stemple**

*Wellcome Trust Sanger Institute, Cambridge*

Dr Derek Stemple was part of the Harvard Medical School research group which was one of the first to isolate and characterize mutations in zebrafish in 1992.

### **Dr Jean-Paul Vincent**

*MRC National Institute for Medical Research, London*

Dr Vincent is a longstanding fruitfly genetics expert, with particular research interest in the wingless signalling pathway pertinent to colon cancer in humans.

### **Dr Bob Sim**

*Medical Research Council ImmunoHistochemistry Unit, University of Oxford*

Dr Sim has been a leading researcher on the immune system for more than two decades.

### **Professor SG Davies**

Professor Davies, a director of the company, also sits on the scientific advisory board. His details are set out on page 10.

## Statement of Directors' Responsibilities

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

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

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

The directors are responsible for ensuring that the directors' report and other information included in the annual report is prepared in accordance with company law in the United Kingdom.



## **Independent auditor's report to the members of VASTox plc**

We have audited the financial statements of VASTox plc for the year ended 31 January 2005 set out on pages 14 to 28. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 18 and 19.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or to into whose hands it may come save where expressly agreed by our consent in writing.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

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

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 group 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 and other members of the Group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the unaudited part of the Remuneration Report, and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **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 circumstances of the company and the group, consistently applied and adequately disclosed.

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

### **OPINION**

In our opinion:

The financial statements give a true and fair view of the state of affairs of the company, and the group, as at 31 January 2005 and of the group's loss for the year then ended; and

The financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

### **Wellers**

Accountants  
Registered Auditors  
8 King Edward Street  
Oxford  
OX1 4HL

Date 22 April 2005

# VASTOX PLC

## CONSOLIDATED PROFIT AND LOSS ACCOUNT For the year ended 31 January 2005

		Year ended 31 January	Period ended 31 January
	Note	2005 £	2004* £
<b>Turnover</b>	2	<b>112,718</b>	1,440
Cost of sales		<b>(279,221)</b>	(740)
<b>Gross loss</b>		<b>(166,503)</b>	700
Administrative expenses		<b>(572,221)</b>	(24,099)
<b>Operating loss</b>	5	<b>(738,724)</b>	(23,399)
Interest receivable	8	<b>215,368</b>	1,008
<b>Loss on ordinary activities before taxation</b>		<b>(523,356)</b>	(22,391)
<b>Tax on loss on ordinary activities</b>	9	<b>24,321</b>	-
<b>Retained loss for the year</b>	19	<b>(499,035)</b>	(22,391)
<b>Loss per share</b>			
Basic	10	2.62p	0.12p
Fully	10	2.49p	0.12p

\*Comparative information; see note 1.

### Continuing operations

All amounts relate to continuing operations.

### Total recognised gains and losses

There were no recognised gains and losses for 2005 or 2004 other than those included in the profit and loss account.

The notes on pages 18 to 28 form part of these financial statements.

# VASTOX PLC

## CONSOLIDATED BALANCE SHEET As at 31 January 2005

		31 January 2005		31 January 2004*	
		£	£	£	£
	Note				
<b>Fixed assets</b>					
Intangible fixed assets	11		20,000		-
Tangible fixed assets	12		1,353		-
			<u>21,353</u>		<u>-</u>
<b>Current assets</b>					
Debtors	14	93,140		202	
Cash at bank	24	361,252		79,591	
Cash on short term deposits	23	13,800,000		-	
		<u>14,254,392</u>		<u>79,793</u>	
<b>Creditors:</b> amounts falling due within one year	15	<u>(185,849)</u>		<u>(2,184)</u>	
<b>Net current assets</b>			<u>14,068,543</u>		<u>77,609</u>
<b>Total assets less current liabilities</b>			<u>14,089,896</u>		<u>77,609</u>
<b>Capital and reserves</b>					
Called up share capital	16		3,131,311		1,000
Share premium account	18		12,946,848		99,000
Other reserves	18		(1,489,228)		-
Profit and loss account	18		(499,035)		(22,391)
<b>Equity shareholders' funds</b>			<u>14,089,896</u>		<u>77,609</u>

\*Comparative information; see note 1.

The notes on pages 18 to 28 form part of these financial statements.

The financial statements were approved by the board on 22 April 2005 and signed on its behalf.

Dr. SKC Lee  
Director

22 April 2005

# VASTOX PLC

## COMPANY BALANCE SHEET As at 31 January 2005

		31 January 2005	
	Note	£	£
<b>Fixed assets</b>			
Investments	13		2,020,198
<b>Current assets</b>			
Debtors	14	440,718	
Cash on short term deposit	23	<u>13,800,000</u>	
		14,240,718	
<b>Creditors: amounts falling due within one year</b>	15	<u>(5,000)</u>	
<b>Net current assets</b>			<u>14,235,718</u>
<b>Total assets less current liabilities</b>			<u>16,255,916</u>
<b>Capital and reserves</b>			
Called up share capital	16		3,131,311
Share premium account	18		12,946,848
Other reserves	18		453,361
Profit and loss account	18		<u>(275,604)</u>
<b>Equity shareholders' funds</b>			<u>16,255,916</u>

No comparatives have been provided for 2004 as the company was incorporated on 4 August 2004.

The notes on pages 18 to 28 form part of these financial statements.

The financial statements were approved by the board on 22 April 2005 and signed on its behalf.

Dr. SKC Lee  
**Director**

22 April 2005

# VASTOX PLC

## CONSOLIDATED CASH FLOW STATEMENT For the year ended 31 January 2005

	Note	31 January 2005 £	31 January 2004*
<b>Net cash flow from operating activities</b>	20	(184,863)	(21,215)
<b>Returns on investments and servicing of finance</b>			
Interest		215,368	1,008
<b>Net cash inflow from returns on investments and servicing of finance</b>		215,368	1,008
<b>Taxation received</b>			
UK Corporation Tax		-	(202)
<b>Capital expenditure and financial investment</b>			
Purchase of fixed assets		(1,803)	-
Purchase of intangible assets		(5,000)	-
<b>Net cash outflow for capital expenditure</b>		(6,803)	-
<b>Cash inflow/(outflow) before use of liquid resources and financing</b>		23,702	(20,409)
<b>Management of liquid resources</b>			
Increase in cash held on short term deposit		(13,800,000)	-
<b>Financing</b>			
Proceeds from the issue of shares		15,000,000	100,000
Expenses of issue of share capital		(942,041)	-
<b>Net inflow from financing</b>		14,057,959	100,000
<b>Increase in cash in the year</b>		281,661	79,591

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS For the year ended 31 January 2005

	Note	31 January 2005 £	31 January 2004 £
<b>Increase in cash in the year</b>		281,661	79,591
<b>Movement in net funds in the year</b>			
Net funds at 1 February 2004		79,591	-
<b>Net funds at the end of the year</b>		361,252	79,591

\*See note 1.

The notes on pages 18 to 28 form part of these financial statements.

# VASTOX PLC

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 January 2005

### 1. ACCOUNTING POLICIES

#### 1.1 Basis of preparation of financial statements

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

#### 1.2 Basis of consolidation

The financial statements consolidate the accounts of VASTox plc and its subsidiary undertaking, VASTox Chemical Genomics Limited ("VCG"). VCG was acquired in a share for share exchange on 29 September 2004. The consolidated accounts have been prepared using merger accounting principles. The company has not presented its own profit and loss account as permitted by section 230(3) of the Companies Act 1985.

The results of the group for the year ended 31 January 2005 comprise those of the holding company for the period from incorporation on 4 August 2004 to 31 January 2005, together with those of the subsidiary for the year ended 31 January 2005. The comparative figures disclosed in respect of the eleven and a half month period ended 31 January 2004 therefore comprise the results of the subsidiary only.

#### 1.3 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible assets at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives as follows:

Leasehold improvements	10 years
Laboratory equipment	Up to 5 years
Fixture and fittings	4 years
Office equipment	3 years

#### 1.4 Deferred taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by FRS19. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

#### 1.5 Current taxation

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

#### 1.6 Research and development

Development expenditure incurred on specific projects will be carried forward when its recoverability can be foreseen with reasonable certainty, and will be amortised on the basis of anticipated sales from the project. Book value will be written down to recoverable amounts if impairment is identified.

All other research and development expenditure is written off in the year incurred.

#### 1.7 Patents, licences, trademarks and know-how

Expenditure on patents, licences, trademarks and know-how is capitalised when its recoverability can be foreseen with reasonable certainty, and is amortised evenly over estimated useful economic lives of 5 to 20 years. Book value will be written down to recoverable amounts if impairment is identified.

#### 1.8 Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

#### 1.9 Investments

Investments held as fixed assets are stated at cost less any provision for any impairment in value.

# VASTOX PLC

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 January 2005

### 2. TURNOVER

Turnover represents the amount receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Amounts received or receivable in respect of licence fees or milestone payments are recognised as turnover when the licence rights are granted or the specific conditions stipulated in the licence agreement have been satisfied.

### 3. PENSIONS

Contributions to personal pension schemes are charged to the profit and loss account and are paid as they fall due.

### 4. SEGMENTAL INFORMATION

The whole of the turnover is attributable to one class of business to date, that of the supply of chemical services. All turnover originated from within the United Kingdom in the year ended 31 January 2005, and the period ended 31<sup>st</sup> January 2004.

The geographic analysis of turnover by market is as follows;

	2005	2004
	£	£
United Kingdom	107,149	1,440
Europe, excluding the United Kingdom	5,569	-
	<u>112,718</u>	<u>1,440</u>

At 31 January 2004 and 31 January 2005, all of the net assets of the company were located in the United Kingdom.

### 5. OPERATING LOSS

The operating loss is stated after charging:

	2005	2004
	£	£
Depreciation of tangible fixed assets - owned by the company	450	-
Research and development	267,533	-
Amortisation of intangible fixed assets	5,000	-
Auditors' remuneration	12,000	600
Auditors' remuneration - non-audit	3,480	-
Operating leases – land and buildings	28,000	-
Directors emoluments	<u>79,697</u>	<u>19,672</u>

# VASTOX PLC

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 January 2005

### 6. STAFF COSTS

The average monthly number of employees, including the directors, during the year was as follows:

	2005 No.	2004 No.
Technical, research and development	9	5

Staff costs, in respect of the above persons were as follows:

	2005 £	2004 £
Wages and salaries	130,285	18,006
Social security costs	14,053	1,666
	<u>144,338</u>	<u>19,672</u>

### 7. DIRECTORS' REMUNERATION

	2005 £	2004 £
Aggregate emoluments excluding pension contributions	<u>79,697</u>	<u>19,672</u>

Contributions to money purchase pension schemes

	2005 £	2004 £
All directors	<u>-</u>	<u>-</u>

Emoluments paid to the highest paid director was as follows:

	2005 £	2004 £
Aggregate emoluments excluding pension contributions	<u>41,667</u>	<u>15,000</u>

A detailed analysis on directors' emoluments is shown in the remuneration report on pages 7 to 9.

### 8. INTEREST RECEIVABLE

	2005 £	2004 £
Other interest receivable	<u>215,368</u>	<u>1,008</u>



# VASTOX PLC

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 January 2005

### 9. TAX ON ORDINARY ACTIVITIES

	2005 £	2004 £
<b>Current tax:</b>		
United Kingdom corporation tax at based on the loss for the year	(24,321)	-
<b>Credit on loss on ordinary activities</b>		
The company intends to take advantage of the Research and Development corporation tax credits introduced by the Finance Act 2000 whereby a company may surrender corporation tax losses incurred on research and development expenditure for a refund at the rate of 24p in the pound, in the period of actual spend.		
	2005 £	2004 £
<b>Loss on ordinary activities before tax</b>	(523,356)	(22,391)
Tax thereon at 19%	(99,438)	(4,254)
<b>Factors affecting tax (credit) charge for the year:</b>		
Expenses not deductible for corporation tax purposes	1,036	-
Difference in rate re R&D tax credits	4,561	-
Research and development relief re 50% mark up on expenses	(25,416)	-
Tax losses carried forward to future periods	94,936	4,254
	<u>24,321</u>	<u>-</u>

A deferred tax asset amounting to £94,936 (2004 £4,254) for trading losses has not been recognised because in the opinion of the directors there is insufficient evidence that the asset will be recovered.

### 10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share of the net basis is based on the loss ordinary attributable to the group and on the weighted number of ordinary shares in issue during the year and ranking for dividend.

	2005	2004
Attributable loss	499,035	22,391
Average number of ordinary shares in issue for basic earnings per share	19,023,556	19,023,556
Basic loss per share (pence)	2.62p	0.12p
Fully diluted (loss) earnings per share (pence)	<u>2.49p</u>	<u>0.12p</u>

The reconciliation between the weighted average number of shares for basic earnings per share and fully diluted earnings per share is as follows:-

	2005
Weighted average number of shares for basic earnings per share.	19,023,556
Dilutive effect of share options.	<u>1,010,189</u>
Weighted average number of shares for fully diluted earnings per share.	<u>20,033,745</u>

For the purposes of providing a pro-forma comparative in respect of the period ended 31 January 2004, the shares issued during the year ended 31 January 2005 (and in issue at that date), have been used to calculate weighted average number of shares for basic earnings. The weighted average of shares for fully diluted earnings per share would be the same figure on the basis that no options were issued in that period.

# VASTOX PLC

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 January 2005

### 11. INTANGIBLE FIXED ASSETS

<b>Group</b>	<b>Patents &amp; trademarks £</b>
<b>Cost</b>	
At 1 February 2004	-
Additions	25,000
At 31 January 2005	<u>25,000</u>
<b>Amortisation</b>	
At 1 February 2004	-
Charge for the year	5,000
At 31 January 2005	<u>5,000</u>
<b>Net book value</b>	
31 January 2005	<u>20,000</u>
31 January 2004	-

The company has no intangible fixed assets.

### 12. TANGIBLE FIXED ASSETS

<b>Group</b>	<b>Furniture, fittings and equipment £</b>
<b>Cost</b>	
At 1 February 2004	-
Additions	1,803
At 31 January 2005	<u>1,803</u>
<b>Depreciation</b>	
At 1 February 2004	-
Charge for the year	450
At 31 January 2005	<u>450</u>
<b>Net book value</b>	
31 January 2005	<u>1,353</u>
31 January 2004	-

The company has no tangible fixed assets.

### 13. FIXED ASSET INVESTMENTS

<b>Company</b>	<b>Share in group undertakings 2005 £</b>
<b>Cost</b>	
At 1 February 2004	-
Additions	2,020,198
<b>At 31 January 2005</b>	<u>2,020,198</u>

The subsidiary company affecting the net assets of the group at 31 January 2005 or its results for the year then ended is VASTox Chemical Genomics Limited, a company engaged in drug research and discovery. VASTox Chemical Genomics Limited was acquired on 24 September 2004 when 20,201,980 new ordinary shares were issued by VASTox plc, credited as fully paid, in exchange for the entire issued share capital of VASTox Chemical Genomics Limited.

# VASTOX PLC

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 January 2005

### 14. DEBTORS

	Group 2005 £	2004 £	Company 2005 £
Trade debtors	39,650	-	-
Other debtors	47,649	202	17,056
Prepayments and accrued income	5,841	-	-
Amounts owed to group undertakings	-	-	423,662
	<u>93,140</u>	<u>202</u>	<u>440,718</u>

### 15. CREDITORS: Amounts falling due within one year

	Group 2005 £	2004 £	Company 2005 £
Trade creditors	17,784	-	-
Amounts owed to group undertakings	-	-	-
Social security and other taxes	10,814	997	-
Accruals and deferred income	157,251	1,187	5,000
	<u>185,849</u>	<u>2,184</u>	<u>5,000</u>

### 16. SHARE CAPITAL

	2005 £
<b>Authorised</b>	
50,000,000 Ordinary shares of 10p each	5,000,000
<b>Allotted, called up and fully paid</b>	
31,313,111 Ordinary shares of 10p each	<u>3,131,311</u>

#### Share allotments

On 29 September 2004 each ordinary share of £1 each in the capital of the company was subdivided into 10 ordinary shares, and the authorised share capital was increased from £100,000 to £5,000,000 by the creation of an additional 49,000,000 ordinary shares.

On 29 September 2004 the 20 ordinary shares, which represented the two subscriber shares, were credited as fully paid and 20,201,980 ordinary shares were issued credited as fully paid in exchange for the entire issued share capital of VASTox Chemical Genomics Limited.

On 14 October 2004, 11,111,111 ordinary shares were placed at 135p each and admitted to trading on AIM. The resulting premium of 125 pence per share, totaling £13,888,889 was credited to the share premium account on that date.

# VASTOX PLC

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 January 2005

### 17. SHARE OPTION SCHEME

Options to subscribe for ordinary shares of 10p each under the company's share option schemes are as follows:-

Subscription price	Dates when exercisable	Number of shares
10p	September 2004 to October 2006	2,020,200

The directors have considered it prudent to make a charge to the profit and loss account of £435,361 in respect of these options in the event that they do not qualify as a "qualifying exchange of shares" under the company's EMI share scheme. The full charge is disclosed as a contingent liability at note 26.

### 18. RESERVES

	Share premium account	Share capital to be issued	Merger reserve	Profit and loss account	Total
	£	£	£	£	£
<b>Group</b>					
At 1 February 2004	-	-	-	-	-
Shares issued	13,888,889				13,888,889
Shares to be issued		453,361			453,361
Costs set against share premium account	(942,041)				(942,041)
Acquisition in year			(1,942,589)		(1,942,589)
Loss for year				(499,035)	(499,035)
At 31 January 2005	12,946,848	453,361	(1,942,589)	(499,035)	10,958,585
	Share premium account	Share capital to be issued		Profit and loss account	Total
	£	£		£	£
<b>Company</b>					
At 1 February 2004	-	-		-	-
Shares issued	13,888,889				13,888,889
Shares to be issued		453,361			453,361
Costs set against share premium account	(942,041)				(942,041)
Loss for year				(275,604)	(275,604)
At 31 January 2005	12,946,848	453,361		(275,604)	13,124,605

Shares to be issued represents a provision in respect of share options granted during the year see note 26.

# VASTOX PLC

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 January 2005

### 19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

<b>Group</b>	<b>Note</b>	<b>2005</b> <b>£</b>	<b>2004</b> <b>£</b>
Loss for the year		(499,035)	(22,391)
Shares issued during the year	16	3,131,311	1,000
Share premium on shares issued (net of expenses)	18	12,946,848	99,000
Shares to be issued	18	453,361	-
Merger reserve	18	(1,942,589)	-
Closing shareholders' funds		<u>14,089,896</u>	<u>77,609</u>
<b>Company</b>			<b>2005</b> <b>£</b>
Loss for the year			(275,604)
Shares issued during the year	16		3,131,311
Share premium on shares issued (net of expenses)	18		12,946,848
Shares to be issued	18		453,361
Closing shareholders' funds			<u>16,255,916</u>

The company has taken advantage of the exemption contained within section 230 of the Companies Act 1985 not to present its own profit and loss account. The loss for the year dealt with in the accounts of the company was £275,604.

### 20. NET CASH FLOW FROM OPERATING ACTIVITIES

	<b>Note</b>	<b>2005</b> <b>£</b>	<b>2004</b> <b>£</b>
Operating loss		(738,724)	(23,399)
Depreciation of tangible fixed assets	12	450	-
Amortisation of intangible fixed assets	11	5,000	-
Increase in debtors		(68,615)	-
Increase in creditors		163,665	2,184
Provision for shares to be issued	18	453,361	-
<b>Net cash flow from operations</b>		<u>(184,863)</u>	<u>(21,215)</u>

### 21. PRINCIPAL SUBSIDIARIES

Company name	Country	Percentage Shareholding	Description
VASTox Chemical Genomics Ltd	Great Britain	100%	1,000 £1 ordinary shares

# VASTOX PLC

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 January 2005

### 22. COMMITMENTS

#### Leasing commitments

At 31 January 2005, there were the following annual commitments under operating leases;

	2005 £	2004 £
	Land & buildings	Land & buildings
Expiring within one year	-	29,822

#### Company

The company has no annual commitments under non-cancellable operating leases.

#### Capital commitments

	2005 £	2004 £
Contracted for but for which no provision is made in the financial statements	13,981	-

#### Other Commitments

On 17 September 2004 VASTox Chemical Genomics Ltd and ISIS Innovation Limited ("ISIS") entered into a licensing agreement pursuant to which ISIS granted a licence of a patent application relating to the Utrophin promoter B sequence. Under the terms of the license VCG is obliged to pay, in addition to a £5,000 signing fee;

- £20,000 back patent costs, with payment deferred until 1 February 2005
- royalties at a flat rate on net sales of 0.75% , subject to a minimum payment in years 2 & 3 of £10,000 per annum and £20,000 per annum thereafter.
- fee income royalty rates at pre-agreed levels.

### 23. CASH HELD ON DEPOSITS AS SHORT TERM INVESTMENTS

	2005 £	Group 2004 £	2005 £	Company 2004 £
Cash held on deposit as a short term investment	13,800,000	-	13,800,000	-

The company holds its excess cash reserves in a combination of fixed term money deposits. At 31 January 2005, notice did not exceed one month in duration.

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 January 2005

### 24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The company's financial instruments comprise borrowings, cash and various items such as trade debtors, trade creditors etc that arise directly from its operations. It is, and has been throughout the period under review, the company's policy that no trading in financial instruments shall be undertaken.

Short term debtors and creditors have been excluded from the following disclosures as permitted by FRS 13, "Derivatives and other financial instruments".

The main risks arising from the company's financial instruments are interest rate risk and potentially foreign currency risk. The Board reviews and agrees policies for managing each risk.

Operations during the year ended 31 January 2005 have principally been financed by means of the proceeds of equity issues and interest received and receivable in respect of returns on short term cash deposits. Treasury policies are agreed by the Board.

#### **Financial assets**

The only financial asset, as defined by FRS 13, is cash held on short term deposit and in hand totalling £14,161,252. Of this total, £13,800,000 is on monthly fixed term deposit contracts, (see note 23). The balance is payable on demand and is subject to a variable interest rate.

The company's material financial assets at 31 January 2005 were denominated in £ Sterling.

Short term debtors and creditors do not include any amounts denominated in foreign currencies. The fair value of financial assets is not significantly different from their book value.

#### **Financial liabilities**

The company had no term loans at the year end.

### 25. PROVISIONS

#### **Deferred tax**

No deferred tax has been recognised in the financial statements on the grounds of the future uncertainty regarding its utilisation.

#### **Provisions for employer's national insurance on share options**

No provision has been made for national insurance that may arise on the exercise of outstanding share options because the directors are of the opinion that, due to the nature of the scheme, no liability will arise. See note 26.

# VASTOX PLC

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 January 2005

### 26. CONTINGENT LIABILITIES

On 2 September 2004, Dr. SKC Lee was granted options over 100 ordinary shares in VASTox Chemical Genomics Limited (“VCG”) under an EMI scheme, at an exercise price of £100 per share, the agreed market value. As such, at the grant date there was no difference between fair value and the option price and no charge has therefore been made in the accounts of VCG. On 29 September 2004, the date of the acquisition of VCG by VASTox plc, the options were exchanged for options over 2,020,200 ordinary shares in VASTox plc. On 14 October 2004, 11,111,111 ordinary shares in VASTox plc were admitted to Listing on AIM at 135p per share.

UITF Abstract 17 requires a cumulative charge to be made to the profit and loss account based on the fair value of the shares at the date of grant, less the option exercise price. The directors have been advised that the replacement options represented a “qualifying exchange of shares” and as such, no charge to the profit and loss account arises. They also recognise however, that the Inland Revenue has a period of twelve months in which to challenge the status of the replacement options and has therefore decided that, in view of the inherent uncertainty, a charge to the profit and loss account would be prudent. Accordingly, a charge has been made equivalent to 25% of the difference between Admission price and option price, applied to all shares under option, apportioned across the period in which the options vest (50% at date of grant, 17% on Admission and 33% 24 months after the date of Admission).

On this basis the sum of £453,361 has been charged to the profit and loss account for the year ended 31 January 2005.

The maximum contingent liability in respect of these options is £2,525,250 (of which £453,361 has been provided) together with an NI charge of approximately £323,232 should the replacement options not qualify for EMI status.

### 27. RELATED PARTIES

DR Norwood, a director, is also a director of IP2IPO Limited which held a 20% shareholding in Vastox Chemical Genomics Limited prior to its acquisition by VASTox plc, and which now holds 12.9% in VASTox plc.

Professor SG Davies, a director of the company, is a trustee of New College, Oxford, with which Vastox Chemical Genomics Limited had a non-interest bearing loan totalling £102,039 at 31 January 2005. The loan is repayable on demand. In addition, New College holds 10,000 ordinary shares in VASTox plc, the parent undertaking.

### 28. SUBSEQUENT CHANGES

No subsequent changes have occurred since the date of these financial statements.



**NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the first Annual General Meeting of VASTox plc ( the "Company" ) will be held at the offices of the Company, 91 Milton Park, Abingdon, Oxford OX14 4RY on the 3<sup>rd</sup> June 2005 at 10.00 a.m. for the transaction of the following business:

**Resolution 1** Approve the Reports of the Directors and Auditors and the Accounts for the year ended 31<sup>st</sup> January 2005.

**Resolution 2** Reappoint Wellers as Auditors of the Company and authorise the Directors to determine their remuneration.

**Resolution 3** Elect Stephen G. Davies as a Director.

**Resolution 4** Elect Steven Lee as a Director.

**Resolution 5** Elect Andrew Mulvaney as a Director.

**Resolution 6** Elect John Montgomery as a Director.

**Resolution 7** Elect David Norwood as a Director.

The Board unanimously recommends shareholders to vote in favour of Resolutions 1 to 7 above.

By order of the Board

John Montgomery  
Company Secretary

4 May 2005.



# VASTOX PLC

## FORM OF PROXY

Form of Proxy for use at the first Annual General Meeting of VASTox plc (the "Company") will be held at the offices of the Company, 91 Milton Park, Abingdon, Oxford OX14 4RY on the 3<sup>rd</sup> June 2005 at 10.00 a.m.

Full name of shareholder(s).....

Address.....

I am a/We are shareholder(s) of the Company. I/We appoint [the Chairman of the meeting]\* [the following persons]\* to act as my/our proxy to vote at the above meeting and at any adjournment of it.

Name of Proxy:.....

(if shareholder is unable to attend)

\*Strike out whichever is not desired

This form is to be used by the proxy to vote on the proposed resolutions as follows:-

**Resolution 1** Approve the Reports of the Directors and Auditors and the Accounts for the year ended 31<sup>st</sup> January 2005.

**Resolution 2** Reappoint Wellers as Auditors of the Company and authorise the Directors to determine their remuneration.

	FOR	AGAINST
<b>Resolution 3</b> Elect Stephen G. Davies as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 4</b> Elect Steven Lee as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 5</b> Elect Andrew Mulvaney as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 6</b> Elect John Montgomery as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 7</b> Elect David Norwood as a Director.	<input type="checkbox"/>	<input type="checkbox"/>

The Board unanimously recommends shareholders to vote in favour of Resolutions 1 to 7 above.

Signed.....Date.....2005

### Notes:

- To be valid this form, duly completed, must be received at the office of the Company's Registrars, Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR not less than 48 hours before the time fixed for the meeting. The form must be signed. If someone else signed the form on your behalf, you or that person must send the power of attorney or other written authority under which it is signed to the address overleaf.
- A corporation must execute this form either under its common seal or under the hand of two directors or one director and the secretary or under the hand of an officer or attorney duly authorized in writing.
- This form enables you to instruct your proxy how to vote in the event of a poll on the resolutions to be proposed at the meeting. Please indicate how you wish to vote. If you do not indicate how you wish to vote, the proxy will vote or abstain from voting as he or she thinks fit.
- The appointment of the Chairman as proxy has been included for convenience. If you wish to appoint any other person or persons as proxy or proxies delete the words "the Chairman of the meeting" and add the name and address of the proxy or proxies appointed. A proxy need not be a member of the Company. If you do not delete such words and you appoint a proxy or proxies, the Chairman shall not be entitled to vote as proxy. Any alteration must be initialed. If you appoint more than one person to act as proxy the number of shares in respect of which each such proxy is entitled to vote must be specified failing which the first named proxy shall be deemed to be entitled to vote in respect of all the shares in the relevant holding.
- In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated and the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority will be determined by the order in which the names stand in the register of members in respect of the shares.
- Returning the form of proxy will not prevent you from attending the meeting and voting in person.

Third fold and tuck in

BUSINESS REPLY SERVICE  
Licence No MB122



**Capita Registrars (Proxies)**  
**PO Box 25**  
**Beckenham**  
**Kent BR3 4BR**

First Fold

Second fold







