



Annual Report & Accounts 2003

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CHAIRMAN'S STATEMENT

Introduction

This has been the first full year of business for Vaccine Research International Plc after the establishment of the Company in May 2002. We have made significant progress during 2003 towards carrying out a Phase I clinical trial of our vaccine SA75 against Staphylococcal bacterial infections and MRSA, the antibiotic-resistant strain of *Staphylococcus aureus*. There has been increasing public concern during this time over the problem of MRSA, with the establishment of UK government initiatives to address the spread of MRSA infections within hospitals. A successful vaccine against these infections could reduce transmission rates and we hope VRI will succeed in providing this and concomitantly satisfy a substantial market gap.

Vaccine Manufacture and Clinical Trial

Timelines

During 2003 we experienced some delays to our original timelines due to additional time requirements for selection of the bacterial strain for manufacture and the necessity to carry out additional immunological testing in order to satisfy government regulations. We are now more confident of future timelines and have revised them accordingly. We expect the Phase I trial to now begin around the fourth quarter of 2004 and preliminary results to be available around the second quarter of 2005.

Vaccine Manufacture

Our vaccine is being manufactured at the Norwegian Institute of Public Health (NIPH). After selection of a bacterial strain suitable for manufacturing, NIPH have successfully prepared eight vaccine batches; some of these were used for immunological testing in 2003 and others are to be used in toxicological tests in 2004. We have now successfully scaled-up vaccine manufacture and we expect preparation of clinical batches for the Phase I trial to begin around the third quarter of 2004.

Phase I Clinical trial

Our Phase I clinical trial will commence after completion of vaccine manufacture, successful immunological and toxicological testing and regulatory permission from the Medicines and Healthcare Products Regulatory Agency (MHRA).

The immunological studies were carried out during the last quarter of 2003 by Syngenta CTL of Macclesfield, UK, and results are presently being analysed. We now expect toxicological testing to begin during the second quarter of 2004.

We are delighted to report exciting preliminary results from the immunological studies; tests on samples from Syngenta analysed at the VRI laboratory have demonstrated that vaccine batches prepared by NIPH were able to stimulate a strong immune response in a model system. It is therefore likely that the vaccine will stimulate an immune response in volunteers in the Phase I clinical trial. We expect Syngenta to confirm our preliminary test results during early 2004.

Toxicological testing will also be carried out by Syngenta CTL and is expected to confirm that the vaccine is safe for injection into humans. As we have previously stated, we do not anticipate problems in this area as our original preliminary research had indicated that the vaccine was well tolerated.



Following successful outcome of toxicological testing, our regulatory consultants, Quadramed, will assist with preparation of our application for regulatory permission to carry out the trial.

With the assistance of our consultant pharmaceutical physician, Dr Denise Anderson, we finalised our choice of Clinical Trials Organisation during 2003 and will formally commission this Company once regulatory permission is granted. We now anticipate that the trial will commence around Quarter 4 of 2004, with preliminary results available around Quarter 3 of 2005. final report to the regulatory authorities is anticipated during Quarter 4 of 2005.

Board Members

As we indicated in our annual report for 2002, we welcomed two new Non-executive Directors to the Board of the Company during 2003.

Mr Russell Stevens, who has special responsibility for commercial development, is a certified chartered accountant and is presently part time Chief Executive with Meriden Group Plc, a business services group which he floated on AIM in August 2001. He is assisting in financial strategy and investor relations.

Dr Patrick Mattock has worked for many years at senior level in the bio-pharma industry. Dr Mattock is contributing to the Company in the areas of vaccine manufacture and project management.

Details of the background and experience of Mr Russell and Dr Mattock were included in our annual report for 2002.

As stated in our annual report for 2002, our two previous Non-executives, Dr David Hill and Dr Ian Roberts resigned in May 2003.

Finances

Audited Accounts for 2003

Our audited accounts for the year are enclosed. Due to the necessity for extensions to timelines, there were some variations in allocation of funding compared with our original budgetary projections. Professional fees have remained more expensive than was originally anticipated, however we have successfully negotiated reductions in some areas and have continued to underspend in other areas, for example salaries and utilities.

Budget Projections

In order to accommodate our extended timelines we have prepared revised budget projections which will allow completion of the Phase I trial within present financial disbursement.

In order to better accommodate the additional time needed to complete Phase I and to ensure a smooth transition to Phase II, we have decided to implement an interim fundraising in Quarter 2 of 2004. This will also allow us to carry out some additional scientific research to enhance the value of the project and to implement market research to identify a clear commercial goal in preparation for Phase II funding rounds. We have engaged the services of Charles Street Securities to carry out this interim fundraising.

Conclusion

We are extremely optimistic about the future of our vaccine, especially in the light of the very successful preliminary results from immunological testing. We look forward with enthusiasm to

successful completion of toxicological testing and initiation of our Phase I trial during 2004.

John Palethorpe
Chairman



DIRECTORS' REPORT

The directors present their annual report and financial statements of the company for the year ended 31st December 2003.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The principal activity of the company is to finance and conduct the Phase 1 Trial of a specialist vaccine.

RESULTS AND DIVIDENDS

The profit and loss account shows the results of the company for the year ended 31st December 2003.

The loss on ordinary activities after taxation for the year was £290,526 (2002: £103,468). The directors recommend that no final dividend be paid.

DIRECTORS

The particulars of the Directors and their shareholdings in the Company are as set out hereunder.

Dr G Skinner
 Dr A Ahmad
 Dr P Mattock (appointed 27th June 2003)
 J Palethorpe
 R W Stevens (appointed 1st April 2003)
 Dr I Roberts (resigned 14th May 2003)
 Dr D Hill (resigned 15th April 2003)

DIRECTORS' INTERESTS

The directors who held office at 31st December 2003 and their interests in the share capital of the company at any time during the year are as follows:

	£0.001 Ordinary shares		£0.10 Ordinary shares	
	2003	2002	2003	2002
Dr G Skinner	280,000	280,000	146,667	146,667
Dr A Ahmad	130,000	130,000	-	-
Dr P Mattock	-	-	-	-
J Palethorpe	-	-	146,666	146,666
R W Stevens	-	-	-	-
Dr I Roberts	-*	-	-*	-
Dr D Hill	-*	-	-*	-

Dr I Roberts was granted a ten year warrant over 75,000 £0.10 ordinary shares exercisable at par. Dr D Hill was granted a ten year warrant over 75,000 £0.10 ordinary shares exercisable at par.

*: on resignation

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 of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to;

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

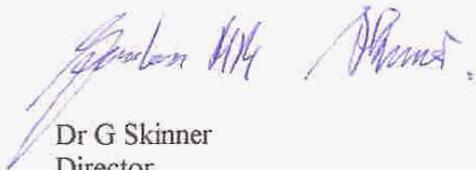
PAYMENT POLICY AND PRACTICE

It is the company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them. Trade creditors at the year end amount to 13 days of average supplies for the year.

AUDITORS

A resolution reappointing haysmacintyre will be proposed at the AGM in accordance with S385(2) of the Companies Act 1985.

ON BEHALF OF THE BOARD



Dr G Skinner
Director
30.3.04.



INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of Vaccine Research International Plc for the year ended 31st December 2003, which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 auditors

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st December 2003 and of the company's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

haysmacintyre
Chartered Accountants
Registered Auditors

Fairfax House
15 Fulwood Place
London
WC1V 6AY

30 March 2004

**PROFIT AND LOSS ACCOUNT
PERIOD ENDED 31ST DECEMBER 2003**

	Note	2003 £	2002 £
TURNOVER		-	-
Administrative expenses		(367,177)	(117,339)
OPERATING LOSS		(367,177)	(117,339)
Interest receivable and similar income		29,477	6,282
LOSS ON ORDINARY ACTIVITIES BEFORE TAX		(337,700)	(111,057)
Tax on loss on ordinary activities	5	47,174	7,589
RETAINED LOSS FOR THE YEAR		<u>£(290,526)</u>	<u>£(103,468)</u>

The operating loss is derived from continuing activities.

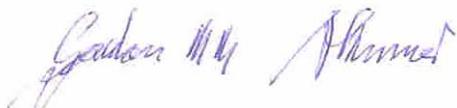
There were no recognised gains and losses other than those included in the profit and loss account.

The notes on pages 10 to 14 form part of these accounts.

**BALANCE SHEET
AT 31ST DECEMBER 2003**

	Note	2003 £	2002 £
FIXED ASSETS			
Tangible fixed assets	8	8,455	-
Intangible fixed assets	9	8,000	9,000
		<u>16,455</u>	<u>9,000</u>
CURRENT ASSETS			
Debtors	10	60,122	23,759
Cash at bank		752,487	1,093,740
		<u>812,609</u>	<u>1,117,499</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	<u>(18,936)</u>	<u>(23,711)</u>
NET CURRENT ASSETS		<u>793,673</u>	<u>1,093,788</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>£810,128</u>	<u>£1,102,788</u>
CAPITAL AND RESERVES			
Called up share capital	12	216,500	216,500
Share premium account	13(a)	987,622	989,756
Profit and loss account	13(b)	(393,994)	(103,468)
EQUITY SHAREHOLDERS' FUNDS	14	<u>£810,128</u>	<u>£1,102,788</u>

Approved by the board on 30th March 2004 and signed on its behalf by:



Dr G Skinner
Director

The notes on pages 10 to 14 form part of these accounts.

**CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31ST DECEMBER 2003**

	Note	2003 £	2002 £
Net cash outflow from operating activities	1	(366,615)	(108,798)
Returns on investment and servicing of finance			
Interest receivable		29,477	6,282
Taxation reclaimed		7,589	-
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets		-	(10,000)
Payments to acquire tangible fixed assets		(9,570)	-
Management of liquid resources			
Decrease/(increase) in money held on short term deposit		369,316	(1,073,895)
Financing			
Proceeds from issue of shares (net of issue costs)		(2,134)	1,206,256
Increase in cash in the year	2	<u>£28,063</u>	<u>£19,845</u>

**NOTES TO THE CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31ST DECEMBER 2003**

1. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES	2003 £	2002 £
Operating loss	(367,177)	(117,339)
Amortisation	1,000	1,000
Depreciation	1,115	-
Decrease/(increase) in debtors	3,222	(16,170)
(Decrease)/increase in creditors	(4,775)	23,711
Net cash outflow from operating activities	£(366,615)	£(108,798)

2. ANALYSIS OF CHANGES IN NET FUNDS	At 1 January 2003 £	Cashflow £	At 31 December 2003 £
Cash at bank and in hand	£19,845	£28,063	£47,908

**NOTES TO THE FINANCIAL STATEMENTS
PERIOD ENDED 31ST DECEMBER 2003**

1. ACCOUNTING POLICIES

a) Basis of preparation

The financial statements are prepared on a historical cost basis and in accordance with applicable accounting standards.

b) Going concern

Cash flow projections have been prepared which illustrate that the company has sufficient cash resources to support itself for the next twelve months and therefore the accounts have been prepared on a going concern basis.

c) Tangible fixed assets and depreciation

Depreciation is provided at rates calculated to write off the cost of each asset evenly over its expected useful economic life on the following basis:

Equipment – 20% straight line

d) Amortisation and intangible fixed assets

Intangible fixed assets are stated at cost less amortisation. Amortisation is calculated to write down the cost of all intangible fixed assets by equal instalments over their useful economic lives on the following basis:

Patents – 10 years straight line

e) Deferred tax

Deferred tax is provided using the full provision method. Deferred tax is recognised in respect of all timing differences which have originated but not reversed at the balance sheet date. It is the company's policy not to discount deferred tax to reflect the time value of money.

2. STAFF COSTS	2003	2002
	£	£
Staff costs (including directors) include the following:		
Wages and salaries	137,145	59,277
Social security costs	9,382	3,588
	<u>£146,527</u>	<u>£62,865</u>
	<u><u>£146,527</u></u>	<u><u>£62,865</u></u>
The average monthly number of employees during the year was made up as follows:	Number	Number
Administration	<u>4</u>	<u>4</u>
	<u><u>4</u></u>	<u><u>4</u></u>
3. INTEREST RECEIVABLE AND OTHER INCOME		
On treasury deposit	<u>£29,477</u>	<u>£6,282</u>
	<u><u>£29,477</u></u>	<u><u>£6,282</u></u>
4. LOSS ON ORDINARY ACTIVITIES	2003	2002
	£	£
The loss is stated after charging:		
Amortisation of patents	1,000	1,000
Depreciation	1,115	-
Auditors' remuneration	4,500	3,500
	<u>1,000</u>	<u>1,000</u>
	<u><u>1,115</u></u>	<u><u>-</u></u>
	<u><u>4,500</u></u>	<u><u>3,500</u></u>
5. TAXATION ON LOSS ON ORDINARY ACTIVITIES		
a) Analysis of charge in period		
Corporation tax at current rates	-	-
Research and development tax credit	42,288	7,589
Overprovision in prior years	4,886	-
	<u>-</u>	<u>-</u>
	<u><u>42,288</u></u>	<u><u>7,589</u></u>
	<u><u>4,886</u></u>	<u><u>-</u></u>
	<u><u>£47,174</u></u>	<u><u>£7,589</u></u>
b) Factors affecting tax charge for period		
The tax assessed for the year is higher than the small companies rate of tax of 19% (2002: 19%). The differences are explained below:		
Loss on ordinary activities before tax	<u>£(337,700)</u>	<u>£(111,057)</u>
Loss on ordinary activities before tax multiplied by the small companies rate of tax in the UK of 19% (2002: 19%).	(64,163)	(21,101)
Effects of:		
Capital allowances in excess on amortisation	(947)	(285)
Research and development tax relief	33,953	9,011
Research and development expenditure	(23,561)	(5,882)
Losses carried forward	54,718	18,257
	<u>(947)</u>	<u>(285)</u>
	<u><u>33,953</u></u>	<u><u>9,011</u></u>
	<u><u>(23,561)</u></u>	<u><u>(5,882)</u></u>
	<u><u>54,718</u></u>	<u><u>18,257</u></u>
Current year corporation tax charge	<u>£ -</u>	<u>£ -</u>
	<u><u>£ -</u></u>	<u><u>£ -</u></u>
c) Factors that may affect future tax charges		
Based on current research and development plans, the company expects to continue to be able to claim research and development tax credits in future years.		
6. DIRECTORS' FEES AND EMOLUMENTS	2003	2002



Directors' remuneration	£	44,045	£	24,167
Directors' fees for consultancy services		19,500		21,945
Total		<u>£63,545</u>		<u>£46,112</u>
7. DIVIDENDS PAID				
No dividends were paid or proposed during the year.				
8. TANGIBLE FIXED ASSETS			Equipment	
			£	
COST				
Additions				9,570
At 31st December 2003				<u>9,570</u>
DEPRECIATION				
Charge for the year				1,115
At 31st December 2003				<u>1,115</u>
NET BOOK VALUE				
At 31st December 2003				<u>£8,455</u>
At 31st December 2002				<u>£-</u>
9. INTANGIBLE FIXED ASSETS			Patents	
			£	
COST				
At 1st January 2003				10,000
Additions				-
At 31st December 2003				<u>10,000</u>
AMORTISATION				
At 1st January 2003				1,000
Charge for year				1,000
At 31st December 2003				<u>2,000</u>
NET BOOK VALUE				
At 31st December 2003				<u>£8,000</u>
At 31st December 2002				<u>£9,000</u>
10. DEBTORS		2003	2002	
		£	£	
Unpaid share capital		-		5,280
Other debtors		55,700		17,149
Prepayments and accrued income		4,422		1,330
		<u>£60,122</u>		<u>£23,759</u>



11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2003	2002
	£	£
Trade creditors	7,143	-
Other creditors including taxation and social security	3,704	3,445
Accruals	8,089	20,266
	<u>£18,936</u>	<u>£23,711</u>
12. SHARE CAPITAL		
Authorised:		
500,000 Ordinary shares of £0.001 each	500	500
7,500,000 Ordinary shares of £0.10 each	750,000	750,000
	<u>£750,500</u>	<u>£750,500</u>
Issued and fully paid:		
500,000 Ordinary shares of £0.001 each	500	500
2,160,000 Ordinary shares of £0.10 each	216,000	216,000
	<u>£216,500</u>	<u>£216,500</u>
At 31st December 2003, options were outstanding over 150,000 £0.10 ordinary shares exercisable at par. At 31st December 2003, warrants were outstanding over 575,000 £0.10 ordinary shares exercisable at £1.00 per share.		
13. RESERVES		2003
		£
(a) SHARE PREMIUM ACCOUNT		
At 1st January 2003		989,756
Costs of share issue		(2,134)
		<u>£987,622</u>
At 31st December 2003		<u>£987,622</u>
(b) PROFIT AND LOSS ACCOUNT		
At 1st January 2003		(103,468)
Retained loss for the year		(290,526)
		<u>£(393,994)</u>
At 31st December 2003		<u>£(393,994)</u>
14 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	2003	2002
	£	£
New share capital introduced (net of issue costs)	(2,134)	1,206,256
Retained loss for the year	(290,526)	(103,468)
	<u>(292,660)</u>	<u>1,102,788</u>
Movement in shareholders' funds	(292,660)	1,102,788
Opening shareholders' funds	1,102,788	-
	<u>£810,128</u>	<u>£1,102,788</u>
Closing shareholders' funds	<u>£810,128</u>	<u>£1,102,788</u>

DETAILED PROFIT AND LOSS ACCOUNT
PERIOD ENDED 31ST DECEMBER 2003

	2003		2002	
	£	£	£	£
Turnover		-		-
Less: administrative expenditure				
Rental of laboratory	6,000		3,000	
Directors' remuneration and fees	63,545		46,112	
Wages and salaries	93,100		13,165	
Social security costs	9,382		3,588	
Vaccine Research Trust costs	-		25,000	
Medical expense trials	10,142		3,842	
Computer costs	-		550	
Telephone and fax	1,480		357	
Heat and light	1,526		352	
Travel expenses	7,328		376	
Equipment maintenance	454		517	
Legal and professional	62,129		15,093	
Audit and accountancy	4,500		4,125	
Amortisation	1,000		1,000	
Depreciation	1,115		-	
Insurance	3,243		-	
Bank charges	131		-	
Toxicity Testing	13,000		-	
Contract Research work	12,978		-	
Vaccine manufacture	75,837		-	
Sundry expenses	287		262	
		<u>(367,177)</u>		<u>(117,339)</u>
		(367,177)		(117,339)
Interest receivable and similar income		<u>29,477</u>		<u>6,282</u>
LOSS BEFORE TAXATION		<u><u>£(337,700)</u></u>		<u><u>£(111,057)</u></u>



Company Information

Registered Office

22 Alcester Road
Moseley
Birmingham
B13 8BE

Registered Number

4449300

Officers

Mr John Palethorpe
Non-executive Chairman

Dr Gordon R B Skinner
Chief Executive Officer

Dr Afshan Ahmad
Executive Director of Research

Mr Russell Stevens
Non-executive Director

Dr Patrick Mattock
Non-executive Director

Contact

Telephone/ Facsimile 0121 449 2429

Email vri@zoom.co.uk

<http://www.vri.org>

Secretary

Mr Rish Hayer