VACCINE RESEARCH INTERNATIONAL PLC

Annual Report & Accounts

Period ended 31st December 2004

Registered Number: 4449300

Contents

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present this my third Chairman's Annual Report for Vaccine Research International Plc. We have made very satisfying progress during 2004 in reaching the start of our Phase I clinical trial of vaccine VRi SA75 against staphylococcal infections and have begun strategic planning for progression to Phase II.

Staphylococcal infections, whether hospital or community acquired, continue to present serious risks to public health; the emergence of organisms resistant to front-line antibiotics such as methicillin and vancomycin is very worrying and has prompted government initiatives to control their spread. Since mid-2002, VRi Plc has been addressing the problem by developing vaccine VRi SA75 to protect against staphylococcal infections. After some setbacks to timelines in 2003, we completed a year of successful preclinical work in 2004 and began a Phase I trial to test the vaccine for safety and immune responses in healthy volunteers on 10th January 2005. Following these satisfactory events, we present here our Annual Report and Audited Accounts for 2004 with a brief outline of plans for future development towards Phase II/III trials; we hope these trials will eventually lead to market licensing of a product to protect against infection with staphylococcal bacteria.

During 2004 we successfully completed the necessary work towards beginning our Phase I clinical trial. Pre-clinical immunological and toxicological studies were concluded, clinical batches of vaccine were manufactured and we were granted regulatory permission to carry out the trial. We established an Advisory Board to draw on the expertise of prominent clinical and pharmaceutical practitioners and we set up a Commercialisation Committee to plan progression to Phase II/III. We conducted an interim fundraising to enable completion of the Phase I trial and progression to Phase II. We honoured responsibilities to shareholders by providing quarterly progress reports and unaudited management accounts, with the option of receiving these electronically; the latter has contributed to our developing initiatives for corporate social responsibility. Our progress is reported in more detail in the following paragraphs.

Progress in 2004

Completion of protocol design for Phase I clinical trial

A Phase I clinical trial for a vaccine is always designed to establish safety and tolerability in healthy human subjects and often includes measurement of markers of potential protective efficacy of the vaccine. The design of such a trial is informed by the results of pre-clinical testing, which assist in defining the dose-levels to be administered and the endpoints to be measured. The trial is both placebo-controlled - i.e. some subjects receive a placebo in place of the test vaccine - and double-blinded, that is to say that during the progress of the trial, neither the participants nor the operating personnel know who
receives vaccine and who receives placebo. At the end of the trial, after the results are collated and analysed, the trial is 'unblinded' and the effects of the vaccine can be compared to those of placebo.

The protocol for the trial of vaccine VRi SA75 was developed over several months during 2004 and was completed after finalisation of the immunological and toxicological studies referred to below. The final protocol provides for a step-wise investigation of three increasing dose-levels of vaccine, together with measurements of parameters to examine safety, tolerability and immune responses. We are very grateful to our expert clinical advisor Dr Denise Anderson and to Simbec Ltd for their assistance in designing the protocol.

Completion of pre-clinical testing

Before a vaccine can be entered into clinical trials, a significant body of pre-clinical work must be completed to satisfy government regulatory requirements. It should be demonstrated that the vaccine is likely to provoke an immune response in those who are vaccinated - thereby indicating its potential to protect them from infection - and it must be shown, as far as is possible before human trials, that it is likely to be safe. These requirements were successfully met by the immunological and toxicological studies which VRi Plc completed during 2004.

Pre-clinical immunological testing was completed in quarter 2 of 2004 and indicated that the vaccine was capable of stimulating a dose-related immune response in a model system. It was concluded that it was therefore likely to stimulate an immune response in humans with the concomitant possibility, albeit unproven at this stage, of protection against infection.

Pre-clinical toxicological testing was completed in quarter 4 of 2004; as we had predicted from early preliminary research, the results demonstrated that the vaccine was well tolerated and appeared safe for injection into humans.

Completion of manufacture of clinical batches of vaccine for Phase I trial.

Clinical batches of vaccine must be produced to the very highest controlled standards, with stringent quality control testing; we were pleased that this was successfully completed by our vaccine manufacturer NIPH (Norwegian Institute of Public Health, Oslo) in quarter 4 of 2004. NIPH has significant experience of vaccine manufacture for clinical trials and has taken an enthusiastic interest in the VRi vaccine; we are grateful to them for their unstinting commitment and dedication to this project.

Approval of application to carry out Phase I clinical trial

In order to carry out clinical trials, it is obligatory to obtain government regulatory permission and we are grateful to Quadramed, our expert regulatory advisors, for their assistance in preparing our application to the MHRA (Medicines and Healthcare Regulatory Authority). After careful preparation of extensive documentation to support the application, we were delighted that this was immediately successful with permission to carry out the trial being granted in December 2004.

At the time of writing this report (February 2005) the trial is going well and administration of the second vaccine dose-level has now begun. Measurements for safety and tolerability are taking place as the trial progresses and laboratory testing to assess immune responses will begin in the next two months. The trial is being carried out by Simbec Ltd of Merthyr Tydfil and is expected to be completed during the fourth quarter of 2005. Simbec has extensive experience of clinical trials including vaccine trials, and was selected by VRi Plc with assistance and advice from Dr Denise Anderson of Andromeda Consultancy.

This is a most exciting milestone for VRi Plc and we will keep shareholders informed of the progress of the trial over the coming months.

VRi Plc developmental research

We have conducted in-house laboratory research in several areas; we see this as pivotal in providing a defining anchor for research studies which are of necessity contracted out and in contributing important information on properties of the vaccine which may be important to future market potential.

A parallel laboratory study which yielded results reflecting those obtained by Syngenta CTL during their pre-clinical immunological and toxicological studies proved useful both in the interpretation of these studies and in the definition of laboratory tests to be used in the Phase I trial.

In another area, we have been able to confirm cross-reactivity of our vaccine with some other strains of staphylococcal bacteria; this work is continuing and will be extended to examine cross-reactivity with other bacterial families for example Pseudomonas and Streptococcus species. This is an important topic, since confirmation of cross-reactivity could widen the potential market application of vaccine VRi SA75 to address infections caused by a range of different bacteria.

Contract research

In order to examine some potentially important properties of vaccine VRi SA75 and its origin strain of Staphylococcus aureus, we have drawn on the skills of some highly regarded experts.

Professor J-I Flock of the Karolinska Institute in Stockholm, Sweden, has confirmed the presence of certain proteins – 'cell-binding proteins' - on the surface of the strain of Staphylococcus aureus used to prepare vaccine VRi SA75. These proteins are thought to be important in protective immune responses to staphylococcal bacteria. Professor Flock has also shown that antibodies to these proteins were stimulated during the immunological studies carried out for VRi Plc at Syngenta CTL; he will now examine serum samples from the Phase I trial for evidence of these antibodies.

Professor Flock has also recently demonstrated that specialised types of antibodies – 'opsonising antibodies' – were sometimes stimulated by vaccine VRi SA75 during the toxicological study carried out for VRi Plc at Syngenta CTL; these antibodies are thought to be important in protective immune responses to staphylococcal infection. Professor Flock will now extend his investigation to further samples from the toxicological studies and, if the results are encouraging, to samples from participants in the Phase I clinical trial.

During the final quarter of 2004 we commissioned Dr M Enright of the University of Bath to begin work to examine the interaction of antibodies produced by the subjects in our Phase I trial with a range of isolates of MRSA (the antibiotic-resistant strain of Staphylococcus aureus). This work is important in assessing the potential of our vaccine to protect against infection with antibiotic-resistant strains of staphylococcal bacteria. MRSA continues to present serious problems in hospitals and has now entered the general community; as previously mentioned, the issue has become of significant importance to the UK government which has instigated continuing initiatives to enforce containment measures such as improvement of hygiene strategies and reporting of incidences of MRSA infections. In addition, MRSA has now developed resistance to vancomycin, one of the only two remaining antibiotics effective in its treatment. While efforts by pharmaceutical companies to develop new antibiotics continue, there is always the likelihood that further resistance to new drugs will develop; VRi Plc believes that vaccination could provide an invaluable contribution to reducing the spread of antibiotic-resistant strains.

Corporate Activities in 2004

Advisory Board

In 2004 we established an Advisory Board of senior medical consultants and a pharmaceutical expert who are advising on clinical and other aspects of our progression to Phase II, for example the selection of appropriate patient groups for a Phase II clinical trial.

Commercialisation Committee

A Commercialisation Committee was established in 2004 to enable a smooth transition to Phase II. The Committee has now examined the future market potential of vaccine VRi SA75 in the USA and Europe and is implementing strategies for financing a Phase II trial.

VRI staff

We were delighted to welcome Mrs Kay Ravenhill, as Research Scientist, to our staff in March 2004. She has proved invaluable in our laboratory research and has begun work to investigate cross-reactivity of vaccine VRi SA75 with other strains of Staphylococcal bacteria.

Board of Directors

We were sorry to lose the services of Dr Patrick Mattock who resigned as non-executive Director in July 2004 and have thanked him for his valuable service to the Board since July 2003. He remained as consultant expert advisor for management of vaccine manufacture until the end of 2004.

Corporate social responsibility

We are aware that, even as a small company, we have responsibilities to the community.

At intervals during 2004 we contributed to public awareness of Staphylococcal infections and the problems of the emergence of antibiotic-resistant organisms. Dr Ahmad, our Director of Research, addressed several meetings and seminars including Birmingham City Council's Health Overview and Scrutiny Committee whose goal is to reduce MRSA infections in large municipal hospitals.

Dr Ahmad also presented a paper on Staphylococcal vaccines, including the work of VRi Plc, at an international conference on vaccines in October 2004 in Oslo, Norway.

We have contributed to reducing the consumption of natural resources by offering shareholders the opportunity to receive quarterly reports electronically.

We have arranged to contribute to the education of young people by offering to provide work experience to school students during 2005.

We are investigating the possibility of using laboratory testing to replace animal studies for pre-clinical assessment of the potential protective efficacy of vaccine VRi SA75; this would involve the use of efficacy markers such as the production of opsonising antibodies.

VRI Plc website

We have set up and developed our website at www.vri.org.uk which contains company information, news items and copies of quarterly and annual reports.

General meetings

An Annual General Meeting was held on 27th May 2004 where the current Board of Directors was re-elected. Shareholders also approved measures to support an interim fundraising to allow completion of the Phase I clinical trial and progression to Phase II.

An Extraordinary General Meeting was held on 2nd December 2004, where measures to support fundraising to conduct a Phase II clinical trial were approved, together with proposals to grant share options to certain Company employees.

Finance

Audited Accounts for 2004

During 2003, following extensions to timetables for vaccine manufacture and higher than expected expenditure for professional advice, we predicted a shortfall of funding for 2004-2005. Although we had prepared revised budget projections to allow completion of the Phase I trial within the available financial disbursement, we decided to carry out an interim fundraising between May and July 2004; this was

designed to provide for completion of the Phase I clinical trial during 2005, implementation of market research in preparation for Phase II funding rounds and the execution of additional scientific work to enhance the value of the Company. The fundraising proved very successful, quickly reaching its target of £770,000 and revealing an enthusiastic interest in the project from investors. We were grateful to Charles Street Securities for organising this fundraising and have thanked the existing and new shareholders who participated.

In conjunction with this fundraising, we prepared revised budget projections for mid 2004 to the end of 2005 and have reported against these in our recent quarterly accounts. Although we continued to overspend on regulatory advice, we feel this was justified by the immediate approval of our application to carry out the Phase I clinical trial. Other expenditure has generally remained within or below the revised budget projections, however in some areas, for example insurance, vaccine manufacture and the Phase I trial, payment of some costs incurred in 2004 will be made in 2005. In the area of contract research work, in order to increase emphasis on developmental and contract laboratory research which will begin in early 2005, we have delayed beginning *in-vivo* work to examine pre-clinical vaccine efficacy. We have also provided for unexpected extra costs for manufacture of clinical vaccine batches; this resulted from the need for additional quality control work in this area. We have underspent on costs for future commercialisation, however expenditure in this area will increase during 2005 as we move towards Phase II. Bank interest received during 2004 was increased over projections.

Future planning

Assuming a successful outcome of the Phase I clinical trial, we expect to progress to Phase II wherein vaccine VRi SA75 will be tested for safety and immune responses in selected target patient groups who are at risk of contracting staphylococcal infections. With assistance from our Advisory Board, we have developed a draft outline for a Phase II trial and are currently involved in determining the likely budget projections. We have begun interviewing candidate Clinical Research Organisations to carry out a Phase II trial and will continue development of these activities in 2005.

During December 2004 we initiated the first steps towards fundraising to support Phase II; this fundraising will be carried out during 2005 using a variety of initiatives. We are currently seeking a joint venture partner from the pharmaceutical industry and hope to carry out an Alternative Investment Market (AIM) listing. We will keep shareholders informed of progress through our quarterly reports.

We anticipate that, following a successful outcome of the Phase I trial, a Phase II trial could be initiated during 2006 and would take approximately two years to complete. This would normally be followed by a Phase III trial wherein the efficacy of the vaccine to protect against infection of human subjects would be examined.

Summary

We feel we have made very satisfactory progress during 2004 and that our plans for future development are well underway. We were delighted to receive regulatory approval to begin our Phase I trial in January 2005 and remain optimistic for a positive outcome.

John Palethorpe
Chairman

DIRECTORS' REPORT

The directors present their annual report and financial statements of the company for the year ended 31st December 2004.

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 2004.

The loss on ordinary activities after taxation for the year was £497,485 (2003: loss £290,526). The directors recommend that no final dividend be paid.

Offer for subscription

During the year, the company issued 550,000 ordinary shares of £0.10 each at a price of £1.40 per share, raising net proceeds (after costs) of £581,087 and by way of a public offer for subscription.

Directors

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

J Palethorpe
Dr G R B Skinner
Dr A Ahmad
Dr P Mattock (resigned 25th July 2004)
R W Stevens

Directors' interests

The directors who held office at 31st December 2004 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	
	2004	**2003**	**2004**	**2003**
J Palethorpe	-	-	146,666	146,666
Dr G R B Skinner	280,000	280,000	146,667	146,667
Dr A Ahmad	130,000	130,000	-	-
R W Stevens	-	-	-	-

Since the year end, options over 50,000 £0.10 ordinary shares were granted to R W Stevens, exercisable at £1.00 and options over 40,000 £0.10 ordinary shares were granted to J Palethorpe, exercisable at £1.40.

DIRECTORS' REPORT (Continued)

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.

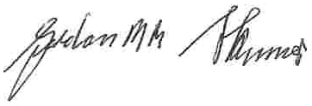
Payment policy and practice

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 R B Skinner
Director
22nd March 2005

22 Alcester Road
Birmingham
B13 8BE

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of Vaccine Research International Plc for the year ended 31st December 2004, 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 2004 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

22nd March 2005

PROFIT AND LOSS ACCOUNT
YEAR ENDED 31st DECEMBER 2004

	Note	2004 £	2003 £
TURNOVER		-	-
Administrative expenses		(577,828)	(367,177)
OPERATING LOSS		(577,828)	(367,177)
Interest receivable and similar income		30,360	29,477
LOSS ON ORDINARY ACTIVITIES BEFORE TAX		(547,468)	(337,700)
Tax on loss on ordinary activities	5	49,983	47,174
RETAINED LOSS FOR THE YEAR		£(497,485)	£(290,526)

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.

BALANCE SHEET
AT 31st DECEMBER 2004

	Note	2004 £	2004 £	2003 £	2003 £
FIXED ASSETS					
Tangible fixed assets	8		12,908		8,455
Intangible fixed assets	9		7,000		8,000
			19,908		16,455
CURRENT ASSETS					
Debtors	10	105,351		60,122	
Cash at bank		812,844		752,487	
		918,195		812,609	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	(43,748)		(18,936)	
NET CURRENT ASSETS			874,447		793,673
TOTAL ASSETS LESS CURRENT LIABILITIES			£894,355		£810,128
CAPITAL AND RESERVES					
Called up share capital	12		272,125		216,500
Share premium account	13(a)		1,513,709		987,622
Profit and loss account	13(b)		(891,479)		(393,994)
EQUITY SHAREHOLDERS' FUNDS	14		£894,355		£810,128

Approved by the board on 22nd March 2005 and signed on its behalf by:

Dr G R B Skinner
Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31st DECEMBER 2004

	Note	2004 £	2003 £
Net cash outflow from operating activities	1	(591,163)	(366,615)
Returns on investment and servicing of finance			
Interest receivable		30,360	29,477
Taxation reclaimed		47,174	7,589
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(7,101)	(9,570)
Management of liquid resources			
(Increase)/decrease in money held on short term deposit		(57,105)	369,316
Financing			
Proceeds from issue of shares (net of issue costs)		581,087	(2,134)
Increase in cash in the year	2	£3,252	£28,063

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DECEMBER 2004

1. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2004 £	2003 £
Operating loss	(577,828)	(367,177)
Shares received in lieu of services	625	-
Amortisation	1,000	1,000
Depreciation	2,648	1,115
(Increase)/decrease in debtors	(42,420)	3,222
Increase/(decrease) in creditors	24,812	(4,775)
Net cash outflow from operating activities	£(591,163)	£(366,615)

2. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 January 2004 £	Cashflow £	At 31 December 2004 £
Cash at bank and in hand	47,908	3,252	51,160
Amount held on deposit	704,579	57,105	761,684
	£752,487	£60,357	£812,844

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2004

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

	2004 £	2003 £
Staff costs (including directors) include the following:		
Wages and salaries	144,113	137,145
Social security costs	11,955	9,382
	£156,068	£146,527
The average monthly number of employees during the year was made up as follows:	**Number**	**Number**
Administration	5	4

3. INTEREST RECEIVABLE AND OTHER INCOME

On treasury deposit	£30,360	£29,477

4. LOSS ON ORDINARY ACTIVITIES

	2004 £	2003 £
The loss is stated after charging:		
Amortisation of patents	1,000	1,000
Depreciation	2,648	1,115
Auditors' remuneration	5,000	4,500

5. TAXATION ON LOSS ON ORDINARY ACTIVITIES

a) Analysis of tax credit in the year

Corporation tax at current rates (see (b) below)	-	-
Research and development tax credit	49,983	42,288
Overprovision in prior years	-	4,886
	£49,983	£47,174

b) Factors affecting tax credit for the year

The tax assessed for the year is higher than the small companies rate of tax of 19% (2003: 19%). The differences are explained below:

Loss on ordinary activities before tax	£(547,468)	£(337,700)
Loss on ordinary activities before tax multiplied by the small companies rate of tax in the UK of 19% (2003: 19%).	(104,019)	(64,163)
Effects of:		
Capital allowances in excess on amortisation	(717)	(947)
Research and development tax relief	39,570	33,953
Research and development expenditure	(42,463)	(23,561)
Losses carried forward	107,629	54,718
Current year corporation tax	£ -	£ -

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

Directors' remuneration	27,960	44,045
Directors' fees for consultancy services	14,850	19,500
Total	£42,810	£63,545

7. DIVIDENDS PAID

No dividends were paid or proposed during the year.

8. TANGIBLE FIXED ASSETS	Equipment £
COST	
At 1st January 2004	9,570
Additions	7,101
At 31st December 2004	16,671
DEPRECIATION	
At 1st January 2004	1,115
Charge for the year	2,648
At 31st December 2004	3,763
NET BOOK VALUE	
At 31st December 2004	£12,908
At 31st December 2003	£8,455

9. INTANGIBLE FIXED ASSETS	Patents £
COST	
At 1st January 2004 and at 31st December 2004	10,000
AMORTISATION	
At 1st January 2004	2,000
Charge for year	1,000
At 31st December 2004	3,000
NET BOOK VALUE	
At 31st December 2004	£7,000
At 31st December 2003	£8,000

10. DEBTORS	2004 £	2003 £
Other debtors	82,121	55,700
Prepayments and accrued income	23,230	4,422
	£105,351	£60,122

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31st DECEMBER 2004

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2004 £	2003 £
Trade creditors	25,340	7,143
Other creditors including taxation and social security	4,808	3,704
Accruals	13,600	8,089
	£43,748	£18,936

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
500,000 'A' Deferred ordinary shares of £0.001 each	500	-
125,000 'B' Deferred ordinary shares of £0.001 each	125	-
25,000 'C' Deferred ordinary shares of £0.001 each	25	-
500,000 'D' Deferred ordinary shares of £0.001 each	500	-
	£751,650	£750,500
Issued and fully paid:		
500,000 Ordinary shares of £0.001 each	500	500
2,710,000 Ordinary shares of £0.10 each	271,000	216,000
500,000 'A' Deferred ordinary shares of £0.001 each	500	-
107,143 'B' Deferred ordinary shares of £0.001 each	107	-
17,857 'C' Deferred ordinary shares of £0.001 each	18	-
	£272,125	£216,500

During the year, the company issued 550,000 Ordinary shares of £0.10, at a price of £1.40 per share, raising a total of £770,000, which after costs of £188,913, gave net proceeds of £581,087.

During the year ended 31st December 2003, the company issued a ten year warrant over up to 500,000 £0.001 'A' Ordinary shares exercisable at £1 per share to Charles Street Securities. This warrant has been cancelled and 500,000 'A' Deferred Ordinary Shares of £0.001 each have been issued in its place. On conversion to Ordinary Shares, Charles Street Securities will be required to pay the difference between the par value of such 'A' Deferred shares and £1.00 per share.

In addition, Charles Street Securities has been issued a further 107,143 'B' Deferred Ordinary Shares of £0.001 each by way of fees in connection with the offer. On conversion to Ordinary Shares, Charles Street Securities will be required to pay the difference between the par value of such 'B' Deferred Ordinary Shares and £1.40 per share.

Further, Charles Street Securities has been issued a further 17,857 'C' Deferred Ordinary shares of £0.001 each by way of partial payment of corporate finance fees in connection with the offer. On conversion to Ordinary Shares, Charles Street Securities will be required to pay the difference between the par value of such C Deferred shares and £0.10 per share.

The rights attaching to the Ordinary shares, the founder shares and the Deferred Ordinary Shares are the same, expect that until conversion the Deferred Ordinary shares have no rights whatsoever. On a Listing or a sale, or in the absence of either, or at any time before 30th April 2012, at the option of the holders, the Deferred Ordinary Shares shall convert to Ordinary Shares.

At 31st December 2004, options were outstanding over 165,000 £0.10 ordinary shares exercisable at par and since the year end, options have been granted over 110,000 £0.10 ordinary shares at exercise prices of between £1.00 and £1.40. Shareholders have also agreed to grant options over a further 100,000 £0.10 ordinary shares at an exercise price of £1.40.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31st DECEMBER 2004

13.	RESERVES	2004 £
(a)	**SHARE PREMIUM ACCOUNT**	
	At 1st January 2004	987,622
	Premium share issue	715,000
	Costs of share issue	(188,913)
	At 31st December 2004	£1,513,709
(b)	**PROFIT AND LOSS ACCOUNT**	
	At 1st January 2004	(393,994)
	Retained loss for the year	(497,485)
	At 31st December 2004	£891,479

14	RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	2004 £	2003 £
	New share capital introduced (net of issue costs)	581,712	(2,134)
	Retained loss for the year	(497,485)	(290,526)
	Movement in shareholders' funds	84,227	(292,660)
	Opening shareholders' funds	810,128	1,102,788
	Closing shareholders' funds	£894,355	£810,128

DETAILED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31st DECEMBER 2004

	2004		2003	
	£	£	£	£
Turnover				-
Less: administrative expenditure				
Rental of laboratory	6,000		6,000	
Directors' remuneration and fees	42,810		63,545	
Wages and salaries	116,153		93,100	
Social security costs	11,955		9,382	
Medical expense trials	11,154		10,142	
Computer costs	568		-	
Telephone and fax	1,263		1,480	
Heat and light	1,423		1,526	
Travel expenses	7,584		7,328	
Equipment maintenance	2,025		454	
Legal and professional	2,384		62,129	
Audit and accountancy	5,000		4,500	
Amortisation	250		1,000	
Depreciation	3,648		1,115	
Insurance	6,117		3,243	
Bank charges	102		131	
Toxicity Testing	84,137		13,000	
Contract Research work	12,983		12,978	
Vaccine manufacture	86,637		75,837	
Clinical trial and audit	71,608		-	
Immunology study and tests	22,730		-	
Commercialisation	29,695		-	
Fees Regulatory Advisor	50,320		-	
Shareholder relations	1,282		-	
Sundry expenses	-		287	
		(577,828)		(367,177)
		(577,828)		(367,177)
Interest receivable and similar income		30,360		29,477
LOSS BEFORE TAXATION		£(547,468)		£(337,700)

Company Information

Registered Office

22 Alcester Road, Moseley, Birmingham, B13 8BE

Registered Number

4449300

Directors and Officers

Mr John Palethorpe
Non-executive Chairman

Dr Gordon R B Skinner MD DSc FRCPath FRCOG
Chief Executive Officer

Dr Afshan Ahmad PhD
Executive Director of Research

Mr Russell Stevens FCCA
Non-executive Director

Mr Rish Hayer FCCA
Company Secretary

Advisory Board

Mrs Carolyn Belcher MBA MSc MPhil

Head of Product Development Services, Origin Pharmaceutical Services Ltd, Abingdon.

Dr Jeremy Levy MA PhD ILTM FRCP

Consultant Nephrologist and Physician, Director of Postgraduate Medical Education and CPD, Charing Cross and Hammersmith Hospitals.
Honorary Senior Lecturer, Imperial College London.

Professor Gregory Y H Lip MD FRCPE FACC FESC

Consultant Cardiologist and Professor of Cardiovascular Medicine. Director - Haemostasis Thrombosis & Vascular Biology Unit, University Department of Medicine, City Hospital, Birmingham.

Financial Advisors

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