



12 JULY 2009

**VACCINE RESEARCH INTERNATIONAL PLC ("COMPANY")**  
REGISTERED NUMBER: 4449300

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**REPORT AND  
FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED  
31 DECEMBER 2009

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## **CHAIRMAN'S STATEMENT**

At the start of 2009 the Company was experiencing considerable financial constraint which led to a slow down in progress. However during the second quarter we carried out a successful fundraising which enabled us to move forward again. The Board and Management personnel structure were changed to include industry-experienced members and we were able to re-engage staff and proceed with R&D and plans for future fundraising.

### ***Chairman***

After serving as Chairman since the formation of VRi Plc in 2002, Mr John Palethorpe resigned his Board position in February 2009. We have expressed our gratitude to him for his work as Chairman; he remains a major shareholder. John was succeeded by Russell Stevens who has been a member of the Board since 2003 and has provided excellent service to the Company during 2009.

### ***Board of Directors***

Dr Joginderpal Singh Kundi resigned from the Board in February 2009 and we were pleased to appoint Dr Jean-Marc Saffar MD PhD and Mr Gilead Raday MPhil MSc as non-executive directors, also in February.

### ***Chief Executive Officer***

The Board was pleased to appoint Mr Richard Llewellyn as part-time CEO on 1st February 2009. Richard was previously our consultant Director of Corporate Development and has been able to bring his extensive experience in large scale pharmaceutical industry to his new role.

### ***Fundraising***

A fundraising was initiated on our behalf by CSS Europe LLP in the spring of 2009 which was finalised in July at a slightly higher level than anticipated with a gross total of £760,000 from share subscriptions and a net amount of £597,153 received by the Company. This enabled us to re-engage staff on a paid basis, to settle some of our accrued liabilities and to have the accounts for 2007 and 2008 audited and filed. It also allowed us to carry out important laboratory studies towards supporting an application for further clinical trials in the future. Additional studies have been initiated, to be continued in 2010. We began negotiating an agreement with a major pharmaceutical company to carry out tests on the sera from our Phase I trial; at the time of writing, this agreement - which includes a payment to VRi - is still under negotiation.

### ***Scientific Research***

Research in our laboratory in Birmingham was re-started in the third quarter of 2009 and we have also been in discussion with several other laboratories to initiate contract research and scale-up of vaccine manufacturing. Our application to the Wellcome Trust for support for scientific research reached the second round for consideration, however it was not ultimately successful. In the last quarter of 2009 a large stock of GMP manufactured vaccine was prepared by NIPH (Norwegian Institute of Public Health) which can be used for preclinical and clinical work.

### ***Intellectual Property Rights (IPR)***

The Company's IPR was reviewed in 2009 and we were able to progress with a Patent Cooperation Treaty application which had been first filed in July 2007. This process will result in patent filings at the national and European level in 2010. Major pharmaceutical markets around the world have been included in this process.

### ***Finances***

Proceeds from the 2009 fundraising are banked on deposit with NatWest Bank and are gradually being invested in vaccine R&D and company operations.

### ***Summary***

We are delighted to have re-instated activities after a period of baseline operation and will report progress to shareholders on a regular basis. It is intended that in 2010 more use will be made of the Company's web site to communicate with Shareholders.

## DIRECTORS' REPORT

*The directors present their annual report and financial statements of the company for the year ended 31 December 2008.*

### Results and dividends

The profit and loss account shows the results of the company for the year ended 31st December 2009.

The loss on ordinary activities after taxation for the year was £100,387 (2008: £113,858). The directors recommend that no final dividend be paid (2008: £Nil).

### Directors

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

Dr <b>G R B Skinner</b>	<b>G Raday</b>
Dr <b>A Ahmad</b>	Dr <b>J M Saffar</b>
<b>R W Stevens</b>	<b>R Llewellyn</b>

### Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 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;
- 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 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as each of the directors is aware at the time the report is approved:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

### 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 7 days (2008: 13 days) of average supplies for the year.

### Auditors

The auditors, haysmacintyre, will be proposed for appointment in accordance with Section 485 of the Companies Act 2006.

This report was approved by the board on 7 May 2010 and signed on its behalf.

**Mr R J Llewellyn**, Director

22 Alcester Road, Birmingham, B13 8BE

## INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of Vaccine Research International Plc for the year ended 31 December 2009, which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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

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

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

**Andrew Ball**, *Senior statutory auditor*

*for and on behalf of haysmacintyre, Statutory Auditor*

15 Fulwood Place, Fairfax House, London,, WC1V 6AY

**PROFIT AND LOSS ACCOUNT YEAR ENDED 31 DECEMBER 2009**

	<i>Note</i>	2009 £	2008 £
TURNOVER		-	-
Administrative expenses		(100,762)	(113,858)
OPERATING LOSS		(100,762)	(113,858)
Interest receivable and similar income		375	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAX		(100,387)	(113,858)
Tax on loss on ordinary activities	5	-	-
RETAINED LOSS FOR THE YEAR		£(100,387)	£(113,858)

The operating loss is derived from continuing activities.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

There were no gains or losses for the two financial years other than those reported above.

**BALANCE SHEET**

	Note	2009		2008	
		£	£	£	£
<b>FIXED ASSETS</b>					
Tangible fixed assets	8		5,045		5,481
Intangible fixed assets	9		-		3,000
			<u>5,045</u>		<u>8,481</u>
<b>CURRENT ASSETS</b>					
Debtors	10	10,295		84	
Cash at bank		<u>415,328</u>		<u>389</u>	
		425,623		473	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	<u>(36,676)</u>		<u>(111,728)</u>	
NET CURRENT ASSETS/(LIABILITIES)			<u>388,947</u>		<u>(111,255)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>£393,992</u>		<u>£(102,774)</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	12		320,534		278,475
Share premium account	13(a)		2,277,086		1,721,992
Other reserve			671,684		671,684
Profit and loss account	13(b)		<u>(2,875,312)</u>		<u>(2,774,925)</u>
EQUITY SHAREHOLDERS' FUNDS	14		<u>£393,992</u>		<u>£(102,774)</u>

Approved by the board on 12 July 2009 and signed on its behalf by:

**Mr R J Llewellyn**, Director

The notes on pages 9 to 13 form part of the financial statements.

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009**

	Note	2009 £	2008 £
<b>Net cash outflow from operating activities</b>	1	(181,854)	(16,635)
Returns on investment and servicing of finance			
Interest receivable		375	-
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(735)	-
<b>Financing</b>			
Proceeds from issue of shares (net of issue costs)		597,153	-
<b>Increase/(decrease) in cash in the year</b>	2	<u>£414,939</u>	<u>£(16,635)</u>

**NOTES TO THE CASH FLOW STATEMENT**

1. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES		2009 £	2008 £
Operating loss		(100,762)	(113,858)
Amortisation		3,000	1,000
Depreciation		1,170	1,372
(Increase)/decrease in debtors		(10,210)	2,772
(Decrease)/increase in creditors		(75,052)	92,079
Net cash outflow from operating activities		<u>£(181,854)</u>	<u>£(16,635)</u>
<b>2. ANALYSIS OF CHANGES IN NET FUNDS</b>			
	<i>At 1 Jan 2009</i>	<i>Cashflow</i>	<i>At 31 Dec 2009</i>
	£	£	£
Cash at bank and in hand	<u>£389</u>	<u>£414,939</u>	<u>£415,328</u>



## NOTES TO THE FINANCIAL STATEMENTS

### 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

During the year the company raised £760,000 (£597,153 net of expenses) through the issue of new shares, which has allowed activities to recommence. The directors have budgeted to show that these additional funds will allow activities to continue until September 2011, following which further funds will need to be raised.

#### 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% reducing balance

#### 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.

#### f) Share based payments

FRS 20 requires the Company to recognise an expense in respect of the granting over shares to employees, directors or other parties. This expense, which is calculated by reference to the fair value of the options granted, is recognised on a straight line basis over the vesting period based on the Company's estimate of options that will eventually vest. The Directors have used the Black Scholes model to estimate the value of options granted in the current and prior periods.

### 2. STAFF COSTS

2009

2008

£

£

Staff costs (including directors) include the following:

Wages and salaries

14,592

4,881

Social security costs

4,409

482

£19,001

£5,363

The average monthly number of employees

during the year (including directors) was made up as follows:

Number

Number

Administration

3

5

**NOTES TO THE FINANCIAL STATEMENTS** (continued)

3. INTEREST RECEIVABLE AND OTHER INCOME	2009	2008
	£	£
On treasury deposit	£375 =====	£ =====
<b>4. LOSS ON ORDINARY ACTIVITIES</b>		
The loss is stated after charging:		
Amortisation of patents	3,000	1,000
Depreciation	1,170	1,372
Auditors' remuneration	6,500 =====	6,000 =====
<b>5. TAXATION ON LOSS ON ORDINARY ACTIVITIES</b>		
<b>a) Analysis of tax charge in the year</b>		
Corporation tax at current rates (see (b) below)	-	-
Overprovision for prior year tax credit	-	23,907
	-	£23,907
<b>b) Factors affecting tax charge for the year</b>		
The tax assessed for the year is higher than the small companies rate of tax of 21% (2007: 20%). The differences are explained below:		
Loss on ordinary activities before tax	(113,858)	(393,940)
Loss on ordinary activities before tax multiplied by the small companies rate of tax in the UK of 21% (2007: 20%).	(23,910)	(78,788)
Effects of:		
Losses carried forward	23,910	78,788
Current year corporation tax	-	-
<b>c) Factors that may affect future tax charges</b>		
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.		
<b>6. DIRECTORS' FEES AND EMOLUMENTS</b>		
Directors' remuneration	35,490	-
Directors' fees for consultancy services	(31,868) -----	68,000 -----
Total	£3,622	£68,000
<b>7. DIVIDENDS PAID</b>		
No dividends were paid or proposed during the year.		

## NOTES TO THE FINANCIAL STATEMENTS (continued)

8. TANGIBLE FIXED ASSETS	<i>Equipment</i> £
COST	
At 1 January 2009	17,126
Additions	735
	-----
At 31 December 2009	17,861
	-----
DEPRECIATION	
At 1 January 2009	11,646
Charge for the year	1,170
	-----
At 31 December 2009	12,816
	-----
NET BOOK VALUE	
At 31 December 2009	£5,045
	=====
At 31 December 2008	£5,480
	=====

9. INTANGIBLE FIXED ASSETS	<i>Patents</i> £
COST	
At 1 January 2009 and at 31 December 2009	10,000
	-----
AMORTISATION	
At 1 January 2009	7,000
Charge for year	3,000
	-----
At 31 December 2009	10,000
	-----
NET BOOK VALUE	
At 31 December 2009	-
	=====
At 31 December 2008	£3,000
	=====
As the patent is no longer in use by the Company, the Board made the decision to write off the remaining net book value in the year ended 31 December 2009.	

10. DEBTORS	2009 £	2008 £
Other debtors	8,404	84
Prepayments and accrued income	1,891	-
	-----	-----
	10,295	84
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS** (continued)

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2009	2008
	£	£
Trade creditors	1,880	1,993
Other creditors including taxation and social security	8,061	4,027
Accruals	22,385	97,108
Director's loans	4,350	8,600
	-----	-----
	£36,676	£111,728
	=====	=====

12. SHARE CAPITAL	2009	2008
	£	£
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	500
125,000 'B' Deferred ordinary shares of £0.001 each	125	125
25,000 'C' Deferred ordinary shares of £0.001 each	25	25
500,000 'D' Deferred ordinary shares of £0.001 each	500	500
	-----	-----
	£751,650	£751,650
	=====	=====
Issued and fully paid:		
500,000 Ordinary shares of £0.001 each	500	500
3,193,705 (2008: 2,773,500) Ordinary shares of £0.10 each	319,371	277,350
500,000 'A' Deferred ordinary shares of £0.001 each	500	500
107,143 'B' Deferred ordinary shares of £0.001 each	107	107
17,857 'C' Deferred ordinary shares of £0.001 each	18	18
38,000 (2008: nil) 'D' Deferred ordinary shares of £0.001 each	38	-
	-----	-----
	£320,534	£278,475
	=====	=====

On 30 June 2009, 380,000 ordinary shares of £0.10 each were issued and on 9 September 2009, 40,205 ordinary shares of £0.10 each and 38,000 'D' deferred ordinary shares of £0.001 each were issued. Total consideration net of expenses was £597,153.

**Share options and warrants**

Share options and warrants are granted to directors and employees. The majority of options are exercisable from the end of the vesting period and lapse after ten years after the grant date. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

All options were fully vested prior to 1 January 2008 and hence there is no charge relating to options in results for the year ended 31 December 2009.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

<i>Number of options/warrants</i>				
<i>At 1 Jan 2009</i>	<i>Granted</i>	<i>At 31 Dec 2009</i>	<i>Exercise price</i>	<i>Exercisable</i>
15,000	-	15,000	£0.10	Until 05/06/2012
150,000	-	150,000	£0.10	Until 24/07/2012
50,000	-	0,000	£1.00	Until 12/01/2015
40,000	-	40,000	£1.40	Until 30/01/2015
100,000	-	100,000	£1.40	Until 03/03/2015
20,000	-	20,000	£1.40	Until 03/03/2015
92,000	-	92,000	£2.50	Until 11/03/2017
467,000	-	467,000		

13. RESERVES	£
(a) SHARE PREMIUM ACCOUNT	
At 1 January 2009	1,721,992
Share issue during the year	555,094
	-----
At 31 December 2009	£2,277,086
	=====
(b) PROFIT AND LOSS ACCOUNT	
At 1 January 2009	(2,774,925)
Retained loss for the year	(100,387)
	-----
At 31 December 2009	£(2,875,312)
	=====

14 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT	2009	2008
	£	£
Retained loss for the year	(100,387)	(113,858)
New share capital introduced (net of issue costs)	597,153	-
	-----	-----
Movement in shareholders' funds	496,766	(113,858)
Opening shareholders' funds	(102,774)	11,084
	-----	-----
Closing shareholders' funds	£393,992	£(102,774)
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

## 15. CONTINGENT LIABILITY

There is contingent remuneration covering the period September 2007 to January 2009 (inclusive) for Executive Directors which totals £177,000 and is dependent on a total fundraising of £1.5 million by the company. At the year end the likelihood of the company raising this sum was considered possible by the Board and hence this amount has not been provided in the financial statements.

**DETAILED PROFIT AND LOSS ACCOUNT**

	2009		2008	
	£	£	£	£
Turnover		-		-
Less: administrative expenditure				
Rental of laboratory	3,500		5,500	
Directors' remuneration and fees	3,622		68,000	
Wages and salaries	14,592		4,881	
Social security costs	4,409		482	
Computer costs	2,281		1,548	
Telephone and fax	818		-	
Heat and light	1,863		2,275	
Travel expenses	2,665		5,469	
Equipment maintenance	335		108	
Legal and professional	6,566		1,094	
Audit and accountancy	7,000		6,500	
Amortisation	3,000		1,000	
Depreciation	1,170		1,372	
Insurance	2,117		11,165	
Bank charges	544		-	
Contract Research work	26,920		3,750	
Shareholder relations	2,780		-	
Patents	8,980		-	
PPS	3,419		647	
Sundry expenses	-		67	
Future financial planning	1,500		-	
Research and development	2,681		-	
		(100,762)		(113,858)
		(100,762)		(113,858)
Interest receivable and similar income		375		-
LOSS BEFORE TAXATION		£(100,387)		£(113,858)

**COMPANY INFORMATION**

<i>Registered Office</i>	22 Alcester Road, Moseley, Birmingham, B13 8BE
<i>Registered Number</i>	4449300
<i>Contact</i>	Telephone / Facsimile 0121 449 2429 Email: <a href="mailto:judith@vri.org.uk">judith@vri.org.uk</a> Web: <a href="http://www.vri.org.uk">www.vri.org.uk</a>
<i>Directors and Officers</i>	Mr <b>Russell Stevens</b> , FCCA, Non-executive Chairman Mr <b>Richard Llewellyn</b> , BSc MBA DipMRS, Chief Executive Officer Dr <b>Gordon R B Skinner</b> , MD DSc FRCPath FRCOG, Chief Scientific Officer Dr <b>Afshan Ahmad</b> , PhD, Director of Research and Development Dr <b>Jean-Marc Saffar</b> , MD, Non-executive Director Mr <b>Gilead Raday</b> , MSc MPhil, Non-executive Director Mr <b>Rish Hayer</b> , FCCA, Company Secretary
<i>Financial Advisor</i>	<b>Mr Gerard Mizrahi</b> Charles Street Securities Europe LLP 1 Wilton Crescent, London SW1X 8RN, UK



VACCINE RESEARCH INTERNATIONAL PLC