

VACCINE RESEARCH INTERNATIONAL PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31ST DECEMBER 2007

Registered Number: 4449300

VACCINE RESEARCH INTERNATIONAL PLC

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 2007

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VACCINE RESEARCH INTERNATIONAL PLC

DIRECTORS' REPORT

YEAR ENDED 31ST DECEMBER 2007

The directors present their annual report and financial statements of the company for the year ended 31st December 2007.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The principal activity of the company is to finance and conduct research and development of a specialist vaccine.

Since August 2007, the operations of the company have been significantly reduced while the Directors seek new funding. However, certain operations have been completed by the Executive Directors and Administrator working pro bono with assistance from the Chairman, John Palethorpe who is providing financial support from his own funds.

The Directors have been pursuing all options namely the pharmaceutical industry, venture capitalists, business angels, Department of Health, local and central government agencies to raise funds to pursue the next stage of research and development towards taking the SA75 vaccine to a Phase III clinical trial. We met with Mr Charles Clarke MP in early 2008 and Professor Salisbury, Director of Immunisation and his colleagues in the summer of 2008 to seek assistance with funding. These meetings were very helpful but did not result in funding.

The Directors have a number of possibilities which we are presently pursuing in order to raise the funds necessary to allow the company to recommence full operation.

RESULTS AND DIVIDENDS

The profit and loss account shows the results of the company for the year ended 31st December 2007.

The loss on ordinary activities after taxation for the year was £417,847 (2006: £276,779). The directors recommend that no final dividend be paid.

DIRECTORS

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

J Palethorpe
Dr G R B Skinner
Dr A Ahmad
K A Bryett (resigned 15 June 2007)
R Ashby (resigned 17 April 2007)
J S Kundi (appointed 12 September 2007)
R W Stevens

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.

VACCINE RESEARCH INTERNATIONAL PLC

DIRECTORS' REPORT (continued)

YEAR ENDED 31ST DECEMBER 2007

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.

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.

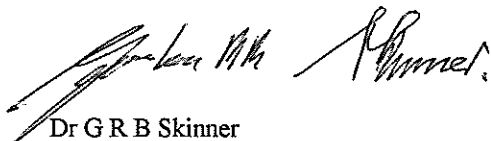
PAYMENT POLICY AND PRACTICE

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 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.

ON BEHALF OF THE BOARD



Dr G R B Skinner
Director

22 Alcester Road
Birmingham
B13 8BE

14 January 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

VACCINE RESEARCH INTERNATIONAL PLC

We have audited the financial statements of Vaccine Research International Plc for the year ended 31 December 2007, 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 (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.

Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1(b) to the financial statements regarding the company's ability to continue as a going concern.

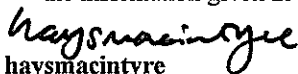
The company significantly scaled down its activities during the year ended 31 December 2007 and in order to recommence full operations the company will require further funding, which in the current climate is inherently uncertain.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.


haysmacintyre
Chartered Accountants
Registered Auditors

Fairfax House
15 Fulwood Place
London
WC1V 6AY

14 January 2009

VACCINE RESEARCH INTERNATIONAL PLC

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31ST DECEMBER 2007

	Note	2007 £	2006 £
TURNOVER		-	-
Administrative expenses		(395,693)	(340,585)
OPERATING LOSS		(395,693)	(340,585)
Interest receivable and similar income		1,753	7,295
LOSS ON ORDINARY ACTIVITIES BEFORE TAX		(393,940)	(333,290)
Tax on loss on ordinary activities	5	(23,907)	56,511
RETAINED LOSS FOR THE YEAR		<u>£(417,847)</u>	<u>£(276,779)</u>

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.

The notes on pages 8 to 12 form part of the financial statements.

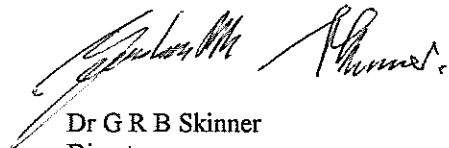
VACCINE RESEARCH INTERNATIONAL PLC

BALANCE SHEET

AT 31ST DECEMBER 2007

	Note	2007		2006	
		£	£	£	£
FIXED ASSETS					
Tangible fixed assets	8		6,582		8,564
Intangible fixed assets	9		4,000		5,000
			<u>10,852</u>		<u>13,564</u>
CURRENT ASSETS					
Debtors	10	2,856		63,781	
Cash at bank		17,024		222,249	
		<u>19,880</u>		<u>286,030</u>	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	<u>(19,648)</u>		<u>(19,478)</u>	
NET CURRENT ASSETS			<u>232</u>		<u>266,552</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>£11,084</u>		<u>£280,116</u>
CAPITAL AND RESERVES					
Called up share capital	12		278,475		278,075
Share premium account	13(a)		1,721,992		1,711,934
Other reserve			671,684		671,684
Profit and loss account	13(b)		(2,661,067)		(2,381,577)
EQUITY SHAREHOLDERS' FUNDS	14		<u>£11,084</u>		<u>£280,116</u>

Approved by the board on 14 January 2009 and signed on its behalf by:


 Dr G R B Skinner
 Director

The notes on pages 8 to 12 form part of the financial statements.

VACCINE RESEARCH INTERNATIONAL PLC
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2007

	Note	2007 £	2006 As restated £
Net cash outflow from operating activities	1	(250,040)	(326,264)
Returns on investment and servicing of finance			
Interest receivable		1,753	7,295
Taxation reclaimed		32,604	60,559
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		-	-
Management of liquid resources			
Decrease in money held on short term deposit		140,000	165,000
Financing			
Proceeds from issue of shares (net of issue costs)		10,458	147,750
(Decrease)/increase in cash in the year	2	<u>£(65,225)</u>	<u>£54,340</u>

VACCINE RESEARCH INTERNATIONAL PLC

NOTES TO THE CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2007

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

	2007	2006
	£	£
Operating loss	(395,693)	(340,585)
Share based payments	138,357	-
Amortisation	1,000	1,000
Depreciation	1,712	2,142
Decrease in debtors	4,414	9,510
Increase in creditors	170	1,669
Net cash outflow from operating activities	£(250,040)	£(326,264)

2. ANALYSIS OF CHANGES IN NET FUNDS

	At 1		At 31
	January	Cashflow	December
	2007		2007
	£	£	£
Cash at bank and in hand	82,249	(65,225)	17,024
Amount held on deposit	140,000	(140,000)	-
	<u>£222,249</u>	<u>£(205,223)</u>	<u>£17,024</u>

VACCINE RESEARCH INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 2007

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**

The company significantly scaled down its activities during the year ended 31 December 2007 and the current financial position of the company is similar to that as at 31 December 2008. The company significantly scaled down its activities during the year ended 31 December 2007 and in order to recommence full operations the company will require further funding, which in the current climate is inherently uncertain.

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

	2007	2006
	£	£
Staff costs (including directors) include the following:		
Wages and salaries	107,051	138,025
Social security costs	20,767	13,830
	<u>£127,818</u>	<u>£151,855</u>
The average monthly number of employees during the year (including directors) was made up as follows:	Number	Number
Administration	<u>5</u>	<u>5</u>

VACCINE RESEARCH INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31ST DECEMBER 2007

3.	INTEREST RECEIVABLE AND OTHER INCOME	2007	2006
		£	£
	On treasury deposit	<u>£1,753</u>	<u>£7,295</u>

4. LOSS ON ORDINARY ACTIVITIES

The loss is stated after charging:

	Amortisation of patents	1,000	1,000
	Share based payments	138,357	-
	Depreciation	2,712	2,142
	Auditors' remuneration	<u>5,000</u>	<u>5,000</u>

5. TAXATION ON LOSS ON ORDINARY ACTIVITIES

a) Analysis of tax (charge)/credit in the year

	Corporation tax at current rates (see (b) below)	-	-
	Overprovision for prior year tax credit	(23,907)	-
	Research and development tax credit at 24%	-	56,511
		<u>£(23,907)</u>	<u>£56,511</u>

b) Factors affecting tax (charge)/credit for the year

The tax assessed for the year is higher than the small companies rate of tax of 20% (2006: 19%). The differences are explained below:

	Loss on ordinary activities before tax	<u>£(393,940)</u>	<u>£(333,290)</u>
	Loss on ordinary activities before tax multiplied by the small companies rate of tax in the UK of 20% (2006: 19%).	(78,788)	(63,325)
	Effects of:		
	Losses carried forward	<u>78,788</u>	<u>96,021</u>
	Current year corporation tax	<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

	Directors' remuneration	73,539	91,000
	Directors' fees for consultancy services	<u>24,983</u>	<u>29,935</u>
	Total	<u>£98,522</u>	<u>£120,935</u>

VACCINE RESEARCH INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31ST DECEMBER 2007

7. DIVIDENDS PAID

No dividends were paid or proposed during the year.

8. TANGIBLE FIXED ASSETS

Equipment
£

COST

At 1st January 2007 and at 31 December 2007

17,125

DEPRECIATION

At 1st January 2007

8,561

Charge for the year

1,712

At 31st December 2007

10,275

NET BOOK VALUE

At 31st December 2007

£6,852

At 31st December 2006

£8,564

9. INTANGIBLE FIXED ASSETS

Patents
£

COST

At 1st January 2007 and at 31st December 2007

10,000

AMORTISATION

At 1st January 2007

5,000

Charge for year

1,000

At 31st December 2007

6,000

NET BOOK VALUE

At 31st December 2007

£4,000

At 31st December 2006

£5,000

10. DEBTORS

2007
£

2006
£

Other debtors

2,099

60,889

Prepayments and accrued income

757

2,892

£2,856

£63,781

11. CREDITORS: AMOUNTS FALLING
DUE WITHIN ONE YEAR

Trade creditors

140

3,593

Other creditors including taxation and social security

13,003

4,787

Accruals

6,505

11,098

£19,648

£19,478

VACCINE RESEARCH INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31ST DECEMBER 2007

12. SHARE CAPITAL	2007 £	2006 £
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
	<u>£751,650</u>	<u>£751,650</u>
Issued and fully paid:		
500,000 Ordinary shares of £0.001 each	500	500
2,773,500 Ordinary shares of £0.10 each	277,350	276,950
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
	<u>£278,475</u>	<u>£278,075</u>

During the year, the company issued 4,000 ordinary shares of £0.10 each raising net proceeds of £10,458.

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.

The majority of options are valued using the Black-Scholes option pricing model and no performance conditions were included in the fair value calculations. The risk free rate was 5%. The expected future volatility is estimated to be 40%. The average share price during the year was £2.50.

Number of options/warrants				
At 1 January 2007	Granted	At 31 December 2007	Exercise price	Exercisable
15,000	-	15,000	£0.10	Until 05/06/2012
150,000	-	150,000	£0.10	Until 24/07/2012
50,000	-	50,000	£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
-	92,000	92,000	£2.50	Until 11/03/2017
<u>355,000</u>	<u>92,000</u>	<u>447,000</u>		

VACCINE RESEARCH INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31ST DECEMBER 2007

13. RESERVES	£	
(a) SHARE PREMIUM ACCOUNT		
At 1st January 2007		1,711,934
Issue of shares (net of costs)		10,058
		<u>1,721,992</u>
At 31st December 2007		<u>£1,721,992</u>
(b) PROFIT AND LOSS ACCOUNT		
At 1st January 2007		(2,381,577)
Retained loss for the year		(417,847)
Share based payments		138,357
		<u>£(2,661,067)</u>
		<u>£(2,661,067)</u>
14 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT	2007	2006
	£	£
Retained loss for the year	(417,847)	(276,779)
New share capital introduced (net of issue costs)	10,458	147,750
Share based payment charge in the year	138,357	-
	<u>(269,032)</u>	<u>(129,029)</u>
Movement in shareholders' funds	280,116	409,145
Opening shareholders' funds	<u>£11,084</u>	<u>£280,116</u>
Closing shareholders' funds	<u>£11,084</u>	<u>£280,116</u>

VACCINE RESEARCH INTERNATIONAL PLC

DETAILED PROFIT AND LOSS ACCOUNT

YEAR ENDED 31ST DECEMBER 2007

	2007		2006	
	£	£	£	£
Turnover		-		-
Less: administrative expenditure				
Rental of laboratory	6,000		6,000	
Directors' remuneration and fees	98,522		120,935	
Wages and salaries	45,512		47,026	
Social security costs	8,767		13,830	
Share based payments	138,357		-	
Medical expense trials	6,008		8,386	
Computer costs	719		662	
Telephone and fax	1,347		1,859	
Heat and light	1,795		1,518	
Travel expenses	6,911		5,731	
Equipment maintenance	300		587	
Legal and professional	400		440	
Audit and accountancy	5,320		4,850	
Amortisation	1,000		1,000	
Depreciation	1,712		2,142	
Insurance	17,057		30,269	
Bank charges	186		188	
Contract Research work	28,134		56,066	
Commercialisation	14,438		27,123	
Fees Regulatory Advisor	-		5,745	
Shareholder relations	3,554		5,462	
Patents	5,985		766	
PPS	3,160		-	
Sundry expenses	509		-	
		(395,693)		(340,585)
		(395,693)		(340,585)
Interest receivable and similar income		1,753		7,295
LOSS BEFORE TAXATION		£(393,940)		£(333,290)