

This document, which comprises an AIM admission document, has been drawn up in accordance with the Public Offers of Securities Regulations 1995 as required by the AIM Rules but does not constitute a prospectus pursuant to such regulations. This document has been issued in connection with the application for admission to trading on AIM of VASTox plc's issued and to be issued ordinary shares ("Ordinary Shares"). **If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.**

Application has been made for all of the issued Ordinary Shares in the capital of VASTox plc (the "Company") immediately following the Placing to be admitted to trading on AIM. It is expected that dealings in the Ordinary Shares will commence on AIM on 14 October 2004. The Ordinary Shares are not dealt with in or on any other recognised investment exchange and no other such applications have been made.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks in investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.**

Prospective investors should carefully consider the section entitled "Risk Factors" in Part II of this document before taking any action.

**London Stock Exchange plc has not itself examined or approved the contents of this document.**

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# VASTox plc

*(Incorporated and registered in England and Wales with registered number 05197494)*

## Admission to trading on AIM and Placing of 11,111,111 Ordinary Shares at 135p per share by KBC Peel Hunt Ltd

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KBC Peel Hunt Ltd, which is regulated by the Financial Services Authority, is acting as the Company's nominated adviser and broker (for the purpose of the AIM Rules) in connection with the proposed admission of the issued ordinary share capital of the Company to trading on AIM. Its responsibilities as the Company's nominated adviser and broker under the AIM Rules are owed solely to London Stock Exchange plc and are not owed to the Company or to any director of the Company or to any other person in respect of their decision to acquire Ordinary Shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by KBC Peel Hunt Ltd as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). KBC Peel Hunt Ltd will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of the Placing or any acquisition of shares in the Company.

This document does not constitute an offer to sell or the solicitation of an offer to buy or subscribe for Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not intended for distribution in or into the United States, Canada, Australia, Ireland, South Africa or Japan. The Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (the "Securities Act") as amended, or any state securities laws and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to the registration requirements of, the Securities Act and applicable state securities laws. Nor have the securities been registered under the applicable securities laws of Canada, Australia, Ireland, South Africa or Japan. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdiction.

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## DIRECTORS, SECRETARY AND ADVISERS

Directors *By* POWER OF ATTORNEY **Professor Stephen Graham Davies** (Non-Executive Chairman)  
*By* **Dr Steven Koon Ching Lee** (Chief Executive Officer)  
*By* POWER OF ATTORNEY **Dr Andrew William Mulvaney** (Chief Operating Officer)  
*By* POWER OF ATTORNEY **John Alexander Montgomery** (Finance Director)  
*By* POWER OF ATTORNEY **David Robert Norwood** (Non-Executive Director)

all of

**Registered Office**

59 St. Aldates  
Oxford OX1 1ST

**Company Secretary**

**John Montgomery FCA**

**Nominated Adviser and Broker**

**KBC Peel Hunt Ltd**  
111 Old Broad Street  
London EC2N 1PH

**Solicitors to the Company**

**Masons**  
30 Aylesbury Street  
London EC1R 0ER

**Solicitors to the Placing**

**Nabarro Nathanson**  
Lacon House  
84 Theobald's Road  
London WC1X 8RW

**Reporting Accountants**

**Deloitte & Touche LLP**  
Abbots House  
Abbey Street  
Reading RG1 3BD

**Principal bankers**

**HSBC Bank Plc**  
65 Cornmarket Street  
Oxford  
Oxfordshire OX1 3HY

**Registrars**

**Capita Registrars**  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

## DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

"Act"	the Companies Act 1985
"Admission"	the admission of the Ordinary Shares, currently issued and to be issued pursuant to the Placing, to trading on AIM becoming effective in accordance with the AIM Rules
"AIM"	the Alternative Investment Market of the London Stock Exchange
"AIM Rules"	the rules for AIM companies and their nominated advisers as published by the London Stock Exchange
"Board"	the board of directors of the Company
"Combined Code"	the combined code on corporate governance published by the United Kingdom Financial Reporting Council in July 2003
"VASTox" or the "Company"	VASTox plc
"CREST"	the computerised settlement system operated by CRESTCo which facilitates the transfer of title to shares in uncertificated form
"CRESTCo"	CRESTCo Limited
"Directors"	the directors of the Company, whose names are set out on page 3
"Group"	the Company and VCG
"KBC Peel Hunt"	KBC Peel Hunt Ltd
"London Stock Exchange"	London Stock Exchange plc
"Ordinary Shares"	ordinary shares of 10p each in the capital of the Company
"Placing"	the conditional placing by KBC Peel Hunt of the Placing Shares on behalf of and as agent for the Company pursuant to the Placing Agreement
"Placing Agreement"	the conditional agreement dated 11 October 2004, between the Company, the Directors and KBC Peel Hunt relating to the Placing and Admission, further details of which are set out in paragraph 10 of Part IV of this document
"Placing Price"	135p per Placing Share
"Placing Shares"	the 11,111,111 new Ordinary Shares to be placed pursuant to the Placing
"R&D"	research and development
"Scientific Advisory Board" or "SAB"	the scientific advisory board of the Company, the members of which are set out on pages 12 and 13 of this document
"Shareholder"	a holder of one or more Ordinary Shares
"UK"	the United Kingdom of Great Britain and Northern Ireland
"VCG"	VASTox Chemical Genomics Limited, the wholly owned subsidiary of the Company

## GLOSSARY OF TECHNICAL TERMS

The following technical terms apply throughout this document, unless the context requires otherwise:

acetylation	the exchange of an acetyl group (CH <sub>3</sub> CO-) in place of a hydrogen
dystrophin	a protein found in membranes surrounding individual muscle fibres, the deficiency of which is one of the root causes of muscular dystrophy
genomics	the study of the structure and function of large numbers of genes simultaneously
<i>in vivo</i>	in the body of a living organism
<i>in silico</i>	computer generated, as opposed to <i>in vivo</i>
IP	intellectual property
knockdown	a genetically engineered organism where one or more genes in its chromosomes have been made inoperative
knockout	complete loss of gene activity
morpholino oligonucleotide	a targeted gene knockdown methodology using nucleotide (subunits of DNA) building blocks
orthologue	groups of genes or proteins from different organisms that have the same function
phenotypic	the visible properties of an organism that are produced by the interaction of the genes and the environment
RNAi	the technique which uses long double-stranded chains of ribonucleic acids to interfere and thus silence the expression of target genes
transgenics	the genetic modification of an organism to contain genetic material from another organism
upregulation	the switching on of a particular gene leading to increased production of a particular protein
utrophin	a protein that is closely related to dystrophin

## EXPECTED ISSUE STATISTICS

Placing Price per Ordinary Share	135 pence
Number of Placing Shares	11,111,111
Number of Ordinary Shares in issue on Admission	31,313,111
Market capitalisation of the Company on Admission at the Placing Price	£42.3 million
Placing Shares as a percentage of Ordinary Shares in issue on Admission	35.5%
Gross proceeds of the Placing receivable by the Company	£15.0 million
Net proceeds of the Placing receivable by the Company	£14.1 million

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission and dealings to commence in Ordinary Shares on AIM	14 October 2004
Crediting of uncertificated shares to CREST accounts	14 October 2004
Where applicable, definitive share certificates despatched by	21 October 2004

## KEY INFORMATION

*The following summary should be read in conjunction with the full text of this document from which it is derived.*

### The Business

- The Group is a drug discovery business with extensive expertise in the use and understanding of chemical genomics and its application to human disease.
- At the heart of the business is a chemical genomics platform which offers a capability to gain a rapid, in-depth profile of the interaction of a compound or set of compounds with druggable target space at an early point in the drug discovery process.
- The VASTox platform aims to use high volume, high content screening using zebrafish and fruitflies to provide a high level of predictability of the efficacy and toxicity of potential drug compounds in humans which the Directors believe has the potential to dramatically decrease the time and cost of drug development.
- The Group's business can be split into two: services and proprietary programmes.
  - The services provided by the Group may be divided into two areas: chemistry and chemical genomics. Chemistry services may further be divided into standard drug discovery services (which encompasses solving synthesis problems through to medicinal chemistry), and carbohydrate-related services.
  - The Group continues to build-up its chemical compound library of drug-like molecules upon which to base the discovery process. It currently has two programmes: Duchenne Muscular Dystrophy and N-acetyltransferase being led by Professor Kay Davies and Professor Edith Sim respectively.
- The Group has brought together a group of pre-eminent scientists from a range of relevant disciplines. The team has deliberately been assembled to provide a blend of human genetics, small animal model genomics tools, pharmacology, high speed chemistry and *in silico* chemistry expertise.

### The Placing and Admission to AIM

- The Placing is intended to raise £15.0 million before expenses for the Company. After the expenses of the Placing and Admission payable by the Company, the Placing is expected to raise £14.1 million for the Company. KBC Peel Hunt has conditionally placed, as agent for the Company, 11,111,111 new Ordinary Shares, representing, in aggregate, approximately 35.5 per cent. of the enlarged issued ordinary share capital of the Company following the Placing at the Placing Price of 135 pence per new Ordinary Share.
- The Directors believe that the proceeds from the Placing will strengthen the Group's balance sheet and enable the Group to accelerate its proprietary R&D, to invest in the facilities necessary to service larger research contracts and to hire and retain high calibre staff. In addition, the Admission and Placing should raise the profile and credibility of the Group.

## PART I

### Information on the Group

#### INTRODUCTION

The Group is a drug discovery business with extensive expertise in the use and understanding of chemical genomics and its application to human disease. The Group utilises this technology platform for both internal drug discovery and the generation of revenues from pharmaceutical companies.

#### BACKGROUND

The two main sciences that underpin the pharmaceutical industry are chemistry and biology. The synthesis and modification of drug-like chemicals is a key to producing an eventual medicine. In addition having a biological system to test these prior to introduction in humans is a major challenge for the pharmaceutical industry.

At the heart of the business is a chemical genomics platform which offers a capability to gain a rapid, in-depth profile of the interaction of a compound or set of compounds with druggable target space at an early point in the drug discovery process. The data generated by this platform allows for a more judicious choice of target and lead to take into the development process, thereby addressing issues of attrition rate in the discovery phase of preclinical R&D.

#### Chemical genomics

Chemical genomics is the use of small molecules to perturb complex cellular pathways. This combination of chemistry and biology has gained significant popularity within leading academic research institutions over recent years, and scientists from both areas of expertise recognise the benefits of such interactions. It can take years for biologists alone to engineer a knockdown or knockout of a particular gene in a particular animal model. With the addition of appropriate chemicals such a gene knockdown or knockout may be achieved virtually instantaneously.

#### The Group's Business Opportunity

Multinational pharmaceutical companies spend in excess of US\$25 billion a year on R&D and are trying to improve the probability of getting drugs into the marketplace. Over the last 25 years increasing R&D expenditure has not been matched by a similar increase in the number of new drugs developed. The Tufts Centre for the Study of Drug Development has published a study showing that the average cost of developing a new drug in 1987 was US\$231 million versus US\$802 million in 2000. If costs had increased at pace with inflation between 1987 and 2000, the comparable 1987 cost would have been US\$318 million.

The VASTox platform aims to use high volume, high content screening using zebrafish and fruitflies to provide a high level of predictability of the efficacy and toxicity of potential drug compounds in humans which the Directors believe has the potential to dramatically decrease the time and cost of drug development.

#### THE BUSINESS

Although VCG was formed on 14 January 2003, the scientific founders (being the current members of the SAB) had been collaborating in chemical genomics for at least three years prior to this date. The Group's scientific founders are at the forefront of chemical genomics in drug discovery. The Group's technology gives it a significant advantage compared to other entities (particularly multinational pharmaceutical companies) who are only beginning to exploit this area. This should give the Group the opportunity to provide services and collaborate with such companies, as well as use the technology to generate new proprietary programmes.

The Group aims to leverage both its technology platform and extensive network of academic and industry contacts to generate revenues by providing services to pharmaceutical companies, and then, in time, migrate revenues to licensing income and product sales. The Group's business operations are organised in such a way that provision of services not only generates revenues but helps to build the drug discovery infrastructure of the Group for proprietary programmes.

#### Services

The Group provides services to pharmaceutical and biotechnology companies for a number of strategic reasons. These include:

- building drug discovery capabilities for proprietary programmes, thereby reducing and off-setting costs;

- building relationships with industry partners resulting in potentially higher-value licensing and partnership deals in the future; and
- further developing corporate expertise in a new leading technology in a low risk manner (which is paid for by its customers).

The services provided by the Group may be divided into two areas: chemistry and chemical genomics. Chemistry services may further be divided into standard drug discovery services (which encompasses solving synthesis problems through to medicinal chemistry), and carbohydrate-related services.

#### *Standard Drug Discovery*

This has largely become a commoditised service area, but remains an integral part of the small molecule drug discovery process. The Group's objective in providing services in this area, is to generate short-term revenues and build internal capabilities.

#### *Carbohydrate-related Chemistry*

Carbohydrate-based compounds have long been recognised as having potential as drugs because animal cells have numerous receptors (lectins) which only bind with sugars. However, the Directors believe that the Group has a world-leading position in the supply of carbohydrate-related chemistry services to the pharmaceutical industry through Professor Steve Davies (one of the scientific founders). The Directors believe that this area alone potentially has significant value for the Group both in terms of service revenue and as a source of novel chemicals for development in proprietary drug programmes.

#### *Chemical Genomics*

The Group's major focus is on its technology platform using zebrafish and fruitflies (as described below under the heading, "The Group's Chemical Genomics Platform"). Pharmaceutical and biotechnology companies are the target market for these services. It is the intention that Group revenues will first be generated on a fee-for-service and/or research collaboration basis. In the medium-term, the Group intends to move revenues to a database-based licence model that should generate higher margins.

### **Proprietary Programmes**

The Directors believe that having both in-house chemistry and chemical genomics capabilities allows the Group to progress internal proprietary programmes in a cost-effective manner. The Group continues to build-up its chemical compound library of drug-like molecules upon which the discovery process can be based, and has the biological technology capabilities allowing it to screen such molecules for particular activity.

In addition to contributing to the VASTox chemical genomics platform, some of the founding scientists have particular expertise in specific disease areas as set out below:

#### ***Duchenne Muscular Dystrophy ("DMD")***

##### *Background*

Muscular dystrophies are genetic disorders causing lower than normal levels of dystrophin characterised by progressive muscle wasting and weakness that begin with microscopic changes to muscle. Muscle strength degenerates over time.

DMD was first described by a French neurologist in the 1860s. The disease affects one in 3,300 boys with no known cure. Children are usually confined to a wheelchair before the age of twelve and survival beyond the age of 30 is rare. DMD currently affects about 30,000 males worldwide. No medicines have been specifically developed for the disease. The current treatments are symptomatic and many have poor side effect profiles.

##### *The Group's programme*

Professor Kay Davies (one of the scientific founders and a member of the SAB) has been a leading researcher in DMD for 22 years. She established the first physical map of the DMD gene and discovered the closely related gene called utrophin that now forms a target for treating the disease.

The Group has a programme for the upregulation of utrophin in order to replace the lack of dystrophin and hence overcome the degeneration of muscle. Professor Kay Davies has demonstrated that in mouse models of DMD increased utrophin may be an effective biological technique for treating the disease. The Group has progressed this work using its chemical genomics platform and demonstrated that a small molecule can upregulate utrophin and could potentially be developed into a new medicine to treat this disease. This programme is at an early stage.

### ***N-acetyltransferase ("NAT")***

#### *Background*

A growing problem in global healthcare is the incidence of antibiotic-resistant bacteria. Acetylation is one mechanism employed by bacteria to evade antibiotics and they require an enzyme to do so. NATs are a family of enzymes which have been shown to be highly active in *Salmonella* strains and have been identified in *Mycobacterium tuberculosis*, the bacteria responsible for tuberculosis in humans.

#### *The Group's programme*

Professor Edith Sim (one of the scientific founders and a member of the SAB) determined the first three-dimensional structure of the NAT enzyme that, in its various forms, is potentially a target for tuberculosis and other diseases. In general, enzymes form the targets for over 50 per cent. of the top 100 selling medicines, and characterising the structure of an enzyme is the first major step for small molecule drug discovery. The Group has discovered chemicals that disrupt NAT activity in bacteria potentially removing their ability to evade existing antibiotics and some chemicals that achieve this have antibiotic properties of their own. This proprietary programme is at an earlier stage than that for DMD. The Group does not own any patent associated with this process but anticipates that any IP not already owned may be acquired.

### **THE GROUP'S CHEMICAL GENOMICS PLATFORM**

The Group's chemical genomics platform encompasses a 'screen-to-gene' approach, in that no assumptions are made regarding the therapeutic target. Rather than starting with a specific disease or target in mind, chemical libraries are probed sequentially in high-content *in vivo* phenotypic screens that utilise both vertebrate and invertebrate organisms. The Group's chemical genomics platform utilises specifically the zebrafish in primary screening and fruitfly in secondary screening.

Over the last few years, zebrafish have emerged as the model of choice for *in vivo* functional genomics studies by virtue of:

- being a vertebrate;
- having rapid embryogenesis (one cell to fully laid down body plan with organs such as heart, brain, eye and vasculature system recognisable by 24 hour post fertilisation);
- optical clarity (the embryo is transparent as it develops such that one can observe specific developmental events under a dissecting microscope);
- excellent genetics and genomics (the whole zebrafish genome sequence is expected to be completed by the end of 2005);
- high fecundity (200-300 eggs per adult female, per week); and
- ease of functional genomic studies using morpholino oligonucleotide gene knockdown techniques.

Presently, there are in excess of 1,000 developmental phenotypes characterised in zebrafish, many of which have been closely associated with molecular pathways and specific gene disruptions. Such is the potential of the zebrafish model for biomedical research, the National Institute of Health in the US ranks the zebrafish as the third most important animal after human and mouse models.

For fruitflies, the advantages lie mainly in the unparalleled ability to manipulate the genome in terms of generating transgenics, mutations or deletions, particularly employing gene-silencing techniques such as RNAi.

Due to the high volume, high content nature of the Group's chemical genomics platform, data is expected to be recorded from thousands of fruitflies and zebrafish prior to the requirement for testing on mammals, including humans. The data collected will enable the drug development to be more focused on the biochemical pathways and molecular targets thus increasing the probability of the successful development of a drug and thereby reducing the developmental costs.

The Group's chemical genomics process is as follows: zebrafish embryos at one hour post fertilisation are robotically dispensed into 96 well microtitre plates (four to five per well) and incubated with chemical libraries. The resultant chemotypes (phenotypes produced by a small molecule) are then recorded and scored. A significant developmental chemotype will give good clues as to the molecular target and biological pathway for a specific compound, which is then selected for further study in secondary assays using fruitflies. The Group has access to a bank of transgenic fruitfly stocks which is an invaluable and renewable resource for rapid identification of target pathways and genes. The key point to note is that these signalling pathways and target genes are highly conserved in humans, that is, many of the zebrafish or fruitfly genes identified in this screening paradigm have a human orthologue. In principle, this approach can be applied to any gene, thereby generating a vertebrate animal model for a specific disease.

This high content *in vivo* screening facilitates the rapid and simultaneous identification of:

- the biochemical pathways and molecular targets for human disease that are by definition treatable by a drug;
- potential new targets for off-patent and previously unsuccessful drugs;
- potential drug-like compounds that modulate specific gene and protein families; and
- lead compounds for any particular target.

### **CURRENT TRADING**

The Group is currently loss making, with an operating loss before tax for the six months ended 31 July 2004 amounting to £44,017. Financial information on the Company and its subsidiary is set out in Part III of this document.

### **THE DIRECTORS**

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

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

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

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

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

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

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

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

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

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

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

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

## SCIENTIFIC ADVISORY BOARD AND SCIENTIFIC FOUNDERS

The Group has brought together a group of pre-eminent scientists from a range of relevant disciplines. The team has deliberately been assembled to provide a blend of human genetics, small animal model genomics tools, pharmacology, high speed chemistry and *in silico* chemistry expertise.

**Professor Kay Davies** (*Chairperson*) FRS, CBE, *Head of the Department of Human Anatomy and Genetics, honorary director MRC Functional Genetics Unit, co-director Henry Wellcome Centre for Gene Function, University of Oxford*

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

**Professor Edith Sim** *Head of the Department of Pharmacology, University of Oxford*

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

**Professor Graham Richards** CBE, *chairman of the Department of Chemistry, University of Oxford*

One of the world's first and foremost computational chemists, Professor Graham Richards is the author of over 300 scientific articles and 15 books and his current drug design using a wide variety of computing facilities.

**Dr Derek Stemple** *Wellcome Trust Sanger Institute, Cambridge*

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

**Dr Jean-Paul Vincent** *MRC National Institute for Medical Research, London*

Dr Jean-Paul Vincent is a fruitfly genetics expert of 17 years, with particular research interest in the Wingless signalling pathway pertinent to colon cancer in humans.

**Dr Bob Sim** *Medical Research Council Immunohistochemistry Unit, University of Oxford.*

Dr Bob Sim has been a leading researcher on the immune system for over two decades.

### **Professor Stephen Davies**

Professor Steve Davies is Non-Executive Chairman of the Company and a leading scientist in his area whose further biographical details are set out above.

Professor Edith Sim and Dr Bob Sim are married to each other. Professor Kay Davies and Professor Stephen Davies were previously married to each other.

## **CORPORATE GOVERNANCE**

The Directors have responsibility for the overall corporate governance of the Group and recognise the need for the highest standards of behaviour and accountability. The Directors are committed to the principles underlying best practice in corporate governance and intend to comply with the principles of the Combined Code in such respects as they consider appropriate for a company of its size and nature.

The Board currently consists of a Non-Executive Chairman, three Executive Directors (one of whom, the Finance Director, is part time) and one further Non-Executive Director. The terms of the Company's constitution relating to the appointment, election and retirement of Directors are set out in paragraph 6 of Part IV of this document. An audit committee and a remuneration committee have been established to operate with effect from Admission.

The audit committee, which will meet at least twice each year, comprises David Norwood (chairman of the committee) and Professor Stephen Davies. The audit committee will be responsible for ensuring that the financial performance of the Group is properly monitored and reported on. It will meet the auditors without executive Directors being present and will review reports relating to accounts and internal control systems.

The remuneration committee, which will review the performance of senior management and set their remuneration, comprises both of the Non-Executive Directors, Professor Stephen Davies (chairman of the committee) and David Norwood as well as Steven Lee and John Montgomery. The remuneration committee will also make recommendations to the Board concerning the allocation of share options to Directors and employees.

## **THE PLACING AND ADMISSION TO AIM**

### **Reasons for Admission and the Placing**

The Directors believe that the proceeds from the Placing will strengthen the Group's balance sheet and enable the Group to accelerate its proprietary R&D, to invest in the facilities necessary to service larger research contracts and to hire and retain high calibre staff. In addition, the Admission and Placing should raise the profile and credibility of the Group.

### **Details of the Placing**

KBC Peel Hunt has conditionally placed, as agent for the Company, the Placing Shares at the Placing Price. The Placing, which is not underwritten, is conditional, *inter alia*, on Admission. The Placing is intended to raise £15.0 million before expenses for the Company. After the expenses of the Placing and Admission payable by the Company, estimated in total at £0.9 million excluding VAT, the Placing is expected to raise £14.1 million for the Company.

It is expected that the proceeds of the Placing due to the Company will be received by it on or soon after Admission. In the case of placees requesting their Placing Shares in uncertificated form, it is expected that appropriate stock accounts will be credited with the Placing Shares comprising their Placing participation with effect from 14 October 2004. In the case of placees requesting their Placing Shares in certificated form, it is expected that certificates in respect of such shares will be despatched by post within seven days of the date of Admission.

Pending despatch of definitive share certificates or crediting of stock accounts, the Company's registrars will certify any instrument of transfer against the register.

The Placing Shares will rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all other respects with all other Ordinary Shares in issue on Admission.

### **Equity participation**

Professor Stephen Davies, Dr Steven Lee, Dr Andrew Mulvaney and John Montgomery, Directors of the Company, are subscribing, in aggregate, 309,259 Placing Shares at the Placing Price. Professor Kay Davies, one of the scientific founders and chairperson of the SAB, is subscribing 37,037 Placing Shares at the Placing Price.

Further details of the interests of the Directors in Ordinary Shares and in options over Ordinary Shares are set out in paragraphs 3 and 4 of Part IV of this document.

### **Lock-in arrangements**

Each Director, pursuant to the Placing Agreement, has undertaken to the Company and to KBC Peel Hunt that, save in certain limited circumstances, he will not dispose of any interest in Ordinary Shares for a period of two years following Admission.

In addition, all current Shareholders who are not Directors have undertaken to KBC Peel Hunt that, save in certain limited circumstances, they will not dispose of any of their respective interests in Ordinary Shares for a period of two years following Admission.

### **Dealing Arrangements and CREST**

CREST is a computerised paperless settlement system, which allows securities to be transferred via electronic means, without the need for a written instrument of transfer. The Directors have applied for the Ordinary Shares in issue following Admission to be admitted to CREST with effect from Admission and CREST has agreed to such admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the individual shareholders so wish. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

### **DIVIDEND POLICY**

It is the Directors' intention to pay dividends when, in the view of the Directors, it is commercially prudent to do so and the Company has sufficient distributable reserves for this purpose.

### **TAXATION**

Information regarding taxation in relation to the Placing and Admission is set out in paragraph 9 of Part IV of this document. **If you are in any doubt as to your tax position you should consult your own independent financial adviser immediately.**

## PART II

### Risk Factors

Prospective investors should be aware that an investment in the Company involves a high degree of risk and should only be made by those with the necessary expertise to appraise the investment. The following are considered by the Board to be the main risk factors which could have a material adverse effect on the business, financial condition, results or future operations of the Group. The following list is not intended to be exhaustive but it should be considered carefully by prospective investors (in addition to the other information contained in this document) in evaluating whether to make an investment in the Company.

#### **Early stage of operations**

The Group is at an early stage of development. The commencement of the Group's material revenues is difficult to predict and there is no guarantee that the Group will generate any material revenues in the foreseeable future. The Group has a limited operating history upon which its performance and prospects can be evaluated and faces the risks frequently encountered by developing companies. The risks include the uncertainty as to which areas to target for growth. There can be no assurance that the Group's proposed operations will be profitable or produce a reasonable return, if any, on investment.

#### **Dependence upon key relationships**

The benefits to which the Group is entitled under its arrangements with third parties, such as the University of Oxford and Isis Innovation Limited, are dependent on the continuation of those arrangements.

#### **Research and Development risk**

The Group is performing R&D in highly complex and leading scientific areas. Industry experience indicates a very high incidence of delay or failure to produce results. The Directors believe that the experience and expertise of the scientific founders, the range of opportunities for the Group and its services together with adoption of an early out-licence model should mitigate against such risk but there can be no guarantee that it will do so.

#### **High reliance on the contribution of the founder scientists**

In all areas of the business, the Group is dependent upon the involvement and contribution of the founding scientists. While consulting contracts provide six to 20 days services per year, and include non-compete clauses, ultimately the Group can not enforce contributions from them. The Directors believe that this risk is mitigated by the founders' previous collaboration, their formation of VCG as the best platform for achieving their objectives in producing new medical treatments, and the alignment of their financial objectives through equity stakes, which they have accepted will be locked in for two years from Admission.

#### **Dependence on recruitment and retention of key personnel**

The success of the Group and its business strategy are dependent on its ability to retain and attract key management, R&D, sales, marketing and other operating personnel with the relevant expertise and experience apart from the scientific founders. As the Group expands the commercialisation of its services, it will need to recruit and integrate additional personnel. In a period of high growth, the loss of the services of one or more members of the management group or the inability to recruit and effectively integrate additional personnel as needed could have an adverse effect on the Group's product development programmes and on its business, financial condition and results.

In particular the Directors believe that biologists will be more difficult to recruit than chemists. However, whilst market rates are relatively low, giving scope to pay a premium to attract staff if this proves necessary there can be no guarantee that the Group will be successful in recruiting or retaining such key personnel and this could have material and adverse consequences.

#### **Access to research teams**

In addition to the founding scientists, the Group will need access to their research teams or similarly experienced scientists. The current research teams are mainly researchers based at the University of Oxford, who are expected to be available through their relationships with the founding scientists but any failure or delay in obtaining access to research personnel could have an adverse impact on the Group's product development programmes and business.

### **The effectiveness of the chemical genomics screening process may not be established**

The Group has no contracts to perform these services, and the technique is not yet accepted as established. While the Group believes that the scientific basis for its screening process is sound, it has not developed its database sufficiently to demonstrate effectiveness to potential customers. Whilst the Group has plans to address this position there remains a risk that significant scientific or technical obstacles could be encountered.

### **Failure or inability to protect IP may enable competitors to enter the market or prevent the Group realising value**

It is difficult to legally protect know-how and other knowledge which is publicly available in relation to chemical genomics. The Directors believe that the expertise of the founding scientists, the know-how and data they are developing, and the combination of information in the database would be difficult to replicate thus providing first user advantage.

The Directors also believe that conversely the difficulty for third parties in establishing legal ownership protects the Group against infringement claims, which are a major industry risk.

However, the Directors expect IP developed over new compounds and R&D to be protectable, subject to normal issues such as establishing the basis of the relevant IP and the risk of challenges of infringing existing IP.

No assurance can be given that any pending patent applications or any future patent applications will result in granted patents, that the scope of any copyright or patent protection will exclude competitors or provide competitive advantages to the Group, that any of the Group's patents will be held valid if challenged or that third parties will not claim rights in or ownership of the copyright, patents and other proprietary rights held by the Group.

Further there can be no assurance that others have not developed or will not develop similar products, duplicate any of the Group's products or design around any patents held by the Group. Others may hold or receive patents which contain claims having a scope that covers products developed by the Group (whether or not patents are issued to the Group).

The Group may rely on patents to protect its assets. These rights act only to prevent a competitor from copying and not to prevent a competitor from independently developing products that perform the same functions. No assurance can be given that others will not independently develop or otherwise acquire substantial equivalent techniques or otherwise gain access to the Group's un-patented proprietary technology or disclose such technology or that the Group can ultimately protect meaningful rights to such un-patented proprietary technology.

### **Failure to obtain or loss of IP rights**

The ability of the Group to pursue particular programmes may be dependent on the acquisition of certain IP rights either exclusively or non-exclusively from third parties. Failure to agree such arrangements could have a material adverse affect on the Group. The benefits to which the Group is entitled under its arrangements with third parties could also be dependent on the continuation of those arrangements.

### **Existing R&D projects may not produce out-licensable IP for VCG or prevent the Group realising value**

The nature of the existing programmes means that there is a significant risk that preclinical compounds or other out-licenceable IP may not be identified, that timescales may significantly extend or that alternative therapies may be identified by others.

For DMD, VCG has rights in respect of the IP of the human cell lines developed for screening and certain key genetic information. Sustaining and increasing this value will depend on identifying chemicals with the required properties, and the relative progress of other potential therapies, which is outside the Group's control.

For NAT, VCG does not own any patent, but anticipates being able to acquire any IP not already owned. However there is no contract in place to ensure this happens.

### **New R&D projects may not be developed or brought to the Group**

The Group has identified two main sources of projects:

- discovering potential in compounds not subject to existing IP through the application of chemical genomics screening. This will be dependent on the efficacy of the chemical genomics model, the speed with which databases can be populated and used for screening and the identification of compounds with potential; and
- accessing existing research being conducted in relevant fields in Oxford through its contacts. This will depend on relevant projects being at an appropriate stage of development and leaders choosing to seek an arrangement with the Group on acceptable terms. There is also a risk that competitor deals such as that between IP2IPO Limited and the University of Oxford Chemistry Department, give rights of pre-emption to others.

### **Competition**

The Group may face significant competition from organisations which have much greater capital resources than the capital resources of the Group. There is no assurance that the Group will be able to compete successfully in such a marketplace.

### **Access to key equipment**

VCG is reliant on the University of Oxford for access to complex equipment required for chemical analysis. Access agreements can be terminated at three months' notice. The Directors do not have any indication that access will not be available on acceptable terms and believe that access to alternative equipment can be readily obtained.

### **Volatility in share price and liquidity**

The share prices of publicly traded companies that are perceived to be within the technology sector are often subject to significant fluctuations. The market price of the Ordinary Shares may therefore be volatile and may be influenced by factors which affect the quoted pharmaceutical and biotechnology sectors (or quoted companies) generally and not just factors specific to the Company. Admission to AIM does not guarantee that there will be a liquid market for Ordinary Shares. An active public market for the Ordinary Shares may not develop or be sustained after Admission and the market price may fall below the price of which the Ordinary Shares are issued under the Placing.

**PART III**  
**Accountants' Reports**

**Section A: The Company**

The following is the text of a report received from the Company's reporting accountants:

**Deloitte** 

Deloitte & Touche LLP  
Abbey Street  
Reading  
Berkshire  
RG1 3BD

The Directors  
VASTox plc  
59 St. Aldates  
Oxford  
OX1 1ST

The Directors  
KBC Peel Hunt Ltd  
111 Old Broad Street  
London  
EC2N 1PH

11 October 2004

Dear Sirs

**VASTox plc ('the Company')**

We report on the financial information of the Company set out below. This financial information has been prepared for inclusion in the admission document dated 11 October 2004 relating to the potential placing and admission of shares of the Company to AIM of the London Stock Exchange ("the Investment Circular").

**Basis of preparation**

The financial information set out in this report, which has been prepared in accordance with applicable United Kingdom generally accepted accounting principles, is based on the audited non-statutory financial statements of the Company for the period from incorporation on 4 August 2004 to 26 August 2004 to which no adjustments were considered necessary.

The financial information has been prepared on a going concern basis on the assumption that the placing will proceed. Were the placing not to occur this basis may not be appropriate.

**Responsibility**

Such non-statutory financial statements are the responsibility of the Directors of the Company who approved their issue.

The Directors of the Company are responsible for the contents of the Investment Circular in which this report is included.

It is our responsibility to compile the financial information set out in our report from the audited non-statutory financial statements, to form an opinion on the financial information and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the non-statutory financial statements underlying the financial information for the period ended 26 August 2004. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error. Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

#### Opinion

In our opinion, the financial information set out below gives, for the purposes of the Investment Circular, a true and fair view of the state of affairs of the Company as at 26 August 2004.

#### Consent

We consent to the inclusion in the Investment Circular of this report.

#### Balance Sheet of the Company at 26 August 2004

Debtors	£
	2
<b>Capital and reserves</b>	<hr/>
Called up share capital	2
	<hr/>

The Company was incorporated on 4 August 2004 under the name Cobradragon plc.

The Company has not yet traded and no dividends have been declared or paid.

#### Accounting Policies

The financial information has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards, applied on a consistent basis.

#### Subsequent Events

- (i) On 29 September 2004 each ordinary share of £1 each in the capital of the Company was subdivided into 10 ordinary shares, the authorised share capital was increased from £100,000 to £5,000,000 by the creation of an additional 49,000,000 ordinary shares.
- (ii) On 29 September 2004 the 20 Ordinary Shares which represent the two subscriber shares were credited as fully paid and 20,201,980 Ordinary Shares were issued credited as fully paid in exchange for the entire issued share capital of VASTox Chemical Genomics Limited.
- (iii) On 30 September 2004 the Company changed its name to VASTox plc.
- (iv) On 2 September 2004, Dr Steven Lee was granted options over 100 ordinary shares in VCG, at an exercise price of £100 per share. These options were exchanged for options over 2,020,200 ordinary shares in VASTox plc immediately following Admission, at an exercise price of 10p. The options vest 50 per cent. on his date of employment (1 September 2004), 17 per cent. on Admission, and 33 per cent. 24 months after the date of Admission.  
 UITF Abstract 17 requires a cumulative charge to be made to the profit and loss account based on the fair value of the shares at the date of grant, less the option exercise price. The fair value at grant date has yet to be determined. One method of valuation is to apply a level of discount (yet to be determined) to the value of the shares at flotation, less the exercise price. The undiscounted value less exercise price would be £2.53 million.  
 It is anticipated that the charge to profit and loss would arise approximately 73 per cent. in the year to 31 January 2005, 17 per cent. in the year to 31 January 2006 and 10 per cent. in the year to 31 January 2007.
- (v) A conditional agreement was signed on 11 October 2004 with KBC Peel Hunt by which KBC Peel Hunt agreed to use reasonable endeavours to procure subscribers for a placing in return for a commission of 3 per cent., a corporate finance fee of £200,000 and incidental costs and expenses.
- (vi) No additional material contracts or transactions, except for those detailed in paragraphs (i) to (v) above, have been entered into save for those detailed in paragraph 10 of Part IV of the Investment Circular.

Yours faithfully

Deloitte & Touche LLP  
 Chartered Accountants

**Section B: VCG**

The following is the text of a report received from the Company's reporting accountants:

**Deloitte**

Deloitte & Touche LLP  
Abbey Street  
Reading  
Berkshire  
RG1 3BD

The Directors  
VASTox plc  
59 St. Aldates  
Oxford  
OX1 1ST

The Directors  
KBC Peel Hunt Ltd  
111 Old Broad Street  
London  
EC2N 1PH

11 October 2004

Dear Sirs

**VASTox Chemical Genomics Limited ("VCG")**

We report on the financial information of VCG set out below. This financial information has been prepared for inclusion in the Admission Document dated 11 October 2004 relating to the Admission of VASTox plc to the Alternative Investment Market ("AIM") ("the Investment Circular").

**Basis of preparation**

The financial information set out in this report, which has been prepared in accordance with applicable United Kingdom generally accepted accounting principles, is based on the audited statutory financial statements for the eleven and a half month period ending 31 January 2004 and the audited non-statutory financial statements for the six months ended 31 July 2004, after making such adjustments as we considered necessary.

The financial information has been prepared on a going concern basis on the assumption that the placing will proceed. Were the placing not to occur this basis may not be appropriate.

**Responsibility**

Such non-statutory financial statements are the responsibility of the directors of VCG who approved their issue. The directors of VASTox plc are responsible for the contents of the Investment Circular in which this report is included.

It is our responsibility to compile the financial information set out in our report from the non-statutory financial statements, to form an opinion on the financial information and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that obtained by the auditors who audited the financial statements underlying the financial information for the period ended 31 January 2004 and by us relating to the audit of the financial statements underlying the financial information for the period ended 31 July 2004. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion, the financial information set out below gives, for the purposes of the Investment Circular, a true and fair view of the state of affairs of VCG as at the dates stated and of its losses for the periods then ended.

**Consent**

We consent to the inclusion in the Investment Circular of this report.

## PROFIT AND LOSS ACCOUNT

	Notes	Period ended 31 January 2004 £	6 months ended 31 July 2004 £
<b>Turnover</b>			
Cost of sales	2	1,440	41,950
		<u>(740)</u>	<u>(21,570)</u>
<b>Gross profit</b>		700	20,380
Administrative expenses	3	<u>(75,474)</u>	<u>(64,979)</u>
<b>Operating loss</b>		<u>(74,774)</u>	<u>(44,599)</u>
Finance income	4	1,008	582
<b>Loss on ordinary activities before and after taxation, being retained loss for the financial period</b>	5, 14	<u><u>(73,766)</u></u>	<u><u>(44,017)</u></u>
<b>Loss per share</b>			
Basic	9	<u><u>(0.37)p</u></u>	<u><u>(0.22)p</u></u>

All turnover and results are derived from continuing operations.

There are no recognised gains or losses in either financial period other than the results as stated in the profit and loss account. Accordingly a Statement of Total Recognised Gains and Losses has not been included.

**BALANCE SHEET**

		31 January 2004 £	31 July 2004 £
<b>Current assets</b>			
Debtors			
Cash at bank and in hand	10	202	1,950
		<u>79,591</u>	<u>97,320</u>
<b>Creditors: Amounts falling due within one year</b>	11	<u>79,793</u>	<u>99,270</u>
		<u>(53,559)</u>	<u>(117,053)</u>
		<u>(53,559)</u>	<u>(117,053)</u>
<b>Net assets/(liabilities)</b>		<u>26,234</u>	<u>(17,783)</u>
<b>Capital and reserves</b>			
Called-up share capital	12	1,000	1,000
Share premium account	13	99,000	99,000
Profit and loss account	13	<u>(73,766)</u>	<u>(117,783)</u>
<b>Equity shareholders' funds/(deficit)</b>	14	<u>26,234</u>	<u>(17,783)</u>

## CASH FLOW STATEMENT

		<i>Period ended 31 January 2004 £</i>	<i>6 months ended 31 July 2004 £</i>
<b>Net cash outflow from operating activities</b>	<i>Notes</i>		
Returns on investments and servicing of finance	16	(72,792)	(16,629)
	17	<u>1,008</u>	<u>582</u>
<b>Cash outflow before management of liquid resources and financing</b>		<u>(71,784)</u>	<u>(16,047)</u>
Financing	17	151,375	33,776
<b>Increase in cash in the period</b>	18	<u><u>79,591</u></u>	<u><u>17,729</u></u>

## 1. ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout all periods presented, is set out below:

### (a) *Basis of accounting*

The financial information has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards, applied on a consistent basis.

### (b) *Tangible fixed assets*

When acquired, tangible fixed assets are to be stated at cost, net of depreciation and any provision for impairment. Depreciation is to be provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less their estimated residual value, of each asset on a straight line basis over their expected useful life, as follows:

Leasehold improvements	10 years
Laboratory equipment	up to 5 years (depending on estimated life of equipment)
Fixtures & Fittings	4 years
Office Equipment	3 years

### (c) *Debt*

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

### (d) *Taxation*

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

Deferred tax is recognised in full on timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax, in the future have occurred at the balance sheet date or a future date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains or losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

### (e) *Turnover*

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

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

### (f) *Leases*

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

### (g) *Research and development costs*

Research and development costs are expensed as incurred.

## 2. SEGMENTAL INFORMATION

All turnover has been derived from one class of business to date, being the supply of chemical services.

All turnover originated from, and was destined for, the United Kingdom in each of the two periods.

As at 31 July 2004 and 31 January 2004, all of the net assets of the company were located in the United Kingdom.

## 3. ADMINISTRATIVE EXPENSES

	Period ended 31 January 2004 £	6 months ended 31 July 2004 £
Research and development expenses	51,375	39,892
Other expenses	24,099	25,087
	<u>75,474</u>	<u>64,979</u>

## 4. FINANCE INCOME

	Period ended 31 January 2004 £	6 months ended 31 July 2004 £
<i>Investment income</i>		
Bank interest receivable	1,008	582

## 5. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging:

	Period ended 31 January 2004 £	6 months ended 31 July 2004 £
Research and development	51,375	39,892
Operating lease rentals		
– plant and machinery	–	16,000
– other – land and buildings	–	8,968
Auditors' remuneration		
– audit services	600	5,000
– non-audit services	–	–

## 6. EMPLOYEE NUMBERS AND STAFF COSTS

The average monthly number of employees (including executive directors) was:

	Period ended 31 January 2004 Number	6 months ended 31 July 2004 Number
Production and development	<u>1</u>	<u>2</u>

Their aggregate remuneration comprised:

	<i>Period ended 31 January 2004 £</i>	<i>6 months ended 31 July 2004 £</i>
Wages and salaries	30,089	44,934
Social security costs	2,567	1,474
	<u>32,656</u>	<u>46,408</u>

## 7. DIRECTORS' REMUNERATION

### (a) *Directors' emoluments*

The remuneration of the directors was as follows:

	<i>Period ended 31 January 2004 £</i>	<i>6 months ended 31 July 2004 £</i>
Emoluments	32,656	26,328
Contributions to money purchase pension schemes	—	—
	<u>32,656</u>	<u>26,328</u>

### (b) *Directors' share options*

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in VCG granted to or held by the directors. No directors have any share options in the periods disclosed.

### (c) *Directors' pension contributions*

No directors were members of money purchase schemes through VCG during either period.

### (d) *Directors' shareholdings*

The directors held beneficial interests in the shares of VCG as follows:

	<i>31 January 2004 Number</i>	<i>31 July 2004 Number</i>
<b>Ordinary shares of £1 each</b>		
Professor S G Davies	300	300
Dr S K C Lee	—	—
Mr J A Montgomery	50	50
Dr A W Mulvaney	50	50
Mr D R Norwood	—	—
	<u>—</u>	<u>—</u>

## 8. TAXATION

### The tax credit comprises:

Current tax

	<i>Period ended 31 January 2004 £</i>	<i>6 months ended 31 July 2004 £</i>
Current tax	—	—
	<u>—</u>	<u>—</u>

The standard rate of tax for the period based on the UK standard small companies rate of corporation tax is 19 per cent. The actual tax credit for the current and previous periods differs from the standard rate for the reasons set out in the following reconciliation:

	<i>Period ended 31 January 2004 £</i>	<i>6 months ended 31 July 2004 £</i>
Loss on ordinary activities before tax	(73,766)	(44,017)
Tax at 19% thereon	(14,016)	(8,363)
Effects of:		
Tax losses not recognised and other items	14,016	8,363
<b>Current tax credit for the period</b>	<u>—</u>	<u>—</u>

The tax charge in future periods will be affected by the utilisation of tax losses carried forward.

A potential deferred tax asset amounting to £22,379 (31 January 2004: £14,016), principally relating to tax losses carried forward, has not been recognised due to the uncertainty over its recoverability. This may be available for utilisation in the future against future taxable profits of VCG.

## 9. LOSS PER ORDINARY SHARE

The calculations of loss per share are based on the following losses and numbers of shares.

	<i>Basic and diluted</i>	
	<i>Period ended 31 January 2004 £</i>	<i>6 months ended 31 July 2004 £</i>
Loss for the financial period	(73,766)	(44,017)
	<u>—</u>	<u>—</u>
	<i>Period ended 31 January 2004 Number</i>	<i>6 months ended 31 July 2004 Number</i>
Weighted average number of ordinary shares:		
For basic loss per share	20,202,000	20,202,000

The weighted average number of shares (and the resulting loss per share) for each of the periods, as disclosed, has been deemed to be the number of ordinary shares of VASTox plc that are in issue immediately prior to admission.

## 10. DEBTORS

	<i>31 January 2004 £</i>	<i>31 July 2004 £</i>
Amounts falling due within one year:		
VAT recoverable	202	—
Trade debtors	—	1,950
	<u>202</u>	<u>1,950</u>

## 11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 January 2004	31 July 2004
	£	£
Social security and other taxes	997	6,934
Accruals and deferred income	1,187	24,968
Other loans	51,375	85,151
	<u>53,559</u>	<u>117,053</u>

The other loans balance relates to amounts payable to New College, Oxford. This is for portions of salaries and small quantities of chemicals purchased which were recharged to VCG during the above periods. The loan is unsecured, repayable on demand and bears no interest

## 12. CALLED-UP SHARE CAPITAL

*Authorised, allotted, called-up and fully paid*

	31 January 2004	31 July 2004
	£	£
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

## 13. RESERVES

	Share premium account £	Profit and loss account £	Total £
<b>At 13 February 2003</b>			
Share issues	—	—	—
Retained loss for the period	99,000	—	99,000
	—	(73,766)	(73,766)
<b>At 31 January 2004</b>	99,000	(73,766)	25,234
Share issues	—	—	—
Retained loss for the period	—	(44,017)	(44,017)
<b>At 31 July 2004</b>	<u>99,000</u>	<u>(117,783)</u>	<u>(18,783)</u>

## 14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS/(DEFICIT)

	Period ended 31 January 2004	6 months ended 31 July 2004
	£	£
<b>Opening shareholders' funds</b>		
Share capital issued	—	26,234
Loss for the period	100,000	—
	(73,766)	(44,017)
<b>Closing shareholders' funds/(deficit)</b>	<u>26,234</u>	<u>(17,783)</u>

## 15. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

This note deals with financial assets and financial liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" ("FRS 13").

VCG financial instruments comprise cash, debtors and creditors, which arise in the normal course of business. It is, and has been throughout the period under review, VCG policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are interest rate risk and liquidity risk.

As permitted by FRS 13, short term debtors and creditors have also been excluded from the disclosures, other than the currency disclosures.

### Interest rate risk and liquidity risk

VCG has no financial assets other than cash of £97,320 which are part of the financing arrangements of the company. The sterling cash balance comprises amounts placed in a variable interest bearing instant access savings account. VCG seeks to maximise interest receipts within these parameters. VCG held the following financial assets at 31 July 2004 and 31 January 2004.

	31 January 2004 £	31 July 2004 £
Assets held as part of the financing arrangements of the Company		
– Cash	79,591	97,320
	<u>79,591</u>	<u>97,320</u>

VCG had a loan outstanding of £85,151 at 31 July 2004 (£51,375 at 31 January 2004). The loan bears no interest and is repayable on demand.

### 16. RECONCILIATION OF OPERATING CASH FLOWS

	Period ended 31 January 2004 £	6 months ended 31 July 2004 £
Operating loss	(74,774)	(44,599)
Increase in debtors	(202)	(1,748)
Increase in creditors	2,184	29,718
<b>Net cash outflow from operating activities</b>	<u>(72,792)</u>	<u>(16,629)</u>

### 17. ANALYSIS OF CASH FLOWS

	Period ended 31 January 2004 £	6 months ended 31 July 2004 £
<i>Returns on investments and servicing of finance</i>		
Interest and other income received	1,008	582
<b>Net cash inflow</b>	<u>1,008</u>	<u>582</u>
<i>Financing</i>		
Issue of ordinary share capital (net of expenses)	100,000	–
Unsecured loan	51,375	33,776
<b>Net cash inflow</b>	<u>151,375</u>	<u>33,776</u>

## 18. ANALYSIS AND RECONCILIATION OF NET FUNDS

	13 February 2003 £	Cash flow £	Non cash movement £	31 January 2004 £
Cash at bank and in hand	—	79,591	—	79,591
loans	—	(51,375)	—	(51,375)
Net funds	—	<u>28,216</u>	—	<u>28,216</u>

  

	1 February 2004 £	Cash flow £	Non cash movement £	31 July 2004 £
Cash at bank and in hand	79,591	17,729	—	97,320
loans	(51,375)	(33,776)	—	(85,151)
Net funds	<u>28,216</u>	<u>(16,047)</u>	—	<u>12,169</u>

  

	Period ended 31 January 2004 £	6 months ended 31 July 2004 £
Increase in cash in the period being change in net funds resulting from cash flows	79,591	17,729
loans	(51,375)	(33,776)
Net funds at beginning of period	—	28,216
Net funds at end of period	<u>28,216</u>	<u>12,169</u>

## 19. FINANCIAL COMMITMENTS

There were no capital commitments contracted but not provided for at either 31 January 2004 or 31 July 2004.

The company was committed to making the following payments during the next year in respect of operating leases:

	31 January 2004		31 July 2004	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire				
– within one year	—	—	29,822	48,000
– within 2 to 5 years	—	—	—	—
	<u>—</u>	<u>—</u>	<u>29,822</u>	<u>48,000</u>

## 20. RELATED PARTY TRANSACTIONS

- (1) David Norwood is a Director of VCG and a director of IP2IPO Limited which has a 20 per cent. shareholding in VCG.
- (2) Professor Steve Davies, Chairman, is a fellow and trustee of New College, Oxford with which VCG has a non interest bearing loan arrangement of £51,375 at 31 January 2004 and £85,151 at 31 July 2004.

## 21. POST BALANCE SHEET EVENTS

On 27 August 2004, the authorised share capital was increased from 1,000 to 2,000 ordinary shares of £1 each.

On 17 September 2004 VCG and ISIS Innovation Limited ("ISIS") entered into a licensing agreement pursuant to which ISIS granted a licence of a patent application relating to the Utrophin promoter B sequence. Under the terms of the licence VCG is obliged to pay:

- (i) £5,000 on signing plus £20,000 back patent costs, with payment deferred until 1 February 2005, a minimum of £10,000 (in respect of years 2 and 3) and £20,000 in year 4 and each subsequent year;
- (ii) a royalty at a flat rate on net sales of 0.75 per cent.; and
- (iii) fee income royalty rates at pre-agreed levels.

On 29 September 2004, the entire share capital of VCG was acquired in a share-for-share exchange by VASTox plc. Following the acquisition of VCG, all share options granted by VCG were replaced by new options over the shares of the VASTox plc. Subsequently following the share-for-share exchange it was agreed that the option price would be 10p.

On 2 September 2004, Dr Steven Lee was granted options over 100 ordinary shares in VCG, at an exercise price of £100 per share. These options were exchanged for options over 2,020,200 Ordinary Shares in VASTox plc immediately following Admission, at an exercise price of 10p. The options vest as to 50 per cent. on his date of employment (1 September 2004), 17 per cent. on Admission, and 33 per cent. 24 months after the date of Admission.

UITF Abstract 17 requires a cumulative charge to be made to the profit and loss account based on the fair value of the shares at the date of grant, less the option exercise price. The fair value at date of grant has yet to be determined. One method of valuation is to apply a level of discount (yet to be determined) to the value of the shares at flotation, less the exercise price. The undiscounted value less exercise price would be £2.53 million.

It is anticipated that the charge to profit and loss would arise approximately 73 per cent. in the year to 31 January 2005, 17 per cent. in the year to 31 January 2006 and 10 per cent. in the year to 31 January 2007.

## **22. CONTROLLING PARTY**

At 31 July 2004, and 31 January 2004, the directors as a group controlled VCG and hence there was no ultimate controlling party.

On 29 September 2004, VASTox plc became VCG's parent undertaking and hence its ultimate controlling party.

Yours faithfully

Deloitte & Touche LLP  
*Chartered Accountants*

## PART IV

### Additional Information

#### **Responsibility statement**

The Directors, whose names appear on page 3, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### **1. Incorporation and principal place of business**

- 1.1 The Company was incorporated in England and Wales with registration number 05197494 on 4 August 2004 under the Act as a public company limited by shares with the name Cobradragon plc. On 29 September 2004 the Company passed a written resolution to change its name to VASTox plc
- 1.2 The Company operates under the Act and the regulations made under it and the liability of its members is limited.

#### **2. Share Capital of the Group**

##### *2.1 The Company*

- (a) The Company's present authorised share capital is £5,000,000 divided into 50,000,000 Ordinary Shares and the issued share capital of the Company is £2,020,200 divided into 20,202,000 Ordinary Shares fully paid.
- (b) There have been the following changes in the share capital of the Company in the period since incorporation:
  - (i) on 4 August 2004 2 ordinary shares of £1 were issued, nil paid, as the original subscriber shares;
  - (ii) on 29 September 2004 each ordinary share of £1 each in the capital of the Company was subdivided into 10 Ordinary Shares, the authorised share capital was increased from £100,000 to £5,000,000 by the creation of an additional 49,000,000 Ordinary Shares, and
  - (iii) on 29 September 2004 the 20 Ordinary Shares which represent the two subscriber shares were credited as fully paid and 20,201,980 Ordinary Shares were issued credited as fully paid in exchange for the entire issued share capital of VCG.
- (c) Immediately following the Placing the authorised share capital of the Company will be £5,000,000 divided into 50,000,000 Ordinary Shares and the issued share capital of the Company will be £3,131,311 divided into 31,313,111 Ordinary Shares fully paid.
- (d) On 29 September 2004, by or pursuant to resolutions passed by the shareholders of the Company in general meeting:
  - (i) the Directors were authorised pursuant to section 80 of the Act to allot relevant securities of the Company (a) up to a maximum nominal amount of £2,020,200 pursuant to the acquisition of VCG as referred to in paragraph 2.1 (b) (iii) above; (b) up to a maximum nominal amount of £1,111,111 pursuant to the Placing; (c) an additional nominal amount of £202,020 in respect of options entered into prior to the Placing; and (d) an additional nominal amount of £1,111,000 (the "Section 80 Authority"), such authorities expiring (in the case of (a) and (b)) at the next general meeting or 12 months from the passing of the resolutions and in the case of (c) and (d) five years from the date of the resolution (the "Section 80 Expiry Dates"). The Section 80 Authority permits the Directors to allot shares in the Company after the Section 80 Expiry Dates (as if the Section 80 Authority had not expired) where such allotments are pursuant to any offers or agreements entered into by the Company before the Section 80 Expiry Dates;
  - (ii) the Directors were empowered pursuant to section 95 of the Act to allot equity securities in the Company for cash as if section 89 of the Act did not apply (the "Section 95 Empowerment"), such power being limited to the allotment of equity securities (a) up to

£1,111,111 in nominal value in connection with the Placing, (b) £202,020 in nominal value in respect of Ordinary Shares under option to Directors prior to the date of the Placing, (c) in connection with any rights issue or other offers to shareholders in proportion to their holdings subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with the problems under the law of any territory or the requirements of any regulatory body or stock exchange in any territory or in connection with fractional entitlements or shares represented by depository receipts or otherwise; and (d) otherwise up to an aggregate nominal amount equal to £166,665. The Section 95 Empowerment shall expire (in the case of (a), (c) and (d)) at the next annual general meeting or, if longer, 12 months from the passing of the resolution and in the case of (b) five years from the date of the resolution (the "Section 95 Expiry Dates") save that the Directors may allot shares in the Company after the Section 95 Expiry Dates (as if the Section 95 Empowerment had not expired) pursuant to any offers or agreements to allot shares in the Company entered into by the Company before the Section 95 Expiry Dates.

## 2.2 Incorporation and share capital information on VCG

- (a) VCG is wholly-owned by the Company and it carries out the operating and trading activities described in Part I of this document.
- (b) VCG was incorporated in England and Wales with registration number 04636431 on 14 January 2003 under the Act as a private company limited by shares with the name VASTox Limited. On 30 September 2004, VCG changed its name to VASTox Chemical Genomics Limited. The principal legislation under which VCG operates is the Act and the regulations made thereunder. The registered office is 59 St. Aldates, Oxford, Oxfordshire OX1 1ST.
- (c) The authorised share capital of the VCG at the date of this document is £2,000 divided into 2,000 ordinary shares of £1 each. There have been the following changes in the share capital of VCG in the period since incorporation:
- (i) on 14 January 2003 1 ordinary share of £1 was issued for cash at par as the original subscriber share;
  - (ii) on 10 February 2003 999 ordinary shares of £1 each were allotted and issued for cash at £100 per share;
  - (iii) on 27 August 2004 the authorised share capital was increased from £1,000 to £2,000 by the creation of an additional 1,000 new ordinary shares of £1 each;
  - (iv) on 29 September 2004 the shareholders of VCG exchanged their shares in VCG for Ordinary Shares in the Company and the Company became VCG's sole member.

## 3. Directors' and Other Interests

- 3.1 At the date of this document, the interests of the Directors (all of which are beneficial), and of all such persons connected (within the meaning of section 346 of the Act) with the Directors in the issued share capital of the Company, as notified to the Company under the provisions of sections 324 or 328 of the Act, both before and immediately following Admission, as required to be entered in the register of directors' interests maintained under the provisions of section 325 of the Act, are set out in the table below and in paragraph 4 below:

Name	Immediately before Admission		Immediately following Admission	
	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
Professor Stephen Davies	6,060,600	30.00	6,208,748	19.83
Dr Steven Lee	—	—	148,148	0.47
John Montgomery	1,010,100	5.00	1,019,359	3.26
Dr Andrew Mulvaney	1,010,100	5.00	1,013,804	3.24
David Norwood	—	—	—	—

- 3.2 At the date of this document the Directors are aware of the following persons who, in addition to the Directors disclosed in paragraph 3.1 above, directly or indirectly, are interested in 3 per cent. or more of the issued share capital of the Company:

Name	Immediately before Admission		Immediately following Admission	
	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
IP2IPO Limited	4,040,400	20.00	4,040,400	12.90
Professor Kay Davies	3,838,380	19.00	3,875,417	12.38
Professor Graham Richards	1,010,100	5.00	1,010,100	3.23
Professor Edith Sim and Dr Bob Sim (combined)	1,010,100	5.00	1,010,100	3.23
University of Oxford	1,010,100	5.00	1,010,100	3.23
Dr Jean-Paul Vincent	606,060	3.00	606,060	1.94
Dr Derek Stemple	606,060	3.00	606,060	1.94

- 3.3 Professor Richards is chairman of IP2IPO Group plc and David Norwood is chief executive of IP2IPO Group plc. IP2IPO Group plc is the sole shareholder of IP2IPO Limited.
- 3.4 Mr Norwood is a director of IP2IPO Limited and has an interest in IP2IPO Group plc, its parent company.
- 3.5 As referred to in paragraph 4 below, Dr Lee has been granted options to subscribe for up to 2,020,200 Ordinary Shares in the Company.
- 3.6 No loans are outstanding from the Group to any Director nor has any guarantee been provided by the Group for the benefit of any Director.
- 3.7 No Director has any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by any member of the Group during the current or immediately preceding financial year or during any earlier financial year which remains in any respect outstanding or unperformed.
- 3.8 Set out below is information relating to each Director relating to directorships which they have held (other than within the Group) and partnerships in which they have been a partner, in each case over the previous five years preceding the date of this document.

Director	Current directorships and partnerships	Directorships and partnerships of the last 5 years
Professor S Davies	Ockham Court Management Co (No. 3) Limited Sci-Ink Limited	Evotec OAI Limited Oxford Asymmetry Limited
Dr S Lee	None	Amaethon Limited Capsant Neurotechnologies Limited Glycoform Limited IP2IPO Group plc IP2IPO Limited IP2IPO Management Limited IP2IPO Management II Limited Reox Limited

<i>Director</i>	<i>Current directorships and partnerships</i>	<i>Directorships and partnerships of the last 5 years</i>
Mr J Montgomery	Lamb & Flag (Oxford) Limited Sci-Ink Limited	None
Dr A Mulvaney	None	None
Mr D Norwood	Amaethon Limited Berkeley Adam Limited HATT III General Partner Limited Hep Cgen Limited Inhibox Limited IP2IPO Group plc IP2IPO Limited IP2IPO Management Limited IP2IPO Management II Limited Offshore Hydrocarbon Mapping plc TTV IV GP Limited Techtran Group Limited Top Technology Ventures Limited Southampton Asset Management Ltd SynAIRgen Limited Invesco Perpetual AIM VCT plc	Beeson Gregory Group Limited Beeson Gregory Investment Limited Beeson Gregory (US) Limited Beeson Gregory Index Nominees Limited Beeson Gregory Technology Investments Limited Bored of Games Limited Cervision Limited The Evolution Group plc Elixir Studios Limited Envisional Solutions Limited Evo Nominees Limited Evolution Beeson Gregory Limited Evolution Securities Limited Home House Limited IndexIT Consulting Limited IndexIT Partnership Limited Investments Limited Management Limited Mathengine Plc Netvisional Limited Nominees Limited Oxonica Limited Spectral Fusion Technologies Limited

3.9 No Director has:

- (i) any unspent convictions in relation to indictable offences;
- (ii) had any bankruptcy order made against him or entered into any individual voluntary arrangements;
- (iii) been a director of a company which has been placed into receivership, compulsory liquidation or creditors' voluntary liquidation or administration or which has entered into any voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, nor have they been a director of any such company within the twelve months preceding such an event;
- (iv) been a partner of any partnership which has been put into compulsory liquidation or administration or entered into partnership voluntary arrangements, nor have they been a partner of such partnership within the twelve months preceding such an event;
- (v) had a receivership of any asset of such director or of a partnership where he was a partner at the time of or within the twelve months preceding such event;
- (vi) been publicly criticised by statutory or regulatory authorities (including recognised professional bodies); or
- (vii) been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

#### 4. Options

- 4.1 Immediately following Admission, the following Director will hold the following options over Ordinary Shares:

<i>Name</i>	<i>Date of Grant</i>	<i>Number of Ordinary Shares</i>	<i>Exercise Price (in pence)</i>
Dr S Lee	2 September 2004	2,020,200	10p

These options vest as to 50 per cent. on his date of employment (1 September 2004), 17 per cent. on Admission and 33 per cent. 24 months after the date of Admission.

- 4.2 The Company has also established the VASTox's Enterprise Management Incentive option scheme ("EMI"). The Company has granted the following options under the EMI to employees:

<i>Number of Ordinary Shares</i>	<i>Date of Grant</i>	<i>Exercise Price (p)</i>
88,884	30 September 2004	135

- 4.3 Save as referred to in paragraphs 4.1 and 4.2 above, VASTox has not granted any further options under the EMI to employees but the Board intends to grant additional options over Ordinary Shares under the terms of the EMI to employees and Directors in the future at an exercise price which takes into account changes in the value of Ordinary Shares. The Board has resolved not to grant options over Ordinary Shares in excess of a maximum of 10 per cent. of the Company's issued share capital from time to time (excluding the options granted to Dr Lee on 2 September 2004 and referred to in paragraph 4.1 above).

#### 5. Directors' Service Agreements

- 5.1 The following agreements have been entered into by the Directors and the Company:
- (a) Dr Lee entered into a service agreement with the Company on 30 September 2004, the principal terms of which are that his employment with the Group commenced on 1 September 2004, he is entitled to a salary of £100,000 per annum and his service agreement is terminable on twelve months' notice either way. Dr Lee entitled to a benefits package including life assurance and pensions contributions matching the employee's contribution subject to a maximum equal to 5 per cent. of his salary.
  - (b) Mr Mulvaney entered into a service agreement with the Company on 30 September 2004, the principal terms of which are that his employment with the Group commenced on 1 September 2004, he is entitled to a salary of £55,000 per annum and his service agreement is terminable on six months' notice either way. Mr Mulvaney is also entitled to a benefits package including life assurance and pensions contributions matching the employee's contribution subject to a maximum equal to 5 per cent. of his salary.
  - (c) Mr Montgomery entered into an agreement with the Company on 30 September 2004 relating to his appointment as a part-time executive director, his appointment commencing on 1 September 2004. The appointment is for an initial term of 2 years which may be renewed by agreement. Mr Montgomery receives no fee. The appointment is terminable on one month's notice either way.
  - (d) Professor Davies entered into an agreement with the Company on 30 September 2004 relating to his appointment as a non-executive director, his appointment commencing on 1 September 2004. The appointment is for an initial term of 1 year which may be renewed by agreement. Professor Davies receives no fee. The appointment is terminable on 2 months' notice either way.
  - (e) Mr Norwood entered into an agreement with the Company on 30 September 2004 relating to his appointment as a non-executive director, his appointment commencing on 1 September 2004. The appointment is for an initial term of 2 years which may be renewed by agreement. Mr Norwood receives no fee. The appointment is terminable on one month's notice either way.

- 5.2 The aggregate amount paid to the Directors (including salaries, fees, pension contributions, bonus payments and benefits in kind) during the last financial year amounted to £32,656. It is estimated that the aggregate amount payable to the Directors (including salaries, fees, pension contributions, bonus payments and benefits in kind) for the financial period ending 31 January 2005 under the arrangements in force at the date of this document will not exceed £100,000.

## 6. Memorandum and Articles of Association

- 6.1 The memorandum of association of the Company provides that its principal object is to carry on business as a holding company.

- 6.2 The articles of association of the Company (the "Articles") contain, *inter alia*, provisions to the following effect:

(a) *Rights attaching to shares*

(i) *Income*

The profits of the Company which may be distributed in respect of any financial year or other period shall be distributed *pari passu* among the holders of the Ordinary Shares according to the nominal amounts (excluding any premium) paid up on the Ordinary Shares held by them respectively.

(ii) *Capital*

On a distribution of assets on liquidation or otherwise, the surplus assets of the Company remaining after payment of its liabilities shall be distributed amongst the holders of Ordinary Shares according to the nominal amounts (excluding any premium) paid up on the Ordinary Shares held by them respectively.

(iii) *Voting*

Subject to any special rights or restrictions as to voting attached to any shares by or in accordance with the Articles and or any resolution authorising the creation of such shares, on a show of hands every member who is present in person shall have one vote and, on a poll, every member who is present in person or by proxy shall have one vote for every share held by him.

(b) *Variation of class rights*

Subject to the Act, all or any of the rights and restrictions attached to any class of shares may be altered, added to or abrogated with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of such shares. To any such separate general meeting all the provisions of the Articles relating to general meetings shall apply, *mutatis mutandis*, but so that the necessary quorum shall be two or more persons holding or representing by proxy at least one-third in nominal value of the issued shares of the relevant class, that every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, that any holder of shares of the class present in person or by proxy may demand a poll and that at any adjourned meeting of such holders one holder present in person or by proxy (whatever the number of shares held by them) shall be a quorum. The rights attached to any class of shares shall, unless otherwise expressly provided by the terms of issue of such shares or by the rights attaching to such shares, be deemed not to be altered by the creation or issue of further shares ranking *pari passu* therewith or by a purchase by the Company of its own shares.

(c) *Alteration of Capital*

Subject to the rights attaching to any class of shares that may be in issue:

- (i) the Company may by ordinary resolution consolidate and divide all or any of its share capital into shares of larger amount, sub-divide all or any of its shares into shares of smaller amount (so that the resolution whereby any share is sub-divided may determine that as between the holders of the shares resulting from the sub-division one or more shares may have such rights or restrictions as compared with the other or others as the Company has power to attach to unissued or new shares) and cancel any shares not at the date of the resolution taken or agreed to be taken by any person;

- (ii) subject to any consent required by law, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account;
- (iii) subject to the provisions of the Act and the Articles, all unissued shares of the Company are at the disposal of the Directors;
- (iv) subject to the provisions of the Act, any shares may, with the sanction of a special resolution, be issued on terms that they are, or at the option of the Company are, liable to be redeemed on the terms and in the manner provided for by the Articles; and
- (v) subject to the provisions of the Act, the Company may purchase all or any of its shares of any class, including any redeemable shares.

(d) *Transfers of Shares*

- (i) The shares are in registered form but, notwithstanding any other provision of the Articles, a member is entitled to transfer his shares and other securities by means of a relevant system as referred to in the CREST Regulations including the relevant system of which CRESTCo Limited is the operator. Any provision of the Articles which is inconsistent with the holding of shares in uncertified form, the transfer of shares by means of such a relevant system or the CREST Regulations shall, to that extent, not apply.
- (ii) Any member may, subject to the Articles, transfer all or any of his shares by an instrument of transfer in the usual common form or in any other manner (whether or not by written instrument) which the Directors may approve. Any written instrument of transfer of a share shall be signed by or on behalf of the transferor (and, in the case of a share which is not fully paid by or on behalf of the transferee) and the transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered in the register in respect thereof. All instruments of transfer may be retained by the Company.
- (iii) The Directors may refuse to register the transfer of a share which is not fully paid, providing that any such refusal will not prevent dealings in the shares from taking place on an open and proper basis.
- (iv) The Directors may refuse to register any transfer in favour of a person known to be a minor, bankrupt or person who is mentally disordered or a patient for the purpose of any statute relating to mental health.
- (v) The Directors may decline to register any transfer unless any written instrument of transfer, duly stamped, is lodged with the Company, accompanied by the relevant certificate and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer, the instrument is in respect of only one class of share and, in the case of a transfer to joint holders the number of joint holders does not exceed four.
- (vi) The register of members may be closed by the Directors for any period (not exceeding 30 days in any year) upon notice being given by advertisement in a leading national daily newspaper and in such other newspaper as may be required by the Act.

(e) *Section 212 of the Act*

Without limitation to the powers of the board under section 216 of the Act, where a member fails to comply with any notice (a "statutory notice") given by the board under Section 212 of the Act requiring such member or any other named person to give particulars of any interest in respect of shares in the Company, the Company may, no earlier than fourteen days after the service of the statutory notice, give the registered holder of such shares a notice (a "restriction notice") stating or to the effect that, the shares in respect of which the default has occurred ("default shares"), are subject to certain sanctions for so long as the default continues and (unless the Board otherwise determines) seven days thereafter. For a shareholding of less than 0.25 per cent. of the relevant class, the only sanction is that the member may be prohibited from attending at meetings and voting; for a shareholding of 0.25 per cent. or more of the relevant class, the Articles also provide for the withholding of the payment of dividends (including shares issued in lieu of dividend) on the default shares; and, subject to those limitations approved by the London Stock Exchange, restrictions on the transfer of the default shares.

(f) *Directors*

- (i) Unless and until the Company in general meeting shall otherwise determine, the number of Directors shall not be less than two and there shall not be any maximum number.
- (ii) Subject to the Act and the Articles, no Director shall be disqualified by his office from entering into any contract or arrangement with the Company either with regard to his tenure of any office or employment or as a vendor, purchaser or otherwise. Nor shall any such contract be liable to be avoided. Nor shall any Director so contracting be liable to account to the Company for any remuneration, profit or other benefit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established, but such Director shall declare the nature of his interest in accordance with the Act.

(g) *Restrictions on Voting by Directors*

Save as otherwise provided by the Articles, a Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement in which he (or anyone connected with him) is, to his knowledge, materially interested, and if he shall his vote shall not be counted, but (in the absence of some material interest other than as indicated below) this prohibition shall not apply to any of the following matters namely:

- (i) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning his participation in any offer of shares in or debentures or other securities of the Company or any of its subsidiaries issued or to be issued pursuant to any offer or invitation to holders of securities or concerning his participation for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
- (iv) any contract or arrangement in which he is interested by virtue of his interest in Shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
- (v) any proposal concerning retirement, death or disability benefits scheme or a share option scheme, share incentive scheme or profit-sharing scheme which either relates to both employees and Directors of the Company and/or directors of any subsidiary and does not provide any Director as such any privilege or advantage not accorded to the employees to whom such scheme or fund relates or has been approved by or is conditional on approval by the Inland Revenue for tax purposes;
- (vi) any proposal concerning an insurance which the Company is empowered to purchase and/or maintain for the benefit of and against any liability incurred by any Directors or persons who include the Directors.

(h) *Remuneration of Directors*

- (i) The remuneration (whether by way of salary, commission, participation in profits or otherwise) of any executive Director shall be such as the Directors may determine, and either in addition to or in lieu of his remuneration as Director.
- (ii) Each of the Directors may be paid a fee for his services as a Director at such rate as the Directors may from time to time determine provided that the aggregate of all such fees so paid to Directors (excluding amounts payable under any other Article) shall not exceed £250,000 per annum or such larger amount as the Company may by ordinary resolution determine.

(iii) Each Director may be paid all reasonable travelling, hotel and other expenses properly and reasonably incurred by him in attending and returning from meetings of the Directors or any committee of the Directors or meetings of shareholders or debenture holders of the Company or otherwise in connection with the business of the Company or the discharge of his duties as a Director. Any Director who, by request, goes to reside abroad for any purposes of the Company or who performs services which in the opinion of the Directors go beyond the ordinary duties of a Director shall be entitled to be paid such extra remuneration (whether by way of salary, commission, participation in profit or otherwise) and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to any other Article.

(i) *Appointments to office*

Subject to the Act, the Directors may from time to time appoint one or more of their body to hold any other employment or executive office and upon such terms as they may determine and may revoke or terminate any of such appointments. Any such revocation or termination shall be without prejudice to any claim for damages such Director may have against the Company or the Company has against the Director for breach of any service contract between him and the Company.

(j) *Retirement of Directors*

Save as may be otherwise resolved by the company in general meeting convened on special notice a person shall not be appointed as a Director if, at the time when the appointment would take effect, he would have attained the age of 70. A Director shall vacate his office at the conclusion of the annual general meeting of the Company which next follows his attaining the age of 70; but acts done by a person as Director are valid notwithstanding that it is afterwards discovered that, by reason of this Article, he should not have been appointed or his appointment had terminated

No provision in these Articles for the automatic reappointment of retiring Directors in default of the appointment of another applies to such a retiree.

(k) *Borrowing Powers*

The Directors may exercise all the powers of the Company to borrow money and shall restrict the borrowings of the Company, and exercise all other rights and powers of control which the Company has in relation to its subsidiaries, so as to secure (but, in relation to subsidiaries, only insofar as the rights and powers of the Company enable the board to do so) that the aggregate outstanding principal amount of all borrowings of the Company and its subsidiaries from time to time does not, without the sanction of an ordinary resolution, exceed an amount equal to four times the share capital and reserves (as defined by the Articles) without the previous sanction of any ordinary resolution of the Company in general meeting.

(l) *Pensions, gratuities etc.*

The Directors may, subject to the provisions of the Act, exercise all the powers of the Company to grant pensions, annuities or other allowances and benefits in favour of any person including any Director or former Director or the relations, connections or dependants of any Director or former Director, provided that no pension, annuity or other allowance or benefit (except such as may be provided for by the Articles) shall be granted to a Director or former Director who has not been an executive Director or held any other office or place of profit under the Company or any of its subsidiaries or to a person who has no claim on the Company except as a relation, connection or dependant of such a Director or former Director without the approval of an ordinary resolution of the Company.

(m) *Dividends*

Subject to the Act, the Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Directors. Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provides, all dividends shall be declared and paid

according to the amounts paid up on the shares, (but no amount paid up on a share in advance of calls be treated for this purpose as paid up on such share), and shall be apportioned and paid pro rata to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid.

Subject to the provisions of the Act, the Directors may pay such interim dividends as they think fit.

(n) *Unclaimed dividends*

Any dividend unclaimed for a period of 12 years after it became due for payment shall be forfeited and shall revert to the Company.

(o) *Untraced shareholders*

(i) When the registered address of a member appears to be incorrect or out of date such member may, if the board so resolves, be treated as if he had no registered address and thereafter the Company is not obliged to send cheques, warrants, notices or accounts to that member. No such resolution shall be proposed unless cheques or warrants sent to the registered address of such member have been returned by the Post Office or left uncashed on at least two consecutive occasions or, following one such occasion, reasonable enquiries have failed to establish any new address of such member.

(ii) If for a period of twelve years at least three dividends have become payable and not been cashed and no communication has been received from the member (or any person entitled to the member's shares by transmission), the Company may sell such shares at the best obtainable price if, after giving notice in a leading newspaper and a newspaper circulating in the region of the member's registered address, it has not had any communication from the member (or anyone entitled to his shares by transmission) within three months.

## 7. Working Capital

The Directors are of the opinion, having made due and careful enquiry, that the working capital available to the Group will be sufficient for its present requirements, that is for at least the next twelve months from the date of Admission.

## 8. Litigation

No member of the Group is engaged in any legal or arbitration proceedings, nor, so far as the Directors are aware, are there any legal or arbitration proceedings active, pending or threatened against or being brought by any member of the Group which are having or may have or may have had, a significant effect on the Group's financial position.

## 9. Taxation

### 9.1 General

The following paragraphs include advice received by the Directors about the current taxation position of shareholders who are resident or ordinarily resident in the UK for taxation purposes in respect of their holdings of Ordinary Shares and who hold their Ordinary Shares as investments. The statements below are intended only as a general guide and do not constitute advice to any shareholder on his or her personal tax position and may not apply to certain classes of investor (such as dealers, charities or pension providers). The comments are based on current legislation and Inland Revenue practice. Levels of taxation may change from time to time. **Any investor who is in any doubt as to his or her tax position, or who may be subject to tax in any other jurisdiction, should consult his or her professional adviser.**

### 9.2 Taxation of Dividends

A dividend paid to a non-corporate shareholder is treated as being paid with a tax credit equal to one ninth of the net dividend. A dividend of £90 would therefore have an accompanying tax credit of £10. Individual shareholders whose income is within the lowest or basic rate bands will be liable to income tax at 10 per cent on the aggregate of the dividend and the tax credit. The tax credit will therefore satisfy their income tax liability on the dividends. Individual shareholders who are liable to income tax at the higher rate of tax will be charged to tax at 32.5 per cent. on the aggregate of the dividend with

the accompanying tax credit. The 10 per cent tax credit is set against the income tax liability of 32.5 per cent, leaving an additional income tax liability of 22.5 per cent. This additional 22.5 per cent tax liability equates to an effective rate of income tax on the dividend received of 25 per cent.

Subject to certain exceptions for certain insurance companies which hold shares as trading stock, a UK corporate shareholder who receives a dividend paid by the Company will not be taxable on the dividend. Since July 1997 pension providers and most UK corporate shareholders have not been entitled to payment of tax credits by the Inland Revenue. However, certain charities and other bodies entitled to special exceptions can continue to claim tax credits, or a portion thereof, in respect of dividends paid to 6 April 2004.

Persons who are not resident in the UK should consult their own tax advisers on whether they can benefit from all or part of any tax credit and what relief or credit in the jurisdiction in which they are resident.

### 9.3 *Taxation of chargeable gains*

If a shareholder disposes of all or any of the Ordinary Shares acquired in the Placing he or she may, depending on the shareholder's particular circumstances, incur a liability to taxation on chargeable gains. Individuals, personal representatives and trustees, may be entitled to taper relief, which will serve to reduce the chargeable gain. Companies are not entitled to taper relief, but are due indexation allowance, which may also reduce the chargeable gain.

### 9.4 *Stamp duty and stamp duty reserve tax*

Generally, no stamp duty or stamp duty reserve tax ("SDRT") will be payable by subscribers on the issue to them of Ordinary Shares pursuant to the Placing.

Any subsequent transfer or sale of Ordinary Shares will generally give rise to a liability on the purchaser to *ad valorem* stamp duty currently at a rate equivalent to £5 for every £1,000 or part of £1,000 of the consideration paid. An unconditional agreement to transfer such shares will be subject to SDRT at a rate of 0.5 per cent. of the consideration paid. However, when an instrument of transfer is executed and duly stamped before the expiry of a period of six years beginning with the date of that agreement, a claim can normally be made to cancel or obtain repayment of the SDRT liability.

Special rules apply to the agreements made by market makers in the ordinary course of their business, broker-dealers and certain other persons. Agreements to the transfer of Ordinary Shares to charities will not give rise to SDRT or stamp duty.

## 10. **Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or VCG within the two years immediately preceding this document and remain outstanding and are or may be material or are material in the context of the Group's business:

### 10.1 *Licensing Agreement – ISIS Innovation*

On 17 September 2004 VCG and ISIS Innovation Limited ("ISIS") entered into a licensing agreement pursuant to which ISIS granted a licence of a patent application relating to the Utrophin promoter B sequence. The rights granted are an exclusive worldwide licence to develop and exploit any product developed by using the Licensed Technology (being the patent application and certain related technological improvements and know-how). VCG is entitled to sub-licence such rights subject to certain conditions. VCG is obliged to use its best endeavours to develop and exploit the Licensed Technology and maximise the financial return for both parties. The licence requires VCG to acknowledge that where, within two years of entering into the licence, the patent application's inventors make any improvements to the technology underlying the application then these will belong to ISIS (although this only applies to such improvements as ISIS is in a position to licence). VCG is obliged to communicate any improvements it makes to the underlying technology to ISIS but such improvements will belong to VCG but VCG is obliged to grant the University of Oxford and its employees, students and appointees the right to use and publish any such improvements. VCG is obliged to contribute towards patent application costs incurred by ISIS. The licence takes effect on the date of signature and continues until:

- (i) ten years from the date on which a Licensed Product (as defined) is first marketed by VCG; or
- (ii) for the life of any patent issued in relation to the patent application; or
- (iii) until earlier termination by reason of material breach, by the licensee on notice (one month during the first six months, and six months notice thereafter) or by the licensor where (a) VCG becomes insolvent or (b) VCG challenges the validity of the patent application; or (c) VCG, in ISIS's reasonable opinion, is taking insufficient steps to market the Licensed Products and does not take such further steps as are requested by ISIS within a reasonable time.

Under the licence VCG indemnifies ISIS and the University of Oxford against all claims, damages and liabilities asserted by third parties which arise directly or indirectly from the use of the Licensed Technology or the marketing of the Licensed Products; and/or arising directly or indirectly from any breach by VCG of the licence.

Under the terms of the licence VCG is obliged to pay:

- (i) £5,000 on signing plus £20,000 back patent costs, with payment deferred until 1 February 2005, a minimum of £10,000 (in respect of years 2 and 3) and £20,000 in year 4 and each subsequent year;
- (ii) a royalty at a flat rate on net sales of 0.75 per cent.;
- (iii) fee income royalty rate ("FIRR") payable in respect of all up-front, milestone and other one-off payments received in respect of Licensed Technology sub-licences granted by VCG of 15 per cent. in respect of years 1 and 2;
- (iv) and thereafter the applicable FIRR for the period up to the milestone as noted below plus the amount noted below on achievement of the milestone:
  - (i) initiation of first clinical study : £25,000 (FIRR: 8 per cent.);
  - (ii) initiation of the first phase II study: £50,000 (FIRR: 6 per cent.);
  - (iii) initiation of the first Phase III pivotal study: £100,000 (FIRR: 4 per cent. and thereafter);
  - (iv) submission of first application for marketing approval to a regulatory agency: £150,000;
  - (v) first grant of marketing approvals in any of the USA, EU or Japan: £200,000;
  - (vi) subsequent grant of marketing approval in USA, EU or Japan: £75,000;
  - (vii) total aggregate of sales of any one product exceeding £100 million (and for each year thereafter where sales exceed £100 million): £200,000;
  - (viii) total aggregate of sales of any one product exceeding £200 million (and for each year thereafter where sales exceed £200 million): £500,000; and
- (v) upon lead validation, £1,000 and upon identification of first clinical candidate, £2,000.

#### 10.2 *The Share Exchange Agreement*

On 29 September 2004, the Company and each Shareholder entered into a share exchange agreement pursuant to which each Shareholder transferred their shares in VCG for Ordinary Shares such that the percentage shareholdings of each shareholder in VCG prior to such share transfer, mirrored their percentage shareholdings in the Company after the share exchange.

#### 10.3 *The Placing Agreement*

The Placing Agreement contains the following principal terms:

- (i) the Company appointed KBC Peel Hunt as its agent to procure subscribers at the Placing Price of the Placing Shares. KBC Peel Hunt agreed (subject as set out in paragraph (vi) below) to use its reasonable endeavours to procure subscribers at the Placing Price for the Placing Shares;

- (ii) the obligations of KBC Peel Hunt referred to in paragraph (i) above are conditional, *inter alia*, on Admission occurring on or about 14 October 2004 or such later date (being not later than 28 October 2004) as KBC Peel Hunt and the Company may agree;
- (iii) the Company agreed to pay KBC Peel Hunt:
  - (aa) commission at the rate of 3 per cent. of the value of the Placing Shares; and
  - (bb) a corporate finance fee of £200,000;
- (iv) the Company agreed to pay all the costs and expenses of and incidental to the Placing (together with value added tax on such costs and expenses);
- (v) the Company and each of the Directors have given certain warranties, representations and undertakings to KBC Peel Hunt in relation, *inter alia*, to the accuracy of the information contained in this document, the financial position of the Group and as to other matters in relation to the Group and its business. In addition KBC Peel Hunt has the benefit of certain indemnities provided by the Company and each of the Directors relating to losses or liabilities incurred by KBC Peel Hunt in the performance of its duties, save to the extent that any such losses and liabilities arise from KBC Peel Hunt's wilful default, negligence or breach of its obligations under an express term of the Placing Agreement;
- (vi) KBC Peel Hunt may terminate the Placing Agreement at any time prior to Admission in certain circumstances, including a breach of any of the warranties, representations or undertakings contained in the Placing Agreement or upon the occurrence of certain *force majeure* events;
- (vii) the Directors have agreed with the Company and KBC Peel Hunt not to dispose of any of their Ordinary Shares before the second anniversary of Admission (save in a limited set of circumstances).

## 11. General

- 11.1 Save as disclosed in this document, the Directors are unaware of any exceptional factors which have influenced the activities of the Group.
- 11.2 No person (other than the Group's professional advisers and trade suppliers) has received, directly or indirectly from any member of the Group within the twelve months preceding the date of this document, or entered into contractual arrangement to receive, directly or indirectly, from any member of the Group on or after Admission any of: (i) fees totalling £10,000 or more; (ii) securities in the Company with a value of £10,000 or more (calculated by reference to the Placing Price); or (iii) any other benefit with a value of £10,000 or more at the date of this document.
- 11.3 KBC Peel Hunt has given and not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they appear.
- 11.4 The total costs, charges and expenses in connection with the Placing are estimated to be approximately £0.9 million (exclusive of VAT) and are payable by the Company. The net proceeds of the Placing will be approximately £14.1 million.
- 11.5 The Placing Shares being placed have a nominal value of 10 pence and the premium on issue pursuant to the Placing will be 125 pence per Ordinary Share.
- 11.6 Other than the application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made, nor, except as stated above, are there intended to be any other arrangements for dealing in the Ordinary Shares.
- 11.7 Other than as described in paragraph 10.1 above, there are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Group's business.
- 11.8 Other than pursuant to the terms of the Placing Agreement, no commissions are payable by the Company to any person in consideration of his agreeing to subscribe or his procuring or agreeing to procure subscribers for Ordinary Shares.

- 11.9 Monies received from applicants pursuant to the Placing will be held in accordance with the terms of the placing letters issued by KBC Peel Hunt until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 28 October 2004, application monies will be returned to applicants at their own risk.
- 11.10 KBC Peel Hunt, in its capacity as market maker, has agreed to subscribe 93,000 Placing Shares pursuant to the Placing.

**12. Availability of this document**

Copies of this document are available to the public, free of charge, during normal business hours on any weekday (except Saturdays and public holidays) at the offices of KBC Peel Hunt, 111 Old Broad Street, London EC2N 1PH from the date of this document and for a period of at least one month from the date of Admission.

11 October 2004



