



VASTOX PLC
(“VASTox” or “the Company”)

**Preliminary results for the year
ended 31 January 2006**

Oxford, UK, 9 May 2006 – VASTox plc (AIM: VOX), a leading chemical genomics company, today announces its preliminary results for the year ended 31 January 2006.

Operational Highlights

- Lead series of compounds selected that demonstrate *in vivo* efficacy in Duchenne muscular dystrophy (DMD) models
- Two new drug discovery programmes initiated in spinal muscular atrophy and osteoarthritis

Financial Highlights

- Revenues up from £113,000 to £531,000 for the full year
- R&D investment up from £268,000 to £1.0 million for the full year
- Cash and short term deposits at year-end of £12.6 million (prior year: £14.2 million)

Post Year-end Events

- £10.5 million (gross) raised in secondary placing to accelerate DMD programme
- Appointment of Richard Storer, DPhil FRSC as director and Chief Scientific Officer
- Initiation of fifth proprietary drug discovery programme in cancer

Announced today

- Appointment of Darren Millington, ACMA as director and Chief Financial Officer (see separate announcement)

Commenting on the results, Steven Lee, Chief Executive of VASTox plc, said:

“We have made great strides in our first full year as a public company. In addition to the achievements highlighted above in terms of commercial and technical successes, we have established real corporate strength and a reputation in the pharmaceutical industry as leading the way in chemical genomics for drug discovery. Strengthening of the management team will enable us to deliver further success in the coming year.”

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Chairman's Statement

Review

Our first full year as a public company has seen VASTox make great strides in all areas of the business. Our chemical genomics services business is growing rapidly and we are finding increasing industry acceptance of the use of zebrafish and fruitflies in early drug discovery. Our proprietary drug research programmes are also progressing well.

In January 2006 we announced a breakthrough in our lead programme for Duchenne muscular dystrophy (DMD). This devastating genetic disease affects over 30,000 patients in the developed world and is generally fatal by the age of 30. We announced that VASTox had identified a series of small molecules that induce the production of increased amounts of utrophin in a validated *in vivo* model for DMD. Utrophin is a naturally-produced protein that can compensate for a lack of dystrophin observed in DMD patients and has been the focus of co-founder Professor Kay Davies' academic research for over 15 years. VASTox has brought commercial skills and resources to accelerate this programme, focusing on those steps that bring us closer to finding an effective drug; *in vivo* proof of principle of utrophin up-regulation is an important first step. The significance of our results is that this is the first time up-regulation of utrophin has been shown using drug-like compounds. These compounds offer the most promising starting points to create a safe and efficacious medicine. VASTox retains all relevant intellectual property, including patents and exclusive licences.

In February 2006, VASTox announced a successful secondary placing of shares. The Company raised £10 million net of expenses and has pledged to use this capital to accelerate our DMD programme. We are committed to begin Phase I clinical trials as soon as possible.

Chemical genomics

Our services business continues to expand well, and I am delighted to see VASTox develop the chemical genomics platform for customers and our own programmes. When I founded the Company in 2003, I recognised that effective drug discovery will always require a rigorous understanding of both the biology and chemistry of living systems. My belief that chemical genomics is the most promising bridge between these two disciplines is now being realised. VASTox is now demonstrating the value of this approach in using zebrafish and fruitflies to predict, with a high level of accuracy, the potential efficacy and side effects of drugs in people. We and our customers recognise that getting safer drugs to market faster makes both commercial and ethical sense. Our chemical genomics platform will help achieve this.

Board and employees

The Company made two Board changes during the year as we reviewed the skills necessary to lead a dynamic and fast-growing company. Sir Brian Richards was appointed as Non-executive Director on 7 October 2005 and brings to VASTox a distinguished track record in the life sciences industry. Dr Andrew Mulvaney stepped down as Operations Director on 7 October 2005 to

focus full-time on business development. On behalf of the Board I would like to thank Andy for his valuable contribution to VASTox to date.

After the year end we announced two further appointments to the Board; Richard Storer, DPhil FRSC as Chief Scientific Officer and Darren Millington, ACMA as Chief Financial Officer. Richard will bring to the Company vast experience in drug discovery and a track record of developing successful drugs. Darren has made a significant contribution to the Company's growth to date and will now add his financial expertise to the Board. I would like to warmly welcome both to the Board.

The success of any company relies on the quality of its employees, and VASTox is no exception. On behalf of the Board, I thank our staff for their hard work and dedication over the past year. We have achieved a great deal since our flotation in October 2004. I believe our shareholders can have confidence that we are building a team of scientists and managers that will create both significant value for investors and effective treatments for patients.

Professor Stephen Davies
Chairman

Chief Executive Officer's Review

Introduction

Since our listing on AIM in October 2004 we have been focused on achieving rapid progress in our chemical genomics services business and our in-house drug discovery programmes.

Our financial and operational results to date prove that we are delivering on our targets to both grow profitable revenues and make breakthroughs in our drug programmes.

Drug programmes

VASTox currently runs in-house drug discovery programmes in Duchenne muscular dystrophy (DMD), Spinal muscular atrophy (SMA), multi-drug resistant infection, osteoarthritis and cancer.

We began our SMA and osteoarthritis programmes in the year after rigorous assessment of both the commercial opportunities and the ability of our chemical genomics platform to add value.

The Company's strategy is to distinguish our drug discovery programmes as either 'niche' or 'large patient population' diseases. DMD and SMA are both niche diseases each affecting 30,000 and 50,000 patients respectively. This relatively small population size makes them unattractive research areas for large pharmaceutical companies but allows smaller drug discovery and development companies such as VASTox the opportunity to aggressively develop a treatment where there is currently no effective therapy. We will work towards orphan drug designation for these programmes, giving the Company regulatory and financial incentives to develop a marketable drug. Following the Company's successful secondary placing announced in February 2006, we now have the resources to progress our DMD programme to phase II trials.

We look to generate income from our 'large patient population' programmes at an earlier stage of development. Our programmes in multi-drug resistant infection and osteoarthritis will be of interest to large pharma and we would look to out-license these therapies as we produce promising chemical leads.

Chemical genomics services

Our services business generated revenues of £531,361 (2005: £112,718) during the period. VASTox has worked with nine customers during the financial year and our sales pipeline for the 2006/07 financial year is already looking healthy.

As we increase our sales and marketing efforts, we find a wider acceptance of the chemical genomics concept and, in particular, the value of using zebrafish and fruitflies in early drug discovery. Using zebrafish and fruitfly models at the earliest stages of drug discovery allows customers to discard toxic drug candidates promptly and focus energies on their safest compounds. Not only does this approach make economic sense for the drug industry, it also helps

the industry in its aim to implement the '3 Rs' in pharmaceutical research; that is, to *Reduce*, *Refine* and *Replace* the use of higher animals in drug research.

During the coming financial year we look to increase both the level of revenues and the range of customers we work with.

Outlook

VASTox is now maturing into an exciting drug discovery and development company that offers the prospect of rapidly developing successful drugs for currently incurable diseases, whilst remaining disciplined in its use of capital. I believe that VASTox now has the facilities, the people and the investors to bring significant rewards for both patients and the Company's stakeholders.

Steven Lee, PhD
Chief Executive Officer

9 May 2006

Consolidated Profit and Loss Account

For the year ended 31 January 2006

	Note	2006 £	Restated 2005 £
Turnover		531,361	112,718
Cost of sales		(233,444)	(90,200)
Gross profit		297,917	22,518
Research and development		(1,025,683)	(267,533)
General, management and administration		(1,005,366)	(40,348)
Total administrative costs		(2,031,049)	(307,881)
Operating loss		(1,733,132)	(285,363)
Interest receivable		582,868	215,368
Loss on ordinary activities before taxation		(1,150,264)	(69,995)
Tax on loss on ordinary activities		155,437	24,321
Loss on ordinary activities after taxation		(994,827)	(45,674)
Basic and diluted loss per ordinary share	3	3.18p	0.19p

All amounts relate to continuing activities.

Statement of recognised gains and losses

There were no recognised gains and losses other than the losses above, and therefore no separate statement of total recognised gains and losses is presented. A prior year adjustment to exclude the non-cash charge of £453,351 for expensing of share options in 2005 has increased the opening balance of the profit and loss account reserve by the same amount.

Consolidated Balance Sheet
At 31 January 2006

	Note	31 January 2006 £	Restated 31 January 2005 £
Fixed assets			
Intangible assets		28,016	20,000
Tangible assets		<u>1,261,082</u>	<u>1,353</u>
		1,289,098	21,353
Current assets			
Stock		27,000	-
Debtors		541,300	93,140
Cash on short term deposits		11,593,626	13,800,000
Cash at bank		<u>1,039,690</u>	<u>361,252</u>
		13,201,616	14,254,392
Creditors: amounts falling due within one year		<u>(704,833)</u>	<u>(185,849)</u>
Net current assets		12,496,783	14,068,543
Creditors: amounts falling due after more than one year		(690,812)	-
Net assets		<u>13,095,069</u>	<u>14,089,896</u>
Capital and reserves			
Called up share capital		3,131,311	3,131,311
Share premium account		12,946,848	12,946,848
Other reserves		(1,942,589)	(1,942,589)
Profit and loss account		<u>(1,040,501)</u>	<u>(45,674)</u>
Equity shareholders' funds	4	<u>13,095,069</u>	<u>14,089,896</u>

Company Balance Sheet
At 31 January 2006

	Note	31 January 2006 £	Restated 31 January 2005 £
Fixed assets			
Investments		2,020,198	2,020,198
Current assets			
Debtors – due after more than one year		14,225,887	423,662
Debtors – due within one year		-	17,056
		14,225,887	440,718
Cash on short term deposits		-	13,800,000
		14,225,887	14,240,718
Creditors: amounts falling due within one year		-	(5,000)
Net current assets		14,225,887	14,235,718
Net assets		16,246,085	16,255,916
Capital and reserves			
Called up share capital		3,131,311	3,131,311
Share premium account		12,946,848	12,946,848
Profit and loss account		167,926	177,757
Equity shareholders' funds	4	16,246,085	16,255,916

Consolidated Cash Flow Statement
For the year ended 31 January 2006

	2006 £	Restated 2005 £
Net cash outflow from operating activities	(1,447,680)	(184,863)
Returns on investments and servicing of finance		
Interest received	507,652	215,368
Taxation		
R&D tax credit received	29,041	-
Capital expenditure		
Purchase of tangible fixed assets	(1,357,770)	(1,803)
Purchase of intangible fixed assets	(15,783)	(5,000)
	(1,373,553)	(6,803)
Cash (outflow) inflow before management of liquid resources and financing	(2,284,540)	23,702
Management of liquid resources		
Decrease (increase) in short term deposits	2,206,374	(13,800,000)
Financing		
Issue of ordinary share capital (net of expenses)	-	14,057,959
Increase in debt during the year	756,604	-
	756,604	14,057,959
Increase in cash	678,438	281,661

Reconciliation of operating loss to net cash outflow from operating activities

	2006 £	Restated 2005 £
Operating loss	(1,733,132)	(285,363)
Depreciation charge	127,520	450
Amortisation charge	7,767	5,000
Increase in debtors	(246,547)	(68,615)
Increase in stock	(27,000)	-
Increase in creditors	423,712	163,665
Net cash outflow from operating activities	(1,447,680)	(184,863)

Notes

1. Accounting policies

Basis of preparation

The financial information has been prepared under the historic cost convention and in accordance with applicable United Kingdom accounting standards.

The accounting policies used in preparing the financial statements have been applied consistently throughout all periods presented.

Basis of consolidation

The consolidated accounts incorporate the financial statements of the Company and its subsidiary.

Following the group restructuring in the prior year, the Group prepare consolidated accounts using merger accounting principles as set out in Financial Reporting Standard 6.

No profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act 1985. The Company's loss for the year was £9,831 (2005: profit of £177,757).

Restatement

The directors have reviewed the accounting treatment of share options in the accounts for the year to 31 January 2005 in relation to UITF 17. The directors have concurred that the share options were priced at the market value at the date of grant. These accounts have therefore been restated to exclude the non-cash charge of £453,351 for expensing of share options. This restatement has had no effect on net assets or equity shareholders' funds.

The directors have also reviewed the allocation of operating expenses between cost of sales and research and development. After enquiries, the Board has agreed to reallocate £189,021 from cost of sales for the year ended 31 January 2005 to research and development. The Board agree that this allocation of expenditure more fairly reflects the level of activities during the prior year. This restatement has had no effect on operating profit.

Statutory financial statements

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 January 2006 or 2005, but is derived from those accounts. Statutory accounts for 2005 have been delivered to the Registrar of Companies and those for 2006 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under the Companies Act 1985, sections 237(2) or (3).

2. Fundraising

On 27 February 2006 the Group announced an equity placing of 5,903,955 ordinary shares at a price of 177 pence. These shares rank *pari passu* with the existing shares. The equity placing raised gross proceeds of £10.45 million (£9.97 million net of expenses).

3. Earnings per ordinary share

The basic and diluted earnings per share is based on a loss of £994,827 for the year ended 31 January 2006 (Restated 2005: loss of £45,674) and the weighted average number of shares in issue during the year of 31,313,111 shares (2005: 23,464,765 shares).

4. Reconciliation of movement in Group shareholders funds

	2006 £	Restated 2005 £
Group		
Opening shareholders' funds	14,089,896	-
Shares issued during the year	-	3,131,311
Share premium on issued shares (net of expenses)	-	12,946,848
Merger reserve	-	(1,942,589)
Loss for the financial year	(994,827)	(45,674)
Closing shareholders' funds	<u>13,095,069</u>	<u>14,089,896</u>
Company		
Opening shareholders' funds	16,255,916	-
Shares issued during the year	-	3,131,311
Share premium on issued shares (net of expenses)	-	12,946,848
(Loss) profit for the financial year	(9,831)	177,757
Closing shareholders' funds	<u>16,246,085</u>	<u>16,255,916</u>

5. Availability of information

Copies of the Report and Accounts for the year ended 31 January 2006 will be posted to shareholders shortly and thereafter may be obtained from the company's website: www.vastox.com.

6. Notice of Annual General Meeting

The Annual General Meeting will be held at 9am on 9 June 2006 at the Company's registered office, 91 Milton Park, Abingdon, Oxfordshire, OX14 4RY.