



VASTOX

VASTox plc
Interim Report 2005

VASTox plc is a drug discovery company with world-leading technology in the field of chemical genomics.

The company is a provider of high-value services to the pharmaceutical and life science industries, and has a number of novel proprietary in-house drug programmes.

Highlights

- Turnover increased to £201,000 (H1 2005: £42,000)
- Progress in the Duchenne Muscular Dystrophy and Tuberculosis programmes
- Initiation of a third proprietary programme in spinal muscular atrophy
- Loss after tax £122,000 (H1 2005: loss of £44,000)
- Relocation of all staff into state-of-the-art 15,000 square foot facility in Milton Park, Oxfordshire

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Chairman and Chief Executive's statement

Introduction

During the past six months we have made significant advances in all areas of the business. With a strong sales pipeline, progress on in-house proprietary programmes and a new dedicated £3m chemical genomics facility, the company is entering its next stage of development and value growth.

Services

Sales for the half year have increased to £201,000 compared to £42,000 for the period to 31 July 2004 (£113,000 for the year to 31 January 2005). The increase in sales is a reflection that the pharmaceutical and agrochemical industries are beginning to value our genomics platform for both gene target identification and predictive toxicity testing of potential drugs.

Since January we have signed six deals with five new customers for chemical genomics and chemistry services. These deals range from fee-for-service to a full R&D collaboration with a top-tier agrochemical company where VASTox retains all rights to intellectual property for drug discovery.

Product development

We have responded to the challenges facing the pharmaceutical industry by productising our expertise in compound screening and high-throughput *in vivo* toxicology. We now offer services in:

- Cardiotoxicity
- Acute toxicity
- Hepatotoxicity
- Genotoxicity
- Carbohydrate synthesis
- Medicinal chemistry

These offerings have created real industry excitement. Cardiotoxicity for example causes one in three drug candidates to fail; an effect that is often not seen until the late stages of clinical trials or even when the drug is in the marketplace. By using zebrafish embryos we can provide rapid and highly predictive *in vivo* data on the toxicity of our client's compounds – saving cost and time.

Programmes

VASTox does not fund in-house research to derive proprietary drug discovery programmes. Instead, the company leverages its relationships within the global academic community to initiate innovative programmes with minimal up-front investment.

Our first two programmes, in Duchenne Muscular Dystrophy (DMD) and Tuberculosis (TB) are based on the work of founding scientists Professors K Davies and E Sim respectively. Both academics are world-leading experts in their fields having spent many years developing an understanding of these diseases to a point where commercial drug discoverers take over.

In July we announced that Spinal Muscular Atrophy (SMA) would be the focus for our third proprietary drug discovery programme, after DMD and TB. SMA is a fatal genetic condition that affects approximately 50,000 patients worldwide. The disease usually appears in young children and patients usually die before their teens. There is currently no adequate treatment for this disease.

Most drugs fail through toxic or unwanted side effects, rather than lack of efficacy. We believe that our in-house drug programmes will stand a greater chance of success because we will use our screening and toxicology technologies before starting clinical trials.

Scientific Advisory Board

Since January we have strengthened our scientific advisory board through the recruitment of: Professor Francesco Muntoni – a paediatric neurologist working at Imperial College London; Professor Roger Patient – an expert in zebrafish and cardiovascular diseases currently research professor at the Weatherall Institute of Molecular Medicine at the University of Oxford; Professor David Paterson – an expert in cardiovascular diseases at the University of Oxford; and Dr Marcel van den Heuvel – a group leader at the Medical Research Council Genetics Unit at the University of Oxford and an expert in SMA and *Drosophila*. We will continue to make selective appointments where we find talented and like-minded scientists.

As our Scientific Advisory Board strengthens and our network of academic collaborators grows we are building a pipeline of potential drug discovery programmes. We will continue to select and fund those programmes that combine innovative science, accomplished academics and well-developed assays.

Operations

Since January 2005 we have completed the move from university incubation laboratories to a state-of-the-art, 15,000 square foot facility in Milton Park, Oxfordshire. For the first time since our inception, all the company's biologists, chemists and managers are working in the same facility. We believe that our customers are already benefiting from this synergy. We have recruited drug discoverers from industry to turn innovative academic science into promising drug discovery programmes.

We now have the people and facilities to grow both our services business and drive our existing programmes.

Board changes

As we approach our first anniversary as a public company we have reviewed the composition of the Board as we begin our next phase of growth.

We recently announced the appointment of Sir Brian Richards CBE as Non-Executive Director. Sir Brian was a pioneer of the European biotechnology industry in the late 1980s, and continues to be a driving force within the sector. His tremendous industry experience and track record of success in growing biotech companies will be invaluable to VASTox.

Andrew Mulvaney, Chief Operations Officer and founding scientist will be stepping down from the board to focus on a full-time role in sales and business development. We thank Andy for his hard work and contribution to the growth of the company from its start-up stages in an all round operational capacity.

Outlook

We have achieved a great deal in the past 12 months since our listing on AIM in October 2004, and have set aggressive growth targets over the next five years.

For the remainder of the financial year we see increased activity in our services business, advances in our drug discovery programmes and the initiation of a further proprietary programme.

From the strong business base built over the past year, we now have an opportunity to further accelerate the growth of our services division, our existing proprietary programmes and the engine for starting more new innovative programmes.

Prof. Stephen Davies
Chairman

Steven Lee, PhD
Chief Executive Officer

12 October 2005

Consolidated profit and loss account

for the six months ended 31 July 2005

	Unaudited six months ended 31 July 2005 £	Unaudited six months ended 31 July 2004 £	Restated year ended 31 January 2005 £
Turnover	201,156	41,950	112,718
Cost of sales	(75,894)	(21,570)	(90,200)
Gross profit	125,262	20,380	22,518
Administrative expenses			
Research and development	(159,069)	–	(267,533)
Other	(393,235)	(64,979)	(40,348)
	(552,304)	(64,979)	(307,881)
Operating loss	(427,042)	(44,599)	(285,363)
Interest receivable	305,322	582	215,368
Loss on ordinary activities before taxation	(121,720)	(44,017)	(69,995)
Tax on loss on ordinary activities	–	–	24,321
Loss on ordinary activities after taxation	(121,720)	(44,017)	(45,674)
Basic loss per ordinary share	0.39p	0.22p	0.19p

Consolidated balance sheet

at 31 July 2005

	Unaudited 31 July 2005 £	Unaudited 31 July 2004 £	Restated 31 January 2005 £
Fixed assets			
Tangible assets	1,139,645	–	1,353
Intangible assets	35,000	–	20,000
	1,174,645	–	21,353
Current assets			
Debtors	429,687	1,950	93,140
Cash on short term deposits	12,900,000	–	13,800,000
Cash at bank	19,730	97,320	361,252
	13,349,417	99,270	14,254,392
Creditors: amounts falling due within one year	(555,886)	(117,053)	(185,849)
Net current assets	12,793,531	(17,783)	14,068,543
Net assets	13,968,176	(17,783)	14,089,896
Capital and reserves			
Called up share capital	3,131,311	1,000	3,131,311
Share premium account	12,946,848	99,000	12,946,848
Other reserves	(1,942,589)	–	(1,942,589)
Profit and loss account	(167,394)	(117,783)	(45,674)
Equity shareholders' funds	13,968,176	(17,783)	14,089,896

Consolidated cash flow statement

for the six months ended 31 July 2005

	Unaudited six months ended 31 July 2005 £	Unaudited six months ended 31 July 2004 £	Restated year ended 31 January 2005 £
Net cash flow from operating activities	(371,110)	(16,629)	(184,863)
Returns on investment and servicing of finance	305,322	582	215,368
Capital expenditure	(1,175,734)	–	(6,803)
Cash (outflow) inflow before management of liquid resources and financing	(1,241,522)	(16,047)	23,702
Management of liquid resources	900,000	–	(13,800,000)
Financing	–	33,776	14,057,959
Increase (decrease) in cash in the period	(341,522)	17,729	281,661

Reconciliation of operating loss to net cash outflow from operating activities

	Unaudited six months ended 31 July 2005 £	Unaudited six months ended 31 July 2004 £	Restated year ended 31 January 2005 £
Operating loss	(427,042)	(44,599)	(285,363)
Depreciation charge	18,645	–	450
Amortisation of intangible fixed assets	3,797	–	5,000
Increase in debtors	(336,547)	(1,748)	(68,615)
Increase in creditors	370,037	29,718	163,665
Net cash outflow from operating activities	(371,110)	(16,629)	(184,863)

Notes to the interim results

1. Basis of preparation

The results for the half-year are unaudited and do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. They have been prepared on the same basis as the accounts for the year ended 31 January 2005.

The comparatives for the full year ended 31 January 2005 are not the company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report (signed by the company's previous auditors) on those accounts was unqualified and did not contain a statement under section 237 (2)–(3) of the Companies Act 1985.

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.

2. Loss per share calculation

The loss per share has been calculated by dividing the loss for the period of £121,720 (for the period ended 31 July 2004: loss of £44,017; for the year ended 31 January 2005: loss of £45,674) by the weighted average number of 31,313,111 shares in issue during the six month period to 31 July 2005 (for the six month period ended 31 July 2004: 20,202,000; for the year ended 31 January 2005: 23,442,741).

Since the group has reported a net loss, diluted loss per share is equal to basic loss per share.

3. Analysis of changes in net funds

	Unaudited six months ended 31 July 2005 £	Unaudited six months ended 31 July 2004 £	Restated year ended 31 January 2005 £
Movement in cash in the year	(341,522)	17,729	281,661
Cash (inflow) outflow from movement in liquid resources	(900,000)	–	13,800,000
Opening net funds	14,161,252	79,591	79,591
Closing net funds	12,919,730	97,320	14,161,252

Independent Review Report to VASTox plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 31 July 2005 on pages • to •. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting the requirements of the London Stock Exchange for companies trading securities on the Alternative Investment Market and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report, in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom by auditors of fully listed companies. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 July 2005.

BDO Stoy Hayward LLP
Chartered Accountants
Southampton

12 October 2005

Company information

Directors

Professor S G Davies
Non-Executive Chairman

S Lee, PhD
Chief Executive Officer

J Montgomery, FCA
Finance Director

D Norwood
Non-Executive Director

Company secretary
D Millington

Registered office
91 Milton Park
Abingdon
Oxfordshire OX14 4RY

Nominated advisers & brokers

Evolution Securities Limited
100 Wood Street
London EC2V 7AN

Public relations advisers

Buchanan Communications
107 Cheapside
London EC2V 6DN

Auditors

BDO Stoy Hayward LLP
Park House
102-108 Above Bar
Southampton SO14 7NH

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham BR3 4TU

91 Milton Park
Abingdon
Oxfordshire
OX14 4RY

Tel: +44 (0) 1235 44 39 39
Fax: +44 (0) 1235 44 39 99