



**VASTOX**

**27 February 2006**

**VASTox plc (“VASTox” or the “Company”)**

**Placing of 5,903,955 New Ordinary Shares to raise £10.45 million  
and Pre-close update**

**Oxford, UK, 27 February 2006** - VASTox (AIM: VOX), a leading chemical genomics company, today announces it has successfully raised £10.45 million in a placing of New Ordinary Shares to institutional investors. The new funds will be used by the Company to accelerate the development of its lead therapeutic programme in Duchenne muscular dystrophy (DMD), for which it announced promising preclinical results earlier this year.

The Placing has been fully underwritten by Evolution Securities Limited.

**Highlights:**

- Placing of 5,903,955 new Ordinary Shares (the “New Ordinary Shares”) at a placing price of 177p raising £10.45 million (before expenses) for the Company.
- Funds raised to be used to accelerate the development of the Company’s lead DMD programme.
- Company expects to announce revenues of not less than £0.5 million for its services division for the year ended 31 January 2006.
- 1,500,000 Existing Ordinary Shares placed on behalf of certain founder shareholders (the “Selling Founder Shareholders”).

Professor Stephen Davies, Chairman of VASTox, comments:

“Our positive preclinical results for the Company’s DMD programme represented a significant breakthrough in the development of a potentially effective treatment of DMD and for the Company. This fundraising now provides VASTox with the means to accelerate the development of this programme while still allowing the Company to maintain its development timetable around its other research programmes as planned.”

A circular containing a notice of an extraordinary general meeting convened for 9.00 a.m. on 22 March 2006 (the “EGM”) has today been sent to shareholders of the Company (“Shareholders”) outlining the terms of the proposed conditional placing of the New Ordinary Shares and the Existing Ordinary Shares (the “Placing”) and seeking Shareholder approval to, *inter alia*, enable the Directors to allot the New Ordinary Shares in connection with the Placing.

**This summary should be read in conjunction with, and is subject to, the full text of the attached announcement.**

## Enquiries:

### VASTox

Steven Lee, PhD, CEO  
Darren Millington, Head of Finance

Office: +44 (0) 1235 443 910  
Mobile: +44 (0) 7766 913 898

### Citigate Dewe Rogerson

David Dible, Mark Swallow, Valerie Auffray

+44 (0) 20 7638 9571

### Evolution Securities

Matt Wood

+44 (0) 20 7071 4300

*This announcement contains forward-looking statements. Forward-looking statements can be identified by words such as "anticipates", "intends", "plans", "seeks", "believes", "estimates", "expects" and similar references to future periods, or by the inclusion of forecasts or projections.*

*Forward-looking statements are based on the Company's current expectations and assumptions regarding its business, the economy and other future conditions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. The Company's actual results may differ materially from those contemplated by the forward-looking statements. The Company cautions you therefore that you should not rely on any of these forward-looking statements as statements of historical fact or as guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements include factors included in this announcement and regional, national, global political, economic, business, competitive, market and regulatory conditions.*

## Placing of 5,903,955 New Ordinary Shares and 1,500,000 existing Ordinary Shares

### 1. Introduction and summary

VASTox is a chemical genomics group that discovers and develops proprietary new drugs and provides a range of screening and chemistry services to the life sciences industry.

Since the Company's business commenced in January 2003, VASTox has established four drug discovery programmes. The Company's most advanced programme is focused on developing a new treatment for Duchenne Muscular Dystrophy ('DMD') based on the up-regulation of the protein utrophin. A second programme in Spinal Muscular Atrophy ('SMA') is also progressing well and two additional programmes in multi-drug resistance and osteoarthritis have also been initiated.

Supporting VASTox' drug discovery efforts is a range of chemical genomics and synthetic chemistry services that it offers to third parties for their own drug discovery programmes. The revenue of the Company and its subsidiaries (the "Group") associated with these services is growing strongly through increasing numbers of profitable service contracts with pharmaceutical, biotechnology and agrochemical companies. The Group aims to continue providing these services with the intention of developing more substantial and longer-term partnerships in the future.

VASTox' genomics technology uses zebrafish (*Danio rerio*) and fruitflies (*Drosophila melanogaster*) to allow high-volume screening of small molecule drug candidates. This

approach generates data that is highly predictive of efficacy and toxicity in humans, while having the potential to dramatically decrease the time and cost of drug discovery and development.

The proceeds of the placing of New Ordinary Shares of £10.45 million (before expenses) will enable the Group to accelerate the development of the DMD programme without jeopardising existing or future drug discovery programmes. In addition, the Directors believe that increasing the cash resources of the Group will allow VASTox to negotiate with any potential licensees or partners from a position of greater strength.

The placing of 5,903,955 New Ordinary Shares at a price of 177 pence per Placing Share (“the Placing Price”) is conditional, *inter alia*, upon (i) the passing of the resolutions set out in the notice convening the EGM (the “Resolutions”); and (ii) admission of the New Ordinary Shares to trading on AIM becoming effective (“Admission”). The Placing has been fully underwritten by Evolution Securities Limited (“Evolution Securities”).

## **2. Drug discovery programmes**

VASTox currently manages four in-house drug discovery and development programmes in both niche and broad therapy areas. The most advanced drug programme is focused on developing a small molecule therapy for the treatment of DMD, a congenital disease, affecting only boys, which is caused by the body’s inability to produce sufficient amounts of the protein dystrophin. This protein is essential for healthy muscle tissue and a lack of dystrophin leads to a deterioration in muscle strength throughout the body. DMD patients rarely live beyond 30 as their heart and diaphragm muscles eventually stop working. There are estimated to be approximately 30,000 DMD patients in the developed world and there is currently no effective treatment for this disease.

VASTox’ approach to this disease has been to focus on developing a drug that makes the patient’s own body produce increased amounts of the protein utrophin. Utrophin is a naturally occurring protein which is present in all people at low levels. Increasing the amount of utrophin in muscles has been shown to compensate for a lack of dystrophin.

The effect of this protein has been extensively studied by VASTox’ co-founder and member of the Group’s Scientific Advisory Board (the “SAB”), Professor Kay Davies FRS, and has been shown to be efficacious in animal models of DMD (mdx mouse). The Directors believe that this offers a promising scientific approach to the treatment of this disease. The Group has exclusive rights to the relevant patents relating to up-regulation of utrophin.

The Group’s second drug discovery programme in neuromuscular disorders is focused on SMA. This disease is estimated to affect approximately 50,000 patients in the developed world and, as with DMD, is similarly caused by the malfunctioning of a gene.

SMA causes a fault in the neuromuscular junction which prevents electrical signals reaching muscles. Through lack of use, these muscles atrophy, leading to death at an early age. In the most severe form of SMA, patients rarely live beyond two years old. The Group’s remaining drug discovery programmes are related to multi-drug resistant infections (in particular the role of the enzyme N-acetyl transferase) and osteoarthritis.

These programmes are at an earlier stage of development and are currently at the primary screening stage.

Through the Group's Scientific Advisory Board, VASTox has access to a wide range of academics in a number of research institutions. The Directors believe that the Group is well placed to in-licence promising technologies and drug discovery programmes at an early stage. The Group's management team regularly reviews new drug discovery and technology opportunities with a view to establishing new programmes in areas of commercial interest.

### **3. Background to and reasons for the placing of New Ordinary Shares**

VASTox has focused on DMD as a therapy area because the Directors believe that the Group has both the scientific expertise and commercial skills to make significant value from this programme. The Directors believe the potential market size for a therapy in DMD to be a very attractive one, that is, worth at least \$800 million per annum. Furthermore, the Directors believe that because DMD is a deadly disease in young people and there is currently no cure, it is aligned with the key positive health economic arguments for treatment.

The Group's approach to DMD is based on extensive research by VASTox' co-founder, Professor Kay Davies FRS, who was the first to publish research suggesting that up-regulating utrophin could compensate for a lack of dystrophin in DMD patients. This replacement approach to treating DMD now has wide scientific acceptance.

On 24 January 2006, the Group announced the discovery of a number of small molecules that had shown *in vivo* up-regulation of utrophin. This is the first time the result has been shown with small, drug-like, molecules and allows the Group, to begin optimising the chemical 'hits' which could lead to the development of a medicine.

The Directors believe that to capitalise on this early positive result, the Group should accelerate the development of the DMD programme, with the aim of selecting a lead drug candidate by Q4 2007, followed by the commencing of phase I clinical trials within two years. The Directors forecast that £10 million of new funds will be required to accelerate the development of the DMD programme to a clinical proof of concept, that is, a point during the phase II clinical trials where the efficacy of the drug candidate is clear. Current plans indicate that this point should be reached in the second half of 2008.

Whilst the Group currently has sufficient funds to accelerate the DMD programme, the Directors believe that this would materially impact the development of the Group's other drug discovery programmes, in particular SMA. It would also prevent the Group from initiating new drug discovery programmes. Both of these consequences, in the opinion of the Directors, are not in the long term interests of Shareholders.

The Directors believe that a placing of New Ordinary Shares will be in the best interests of the Group as this will allow an acceleration of the DMD programme without jeopardising progress in the Group's current and future drug discovery programmes.

### **4. Use of proceeds**

The net proceeds of the placing of New Ordinary Shares will:

- Allow the Group to recruit high calibre staff with experience in drug development and clinical trial design, suitable candidates for some of the positions having already been identified;
- Fund regulatory, legal and patent-related costs necessarily incurred to protect the Group's developing intellectual property assets;
- Fund all pre-clinical chemistry and biology stages in the development of a DMD lead drug candidate;
- Fund phase I clinical trials in healthy volunteers and the commencement of phase II clinical trials in respect of the DMD programme; and
- Fund the necessary capital expenditure associated with development of a DMD lead drug candidate.

## **5. Sale of Ordinary Shares by the Selling Founder Shareholders**

At the time of the Company's admission to AIM in October 2004, all of the founding shareholders entered into undertakings not to dispose of Ordinary Shares for periods of up to two years from the date of flotation. The Directors believe that, in order to satisfy institutional demand, widen the Company's Shareholder base and to improve the liquidity in the Company's Ordinary Shares it is in the best interests of the Company to allow certain founder shareholders (excluding the Directors, Professor Kay Davies and IP2IPO Group plc) to dispose of a proportion of their shareholding now through the Placing. Accordingly, conditional upon Admission, the Selling Founder Shareholders, have today agreed to sell a total of 1,500,000 Ordinary Shares, which form part of the Placing.

Furthermore, the Directors, certain members of the SAB and IP2IPO Group plc, who in aggregate currently hold approximately 48.8 per cent. of the existing issued ordinary share capital of the Company, have given firm undertakings that they will not (subject to certain limited exceptions) sell any Ordinary Shares prior to the date on which the Company's preliminary results for the year ending 31 January 2007 are announced.

## **6. Current trading and prospects**

Since 12 October 2005, being the date of the Group's interim results for the six months ended 31 July 2005, the Group has announced that it has initiated a fourth drug discovery programme focused on the bone morphogenetic protein (BMP) signalling pathway and its role in osteoarthritis (November 2005) and also the positive preclinical results in DMD (January 2006).

The Directors expect to announce the Group's preliminary results for the year ending 31 January 2006 in May 2006. In these results, the Group expects to announce that the service division has been profitable, recording revenues of not less than £0.5 million for the year just ended (£0.1 million in the prior year) and that the Group has good revenue visibility for the current financial year. The Directors expect that the Group will report net cash levels as at 31 January 2006 of approximately £12.6 million.

The operational targets that the Directors have set for the current financial year include recruiting a high calibre Chief Scientific Officer, whose primary responsibility will be the development of the lead drug candidate for DMD, and gaining orphan drug designation for the DMD programme. The Directors anticipate being able to announce further positive progress on the other three R&D programmes as well as initiating development of new programmes from the growing pipeline of opportunities. Finally, the Directors expect to announce the signing of larger service contracts from the services division during the year.

## **7. The Placing**

The Placing is conditional upon, *inter alia*, the passing of the Resolutions and Admission becoming effective. The Placing Shares are or will be in registered form and, on Admission, will rank *pari passu* with the existing issued Ordinary Shares.

On Admission, the Company will have 37,217,066 Ordinary Shares in issue (the "Enlarged Issued Share Capital") and a market capitalisation of approximately £65.9 million at the Placing Price. The New Ordinary Shares will represent 15.9 per cent. of the Enlarged Issued Share Capital. The Placing Price represents a discount of 7.3 per cent. to the closing middle market price of 191 pence per Ordinary Share at the close of business on 24 February 2006, being the last business date prior to the date of this announcement.

Application will be made to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will occur on 23 March 2006.

## **8. Extraordinary General Meeting**

The circular to be sent to Shareholders today contains a notice convening an EGM to be held on 22 March 2006 at the Company's registered office at 9.00 a.m., at which the Resolutions will be proposed for the purposes of implementing the Placing.