

GeneMedix Plc

Annual report and accounts
for the year ended 30 November 2004

Registered number: 03467317



21

Chief Executive Officer's Statement

The year to 30 November 2004 has been one of steady development for the Company. GeneMedix has continued to exercise prudent cost control measures whilst continuing to focus on our main process development programme for erythropoietin (EPO). EPO represents the largest potential biogeneric market, with global sales of the innovator products approaching US\$10 billion per annum. We continue to obtain excellent results from our programme, which maintains our confidence in being able to produce a product that is comparable to the innovator product, Eprex®. We have remained on track with our development programme, which targets a submission date to the European Medicines Evaluation Agency (EMA) in the second half of 2006. Our state of the art manufacturing facility in Tullamore is now producing full-scale manufacturing quantities of EPO.

The corporate activities of the Company have been focussed on an M&A strategy, with the objective of bringing in product revenues, complementary technologies, additional manufacturing capabilities, and the ability to access new sources of funds. We recognise the need to maximise the potential of the Company, obtain adequate financial resources, build critical mass and enhance the existing infrastructure. We have been working closely with our US advisors, Global Markets Capital Group, to identify such M&A opportunities. A particular focus has been to establish a commercial partnership for the sale and distribution of Epostim® (EPO) and, at the same time, attract a strategic investment in GeneMedix. The 'significant transaction' referred to in our recent press releases is still ongoing, however progress has been slow following a number of corporate changes at the intended partner. As a result, we have been pursuing other options which we believe would be equally attractive to our shareholders.

Now that the new European Pharmaceutical Directive has made the regulatory pathway clearer in Europe for the registration of biogenerics, there has been increased interest from generics companies for biogenerics that can be brought to market within a short period of patents expiring. Having a facility in final stage validation and an EPO product which will go into pre-clinical and then clinical studies in 2005, we are well placed to attract a suitable partner that will attribute sufficient value to our technology. It is intended that such a deal would be a major step forward for the Company, as it would not only give us the commercial validation of demonstrating clearly the Company's route to market, but also potentially provide it with sufficient funding to run its clinical trials at the planned times.

We have recently signed an agreement with a Russian partner, to sell GM-CSF (Neustim®), into the Russian market. We are currently reviewing our manufacturing options, which may include a re-validation programme of our Chinese facility, to allow us to supply the market out of Shanghai. However, it is still our intention to sell our 75% holding in the Chinese facility once an attractive offer has been received, and to that end we are looking at potential arrangements that will allow us to maintain a supply of product whilst realising a return on a future asset sale.

We have a number of other on-going projects. We are in final stage discussions to in-license a G-CSF product, which is already in commercial production in various unpatented territories, and develop it for commercialisation in Europe. Similarly, there are discussions underway to contract manufacture Interferon-beta at our mammalian facility in Ireland for selected territories. These will replace the earlier stage G-CSF and Interferon-beta which we currently have under licence.

Chief Executive Officer's statement (continued)

We were also pleased to announce that the Company had received notification from both the US and Australian patent offices that a patent had been granted for a novel monomeric insulin analogue. The fast acting insulin analogue was discovered by scientists at the Shanghai Institute of Biochemistry and Cell Biology (IBCB), with which GeneMedix has an agreement to commercialise new technology. We now intend to develop further this analogue through to completion of Phase I clinical trials before securing an international partner to complete the development and commercialisation of the product, once funding for the project has been secured. This underlines our determination to be a significant player in the global, multi-billion dollar diabetes market.

As part of our review process to ensure that we target our financial resources on more immediate programmes, we have decided that it would not be in our interest to proceed with the development of a second generation interferon-alfa with SkyePharma. We will, however, look for opportunities to out-licence our manufacturing technology. We have, therefore, agreed with SkyePharma to discontinue our collaboration and our team has been re-allocated to accelerate the commercialisation of EPO.



Paul Edwards
Chief Executive Officer

Company profile

GeneMedix is a UK based, globally focused biopharmaceutical company, specialising in the development and manufacture of high quality, cost effective treatments for some of the world's most serious diseases. GeneMedix is working towards the development of a portfolio of recombinant therapeutic proteins, through investment in a network of manufacturing facilities worldwide.

As illustrated below, GeneMedix has the intention of being a flexible organisation that incorporates a network of experts in the various fields in which it is involved. The first step in the process of getting the product to market is to manufacture the protein. GeneMedix is utilising a number of cell culture systems for manufacture, namely bacterial, mammalian and yeast. Each manufacturing facility will be dedicated to one cell culture system, although a number of different proteins could be manufactured.

Primary Manufacturing

The manufacturing facility dedicated to mammalian cell culture is located in Tullamore, Ireland. The building was acquired under an attractive long lease, arranged through the IDA (Ireland), and GeneMedix has fitted it out as a state-of-the-art mammalian cell culture facility, where it will manufacture Epostim® (EPO) for the world markets. It is currently undergoing final validation with the Irish Medicines Board, as is required for any new pharmaceutical manufacturing facility.

The manufacturing facility dedicated to bacterial cell culture is located in Pudong, Shanghai, PRC. This facility was purchased as part of the formation of GeneMedix and has manufactured Neustim® (GM-CSF) for the Chinese market. It has undergone several major upgrades including the installation of a new water system, but we are looking to dispose of this facility as it is no longer considered to be part of the Company's core business.

Secondary Manufacturing

GeneMedix does not intend to establish its own facilities for the formulation and filling of its range of products. Many of the products are filled into specialised devices and it would not be cost effective for the Company to undergo this step itself. The choice GeneMedix has made is to establish a number of partnerships with specialists in the relevant fields.

In April 2002, GeneMedix entered into a Secondary Manufacturing Agreement with Gland Pharmaceuticals, one of India's leading suppliers of speciality pharmaceuticals. GeneMedix is hoping to capitalise on Gland's expertise, particularly in the area of pre-filled syringe filling, initially in the Indian and ASEAN markets and ultimately on a global basis. Gland has successfully partnered with Schering-Plough and Aventis in the Indian market, together with a number of Indian pharmaceutical companies. Under an additional Sales & Distribution Agreement, Gland will act as our local sales and marketing partner in India, utilising their extensive knowledge of the Indian market. We are reviewing a number of other secondary manufacturing opportunities for Europe.

Company profile (continued)

Sales & Marketing

GeneMedix does not intend to market its range of products directly, and is seeking to establish relationships with companies that have existing distribution and marketing expertise. In several territories, GeneMedix has entered into exclusive agreements with companies capable of maximising the opportunity for its products. GeneMedix has entered into Sales and Marketing agreements with Gland Pharma and Hovid for the Indian and ASEAN territories respectively. The company is currently in discussions with a number of potential partners, with a view to out-license its main molecules for the European and for certain products, global markets.

Product Lifecycle

GeneMedix recognises that the initial portfolio of products does not have an infinite lifespan and will seek to develop new presentations of its products. GeneMedix will seek to enter into agreements with technology developers, with the aim of assessing the viability of new technologies.

Company profile (continued)

Key milestones in the Company's history

1995		Original research agreement between Dr Kim Tan and IBCB
1997		GeneMedix founded by Dr Kim Tan and Dr Hong-Hoi Ting with IBCB as a major shareholder
1999		First external fundraising; CEO recruited
2000	January	Listed on OFEX
	June	Private fundraising round (£3.3million)
	November	Dual listing in London and Singapore (raising £20 million)
	December	Acquisition of Shanghai GeneMedix Biotechnology Co Ltd
2001	May	Commencement of Irish manufacturing plant
	September	Worldwide commercialisation rights to IBCB technology
	October	ASEAN distribution and secondary manufacturing agreements signed
	November	Chinese distribution agreement signed
	December	First sales of Neustim™ into Chinese market
2002	February	Manufacturing, sales and distribution agreement with Gland Pharmaceuticals (India)
	June	Opening of manufacturing facility in Ireland
2003	April	Signed collaboration agreement with Antibioticos SA for interferon-beta, G-CSF and human growth hormone
2004	Jan	Level One ADR programme established on NASDAQ and appointed Global Markets Capital for strategic M&A
	April	New pharmaceutical directive introduced into European Union which establishes legal pathway for the registration of 'follow-on biologics'

Company profile (continued)

2004	June	Agreement with Kryonix to supply GM-CSF to Russia
	Oct	Signed Southridge financing deal to raise up to \$10 million equity over 3 years

Products

GeneMedix has concentrated during 2004 on the development of its main product EPO, but has also made progress with other products in its portfolio of therapeutic proteins.

Erythropoietin (EPO)

Work continues on the development programme for this product, with process development almost complete and clinical trials due to start in 2005. EPO is used to treat severe anaemia (low red blood cell count), associated with chronic renal failure and in cancer patients undergoing chemotherapy. It is estimated that some 90% of kidney dialysis patients and 60% of patients receiving chemotherapy will develop anaemia. EPO is also indicated for the treatment of anaemia in HIV patients being treated with zidovudine, and, prior to planned operations, as a way of reducing the need for blood transfusions during surgery. It is estimated that the global market for EPO is currently worth approximately \$10.7 billion, being dominated by Amgen and its licensee Johnson and Johnson. Aranesp (darbepoetin alfa), a second generation EPO produced by Amgen, has progressively increased market share and currently accounts for approximately 25% of the total market value, but there is still a substantial market which is open to generic competition once patents have expired in Europe.

Neustim™ (GM-CSF)

GM-CSF is used to shorten the period of neutropenia (low white cell count) experienced by cancer patients on chemotherapy. GeneMedix conducted a clinical trial in Malaysia, which was successfully completed in 2003, and has the potential of launching this product through a distribution deal into the Russian markets. The worldwide market for GM-CSF is estimated to be \$140 million, the US market being dominated by Schering AG (sargramostim). We would be looking to obtain some modest royalties from this product in the near future.

Interferon alfa (IFN-α)

IFN-α is used in the treatment of hepatitis C and hepatitis B, both alone and in combination with oral antiviral agents. The market for IFN-α is estimated to be worth approximately \$2.7 billion worldwide, and is growing due to the increased prevalence of both diseases and concerted efforts to improve diagnosis and treatment rates. GeneMedix has completed the development of the manufacturing process for this product and has been talking to several prospective licensees since its recent decision not to proceed with its collaboration with SkyePharma on a second generation interferon-alfa.

Interferon beta (IFN-β)

IFN-β is used to treat a type of multiple sclerosis (MS) where patients have extended periods of remission interspersed with relapses and progression of the disease (relapsing–remitting). MS is one of the most common neurological disorders in young adults, and is estimated to affect over 1 million people worldwide. There is currently no cure for MS, and treatment aims to prevent relapses, and slow or halt progression of the disease. The worldwide market for IFN-β is estimated to be worth approximately \$3.3 billion, the main players being Biogen, Serono and Schering AG. Teva also has a significant interest in this market with glatiramer acetate, a non-IFN-β

Company profile (continued)

product. GeneMedix is seeking to enter into a contract manufacturing agreement with an existing provider of this product to replace the earlier stage technology acquired under its collaboration with Antibioticos.

Granulocyte Colony Stimulating Factor (G-CSF)

To complement Neustim™, GeneMedix is planning to develop G-CSF, which is used in the treatment of neutropenia following chemotherapy, and acts in a more selective way than GM-CSF by stimulating the production of neutrophils only. The market for G-CSF is estimated to be worth \$2.9 billion worldwide, with Amgen being the major player. Amgen has developed a sustained release version of the protein filgrastim, which has been approved for use in the US and Europe. The Company is seeking to in-license and develop for the European markets a G-CSF, which is commercially available in the developing world. This will replace the G-CSF that is has at a much earlier stage of development under its collaboration with Antibioticos.

Insulin

Work is ongoing on the insulin process development to ensure that yields are maximised at each step of the process. The manufacturing process includes a large number of steps, and the efficiency of the process is key to eventual product cost. Insulin is used worldwide by patients suffering from diabetes mellitus – a disease where blood sugar levels are uncontrolled due to either a lack of (Type I) or an ineffective action of (Type II) the hormone insulin. The disease is approaching epidemic proportions in western countries, as Type II is connected to a sedentary lifestyle and obesity. The disease is rapidly on the increase in developing countries, mainly due to change in diet and lifestyle. The current market is worth an estimated \$4.6 billion, being dominated by Novo Nordisk and Eli Lilly, but the market is gradually moving towards the rapid acting insulin analogues. GeneMedix has an exciting monomeric, rapid-acting insulin in its portfolio, which has received patent approval in the US and Australia. It is currently seeking funding to take this project to phase 1 clinical trial, where a collaboration partner will be sought.

Regulatory Strategy

GeneMedix has a dual regulatory strategy. Certain of the products under development are past their patent or data protection periods in Europe and can therefore be manufactured, tested and registered in Europe. The recently agreed new Pharmaceutical legislation has provided both a Bolar provision to allow studies to be conducted for registration purposes prior to patent or data protection periods having expired, and created a regulatory pathway for Similar Biological Medicinal products, as these generic versions are now referred to in Europe.

Other products still enjoying European patent protection could be developed, manufactured and tested in Europe under the provisions of Bolar, but due to patent protection of the innovator product, could not be immediately registered in Europe. These products would be registered in territories where patents have expired or never existed, then registered in Europe on patent expiry.

Company profile (continued)

Intellectual Property

The Company recognises the importance of developing a portfolio of products that includes a range of patented and unpatented molecules. Initial sales for GeneMedix will be generated from comparable therapeutic proteins, followed by sales of new formulations of comparable proteins, and then new therapeutic proteins (patented). Further, the Company understands the need to establish a clear path around patent rights held by others. Currently the Company is the licensee of one patent that has progressed to national approval, and three patent applications filed under the Patent Cooperation Treaty (PCT), from its collaboration with IBCB. The Company will actively continue to seek rights to the manufacture and sale of further therapeutic proteins from both commercial and academic organisations, building on the success of collaborations such as the one we have with IBCB. In this way, GeneMedix will maintain the long-term competitiveness of its portfolio.

A Novel Monomeric Insulin (PCT/GB2003/003136)

This patent claims novel truncated insulin sequences and a novel precursor molecule for their production. The market for human insulin is about \$4 bn worldwide, with monomeric products representing one of the fastest growing sectors.

Monomeric Analogues of Human Insulin (WO0118052)

This patent claims human insulin variants that have amino acid substitutions in the 16 and 26 position of the B chain. These variants exist as monomers that have a faster therapeutic action than older insulin products.

This patent has now progressed to national approvals and two patents have been issued. The first was in Australia, patent no 767006, valid for 20 years from 8th September 2000. The second was in the USA, patent no 6800606, valid for 20 years from 8th March 2002.

Novel Interferon-Thymosin Fusion Protein and its Preparation Method and Uses (WO02081519)

This patent claims a fusion protein comprising interferon alfa and thymosin amino acid sequences, linked by a 1-20 amino acid connecting peptide. The invention may have utility for the treatment of hepatitis C.

Function and Application of Tob Gene in Central Nervous System of Mammal (WO02068687)

This patent claims therapeutic use of the mammalian Tob gene for the identification and treatment of amnesia. Memory impairment is expected to be a growth market, particularly amongst ageing populations in the US and Europe.

Board of directors and senior executives

Chief Executive Officer Mr Paul Edwards MBE BSc

Paul was appointed to the post of CEO in 1999. He was formerly Vice President and General Manager of Genzyme Corporation's UK operation, a company he joined in 1986. Previously he spent 7 years with Beecham Pharmaceuticals, and more recently has worked in management consultancy at Ruston Poole International. Paul, a former chairman of the Manufacturing Advisory Committee of the UK BioIndustry Association, has worked with the UK Department of Trade and Industry advising on issues related to the manufacture of biopharmaceuticals. In 1997 he received an MBE for services to biotechnology. In his role as CEO of GeneMedix, Paul is responsible for ensuring that the company's objective of delivering high quality, cost-effective biopharmaceuticals to a global healthcare market is achieved.

Chairman Dr Kim Tan BSc, PhD, FRSM – Non-Executive

Kim, aged 49, is a founder of the Company, and the founder and Chairman of SpringHill Management Ltd, a private equity fund management company that manages a number of funds, including the Malaysian-based biotech VC fund, SpringHill BioVentures Sdn Bhd. He is a director of Active Capital Trust Plc, an LSE listed investment trust company.

He is also a director of a number of listed and private biotech and pharmaceutical companies in the UK, USA, India and Malaysia. A Fellow of the Royal Society of Medicine, Kim is an adviser on biotechnology to a number of government agencies in Asia and chairs the Research Expert Working Group for the Asia Pacific Economic Community (APEC) Life Science Forum.

Chief Financial Officer and Company Secretary Mr Julian Attfield BA, ACA

Julian was formerly Director of Finance and Administration with Sigma-Genosys Ltd, a leading manufacturer of biomolecules for the life sciences industry. Prior to this he was Group Financial Controller for Automotive Diagnostics UK Ltd, and qualified as an Associate of the Institute of Chartered Accountants whilst at Arthur Andersen. Julian's role within GeneMedix is to use his strong financial and technical background in global business to provide clear financial leadership in all corporate and operational activities.

Marketing Director (Asia) Dr Hong-Hoi Ting BSc, DPhil

A part time Executive to GeneMedix, Dr Ting is a co-founder of the Company and has considerable experience in setting up several joint ventures in China. Following an academic career at the Universities of Oxford and Bath, he was employed by Amersham International plc as Regional Manager in charge of its Life Science business in the Far East and South East Asia, and also as Country Manager in China. Subsequently Dr Ting has acted as a consultant to a number of companies in Asia, including Amersham International plc, Westinghouse Electric Corporation and Johnson and Johnson.

Board of directors and senior executives (continued)

Non-Executive Director Mr Gordon Mylchreest MCIM

Gordon was Group Marketing Director of Consolidated Group prior to its acquisition by GE Capital, and responsible for developing Consolidated Group's insurance business in Europe. Since then he has acted as a consultant to a number of insurance companies advising on acquisitions and start-ups. He has also been a consultant to, and General Manager of, CIGNA Direct Marketing and Creditor Insurance Services.

Non-Executive Director Mr Fong Kwok Jen

Kwok Jen, aged 55, is Director of a legal practice, Fong Law Corporation. He is also Chairman of the Disciplinary Committee of Singapore Exchange Securities Trading Limited. Prior to that, he was a Council Member of the Securities Industry Council from 1992 to 2003 and a Council Member of the Law Society of Singapore from 1990 to 1992. Mr Fong spent eight years as Deputy Senior State Counsel and then Senior State Counsel at the Attorney-General's Chambers from 1982 to 1989. Before that, he worked as Deputy Public Prosecutor at the Attorney-General's Chambers from 1977 to 1982.

Non-Executive Director Mr Steve Harris

Steve, aged 62, has considerable experience in the pharmaceutical industry working with both multinational companies such as ICI Pharmaceuticals, Merck Sharp and Dohme, Eli Lilly and Reckitt & Colman, and start-up companies such as Gensia and Medeva. Steve is currently a Non-Executive Chairman of Proteome Sciences plc and Sinclair Pharma plc, and Non-Executive Director of SkyePharma plc, Advanced Medical Solutions plc and Premier Research plc, and was elected a Fellow of the Pharmaceutical Society of Great Britain in 2000..

Senior Executives

Director of Commercial Operations Miss Jackie Turnbull MRPharmS

Jackie is a registered pharmacist, with 15 years' experience in the pharmaceutical industry. She started her career in the technical side of the business, moving into the area of Medical Information, and then to Business Development. She has experience with several large companies, including Glaxo, Warner Lambert and Boehringer Ingelheim, latterly moving to Denmark to take up the position of International Licensing Manager with Novo Nordisk A/S, one of the largest biotech companies in the world. Jackie has been with GeneMedix since the company's foundation, and now heads its Commercial Group, which gives direction to development projects by identifying commercial opportunities, and, through collaborations, fully exploits the company's assets.

Director of Quality and Regulatory Affairs Mr John Greenwood, FIMLS MBIRA, DipRA

John heads the Regulatory Affairs Department at GeneMedix, having 24 years' experience in senior positions in pre-clinical development and Regulatory Affairs in prominent UK based organisations. He also has experience as a regional committee member for the British Institute of Regulatory Affairs, and is currently the Chair of the Biotechnology Working Group of the European Generic Medicines Association. The main focus of John's

Board of directors and senior executives (continued)

department is to progress product development through pre-clinical toxicology and clinical trials. In addition, the group ensures that all studies comply with the requirements for regulatory submissions in all relevant areas, to facilitate the issue of marketing authorisation for all products in selected global territories. The department is also responsible for the follow-up of regulatory submissions to ensure successful completion and maintenance of product licences in all territories post authorisation.

Director of Development Mr Richard Barker BSc, MSc, MIBiol

Richard has gained experience in several senior positions in Development and Manufacturing with major international biotechnology and pharmaceutical companies, and is a former member of the Manufacturing Advisory Committee of the UK BioIndustry Association. Within GeneMedix, Richard directs the development of products from late stage research, through development, production of material for toxicology studies and clinical trials, to completion of full-scale validation batches in the primary manufacturing facilities. Richard played a significant role in the development of the Tullamore facility.

Director of Quality Paul Jennings BSc (Pharm), MRPharmS, FIQA

Paul's early career was spent in Hospital Pharmacy, followed by 19 years in a variety of posts in quality management in the pharmaceutical industry, with companies such as May & Baker, Rhône Poulenc Rorer and Aventis. During his career to date he has been based in the UK, France and Ireland. He has twice held the role of Quality Director for major sites, and also the role of Corporate Quality Director for Eastern Europe and the emerging markets of Africa and Southwest Asia. The main focus of Paul's department within GeneMedix is the creation and installation of Quality Assurance systems for product development projects, the factories under GeneMedix's control, and contract manufacturers and major suppliers. GeneMedix aims to operate at the highest standards of Quality, and with Good Manufacturing Practices acceptable to all world markets.

Director of Global Manufacturing Martin Comberbach BSc, MSc, PhD

Martin trained as a scientist and engineer, having 16 years' international experience in the 'big pharma' and 'small biotech' industries of North America and Europe. He gained his early experience in pre-clinical fermentation process development for recombinant proteins, polysaccharides and amino acids. Martin was involved in the design and fit-out of multi-product manufacturing facilities, validation to cGMP, inspection and accreditation with the national public health authority and production of vaccines for Phase I/II clinical trials. He has contributed to the IND/ CTX submissions of 7 human vaccines, and more recently to a proprietary anti-angiogenic therapeutic protein produced in mammalian cells. In his current position, Martin is responsible for managing GeneMedix's global manufacturing facilities. In this role, he works closely with staff in the Shanghai manufacturing facility, improving procedures and working practices, to enable GeneMedix to manufacture high quality products cost-effectively. He also represents GeneMedix in discussions with secondary manufacturing companies to enable GeneMedix' purified bulk products to be fill/finished and distributed to target markets.

Financial Review

Operating losses of £6.7 million for the year reflect planned expenditure and cash burn, and includes a non-cash amount of £1.6 million, representing a write down against our investment in China. The Company's focus has remained firmly on its main development activity, EPO, whilst ensuring that we have been progressing other projects in our portfolio such as Interferon-alfa and insulin. We believe that we have been very successful in maximising our investment in our programmes within the tight constraints of our financial resources, and we have kept cash burn during the period steady at approximately £1 million per quarter. This rate of cash burn is likely to continue until the Company has secured additional funding to meet its short and medium term requirements, and starts to move ahead into the clinical phases of our EPO, when cash burn will understandably increase. There were no revenues in the period.

Our free cash balance at 30 November 2004 was £0.5 million but we concluded a share placing of £1.5 million net of issue expenses, early in 2005, which has allowed us to maintain progress on our priority programmes. We are still very active on the corporate front, and are pursuing a number of major opportunities (including potential M&A transactions), which are intended to bring in funding in the near-term. Some of these have taken a long time to bring close to a conclusion, but that reflects the complexity of the regulatory and technological environment in which we operate. Until we secure additional funding as part of a major corporate transaction, we intend to raise the funds needed by making small issues of equity over the coming months, which will conclude initiatives started with our agents, Hunting Parties Securities. We also have access to a modern and flexible financing facility with Southridge Capital, a significant US Capital Management Group. This gives us access to up to US\$10 million via the issuing of equity over a 3 year period, which we can draw down at mutually acceptable times in blocks of up to US\$1 million, to provide financing for specific projects or the on-going business.

We are still seeking to sell part or all of the shares in our Chinese company, which is not viewed as a core asset of the business, but is a possible source of near-term finance. We are at the same time looking to be able to provide our GM-CSF to the Russian and possibly other markets, which is intended to provide some modest revenues to the business. To reflect the continued losses over the period since acquisition, we have, as noted above, booked an impairment charge of £1.6 million to write down the carrying value of the investment in China. This leaves £1.17 million of capitalised goodwill which we believe appropriately reflects the carrying value of the investment.

Of the £0.5 million loan taken out last year and secured by a significant shareholder, only £0.2 million remained outstanding at year end, and this was repaid early in 2005. We are currently negotiating to turn another US\$2 million loan into convertible loan stock in return for the out-licensing of one of the smaller products in our portfolio. In line with current accounting practice we have maintained the value of one of our convertibles at £3.25 million. If this instrument were to be converted at the current share price, however, the liability would be approximately £2 million lower.

Outlook

The Directors continue to be confident that one or more of these initiatives, which are aimed at achieving cash generation in the near term, will provide the Company with the funding to continue its activities for the foreseeable future, but we must be clear that, without achieving such cash inflows we only have sufficient resources to continue our current level of activity for the next three months from the date of signing the annual report.

Directors' report

The directors present their report on the affairs of the group and the audited financial statements for the year ended 30 November 2004.

Principal activities

The principal activities of the Company and Group are the development, manufacture and distribution of comparable biotechnology pharmaceuticals, which are a generic version of high value therapeutic proteins.

Business review

A review of the business and future developments is set out in the Chief Executive Officer's statement and company review on pages 1 to 8.

Research and development

GeneMedix conducts research and development through its collaboration with the celebrated Shanghai Institute of Biochemistry and Cell Biology (IBCB). This applies to the seven products in the Group's portfolio and to a number of further opportunities to exploit commercially the world-class science at the Institute. During the year the Group incurred development costs of £2,209,805 (2003: £3,233,093). The Directors regard investment in process and patent development as a prerequisite for increasing the value of our intellectual property portfolio and to achieve the earliest possible implementation of our business plan.

Post balance sheet events

Details of any significant events since the balance sheet date and further details of the Group's performance during the year and expected future developments are contained in the Chief Executive Officer's statement and the financial review.

Overseas branches

The group operates a manufacturing facility in the Republic of Ireland, held as a branch of the Company.

Results and dividends

The loss for the year, before minority interests, was £5,807,497 (2003: £7,233,140).

The Directors elected not to pay a dividend for the year (2003: £Nil).

Charitable donations

During the year the Company made no charitable donations (2003: £Nil).

Political support

GeneMedix did not support, or make any donations to, political parties in the year (2003: £Nil).

Directors' report (continued)

Directors

Biographical details of current Directors are given on page 9 to 11. The Directors who served during the year were as follows:

Executive:

Paul Edwards
Julian Attfield
Dr Hong-Hoi Ting

Non-Executive:

Dr Kim Tan
Gordon Mylchreest
Mr Fong Kwok Jen
Steve Harris

Supplier payment policy

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Company at 30 November 2004 were equivalent to 33 days' purchases (2003: 39 days').

Substantial shareholdings

On [XX] May 2005, the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company.

Name of holder	Number	Percentage held
Dr Kim Tan	156,309,111	45.8%
Shanghai Institute of Biochemistry and Cell Biology	31,401,434	9.2%
Dr HH Ting	17,326,820	5.1%
Navigator Holdings III	<u>18,600,000</u>	<u>5.5%</u>

Save for the above, the Company has not been notified, as at [XX] May 2005, of any material interest of 3 per cent or more or any non-material interest exceeding 10 per cent of the issued share capital of the Company.

Directors' interests

The directors who held office at 30 November 2004 had the following interests in the shares of the Company:

Name of director	Beneficial	
	30 November 2004 Number	30 November 2003 Number
Dr Kim Tan	156,309,111	156,309,111
Dr H H Ting	17,326,820	17,326,820
Mr G Mylchreest	<u>9,427,410</u>	<u>9,427,410</u>

Details of Directors' interests in share options are disclosed in the Remuneration Report.

Directors' report (continued)

No changes took place in the interests of directors in shares of the company between 30 November 2004 and 9th May 2005.

Impact of International Financial Reporting Standards ("IFRS")

During the year the Directors continued to consider the impact that implementing IFRS would have on the reporting functions and financial statements. The first results to be announced in accordance with IFRS will be the Group's first quarter results.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting.

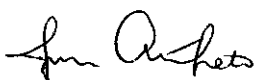
Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group will secure adequate resources through milestones receivable from commercial customers, from the out-licensing of its technology, corporate activities or the equity markets, to continue in operational existence for the foreseeable future. However, it has not, at the date of approval of the financial statements, secured these resources. For this reason, we have adopted the policy as stated in note 1b of the accounts regarding the going concern basis in preparing the accounts.

In preparing the financial statements, the Directors are required to select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and prepare the financial statements on a going concern basis unless it is inappropriate to presume the group and company will continue in business. The Directors confirm that they have complied with the above requirements. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and for ensuring that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Julian Attfield

Finance Director and Company Secretary

9th May 2005

GENEMEDIX PLC

Corporate Governance

The Board of Directors at GeneMedix is fully aware that Corporate Governance, usually defined as the system by which companies are directed and controlled from within, has in recent years been high on the public agenda. The principle governance rules applying to UK companies listed on the London Stock Exchange are contained in the Combined Code, which was introduced in 1998 as part of the Exchange's Listing rules. During 2003, proposals for change were made in the Higgs review, with additional guidance on audit committees from the Financial Reporting Council (the Smith Report). The Board at GeneMedix is committed to the principles of corporate governance contained in these guidelines and complies with the new 2003 Combined Code as far as the Directors consider appropriate for a company of our size and in our stage of development. The Company has, in addition, remained under tight financial constraints throughout the period which has meant that the Directors have been closely involved in the detailed financial position of the Company, which, the Directors believe, has lessened the necessity for a rigid and formal adherence to all terms of the Combined Code. Where we believe we have not fully complied with the Provisions of the Code, we have outlined the areas of non-compliance to allow the shareholders to evaluate its effect on the internal control environment at GeneMedix.

In accordance with the Principles of Good Governance the Board must report to shareholders:

- How the principles of good governance set out in the Combined Code are applied.
- That the Group complies with best practice provisions set out in the Combined Code or, where it does not, provide an explanation.

Further explanation of how the Principles of the existing code have been applied is set out below and, in connection with directors' remuneration, in the Directors' remuneration report.

Board of Directors

The Board of Directors comprises three Executive Directors; Mr Paul Edwards, Mr Julian Attfield and Dr Hong-Hoi Ting and four Non-Executive Directors, Dr Kim Tan, Mr Steve Harris, Mr Gordon Mylchreest, and Mr Fong Kwok Jen. All Directors have been on the Board throughout the financial year and all bring considerable knowledge and experience to bear on issues of strategy, performance, resources and standards of conduct. The Board has shown its commitment to dividing responsibilities for running the Board and running the Company's business through the roles of Dr Kim Tan as Non-Executive Chairman, and Mr Paul Edwards as Chief Executive. The Non-Executive Directors are not invited to participate in the Company share option scheme, their service is non-pensionable and they exercise strong independent judgement on all matters. The biographies of all Directors are set out on pages 9 to 11 of the annual report.

All Directors of the Company are fully aware that they are collectively responsible for the success of the Company. Directors see it as the Board's role to provide entrepreneurial leadership within a framework of prudent and effective controls, which allows risks to be assessed and managed. The Board is ultimately responsible for setting the Company's strategic aims, which are brought to the Board by the Executive Directors in Board Meetings. All decisions are made objectively in the interests of the Company.

Corporate Governance (continued)

Although all Directors are equally accountable legally, the Non-Executive Directors have a particular responsibility to ensure that actions proposed by the Executive Directors are critically examined and thoroughly discussed. The Board considers that all of the Non-Executive Directors, with the exception of Dr Kim Tan, who is a significant shareholder in the Company, are independent of management and free from any business or other relationship which could materially interfere with the exercise of independent judgement. Gordon Mylchreest has a shareholding in the Company, but he is considered independent as his shareholding is not considered significant. Non- Executive Directors may, at the Company's expense, seek independent legal advice on any matter relating to the discharge of their duties. The Company maintains appropriate directors' and officers' insurance in respect of legal action against its directors.

In accordance with the provisions of the Combined Code, the Board have identified Mr Steve Harris as the Senior Independent Non-Executive Director to whom any relevant concerns can be addressed.

The Company holds Board meetings either in a centralised location or by teleconference at least every two months, at which a review takes place of the Company's detailed financial position, financial reports, annual budgets, major capital expenditure projects, risk management and treasury policies and internal controls. At each meeting the Board monitors the Company's progress towards the implementation of its business plan. All major items of business are thoroughly debated by the Board and, if the Board were to be unable to reach a consensus, the matter under discussion would be put to the vote or deferred to another occasion. The Executive Directors ensure that all the Directors are properly briefed on issues arising at board meetings. Directors have full and direct access to the services and advice of the Company Secretary and Chief Financial Officer, who is responsible for ensuring that relevant procedures, rules and regulations are complied with. The appointment and removal of the Company Secretary is determined by the Board as a whole. The Executive Directors have service contracts with notice periods of 12 months from the Company. All Directors' contracts are reviewed by the Board and at the Company's Annual General Meeting, and all terms of appointment of the Non-Executive directors are available for inspection at the Company's registered office.

The Board is aware that the Revised Combined Code outlines provisions that the Chairman should lead the board into undertaking a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. This would be with a view to recognising the strengths and addressing the weaknesses of the Board, and where appropriate, proposing new members to be appointed to the Board. Although the contribution of individual Directors is considered via the appraisal process (in the case of Executive Directors) and at least every three years prior to re-election (in case of all Directors), the Board has not to date developed a formal system for assessing its performance collectively. The Board does, however, thoroughly and critically review the outcomes of any major decisions it has made and assesses the contributions which such decisions may have made to advancing the overall objectives of the business. The outcome of such reviews is then integrated into the Board planning process in respect of future projects. The Non-Executives have not met during the year without the Chairman being present, in order to, amongst other things, appraise the effectiveness of the Chairman, but this will be implemented more formally during 2005.

The Board is also aware that it should satisfy itself that at least one member of the Audit committee has recent and relevant financial experience, and that to date no such member has been appointed. However, the Non-Executives

Corporate Governance (continued)

obtain sufficient information and advice from independent financial specialists to be able to monitor the integrity of the financial statements to safeguard shareholders' investment and the Company's assets.

Directors offer themselves for re-election by the shareholders at least every three years.

During the year the Board held eleven Board meetings all of which were attended by Kim Tan, Paul Edwards and Julian Attfield. Steve Harris and Hong Hoi Ting attended ten, Gordon Mylchreest nine, and Kwok Jen eight of these meetings. Most of these non-attendances were due to other business commitments.

Principal Board Committees

The Audit Committee

The Audit Committee consists of Dr Kim Tan (Chairman), Mr Gordon Mylchreest, and Mr Steve Harris. We stated last year that it should have met four times a year to approve interim and preliminary statements with External Auditors present, but due to practical considerations, it has only met formally once with the External Auditors during the year, and that was to approve the preliminary announcement for 2004. All members were present for all meetings. There is the intention to introduce a more formal meeting structure during 2005. The Audit Committee is responsible for:

- approving the appointment of external auditors and monitoring the relationship with them including the nature and scope of the audit and any matters arising;
- reviewing the Annual Report, the interim report and quarterly financial statements independently of board meetings, including consideration of the accounting policies adopted and any significant areas of judgment;
- monitoring compliance with statutory and Financial Services Authority requirements for financial reporting;
- monitoring the system of internal control maintained by the Group to safeguard shareholders' investments and the Group's assets; and
- approving and monitoring a code of ethics applicable to senior management and a 'whistleblowing' policy designed to enable the anonymous reporting by staff of any suspected financial impropriety, fraud or wrongdoing.

The Audit Committee should meet twice during the year with the auditors of the Company without executive board members present, but this only occurred once in 2004. The membership of the Audit Committee is under review by the Board, with consideration being given to the range of knowledge and experience of each member and familiarity of each member with accounting principles and financial matters, and it is the intention to introduce a new Non-Executive with relevant financial experience to the Board as soon as practicable .

Corporate Governance (continued)

In relation to the appointment of external auditors and in order to safeguard auditor independence and objectivity, the Committee has established a policy of separating the provision of assurance services (primarily audit, reporting accountant and attestation work) and non-assurance services (such as tax and consulting).

The Audit Committee gives periodic consideration to the establishment of an internal audit function. Given the nature and scale of the activities of the Group, such a function is not currently considered necessary.

The Remuneration Committee

The Remuneration Committee consists of Dr Kim Tan, Mr Gordon Mylchreest (Chairman), and Mr Steve Harris. It meets when required (as determined by its members) to:

- review the performance of executive Directors and make recommendations to the Board on the framework of executive remuneration of the Group's executive in accordance with current best practice and with due regard to the interests of shareholders;
- determine the remuneration of the Group's Executive Directors on behalf of the Board;
- maintain an overview of the policy in relation to the remuneration and conditions of service of other senior staff; and
- set the performance criteria for the Share Option Plan and any other share option schemes established by the Company and also approve the grant of options.

It is a rule of the Remuneration Committee that no Director can participate in discussions or decisions concerning his own remuneration. The Remuneration Committee submits an Annual report to the Board which it in turn reports to the shareholders. The Remuneration Report is included on pages 26 to 31. On significant issues relating to remuneration, the Committee may from time to time seek the views of major shareholders and their representative groups before any proposals are submitted to the general meeting for voting.

The Remuneration Committee met once during the year, and all members were present. Terms of reference of the Committee are available for inspection at the Company's registered office.

The Nomination Committee

The Nomination Committee consists of Dr Kim Tan (Chairman), Mr Gordon Mylchreest and Mr Steve Harris. It meets when appropriate to make recommendations to the Board on the nomination of new Directors to the Board. Its function is also to review Directors service contracts when they come up for renewal on an annual basis.

When considering a candidate for appointment as Director of the Company, the Committee will typically work with the Board in drafting a detailed job specification and candidate profile. In drafting this, consideration will be given to the existing experience and knowledge of the Board as well as the strategic and business objectives of the

Corporate Governance (continued)

group. Once a detailed specification has been agreed with the board, the Committee will then work with an appropriate external search and selection agency to identify candidates of an appropriate calibre and with whom a shortlist of candidates can be agreed. Short-listed candidates will be invited to interview with members of the Committee, and if recommended by the Committee, will be invited to meet other Board members before any decision is taken relating to the appointment.

There were no meetings of the Nomination Committee held during the year and terms of reference of the Committee are available for inspection at the Company's registered office.

Maintenance of a sound system of internal control

The Board of Directors is responsible for identifying, evaluating and managing the significant risks faced by the Group. The Board is also responsible for ensuring that the Group maintains a sound system of internal controls to address those risks and, therefore, to safeguard shareholders' investments and the Group's assets.

The Board has established a formal and continuous process for identifying and evaluating the significant risks faced by the Group and the identification and evaluation of risk is an integral part of the Board's planning process. The Board regularly reviews the effectiveness of the process of risk identification and evaluation. This process has been in place throughout the year as well as up to the date of approval of the Annual Report and financial statements.

The Board continuously reviews the effectiveness of the Group's system of internal controls to manage risk. Monitoring internal controls includes scrutiny of reports prepared by management and in-depth review and follow up of any weakness identified. As part of this process the Audit Committee considers and reports to the Board on any matters arising from the work undertaken by the external auditors. Additionally, the management group which, as a delegated committee of the Executive Group with responsibility for identifying risks faced by the Group, makes an assessment of how those risks might be managed, highlighting any weaknesses in existing controls and making recommendations for improvements in the management of risk where applicable.

The Board has undertaken a specific annual review to evaluate the effectiveness of the process of identifying and evaluating the effectiveness of internal controls to support a statement of compliance. The review covered all controls including financial, operational and risk management.

There are inherent limitations in any system of internal control. Internal controls can only manage and not eliminate the risk of a failure to achieve business objectives or of other losses. Internal controls can therefore provide only reasonable, and not absolute, assurance against material misstatement or loss.

Steps continue to be taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to the attention of management and the Board in a timely manner.

Key features of the internal control system that operated throughout the period covered by the financial statements and which accords with the ICAEW Working Party are as follows:

Corporate Governance (continued)

- Composition of the Board and of senior management is aimed at providing an appropriate range of knowledge, skill and experience in scientific, medical and commercial matters. The Group has developed and continues to adapt and improve its organisational structure which includes clearly established responsibilities and lines of accountability. The management of the Group actively promotes the values of integrity and professionalism, and the maintenance of high ethical standards. The Group has adopted an ethics policy to which all senior management are subject and periodically reviews and updates its other policies in line with its legal and ethical responsibilities and in an attempt to mitigate the effect of key risk areas. Key areas of risk are reviewed regularly by the Executive group and the Board.
- The Group prepares detailed operating plans, budgets and working capital projections annually based on an evaluation of the Group's long term objectives and the strategic imperatives which have been established. Detailed reports covering all areas of operations are prepared monthly which include an analysis of variances to plan and related corrective actions. The Board monitors the activities of the Group at a strategic level through reports on current activities and plans. Executive management regularly monitors financial and operational performance in detail and takes any necessary corrective action.
- Detailed policies and procedures have been established covering all significant areas. They feature documented approval subject to limits of authority. Any major expenditure or commitment of resources must be approved by the Board. Certain areas of the Group's activities are subject to regulations, particularly those relating to pre-clinical and clinical development and testing. As compliance with such regulations is critical to the Group's success, specific resources are devoted to ensuring that such regulations are complied with and to dealing with any matters arising from regulatory examinations.
- The Group's liquid resources are managed on a discretionary basis by a third party. Funds are placed with a variety of deposit-taking institutions and invested in money market instruments. The third party operates within strict limits set by the Board as to maturity, credit ratings and credit exposure to any single institution. Further detail is given in note 26 of the financial statements.
- Members of the Audit Committee review the operation and effectiveness of this framework in the regular Board meetings.

Statement of compliance

The board believes that it has complied with the relevant principles and provisions of the new 2003 Combined Code throughout the period under review, except for:

- the Code Provision A.3.1 that Dr Kim Tan, Chairman, is considered as a non-independent non-executive director, as he holds a significant shareholding in the ordinary share capital of the Company.
- where we have clearly highlighted above that we have not as yet introduced formal compliance due to the early stage of development and small relative size of the Company. This would principally include that:

Corporate Governance (continued)

- the Chairman has not met with the Non-Executives without Executive Directors being present
- the Non-Executives have not met with the Executive Directors without the Chairman being present
- there has been no formal evaluation of the performance of the Board.
- all remuneration committee members are not independent non-executive directors, as Dr Kim Tan is a significant shareholder in the Company
- we do not consider that we have a Non-Executive in the Audit Committee with the full range of recent and relevant financial experience and knowledge to be a member of the Audit Committee.

Code of Best Practice

The BioIndustry Association ("BIA"), of which GeneMedix plc is a member, adopted a code of best practice on 20 October 1999 (the BIA Code). The BIA Code includes principles and provisions relating to corporate governance matters, access to external advice, confidentiality, dealings in a company's shares and standards of public announcements. The BIA Code is intended to operate by reference to the particular circumstances of bioscience companies in support of the Combined Code, Principles of Good Governance and Code of Best Practice (the Turnbull Report). Throughout the financial year the Company has complied with the relevant provisions of the BIA Code.

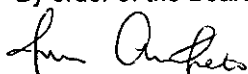
Shareholder communication

The Directors seek to build on a mutual understanding of objectives between the Company and all its shareholders.

GeneMedix has a small but dedicated in-house corporate communications team, headed by the Chief Financial Officer and Company Secretary, Julian Attfield, which is responsible for ensuring the timely, consistent and comprehensive dissemination of information to the Company's various stakeholders. It also serves as a first point of contact for stakeholders wishing to contact the Company.

GeneMedix has established procedures to ensure that news announcements, including the annual report and the quarterly interim reports are sent to all shareholders, submitted to the London and Singapore Stock Exchanges and are widely distributed in a timely manner to media and all interested parties, including individuals who have expressed an interest in being kept aware of the Company's news. In addition, the Company has developed a website (www.genemedix.com) on which all news releases are posted, together with additional information about the Company, its technologies and product candidates.

By order of the Board



Julian Attfield
Director

Statement on Corporate and Social Responsibility (C&SR)

The Board is mindful of the guidelines produced by the Association of British Insurers entitled 'Investing in Social Responsibility' and the increase in attention being paid to C&SR issues by the investor and wider stakeholder communities. Moreover, the Board recognises the commercial and ethical imperative of developing and maintaining a culture of continuous improvement in C&SR issues, to the extent that such issues are relevant to the activities of the Group, and accepts that over time the implementation of a system for measuring and reporting on key C&SR indicators may be appropriate.

Whilst no formal C&SR policy currently exists, and no mechanism for reporting on C&SR issues has been introduced by the Group to date, the Board is confident that existing policies and practices provide a firm basis on which a comprehensive C&SR strategy can be developed over time. However, in recognition of the prevailing interest, the Board outlines below its position with regard to some areas related to C&SR:

Employment: policies, training and benefits

GeneMedix is committed to providing equal opportunities and it is the Company's policy to treat all employees, and applicants for employment, in the same way, regardless of age, gender, nationality, race, marital status, sexual orientation or disability.

GeneMedix has in place a public interest disclosure policy whereby any alleged malpractice or impropriety can be reported by employees to a member of the Executive Group without fear of reprisal or prejudice, and a harassment policy for the protection of employees.

GeneMedix recognises that its people are fundamental to its future success and therefore strives to provide an environment which attracts and retains the best staff. All staff are eligible for a number of remuneration-related benefits, including the grant of options and, after a qualifying period, a contribution to a personal pension plan.

GeneMedix encourages the development of all staff, offering structured training, development and career opportunities implemented via a comprehensive appraisal system. The Company seeks to keep its employees informed on a range of subjects that may affect them, such as Company performance and developments in the scientific and professional fields in which they operate, which it does through regular staff meetings, a company newsletter and the provision of a well stocked library containing specialist journals and reference books.

At a strategic level, employment issues are the concern of a group of senior managers, with accountability to the Board through the Chief Executive Officer, Paul Edwards.

Health and safety

GeneMedix is committed to providing a safe environment for its employees and visitors, and aims to eliminate accidents and occupational related ill-health by reducing hazards, providing appropriate instruction and training, and by identifying and managing potential risks. The Group has an established health and safety policy and works closely with an external safety officer who works with the Group's Health and Safety Committee and line management to develop and implement best practice in all aspects relevant to the Group's operations. This

Statement on corporate and Social Responsibility (C&SR) (continued)

includes compliance with established standards such as good laboratory practice. During the year, the Group commissioned a health and safety audit as a result of which some improvement actions were identified. Resources have now been targeted in order that these improvements can be carried out. The Board member with particular responsibility for matters of health and safety is the Chief Executive Officer, Paul Edwards, although it is recognised that all members of the Board and senior management have a legal and ethical responsibility to promote best practice on all issues of health and safety.

The environment

GeneMedix is committed to playing its part in protecting the environment, for the benefit of its employees and the public at large. The Group seeks to minimise the environmental impact of its activities and strives to exceed the environmental regulations imposed by the Government wherever possible. The Group has an established environmental policy and applies this to all aspects of its operations. In particular, the Group has taken care to ensure that the design of all of its facilities reflects best practice in terms of building design and functionality. The Group is currently implementing systems to enable the measurement of certain environmental indicators, such as electricity usage, in order that areas for improvement can be identified and improvement monitored. The Board member with responsibility for such operational concerns is the Chief Executive Officer, Paul Edwards.

Investor communications

As part of its communications programme, the Company ensures that all news releases considered to be share price sensitive are sent to the London Stock Exchange, the Singapore Stock Exchange, financial/business media and other financial audiences promptly and in line with the reporting and regulatory obligations incumbent on the Company. When considered suitable, the Company will hold conference call briefings or web-based presentations to facilitate two-way communication with investors and other interested financial audiences. Members of the Board are available to enter in constructive dialogue with investors, and the Company actively seeks opportunities to meet with financial stakeholders on a regular basis. Opinions or views articulated by the investor community are reported back to the Board and are taken into account in the decision making process. Additionally, shareholders are encouraged to attend the Company's AGM where presentations relating the Group's business and strategy are given, and where there is an opportunity to put questions to the Board and meet with individual Directors.

Employee communications

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The employee share option scheme has been running successfully since its inception in 1999. It is open to all employees and details are provided in note 19 to the accounts.

Statement on corporate and Social Responsibility (C&SR) (continued)

Enquiries from stakeholders are welcomed by telephone using the Company's main telephone number + 44 (0) 1638 663320, or by e-mail to the following e-mail address:

enquiries@genemedix.com

Business ethics

GeneMedix has a written business ethics policy and strives to carry out its business in an ethical manner, treating its partners, clients, suppliers and other business contacts fairly and courteously.

Remuneration Report

The Remuneration Committee is chaired by Gordon Mylchreest and its other members, who are all Non-executive Directors, are, Dr Kim Tan, and Mr Steven Harris. This Committee determines the remuneration and benefits packages for Executive Directors and any changes to their service contracts as well as the remuneration of senior executives. The Committee also approves any performance bonus and share incentive arrangements. The composition of the Committee was unchanged throughout the year.

As well as complying with the Provisions of the Code as disclosed in the Company's corporate governance statement, the Board seeks to give full consideration to the principles of the new 2003 Combined Code, including the provisions set out in Schedule A to the Code relating to Directors' remuneration as described below.

This section of the Remuneration Report covers the policies set by the Remuneration Committee. Detailed disclosures of Directors' remuneration for the year ended 30 November 2004 together with disclosures of share ownership and entitlement to share options is set out on page 30 and 31.

Remuneration Committee Policy

The Board believes that a properly constituted and effective remuneration committee is key to ensuring that executive director's remuneration enhances shareholder value and it has delegated to the Board's Remuneration Committee the assessment and recommendation of broad policy on executive remuneration.

The Remuneration Committee's policy has been to provide remuneration packages which are sufficient to attract and retain the high calibre Directors needed to run the Company successfully and which are appropriate to their performance, responsibility and geographic location, but without paying more than is necessary for this purpose.

The Group operates in a dynamic business sector and only became a publicly quoted company in 2000. The Remuneration Committee's policies aim to align business strategy and corporate objectives with executive remuneration. Certain policies may need to be adjusted from time to time in order to ensure the appropriate mix between performance based and non-performance based elements and between long and short-term goals and rewards, depending on the challenges facing the business and its objectives at any given point in its development. Where major changes in remuneration policy occur, the Remuneration Committee would expect to discuss these with key shareholders in advance.

Executive Directors' remuneration packages are comprised of a basic annual salary, a performance related bonus, pension contributions and long-term incentives in the form of share options. The Board believes that incentives such as share options serve a valuable role in motivating executive directors and employees to act in the interests of creating shareholder value in the long term.

It is the opinion of the Remuneration Committee that shareholders' interests are best served by ensuring that the performance related elements of remuneration form a significant proportion of the total remuneration package of Executive Directors.

Remuneration report (continued)

Base Salary

The Committee aims to ensure that remuneration remains competitive with similar companies in terms of size and complexity, but with a view to the current limitations of the Company's funding.

The levels of base salaries of the Executive Directors during the year fall within the lowest quartile compared to other biotech and pharmaceutical companies of a comparable size to the Company.

Factors taken into account by the Remuneration Committee when determining each executive Director's base salary are:-

- the lowest quartile for a similar position within comparable companies;
- the individual executive Director's performance; and
- the responsibilities of the respective executive Director.

In assessing base salary levels for 2004, the remuneration committee reviewed remuneration policies and packages for executives at other comparable companies and considered in light of the current financial position of the Company. As part of this review, information was obtained from salary surveys prepared by New Bridge Street Consultants and Alan Jones Associates.

Annual Performance Bonus

Each Executive Director is eligible for a discretionary annual bonus in recognition of the director's contribution to the success of the Group and the achievement of specific performance targets which are designed to increase shareholder value and achieve the Company's corporate objectives. These performance targets include a combination of corporate and individual objectives except for the Chief Executive Officer, whose bonus is entirely based upon the achievement of corporate objectives. As a matter of current policy, the maximum bonus for each executive director is between 20% to 30% of salary and bonuses are paid on a sliding scale according to achievement.

No bonus payments were made during the year and any awarded bonuses have been deferred while the Company addresses its funding requirements.

Remuneration report (continued)

Share option schemes

The Company operates a share option scheme. Share options are granted to Executive Directors and senior employees in order to attract and retain key employees. Details of options granted during the current year and previous years are set out on pages 31 and 56 to 58. In order to promote sustained performance, the remuneration committee has implemented a policy of annual grants of share options. Share options are granted at the mid-market value of the Company's ordinary shares on the day of options granted and vest with the director or employee after a period of three years and for the subsequent two years in three equal instalments. Such options are only issued upon the attainment of demanding performance targets related to the primary strategic objectives of the Group. These annual grants operate alongside the share options vesting on time-based criteria, which were issued when a new director or employee joins the Company.

Pensions and other benefits

The Group contributes a sum equal to a proportion of basic salary (currently a maximum 7%) to a personal defined contribution pension scheme on behalf of each director (and participating employees) each month. The Company does not provide any other benefits for its directors, such as company cars or the provision of private health insurance.

Full details of service contracts, the remuneration packages of individual Directors and information on share options and pension benefits are set out below.

Directors' contracts

The Executive Directors have service contracts with the Company as follows:

	Notice from Company	Notice to Company	Date of Contract
Mr P Edwards	12 months	12 months	15 November 2000
Mr J Attfield	12 months	6 months	15 November 2000
Dr H H Ting	12 months	12 months	15 November 2000

The Non-Executive Directors have no notice periods.

Non-Executive Directors do not participate in the Company's share scheme nor do they receive pension contributions or a bonus.

Directors' transactions

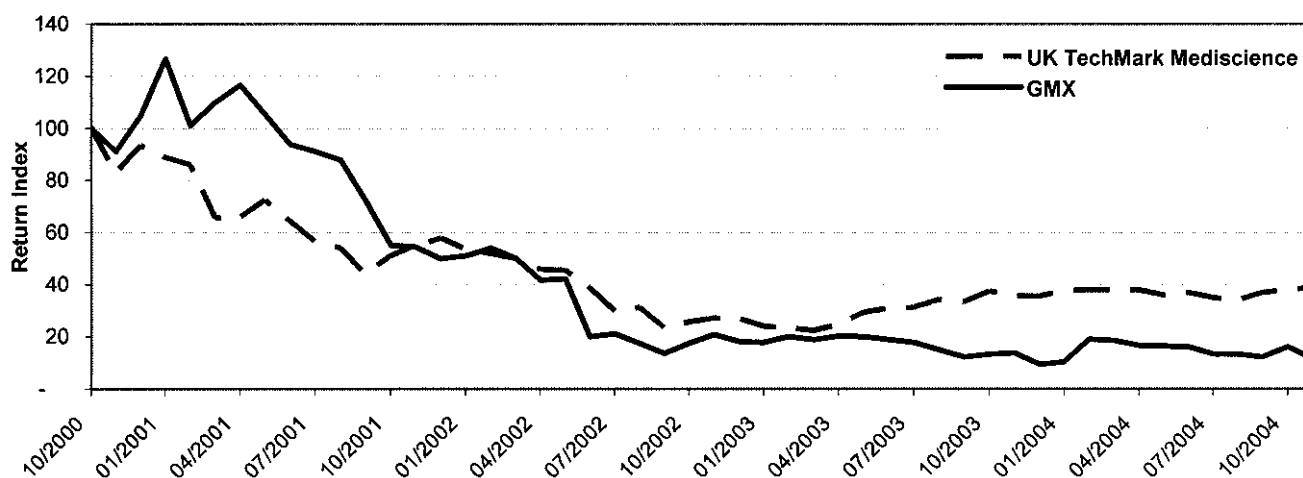
On 12 February 2004, Dr Kim Tan lent the Company an unsecured 6.25% loan of £500,000, of which £300,000 was repaid in three tranches of £100,000 on 24 August, 28 September and 18 October 2004. The remaining amount was repaid on 28 January 2005.

Remuneration report (continued)

Activities during the year ended 30 November 2004

This section of the report covers the performance of GeneMedix Plc against the UK TechMark Mediscience Index, together with detailed disclosure of directors' remuneration, share ownership and share options entitlement for the year ended 30 November 2004.

Performance since flotation



November 2000: 100

Following a period of outperformance during December 2000 to September 2001, the Company has underperformed the UK TechMark Mediscience Index. Whilst GeneMedix's share price has suffered a significant fall during the period since October 2001, it should be observed that this is broadly mirrored by the performance of the UK TechMark Mediscience Index. This index is created by using the historical share prices of all the UK TechMark Mediscience companies and its base date is 30 November 2000. The Remuneration Committee believes this to be the most appropriate index against which GeneMedix should be measured. The biotechnology sector worldwide has suffered to a similar degree following the general lack of sentiment towards technology and life sciences based businesses, reflecting factors outside the Board's control.

The Remuneration Committee is aware of the recommended five-year performance disclosure. Nevertheless, prior to November 2000, there was no comparable historical performance on the Company, as the Company was not fully listed on the London and Singapore Stock Exchanges until 30 November 2000.

Remuneration report (continued)

Auditable information

The following information in the Remuneration report has been audited by the company's auditors, PricewaterhouseCoopers LLP.

Directors' emoluments

Name of director	Fees	Basic Salary	Sub-total	Pension (Money Purchase Scheme)	2004 Total	2003 Fee or Salary	2003 Pension	2003 Total
	£	£	£	£	£	£	£	£
Executive								
P Edwards	-	130,000	130,000	7,070	137,070	110,000	6,878	116,878
J Attfield	-	87,500	87,500	6,125	93,625	75,000	5,250	80,250
Dr H H Ting	-	12,000	12,000	-	12,000	12,000	-	12,000
Non-executive								
Dr K S Tan	20,000	-	20,000	-	20,000	20,000	-	20,000
G Mylchreest	10,000	-	10,000	-	10,000	10,000	-	10,000
F K Jen	10,000	-	10,000	-	10,000	10,000	-	10,000
S Harris	15,000	-	15,000	-	15,000	15,000	-	15,000
Aggregate emoluments	55,000	229,500	284,500	13,195	297,695	252,000	12,128	264,128

Retirement benefits accrue to two executive directors (2003: two) under a defined contribution scheme.

The directors did not receive any taxable benefits-in-kind from the Company during the year.

The aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company.

Remuneration report (continued)

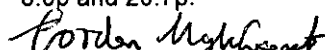
Details of options held by directors are set out below:

	2003	Granted	Exercised	2004	Exercise date	Exercise price
	Number	Number	Number	Number		
P Edwards	235,941	-	-	235,941	After 10/12/1999; Before 10/12/2009	4.24p
P Edwards	2,123,469	-	-	2,123,469	After 10/12/2002; Before 10/12/2009	4.24p
P Edwards	16,667	-	-	16,667	After 31/12/2005; Before 31/12/2012	48.5p
P Edwards	16,667	-	-	16,667	After 31/12/2006; Before 31/12/2012	48.5p
P Edwards	16,666	-	-	16,666	After 31/12/2007; Before 31/12/2012	48.5p
P Edwards	-	166,667	-	166,667	After 18/12/2004; Before 18/12/2013	9.0p
P Edwards	-	166,667	-	166,667	After 18/12/2005; Before 18/12/2013	9.0p
P Edwards	-	166,666	-	166,666	After 18/12/2006; Before 18/12/2013	9.0p
P Edwards	-	250,000	-	250,000	After 23/11/2005; Before 23/11/2014	11.25p
P Edwards	-	250,000	-	250,000	After 23/11/2006; Before 23/11/2014	11.25p
P Edwards	-	250,000	-	250,000	After 23/11/2007; Before 23/11/2014	11.25p
Sub-total	<u>2,409,410</u>	<u>1,250,000</u>	<u>-</u>	<u>3,659,410</u>		
J Attfield	37,500	-	-	37,500	After 16/10/2001; Before 16/10/2010	90p
J Attfield	337,500	-	-	337,500	After 16/10/2003; Before 16/10/2010	90p
J Attfield	16,667	-	-	16,667	After 31/12/2005; Before 31/12/2012	48.5p
J Attfield	16,667	-	-	16,667	After 31/12/2006; Before 31/12/2012	48.5p
J Attfield	16,666	-	-	16,666	After 31/12/2007; Before 31/12/2012	48.5p
J Attfield	-	166,667	-	166,667	After 18/12/2004; Before 18/12/2013	9.0p
J Attfield	-	166,667	-	166,667	After 18/12/2005; Before 18/12/2013	9.0p
J Attfield	-	166,666	-	166,666	After 18/12/2006; Before 18/12/2013	9.0p
J Attfield	-	166,667	-	166,667	After 23/11/2005; Before 23/11/2014	11.25p
J Attfield	-	166,667	-	166,667	After 23/11/2006; Before 23/11/2014	11.25p
J Attfield	-	166,666	-	166,666	After 23/11/2007; Before 23/11/2014	11.25p
Sub-total	<u>425,000</u>	<u>1,000,000</u>	<u>-</u>	<u>1,425,000</u>		
Total	<u>2,834,410</u>	<u>2,250,000</u>	<u>-</u>	<u>5,084,410</u>		

No options lapsed in the year.

Performance conditions are attached to the vesting of all new options issued to current executive directors during the year. Options granted in previous years do not have performance conditions attached. The performance conditions that have been chosen mean that the options will only vest if the Directors conclude a significant transaction that creates value for our shareholders or secures the financial position of the Company.

The mid-market price of the shares at 30 November 2004 was 14.1p and during the year the price varied between 8.0p and 20.7p.


Gordon Mylchreest

Chairman of the Remuneration Committee

Directors and Advisors

Directors

Dr Kim S Tan	(Chairman and Non-Executive Director)
Mr Paul Edwards	(Chief Executive Officer)
Mr Julian Attfield	(Chief Financial Officer)
Dr Hong-Hoi Ting	(Director Asia)
Mr Gordon Mylchreest	(Non-Executive Director)
Mr Fong Kwok Jen	(Non-Executive Director)
Mr Steve Harris	(Non-Executive Director)

**Secretary
and registered office** Julian Attfield
Rosalind Franklin House
Fordham Road
Newmarket
CB8 7XN

Registered number 03467317

**Sponsor and
corporate adviser UK** Nomura International plc
Nomura House
1 St Martin's-le-Grand
London EC1A 4NP

Sponsor Singapore UOB Kay Hian Pte Ltd
19th Floor
UOB Plaza 1
Singapore

Corporate adviser USA Global Markets Capital Group LLP
The Chrysler Building
405 Lexington Avenue - 45th Floor
New York, New York, 10174

Auditors PricewaterhouseCoopers LLP
Abacus House
Castle Park
Cambridge CB3 0AN

Solicitors CMS Cameron McKenna
Mitre House
160 Aldersgate Street
London
EC1A 4DD

Auditors' report

Independent auditors' report to the members of GeneMedix Plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985, contained in the directors' remuneration report ("the auditable part").

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chief Executive Officer's statement, the Company profile, the Board of directors and senior executives, the Financial Review, the Directors' report, the Corporate Governance statement, the Statement on corporate and social responsibility and the unaudited part of the remuneration report.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's or Company's corporate governance procedures or its risk and control procedures.

Auditors' report (continued)

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

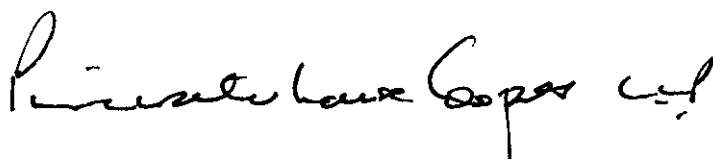
Fundamental uncertainty – going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation. The financial statements have been prepared on a going concern basis and the validity of this depends on the Group successfully obtaining adequate funds to continue its activities. The financial statements do not include any adjustments that would result from a failure to secure such funds. Details of the circumstances relating to this fundamental uncertainty are described in Note 1. Our opinion is not qualified in this respect.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 November 2004 and of the loss and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cambridge

9th May 2005

Consolidated profit and loss account

For the year ended 30 November 2004

	Notes	2004 £	2003 £
Turnover	2	-	21,575
Cost of sales		-	(8,801)
Gross profit		-	12,774
Administrative expenses		(2,912,596)	(2,956,307)
Exceptional administrative expenses	3	(1,600,000)	(750,000)
Total administrative expenses		(4,512,596)	(3,706,307)
Research and development		(2,209,805)	(3,233,093)
Total operating expenses		(6,722,401)	(6,939,400)
Operating loss	2	(6,722,401)	(6,926,626)
Interest receivable	4	57,812	91,322
Interest payable	4	(436,278)	(397,836)
Loss on ordinary activities before taxation	5	(7,100,867)	(7,233,140)
Tax credit on loss on ordinary activities	6	1,293,370	-
Loss on ordinary activities after taxation		(5,807,497)	(7,233,140)
Equity minority interests	27	97,290	164,876
Loss for the year	20	(5,710,207)	(7,068,264)
Loss per share – basic and diluted	9	(1.8p)	(2.4p)

All results arise from continuing operations.

Consolidated statement of total recognised gains and losses

For the year ended 30 November 2004

	Notes	2004 £	2003 £
Loss for the financial year		(5,710,207)	(7,068,264)
Exchange adjustments offset in reserves	20	(91,536)	(153,255)
Total losses recognised for the year		(5,801,743)	(7,221,519)

Consolidated balance sheet

30 November 2004

	Notes	2004 £	2003 £
Fixed assets			
Intangible fixed assets	10	5,048,706	6,902,729
Tangible fixed assets	11	6,346,849	7,202,467
Investment	12	11,607	11,607
		<u>11,407,162</u>	<u>14,116,803</u>
Current assets			
Stock	13	51,847	78,599
Debtors	14	779,251	517,730
Restricted cash	23	1,448,927	1,785,200
Cash at bank and in hand		482,174	1,055,153
		<u>2,762,199</u>	<u>3,436,682</u>
Creditors: amounts falling due within one year	15	(2,825,956)	(2,994,180)
Net current (liabilities) / assets		<u>(63,757)</u>	<u>442,502</u>
Total assets less current liabilities		<u>11,343,405</u>	<u>14,559,305</u>
Creditors: amounts falling due after one year	16	(804,786)	(1,311,263)
Debentures: convertible loan notes	16	(7,747,158)	(7,430,657)
Provisions for liabilities and charges	18	(48,252)	(26,349)
Net assets		<u>2,743,209</u>	<u>5,791,036</u>
Share capital and reserves			
Called-up share capital	19	3,224,660	2,989,858
Share premium account	20	24,237,245	21,590,331
Profit and loss account	20	(24,880,947)	(19,079,204)
Equity shareholders' funds	21	<u>2,580,958</u>	<u>5,500,985</u>
Equity minority interests	27	162,251	290,051
Total capital employed		<u>2,743,209</u>	<u>5,791,036</u>

The financial statements on pages 35 to 67 were approved by the Board of Directors on 9th May 2005 and were signed on its behalf by:

P. M. Edwards

Paul Edwards
Director

Company balance sheet

30 November 2004

	Notes	2004 £	2003 £
Fixed assets			
Intangible fixed assets	10	3,878,888	3,881,110
Tangible fixed assets	11	4,963,502	5,380,873
Investments	12	4,716,282	6,316,282
		<u>13,558,672</u>	<u>15,578,265</u>
Current assets			
Debtors	14	1,412,640	1,014,600
Restricted cash	23	1,448,927	1,479,507
Cash at bank and in hand		453,057	1,055,153
		<u>3,314,624</u>	<u>3,549,260</u>
Creditors: amounts falling due within one year	15	<u>(2,644,032)</u>	<u>(2,445,366)</u>
Net current assets		<u>670,592</u>	<u>1,103,894</u>
Total assets less current liabilities		<u>14,229,264</u>	<u>16,682,159</u>
Creditors: amount falling due after one year	16	<u>(804,786)</u>	<u>(1,311,263)</u>
Debentures: convertible loan notes	16	<u>(7,747,158)</u>	<u>(7,430,657)</u>
Provisions for liabilities and charges	18	<u>(48,252)</u>	<u>(26,349)</u>
Net assets		<u>5,629,068</u>	<u>7,913,890</u>
Share capital and reserves			
Called-up share capital	19	3,224,660	2,989,858
Share premium account	20	24,237,245	21,590,331
Profit and loss account	20	<u>(21,832,837)</u>	<u>(16,666,299)</u>
Equity shareholders' funds		<u>5,629,068</u>	<u>7,913,890</u>

The financial statements on pages 35 to 67 were approved by the Board of Directors on 9th May 2005 and were signed on its behalf by:

P. M. Edwards

Paul Edwards
Director

Consolidated cash flow statement

For the year ended 30 November 2004

	Notes	2004 £	2003 £
Net cash outflow from operating activities	22	(3,697,194)	(4,451,956)
Returns on investments and servicing of finance	23	(58,772)	(33,040)
Taxation	23	923,297	-
Capital expenditure	23	(191,768)	(764,074)
Acquisitions	23	-	(11,607)
Cash outflow before management of liquid resources and financing		(3,024,437)	(5,260,677)
Management of liquid resources	23	1,042,308	3,714,284
Financing	23	2,148,974	1,317,596
Increase/(decrease) in cash	24	166,845	(228,797)

Notes to the financial statements (continued)

1 Accounting policies

a) *Basis of preparation*

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable Accounting Standards in the UK, under the historical cost convention. A summary of the more important accounting policies, which have been consistently applied and reviewed by the board of directors in accordance with Financial Reporting Standard ("FRS") 18, "Accounting policies", is set out below.

b) *Going concern*

The accounts are prepared on the going concern basis. Should the Company not be a going concern, the balance sheet would need to be reviewed with assets restated to net realisable values and all long term assets and liabilities being reclassified as short-term and provision would be made for further liabilities that might arise.

The Directors estimate that cash held at the date of approval of the financial statements within the Group (which includes cash received subsequent to the year end, see Note 29) is not sufficient to continue funding the trading activities of the Group for a further twelve months from the date of approval of the financial statements. There are a number of major initiatives to raise further finance, such as through the out-licensing of our products, the sales of underutilised assets such as our business in China and potentially further issues of share capital. The directors are confident that such further funds will be available to meet the requirements of the business for the foreseeable future, but if one of these options did not occur over the coming months, the Company would be unable to meet its financial obligations as they fall due.

c) *Basis of consolidation*

The group accounts consolidate the accounts of GeneMedix plc and its subsidiary undertakings drawn up to 30 November each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method. Intra-group transactions and profits are eliminated on consolidation.

d) *Intangible fixed assets – goodwill*

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the net assets acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 15 years. Provision is made for any impairment.

e) *Intangible fixed assets - research and development*

Research and development expenditure is written off as it is incurred.

Patent costs comprising legal fees and other direct costs incurred in obtaining patents are written off in the year of expenditure.

f) *Intangible fixed assets - licences*

Licences to cell lines are included at cost and depreciated on a straight line basis over their useful economic lives from the date of commencement of commercial production of the molecules. Licences to other early stage technology are expensed immediately as part of research and development costs.

Notes to the financial statements (continued)

g) Intangible Fixed Assets – know-how

The cost of purchased know-how is capitalised as an asset on the balance sheet and amortised on a straight line basis over a period of 15 years, which is its estimated useful economic life.

h) Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life as follows:

Fittings and fixtures	10%
Land and buildings	8%
Plant and machinery	10% - 20%
Office equipment	10% - 20%

i) Investments

Fixed asset investments are shown at cost less provision for impairment.

j) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

k) Taxation

Current tax, comprising 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 or substantially enacted by the balance sheet date.

l) Deferred taxation

Provision is made for deferred taxation, using full provision accounting when an event has taken place by the balance sheet date which gives rise to an increased or reduced tax liability in the future in accordance with FRS 19, "Deferred taxation". Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised to the extent that it is more likely than not they will be recovered.

m) Provisions

The Company offers incentives to all employees in the form of share options under the Executive share option plan. In accordance with Urgent Issues Task Force Abstract 25 ("National Insurance Contributions on Share Options"), a provision is established based on the current employer's National Insurance rate applied to the difference between the market value of the shares under option and the option exercise price at the balance sheet date. The provision is charged to the profit and loss account over the period in which the share options vest.

Notes to the financial statements (continued)

n) Cash and short-term investments

Bank deposits secured against finance leases, which can only be drawn down in line with the repayments of the finance leases, are classified as restricted cash. Other bank deposits which are not repayable on demand without penalty are treated as short-term investments in accordance with FRS 1 "Cash flow statements". Movements in such investments are included under "Management of liquid resources" in the Group's cash flow statement.

o) 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.

p) Pensions

A stakeholder pension has been made available to employees, but the individuals are entitled to elect for the Company to make contributions into individual private pension schemes. The amount charged to the profit and loss account in respect of pension costs is the contributions payable during the year.

q) Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

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.

r) Sale and leaseback arrangements

The Group has entered into certain sale and leaseback transactions whereby the risks and rewards of ownership of the assets concerned have not been substantially transferred to the lessor. The assets subject to these sale and leaseback transactions have been retained on the Group's balance sheet and the proceeds of sales are included within creditors as liabilities under sale and leaseback arrangements. The rent payable by the Group throughout the term of the lease is apportioned first as a partial repayment of the related liabilities and, secondly, as interest charged to profits.

Any increase in rent under the terms of the lease will be charged to profit.

The fixed assets subject to the sale and leaseback arrangements are depreciated on a straight line basis over the period of the initial lease term.

Notes to the financial statements (continued)

s) Finance costs

Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

t) Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. In subsequent periods, the carrying amount is increased by the finance cost and reduced by payments made in the period. Convertible debt is reported as a liability unless conversion actually occurs. No gain or loss is recognised on conversion.

u) Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

The results of overseas operations and their balance sheets are translated at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and on foreign currency borrowings, to the extent that they hedge the group's investment in such operations, are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

v) Financial instruments

The Company's financial instruments comprise cash, liquid resources, trade debtors, trade creditors and convertible debt, which arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations.

The Company does not enter into derivative transactions for speculative purposes. It has been, throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised in note 26. These policies have remained unchanged during the year.

Notes to the financial statements (continued)

2 Segmental information

The Group only has one class of business. Segmental geographic information is set out below.

	UK & Ireland		China		Group	
	2004	2003	2004	2003	2004	2003
	£	£	£	£	£	£
Turnover by destination & origin	-	-	-	21,575	-	21,575
Segment operating loss	(6,342,024)	(6,296,352)	(380,377)	(630,274)	(6,722,401)	(6,926,626)
Segment net assets	2,094,211	4,630,834	486,747	870,151	2,580,958	5,500,985
Group minority interests	-	-	162,251	290,051	162,251	290,051
	2,094,211	4,630,834	648,998	1,160,202	2,743,209	5,791,036

3 Exceptional administrative expenses

The exceptional administrative expenses of £1,600,000 (2003: £750,000) were recorded as impairments to goodwill, relating to the revised discounted cash flows of forecast product sales in China and a reduction in the book value of the net assets of the Company's Chinese subsidiary, Shanghai GeneMedix Biotechnology Company.

4 Interest receivable and payable

	2004	2003
	£	£
<i>Interest receivable</i>		
Bank interest receivable	57,812	91,322
<i>Interest payable</i>		
Bank interest payable	(32,834)	(29,681)
5% convertible debenture interest payable	(162,500)	(162,500)
4% convertible debenture interest payable	(154,000)	(99,151)
Finance lease charge payable	(86,944)	(106,504)
	(436,278)	(397,836)

Notes to the financial statements (continued)

5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	2004 £	2003 £
Auditors' remuneration		
Audit services		
- statutory audit (Company: £21,650 (2003: £19,000))	29,650	22,000
- audit-related regulatory reporting	5,250	4,750
Research and development	2,209,805	3,233,093
Depreciation of tangible fixed assets		
- owned	532,120	528,227
- held under finance leases	295,825	296,422
Amortisation of intangibles	254,023	318,606
Impairment of goodwill	1,600,000	750,000
Property rentals under operating leases	148,219	178,727
Other operating lease rentals	7,173	13,775

Fees paid to major firms of accountants other than the Group's auditors for non-audit services amounted to £121,541 (2003: £20,953) which were incurred in the preparation of the claim for Research and Development tax credits for the Group, and in bringing to a satisfactory conclusion Inland Revenue enquiries relating to this claim and to other taxation matters from previous years.

6 Tax on loss on ordinary activities

No tax charge was incurred in respect of current or deferred tax in either the year ended 30 November 2004 or the previous year. The tax credit for the year of £1,293,370 (2003: £nil) relates to the Research and Development ("R&D") tax credit claim in respect of 2004 and earlier years.

Current Tax	2004 £	2003 £
UK corporation tax credit at 16%	370,073	-
Adjustment in respect of prior years	923,297	-
Tax credit on loss on ordinary activities	1,293,370	-

Tax losses available to be carried forward at 30 November 2004 are estimated at approximately £21 million (2003: £20 million), subject to the agreement of the Inland Revenue. As a result of these tax losses, the Company has a potential deferred tax asset which has not been recognised.

Notes to the financial statements (continued)

6 Tax on loss on ordinary activities (continued)

The tax assessed for the year differs from the standard rate of UK corporation tax of 16% (2003: 16%). The differences are explained below.

	2004 £	2003 £
Loss for the year	<u>7,100,867</u>	<u>7,233,140</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax	<u>1,136,139</u>	<u>1,157,302</u>
Effects of:		
Expenses not deductible for tax purposes	(299,386)	(8,833)
Carry forward of tax losses	(678,479)	(1,465,604)
Difference between capital allowances and depreciation	82,580	317,135
Adjustments in respect of previous years	923,297	-
Enhanced R&D expenditure	131,376	-
Short-term timing differences	(2,157)	-
Tax credit on loss on ordinary activities	<u>1,293,370</u>	<u>-</u>

Deferred tax

	Provided		Unprovided	
	2004 £	2003 £	2004 £	2003 £
Difference between capital allowances and depreciation	-	-	673,585	518,745
Other provisions	-	-	(12,682)	(8,637)
Carry forward of tax losses	-	-	(6,182,187)	(4,910,039)
	<u>-</u>	<u>-</u>	<u>(5,521,284)</u>	<u>(4,399,931)</u>

The Directors expect that it will take some time for tax losses to be relieved and the recoverability of the resulting deferred tax asset is likely to be relatively uncertain, therefore it is not appropriate to recognise the deferred tax asset.

Notes to the financial statements (continued)

7 Staff costs

The aggregate emoluments of the directors of the group are set out below:

	2004 £	2003 £
Aggregate emoluments in respect of qualifying services	284,500	252,000
Aggregate group pension contributions to money purchase schemes	13,195	12,128
	<u>297,695</u>	<u>264,128</u>

The emoluments of the highest-paid director of the group are set out below:

	2004 £	2003 £
Emoluments in respect of qualifying services	130,000	110,000
Group pension contributions to money purchase schemes	7,070	6,878
	<u>137,070</u>	<u>116,878</u>

Detailed disclosures of directors' emoluments are shown on page 30, details of directors' interests in share options are shown on page 31.

Particulars of employees (including Executive Directors) are shown below:

The average monthly number of employees (including Executive Directors) was:

	2004 Number	2003 Number
Production	41	53
Administration and sales	20	21
	<u>61</u>	<u>74</u>

Their aggregate remuneration comprised:

	2004 £	2003 £
Wages and salaries	1,473,097	1,635,275
Social security costs	178,511	171,394
Pension	89,823	113,691
	<u>1,741,431</u>	<u>1,920,360</u>

Of the total pension costs above, £13,484 (2003: £28,789) remained unpaid at the year end.

Notes to the financial statements (continued)

8 Losses of holding company

Of the loss for the financial year, a deficit of £5,166,538 (2003: a deficit of £6,257,252) is dealt with in the accounts of GeneMedix plc. The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company alone.

9 Loss per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The group has two classes of dilutive potential ordinary shares during the year, being those share options granted to employees and directors where exercise price is less than the average market price of the Company's ordinary shares during the year and the contingently issuable shares attached to the convertible debentures (see Note 16 for details). Since the Company reported a net loss, diluted loss per share is equal to basic loss per share.

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

	Basic and diluted	
	2004 £	2003 £
Loss for the financial year	<u>5,710,207</u>	<u>7,068,264</u>
Weighted average number of shares:	2004 Number of shares	2003 Number of shares
For basic and diluted loss per share	<u>308,789,396</u>	<u>293,996,671</u>

Notes to the financial statements (continued)

10 Intangible fixed assets

	Group				Company		
	Know-how	Licence fee	Goodwill	Total	Licence fee	Know-how	Total
	£	£	£	£	£	£	£
Cost							
As at 30 November							
2003 and 2004	33,333	7,100,000	4,694,401	11,827,734	7,100,000	33,333	7,133,333
Amortisation							
Beginning of year	2,223	3,250,000	1,672,782	4,925,005	3,250,000	2,223	3,252,223
Charge for the year	2,222	-	251,801	254,023	-	2,222	2,222
Impairment	-	-	1,600,000	1,600,000	-	-	-
End of year	4,445	3,250,000	3,524,583	6,779,028	3,250,000	4,445	3,254,445
Net book value							
At 30 November 2004	28,888	3,850,000	1,169,818	5,048,706	3,850,000	28,888	3,878,888
At 30 November 2003	31,110	3,850,000	3,021,619	6,902,729	3,850,000	31,110	3,881,110

Notes to the financial statements (continued)

11 Tangible fixed assets

Group	Short term leasehold land and buildings £	Office equipment £	Fixtures and fittings £	Plant and machinery £	Total £
Cost					
Beginning of year	1,866,005	203,376	164,886	6,469,941	8,704,208
Currency translation difference	(180,951)	(4,332)	(61)	(96,113)	(281,457)
Disposals	-	(6,354)	-	(397)	(6,751)
Additions	-	9,740	24,462	157,566	191,768
End of year	1,685,054	202,430	189,287	6,530,997	8,607,768
Depreciation					
Beginning of year	389,155	78,571	22,953	1,011,062	1,501,741
Currency translation difference	(37,737)	(2,140)	(10)	(22,129)	(62,016)
Disposals	-	(6,354)	-	(397)	(6,751)
Charge for the year	136,918	35,785	18,929	636,313	827,945
End of year	488,336	105,862	41,872	1,624,849	2,260,919
Net book value					
At 30 November 2004	1,196,718	96,568	147,415	4,906,148	6,346,849
At 30 November 2003	1,476,850	124,805	141,933	5,458,879	7,202,467

Notes to the financial statements (continued)

11 Tangible fixed assets (continued)

Company	Office equipment £	Fixtures and fittings £	Plant and machinery £	Total £
Cost				
Beginning of year	159,782	164,886	5,934,374	6,259,042
Currency translation	(105)	(62)	(10,334)	(10,501)
Disposals	(5,900)	-	-	(5,900)
Additions	9,616	24,462	155,341	189,419
End of year	163,393	189,286	6,079,381	6,432,060
Depreciation				
Beginning of year	56,818	22,952	798,399	878,169
Currency translation	(31)	(10)	(1,506)	(1,547)
Disposals	(5,900)	-	-	(5,900)
Charge for the year	27,309	18,929	551,599	597,837
End of year	78,196	41,871	1,348,492	1,468,559
Net book value				
At 30 November 2004	85,197	147,415	4,730,889	4,963,501
At 30 November 2003	102,964	141,934	5,135,975	5,380,873

Assets held under finance leases, capitalised and included in plant and machinery for the group and company:

	2004 £	2003 £
Cost		
Beginning of year	2,964,220	2,070,378
Currency translation	(5,975)	188,190
Additions	-	705,652
End of year	2,958,245	2,964,220
Depreciation		
Beginning of year	409,622	103,768
Currency translation	(826)	9,432
Charge for the year	295,825	296,422
End of year	704,621	409,622
Net book value		
At 30 November 2004	2,253,624	2,554,598
At 30 November 2003	2,554,598	1,966,610

Notes to the financial statements (continued)

12 Fixed asset investments

Company	2004	2003
	£	£
<i>Subsidiary undertakings</i>		
Cost	7,054,675	7,054,675
Accumulated impairment at 1 December	(750,000)	-
Impairments in the year	(1,600,000)	(750,000)
Accumulated impairment at 30 November	(2,350,000)	(750,000)
Net book value	4,704,675	6,304,675
<i>Joint Venture</i>		
Cost and book value	11,607	11,607
	4,716,282	6,316,282

The impairment recorded against investments in subsidiary undertakings relates to the revised discounted cash flows of forecast product sales in China and a reduction in the book value of the net assets of the Company's Chinese subsidiary, Shanghai GeneMedix Biotechnology Co Ltd, due to accumulated losses since acquisition.

Principal group investments

The parent company has investments in the following subsidiary undertakings that principally affected the profits or net assets of the group. These subsidiary undertakings have been included in the consolidation.

	Country of incorporation	Principal activity	% Ordinary share holding
Subsidiary undertakings			
Shanghai GeneMedix Biotechnology Co. Ltd (SGB)	People's Republic of China	Therapeutic protein manufacture	75%
GeneMedix Biotech Malaysia Sdn. Bhd.	Malaysia	Dormant	100%
Joint Venture			
Antibioticos Biotechnologies SA	Spain	Dormant	25%

On 25 September 2002 Antibioticos Biotechnologies SA was incorporated by Antibioticos SA as a joint venture vehicle for both Antibioticos SA and the Company to jointly develop manufacturing processes and products. On 10 April 2003 the Company acquired 25% of the ordinary shares of £7.15 for £11,607 of Antibioticos Biotechnologies SA and entered into a joint venture agreement with Antibioticos SA. The joint venture has not yet traded since formation, so there is no profit/loss to recognise as at 30 November 2004.

Notes to the financial statements (continued)

13 Stock

	Group	
	2004	2003
	£	£
Raw materials and consumables	14,844	26,042
Work-in-progress	-	1,228
Finished goods and goods for resale	37,003	51,329
	51,847	78,599

The company held no stock at the balance sheet date (2003: £nil). There is no material difference between the balance sheet value of stocks and their replacement cost.

14 Debtors

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Amounts due within one year:				
Trade debtors	31,404	29,866	-	-
Other debtors	77,369	116,198	49,769	84,910
Corporation tax recoverable	370,073	-	370,073	-
Amounts owed by group undertakings	-	-	697,550	568,769
Prepayments and accrued income	300,405	371,666	295,248	360,921
	779,251	517,730	1,412,640	1,014,600

Notes to the financial statements (continued)

15 Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank loan	101,343	392,790	-	-
Trade creditors	484,747	633,550	437,159	574,245
Other creditors	1,377,442	1,045,054	200,000	-
Amounts owed to group undertakings	-	-	1,177,442	1,038,039
Taxation and social security	42,318	51,045	42,318	51,045
Obligations under finance leases	503,834	480,355	503,834	480,355
Accruals	316,272	391,386	283,279	301,682
	2,825,956	2,994,180	2,644,032	2,445,366

Other creditors includes an amount owed to a third party of £1,177,442 (2003: £1,038,039) as part of a wider project to construct a manufacturing facility in Malaysia. As the initial stage of this project has not as yet been completed, it has been agreed post year-end with the provider of this funding that this licensing fee will be transformed into a long-term debt instrument with GeneMedix plc, issued in return for the Company's insulin licence and potentially the rights to other GeneMedix plc products in certain limited territories. In the Company this amount has been treated as an out-licensing advancement and is included as an amount owed to a Group undertaking in the balance sheet of the Company.

16 Creditors: amounts falling due after more than one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Debentures: convertible loan notes				
5% convertible unsecured loan stock due 2007	3,250,000	3,250,000	3,250,000	3,250,000
Interest accrued to 30 November on 5% convertible unsecured loan stock	394,007	231,507	394,007	231,507
	3,644,007	3,481,507	3,644,007	3,481,507
4% convertible unsecured loan stock due 2013	3,850,000	3,850,000	3,850,000	3,850,000
Interest accrued to 30 November on 4% convertible unsecured loan stock	253,151	99,150	253,151	99,150
	4,103,151	3,949,150	4,103,151	3,949,150
Total convertible debts	7,747,158	7,430,657	7,747,158	7,430,657
Other creditors				
Obligations under finance leases	804,786	1,311,263	804,786	1,311,263
	8,551,944	8,741,920	8,551,944	8,741,920

Notes to the financial statements (continued)

17 Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's financial liabilities, other than short-term trade creditors, accruals and equity minority interests is as follows:

	Group and Company			
	Bank loans	Finance leases	Loan notes	Total
	£	£	£	£
In one year or less	101,343	503,834	-	605,177
In more than one year, but not more than two years	-	529,384	-	529,384
In more than two years, but not more than five years	-	275,402	3,644,007	3,919,409
In more than five years	-	-	4,103,151	4,103,151
	<u>101,343</u>	<u>1,308,620</u>	<u>7,747,158</u>	<u>9,157,121</u>

The bank loans are secured by a fixed charge over the Group's cash deposits.

The finance leases are secured by the Company's restricted cash deposits, which are released in line with the repayments of finance leases under the contracts.

One of the debenture loans represents 5% unsecured loan stock, which is convertible at the option of the holder into between 11.2 million and 8.3 million fully paid ordinary shares of the Company in the range between 29p to 39p per ordinary share up to and including 28 June 2004 and may be redeemed at the option of the issuer during the period from 29 June 2002 to 28 June 2007 at par. Unless previously redeemed or converted, it will be redeemed at par on 28 June 2007.

The other debenture loan represents 4% unsecured loan stock, which is convertible at the option of the holder into between 24.7 million and 34.1 million fully paid ordinary shares of the Company in the range between 12.5p to 16p per ordinary share at any time up to and including 1 December 2005 and may be redeemed at the option of the issuer during the period from 1 December 2004 to 10 April 2013 at par. Unless previously redeemed or converted, it will be redeemed at par on 10 April 2013.

18 Provisions for liabilities and charges

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
<i>National Insurance Contributions payable on share options</i>				
Balance as at 1 December	26,349	42,753	26,349	42,753
Charged / (credited) to the profit and loss account	21,903	(16,404)	21,903	(16,404)
At 30 November	<u>48,252</u>	<u>26,349</u>	<u>48,252</u>	<u>26,349</u>

Provisions relate to National Insurance Contributions which will become payable on the exercise of share options. The share options can be exercised as shown in Note 19. The amount payable is dependent on the Company's share price at the date of exercise of the options. The provision has been calculated based on the share price at the balance sheet date of 14.25p (2003: 12.5p) and the assumption that all employees will exercise the share options and that the rate of NIC is 12.8% (2003: 12.8%).

Notes to the financial statements (continued)

19 Share capital

The authorised share capital of the Company and the called-up and fully-paid amounts were as follows:

	2004		2003	
	Number	£	Number	£
<i>Authorised</i>				
Ordinary shares of 1p each	<u>600,000,000</u>	<u>6,000,000</u>	600,000,000	6,000,000
<i>Called-up, issued and fully-paid</i>				
Ordinary shares of 1p each	<u>322,465,992</u>	<u>3,224,660</u>	298,985,755	2,989,858
			1p ordinary shares	
			Number	£
At beginning of year			298,985,755	2,989,858
Issued for cash consideration			23,480,237	234,802
At end of year			<u>322,465,992</u>	<u>3,224,660</u>

During the year, the Company issued the following shares for cash consideration:

Date	Number of shares	Price at offering	Premium
October 2004	2,503,952	11.7p	10.7p
September 2004	7,522,729	11.025p	10.025p
April 2004	13,453,556	14.4p	13.4p
	<u>23,480,237</u>		

Notes to the financial statements (continued)

19 Share capital (continued)

Employees have been granted options over shares in the Company under the unapproved share option scheme as follows:

2003 Number	Number of Options lapsed	Number of Options granted	Number of Options exercised	2004 Number	Exercise Price	Earliest and latest exercise date
132,750	-	-	-	132,750	4.24p	12.01.2002 to 13.01.2010
150,000	-	-	-	150,000	63.33p	14.05.2002 to 14.05.2010
30,000	-	-	-	30,000	63.33p	14.08.2000 to 14.05.2010
240,000	-	-	-	240,000	63.33p	14.05.2003 to 14.05.2010
84,000	-	-	-	84,000	63.33p	14.08.2000 to 14.05.2010
336,000	-	-	-	336,000	63.33p	14.05.2003 to 14.05.2010
60,000	-	-	-	60,000	61.67p	17.08.2000 to 17.05.2010
240,000	-	-	-	240,000	61.67p	17.05.2003 to 17.05.2010
30,000	-	-	-	30,000	90.0p	01.12.2001 to 01.12.2010
270,000	-	-	-	270,000	90.0p	01.12.2003 to 01.12.2010
15,000	-	-	-	15,000	90.0p	04.11.2001 to 16.10.2010
60,000	-	-	-	60,000	90.0p	04.11.2003 to 16.10.2010
20,000	-	-	-	20,000	84.5p	02.07.2002 to 02.07.2011
90,000	-	-	-	90,000	84.5p	02.07.2004 to 02.07.2011
90,000	-	-	-	90,000	84.5p	02.07.2006 to 02.07.2011
10,000	-	-	-	10,000	97.0p	21.05.2002 to 21.05.2011
90,000	-	-	-	90,000	97.0p	21.05.2004 to 21.05.2011
8,000	-	-	-	8,000	81.5p	10.08.2002 to 10.08.2011
32,000	-	-	-	32,000	81.5p	10.08.2002 to 10.08.2011
20,000	-	-	-	20,000	87.0p	02.09.2002 to 02.09.2011
100,000	-	-	-	100,000	87.0p	02.09.2004 to 02.09.2011
40,000	-	-	-	40,000	87.0p	02.09.2005 to 02.09.2011
40,000	-	-	-	40,000	87.0p	02.09.2006 to 02.09.2011
16,667	-	-	-	16,667	48.5p	31.12.2005 to 31.12.2012
16,667	-	-	-	16,667	48.5p	31.12.2006 to 31.12.2012
16,666	-	-	-	16,666	48.5p	31.12.2007 to 31.12.2012
16,667	-	-	-	16,667	48.5p	31.12.2005 to 31.12.2012
16,667	-	-	-	16,667	48.5p	31.12.2006 to 31.12.2012
16,666	-	-	-	16,666	48.5p	31.12.2007 to 31.12.2012
16,667	-	-	-	16,667	48.5p	31.12.2005 to 31.12.2012
16,667	-	-	-	16,667	48.5p	31.12.2006 to 31.12.2012
16,666	-	-	-	16,666	48.5p	31.12.2007 to 31.12.2012
8,333	-	-	-	8,333	48.5p	31.12.2005 to 31.12.2012
8,333	-	-	-	8,333	48.5p	31.12.2006 to 31.12.2012
8,334	-	-	-	8,334	48.5p	31.12.2007 to 31.12.2012
8,333	-	-	-	8,333	48.5p	31.12.2005 to 31.12.2012
8,333	-	-	-	8,333	48.5p	31.12.2006 to 31.12.2012
8,334	-	-	-	8,334	48.5p	31.12.2007 to 31.12.2012
10,000	-	-	-	10,000	39.5p	12.11.2002 to 12.11.2011
90,000	-	-	-	90,000	39.5p	12.11.2004 to 12.11.2011
4,500	-	-	-	4,500	46.0p	17.12.2002 to 17.12.2011
40,500	-	-	-	40,500	46.0p	17.12.2004 to 17.12.2011

Notes to the financial statements (continued)

19 Share capital (continued)

2003 Number	Number of Options lapsed	Number of Options granted	Number of Options exercised	2004 Number	Exercise Price	Earliest and latest exercise date
4,500	(4,500)	-	-	-	47.5p	02.01.2003 to 02.01.2012
40,500	(40,500)	-	-	-	47.5p	02.01.2005 to 02.01.2012
4,500	-	-	-	4,500	47.5p	04.01.2003 to 04.01.2012
40,500	-	-	-	40,500	47.5p	04.01.2005 to 04.01.2012
15,000	-	-	-	15,000	47.5p	07.01.2003 to 07.01.2012
60,000	-	-	-	60,000	47.5p	07.01.2005 to 07.01.2012
2,500	-	-	-	2,500	43.5p	08.04.2003 to 08.04.2012
22,500	-	-	-	22,500	43.5p	08.04.2005 to 08.04.2012
3,500	-	-	-	3,500	44.0p	22.04.2003 to 22.04.2012
31,500	-	-	-	31,500	44.0p	22.04.2005 to 22.04.2012
3,500	(3,500)	-	-	-	43.0p	04.06.2003 to 04.06.2012
31,500	(31,500)	-	-	-	43.0p	04.06.2005 to 04.06.2012
4,500	-	-	-	4,500	24.0p	22.07.2003 to 22.07.2012
40,500	-	-	-	40,500	24.0p	22.07.2005 to 22.07.2012
4,500	-	-	-	4,500	18.0p	06.08.2003 to 06.08.2012
40,500	-	-	-	40,500	18.0p	06.08.2005 to 06.08.2012
4,000	(4,000)	-	-	-	17.0p	01.08.2003 to 01.08.2012
36,000	(36,000)	-	-	-	17.0p	01.08.2005 to 01.08.2012
3,500	(3,500)	-	-	-	17.0p	13.01.2004 to 13.01.2013
31,500	(31,500)	-	-	-	17.0p	13.01.2005 to 13.01.2013
3,500	-	-	-	3,500	17.78p	07.04.2004 to 07.04.2013
31,500	-	-	-	31,500	17.78p	07.04.2006 to 07.04.2013
-	-	4,000	-	4,000	18.0p	02.12.2003 to 02.12.2012
-	-	36,000	-	36,000	18.0p	02.12.2005 to 02.12.2012
-	-	3,500	-	3,500	12.5p	12.11.2004 to 12.11.2013
-	-	31,500	-	31,500	12.5p	12.11.2006 to 12.11.2013
-	-	3,500	-	3,500	13.0p	10.11.2004 to 10.11.2013
-	-	31,500	-	31,500	13.0p	10.11.2006 to 10.11.2013
-	-	4,000	-	4,000	15.25p	01.03.2005 to 01.03.2014
-	-	36,000	-	36,000	15.25p	01.03.2007 to 01.03.2014
-	-	2,500	-	2,500	15.25p	13.07.2005 to 13.07.2014
-	-	17,500	-	17,500	15.25p	13.07.2007 to 13.07.2014
-	-	2,500	-	2,500	14.63p	03.08.2005 to 03.08.2014
-	-	27,500	-	27,500	14.63p	03.08.2007 to 03.08.2014
-	-	3,000	-	3,000	14.5p	10.08.2005 to 10.08.2014
-	-	27,000	-	27,000	14.5p	10.08.2007 to 10.08.2014
-	-	3,500	-	3,500	14.35p	11.08.2005 to 11.08.2014
-	-	31,500	-	31,500	14.35p	11.08.2007 to 11.08.2014
-	-	3,500	-	3,500	13.5p	23.08.2005 to 23.08.2014
-	-	31,500	-	31,500	13.5p	23.08.2007 to 23.08.2014
-	-	10,000	-	10,000	13.5p	23.08.2005 to 23.08.2014
-	-	90,000	-	90,000	13.5p	23.08.2007 to 23.08.2014
-	-	83,333	-	83,333	11.25p	23.11.2005 to 23.11.2014
-	-	83,333	-	83,333	11.25p	23.11.2006 to 23.11.2014

Notes to the financial statements (continued)

19 Share capital (continued)

2003 Number	Number of Options lapsed	Number of Options granted	Number of Options exercised	2004 Number	Exercise Price	Earliest and latest exercise date
-	-	83,334	-	83,334	11.25p	23.11.2007 to 23.11.2014
-	-	83,333	-	83,333	11.25p	23.11.2005 to 23.11.2014
-	-	83,333	-	83,333	11.25p	23.11.2006 to 23.11.2014
-	-	83,334	-	83,334	11.25p	23.11.2007 to 23.11.2014
-	-	83,333	-	83,333	11.25p	23.11.2005 to 23.11.2014
-	-	83,333	-	83,333	11.25p	23.11.2006 to 23.11.2014
-	-	83,334	-	83,334	11.25p	23.11.2007 to 23.11.2014
-	-	83,333	-	83,333	11.25p	23.11.2005 to 23.11.2014
-	-	83,333	-	83,333	11.25p	23.11.2006 to 23.11.2014
-	-	83,334	-	83,334	11.25p	23.11.2007 to 23.11.2014
-	-	83,333	-	83,333	11.25p	23.11.2005 to 23.11.2014
-	-	83,333	-	83,333	11.25p	23.11.2006 to 23.11.2014
-	-	83,334	-	83,334	11.25p	23.11.2007 to 23.11.2014
-	-	58,333	-	58,333	11.25p	23.11.2005 to 23.11.2014
-	-	58,333	-	58,333	11.25p	23.11.2006 to 23.11.2014
-	-	58,334	-	58,334	11.25p	23.11.2007 to 23.11.2014
235,941	-	-	-	235,941	4.24p	10.12.1999 to 10.12.2009
2,123,469	-	-	-	2,123,469	4.24p	10.12.2002 to 10.12.2012
16,667	-	-	-	16,667	48.5p	31.12.2005 to 31.12.2012
16,667	-	-	-	16,667	48.5p	31.12.2006 to 31.12.2012
16,666	-	-	-	16,666	48.5p	31.12.2007 to 31.12.2012
-	-	166,667	-	166,667	9.0p	18.12.2004 to 18.12.2013
-	-	166,667	-	166,667	9.0p	18.12.2005 to 18.12.2013
-	-	166,666	-	166,666	9.0p	18.12.2006 to 18.12.2013
-	-	250,000	-	250,000	11.25p	23.11.2005 to 23.11.2014
-	-	250,000	-	250,000	11.25p	23.11.2006 to 23.11.2014
-	-	250,000	-	250,000	11.25p	23.11.2007 to 23.11.2014
37,500	-	-	-	37,500	90.0p	16.10.2001 to 16.10.2010
337,500	-	-	-	337,500	90.0p	16.10.2003 to 16.10.2010
16,667	-	-	-	16,667	48.5p	31.12.2005 to 31.12.2012
16,667	-	-	-	16,667	48.5p	31.12.2006 to 31.12.2012
16,666	-	-	-	16,666	48.5p	31.12.2007 to 31.12.2012
-	-	166,667	-	166,667	9.0p	18.12.2004 to 18.12.2013
-	-	166,667	-	166,667	9.0p	18.12.2005 to 18.12.2013
-	-	166,666	-	166,666	9.0p	18.12.2006 to 18.12.2013
-	-	166,667	-	166,667	11.25p	23.11.2005 to 23.11.2014
-	-	166,667	-	166,667	11.25p	23.11.2006 to 23.11.2014
-	-	166,666	-	166,666	11.25p	23.11.2007 to 23.11.2014
5,827,160	(155,000)	4,075,000	-	9,747,160		

Notes to the financial statements (continued)

20 Reserves

The movements on reserves during the year were as follows:

Group	Share premium account £	Profit and loss account £
At beginning of year	21,590,331	(19,079,204)
Premium on shares issued	2,824,853	-
Expenses related to share issues	(177,939)	-
Loss for the year	-	(5,710,207)
Exchange difference offset in reserves	-	(91,536)
At end of year	<u>24,237,245</u>	<u>(24,880,947)</u>

Company	Share premium account £	Profit and loss account £
At beginning of year	21,590,331	(16,666,299)
Premium on shares issued	2,824,853	-
Costs related to share issues	(177,939)	-
Loss for the year	-	(5,166,538)
At end of year	<u>24,237,245</u>	<u>(21,832,837)</u>

21 Movement on equity group shareholders' funds

	2004 £	2003 £
Loss for the financial year	(5,710,207)	(7,068,264)
Loss on exchange adjustments offset in reserves	(91,536)	(153,255)
Proceeds of share issues (net of issue costs)	<u>2,881,716</u>	<u>1,455,257</u>
Net decrease in equity shareholders' funds	(2,920,027)	(5,766,262)
Opening equity shareholders' funds	<u>5,500,985</u>	<u>11,267,247</u>
Closing equity shareholders' funds	<u>2,580,958</u>	<u>5,500,985</u>

Notes to the financial statements (continued)

22 Reconciliation of group operating loss to net cash outflow from operating activities

	2004	2003
	£	£
Operating loss	(6,722,401)	(6,926,626)
Depreciation	827,945	824,649
Amortisation of intangible assets	254,023	318,605
Impairments of goodwill	1,600,000	750,000
Decrease in stock	26,752	67,803
Decrease/(increase) in debtors	194,840	(183,773)
Increase in creditors	99,744	713,790
Increase/(decrease) in provisions	21,903	(16,404)
Net cash outflow from operating activities	(3,697,194)	(4,451,956)

23 Analysis of cash flows

Return on investments and servicing of finance

	2004	2003
	£	£
Interest received	53,666	105,810
Interest paid	(32,834)	(29,681)
Interest element of finance lease rentals	(79,604)	(109,169)
	(58,772)	(33,040)

Taxation

Tax credit received	923,297	-
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Capital expenditure and financial investment

Purchase of tangible fixed assets	(191,768)	(764,074)
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Notes to the financial statements (continued)

23 Analysis of cash flow (continued)

	2004	2003			
	£	£			
<i>Acquisitions</i>					
Investment in joint venture	-	11,607			
<i>Financing</i>					
Issue of ordinary share capital (net of expenses)	2,881,716	1,455,257			
Bank loan	(253,356)	70,141			
Cash received on inception of finance leases	-	237,729			
Capital element of finance lease payments	(479,386)	(445,531)			
	<u>2,148,974</u>	<u>1,317,596</u>			
<i>Management of liquid resources</i>					
Movement in cash placed on term deposit	<u>1,042,308</u>	<u>3,714,284</u>			
<i>Analysis of net (debt)/funds</i>					
	1 December 2003 £	Cash flow £	Other £	Exchange movement £	30 November 2004 £
Cash	31,176	166,845	-	(686)	197,335
Liquid resources*					
- Cash deposits	1,023,977	(709,825)	-	(29,313)	284,839
- Bank deposits – restricted cash	1,785,200	(332,483)	-	(3,790)	1,448,927
Bank loan – due within one year	(392,790)	253,356	-	38,091	(101,343)
Debentures due after one year	(7,430,657)	-	(316,500)	-	(7,747,157)
Finance leases	(1,791,618)	479,386	-	3,612	(1,308,620)
Net (debt)/funds	<u>(6,774,712)</u>	<u>(142,721)</u>	<u>(316,500)</u>	<u>7,914</u>	<u>(7,226,019)</u>

* Liquid resources represent cash deposits placed on money market at call, weekly and monthly terms. Bank deposits are secured against the finance leases and only can be drawn down in line with the repayments of the finance leases.

Notes to the financial statements (continued)

24 Reconciliation of net cash flow to movement in net (debt)/funds

	2004 £	2003 £
Increase/(decrease) in cash in the year	166,845	(228,797)
Cash outflow from repayment of debts and lease financing	732,742	137,661
Cash inflow from movement in liquid resources	(1,042,308)	(3,714,284)
Movement in net (debts)/funds in the year	(142,721)	(3,805,420)
Non-cash movement - debenture interest	(316,500)	(4,111,650)
Translation difference	7,914	67,958
Net (debt)/ funds at start of year	(6,774,712)	1,074,400
Net debt at end of year	(7,226,019)	(6,774,712)

25 Financial commitments

a) Operating leases

Annual commitments under non-cancellable operating leases for both the Group and Company are as follows:

	Other		Land and buildings	
	2004 £	2003 £	2004 £	2003 £
Expiring in less than one year	-	-	950	-
Expiring between two and five years	6,223	13,775	-	-
Expiring after five years	-	-	192,430	192,582
	<u>6,223</u>	<u>13,775</u>	<u>193,380</u>	<u>192,582</u>

b) Capital commitments

At the year end, neither the Group nor the Company has any capital commitments (2003: £nil).

c) Sale and leaseback agreements

During the year there have been no additions or changes to the previous existing sale and leaseback agreements, which include options for the Group to repurchase the leased plant and machinery. The existing lease has a duration of five years but may be renewed at the Group's option. The lessors have no rights to require repurchase by the Group. Under current accounting practice, these leases are treated as finance leases and the profit and loss account is charged with the interest element of the payments made in each accounting period.

Notes to the financial statements (continued)

26 Financial instruments

The financial risks faced by the Group include interest rate risk, currency risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks.

The Group's main objectives in using financial instruments are the maximisation of returns from funds held on deposit and, when appropriate, the generation of additional cash resources for Group operations through financing arrangements for capital assets and through the issue of shares, debt instruments and other financing instruments.

The Group's policy is to raise cash when it is required and when market conditions are appropriate, using those financial instruments that can be negotiated with the providers of finance at that time. These instruments have included shares, convertible loan stock, fixed rate loans, short-term bridge finance and bank overdrafts.

The Group does not currently consider it necessary to use derivative financial instruments to hedge exposures to fluctuations in interest and foreign exchange rates as these exposures are not considered significant. However, the Group does use borrowings in foreign currency to fund capital expenditure in the same foreign currency where it is appropriate to do so.

These objectives, policies and strategies are consistent with those in previous years. The balance sheet positions at 30 November 2004 and 30 November 2003 are not necessarily representative of the position throughout the period as cash and short-term investments fluctuate considerably depending on when fund raising activities have occurred.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in FRS 13 "Derivatives and other financial instruments". As permitted by FRS 13, short-term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

a) Currency exposures

The Group's objective in managing its structural currency exposures from its foreign currency expenditure is to maintain a low cost of borrowings, which provides a natural hedge against currency depreciation. Gains and losses arising from these structural currency exposures are recognised in the statement of total recognised gains and losses.

Notes to the financial statements (continued)

26 Financial instruments (continued)

The table below shows the Group's currency exposures, being those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating currency of the operating unit involved.

As at 30 November 2004 these exposures were as follows:

	<i>Net foreign currency liabilities*</i>				
	Sterling	US Dollars	Euro	Chinese Renminbi	Total
<i>Functional currency of group operation</i>	£	£	£	£	£
Sterling	-	95,888	1,418,620	-	1,514,508
Euro	12,547	170	-	-	12,717
Chinese Renminbi	23,859	20	-	-	23,879
Total	<u>36,406</u>	<u>96,078</u>	<u>1,418,620</u>	<u>-</u>	<u>1,551,104</u>

The exposures at 30 November 2003 for comparison purposes were as follows:

	<i>Net foreign currency liabilities*</i>				
	Sterling	US Dollars	Euro	Chinese Renminbi	Total
<i>Functional currency of group operation</i>	£	£	£	£	£
Sterling	-	310,813	1,834,240	-	2,145,053
Euro	-	-	-	-	-
Chinese Renminbi	300,350	83	-	-	300,433
Total	<u>300,350</u>	<u>310,896</u>	<u>1,834,240</u>	<u>-</u>	<u>2,445,486</u>

* comprising net trade debtors and creditors

Notes to the financial statements (continued)

26 Financial instruments (continued)

b) Interest rate risk profile of financial assets

The Group has no financial assets other than the following:

	2004			2003		
	Cash at bank and in hand £	Short-term investments £	Total £	Cash at bank and in hand £	Short-term investment £	Total £
Currency						
Sterling	(2,541)	304,145	301,604	14,596	492,048	506,644
Euro	194,314	1,332,777	1,512,091	9,713	1,971,803	1,981,516
Other currencies	5,563	96,843	102,406	6,867	345,326	352,193
At 30 November	197,336	1,733,765	1,931,101	31,176	2,809,177	2,840,353
Floating rate	197,336	1,332,531	1,529,867	31,176	1,880,636	1,911,182
Fixed rate	-	401,234	401,234	-	928,541	928,541
Total	197,336	1,733,765	1,931,101	31,176	2,809,177	2,840,353

The fixed rate cash and short-term investments in sterling were placed with banks for between at-call and three months and earn interest of between 1.90% and 3.8% (2003: 1.90% and 3.46%). Floating rate cash earns interest based on relevant national LIBID equivalents.

c) Interest rate risk profile of financial liabilities

The Group's liabilities, other than short-term liabilities that have been excluded, comprise four categories: convertible debt, bank loans, finance leases, and provisions.

Convertible debt

As at 30 November 2004 the group had 4% convertible loan stock of £3,850,000 (2003: £3,850,000), upon which interest of £154,000 (2003: £99,150) had accrued by the end of year; and 5% convertible loan stock of £3,250,000 (2003: £3,250,000), upon which interest of £162,500 (2003: £162,500) had accrued by the end of the year. At that date all loan stock was classified as non-instalment, fixed rate debt, repayable in more than two years. Full details of this liability are given in Note 16. The convertible debt is denominated in Sterling.

Bank loan

Bank loans amounting to £101,343 (2003: £392,790) were outstanding at 30 November 2004. These are subject to a weighted average floating interest rate of 6.552%. The balance is subject to repayment on the maturity dates of the loans (all of which mature within one year), or repayable on demand. Interest of £1,562 was accrued in respect of these balances at the year end. Bank loans are denominated in Chinese Renminbi.

Notes to the financial statements (continued)

26 Financial instruments (continued)

Finance leases

At 30 November 2004 the group had an outstanding balance of £1,308,620 (2003: £1,791,618) in respect of sale and leaseback agreements. The overall arrangement is divided into a number of separate lease tranches, incurring a weighted average fixed interest rate of 5% and due to expire between 26 September 2006 and 28 June 2007. Finance lease obligations are denominated in Euros.

No further amounts were available for further draw down under these agreements at the balance sheet date.

Provision for National Insurance

Provision for National Insurance of £48,252 (2003: £26,349) is a financial liability in sterling on which no interest is paid. Maturity depends on when certain share options are exercised. The provision for National Insurance is denominated in Sterling.

d) Maturity of financial liabilities

The maturity profile of the carrying amount of the group's financial liabilities, other than short-term trade creditors and accruals, at 31 December is disclosed in Note 17.

e) Fair value of financial assets and liabilities

There is no significant difference between the fair value and the carrying value of bank and cash balances, short-term investments and loans. Carrying values approximate to fair values because of the short maturity periods of these financial instruments.

The fair value of the provision for National Insurance Contribution is £48,252 (2003: £26,349), and is the same as the carrying values as this is the amount that would have been payable if the liability had crystallised at the balance sheet date.

The 5% convertible loan stock had a carrying value of £3,644,007 (2003: £3,481,507). Had the loan been converted at 31 December 2004, it would have resulted in the crystallised liability being £1.65 million lower than the carrying value, with the difference being recognised in the share premium account. This valuation is based on the fact that the minimum conversion price per share is 29p, whereas the market value of the share price was 14.25p as at 30 November 2004. The 4% convertible loan stock had a carrying value of £4,103,151 (2003: £3,949,150) at 30 November 2004. At that date it was not practical to estimate the fair value of either convertible loan stock with sufficient reliability, as the instruments were unique to the Group. The future cash flows associated with the loan stock were difficult to predict with any degree of reliability, as they were wholly dependent upon whether they were converted into shares or redeemed at par.

Notes to the financial statements (continued)

27 Minority interests	2004 £	2003 £
At beginning of year	290,051	506,012
Loss on ordinary activities after taxation	(97,290)	(164,876)
Loss on foreign currency translation	(30,510)	(51,085)
At end of year	<u>162,251</u>	<u>290,051</u>

28 Related party transactions

Transactions with the directors of the Company are disclosed in the Directors' Remuneration Report on page 28.

The Company has taken the exemption available under FRS 8 not to disclose transactions with group companies held for the entire period. There are no other related party transactions.

29 Post balance sheet event

On 20 January 2005 a further 18,649,150 ordinary 1p shares were issued at mid-market price of 9p, raising £1,510,000 net of direct issue expenses.