Chroma Therapeutics Limited
Report and financial statements

Year ended 31 December 2006

Chroma
THERAPEUTICS

Company information

Company number	4066289 (England & Wales)
Directors	P V Allen (Chairman) Dr J Eskay-Eagle T J Haines Dr J Hemberger I J Nicholson (Chief Executive Officer) Dr P T Vainio Prof P Workman
Secretary	R E Bungay
Registered office	93 Milton Park Abingdon OX14 4RY
Auditors	Ernst & Young LLP Apex Plaza Reading RG1 1YE

Contents

Directors' report
for the year ended 31 December 2006

The directors present their report and financial statements for the year ended 31 December 2006

Principal activities and review of the business
The principal activity of the Company continues to be the research and development of novel therapeutic agents for the treatment of cancer and inflammatory disorders

During the financial year, the Company's research and development pipeline progressed in line with its expectations The Company's lead development candidate, CHR-2797, continued to be evaluated in a number of Phase I clinical studies The Company also entered two further novel agents into preclinical development The Company filed a number of patents during the year, covering composition-of-matter claims and broad claims relating to a technology concept This growth in the Company's pipeline was supported by a 25% increase in average research and development headcount (see Note 5) As a result of this increased headcount and development activity, the Company's research and development expenditure increased by 24% compared to the previous financial year General and administrative expenses increased by 39% compared to the previous financial year primarily due to restructuring of the Company's Board following completion of the Series C financing (see below) and increased business development activities

The Company does not have regular sources of revenue other than interest earned on its cash and short term deposits and the UK R&D tax credit scheme, which enables the Company to give up a proportion of its tax losses relating to research and development in each financial year in return for a cash payment Finance revenue increased substantially compared to the previous financial year as a result of higher average cash balances following the Series C financing (see below) along with higher base interest rates in the UK

The Company's income and expenses during the year were in line with its expectations

As is typical for biotechnology companies at a similar stage of development, the Company anticipates its operations will continue to absorb cash for the foreseeable future and anticipates financing these activities both through the issue of new shares and from entering licensing deals related to its pipeline products The Company completed a major new equity financing in March 2006 (see Note 12), raising £25 million before expenses along with an option to call an additional £5 million in equity financing The Company does not anticipate requiring further funds for at least 12 months from the date of approval of the financial statements

Principal risks and uncertainties
The Company operates in a high-risk sector, which is reflected in the Company's investor base, comprising primarily specialist venture capital organisations The key risks facing the Company are as follows

Product risk
The development of a new therapeutic agent carries substantial risks, including difficulties in the design and execution of studies to evaluate the efficacy and safety of the agent or the results from such studies being inconsistent with those from earlier studies In addition, the pharmaceutical sector is highly competitive with many companies pursuing similar therapeutic approaches There is substantial risk that competitors agents may reach the market ahead of those of the Company or have a superior profile to the Company's agents, or that the Company's patent filings may be found to infringe the rights of others or be declared invalid

Regulatory risk
The pharmaceutical sector is regulated by relevant authorities in the EU, US and the rest of the world There is substantial risk that the Company many not be able to agree study designs that are mutually acceptable with regulatory authorities or that regulatory requirements may change during the course of a study, rendering the results of the study unusable

Financing risk
Until it has sustainable revenues from marketed products, the Company is highly dependent upon raising new equity finance to execute its long term business plan Such finance may not be available on acceptable terms or at all The Company is dependent upon raising further funds through product licensing arrangements Such licensing arrangements may not be executable on mutually acceptable terms or at all The Company is dependent upon finance income from its cash and short-term deposits and continued receipt of R&D tax credit payments A reduction in base interest rates or a reduction in scope or withdrawal of the R&D tax credit scheme will have an adverse effect on the Company's financial position

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Directors' report (continued)

Future developments
The Company intends to progress its pipeline of novel therapeutic agents during 2007 and expects that research and development expenditure will increase significantly, reflecting the anticipated progression of these agents from preclinical to clinical development or into later stage clinical studies

Share capital
During the year, a resolution was passed to increase the authorised share capital of the Company from 4,000,000 to 6,900,000 ordinary shares of £0 001 each and to authorise the issue of up to 22,426,470 C convertible preferred ordinary shares of £0 001 each During the year, 18,382,352 C convertible preferred ordinary shares were issued fully paid for cash and 80,000 C ordinary shares were issued at the nominal value of £0 001 per share Further details can be found in Note 12 to the financial statements

Results and dividends
The Company made a loss for the year of £7,606,220 (year ended 31 December 2005 loss of £6,475,146) The directors do not recommend the payment of a dividend Expenditure on tangible fixed assets during the year was £343,617 (year ended 31 December 2005 £299,712)

Directors and their interests
The directors who held office during the year and their interests in the share capital of the Company, as recorded in the register of directors' interests, of those serving at the year end, were as follows

	Options over ordinary shares of £0 001 each		Ordinary shares of £0 001 each	
	At 31 December 2006	**At 31 December 2005**	**At 31 December 2006**	**At 31 December 2005**
J F Abell (resigned 23/2/07)	-	-	-	-
P V Allen	-	-	80,000	40,000
Dr J Eskay-Eagle	-	-	-	-
T J Haines (appointed 23/2/07)	-	-	-	-
Dr J Hemberger (appointed 21/3/06)	-	-	40,000	-
I J Nicholson	450,000	100,000	450,000	450,000
Dr S J Powell (resigned 20/3/07)	-	-	-	-
Dr P T Vainio	-	-	40,000	40,000
Prof P Workman	-	-	140,000	140,000

Ordinary shares issued to directors and employees are subject to a vesting period of between 13 months and 59 months from the date of issue Vesting conditions for share options are detailed in Note 11 to the financial statements

Directors' qualifying third party indemnity provisions
The Company has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report

Charitable and political donations
The Company did not make any charitable or political donations during the year

Financial risk management
The Company did not have any material exposure to foreign currencies during the year ended 31 December 2006 and therefore did not enter into any foreign currency hedging arrangements during that period The company continually reviews its foreign currency exposure and will enter into hedging arrangements to minimise the impact of adverse exchange rate movements where necessary To the extent that cash reserves are not required to meet immediate operational requirements, excess reserves are invested in fixed interest investment grade bank deposits The impact of a reduction in base interest rates is not considered to represent a material exposure for the Company, hence the Company does not enter into any interest rate hedging arrangements The Company does not have any material exposure to credit risk

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Directors' report (continued)

Payment of creditors

The Company's policy with respect to the payment of its suppliers is to either use standard payment terms or to agree payment terms when entering into a transaction and to abide by those terms Trade payables as at 31 December 2006 represented 34 days as a proportion of the total purchases during the financial year

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

Re-appointment of auditors

A resolution to reappoint Ernst & Young LLP as auditors and to authorise the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting

Statement of directors' responsibilities in respect of the financial statements

Company Law requires that the directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and have elected to prepare financial statements in accordance with those International Financial Reporting Standards as adopted by the European Union Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit and loss account for that period In preparing those financial statements, the directors are required to

- select suitable accounting policies in accordance with IAS8 Accounting Policies, Changes in Accounting Estimates and Errors, and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Events after the balance sheet date

On 30 March 2007 the Company issued a further 3,676,471 C convertible preferred ordinary shares fully paid for cash proceeds of £5,000,001 (see Note 18)

This report was approved by the Board on 4 May 2007 and has been prepared in accordance with the Companies Act 1985

By order of the Board

R E Bungay
Secretary

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Independent auditors' report to the shareholders of Chroma Therapeutics Limited

We have audited the Company's financial statements for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and the related notes 1 to 19 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether the information given in the Directors' Report is consistent with the financial statements In addition, we report to you if, in our opinion, the Company 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 other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 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 Company's circumstances, 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 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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Reading
Date 4 May 2007

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Income statement
for the year ended 31 December 2006

	Note	Year ended 31 December 2006 £	Year ended 31 December 2005 £
Revenue		-	-
Research and development costs	4	(8,304,824)	(6,691,223)
Administrative expenses	4	(1,347,921)	(968,030)
Loss before financing items		(9,652,745)	(7,659,253)
Finance revenue	10	954,680	377,910
Loss before taxation		(8,698,065)	(7,281,343)
Tax credit	7	1,074,245	806,197
Loss for the year		(7,623,820)	(6,475,146)

Balance sheet
as at 31 December 2006

	Note	31 December 2006 £	31 December 2005 £
ASSETS			
Non current assets			
Property, plant and equipment	8	548,729	476,770
Current assets			
Trade and other receivables	9	1,725,871	1,011,171
Prepayments		273,149	155,910
Cash and short term deposits	10	22,027,655	5,057,171
		24,026,675	6,224,252
TOTAL ASSETS		24,575,404	6,701,022
EQUITY AND LIABILITIES			
Equity			
Issued capital	12	37,711	19,249
Share premium	12	43,656,991	18,815,485
Warrants	13	121,507	-
Other reserves	12	66,503	8,927
Retained earnings		(21,062,458)	(13,317,131)
Total equity		22,820,254	5,526,530
Current liabilities			
Trade and other payables	14	1,755,150	1,174,492
TOTAL EQUITY AND LIABILITIES		24,575,404	6,701,022

Approved by the Board on 4 May 2007 and signed on its behalf by

I J Nicholson
Director

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Statement of changes in equity
for the year ended 31 December 2006

	Issued capital £	Share premium £	Warrants £	Other reserves £	Retained earnings £	Total equity £
At 1 January 2005	19,224	18,783,260	-	-	(6,841,985)	11,960,499
R&D costs settled by issue of shares (Note 12)	25	32,225	-	-	-	32,250
Expense of share options issued to employees (Note 11)	-	-	-	8,927	-	8,927
Loss for the year	-	-	-		(6,475,146)	(6,475,146)
At 31 December 2005	19,249	18,815,485	-	8,927	(13,317,131)	5,526,530
Issue of C preferred ordinary shares for cash (Note 12)	18,382	24,981,617	-	-	-	24,999,999
Issue of warrants (Note 13)	-	-	121,507	-	(121,507)	-
Issue of ordinary shares for cash (Note 12)	80	31,920	-	-	-	32,000
Expenses of issuing new equity (Note 12)	-	(172,031)	-	-	-	(172,031)
Expense of share options issued to employees (Note 11)	-	-	-	57,576	-	57,576
Loss for the year	-	-	-	-	(7,623,820)	(7,623,820)
At 31 December 2006	37,711	43,656,991	121,507	66,503	(21,062,458)	22,820,254

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Cash flow statement
for the year ended 31 December 2006

	Note	Year ended 31 December 2006 £	Year ended 31 December 2005 £
Cash flows from operating activities			
Loss before financing items		(9,652,745)	(7,659,253)
Adjustments to reconcile loss before tax to net cash flows			
Non-cash items			
• Expense of share options issued to employees		57,576	8,927
• R&D costs settled by issue of shares	12	-	32,250
• Shares issued to directors at nominal value	12	31,920	-
• Depreciation and impairment	8	271,658	205,800
Working capital adjustments			
• Income tax received		806,267	516,402
• Increase in creditors		580,658	512,040
• Increase in debtors		(266,662)	(83,246)
Net cash flows used in operating activities		(8,171,328)	(6,467,080)
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(343,617)	(299,712)
Net cash flows used in investing activities		(343,617)	(299,712)
Cash flows from financing activities			
Interest received		657,381	387,392
Proceeds from issue of shares	12	25,000,079	-
Transaction costs of issue of shares	12	(172,031)	-
Net cash flows from financing activities		25,485,429	387,392
Net increase/(decrease) in cash and cash equivalents		16,970,484	(6,379,400)
Cash and cash equivalents at start of period		5,057,171	11,436,571
Cash and cash equivalents at end of period	10	22,027,655	5,057,171

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Notes to the financial statements

for the year ended 31 December 2006

1 CORPORATE INFORMATION

The financial statements of Chroma Therapeutics Limited for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the directors on 4 May 2007 Chroma Therapeutics Limited is a limited company incorporated in England & Wales and domiciled in the United Kingdom

2 BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis, except for employee share options, warrants and items settled by issue of shares, which have been measured at fair value The financial statements are presented in sterling and all values are rounded to the nearest pound

Statement of compliance

The financial statements of Chroma Therapeutics Ltd have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and in accordance with the Companies Act 1985

Changes in accounting policies

The accounting policies adopted by the Company are consistent with the previous financial year except as follows

The Company has adopted the following new and amended IFRS and IFRIC interpretations during the year

- IAS 39 Amendments - Financial Instruments Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease

The Company has also early-adopted the following new and amended IFRS and IFRIC interpretations during the year

- IFRS 7 Financial Instruments Disclosures
- IAS 1 Amendment - Presentation of Financial Statements
- IFRIC 8 Scope of IFRS 2

The principal effect of these changes is as follows

IFRS 7 *Financial Instruments Disclosures*

The Company has elected to early-adopt IFRS 7, which requires disclosures that enable users to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments These new disclosures are included throughout the financial statements

IAS 1 *Presentation of Financial Statements*

The Company has elected to early adopt this amendment to IAS 1, which requires disclosures that enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital These new disclosures are shown in Note 19

IAS 39 *Financial Instruments Recognition and Measurement*

This amendment restricts the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement The Company had not previously used this option, hence the amendment did not have any effect on the financial statements

IFRIC 4 *Determining whether an Arrangement contains a Lease*

The Company adopted IFRIC Interpretation 4 as at 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied This change in accounting policy has not had any impact on the Company as at 31 December 2006 or 31 December 2005

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Notes to the financial statements
for the year ended 31 December 2006

2 BASIS OF PREPARATION (continued)

IFRIC 8 *Scope of IFRS 2*
The Company early adopted IFRIC Interpretation 8 as at 1 January 2006, which requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value The impact of shares issued to directors of the Company for consideration considered to be less than fair value is detailed in Note 12

Significant accounting judgements, estimates and assumptions
The Company has not applied any judgements (other than estimations) having a significant effect on any amounts recognised in the financial statements The Company has not identified any assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment
Plant and equipment is stated at cost, excluding the costs of routine servicing, less accumulated depreciation and accumulated impairment in value Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred, if the recognition criteria are met Depreciation is calculated on a straight line basis over the useful life of the assets The carrying value of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable

Any item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the financial year the asset is derecognised

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end

Intangible assets
Intangible assets are measured on initial recognition at cost Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is expensed as incurred The useful lives of intangible assets are assessed to be either finite or indefinite Intangible assets with finite lives are amortised over the useful economic life and are assessed for impairment whenever there is indication that the intangible asset may be impaired The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset

Intangible assets with indefinite useful lives are tested for impairment annually Such intangibles are not amortised The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis

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Notes to the financial statements
for the year ended 31 December 2006

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Research and development costs
The principal business activity of the Company is the research and development of human therapeutic agents In order to achieve authorisation from the appropriate regulatory authorities to sell human therapeutic agents, multiple studies and clinical trials must be successfully completed Such activities require the application of substantial resources and skilled individuals, which may not be available to the Company on a timely basis or at all The risks associated with the successful completion of a registration programme for a therapeutic agent are substantial In many cases the Company may choose to license its therapeutic programmes to a third party with substantially greater resources, however the risks associated with successful completion of a registration programme remain high

Research costs are expensed as incurred Reflecting the risks highlighted above, the Company capitalises internal development costs only to the extent that it is more likely than not that the associated therapeutic agent will obtain authorisation from regulatory authorities The threshold for such recognition will normally be the successful completion of the final human clinical studies required to complete a registration package for a therapeutic agent The value of such an intangible asset is calculated with reference to the useful economic life of, and the projected revenues from, the therapeutic agent

Likewise, the Company may from time to time acquire rights to use the intellectual property of a third party in the conduct of its research and development programmes The ability to generate future economic benefits from such rights are subject to the successful registration of the programmes using such intellectual property, and therefore the same risks as noted above Consequently, intangible assets arising from acquired intellectual property rights are subject to the same recognition criteria as internal development costs, as noted above

The Company has not incurred any costs meeting the recognition criteria detailed above to date

Impairment of assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired If any such indication exists, or where annual impairment testing for an asset is required, the Company makes an estimate of the assets recoverable amount An assets recoverable amount is the higher of an assets fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased If such indication exists, the recoverable amount is estimated A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised If that is the case the carrying amount of the asset is increased to its recoverable amount That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life

Notes to the financial statements

for the year ended 31 December 2006

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and short-term deposits

Cash and short-term deposits in the balance sheet comprise cash at banks net of outstanding bank overdrafts, cash in hand and treasury deposits All treasury deposits are held to meet operational needs, have an original maturity of twelve months or less, are readily tradable and are recorded in the balance sheet at their open market value Consequently, all treasury deposits are classified as cash and cash equivalents

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent upon the use of a specific asset or assets or the arrangement conveys a right to use the asset A reassessment is made after the inception of the lease only if one of the following applies

a There is a change in contractual terms, other than a renewal or extension of the arrangement,
b A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term,
c There is a change of the determination of whether fulfilment is dependent upon a specified asset, or
d There is a substantial change to the asset

When a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c and d and at the date of renewal or extension for scenario b

Company as lessee

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term

Pensions and other post-employment benefits

The Company operates a defined contribution pension scheme and pension contributions are charged to the income statement as incurred

Share-based payment transactions

From time-to-time the Company issues shares as consideration for rights granted under technology licence agreements and grants share options to its employees Both types of share-based payment are equity settled transactions as detailed below

Equity-settled transactions

The cost of equity-settled technology rights transactions is measured by reference to fair value of the equity issued at the date on which the relevant technology rights are granted to the Company The cost is expensed to the income statement immediately on obtaining such rights

The cost of equity-settled transactions with employees and directors is measured by reference to the fair value at the date at which they are granted (after approval by the directors) and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees and directors become fully entitled to the award Fair value is determined using the Black-Scholes pricing model In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions) No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

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Notes to the financial statements
for the year ended 31 December 2006

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)
At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification No reduction is recognised if this difference is negative Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement

Warrants
Warrants to subscribe to the Company's C convertible preferred ordinary shares are measured at the date of issue using the Black-Scholes pricing model taking into account the terms and conditions upon which the instruments were granted (see Note 13) Whilst the number of shares issueable under the warrants or the warrant's exercise price is floating, the warrants are treated as a derivative liability, with the fair value of warrants being remeasured at each balance sheet date and any movement in the fair value recognised through the income statement The fair value of the warrants at the date of issue is ordinarily recognised as a liability in the balance sheet with the corresponding debit being deducted from the retained earnings account, until such point as the number of shares issueable under the warrants and the exercise price become fixed, at which time the fair value of the liability is reclassified as equity

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured The following specific recognition criteria must also be met before revenue is recognised

Interest income
Revenue is recognised as interest accrues using the effective interest rate method

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with Where the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate Where the grant relates to an asset it is recognised as income over the expected useful life of the relevant asset on a straight line basis

Taxation

Current tax
Current tax assets for the current and prior periods are measured at the amount expected to be recovered from the taxation authorities The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The amount recorded in the financial statements as research and development tax credit receivable by the Company for the financial year ended 31 December 2006 is an estimated amount and has not yet been agreed with HM Revenue & Customs

Deferred tax
Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply to the year when the asset is realised, based on tax rates (and tax laws) enacted or substantively enacted at the balance sheet date

Foreign currency translation
Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction All exchange differences arising in the normal course of business are taken to the income statement as they arise

New standards and interpretations not applied
As detailed above, the Company has either adopted or early adopted all IASB and IFRIC standards and interpretations issued up to and including 31 December 2006, whether the effective date is before or after the date of these financial statements

4 OTHER REVENUE AND EXPENSES

(a) Government grants
During the year ended 31 December 2006, a consortium of which the Company is a member was awarded an EU grant for a long-term collaborative research project Under the terms of the consortium agreement, the Company will provide drug discovery and lead optimisation services to the consortium and, as consideration, may receive up to €750,000 in grant income Should the Company fail to perform its obligations under the consortium agreement, the consortium may request the Company repay some or all of the grant income it has received Reflecting this, grant income is recognised only to the extent that the Company has completed its obligations to the satisfaction of the consortium

As at 31 December 2006, the Company had not received any grant payments from the consortium and there was no grant income recognisable

Notes to the financial statements
for the year ended 31 December 2006

4 OTHER REVENUE AND EXPENSES (continued)

(b) Depreciation and amortisation included in the income statement

	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £
Included in research and development costs		
Depreciation and impairment	253,359	196,850
Operating lease expense	284,788	261,501
Included in administrative expenses		
Depreciation and impairment	18,299	8,950
Operating lease expense	85,686	78,680
Net foreign exchange differences	1,335	(4,174)

(c) Employee benefits expense

	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £
Wages and salaries	2,438,902	1,901,324
Social security costs	288,553	220,573
Pension costs	231,817	184,375
Expense of share options issued to employees	57,576	8,927
	3,016,848	2,315,199
Of which		
Included in research and development Costs	2,088,885	1,737,171
Included in administrative expenses	927,963	578,028
	3,016,848	2,315,199

(d) Fees paid to auditors
Administrative Expenses include fees paid to the auditors for audit services of £15,900 (year 31 December 2005 £9,500), for other services relating to taxation of £1,950 (year ended 31 December 2005 £11,250) and other accounting services of nil (year ended 31 December 2005 £10,925)

5 EMPLOYEES
The average number of employees of the Company during the year was as follows

	Year ended 31 Dec 2006	Year ended 31 Dec 2005
Research and development	40	32
Administration	8	6
	48	38

Notes to the financial statements
for the year ended 31 December 2006

6 DIRECTORS' REMUNERATION

	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £
Total emoluments	271,342	224,630
Company contributions paid to money purchase pension schemes	20,000	18,000

As at 31 December 2006, one director (31 December 2005 one director) was accruing benefits under defined contribution pension schemes

The amounts in respect of the highest paid director are as follows

	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £
Total emoluments	201,342	224,630
Company contributions paid to money purchase pension schemes	20,000	18,000

7 TAXATION

(a) Current income tax

	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £
UK corporation tax	-	-
R&D tax credit receivable – draft claim for financial year	1,073,995	806,017
R&D tax credit receivable – adjustment in financial year relating to claims for prior periods	250	180
	1,074,245	806,197

Notes to the financial statements
for the year ended 31 December 2006

7 TAXATION (continued)

(b) Factors affecting the tax credit for the year

The tax assessed on the loss for the year is lower than the standard rate of UK corporation tax The differences are explained below

	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £
Loss before tax	(8,698,065)	(7,281,343)
Loss before tax multiplied by standard rate of corporation tax in the UK of 30% (year ended 31 December 2005 30%)	(2,609,420)	(2,184,403)
Effect of		
Disallowed expenses and non-taxable income	30,568	4,922
50% enhanced deduction – R&D relief	(841,651)	(649,867)
Timing differences between capital allowances and depreciation charges	19,761	(17,525)
Adjustment relating to prior years	(250)	(180)
Other timing differences	(89,190)	2,845
Losses surrendered for R&D tax credit at 16% (year ended 31 December 2005 16%)	939,746	705,264
Unrelieved tax losses	1,476,191	1,332,747
Current tax credit for the period	(1,074,245)	(806,197)

(c) Deferred income tax

The deferred tax asset not recognised in the financial statements is as follows

	Year ended 31 Dec 2006 £	Year ended 31 Dec 2005 £
Capital allowances in advance of depreciation	100,291	120,052
Other temporary differences	97,273	8,083
Tax losses available	(4,514,076)	(3,038,352)
	(4,316,512)	(2,910,217)

The deferred tax asset has not been recognised as there is uncertainty regarding when suitable future profits against which to offset the accumulated tax losses will arise There is no expiration date for the accumulated tax losses

Notes to the financial statements
for the year ended 31 December 2006

8 PROPERTY, PLANT AND EQUIPMENT

31 December 2006

	Leasehold improvements £	Plant and equipment £	Total £
At 1 January 2006, net of accumulated depreciation and impairment	26,188	450,582	476,770
Additions	155,739	187,878	343,617
Depreciation charge for the year	(12,446)	(259,212)	(271,658)
At 31 December 2006, net of accumulated depreciation and impairment	169,481	379,248	548,729
At 1 January 2006			
Cost	27,757	750,970	778,727
Accumulated depreciation and impairment	(1,569)	(300,388)	(301,957)
Net carrying amount	26,188	450,582	476,770
At 31 December 2006			
Cost	183,496	938,848	1,122,344
Accumulated depreciation and impairment	(14,015)	(559,600)	(573,615)
Net carrying amount	169,481	379,248	548,729

During the year ended 31 December 2006 the Company did not dispose of any assets

Notes to the financial statements

for the year ended 31 December 2006

8 PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2005

	Leasehold improvements £	Plant and equipment £	Total £
At 1 January 2005, net of accumulated depreciation and impairment	3,000	379,858	382,858
Additions	24,757	274,956	299,712
Disposals	-	-	-
Depreciation charge for the year	(1,569)	(204,232)	(205,800)
At 31 December 2005, net of accumulated depreciation and impairment	26,188	450,582	476,770
At 1 January 2005			
Cost	1,154,123	481,689	1,635,812
Accumulated depreciation and impairment	(1,151,123)	(101,831)	(1,252,954)
Net carrying amount	3,000	379,858	382,858
At 31 December 2005			
Cost	27,757	750,970	778,727
Accumulated depreciation and impairment	(1,569)	(300,388)	(301,957)
Net carrying amount	26,188	450,582	476,770

During the year ended 31 December 2005 the Company disposed of assets with an original cost of £1,156,798 that had been fully written down through depreciation and impairment charges in prior financial periods

The useful life of the assets is estimated as follows

Leasehold improvements	The shorter of 20 years or the lease term
Plant and equipment	3 to 5 years

As at 31 December 2006, fully depreciated assets with an original cost of £68,673 were still in use (31 December 2005 £37,295)

Notes to the financial statements
for the year ended 31 December 2006

9 TRADE AND OTHER RECEIVABLES

	31 Dec 2006 £	31 Dec 2005 £
R&D tax credit receivable	1,073,995	806,017
Other receivables	651,876	205,154
	1,725,871	1,011,171

All receivables fall due within one year

10 CASH AND SHORT TERM DEPOSITS

	31 Dec 2006 £	31 Dec 2005 £
Cash at bank and in hand	176,785	507,171
Short term deposits	21,850,870	4,550,000
	22,027,655	5,057,171

Cash at bank earns interest at floating rates based on daily bank deposit rates Short term deposits are made for periods between one day and twelve months depending upon the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates Finance revenue comprises interest receivable on bank deposits and short term deposits

11 SHARE-BASED PAYMENT PLANS

Enterprise Management Incentive ('EMI') scheme
All employees participate in the Company's EMI share option scheme Options granted under this scheme vest over a period of four years from the commencement date and, to the extent they have vested, are only exercisable in the event of an initial public offering of the Company's shares or trade sale of the Company The exercise price of the options is the market value of the Company's ordinary shares at the date of grant of the option The options expire after 10 years from their commencement date The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the year

	Year ended 31 Dec 2006		Year ended 31 Dec 2005	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the period	672,500	£0 12	-	-
Granted during the period	1,623,800	£0 14	677,500	£0 12
Forfeited during the period	(7,500)	£0 12	(5,000)	£0 12
Exercised during the period	-	-	-	-
Outstanding at the end of the period	2,288,800	£0 14	672,500	£0 12
Exercisable at the end of the period	-	-	-	-

Notes to the financial statements
for the year ended 31 December 2006

11 SHARE-BASED PAYMENT PLANS (continued)

The options outstanding at 31 December 2006 had a weighted average remaining contractual life of 8 8 years (31 December 2005 8 9 years)

Included within the outstanding options are 40,000 options issued to a former director of the Company on an unapproved basis under the rules of the EMI scheme

The fair value of options is measured at the date of grant using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted The following table lists the inputs to the model used for the years ended 31 December 2006 and 31 December 2005

	Year ended 31 Dec 2006	Year ended 31 Dec 2005
Expected volatility (%)	40 0	40 0
Risk-free interest rate (%)	4 5	4 5
Expected life of options (years)	5 0 or 7 0	5 0 or 7 0
Weighted average share price (£)	0 14	0 12

The Company does not have any historic data relating to the expected period to exercise of the options and therefore has estimated this based upon industry experience, with a 7 year period assumed for senior management and a 5 year period assumed for all other employees The expected volatility has been estimated based upon historic data from companies with a similar profile in the biotechnology sector The risk free interest rate represents the Bank of England base interest rate at the date of grant of the option, which was 4 5% for all options granted during the year ended 31 December 2006 (31 December 2005 4 5%) The weighted average share price is determined by performing a share valuation at the date of grant of the options The fair value calculation includes an allowance for forfeiture of 15% of the total share options granted other than to senior management, for which the forfeiture rate is estimated as 0%

The charge to the income statement relating to options during the year is detailed in Note 4

12 ISSUED CAPITAL AND RESERVES

Authorised capital

	31 Dec 2006 Number	31 Dec 2005 Number	31 Dec 2006 £	31 Dec 2005 £
Ordinary shares of £0 001 each	6,900,000	4,000,000	6,900	4,000
Convertible preferred ordinary shares of £0 001 each	13,000,000	13,000,000	13,000	13,000
B-1 convertible preferred ordinary shares of £0 001 each	3,875,969	3,875,969	3,876	3,876
C convertible preferred ordinary shares of £0 001 each	22,426,470	-	22,426	-
			49,103	20,876

Notes to the financial statements
for the year ended 31 December 2006

12 ISSUED CAPITAL AND RESERVES (continued)

Issued capital

	31 Dec 2006 Number	31 Dec 2005 Number	31 Dec 2006 £	31 Dec 2005 £
Issued and fully paid				
Ordinary shares of £0 001 each	1,557,200	1,557,200	1,557	1,557
A ordinary shares of £0 001 each	700,000	700,000	700	700
B ordinary shares of £0 001 each	450,000	450,000	450	450
C ordinary shares of £0 001 each	160,000	80,000	160	80
E ordinary shares of £0 001 each	190,000	190,000	190	190
A convertible preferred ordinary shares of £0 001 each	1,766,874	1,766,874	1,767	1,767
B convertible preferred ordinary shares of £0 001 each	10,629,340	10,629,340	10,629	10,629
B-1 convertible preferred ordinary shares of £0 001 each	3,875,969	3,875,969	3,876	3,876
C convertible preferred ordinary shares of £0 001 each	18,382,352	-	18,382	-
			37,711	19,249

Ordinary shares
The Articles of Association allow for the sub-categorisation of ordinary shares into A, B, C, D, or E ordinary shares These sub-classes have rights identical to the ordinary shares other than being subject to a vesting period of between 13 months and 59 months from the vesting commencement date As at 31 December 2006 213,510 ordinary shares with a total subscription price of £2,117 had not yet vested (31 December 2005 450,752 ordinary shares with a total subscription price of £3,598) The shares issued subject to vesting can be repurchased by the Company at the original subscription price if the employee leaves employment prior to vesting Although such an arrangement has the characteristics of an early-exercised share option, no compensation charge arises on the treatment of such share arrangements as options has been recorded as it is immaterial over the vesting period The unvested shares have been reflected as issued share capital in the balance sheet and not included in the share option data disclosed in Note 11

During the year ended 31 December 2006, the Company issued 80,000 C ordinary shares to certain directors of the Company as part of their remuneration package These shares were issued for cash at the nominal value per share of £0 001 The market value of the ordinary shares at the date of issue has been determined as £0 40 per share The difference of £0 399 between the market value and nominal value per share has been charged to the income statement as an administrative expense and the corresponding amount has been credited to the share premium account The Company did not issue any ordinary shares during the financial year ended 31 December 2005

The Company has reserved 3,250,000 ordinary shares for issue under options (see Note 11), of which 2,288,800 options were issued and outstanding at 31 December 2006 (31 December 2005 672,500)

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Notes to the financial statements
for the year ended 31 December 2006

12 ISSUED CAPITAL AND RESERVES (continued)

Convertible preferred ordinary shares
The convertible preferred ordinary shares carry the right to receive a fixed non-cumulative dividend payable semi-annually, to the extent that the Company has distributable reserves, at the rate of 7% per annum on the subscription price for the A convertible preferred ordinary shares and 8% per annum on the subscription price for the B, B-1 and C convertible preferred ordinary shares Each convertible preferred ordinary share can be converted to one ordinary share automatically upon the flotation or initial listing of the Company on a stock exchange Upon a liquidation or sale of the Company where the proceeds are below the subscription price of the convertible preferred ordinary shareholders, those shares become participating shares in that the distribution of any proceeds after settling arrears of dividends will be applied firstly in returning the capital subscribed by the convertible preferred ordinary shareholders, with the balance being distributed amongst the ordinary and convertible preferred ordinary shareholders as if conversion to ordinary shares had taken place In the event that new shares are issued for consideration less than their respective subscription prices, the B, B-1 and C convertible preferred ordinary shareholders are entitled to a bonus issue of shares In all other respects the ordinary and convertible preferred ordinary shares rank pari passu

During the financial year ended 31 December 2006 the Company issued 18,382,352 new C convertible preferred ordinary shares for total consideration of £24,999,999 to a syndicate of investors ("Series C Investors") The expenses associated with the issue of these shares of £172,031 have been deducted from the Share Premium Reserve The Series C Investors undertook to subscribe to a further 3,676,471 C convertible preferred ordinary shares at £1 36 per share at the call of a majority of non-investor directors of the Company (the £5 million "Facility") The Facility expires on 20 November 2007 As consideration for providing the Facility, the Series C Investors were issued with warrants to subscribe to additional C convertible preferred ordinary shares (see Note 13) The Facility was called during March 2007 (see Note 18)

During the financial year ended 31 December 2005 the Company issued 25,000 new B convertible preferred ordinary shares as consideration for rights granted under a technology license agreement The rights granted under this agreement were valued at £32,250, using the most recent private financing valuation of £1 29 per share The shares have been credited as fully paid at £1 29 each

Nature and purpose of other reserves
'Other reserves' comprises the cumulative charge for share options issued under the Company's EMI share option scheme (see Note 11)

13 WARRANTS

As detailed in Note 12, the Company issued warrants to the Series C Investors entitling them to subscribe for a predetermined number of C convertible preferred ordinary shares (or, in the event the Company undertakes a flotation or initial listing on a stock exchange, ordinary shares) at a price of £1 36 per share The maximum number of shares issueable to the warrant holders is 367,647, this is reduced to 183,823 shares if the Company calls the Facility (see Note 12) by 20 March 2007 or 294,118 if the Company calls the Facility between 21 March 2007 and 20 June 2007 The warrants expire at the earlier of 60 months from the Company calling the Facility or 80 months from the completion of the Series C financing The Facility was called during March 2007 (see Note 18)

Notes to the financial statements
for the year ended 31 December 2006

13 WARRANTS (continued)

The fair value of warrants is measured at the date of issue using the Black-Scholes pricing model, taking into account the terms and conditions upon which the warrants were granted The following table lists the inputs to the model used for the year ended 31 December 2006 In light of the Company having called the Facility within 12 months of closing the Series C financing round and before the date these financial statements were approved, the fair value of warrants has been calculated using the actual number of shares (183,823) under warrant In the absence of any established practice, the maximum duration of the warrants (80 months from date of grant) has been used as their expected life in calculating fair value

	21 Mar 2006 and 31 Dec 2006	Year ended 31 Dec 2005
Expected volatility (%)	40 0	-
Risk-free interest rate (%)	4 5	-
Expected life of options (years)	6 7	-
Weighted average share price (£)	1 36	-

The expected volatility is consistent with that used in the valuation of employee ordinary share options (see Note 11) since the shares underlying both the warrants and employee shares options are impacted by the same factors The weighted average share price is the contractual exercise price

Following their issue the warrants are treated as a derivative financial instrument since the number of shares issueable under the warrants varies depending upon the date the Facility is called Since the number of shares issueable under the Warrants was fixed prior to the date of approving these financial statements and this fixed number of shares has been used to calculate the Warrant's fair value, the Warrants have been classified as equity at 31 December 2006 rather than a liability The fair value of the warrants is remeasured at each balance sheet date based upon an assessment of the value of a holding of the underlying C convertible preferred ordinary shares, with any gains or losses being recorded in the income statement As at 31 December 2006 it was determined that all fair value assumptions had not changed since the warrants were issued, hence no gain or loss was recorded in the income statement

14 TRADE AND OTHER PAYABLES

	31 Dec 2006 £	31 Dec 2005 £
Trade payables	1,023,529	554,525
Taxation and social security	92,256	87,219
Other payables and accruals	639,365	532,748
	1,755,150	1,174,492

Other payables and accruals include outstanding contributions payable to the defined contribution pension scheme of £29,923 (31 December 2005 £22,834)

The terms and conditions of the above financial liabilities are as follows

- Trade payables are non-interest bearing and are settled based upon pre-agreed credit terms, typically within 30 days from the date of the invoice
- Taxation and social security creditors and contributions payable to the defined contribution pension scheme are non-interest bearing and are due during the month following payment of the salaries to which they relate
- Other payables are non-interest bearing and primarily comprise accruals for liabilities incurred but not yet invoiced

15 OTHER FINANCIAL COMMITMENTS

Operating leases – Company as lessee
The future minimum rental payable under the operating lease for the Company's premises at 93 Milton Park, reflecting contractual break clauses, is as follows

	Land and buildings 31 Dec 2006 £	Land and buildings 31 Dec 2005 £
Not later than one year	394,742	346,527
After one year but not more than five years	90,845	426,276
	485,587	772,803

During the year ended 31 December 2006 the Company took occupation of a vacant laboratory within its lease footplate, triggering an increase in its annual rental payments of £48,215 The lease includes provision for the Company to take occupation of a further laboratory that is within its lease footplate but currently in excess of its requirements Should the Company choose to take occupation of this laboratory, the annual rental payment would increase by £48,215 The minimum rental payment shown above excludes the impact of the Company taking occupation of this vacant laboratory since this is not envisaged ahead of the first contractual break clause

The Company does not have any operating leases other than that for its premises

Finance leases – Company as lessee
The Company did not have any leasing arrangements classifying as finance leases at 31 December 2006 or 31 December 2005

Capital commitments
Contracted for capital commitments as at 31 December 2006 amounted to £22,523 (31 December 2005 nil)

16 RELATED PARTY DISCLOSURES

Funds managed by Abingworth Management Limited ("Abingworth") held shares in the Company as at 31 December 2006 J F Abell and T J Haines are directors of Abingworth and have a financial interest in Abingworth's funds

Funds managed by Essex Woodlands Health Ventures ("Essex") held shares in the Company as at 31 December 2006 P T Vainio is a director of Essex and has a financial interest in Essex's funds

Compensation of key management personnel of the Company is detailed in Note 6 Director's interests in employee share option schemes are detailed in the Directors' Report

17 TRANSACTIONS WITH DIRECTORS AND OFFICERS

During the period the Company paid consultancy fees to Prof P Workman totalling £32,000 (year ended 31 December 2005 £32,000)

18 EVENTS AFTER THE BALANCE SHEET DATE

During February 2007 the Company gave notice to the Series C Investors that it was exercising its call option over the £5 million Facility (see Note 12) Following issue of this notice the Company issued 3,676,471 new C convertible preferred ordinary shares of £0 001 each for total cash consideration of £5,000,001 Reflecting the timing of the exercise of this option, the number of C convertible preferred ordinary shares issueable to holders of the Company's warrants was fixed at 183,823 (see Note 13)

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Notes to the financial statements

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19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY

In line with similar companies in the biotechnology sector, the Company derives long-term financing through the issue of new equity The Company's principal financial instruments comprise trade payables, operating leases and government grants which arise directly from its operations and are not designed as a means of raising finance for the Company's operations The Company has various financial assets such as receivables and cash and short-term deposits, which arise directly from its operations The Company does not consider that its financial instruments gave rise to any material financial risks during the financial years ended 31 December 2006 and 31 December 2005 An overview of areas of potential risk are summarised below

Interest rate risk
The Company's exposure to the risk of changes in market interest rates relates primarily to finance income from its cash at bank and short-term deposits (see Note 10) The change in the Company's profit or loss before tax arising from a change in the Bank of England base interest rates will depend on the remaining duration of any specific treasury deposits placed at that time and the average cash and cash equivalents for the remainder of the financial year following the change The exposure to changes in base interest rates is not considered to be material

Foreign currency risk
The Company does not have any overseas operations and therefore does not have any exposure to the retranslation of the assets and liabilities of overseas operations The Company purchases goods and services from a number of international suppliers and therefore has transactional currency exposures During the financial years ended 31 December 2006 and 31 December 2005 these exposures were not significant, consequently the Company did not enter into any currency hedging arrangements during these financial years The Company anticipates entering into several large US dollar denominated service agreements in the future and may therefore have significant exposure to movements in the US dollar The Company intends to use currency hedging arrangements to mitigate exposure to movements in the US dollar, either by way of forward purchase contracts relating to scheduled contractual payments or by holding part of its cash and short term deposits as US dollars It is the Company's policy to not enter into any forward purchase contracts until the underlying supply agreements have been executed

Credit risk
The Company did not have any trading revenues during the financial years ended 31 December 2006 and 31 December 2005 and thus did not have any exposure to trade credit risk With respect to credit risk arising from the other financial assets of the Company, which primarily comprise cash and short-term deposits, the exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these investments The Company has in place investment guidelines outlining authorised counterparties in order to minimise such risk

Liquidity risk
The Company monitors its funding requirements through preparation of short,-term, mid-term and long-term forecasts All short-term deposits are immediately convertible to liquid funds without penalty and are recorded in the balance sheet at their open market value

Capital management
In line with similar companies in the biotechnology sector at a similar stage of development, the Company is loss-making and does not have any significant trading revenues Reflecting this, the Company funds its operations through the issue of new equity In light of its ongoing funding requirements, the Company does not have a policy of paying dividends to shareholders except for potential payments to holders of the Company's convertible preferred ordinary shares as permitted in its Articles of Association (Note 12) It is the Company's policy to not have any gearing, reflecting the likely high cost of debt as a result of its currently loss-making operations