4066289

Chroma Therapeutics Limited
Report and Consolidated financial statements

Year ended 31 December 2010

Chroma
THERAPEUTICS

Chroma THERAPEUTICS

Company information

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

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Directors' report

for the year ended 31 December 2010

The directors present their report and consolidated financial statements for Chroma Therapeutics Ltd ('the Company', registered number 04066289) and its subsidiary (together 'the Group') for the year ended 31 December 2010

Principal activities and review of the business

The principal activity of the Group continues to be the research and development of novel therapeutic agents for the treatment of cancer and inflammatory disorders

During the financial year, the Group's research and development pipeline progressed in line with its expectations At the end of the year its development candidate's tosedostat, CHR-3996 and CHR-2845, were in clinical development The Group has a research collaboration with GlaxoSmithKline ("GSK") under which it progressed a development candidate, CHR-5154, into preclinical development, and continues to progress further novel research programmes under the collaboration towards preclinical candidate selection The Group also continued to develop its esterase-sensitive motif (ESM) technology platform Research and development expenditure decreased slightly compared to the previous financial year, reflecting the timing of certain clinical trials with its development candidates General and administrative expenses were in line with expenditure in the previous financial year

The Group 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 Group to surrender a proportion of its tax losses relating to research and development in each financial year in return for a cash receipt Finance revenue decreased by 48% compared to the previous financial year primarily as a result of lower average cash balances The Group also receives income from an EU research grant and income relating to the achievement of milestones under its research collaboration with GSK, as detailed in Note 4 The Group's income and expenses during the year were in line with its expectations

Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that, for the foreseeable future, the Group will continue in operation and be able to meet its liabilities as they fall due In concluding that it is appropriate to adopt the going concern basis the directors considered cash flow forecasts for the 12 month period from the date of these financial statements and the availability of future funding

Per Note 21 'Events after the end of the reporting period', at the date of signing the financial statements the Group had entered into a new research, development and commercialisation agreement with CTI, providing an upfront cash receipt of $5 million along with potential future milestone receipts and co-funding of clinical trials Under the terms of its GSK collaboration, the Group will continue to receive cash milestone payments based upon meeting certain pre-agreed objectives Although material uncertainties exist in relation to the objectives being met and triggering subsequent cash milestone receipts from GSK and CTI, the Directors have reasonable expectations that the receipts will occur as planned

The Group is not expected to be cash-generative in the foreseeable future as it continues to fund research and development projects through to marketing approval or licensing to a third party Based on current financial forecasts, the directors will be required to raise further funds during the next twelve months in order for the Group to continue operations as planned The existing major shareholders of the Group have indicated to the Board their intention to continue to support the Group's development for the foreseeable future Such financial support is not committed at the date of signing these financial statements

IAS 1 "Presentation of Financial Statements" requires the Directors to disclose "material uncertainties related to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern" After careful consideration of IAS 1 and the Financial Reporting Council's "Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009" guidance, the Directors consider that the uncertainties regarding the receipt of cash amounts from ongoing collaborative development activities and raising further funds described above each meet the definition of a "material uncertainty" Nevertheless, the Directors have a reasonable expectation, based on financial forecasts, progress with the Group's research and development efforts and the expected availability of future financing, that the Group will have adequate resources to continue in operational existence for the foreseeable future Accordingly the Board considers that the business is a going concern and continues to adopt the going concern basis in preparing the financial statements The financial statements do not contain the adjustments that would result if the Group was unable to continue as a going concern

Directors' report (continued)

Principal risks and uncertainties
The Group operates in a high-risk sector, which is reflected in the Group's investor base, comprising primarily specialist venture capital organisations The key risks facing the Group 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 Group or have a superior profile to the Group's agents, or that the Group'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 Group may not be able to agree study designs with regulatory authorities that are mutually acceptable 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 Group is highly dependent upon raising new finance to execute its long term business plan Such finance may not be available on acceptable terms or at all The Group is seeking to raise further funds through new and existing research and development collaboration arrangements New collaborations may not be executable on mutually acceptable terms or at all, and collaboration milestones under existing arrangements may not be achieved on a timely basis or at all The Group currently receives income from R&D tax credit payments A withdrawal or curtailment of the R&D tax credit scheme will have an adverse effect on the Group's financial position

Future developments
The Group intends to progress its pipeline of novel therapeutic agents during 2011 and expects that research and development expenditure will reduce, reflecting the co-funding arrangement with CTI for its development candidate tosedostat noted above

Results and dividends
The Group made a loss for the year of £11,020,213 (year ended 31 December 2009 loss of £11,393,890) The directors do not recommend the payment of a dividend Expenditure on tangible fixed assets during the year was £42,640 (year ended 31 December 2009 £18,974)

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 Dec 2010	**At 31 Dec 2009**	**At 31 Dec 2010**	**At 31 Dec 2009**
P V Allen	-	-	80,000	80,000
Dr G Ando (appointed 1 April 2010)	40,000	-	-	-
R E Bungay (appointed 4 May 2011)	-	-	-	-
T J Haines	-	-	-	-
Dr J Hemberger	-	-	40,000	40,000
I J Nicholson	650,000	650,000	450,000	450,000
Dr S J Powell	-	-	-	-
Dr P T Vainio	-		40,000	40,000
Dr K Veitinger	-	-	40,000	40,000

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 12 to the financial statements

Directors' report (continued)

Financial risk management

The Group continually reviews its exposure to different foreign currencies and, where available, will enter into the most appropriate hedging arrangements to minimise the impact of adverse exchange rate movements where necessary During the year ended 31 December 2010, the Group retired its £7 5 million secured loan from ETV/SVB and put in place a $15 million secured loan facility with Hercules, of which $10 million was drawn down in 2010 (see Note 17), which gave rise to a material exposure to the US dollar The Group was unable to hedge this exposure since the size and duration of the forward contracts required to effect such hedging would have required provision of a cash security deposit that was incompatible with the terms of the secured loan The Group did not have any other material exposures to foreign currencies during the year

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 Group's $10 million secured loan has a floating interest rate (see Note 17) The interest received on cash reserves is considered to act as a natural hedge against the impact on the secured loan of an increase in base interest rates, hence the Group does not enter into any interest rate hedging arrangements The Group does not have any material exposure to credit risk

Charitable and political donations

The Group did not make any charitable or political donations during the year

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 2006 Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report

Payment of creditors

The Group'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 2010 represented 26 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 Group'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

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Directors' report (continued)

Statement of directors' responsibilities in respect of the consolidated financial statements
Company Law requires that the directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable United Kingdom law and have elected to prepare consolidated financial statements in accordance with those International Financial Reporting Standards as adopted by the European Union Under Company Law the directors must not approve the consolidated financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period In preparing those consolidated financial statements, the directors are required to

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance,
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements, and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the consolidated financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Events after the end of reporting period
Events after the end of reporting period are detailed in Note 21 'Events after the end of the reporting period'

This report was approved by the Board on 7 September 2011 and has been prepared in accordance with the Companies Act 2006

By order of the Board

R E Bungay
Secretary

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Independent auditor's report to the members of Chroma Therapeutics Limited

We have audited the consolidated and parent company financial statements (the "financial statements") of Chroma Therapeutics Limited for the year ended 31 December 2010 which comprise the consolidated statement of comprehensive expense, consolidated and parent company balance sheets, the consolidated and parent company statements of changes in equity, the consolidated and parent company cash flow statements and the related notes 1 to 22 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of Part 16 of the Companies Act 2006 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 auditor's 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
As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatement or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2010 and of the Group's loss for the year then ended,
- the Group and Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- the Group and Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Emphasis of Matter – Going Concern
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of disclosures made in Note 2 to the consolidated financial statements concerning the Group's ability to continue as a going concern, which indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern The consolidated financial statements do not include the adjustments that would result if the company was unable to continue as a going concern

Ernst & Young LLP

David Conway Hughes (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
Date 9 September 2011

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Consolidated statement of comprehensive expense
for the year ended 31 December 2010

	Note	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Revenue	4	2,463,125	179,328
Research and development costs	4	(12,068,055)	(10,665,314)
Administrative expenses	4	(1,891,882)	(1,872,313)
Operating loss		(11,496,812)	(12,358,299)
Finance revenue	11	120,934	231,638
Finance expense	17	(1,004,740)	(721,909)
Loss before taxation		(12,380,618)	(12,848,570)
Tax credit	7	1,360,405	1,454,680
Total comprehensive expense for the year		(11,020,213)	(11,393,890)

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Consolidated balance sheet
as at 31 December 2010

	Note	31 December 2010 £	31 December 2009 £
ASSETS			
Non current assets			
Property, plant and equipment	8	163,571	180,484
Current assets			
Trade and other receivables	10	453,976	320,636
R&D tax credit receivable	7	1,360,405	1,454,680
Prepayments		452,757	418,781
Cash and short term deposits	11	8,602,384	17,949,148
		10,869,522	20,143,245
TOTAL ASSETS		11,033,093	20,323,729
EQUITY AND LIABILITIES			
Equity			
Issued capital	13	49,999	49,999
Share premium		63,566,660	63,566,660
Warrants		118,934	118,934
Other reserves	13	275,772	267,137
Accumulated losses		(66,004,232)	(54,984,019)
Total equity		(1,992,867)	9,018,711
Non-current liabilities			
Deferred income	16	4,044,426	4,707,781
Secured loan	17	5,226,396	1,138,549
		9,270,822	5,846,330
Current liabilities			
Trade and other payables	15	1,953,264	1,974,290
Deferred income	16	474,269	336,649
Secured loan	17	1,327,605	3,147,749
		3,755,138	5,458,688
TOTAL EQUITY AND LIABILITIES		11,033,093	20,323,729

Approved by the Board on 7 September 2011 and signed on its behalf by

R E Bungay
Director

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Company balance sheet
as at 31 December 2010

	Note	31 December 2010 £	31 December 2009 £
ASSETS			
Non current assets			
Property, plant and equipment	8	163,571	180,484
Investment in subsidiary company	9	5,000,002	5,000,002
		5,163,573	5,180,486
Current assets			
Trade and other receivables	10	453,976	320,636
R&D tax credit receivable	7	1,360,405	1,454,680
Prepayments		452,757	418,781
Cash and short term deposits	11	8,602,384	17,949,148
		10,869,522	20,143,245
TOTAL ASSETS		16,033,095	25,323,731
EQUITY AND LIABILITIES			
Equity			
Issued capital	13	49,999	49,999
Share premium		63,566,660	63,566,660
Warrants		118,934	118,934
Other reserves	13	275,772	267,137
Accumulated losses		(59,977,639)	(48,811,760)
Total equity		4,033,726	15,190,970
Non-current liabilities			
Deferred income	16	3,256,036	3,655,195
Secured loan	17	5,226,396	1,138,549
		8,482,432	4,793,744
Current liabilities			
Trade and other payables	15	1,953,264	1,974,290
Deferred income	16	236,068	216,978
Secured loan	17	1,327,605	3,147,749
		3,516,937	5,339,017
TOTAL EQUITY AND LIABILITIES		16,033,095	25,323,731

Approved by the Board on 7 September 2011 and signed on its behalf by

R E Bungay
Director

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Consolidated and company statements of changes in equity

for the year ended 31 December 2010

	Issued capital £	Share premium £	Warrants £	Other reserves £	Accumulated losses £	Total equity £
Group						
At 1 January 2009	41,428	48,666,004	118,934	243,797	(43,590,129)	5,480,034
Issue of D preferred ordinary shares for cash (Note 13)	8,571	14,991,428	-	-	-	14,999,999
Expenses of issuing new equity (Note 13)	-	(90,772)	-	-	-	(90,772)
Expense of share options issued to employees (Note 12)	-	-	-	23,340	-	23,340
Loss for the year	-	-	-	-	(11,393,890)	(11,393,890)
At 31 December 2009	49,999	63,566,660	118,934	267,137	(54,984,019)	9,018,711
Expense of share options issued to employees (Note 12)	-	-	-	8,635	-	8,635
Loss for the year	-	-	-	-	(11,020,213)	(11,020,213)
At 31 December 2010	49,999	63,566,660	118,934	275,772	(66,004,232)	(1,992,867)
Company						
At 1 January 2009	41,428	48,666,004	118,934	243,797	(36,843,398)	16,289,144
Issue of D preferred ordinary shares for cash (Note 13)	8,571	14,991,428	-	-	-	14,999,999
Expenses of issuing new equity (Note 13)	-	(90,772)	-	-	-	(90,772)
Expense of share options issued to employees (Note 12)	-	-	-	23,340	-	23,340
Loss for the year	-	-	-	-	(11,968,362)	(11,968,362)
At 31 December 2009	49,999	63,566,660	118,934	267,137	(48,811,760)	15,190,970
Expense of share options issued to employees (Note 12)	-	-	-	8,635	-	8,635
Loss for the year	-	-	-	-	(11,165,879)	(11,165,879)
At 31 December 2010	49,999	63,566,660	118,934	275,772	(59,977,639)	4,033,726

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Consolidated and company cashflow statements
for the year ended 31 December 2010

	Note	Group Year ended 31 December 2010 £	Company Year ended 31 December 2010 £	Group Year ended 31 December 2009 £	Company Year ended 31 December 2009 £
Cash flows from operating activities					
Operating loss		(11,496,812)	(11,642,478)	(12,358,299)	(12,932,771)
Adjustments to reconcile operating loss to net cash flows from operating activities					
Non-cash items					
• Expense of share options issued to employees		8,635	8,635	23,340	23,340
• Provision against amounts due from subsidiary company	10	-	1,958,074	-	2,336,117
• Depreciation and impairment	8	59,280	59,280	104,262	104,262
• Loss on disposal of fixed assets	8	273	273	-	-
Working capital adjustments					
• Income tax received		1,454,680	1,454,680	1,259,665	1,259,665
• Increase/(decrease) in payables		(546,761)	(401,095)	4,922,120	3,749,861
• (Increase)/decrease in receivables		(176,490)	(2,134,564)	254,687	(334,699)
Net cash flows from operating activities		(10,697,195)	(10,697,195)	(5,794,225)	(5,794,225)
Cash flows from investing activities					
Purchase of property, plant and equipment	8	(42,640)	(42,640)	(18,974)	(18,974)
Net cash flows used in investing activities		(42,640)	(42,640)	(18,974)	(18,974)
Cash flows from financing activities					
Interest received		130,108	130,108	532,985	532,985
Repayment of £7 5 million secured loan principal		(3,535,383)	(3,535,383)	-	-
Draw down of $10 million secured loan		6,437,078	6,437,078	-	-
Repayment of secured loan principal		(750,915)	(750,915)	(2,782,429)	(2,782,429)
Interest paid on secured loans		(892,503)	(892,503)	(721,909)	(721,909)
Proceeds from issue of shares	13	-	-	14,999,999	14,999,999
Transaction costs of issue of shares	13	-	-	(90,772)	(90,772)
Net cash flows from financing activities		1,388,385	1,388,385	11,937,874	11,937,874
Effect of exchange rate changes		4,686	4,686	-	-
Net (decrease)/increase in cash and cash equivalents		(9,346,764)	(9,346,764)	6,124,675	6,124,675
Cash and cash equivalents at start of period	11	17,949,148	17,949,148	11,824,473	11,824,473
Cash and cash equivalents at end of period	11	8,602,384	8,602,384	17,949,148	17,949,148

Notes to the consolidated financial statements
for the year ended 31 December 2010

1 **CORPORATE INFORMATION**

The group and company financial statements of Chroma Therapeutics Limited for the year ended 31 December 2010 ("financial statements") were authorised for issue in accordance with a resolution of the directors on 7 September 2011 Chroma Therapeutics Limited is a limited company incorporated in England & Wales and domiciled in the United Kingdom

2 **BASIS OF PREPARATION**

The consolidated 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

Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that, for the foreseeable future, the Group will continue in operation and be able to meet its liabilities as they fall due In concluding that it is appropriate to adopt the going concern basis the directors considered the following matters

- Cash flow forecasts for the 12 month period from the date of these financial statements, and
- The availability of future funding

Per Note 21 'Events after the end of the reporting period', at the date of signing the financial statements the Group had entered into a new research, development and commercialisation agreement with CTI, providing an upfront cash receipt of $5 million along with potential future milestone receipts and co-funding of clinical trials

Under the terms of its GSK collaboration, the Group will continue to receive cash milestone payments based upon meeting certain pre-agreed objectives Although material uncertainties exist in relation to the objectives being met and triggering subsequent cash milestone receipts from GSK and CTI, the Directors have reasonable expectations that the receipts will occur as planned

The Group is not expected to be cash-generative in the foreseeable future as it continues to fund research and development projects through to marketing approval or licensing to a third party Based on current financial forecasts, the directors will be required to raise further funds during the next twelve months in order for the Group to continue operations as planned The existing major shareholders of the Group have indicated to the Board their intention to continue to support the Group's development for the foreseeable future Such financial support is not committed at the date of signing these financial statements

IAS 1 "Presentation of Financial Statements" requires the Directors to disclose "material uncertainties related to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern" After careful consideration of IAS 1 and the Financial Reporting Council's "Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009" guidance, the Directors consider that the uncertainties regarding the receipt of cash amounts from ongoing collaborative development activities and raising further funds described above each meet the definition of a "material uncertainty" Nevertheless, the Directors have a reasonable expectation, based on financial forecasts, progress with the Group's research and development efforts and the expected availability of future financing, that the Group will have adequate resources to continue in operational existence for the foreseeable future Accordingly the Board considers that the business is a going concern and continues to adopt the going concern basis in preparing the financial statements

The financial statements do not contain the adjustments that would result if the Group was unable to continue as a going concern

Notes to the consolidated financial statements
for the year ended 31 December 2010

2 BASIS OF PREPARATION (continued)

Basis of consolidation
The consolidated financial statements comprise the financial statements of Chroma Therapeutics Limited and its subsidiary as at 31 December each year Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases The financial statements of the subsidiary are prepared with the same accounting reference date of 31 December, using consistent accounting policies All intra-group transactions are eliminated in full No profit and loss account is presented for the Company as permitted by Section 408 of the Companies Act 2006 The Company made a loss for the year of £11,165,879 (year ended 31 December 2009 loss of £11,968,362)

Statement of compliance
The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union All IFRSs issued by the International Accounting Standards Board ("IASB") that were effective at the time of preparing the financial statements and adopted by the European Commission for use inside the EU were applied by the Group These Group and the Company financial statements have been prepared in accordance with IFRS and the Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS

Changes in accounting policies
The accounting policies adopted by the Group are consistent with the previous financial year There were no new or amended IFRSs or IFRIC interpretations that were effective for the current financial year that the Group had not early-adopted in previous financial years

New IFRSs and interpretations not applied
During the year and up to the date of signing the 2010 financial statements, there were no IFRSs and Interpretations issued by the IASB and IFRIC with an effective date after the date of these financial statements that were relevant to the Group and which the Group has not applied in its 2010 financial statements

Significant accounting judgements, estimates and assumptions
The Group has not applied any judgements (other than estimations) having a significant effect on any amounts recognised in the financial statements The Group has not identified any assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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
Property, 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 values 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 statement of comprehensive expense 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 statement of comprehensive expense 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

Research and development costs
The principal business activity of the Group 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 Group 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 Group 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 Group 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 capitalised by reference to the costs incurred in creating the asset and then amortised by reference to the useful economic life of, and the projected revenues from, the therapeutic agent.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)
Likewise, the Group 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 capitalisation and amortisation criteria as internal development costs, as noted above

The Group has not incurred any costs meeting the capitalisation criteria detailed above to date

Impairment of assets
The Group assesses at each end of reporting period 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 Group 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 statement of comprehensive expense in those expense categories consistent with the function of the impaired asset

An assessment is made at each end of reporting period 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 statement of comprehensive expense 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

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)
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 statement of comprehensive expense 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 statement of comprehensive expense 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 employees of the Group 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 Group The cost is expensed to the statement of comprehensive expense 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

At each end of reporting period 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 end of reporting period is recognised in the statement of comprehensive expense, 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 statement of comprehensive expense 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 statement of comprehensive expense

Notes to the consolidated financial statements

for the year ended 31 December 2010

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Warrants

Warrants 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 14) The treatment of warrants issued to Hercules during the year is explained in Note 14

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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

Research and development collaboration income

Receipts under research and development collaboration agreements are recognised upon confirmation from the collaborator that the relevant criteria for receipt of such payments have been met by the Group Where the income relates to an ongoing obligation it is recognised as income over the period necessary to match the income on a systematic basis to the costs relating to the contractual obligation Where the income relates to the successful completion of an objective under the collaboration agreement (referred to as a "milestone" receipt), it is fully recognised upon confirmation from the collaborator that the relevant criteria for receipt of such payments have been met by the Group

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 end of reporting period

The amount recorded in the financial statements as research and development tax credit receivable by the Group for the financial year ended 31 December 2010 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 end of reporting period 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 end of reporting period 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 end of reporting period 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 end of reporting period

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method Backend fees (including 'balloon' interest payments) on interest-bearing loans are amortised using the effective interest rate method over the period of the loan Gains and losses are recognised in the statement of comprehensive expense when the liabilities are derecognised as well as through the amortisation process

Borrowing costs
Interest payable on loans is recognised as it accrues using the effective interest rate method

Foreign currency translation
Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the end of each reporting period 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 statement of comprehensive expense as they arise

Segment information
The Group operates in one business segment, the research and development of novel therapeutic agents for the treatment of cancer and inflammatory disorders In addition, the Group's only revenue stream during the reporting period was research and development collaboration income (Note 4) As a consequence, no segmental analysis or geographical split of revenue is required for the reporting period

4 REVENUE AND EXPENSES

Revenue comprises the following

	Year ended 31 Dec 2010 £	Year ended 31 Dec 2009 £
Government grant revenue (Note 4a)	158,085	-
Milestone revenue (Note 4b)	2,000,001	-
Research and development collaboration income (Note 4b)	301,977	179,328
Other licensing income	3,062	-
	2,463,125	179,328

4 REVENUE AND EXPENSES (continued)

(a) <u>Government grant revenue</u>
During the year ended 31 December 2006, a consortium of which the Group is a member was awarded an EU grant for a long-term collaborative research project Under the terms of the consortium agreement, the Group will provide drug discovery and lead optimisation services to the consortium and, as consideration, may receive up to €753,750 in grant income dependent upon achieving pre-agreed milestones Should the Group breach its obligations under the consortium agreement, the consortium may request the Group repays some or all of the grant income it has received Grant income is recognised only to the extent that the Group has achieved its pre-agreed milestones to the satisfaction of the consortium The revenue recognised in the statement of comprehensive expense is calculated by comparing the cumulative expenditure at the end of each financial period with the total estimated costs to complete the Group's obligations, and matching the grant income accordingly

During the year ended 31 December 2010, the Group completed its obligations under the consortium agreement, resulting in revenue recognisable of £165,603, of which £7,518 related to reimbursement of audit fees relating to administration of the grant (and was credited against administrative expenses) and £158,085 was recognised as revenue (2009 £nil revenue recognised) The balance of monies previously received of €59,557 (£51,264 at the year end exchange rate) is repayable to the consortium and has been transferred to other creditors at 31 December 2010 A reconciliation of these movements, and the impact on the balance sheet, is as follows

	Group and Company 31 Dec 2010	**Group and Company 31 Dec 2009**
	£	**£**
(Other debtors)/deferred revenue at 1 January	223,758	(53,898)
Grant payments received during the year	-	278,957
Grant revenue recognised during the year	(158,085)	-
Reimbursement of audit fees	(7,518)	-
Grant to be returned, transferred to other creditors	(51,264)	-
Impact of exchange rate movements	(6,891)	(1,301)
Deferred revenue at 31 December	-	223,758

(b) <u>Research and development collaboration income</u>
During the year ended 31 December 2009, the Group entered into a multi-year research and development collaboration agreement with GlaxoSmithKline ("GSK") under which the Group will progress four specified research programmes to completion of clinical proof of concept studies The Group received an upfront payment of £5 million following signature of the agreement with GSK This upfront payment has been allocated equally over the four research programmes and is being matched systematically to the estimated cost to completion of the Group's obligations For the year ended 31 December 2010 the Group recognised revenue of £301,977 (year ended 31 December 2009 £179,328) in the statement of comprehensive expense a reconciliation of deferred income is shown in Note 16 During the year ended 31 December 2010, the Group received milestone payments totalling £2,000,001, relating to the successful completion of objectives under the collaboration agreement, which were fully recognised in the statement of comprehensive expense

4 REVENUE AND EXPENSES (continued)

(c) Depreciation and amortisation included in the statement of comprehensive expense

	Year ended 31 Dec 2010 £	Year ended 31 Dec 2009 £
Included in research and development costs		
Depreciation and impairment	40,270	83,179
Operating lease expense	376,668	376,992
Net foreign exchange differences	25	-
Included in administrative expenses		
Depreciation and impairment	19,010	21,083
Operating lease expense	113,331	113,429
Net foreign exchange differences	31,032	1,964

(d) Employee benefits expense

	Year ended 31 Dec 2010 £	Year ended 31 Dec 2009 £
Wages and salaries	3,093,380	3,149,736
Social security costs	361,535	370,594
Pension costs	299,255	274,582
Expense of share options issued to employees	8,635	23,340
	3,762,805	3,818,252
Of which		
Included in research and development costs	2,878,782	2,835,530
Included in administrative expenses	884,023	982,722
	3,762,805	3,818,252

(e) Fees paid to auditors
Administrative Expenses include fees paid to the auditors for audit services of £28,800 (year ended 31 December 2009 £29,000), for other services relating to taxation of £7,650 (year ended 31 December 2009 £13,000) and other accounting services of £2,500 (year ended 31 December 2009 £10,000) The fees for audit services include £6,000 in respect of the audit of the Company's subsidiary (year ended 31 December 2009 £4,000)

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5 EMPLOYEES

The average number of employees of the Group dunng the year was as follows

	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Research and development	45	40
Administration	11	10
	56	50

6 DIRECTORS' REMUNERATION

	Year ended 31 Dec 2010 £	Year ended 31 Dec 2009 £
Total emoluments	352,388	381,821
Employers contributions paid to money purchase pension schemes	22,000	22,000

As at 31 December 2010, one director (31 December 2009 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 2010 £	Year ended 31 Dec 2009 £
Total emoluments	242,388	271,821
Employers contributions paid to money purchase pension schemes	22,000	22,000

7 TAXATION

(a) Current income tax

	Year ended 31 Dec 2010 £	Year ended 31 Dec 2009 £
UK corporation tax	-	-
R&D tax credit receivable – draft claim for financial year	1,360,405	1,290,443
R&D tax credit receivable – adjustment in financial year relating to claims for prior periods	-	164,237
	1,360,405	1,454,680

7 TAXATION (continued)

(b) Factors affecting the tax credit for the year

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

	Year ended 31 Dec 2010 £	Year ended 31 Dec 2009 £
Loss before tax	(12,380,618)	(12,848,570)
Loss before tax multiplied by effective standard rate of corporation tax in the UK of 28% (year ended 31 December 2009 28%)	(3,466,573)	(3,597,600)
Effect of		
Disallowed expenses and non-taxable income	4,410	10,058
Enhanced deduction – R&D relief	(1,582,501)	(1,290,106)
Timing differences between capital allowances and depreciation charges	2,200	20,807
Other timing differences	-	67,162
Losses surrendered for R&D tax credit	1,360,405	1,290,444
Unrelieved tax losses	2,321,654	2,208,792
Current tax credit for the period	(1,360,405)	(1,290,443)
Adjustment relating to claims for prior periods	-	(164,237)
Total tax credit for the period	(1,360,405)	(1,454,680)

(c) Deferred income tax

The Finance Bill 2010, which included a reduction in the UK Corporation tax rate to 27%, was substantially enacted on 21 July 2010, therefore deferred tax assets and liabilities as at 31 December 2010 have been calculated at this rate The deferred tax asset, calculated at a rate of UK corporation tax of 27%% (31 December 2009 28%), not recognised in the financial statements is as follows

	Year ended 31 Dec 2010 £	Year ended 31 Dec 2009 £
Capital allowances in advance of depreciation	(12,865)	(10,970)
Tax losses available	12,426,120	10,564,692
	12,413,255	10,553,722

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

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7 TAXATION (continued)

In his budget of 23 March 2011, the Chancellor of the Exchequer announced Budget tax changes which, if enacted in the proposed manner, will have an effect on the Company's future tax position The Budget proposed a decrease in the rate of UK corporation tax from 27% to 26% on 1 April 2011 and by a further 1% each year until April 2014 This reduction will affect both the future and current tax charge of the Company The effect of the reduction in the tax rate to 23% would be to reduce the unrecognised deferred tax asset to £10,574,254

The effect on the Company of these proposed tax changes to the UK corporation tax system will be reflected in the Company's financial statements in future years, as appropriate, once the proposals have been substantially enacted

8 PROPERTY, PLANT AND EQUIPMENT

31 December 2010

	Group and Company		
	Leasehold improvements £	**Plant and equipment £**	**Total £**
At 1 January 2010, net of accumulated depreciation and impairment	140,083	40,401	180,484
Additions	-	42,640	42,640
Disposals	-	(273)	(273)
Depreciation charge for the year	(22,545)	(36,735)	(59,280)
At 31 December 2010, net of accumulated depreciation and impairment	117,538	46,033	163,571
At 1 January 2010			
Cost	218,645	1,083,636	1,302,281
Accumulated depreciation and impairment	(78,562)	(1,043,235)	(1,121,797)
Net carrying amount	140,083	40,401	180,484
At 31 December 2010			
Cost	218,645	1,106,155	1,324,800
Accumulated depreciation and impairment	(101,108)	(1,060,121)	(1,161,229)
Net carrying amount	117,537	46,034	163,571

During the year ended 31 December 2010 the Group disposed of assets with an original cost of £20,122 and accumulated depreciation of £19,849, leading to a loss on disposal of £273

As at 31 December 2010, fully depreciated assets with an original cost of £1,015,519 were still in use (31 December 2009 £905,985)

There is a fixed charge over the leasehold improvements of the Group and a floating charge over the plant and equipment of the Group resulting from the secured loan entered into on 26 April 2010 (Note 17)

8 PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2009

	Group and Company		
	Leasehold improvements £	Plant and equipment £	Total £
At 1 January 2009, net of accumulated depreciation and impairment	162,629	103,143	265,772
Additions	-	18,974	18,974
Depreciation charge for the year	(22,546)	(81,716)	(104,262)
At 31 December 2009, net of accumulated depreciation and impairment	140,083	40,401	180,484
At 1 January 2009			
Cost	218,645	1,064,662	1,283,307
Accumulated depreciation and impairment	(56,016)	(961,519)	(1,017,535)
Net carrying amount	162,629	103,143	265,772
At 31 December 2009			
Cost	218,645	1,083,636	1,302,281
Accumulated depreciation and impairment	(78,562)	(1,043,235)	(1,121,797)
Net carrying amount	140,083	40,401	180,484

During the year ended 31 December 2009 the Group did not dispose of any assets

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

9 INVESTMENTS

	Company	
	31 Dec 2010 £	31 Dec 2009 £
Investment in subsidiary company	5,000,002	5,000,002

Name of subsidiary	Country of incorporation	Class of shares held	Proportion held	Activity
MacroTarg Ltd	UK	Ordinary	100%	Research and development

The cost of investment in subsidiary is recorded at fair value

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Notes to the consolidated financial statements

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10 TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
VAT recoverable	443,969	251,864	443,969	251,864
Accrued interest	-	9,174	-	9,174
Other debtors	10,007	59,598	10,007	59,598
Amounts due from subsidiary company	-	-	-	-
	453,976	320,636	453,976	320,636

Amounts due from subsidiary company represent an inter-company loan account with the Company's wholly-owned subsidiary company, MacroTarg The loan carries interest on the average balance outstanding each month at 2% above the base lending rate of Barclays Bank plc The Company does not have a right to recall the loan except in the event that MacroTarg ceases to be a wholly-owned subsidiary of the Company, in which case the Company has the right to request repayment of the loan on 90 days notice The amount due from MacroTarg for the year ended 31 December 2010 of £4,294,191 (year ended 31 December 2009 £2,336,117) has been fully provided for in the Company's accounts since MacroTarg has negative net assets and is therefore judged unlikely to be able to repay the loan balance should it be recalled

11 CASH AND SHORT TERM DEPOSITS

	Group and Company	
	31 Dec 2010	31 Dec 2009
	£	£
Cash at bank and in hand	5,730	31,386
Short term deposits	8,596,654	17,917,762
	8,602,384	17,949,148

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 Group, and earn interest at the respective short-term deposit rates Finance revenue comprises the following

	31 Dec 2010	31 Dec 2009
	£	£
Interest receivable on cash at bank and short term deposits	120,934	228,689
Supplier discounts received	-	2,949
	120,934	231,638

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12 SHARE-BASED PAYMENT PLANS

Enterpnse Management Incentive ('EMI') scheme
All employees of the Group particpate in the Company's EMI share option scheme Options granted under this scheme vest over a penod of four years from the commencement date and, to the extent they have vested, are only exercisable in the event of an initial public offenng of the Company's shares or trade sale of the Company The exercise pnce 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 pnce (WAEP) of, and movements in, share options dunng the year

	Year ended 31 Dec 2010		Year ended 31 Dec 2009	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the penod	2,976,862	£0 20	3,036,300	£0 20
Granted dunng the penod	128,500	£0 18	-	,
Forfeited dunng the penod	(21,000)	£0 17	(59,438)	£0 31
Outstanding at the end of the penod	3,084,362	£0 20	2,976,862	£0 20
Exercisable at the end of the penod	-	-	-	-

The options outstanding at 31 December 2010 had a weighted average remaining contractual life of 5 3 years (31 December 2009 6 1 years) and have exercise prices in the range £0 12 to £0 40 per share (31 December 2009 £0 12 to £0 40 per share) Included within the outstanding options are 102,500 options issued to an employee of the Company, 40,000 options issued to a former director of the Company and 40,000 options issued to a current 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 Company did not grant any options dunng the pnor financial year The following table lists the inputs to the model used for the current financial year

	Year ended 31 Dec 2010
Expected volatility (%)	40 0
Weighted average nsk-free interest rate (%)	3 0
Expected life of options (years)	5 0 or 7 0
Weighted average share pnce (£)	0 18

The Group does not have any historic data relating to the expected penod to exercise of the options and therefore has estimated this based upon industry expenence, with a 7 year penod assumed for senior management and a 5 year penod 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 nsk free interest rate represents a weighted average of the yield for gilts issued by the UK government at the date of grant of each option The weighted average share pnce is determined by performing a share valuation at the date of grant of the options The expense calculation includes an allowance for forfeiture of 10% of the total share options granted other than to senior management, for which the forfeiture rate is estimated as 0% The fair value calculation does not include any allowance for dividends as the Company has no available profits for distribution

The charge to the statement of comprehensive expense relating to options dunng the year is detailed in Note 4

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13 ISSUED CAPITAL AND RESERVES

Authorised capital

	31 Dec 2010 Number	31 Dec 2009 Number	31 Dec 2010 £	31 Dec 2009 £
Ordinary shares of £0 001 each	6,900,000	6,900,000	6,900	6,900
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	22,500,000	22,500,000	22,500	22,500
D convertible preferred ordinary shares of £0 001 each	8,571,428	8,571,428	8,571	8,571
			58,487	58,487

Issued capital

	31 Dec 2010 Number	31 Dec 2009 Number	31 Dec 2010 £	31 Dec 2009 £
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	200,000	200,000	200	200
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	22,058,823	22,058,823	22,059	22,059
D convertible preferred ordinary shares of £0 001 each	8,571,428	8,571,428	8,571	8,571
			49,999	49,999

Ordinary shares

The Articles of Association allow for the sub-categorisation of the Company's 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 2010, there were no ordinary shares that had not yet vested (31 December 2009 9,600 ordinary shares with a total subscription price of £10 had not yet vested) 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 on such share arrangements 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 12

13 ISSUED CAPITAL AND RESERVES (continued)

Ordinary shares (continued)

The Company did not issue any ordinary shares during the years ended 31 December 2010 and 31 December 2009

The Company has reserved 3,130,000 ordinary shares (2009 3,130,000 ordinary shares) for issue under options (see Note 12), of which 3,084,362 options were issued and outstanding at 31 December 2010 (31 December 2009 2,976,862)

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, C and D 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, C and D 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 The convertible preferred ordinary shares are classified as equity based on analysis of the terms described above

During the financial year ended 31 December 2009 the Company issued 8,571,428 new D convertible preferred ordinary shares for total consideration of £14,999,999 to a syndicate of investors The expenses associated with the issue of these shares of £90,772 have been deducted from the Share Premium account During the financial year ended 31 December 2010, the Company did not issue any new convertible preferred ordinary shares

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 12)

14 WARRANTS

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

During the year ended 31 December 2010, the Company issued a warrant instrument to subscribe for preferred shares in the Company to Hercules Technology Growth Capital ("Hercules") (see Note 17) The amount of shares subscribable under the warrant instrument is calculated as 8% of the value of the secured loan provided by Hercules (i e $800,000) divided by the lower of £1 75, the price of the last financing round, and the price of the Company's next bona fide financing round The type of shares issuable under the warrant instrument are D convertible preferred ordinary shares or, in case the company issues a new class of shares under a new financing round, such new class of shares at the option of Hercules Since, at the time of issue of the warrants, the relevant subscription price of the lower of £1 75 and the price of the Company's next bona fide financing round is considered by the directors to represent the fair value of D convertible preferred ordinary shares at that date, and the warrant instrument is not in return for services nor linked to the secured loan, no accounting arises on issue or throughout the life of the warrant instrument.

As at 31 December 2010 there were 433,822 unexpired warrants to subscribe for C convertible preferred ordinary shares at a price of £1 36 per share and 325,261 unexpired warrants to subscribe for D convertible preferred ordinary shares at a price of £1 75 per share

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for the year ended 31 December 2010

15 TRADE AND OTHER PAYABLES

	Group and Company	
	31 Dec 2010	31 Dec 2009
	£	£
Trade payables	1,198,674	1,146,837
Taxation and social security	113,528	129,273
Other payables and accruals	641,062	698,180
	1,953,264	1,974,290

Other payables and accruals include outstanding contributions payable to the defined contribution pension scheme of £37,207 (31 December 2009 £36,351)

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

16 DEFERRED INCOME

	Group		Company	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
	£	£	£	£
Research and development collaboration income				
• At 1 January	4,820,672	-	3,648,415	
• Received during the year	-	5,000,000	-	3,750,000
• Released to the statement of comprehensive expense	(301,977)	(179,328)	(156,311)	(101,585)
At 31 December	4,518,695	4,820,672	3,492,104	3,648,415
Grant income (see Note 4)	-	223,758	-	223,758
	4,518,695	5,044,430	3,492,104	3,872,173
Of which				
• Current portion	474,269	336,649	236,068	216,978
• Non-current portion	4,044,426	4,707,781	3,256,036	3,655,195
	4,518,695	5,044,430	3,492,104	3,872,173

17 SECURED LOAN

	Group and Company 31 Dec 2010 £	Group and Company 31 Dec 2009 £
$10 million secured loan amount due within one year	1,327,605	-
$10 million secured loan amount due after one year	5,114,159	-
	6,441,764	-
$10 million secured loan amortisation of 'balloon' interest payment	112,237	
£7 5 million secured loan amount due within one year	-	3,147,749
£7 5 million secured loan amount due after one year	-	1,138,549
	6,554,001	4,286,298

On 26 April 2010 the Group retired its £7 5 million secured loan with ETV and SVB, repaying the outstanding capital balance of £3,535,383 and interest accrued to the date of repayment, along with an early repayment penalty of £178,413, which has been included as a component of interest payable in the consolidated statement of comprehensive expense

At the same date, the Group entered into an agreement with Hercules Technology Growth Capital ('Hercules') for a new secured loan of up to $15 million The initial tranche of the loan of $10 million was drawn down on 28 April 2010, the additional tranche of up to $5 million was not drawn down by its expiry date of 31 May 2011 and has therefore lapsed There are 12 monthly payments of interest only commencing from the drawdown date followed by 30 equal monthly payments of capital and interest commencing 1 June 2011 with an annual interest rate of the prime rate reported in the Wall Street Journal plus 7 75%, subject to a minimum annual interest rate of 12 0% At the maturity date of the loan there is a 'balloon' interest payment of 8% of the principal amount of the loan, totalling $800,000 based upon the amount of the loan facility drawn down at 31 December 2010, which is being amortised on an effective interest basis over the period of the loan Interest payable on the secured loan for the year ended 31 December 2010 includes $174,234 (£112,237 at the year end exchange rate) relating to the amortisation of the 'balloon' interest payment As a condition of the loan facility, Hercules received warrants to subscribe for preferred shares with market value of 8% of the loan amount (see Note 14)

Finance expense comprises the following amounts

	31 Dec 2010 £	31 Dec 2009 £
Interest payable on $10 million secured loan	554,337	-
Amortisation of balloon payment on $10 million secured loan	112,237	-
Interest payable on £7 5 million secured loan	159,753	721,909
Early repayment penalty on £7 5 million secured loan	178,413	-
	1,004,740	721,909

Chroma may, at its option, repay the entire loan early with the following penalty
- 3% of the outstanding loan balance in the first 12 months
- 2% of the outstanding loan balance in the second 12 months
- 1% of the outstanding loan balance in the third 12 months
- 0% for any early repayment made thereafter

The loan is secured by a fixed charge over the Group's leasehold improvements and a floating charge over the other assets of the Group Hercules has the right to request immediate repayment of the loan in the event of certain events of default or the breach of certain conditions by the Group

Notes to the consolidated financial statements
for the year ended 31 December 2010

17 SECURED LOAN (continued)

There were no such events of default or breaches of which the Group was aware during the reporting period or to the date of signing the financial statements

The fair value of the loan at 31 December 2010 was estimated as £6,821,832 The fair value of the loan is estimated by discounting future cash flows using rates currently available for debt with similar terms and remaining maturity The carrying values of all other financial assets and liabilities of the Group approximate to fair value

18 OTHER FINANCIAL COMMITMENTS

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

	Land and buildings 31 Dec 2010 £	Land and buildings 31 Dec 2009 £
Not later than one year	490,421	490,421
After one year but not more than five years	112,556	602,977
	602,977	1,093,398

The future minimum payments above reflect a break clause whereby the Company may terminate the lease at 25 March 2012 with six months notice to the landlord The Group does not have any operating leases other than that for its premises

Finance leases – Group as lessee
The Group did not have any leasing arrangements classifying as finance leases at 31 December 2010 or 31 December 2009

Capital commitments
Contracted for capital commitments as at 31 December 2010 amounted to £nil (31 December 2009 £15,056)

19 RELATED PARTY DISCLOSURES

Funds managed by Abingworth Management Limited ("Abingworth") held shares in the Company as at 31 December 2010 T J Haines is a director of Abingworth and has a financial interest in Abingworth's funds

Funds managed by Essex Woodlands Health Ventures ("Essex") held shares in the Company as at 31 December 2010 P T Vainio is a director of Essex and has a financial interest in Essex's funds

GSK is a shareholder in the Company During the year ended 31 December 2010, the Group made purchases at arms-length terms from companies in the GSK group totalling £5,413 (year ended 31 December 2009 £3,345)

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.

Notes to the consolidated financial statements

for the year ended 31 December 2010

20 TRANSACTIONS WITH DIRECTORS AND OFFICERS

Prof P Workman, who was a director of the Company until 31 March 2010, earned consulting fees totalling £3,000 for the period from 1 January 2010 to 31 March 2010 (year ended 31 December 2009 £32,000, of which £8,000 was outstanding at 31 December 2009)

21 EVENTS AFTER THE END OF REPORTING PERIOD

On 11 March 2011, the Chroma entered into a co-development and commercialisation agreement for its lead agent tosedostat in the Americas with Cell Therapeutics, Inc ("CTI"), providing an upfront cash receipt of $5 million along with potential future milestone receipts, co-funding of clinical trials and royalties on any eventual product sales

22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY

In line with similar companies in the biotechnology sector, the Group derives long-term financing through the issue of new equity and venture loan financing The Group's principal financial instruments other than its venture loan 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 Group's operations The Group has various financial assets such as receivables and cash and short-term deposits, which arise directly from its operations The Group does not consider that its financial instruments gave rise to any material financial risks during the financial years ended 31 December 2010 and 31 December 2009, other than foreign currency risk arising from its $10 million secured loan An overview of areas of potential risk are summarised below

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its secured loan and finance income from its cash at bank and short-term deposits (see Note 11) The Group's secured loan is at a floating rate (see Note 17) based upon the US Prime rate The Group's cash and short-term deposits are largely sterling denominated, interest earned is therefore influenced by the Bank of England base interest rates and will depend on the remaining duration of any fixed-rate treasury deposits placed at the time of any rate change and the average cash and cash equivalents for the remainder of the financial year following the change To the extent that the Group expects any increase in the US Prime rate to be closely followed by an increase in the Bank of England base interest rate, and in light of expected cash balances and maturity profile, the secured loan and cash deposits are considered to provide a natural hedge for each other, consequently exposure to changes in base interest rates is not considered to be material at the year end The interest rate profile of the Group's financial assets and liabilities is as follows

	31 Dec 2010			31 Dec 2009		
	Floating	Fixed	Total	Floating	Fixed	Total
	£	£	£	£	£	£
Cash and short term deposits	8,602,384	-	8,602,384	8,500,610	9,448,538	17,949,148
Secured loan (Note 17)	(6,441,764)	-	(6,441,764)	-	(4,286,298)	(4,286,298)

Foreign currency risk

The Group 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 Group purchases goods and services from a number of international suppliers and therefore has transactional currency exposures During the year ended 31 December 2010 the Group put in place a $10 million secured loan with Hercules (see Note 17), which gave rise to a material exposure to the US dollar The Group was unable to hedge this exposure since the size and duration of the forward contracts required to effect such hedging would have required provision of a cash security deposit that was incompatible with the terms of the secured loan During the financial year ended 31 December 2009 the Group did not have any significant exposures to foreign currencies, consequently the Group did not enter into any currency hedging arrangements during that financial year

22 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY (continued)

The Group intends to continue using currency hedging arrangements, when available, 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 Group's policy to not enter into any forward purchase contracts until the underlying supply agreements have been executed The aggregate carrying amount of foreign currency denominated monetary assets and liabilities held by the Group and company, which are not denominated in functional currency, as at the end of the reporting period are as follows

	31 Dec 2010		31 Dec 2009	
	Assets £	Liabilities £	Assets £	Liabilities £
US dollar ($)	3,568	6,759,818	4,505	35,696
Euro (€)	82	89,833	50,052	329,559
Swiss Franc (CHF)	-	-	264	5,088
	3,650	6,740,982	58,421	370,473

The following table illustrates the sensitivity to a reasonably possible change in the currencies above, compared to sterling, of the Group's loss before tax due to the changes in the fair value of monetary assets and liabilities A positive value indicates a decrease in the Group's loss before tax

	Change in rate	31 Dec 2010 £	31 Dec 2009 £
US dollar	+5%	428,789	2,409
	-5%	(237,635)	(2,663)
Euro	+5%	4,274	14,987
	-5%	(4,724)	(16,564)
Swiss Franc	+5%	-	384
	-5%	-	(424)

Credit risk
The sole revenues of the Group during the financial years ended 31 December 2010 and 31 December 2009 were recognition of amounts earned under a research grant paid by the EU and research and development collaboration income from the arrangement with GSK, both of which have been settled in cash (see Note 4), consequently the Group did not have any exposure to trade credit risk during this financial year With respect to credit risk arising from the other financial assets of the Group, 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 Group has in place investment guidelines outlining authorised counterparties in order to minimise such risk

Liquidity risk
The Group 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 Group is loss-making and does not have any significant trading revenues Reflecting this, the Group funds its operations through a combination of equity issuance, venture loan financing, and government grants and also through funds generated by technology or product licensing activities and manages such activities to avoid breaching the conditions attached to its secured loan (Note 17) In light of its ongoing funding requirements, the Group 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 13)