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Discoveries for life

Annual report & accounts 2005

Proximagen Neuroscience plc

PROXIMAGEN
NEUROSCIENCE

Contents

key

Highlights

- Profit after tax reported for the second successive year.
- Substantial progress made on the four proprietary drug development programmes focusing on neurodegenerative disease.
- Six service contracts signed during the year.
- Successful listing on AIM in March 2005, raising £12.6 million after expenses.
- Net cash at year end of £13.0 million.

1 in 100

1 in 100 people over the age of 60 suffer from Parkinson's disease.

10%

10% of the population suffer cognitive decline, such as Alzheimer's disease, after the age of 65.

$4 billion

Estimated global annual sales of current pharmaceutical therapies for Alzheimer's disease and Parkinson's disease.

focus

PROXIMAGEN NEUROSCIENCE plc is a neuroscience company focused on the development of novel drugs for the treatment of neurodegenerative disorders, including Parkinson's disease and Alzheimer's disease.

Proximagen is building a development pipeline to address the significant medical needs of patients suffering from neurodegenerative diseases and has made substantial progress in its four proprietary programmes. Proximagen anticipates out-licensing its programmes following successful Phase II proof of concept studies as well as commercialising carefully selected in-licensed and collaborative programmes.

Chairman's statement

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Introduction
We are pleased to report our first full financial results since Proximagen Neuroscience plc's successful listing on the London Stock Exchange's Alternative Investment Market ("AIM"). In 2005 Proximagen made strong progress in drug discovery and development.

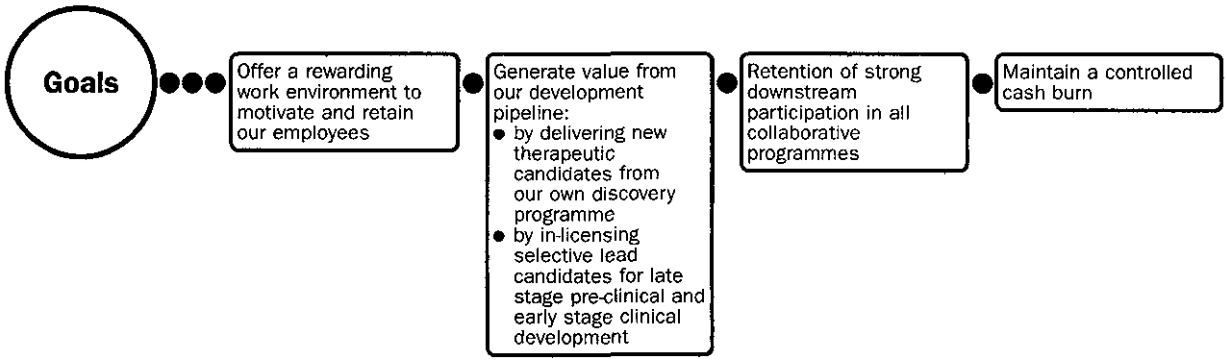
Finance
In March 2005 the Company raised its target of £12.6 million of new capital, net of expenses. This financed a step change in Proximagen's ability to develop its drug discovery pipeline. Our service business revenue also expanded considerably during the year so that despite a significant investment in four research and development programmes, the net cash outflow has been minimal with none of the capital raised in the initial public offering having been spent.

Our business
Our principal objective is to bring drugs to market through innovative discovery, stringent selection criteria, and disciplined development. Proximagen possesses drug discovery capabilities of exceptional strength, including leading scientific research undertaken by Professor Peter Jenner, the Company's Chief Scientific Officer. His research facilities at King's College London were awarded the prestigious National Parkinson Foundation's Centre of Excellence designation in 2005. This constitutes the gold standard in Parkinson's disease research.

Proximagen has also enhanced its development capabilities by recruiting key personnel in project management, chemistry, and bio-analytical techniques. Discovery and development resources were further enhanced through infrastructure improvements to support our current size and allow for future expansion.

Proximagen's long-term business strategy is centred on its commitment to innovative research and development as the principal route to creating shareholder value. We expect our development expenditure to continue to

In 2005 Proximagen made strong progress in drug discovery and development, and reported a profit after tax for the year.



goals

accelerate rapidly as we invest more heavily in bringing our leading compounds through pre-clinical and clinical development. The Company intends to retain ownership of lead drug candidates through to proof-of-concept human clinical trials before out-licensing them to major pharmaceutical companies in order to maximise value creation for our shareholders.

The Board

In December 2005, we welcomed Michael Ashton to the Board as a non-executive director. Michael has over 30 years of experience in the pharmaceutical industry having worked for Merck Inc., Pfizer Inc., Purepac Inc., Faulding Inc., and latterly as CEO for SkyePharma plc. We have also started the process to recruit another non-executive director to bring additional expertise and experience to the Board. I would also like to thank George Murlewski who made a very valuable contribution to Proximagen during its formative period. Mr Murlewski resigned in December 2005.

Outlook

Following strong progress in the past months, Proximagen has established firm foundations, good medium term prospects and significant opportunities for growth in the longer term. With a pipeline of promising drug candidates and a healthy balance sheet, we look to the future with confidence.

Bruce Campbell
Chairman
9 May 2006

Investment in our people and developmental capabilities is rising along with our growth expectations as we bring our leading compounds through pre-clinical development.

The need

More than 20 million patients worldwide suffer from neurodegenerative disease such as Parkinson's disease and Alzheimer's disease.

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Life expectancy
The life expectancy of the general population is increasing such that the proportion of the world population aged over 60 is forecast by the World Health Organisation to double between 2000 and 2050. This suggests that the number of individuals suffering from age-related neurodegenerative diseases, such as Parkinson's disease and Alzheimer's disease, will also increase.

Alzheimer's disease
Alzheimer's disease is the most common neurodegenerative disease. In the US, 1 in 10 individuals aged over 65, and approximately 47% of individuals aged over 85, are affected with cognitive decline associated with the disease. In 2002, Alzheimer's disease was the sixth most frequent cause of death in the US for those above the age of 65.

Although there is huge demand for a treatment to halt or control the underlying brain tissue degeneration in Alzheimer's disease, current treatments only offer symptomatic relief in the early stages of the disease.

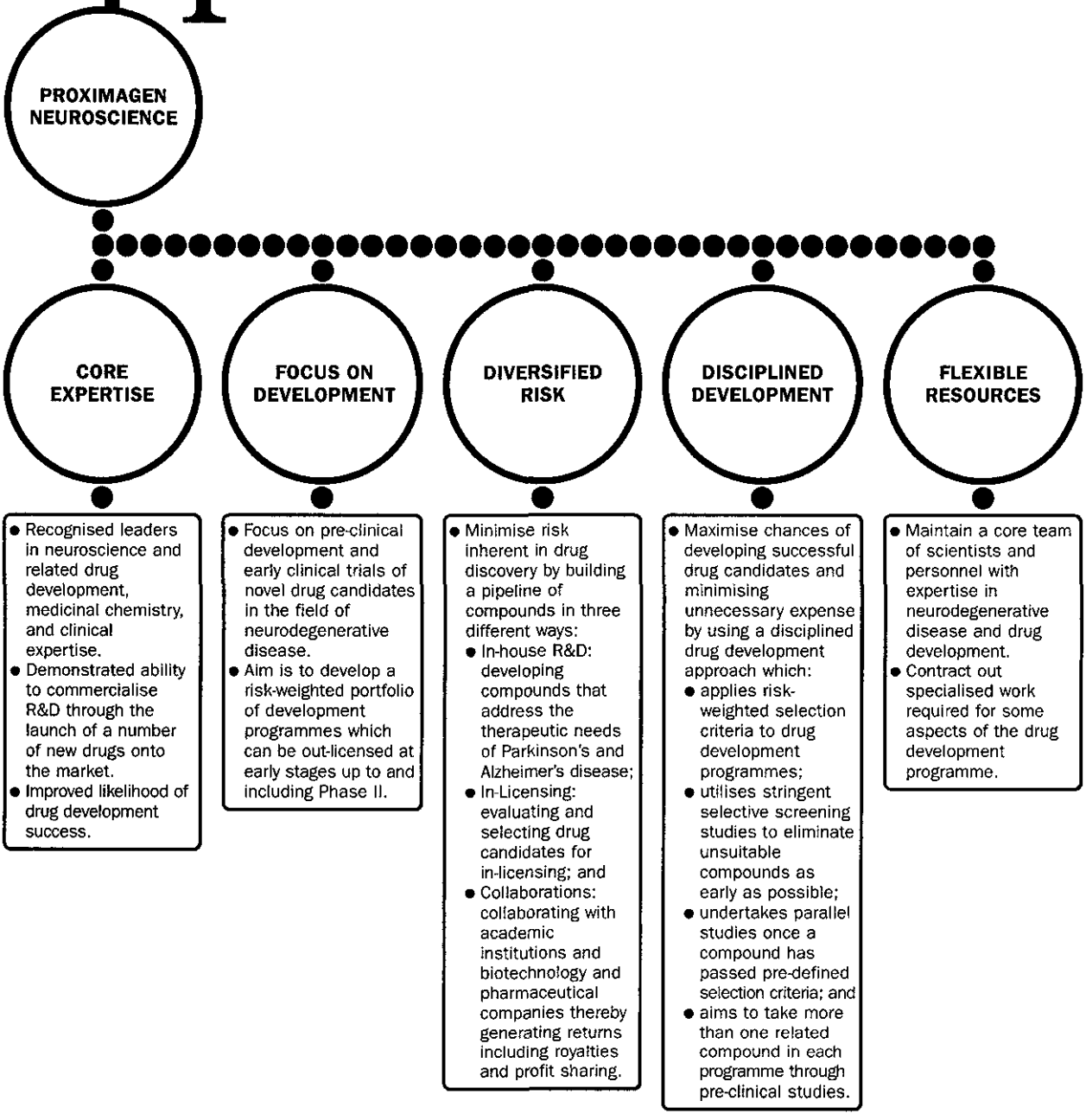
Parkinson's disease
Parkinson's disease is the second most common neurodegenerative disorder. Parkinson's disease has a prevalence of 1 in 500 of the general population in the UK and 1 in 100 aged over 60. The incidence of Parkinson's disease is approximately 300,000 new patients annually worldwide.

There is currently no cure for Parkinson's disease and no treatment has been shown to slow or stop the progression of this disease. The current market for Parkinson's disease drugs is characterised by a number of drugs offering symptomatic treatment, primarily by increasing dopamine levels, or mimicking dopamine's activity, in the brain. L-DOPA, the standard therapy for the treatment of Parkinson's disease, is less effective in patients with moderate to severe stages of the disease. In addition, its efficacy shows a high degree of patient variability, decreases with disease progression, and can cause severe long-term side effects in the form of involuntary movements (dyskinesia), on-off phenomenon, and psychosis in later stages of the disease.

It's in small companies like Proximagen where great science is transformed into breakthrough therapies.

How we are addressing it

opportunities



Chief Executive's review

Proximagen is intent on building a company that combines scientific knowledge, development expertise and commercialisation capabilities to become a leader in neurodegenerative disease therapeutics.

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During 2005 Proximagen made major strides towards its goal of becoming a leader in the discovery, development and commercialisation of innovative drugs for the treatment of age-related neurodegenerative diseases.

Introduction

I am pleased to report that during 2005 Proximagen made major strides towards reaching our goal of becoming a leader in the discovery, development and commercialisation of innovative drugs for the treatment of age-related neurodegenerative diseases.

During the past year we have launched four proprietary programmes and strengthened our balance sheet through the completion of our IPO and the continuing provision of services to major pharmaceutical companies.

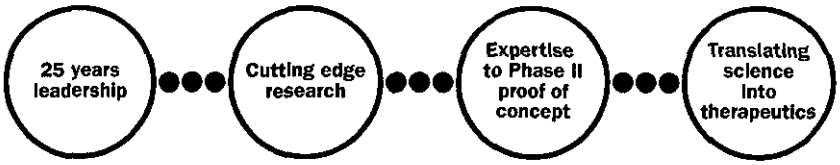
We believe that Proximagen is well-positioned to play a leadership role in creating new and much-needed therapies for neurodegenerative diseases. From its inception, Proximagen has dedicated all of its research and development efforts to these therapeutic indications and, in particular, to the growing need for better therapeutics in Parkinson's disease and cognitive decline. Parkinson's disease alone affects 1 in 100 people over the age of 60 with the severity of symptoms tending to worsen over time. There are approximately 3 million sufferers of Parkinson's disease worldwide and that number is expected to double in the next 10-20 years. Cognitive decline, which in its severest forms manifests as dementias such as Alzheimer's disease, affects a much broader proportion of the population with as many as 1 in 10 individuals aged over 65 affected.

Discovery and development

In 2005 Proximagen made significant progress in our development programmes and has generated a pipeline of drug candidates designed to improve the standard of care for patients with neurodegenerative diseases.

Our drug candidate programme PRX1 is aimed at improving the symptomatic treatment of Parkinson's disease and represents what we believe could be a major advance in Parkinson's disease therapy. In pre-clinical studies, we show predictive clinical efficacy with a reversal of motor deficits. Clinical trials are expected to demonstrate that our lead compound will provide therapeutic value over current treatments for Parkinson's disease by having better efficacy and a lower side-effect profile.

Our second drug candidate programme was designed as a novel



expertise

treatment for the uncontrollable movements that frequently result from the most common treatment of Parkinson's disease. Once established, these involuntary movements are produced following dosing of dopaminergic anti-Parkinson's disease medication and may become the factor significantly limiting current Parkinson's disease treatment strategies. Our pre-clinical studies indicate that our lead evaluation series is likely to be safe and well tolerated, and shows indications of anti-dyskinetic activity. Clinical trials are expected to demonstrate that this novel treatment strategy will greatly reduce the incidence and severity of these debilitating involuntary movements.

Our proprietary discovery programme PRX4 is for the prevention and treatment of a pathological change common in a large number of neurodegenerative diseases, and represents what we believe to be a groundbreaking approach to addressing the major unmet medical needs in these collective indications. While this programme is at an earlier stage than our other development programmes, it is nonetheless exciting as there are currently no drug treatments on the market which slow or stop the inevitable progression of age-related neurodegenerative diseases. Our current studies have shown that PRX4 is implicated in the control of many mechanisms associated with degeneration of neurons. We have also shown that even in very low concentrations, PRX4 acts as a highly potent inhibitor of neurodegeneration in neuronal cells.

Finally, the PRX5 drug discovery programme aims to improve the lives of patients with age-related cognitive decline. Many older individuals suffer from cognitive decline with advancing age, which in its severest forms translates into dementias such as Alzheimer's disease. The PRX5 programme has been initiated utilising both traditional medicinal chemistry and computational chemistry in areas of unique intellectual property. Proximagen applies biochemical and pharmacological models which are selective and predictive of activity in human tissue as part of our screening cascade. Discoveries in this programme have led to the identification of a novel series of dopaminergic compounds.

To achieve our ambitious goals we must be willing to adopt good science wherever it originates. That includes a strategy of licensing promising therapeutic candidates for development from external sources.

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Intellectual property
Since its inception, Proximagen has been purposefully and systematically building an intellectual property estate designed to ensure that Proximagen remains at the forefront of innovative neuroscience companies. To date, we have patent applications pending in five patent families that encompass all aspects of our discovery programmes, ranging from specific composition of matter patents, to use patents claiming novel mechanisms of actions associated with those programmes.

For example, the Group's PRX2 programme is based on the observation that compounds having a specific known mechanism of action are capable of alleviating L-DOPA related dyskinesia. The Group has a pending patent application, currently at the International (Patents Cooperation Treaty) stage which seeks protection for use in dyskinesia of any compound having that mechanism of action, irrespective of the structure of the compound. National patent applications based on that PCT application are planned, and patents granted thereon could put Proximagen in a unique position relative to other therapeutics companies, enabling Proximagen to have strong commercial leverage when it licenses a drug candidate for this indication.

We recognise the enormous value that our existing and future intellectual property represents and we will continue to safeguard this value as we develop our proprietary programmes. Our intellectual property protection strategy has been a core area of strength for us and we take pride in the efforts of this protection as it forms the foundation upon which we were built.

Financial performance
Our service business continues to be an important part of the Group's operations. Our contracts with some of the world's largest pharmaceutical companies not only consolidate our relationships with industry partners but they also generate valuable revenue. Income from these contracts covered a significant proportion of our overhead costs and together with the impact of a tax credit contributed to us being able to record a profit after tax for the second successive year.

In 2005 turnover increased by 51% to £878,000 compared with 2004. The percentage increase in turnover is explained by a combination of six new contracts being signed during the period to supplement the contracts already underway at the beginning of the year and the 2005 trading period being three months longer than the 2004 trading period.

Gross margin was 54%, compared with 45% for the period to November 2004. This reflects increased efficiency in our laboratory operations where the

Our intellectual property protection strategy has been a core area of strength for us and we take pride in the efforts of this protection as it forms the foundation upon which we were built.

strengths

escalation in activity on our internal programmes has enabled us to deploy our resources more effectively.

As detailed earlier in my report, we have begun to invest heavily in the development of our own drug candidates, which is reflected by the level of expenditure on R&D in the year. This increase will continue to accelerate as we progress our development programmes.

Operating costs have also increased as the Group has recruited high-calibre staff to fulfil key roles within the organisation. We continue to monitor expenditure closely to ensure that our resources are channelled into areas, such as R&D, where we believe we are most likely to see the best return on investment.

Net assets at the year end total £13.2 million, an increase of £12.8 million due primarily to the net proceeds of the IPO in March 2005.

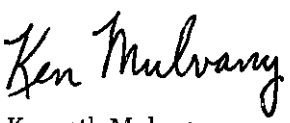
The Group's cash position improved considerably during the period, from £0.3 million to £13.0 million. The main contributory factors were, firstly, the funds raised from the IPO and, secondly, management of working capital which enabled the Group to post net cash outflows from operating activities of £196,000 despite an operating loss of £489,000.

We expect investment in capital equipment to increase from current levels but we continue to be mindful of the need to ensure that such investment allows us to develop our programmes faster and cheaper than outsourcing would otherwise do.

Conclusion

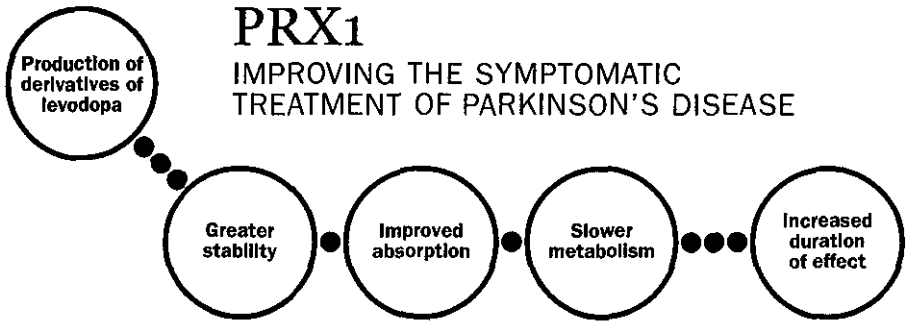
We believe that 2006 will be an important year for Proximagen as we look forward with enormous enthusiasm to the challenges and opportunities that lie ahead. We are able to leverage truly world-class scientific capabilities to advance our discovery and development programmes, while laying the foundation for later-stage development and future commercialisation activities from the value generated in our pipeline.

I would like to thank our team at Proximagen for their hard work and dedication, and congratulate them on the outstanding contribution that they have made to our progress this past year. I would also like to thank you, our shareholders, for your steadfast support.



Kenneth Mulvany
Chief Executive Officer
9 May 2006

Chief Scientist's review



Proximagen's scientists have played leadership roles in developing innovative science into effective therapeutics.

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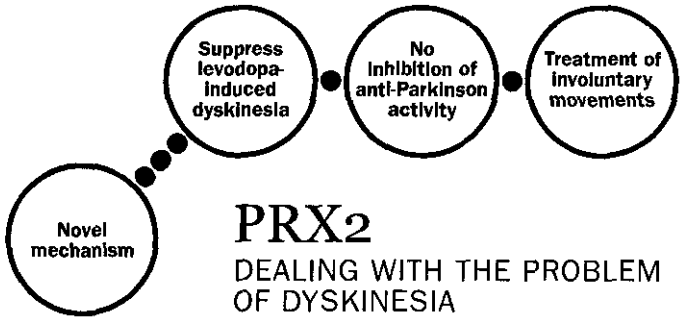
Proximagen has synthesised derivatives of L-DOPA that are designed to improve its efficacy by increasing bioavailability.

Introduction
L-DOPA, the amino acid precursor of dopamine, is one of the most effective drugs prescribed for treatment of Parkinson's disease. None of the more recently introduced dopamine agonists has equivalent efficacy. However, its chronic use is associated with a loss of drug effect and a variable therapeutic response. In particular, L-DOPA has poor and unpredictable absorption after oral administration, it is prone to chemical and metabolic degradation, and its duration of effect is short due to rapid plasma clearance. Attempts to produce controlled release preparations of L-DOPA have had limited success because it is primarily absorbed from the upper parts of the gastro-intestinal tract. Yet L-DOPA remains the 'gold standard' medication for Parkinson's disease.

Programme description
Proximagen has synthesised derivatives of L-DOPA that are designed to improve its chemical and metabolic stability and to allow consistent absorption from both the upper and lower parts of the gastro-intestinal tract. Chemical modification of L-DOPA has been achieved at four positions within the molecule generating novel prodrug derivatives. *In vitro* and *in vivo* studies have shown the conversion of molecules in the lead series to L-DOPA at controlled rates establishing proof of principle of the prodrug approach. In functional models of Parkinson's disease predictive of clinical efficacy, these molecules produce a reversal of motor deficits establishing potential therapeutic efficacy. Lead molecules produce a more consistent effect than L-DOPA and this is reflected in a low variation in the plasma levels of L-DOPA.

Patent position
The Group has three pending patent applications which will initiate three separate patent families in the PRX1 programme. These pending patents claim novel series of dopaminergic compounds for use in any therapeutic context but, more specifically, for use in dopaminergic signalling deficiency therapeutic contexts.



PRX2

DEALING WITH THE PROBLEM OF DYSKINESIA

developments

Introduction

Dopaminergic treatment of Parkinson's disease controls motor symptoms in the early stages of the illness, but on chronic treatment 30-40% of patients develop involuntary, uncontrollable movements termed dyskinesia. Once established, dyskinesia is produced following every dose of medication. Treatments include a reduction of dopaminergic medication but this can lead to a worsening of parkinsonian symptoms or the administration of the glutamate antagonist, amantadine, but this is poorly tolerated by a large proportion of patients. In severe cases of dyskinesia, surgical treatments, such as deep brain stimulation, may be used. The cause of dyskinesia has remained poorly understood, making the development of novel therapeutic approaches more problematic.

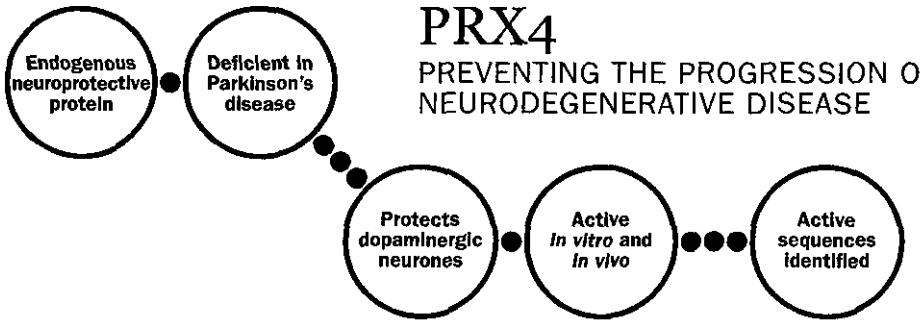
Programme description

Proximagen has discovered a novel mechanism through which dyskinesia in Parkinson's disease can be suppressed. Selective inhibitors of the target mechanism have been described and were shown to penetrate into the brain. In a predictive model of dyskinesia in Parkinson's disease, Proximagen has shown that these molecules prevent dyskinesia expression induced by L-DOPA without inhibiting its beneficial effects on motor symptoms. Initial studies have shown select compounds which penetrated into brain with a pharmacological profile predictive of efficacy in functional models of Parkinson's disease. The same series of molecules may be effective in neuroleptic-induced tardive dyskinesia, neuropathic pain and depression.

Patent position

The Group has one patent family pending at the International stage, relating to the use of PRX2 compounds having a defined, known, mechanism of action, in the prevention or treatment of dyskinesia induced by L-DOPA and/or a dopamine agonist. In relation to combination therapy, it claims pharmaceutical formulations containing PRX2 and L-DOPA and/or a dopamine agonist.

Proximagen has discovered a novel mechanism through which dyskinesia in Parkinson's disease can be suppressed.



PRX4

PREVENTING THE PROGRESSION OF NEURODEGENERATIVE DISEASE

Proximagen recognises that clinical breakthroughs occur at the intersection of innovative science and patients' needs.

key

Introduction

There are currently no drug treatments for slowing or stopping the inevitable progression of Parkinson's disease. A range of mechanisms, such as oxidative stress and mitochondrial dysfunction, are known to be involved in dopaminergic cell death and attempts have been made to inhibit these processes and develop neuroprotective therapies. However, all have so far failed and it appears that interfering at a single point in the cell death cascade may be ineffective. An identical situation exists in the other major neurodegenerative illnesses, including Alzheimer's disease, motor neurone disease and multiple sclerosis where similar biochemical changes occur. The most urgent need in this therapeutic area is to devise neuroprotectants that act by inhibiting many components of the pathogenic cycle. Proximagen has discovered such an endogenous neuroprotectant protein that is present in the major area of brain destroyed in Parkinson's disease. The protein modulates apoptotic cell death and interferes with multiple biochemical events that underlie neuronal death.

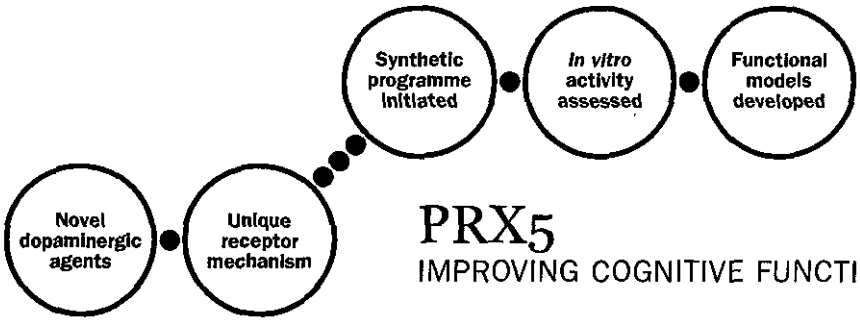
Programme description

A protein is present in dopaminergic neurones in normal individuals and its expression is decreased in Parkinson's disease. In acute experimental models of the disorder, the levels of the protein and its mRNA are modulated by dopaminergic cell death. *In vitro* and *in vivo*, increased levels of one fragment of the protein protect dopaminergic cells from destruction by toxins acting through mechanisms relevant to neuronal death in Parkinson's disease. Decreasing the endogenous levels of the protein leads to dopaminergic cell loss both in cell cultures and in experimental models of the disease. Fragments of the protein have recently been shown to exert similar activity. The data suggests that a fragment of the protein or a peptidomimetic agent may provide a naturalistic approach to neuroprotection in Parkinson's disease that is relevant to cell death in a range of other neurodegenerative disorders.

The data suggests that a fragment of the protein or a peptidomimetic agent may provide a naturalistic approach to neuroprotection.

Patent position

The Group has a pending US patent application and another pending family of patent applications at the International stage, in relation to this programme. Included in the pending patents are results that demonstrate the importance of this protein in neurodegeneration and also the protective effect of the PRX4 protein fragment.



PRX5
IMPROVING COGNITIVE FUNCTION

discoveries

Introduction
Minimal cognitive decline affects many otherwise healthy people in the ageing population. However, approximately 10% of those over 60 will develop clinical dementia as a result of Alzheimer's disease, cortical Lewy body disease or multiple infarcts. In addition, 30-40% of individuals with Parkinson's disease will dement. Cognitive deficits are also a common component of the negative symptoms of schizophrenia. Treatment for cognitive impairment is currently limited to the use of nootropics, acetylcholinesterase inhibitors and the glutamatergic agent, memantine. However, none is highly effective in the long term and the use of cholinesterase inhibitors in the treatment of Alzheimer's disease has been questioned. New therapeutic approaches to treating cognitive impairment are urgently required.

Programme description
Proximagen have identified a receptor target present in high density in cortical brain regions. Basic science studies have previously shown an association between the target and improvements in cognitive awareness. However, molecules known to interact with the target are prone to induce an unacceptable therapeutic and side-effect profile. Proximagen believes that it has disassociated these effects from the desired pharmacological action of these molecules through selective molecular design and target profiling. A synthetic programme has been initiated linked to computational chemistry in areas of unique intellectual property. Biochemical and pharmacological models have also been designed and the primary screening process has commenced.

New therapeutic approaches to treating cognitive impairment are urgently required.

Directors and advisers

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Bruce Campbell
Chairman
Bruce joined Proximagen in September 2004 as non-executive Chairman. Bruce has more than 30 years' drug development experience which has culminated in advancing sixteen novel drugs into the market. Bruce has specific expertise in the practical and regulatory aspects of clinical pharmacology, pharmacokinetics, metabolism and toxicology in new drug development. He is also an executive director of IP Group plc (formerly IP2IPO Group plc) and sits on the board of IQur Limited and Synairgen Plc as a non-executive director.

James Hunter
Finance Director
James joined the Group in January 2005 as Financial Controller and was subsequently appointed to the Board in February 2006. James joined Proximagen from Ernst & Young where he advised companies on financial strategy and, in particular, on fund-raisings, acquisitions and disposal of assets. James brings six years corporate finance experience to the Group.

Kenneth Mulvany
Chief Executive Officer
Kenneth joined Proximagen in April 2004 as Chief Executive where, under his leadership, Proximagen has grown from a privately held company with five employees to a publicly traded, leading specialty biotech company in just two years. Kenneth began his career at Scripps Research Institute and gained pharmaceutical industry experience at Merck. Prior to Proximagen, Kenneth played a key role in developing several successful high-tech start-ups. He brings 13 years of biotechnology and business expertise to the Group.

Michael Ashton
Non-executive Director
Michael joined the Board in December 2005. He has over 30 years of experience in the pharmaceutical industry having worked for Merck Inc., Pfizer Inc., Purepac Inc., Faulding Inc. and, most recently, SkyePharma plc as CEO. Michael is also a non-executive director of Transition Therapeutics Inc., Astralis Limited and Vital Living Inc.

Professor Peter Jenner
Chief Scientific Officer
As co-founder and Chief Scientific Officer, Peter is responsible for scientific leadership and management of Proximagen's pre-clinical research and discovery initiatives. Peter has published more than 600 papers in peer reviewed journals, is a frequent speaker at international congresses and to lay groups of patients and caregivers, and is widely considered an opinion leader in Parkinson's disease. Peter is also a non-executive director of Primagen Ltd.

Nigel Whittle
Non-executive Director
Nigel has over 15 years' commercial experience in the biotech and pharmaceutical industry, with Genentech, Celltech and, as vice-president of project management, at Cantab Pharmaceuticals. Nigel is also a non-executive director of Zyentia Limited and Capsant Neurotechnologies Limited.

information

Company Secretary
June Mary Paddock

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Solicitors
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Capita Registrars
The Registry
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Kent
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Directors' report

Financial statements
The directors present their report and financial statements for the Group for the year ended 30 November 2005 and for the Company for the period from 14 January 2005 (date of incorporation) to 30 November 2005. Proximagen Neuroscience plc acquired the whole of the share capital of Proximagen Limited on 9 March 2005 by way of a share for share exchange. As explained in note 1 to the financial statements, this combination has been accounted for under the merger accounting convention and accordingly the results for the Group are presented as if Proximagen Limited had always been part of Proximagen Neuroscience plc, even though the latter company was only incorporated on 14 January 2005.

Incorporation
The Company was incorporated on 14 January 2005.

Principal activities
The principal activity of Proximagen Neuroscience plc and its subsidiary is the discovery and development of therapeutic treatments for neurodegenerative disease.

Review of the business and future developments
Further details relating to a review of the business, its results and future direction are included in the Chairman's statement and Chief Executive's review.

Research and development
Following the Company's successful flotation on the Alternative Investment Market in March 2005 the Group has accelerated its investment in research and development. Further details of the company's R&D programmes can be found on pages 10-13.

Charitable and political donations
The group made no charitable or political donations in the year under review.

Financial instruments
Details relating to exposure to financial risks have been detailed in note 11.

Dividends
The directors do not recommend the payment of a dividend.

Directors
The following directors have held office during the year:

	Appointed	Resigned
Waterlow Secretaries Limited	14 Jan 2005	14 Jan 2005
Nigel Gordon	14 Jan 2005	23 Feb 2005
June Paddock	14 Jan 2005	23 Feb 2005
B Campbell	23 Feb 2005	
K Mulvany	23 Feb 2005	
P Jenner	23 Feb 2005	
N Whittle	23 Feb 2005	
G Murlewski	23 Feb 2005	31 Dec 2005

Share capital
As at 30 November 2005, the authorised and issued share capital of the Company was:

	Number of shares	Amount £
Authorised	500,000,000	5,000,000
Issued and fully paid up	20,035,622	200,356.22

The average market price of the Company's ordinary shares at close of business on 30 November 2005 was 135p. The maximum share price during the period was 154p and the minimum price was 125p per share.

Substantial share interests
The interests in the share capital of the Company of the directors who held office at 30 November 2005 are shown in the Directors' Remuneration Report on page 19.

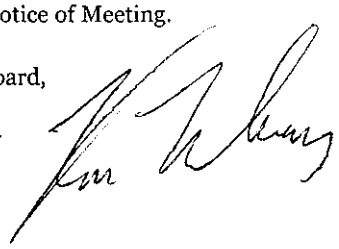
At 14 March 2006 the Company had been advised or is aware of the following other interests of 3% or more of the Company's issued share capital:

	Number of shares	Percentage of issued share capital
IP2IPO Management II Ltd	3,984,000	19.88
King's College London	2,204,324	11.00
Lansdowne Partners	1,520,270	7.59
Merrill Lynch Investment Management Group Ltd	1,245,148	6.21
New Star Asset Management	1,148,648	5.73
Henderson Global Investors	927,713	4.63
USS	925,946	4.62
Gartmore Investment Management	784,010	3.91
IP2IPO Management Ltd	720,000	3.59

Auditors
A resolution to re-appoint Baker Tilly as auditors will be proposed at the Annual General Meeting ("AGM").

Annual General Meeting
The AGM will be held on 5 July 2006, the business of which is set out in the Notice of Meeting.

By order of the Board,



Kenneth Mulvany
Director
9 May 2006

Corporate governance

Introduction
Proximagen Neuroscience plc was listed on AIM on 31 March 2005. The Group recognises the importance of, and is committed to, the highest standards of corporate governance. Proximagen Neuroscience plc, as an AIM company, is not required to comply with the July 2003 Combined Code on Corporate Governance ("the Code"), although it has adopted the majority of Combined Code principles as set out below.

The Board
The Board of Proximagen Neuroscience plc is responsible for the Group's system of corporate governance and internal control and is accountable for its activities. The Board currently comprises two executive directors and four non-executive directors, one of whom is the Chairman. The roles of Chairman and Chief Executive are distinct and are held by different people to ensure a clear division of responsibility. The role of non-executive directors is to bring independent judgment to Board deliberations and decisions. The non-executive directors are all experienced and influential individuals whose blend of skills and business experience contributes to the proper functioning of the Board and its Committees, ensuring that matters are fully debated and that no individual or group dominates the Board's decision-making processes.

During 2005 a formal evaluation was undertaken of the Chief Executive's performance based on information provided by directors and senior staff. It is the Board's intention to review annually its performance and that of its Committees and individual directors.

All directors have access to the advice and services of the Company Secretary and are able in the course of their duties, if necessary, to take independent professional advice at the Company's expense. Committees have access to such resources as are required to fulfill their duties.

The Board receives reports covering finance, business development, operations and science together with any other material deemed necessary for the Board to discharge its duties. The Chairman, Bruce Campbell, is primarily responsible for the effective operation and chairing of the Board and for ensuring that it receives appropriate information to make informed judgments. The Board has a formal schedule of matters reserved to it for decision but otherwise delegates specific responsibilities to Committees, as described below. The terms of reference of the Committees are available on request from the Company Secretary. The Board is responsible for decisions, and the review and approval of key policies and decisions, in respect of business strategy, board appointments, budgets, items of substantial investment and acquisitions.

Board committees
The Board has established an Audit Committee, a Nomination Committee and a Remuneration Committee with written terms of delegated responsibilities for each. Details of these committees can be found on page 18.

Under the Articles of Association all directors must offer themselves for re-election at least once every three years. One third of the directors retire by rotation at every Annual General Meeting and are eligible for re-appointment.

Internal control and risk management
Proximagen operates and attaches importance to clear principles and procedures designed to achieve the accountability and control appropriate to a science-based business operating internationally in a highly regulated business sector. The Board is responsible for the system of internal control and for reviewing its effectiveness. Proximagen has established an organisational structure with clearly drawn lines of accountability and delegation of authority. All Group employees are required to adhere to specified codes of conduct, policies and procedures. The identification and appraisal of risks is carried out through the annual process of preparing budgets and through the close monitoring of operations. Financial results and key operational and financial performance indicators are reported regularly throughout the year and variances from plans and budgets are investigated and reported. The Group has a system of high-level financial control. Although the Group does not currently have an internal audit function due to the small size of the administrative function, the Board has reviewed the effectiveness of internal financial, operational and compliance controls and risk management as they operated during the year. The Board reviews annually the overall framework and effectiveness of controls. Such systems are designed to manage rather than eliminate risks and can provide only reasonable and not absolute assurance against material misstatement or loss.

Shareholder relations
It is the objective of Proximagen's Board and of its investor relations programme to ensure a timely, open, comprehensive, and consistent flow of information to investors and the financial community. By this means we aim to help investors to understand the Group's activities and strategic objectives. The Company meets with its institutional shareholders and analysts as appropriate and will use the AGM to further encourage communication with shareholders. In addition, the Company will be using the Annual Report and Accounts, interim statement, and web site (www.proximagen.com) to provide further information to shareholders. The Company uses the services of Buchanan Communications to assist in the communication with shareholders.

Audit Committee

In 2005, the Audit Committee comprised three non-executive directors: George Murlewski (chairman), Bruce Campbell and Nigel Whittle. The external auditors, Chief Executive Officer and Finance Director are invited to attend meetings and, following each meeting, the Committee and external auditors have the opportunity to meet with no executives present.

The Committee reviewed the half year and full year results and the Interim and Annual Report and Accounts prior to their submission to the Board and considered any matters raised by the external auditors. During the year the Committee reviewed the Group's internal financial controls. The meetings were fully attended by all Committee members and the conclusions were presented to the full Board. The Audit Committee reviews on an annual basis the need for an internal audit function. In 2005, in common with other companies of its size and complexity of operation, the Company did not operate an internal audit function.

It is the Group's policy to employ the auditors on assignments additional to their statutory audit duties where their expertise and experience with the Group are important, such as providing tax advice where they are awarded assignments on a competitive basis.

The Audit Committee pre-approves all permitted non-audit expenditure incurred and during the year reviewed the cost-effectiveness, independence and objectivity of the external auditors. The Committee recommended to the Board the reappointment of the Company's external auditors.

Since the year end, George Murlewski has resigned as a non-executive director of the Company and the company expects to appoint a new member and Chairman of the Audit Committee shortly.

Nomination Committee

In 2005, the Nomination Committee consisted of Bruce Campbell, who chairs the Committee, Nigel Whittle and George Murlewski. The Committee keeps under review the Board structure, size and composition, identifies and nominates candidates for the approval of the Board and ensures plans are put in place for succession of the executive directors. The Committee met once formally and the meeting was fully attended.

Remuneration Committee

During the year, the Remuneration Committee of the Board consisted of Nigel Whittle, who chairs the Committee, Bruce Campbell and George Murlewski. It is responsible for considering directors' remuneration packages and makes its recommendations to the Board. The Committee met twice during the year and all meetings were fully attended. The Chief Executive Officer was invited to attend Remuneration Committee meetings, other than when his own remuneration was discussed. No director is involved in deciding his own remuneration.

Remuneration policy

It is the aim of the Remuneration Committee to encourage and reward superior performance by executives with that performance being based on the measurable delivery of good financial performance and the delivery of strong value to shareholders. The Remuneration Committee believes that the current policy continues to retain and motivate the executives appropriately while enforcing a strong pay for performance culture within the Company.

At present, the Chief Executive Officer, Kenneth Mulvany, is entitled to receive salary, medical insurance and a matching pension contribution, up to a maximum of 5% of salary. No bonus has been paid.

Mr Mulvany has not to date contributed to Proximagen's Group Personal Pension scheme and has foregone his entitlement to the Company's contribution to his pension for the period under review and all prior periods.

Executive service contract

Kenneth Mulvany has an executive service agreement with the Company dated 23 March 2005, which continues unless terminated by the Company on 30 days' written notice and six months written notice by the executive. In the event of termination by the Company, salary and benefits will be payable for the period of six months. If the executive terminates for certain reasons set out in the service agreement, then the notice period he is required to give is reduced to 30 days. In the event of termination under these conditions, salary and benefits will be payable for the period of six months.

Non-executive Directors

The non-executive directors entered into letters of engagement dated 23 March 2005, wherein the Board determines the fees paid to the non-executive directors. During 2005, directors were remunerated at a basic rate, plus a fixed amount for membership of Board Committees, adjusted for the acceptance of additional and specific responsibilities. Some of the fees were to be payable in the form of share options at the request of the non-executive directors. Non-executive directors do not participate in the Company's pension or bonus schemes. The appointments can be terminated upon three months' notice being given by either party.

Pensions

The Group operates a Group Personal Pension scheme. Under the scheme rules, the Group will match employee contributions up to a maximum of 5% of salary. The scheme is open to directors and employees.

Directors' remuneration report

Directors' remuneration

	Salary £	Benefits £	Total emoluments £
Executive director			
Kenneth Mulvany*	93,333	193	93,526
Non-executive directors			
Bruce Campbell*	36,000	–	36,000
Peter Jenner*	7,500	–	7,500
George Murlewski	667	–	667
Nigel Whittle	667	–	667
Total	**138,167**	**193**	**138,360**

* includes salary/fees paid by Proximagen Limited between December 2004 and March 2005

External directorships

Bruce Campbell is a director of IP Group plc, the Company's largest shareholder. He is also a director of IQur Limited and Synairgen Plc.

Peter Jenner is a director of Primagen Ltd, a company that provides consultancy services to the group. Details of this contract can be found in note 17 to the financial statements.

George Murlewski is a director or Lobal Technologies Limited, Medpharm Limited, Phonologica Limited and Osspray Limited.

Nigel Whittle is a director of Zyentia Limited and Capsant Neurotechnologies Limited.

Directors' interests (other than options) in the Company's share capital

The shares described are Ordinary 1p shares.

	30 November 2005	30 November 2004 (shares in Proximagen Limited)
Peter Jenner	1,800,000	30,000
Kenneth Mulvany	781,568	–
Bruce Campbell	67,567	–

Share incentive schemes

In the belief that it is important for the personal interests of directors and employees to be aligned to those of the Company and shareholders, the Company operates two share option schemes.

In setting up the share option schemes, the Committee took into account the recommendations of shareholder bodies on the number of options to issue, the criteria for vesting and the desirability of granting share options to executive and non-executive directors. The Company has approved the following share incentive arrangements:

- an Inland Revenue approved EMI share option scheme; and
- an unapproved share option scheme, identical to the approved scheme but for staff who do not fulfil the EMI employment criteria.

The grant of share options is determined by the Remuneration Committee and recommended to the Chief Executive. Grants are related to the achievement of individual performance objectives and to the performance of the Group against its key development objectives.

Directors' share options

	Balance as at 30 November 2004	Options awarded during year	Options exercised during year	Market price on date of exercise	Options expired unexercised	Balance as at 30 November 2005	Share price at date of grant	Exercise price	Date from which normally exercisable	Expiry date
Kenneth Mulvany	–	714,000	714,000	n/a*	–	–	8.33p	8.33p	9 March 2005	n/a
Bruce Campbell	–	300,000	–	–	–	300,000	8.33p	8.33p	9 March 2005	29/9/14
Bruce Campbell	–	300,000	–	–	–	300,000	8.33p	8.33p	See note below	29/9/14

* At the date of exercise of options by Kenneth Mulvany, the shares of the company had not yet been admitted to AIM and no market price was established.

Under the terms of Dr Campbell's share option agreement, 300,000 of his options vested immediately prior to admission to AIM. The remaining 300,000 options vest monthly (and become exercisable immediately on vesting) as to 1/36 each month from 30 September 2004.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and estimates that are reasonable and prudent; and
c. 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 to enable them to ensure that the financial statements comply with the requirements of 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.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 30 November 2005. The directors also confirm that applicable accounting standards have also been followed.

The directors are also responsible for the maintenance and integrity of the Proximagen Neuroscience plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Employees

The motivation of staff and the maintenance of an environment where innovation and team working is encouraged are seen as key objectives by the Board and all employees are given the opportunity to participate in the Company's share option scheme. We promote internal communication of the Group's progress by means of regular meetings held with staff where issues are discussed in an open manner.

We also recognise that a safe, secure and healthy working environment contributes to productivity and improved performance.

Environment

The Group is conscious of its responsibilities in respect of the environment and follows a Group-wide environmental policy. Proximagen disposes of its waste products through regulated channels using reputable agents.

Creditor payment policy

The Group's standard payment policy is to pay suppliers at the end of the month following the month of invoice, where no other agreement is in place. This equates to average payment terms of 45 days. Excluding amounts owed to King's College London, Group trade creditors as at 30 November 2005 represented 45 days of purchases. Suppliers are made aware of the terms of payment and it is the Group's policy to abide by the agreed terms, subject to the terms and conditions being fulfilled by the supplier.

Going concern

Having made appropriate enquiries, the directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, they consider it appropriate to adopt the going concern basis in preparing the financial statements.

Report of the independent auditors

to the shareholders of Proximagen Neuroscience plc

We have audited the financial statements which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, and the related notes.

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 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 opinion we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, Chairman's Statement and Chief Executive's Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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 judgements 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 United Kingdom Generally Accepted Accounting Practice, of the state of the Company and the Group's affairs at 30 November 2005 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly

Baker Tilly
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

9 May 2006

Consolidated profit and loss account

For the year ended 30 November 2005

	Note	Year ended 30 November 2005 £	Year ended 30 November 2004 £
Turnover	1		
Service revenue		**877,310**	581,270
Other revenue		**1,000**	–
		878,310	581,270
Cost of sales		**(405,798)**	(319,367)
Gross profit		**472,512**	261,903
Research and development costs		**(329,842)**	–
Other administrative expenses		**(632,087)**	(248,008)
Net operating costs		**(961,929)**	(248,008)
Operating (loss)/profit		**(489,417)**	13,895
Interest receivable		**410,432**	6,491
Interest payable		**–**	(4)
Net interest receivable	2	**410,432**	6,487
(Loss)/profit before tax	3	**(78,985)**	20,382
Corporation Tax	5	**83,597**	(7,947)
Profit after tax		**4,612**	12,435
Profit transferred to reserves		**4,612**	12,435
Earnings per share			
Basic (pence)	6	**0.03**	0.12
Diluted (pence)	6	**0.03**	0.12

No separate statement of Total Recognised Gains and Losses has been presented since all such gains and losses have been dealt with in the profit and loss account.

As explained in the accounting policies (basis of consolidation) the profit and loss account has been prepared using merger accounting principles and is presented as if the Group had been in existence throughout the current and prior periods.

All Group activities relate to continuing operations.

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated balance sheet

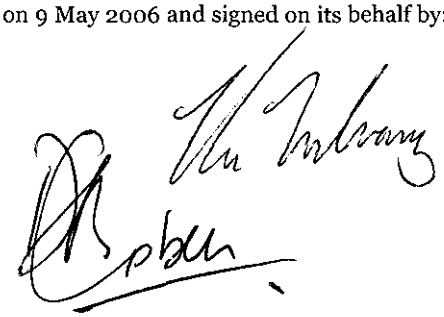
At 30 November 2005

	Note	At 30 November 2005 £	At 30 November 2004 £
Fixed assets			
Tangible fixed assets	8	**87,437**	–
Current assets			
Debtors	9	**678,530**	551,819
Cash at bank and in hand		**13,027,699**	315,164
		13,706,229	866,983
Creditors: amounts falling due within one year	10	**(618,140)**	(453,648)
Net current assets		**13,088,089**	413,335
Net assets		**13,175,526**	413,335
Capital and reserves			
Called up share capital	12	**200,356**	102,000
Share premium account	13	**12,659,223**	–
Merger reserve	13	**298,900**	298,900
Profit and loss account	13	**17,047**	12,435
Equity shareholders' funds	14	**13,175,526**	413,335

The accompanying accounting policies and notes form an integral part of these financial statements.

Approved by the Board on 9 May 2006 and signed on its behalf by:

Kenneth Mulvany
Bruce Campbell
Directors



Company balance sheet

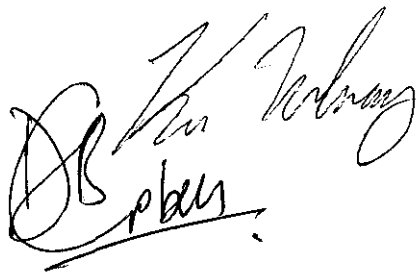
At 30 November 2005

	Note	At 30 November 2005 £
Fixed assets		
Investments	7	**102,000**
Current assets		
Debtors	9	**450,467**
Cash at bank and in hand		**12,763,848**
		13,214,315
Creditors: amounts falling due within one year	10	**(52,541)**
Net current assets		**13,161,774**
Net assets		**13,263,774**
Capital and reserves		
Called up share capital	12	**200,356**
Share premium account	13	**12,659,223**
Profit and loss account	13	**404,195**
Equity shareholders' funds	14	**13,263,774**

The accompanying accounting policies and notes form an integral part of these financial statements.

Approved by the Board on 9 May 2006 and signed on its behalf by:

Kenneth Mulvany
Bruce Campbell
Directors



Consolidated cash flow statement

For the year ended 30 November 2005

	Note	Year ended 30 November 2005 £	Year ended 30 November 2004 £
Cash flow from operating activities	15a	**(195,875)**	(92,223)
Returns on investment	15b	**244,707**	6,487
Capital expenditure	15b	**(93,877)**	–
Management of liquid resources	15b	**(12,600,000)**	–
Financing	15b	**12,757,580**	400,900
Increase in cash	15b	**112,535**	315,164

Reconciliation of net cash flow to movement in net funds

For the year ended 30 November 2005

	Note	Year ended 30 November 2005 £	Year ended 30 November 2004 £
Increase in cash in the period	15c	**112,535**	315,164
Cash held on deposit		**12,600,000**	–
Change in net funds resulting from cash flows		**12,712,535**	315,164
Movement in net funds in the period		**12,712,535**	315,164
Net funds at beginning of period		**315,164**	–
Net funds at end of period		**13,027,699**	315,164

The accompanying accounting policies and notes form an integral part of these financial statements.

Accounting policies

Basis of accounting
These financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation
1. Acquisition
Proximagen Neuroscience plc was incorporated on 14 January 2005 and on 9 March 2005 the Company acquired the entire share capital of Proximagen Limited by way of a share for share exchange. In accordance with the principles set out in Financial Reporting Standards ("FRS") 6 "Acquisitions and Mergers", 100% of the shares acquired have been accounted for under merger accounting. Consequently, although Proximagen Neuroscience plc was not incorporated until 14 January 2005 and the combination did not take place until 9 March 2005, the financial information is presented as though the merged businesses had always been a single group.

2. Basis of comparative information
The comparative consolidated profit and loss account has been presented as if the merger took place on the first day of each financial period presented and as though the Group, as presently constituted, had been in existence throughout these periods. The figures for the year to 30 November 2004 have been extracted from the audited Proximagen Limited accounts adjusted for the shares issued by the Company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to reserves.

No profit and loss account is presented for Proximagen Neuroscience plc as provided by Section 230(3) of the Companies Act 1985.

Turnover
Turnover represents amounts invoiced to third parties after deducting Value Added Tax.

Turnover is derived from a broad range of services aimed at accelerating the drug discovery process in neurology. Services are generally provided through specific research agreements with distinct milestones, each with a typical study duration of six to twelve months.

Turnover from these services is recognised on a percentage to completion basis. Fixed price contracts are assessed on a contract by contract basis and reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Turnover is recognised so as to reflect the right to consideration as contract activity progresses by reference to the value of work performed. The amount by which turnover exceeds payments on account is included in debtors; to the extent that payments on account exceed relevant turnover, the excess is included as a creditor. Provisions for estimated losses, if any, on uncompleted contracts are recognised in the period in which the likelihood of such losses is determined.

Research and development
Expenditure on pure and applied research is charged to the profit and loss account in the period in which it is incurred.

Development costs are also charged to the profit and loss account in the year of expenditure, unless individual projects satisfy all of the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs are expected to be exceeded by future sales; and
- adequate resources exist for the project to be completed.

Tangible fixed assets
All fixed assets are stated at historical cost. Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual life, as follows:

Laboratory equipment over £500:	10%-25% straight line
Computer and office equipment over £500:	25% straight line

The need for any fixed asset impairment write down is assessed by comparing the carrying value of the asset against the higher of its realisable value and its value in use.

Foreign currency
Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Investments
Long-term investments are classified as fixed assets. Short-term investments are classified as current assets.

Long-term investments are stated at cost in the Company balance sheet.

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pension contributions
The Group contributes to the personal pension plans of certain employees only.

Notes to the accounts

For the year ended 30 November 2005

1 Turnover on ordinary activities before taxation

The Group's turnover was all derived from its principal activity. Sales were made in the following geographical areas:

	2005 £	2004 £
United Kingdom	**141,470**	367,665
Rest of Europe	**515,210**	132,165
Japan	**159,760**	79,440
United States of America	**60,870**	2,000
	877,310	581,270

2 Bank interest

	2005 £	2004 £
Bank interest paid	–	(4)
Bank interest receivable	**11,798**	6,491
Interest receivable from short-term deposits	**398,634**	–
	410,432	6,487

The funds raised from the issue of new shares during the period have been lent to a number of UK-based banks and building societies on fixed term contracts. The interest rates attached to those contracts vary between 4.51% and 4.79%.

3 (Loss)/profit on ordinary activities before taxation

	2005 £	2004 £
(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation charged for the year on owned assets	**6,441**	–
Research and development costs	**329,842**	–
Auditors' remuneration: audit services	**25,000**	7,000
Auditors' remuneration: non-audit services	**66,000**	–
Exchange gains	**(1,578)**	–

4 Employees	2005 Number	2004 Number
The average number of persons (including directors) employed by the Group during the period was:		
Laboratory	**8**	4
Administrative	**3**	3
	11	7
	£	£
Staff costs for the above persons:		
Wages and salaries	**451,495**	124,919
Social security costs	**42,774**	13,618
Pension costs	**10,928**	4,686
	505,197	143,223

Directors' remuneration

Emoluments	**138,360**	63,307

There were no contributions made to directors' pension schemes during the year.

5 Taxation	2005 £	2004 £
Current tax		
UK corporation tax (credit)/charge on (loss)/profit for the year	**(75,650)**	7,947
Adjustments in respect of previous periods	**(7,947)**	–
Total current tax (credit)/charge	**(83,597)**	7,947
Deferred tax		
Origination and reversal of timing differences	**–**	–
Total deferred tax	**–**	–
Tax (credit)/charge on (loss)/profit on ordinary activities	**(83,597)**	7,947

Factors affecting tax (credit)/charge for the year

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The difference is explained below:		
(Loss)/profit on ordinary activities before tax	**(78,985)**	20,382
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**(23,695)**	6,114
Effects of:		
Expenses not deductible for tax purposes	**12,961**	1,833
Schedule 23 relief	**(299,173)**	–
Capital allowances for period in excess of depreciation	**(9,333)**	–
Tax losses not utilised	**254,829**	–
R&D enhanced relief	**(11,239)**	–
Adjustment to the tax charge in respect of previous periods	**(7,947)**	–
Current tax (credit)/charge for the year	**(83,597)**	7,947

A potential deferred tax asset of £246,795 (2004: £nil) has not been recognised due to the uncertainty of its recoverability.

6 Basic and diluted earnings per ordinary share

	2005 £	2004 £
The calculations of basic and diluted earnings per ordinary share are based on the following results and numbers of shares:		
Profit for the year	**4,612**	12,435

	2005 Number of shares	2004 Number of shares
Weighted average number of shares		
For basic earnings per share	**16,790,695**	10,199,800
Dilutive effect of share options	**833,718**	–
For diluted earnings per share	**17,624,413**	10,199,800

7 Investment in subsidiary undertaking

	£
Company	
Cost	
1 December 2004	–
Additions in the year	102,000
30 November 2005	**102,000**

Name of subsidiary	Class of holding	Proportion held directly	Nature of business
Proximagen Limited	Ordinary	100%	Neuroscience research

The above subsidiary is incorporated in England and Wales (company number 4977050).

On 9 March 2005 Proximagen Neuroscience plc acquired the entire issued share capital of Proximagen Limited in consideration for the Proximagen Limited shareholders receiving 10,199,800 ordinary shares of 1p each in aggregate on the basis of 60 ordinary shares in Proximagen Neuroscience plc for each one share in Proximagen Limited.

The net assets of Proximagen Limited at the date of acquisition were £485,120.

8 Tangible fixed assets

	Laboratory equipment	Computer equipment	Total
Group			
Cost			
1 December 2004	–	–	–
Additions	84,049	9,829	93,878
30 November 2005	**84,049**	**9,829**	**93,878**
Depreciation			
1 December 2004	–	–	–
Charged in the year	5,009	1,432	6,441
30 November 2005	**5,009**	**1,432**	**6,441**
Net book value			
30 November 2005	**79,040**	**8,397**	**87,437**
30 November 2004	–	–	–

9 Debtors	2005 £	2004 £
Group		
Due within one year:		
Trade debtors	**294,140**	499,367
Other debtors	**178,112**	4,307
Prepayments and accrued income	**206,278**	48,145
	678,530	551,819
Company		
Due within one year:		
Other debtors	**50,962**	
Amounts owed by Group undertakings	**230,319**	
Prepayments and accrued income	**169,186**	
	450,467	

10 Creditors	2005 £	2004 £
Group		
Amounts falling due within one year:		
Trade creditors	**386,763**	367,007
Corporation tax	**–**	7,947
Other taxation and social security costs	**18,069**	14,787
Accruals and deferred income	**213,308**	63,907
	618,140	453,648
Company		
Amounts falling due within one year:		
Trade creditors	**19,219**	
Other taxation and social security costs	**6,592**	
Accruals and deferred income	**26,730**	
	52,541	

11 Financial instruments

The Group's financial instruments comprise cash and short-term deposits. The Group has various other financial instruments such as trade debtors and trade creditors, that arise directly from its operations and which have not been included in the following disclosures.

The main risks arising from the Group's financial instruments are interest rate risks and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the Board.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The Group operates in the United Kingdom and as such substantially all of the Group's financial assets and liabilities are denominated in sterling and there is very limited exposure to exchange rate risks.

Interest rate risk

The Group's policy on managing its exposure to interest rate changes is agreed at Board level and reviewed on an ongoing basis.

Liquidity risk

It is the Group's policy to finance its business by means of internally generated funds, supported by external share capital.

Banking facility

The Group does not currently have an overdraft facility.

Fair value

There is no material difference between the fair value of borrowings and other financial interests and their book value at the balance sheet date.

12 Share capital

	2005 £
Authorised:	
500,000,000 Ordinary shares of 1p each	**5,000,000**
Allotted, issued and fully paid:	
20,035,622 Ordinary shares of 1p each	**200,356**

The Company was incorporated in England as a public company on 14 January 2005 with an authorised share capital of 50,000 ordinary shares of £1 each of which 2 shares were issued at par.

By written resolutions of the Company passed on 9 March 2005, the Company increased its authorised share capital by £4,950,000 to £5,000,000 and sub-divided each issued and to be issued ordinary £1.00 share each into 100 ordinary shares of 1p each.

On 9 March 2005 Proximagen Neuroscience plc acquired the entire share capital of Proximagen Limited, issuing 10,199,800 ordinary shares of 1p each in aggregate to shareholders of Proximagen Limited on the basis of 60 shares in Proximagen Neuroscience plc for every one share held in Proximagen Limited.

On 23 March 2005 the Company issued 714,000 new ordinary 1p shares in respect of the exercise of 714,000 share options by Kenneth Mulvany, raising £59,477. This issue generated share premium of £52,337.

On 31 March 2005, on its admission to AIM, the Company placed 9,121,622 new ordinary 1p shares at 148p per share to raise working capital to fund the Group's drug discovery programmes. This issue generated share premium of £13,408,784 excluding issue costs of £801,898.

13 Reserves	Share premium £	Merger reserve £	Profit and loss account £	Total £
Group				
At 1 December 2004	–	298,900	12,435	311,335
Profit for year	–	–	4,612	4,612
Premium on allotment during year	13,461,121	–	–	13,461,121
Share issue costs	(801,898)	–	–	(801,898)
30 November 2005	**12,659,223**	**298,900**	**17,047**	**12,975,170**
Company				
On incorporation	–	–	–	–
Profit for year	–	–	404,195	404,195
Premium on allotment during year	13,461,121	–	–	13,461,121
Share issue costs	(801,898)	–	–	(801,898)
30 November 2005	**12,659,223**	**–**	**404,195**	**13,063,418**

Share issue costs include £60,000 in respect of auditors' non-audit fees.

The merger reserve represents the excess of the nominal value of the shares issued by Proximagen Neuroscience plc over the nominal value of the share capital and share premium of Proximagen Limited.

14 Reconciliation of movement in shareholders' funds	2005 £	2004 £
Group		
Opening shareholders' funds	**413,335**	–
Shares issued during the year	**98,356**	102,000
Premium on shares issued during the year (net of expenses)	**12,659,223**	–
Creation of merger reserve	–	298,900
Profit for the year	**4,612**	12,435
Closing shareholders' funds	**13,175,526**	413,335
Company		
Opening shareholders' funds	–	
Shares issued during the year	**200,356**	
Premium on shares issued during the year (net of expenses)	**12,659,223**	
Profit for the year	**404,195**	
Closing shareholders' funds	**13,263,774**	

15 a Reconciliation of operating profit to operational cash flow	Year ended 30 November 2005 £	Year ended 30 November 2004 £
Operating (loss)/profit	**(489,417)**	13,895
Depreciation	**6,441**	–
Decrease/(increase) in debtors	**114,663**	(551,819)
Increase in creditors	**172,438**	445,701
Net cash outflow from operating activities	**(195,875)**	(92,223)
b Analysis of cash flows		
Returns on investment		
Interest paid	–	4
Interest received	**244,707**	6,491
Net cash inflow from returns on investments and servicing of finance	**244,707**	6,487
Capital expenditure and financial investment		
Purchase of tangible fixed assets	***(93,877)***	–
Net cash outflow from capital expenditure and financial investment	**(93,877)**	–
Management of liquid resources		
Cash placed on term deposits	**(12,600,000)**	–
Net cash outflow from investments	**(12,600,000)**	–
Financing		
Issue of ordinary share capital	**13,559,478**	400,900
Share issue costs	***(801,898)***	–
Net cash inflow from financing	**12,757,580**	400,900
Increase in cash in the period	**112,535**	315,164

c Analysis of funds	At 1 December 2004 £	Cash flow £	At 30 November 2005 £
Cash at bank and in hand	315,164	112,535	**427,699**
*Short-term deposits**	–	*12,600,000*	***12,600,000***
Net funds	**315,164**	**12,712,535**	**13,027,699**

* Short-term deposits are included within cash at bank and in hand in the balance sheet.

16 Contingent liabilities

The Company acts as guarantor to its bankers, Barclays Bank PLC, in respect of any amount due by itself and its subsidiary. The directors are of the opinion that the likelihood of default by itself or its subsidiary is remote and as such there is no requirement for any provision to be made in the financial statements.

The Company also acts as guarantor to Her Majesty's Revenue & Customs in respect of any Value Added Tax amount due by its subsidiary. The directors are of the opinion that the likelihood of default by its subsidiary is remote and as such there is no requirement for any provision to be made in the financial statements.

17 Related party transactions

The Group has entered into the following related party transactions.

1. The Group entered into an agreement on 22 March 2005 with King's College London, a shareholder of the Company. The agreement is an amendment to the previous agreement dated 2 March 2004 and the agreement that is currently in place covers the provision and costs of supply of property and other services by King's College London to Proximagen Limited.

£368,318 was charged in the year under the previous and the current agreement.

The agreement can be terminated by either party by twelve months' written notice.

The Group owed £283,835 (inclusive of VAT) to King's College London at the year end in respect of this agreement.

2. The Company entered into an agreement on 22 March 2005 with King's College London, a shareholder of the Company. The agreement covers the provision of the services of George Murlewski as a Non-executive Director of the Company and Mr Murlewski's fee as a Non-executive Director of the Company is paid to King's College London.

£667 was charged in the year under the agreement.

At the year end, no monies were owed to King's College London in respect of this agreement.

3. The Group has a consultancy agreement with Primagen Limited, a company owned by Peter Jenner, a director and shareholder of the Company, to provide consultancy services. £35,830 (exclusive of VAT) of consultancy services were charged in the year. At the year end £14,100 (inclusive of VAT) was owed to Primagen Limited.

4. The Group had a consultancy agreement (dated 29 April 2004) with IP2IPO Limited, a wholly-owned subsidiary shareholder of the Company, to provide consultancy services. £25,000 (exclusive of VAT) of consultancy services were charged in the year. At the year end, no monies were owed to IP2IPO Limited.

5. The Group had a consultancy agreement with NRW Consulting, a company owned by Nigel Whittle, a director of the Company, to provide consultancy services. £10,790 of consultancy services were charged in the year. At the year end, no monies were owed to NRW Consulting.

Copies of this report are being sent to all shareholders. Copies are also available at the registered office of the Company, Hodgkin Building, Guy's Campus, King's College, London SE1 1UL.

Notice of Annual General Meeting

Notice is hereby given that the first Annual General Meeting of Proximagen Neuroscience plc (the "Company") will be held at Buchanan Communications Limited, 45 Moorfields, London EC2Y 9AE on 5 July 2006 at 11.00am to transact the following business:

To consider and, if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive and adopt the reports of the directors and auditors and the audited accounts of the Company for the year ended 30 November 2005.

2. *To approve the directors' Remuneration Report including the auditable part of such report.*

3. To reappoint Baker Tilly Chartered Accountants as auditors of the Company until the conclusion of the next Annual General Meeting of the Company.

4. To authorise the directors to determine the remuneration of Baker Tilly Chartered Accountants.

By order of the Board
June Mary Paddock
Company Secretary

Notes:

1. Any member of the Company entitled to attend and vote at the meeting convened by the above notice may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. Appointment of a proxy will not preclude a member from attending and voting at the meeting in person instead of by proxy.

2. Copies of all the directors' service contracts and the register of directors' interests in the shares of the Company will be made available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

3. None of the executive directors has a service contract for more than one year's duration

   Non-executive directors are appointed for a period of three years or less.

4. The Company, pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001, specifies that only those shareholders entered on the register of members of the Company at 11:00am on 3 July 2006 shall be entitled to vote at the meeting in respect of shares registered in their names at that time. Changes to entries on the relevant register of members after 11:00am on 3 July 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Shareholder information

Group information
Further information on the Group can be found on our website at www.proximagen.com

Share price information
The latest Proximagen share price can be obtained via a number of financial information websites. Proximagen's stock exchange code is PRX.

Shareholder enquiries
Enquiries concerning shareholdings, change of address or other particulars, should be directed in the first instance to the Company's registrars, Capita IRG Plc, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone 0870 162 3100

Investor relations
Should you have any queries, please contact Kenneth Mulvany on +44 (0)20 7848 6938. Alternatively, you can e-mail your enquiry to ir@proximagen.com

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