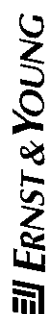


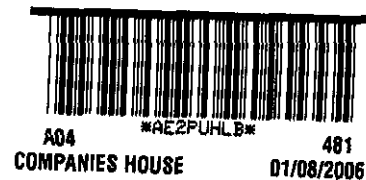
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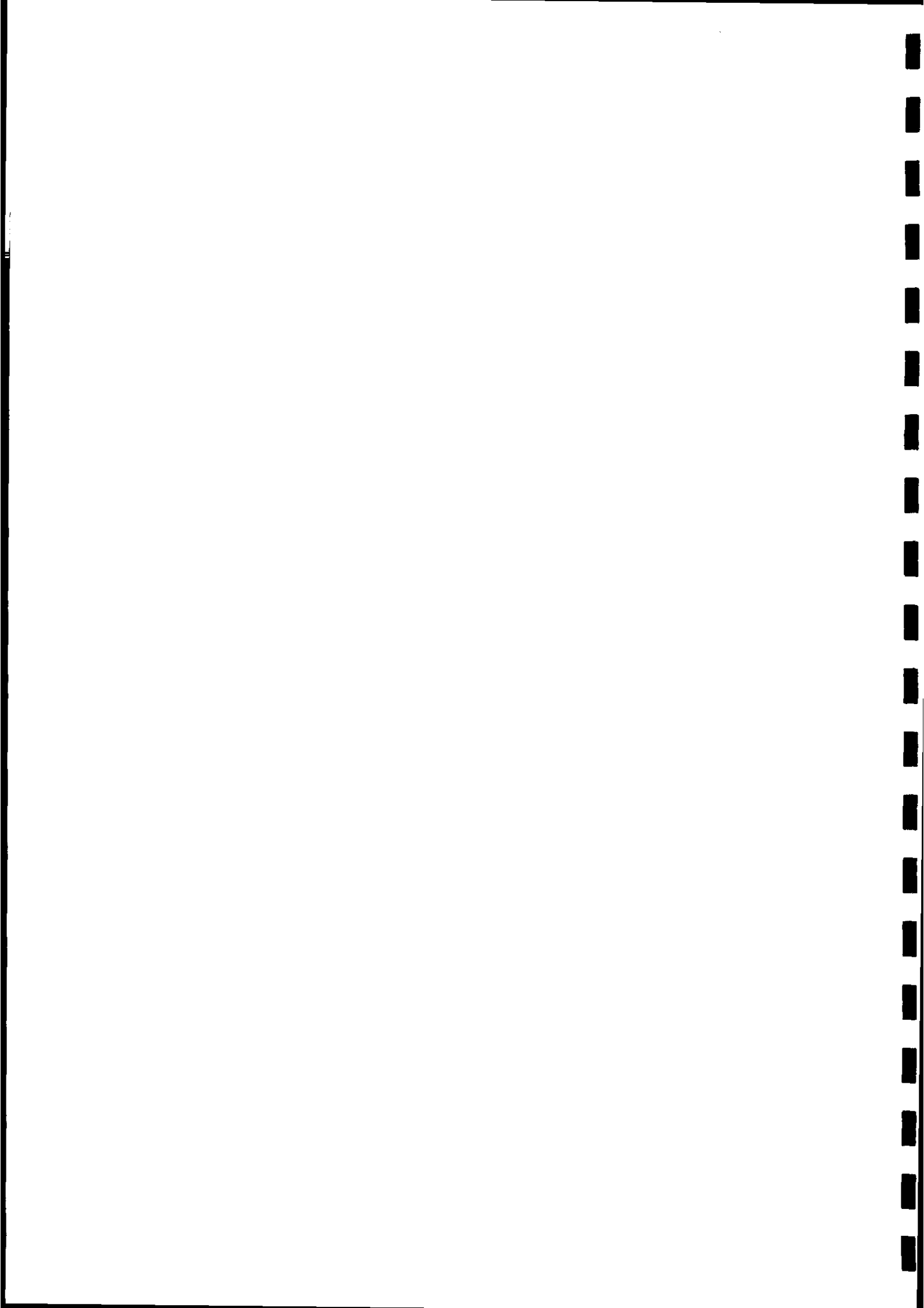
# Hunter-Fleming Limited

## Report and Financial Statements

31 December 2005

 ERNST & YOUNG





# Hunter-Fleming Limited

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Registered No. 03720556

## **Directors**

G Vardey (Chairman)  
J R Murray  
J S Fox  
N Hockaday  
E Wulfert  
D Holbrook (appointed 25 August 2005)

## **Secretary**

C J Northover

## **Auditors**

Ernst & Young LLP  
Broadwalk House  
Southernhay West  
Exeter  
EX1 1LF

## **Bankers**

Fortis Bank  
The Imperium  
Worton Grange  
Imperial Way  
Reading  
Berkshire  
RG2 0TD

## **Solicitors**

Burroughs Day  
14-16 Charlotte Street  
Bristol  
BS1 5PT

## **Registered Office**

Regus House  
1 Friary  
Temple Quay  
Bristol  
BS1 6EA

 ERNST & YOUNG

## Chairman's report

Hunter-Fleming has completed its 6<sup>th</sup> year of trading and has continued to advance its product portfolio. We have also undertaken a major fund-raising exercise that started in March 2005 and has closed at the end of March, 2006.

The total raised was nearly £7 million in a combination of equity and debt which will enable the Company to proceed with its scientific development plans well into 2007.

Ongoing work around the mechanisms of action of Hunter-Fleming's three main compounds, HF0220, HF0420 and HF0299 has led to exciting new indications and future prospects for those potential new medicines.

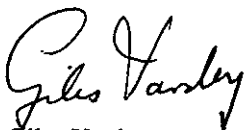
HF0220, currently being developed for the treatment of Alzheimer's disease, heart attacks and stroke, has been found to have activities probably through stimulation of cytoprotective prostaglandins. Not only does this mean that the compound may have additional new uses, but also new targets for the next generation of compounds are expected to be elucidated. A Phase II clinical trial in patients with mild to moderate Alzheimer's disease will be started as soon as possible now that the fundraising has been completed.

HF0420 has been found to have nerve growth factor-like properties which could take this product into areas of nerve regeneration including head and spinal cord injury. Another American (West Coast) based company is negotiating an Option to co-develop HF0420 with Hunter-Fleming.

HF0299 has been found to have unique properties within the brain and peripheral nervous system. This could expand the current proposed use of the compound in osteoporosis considerably into areas such as the reduction of neuropathic pain.

During the latter part of 2005, Hunter-Fleming worked closely with a U.S. based major Venture Capital firm with the idea of setting up a stand-alone new company, to be dedicated to the development of HF1020, with asthma as the primary indication and rheumatoid arthritis as a possible secondary indication. This new venture, called Trident Pharmaceuticals has now been created with Hunter-Fleming retaining a significant equity stake. This new Company has been separately funded and will seek to realise value from the Company in the next few years

The Management Team is confident that 2006 will see the achievement of major milestones in the development of the Company and its product portfolio. Finally, the Company is now considering its plans to seek a possible IPO (Initial Public Offering) on AIM, in 2007.



Giles Vardey  
Chairman

30.3.2006

## Directors' report

The directors present their report and financial statements for the year ended 31 December 2005.

### Principal activity and review of business

The principal activity of the company is that of pharmaceutical development.

Hunter-Fleming is an emerging pharmaceutical company, specialising in the development of radically novel therapeutics, diagnostics and technologies relevant to the treatment of significant unmet medical needs. The Company's focus is on neurodegenerative disorders of the central nervous system (CNS), and inflammation.

During the year innovative internal research has led to propriety Intellectual Property in several new indications and patent products.

The retained loss for the year amounts to £1,817,451 (2004 : £2,456,315). The directors do not recommend the payment of a dividend.

### Events since the balance sheet date

On 20 March 2006 Hunter-Fleming Limited completed a rights issue and offering to new institutions and raised £4,951,614 of new equity at a price of £1.755 per share. In parallel with this, a loan of £2m was arranged repayable over a three year period on a straight line basis.

Hunter-Fleming Limited transferred its intellectual property rights in relation to a project (HF1020) on 20 March 2006 in return for an interest in a new joint venture company, Trident Pharmaceuticals Inc., a company incorporated in the USA.

### Directors and their interests

The directors who served during the year ended 31 December 2005 and their interests in the share capital of the company at that date were as follows:

	2005	2005	2005	2004
	Ordinary	'B'	Total	Total
	Shares of	Ordinary	Ordinary	Ordinary
	£0.01 each	shares of	shares of	shares of
		£0.01 each	£0.01 each	£0.01 each
G Vardey	22,388	16,212	38,600	38,600
J R Murray*	1,743,467	21,131	1,764,598	1,764,603
J S Fox	407,125	10,332	417,457	417,457
N Hockaday	7,540	5,460	13,000	13,000
R E Ashby ** (retired 24 August 2005)	47,875	1,512	49,387	49,387
E Wulfert ***	992,590	20,496	1,013,086	1,013,086
R G Ford (retired 23 August 2005)	-	-	-	-
J L R Melotte (retired 23 August 2005)	-	-	-	-
D Holbrook (appointed 25 August 2005)	-	-	-	-

## Directors' report

### Directors and their interests (continued)

- \* J R Murray holds 1,457,753 Ordinary shares and 21,131 'B' Ordinary shares directly; the other 285,714 Ordinary shares being held by a connected person.
- (2004: J R Murray held 600,002 'A' Ordinary shares, 857,756 Ordinary shares and 21,131 convertible 'B' shares directly, the other 120,000 'A' Ordinary shares and 165,714 Ordinary shares being held by a connected person.)
- \*\* R E Ashby holds 45,787 Ordinary shares directly, the other 2,088 Ordinary shares and 1,512 'B' Ordinary shares being held by a connected party.
- (2004: R E Ashby held 26,556 Ordinary shares, and 19,231 'A' Ordinary shares directly, the other 2,088 Ordinary shares and 1,512 convertible 'B' shares being held by a connected party.)
- \*\*\* E Wulfert holds 28,304 Ordinary shares and 20,496 'B' Ordinary shares directly, the other 964,286 Ordinary shares being held by a connected party.
- (2004: E Wulfert held 28,304 Ordinary shares and 20,496 convertible 'B' shares directly, the other 559,284 'A' Ordinary shares and 405,002 Ordinary shares held by a connected party.)

In addition, at 31 December 2005, the following directors hold share options in Hunter-Fleming Limited:

	2005 Number of options	2005 Exercise Price per share	2004 Number of options	2004 Exercise Price per share
G Vardey	33,000	70p	33,000	70p
N Hockaday	80,000	70p	80,000	70p
R E Ashby (retired 24 August 2005)	20,000	70p	20,000	70p

### Auditors

A resolution to reappoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

### Special provisions relating to small companies

This report has been prepared in accordance with the special provisions of part VII of the Companies Act 1985 relating to small companies.

By order of the Board



C J Northover  
Secretary

30.11.2006

## **Statement of directors' responsibilities in respect of the financial statements**

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 group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

## **Independent auditors' report**

**to the shareholders of Hunter-Fleming Limited**

We have audited the group and parent company financial statements (the "financial statements") of Hunter-Fleming Limited for the year ended 31 December 2005, which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

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

### **Respective responsibilities of directors and auditors**

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Report and the Directors' report. 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 audit opinion**

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

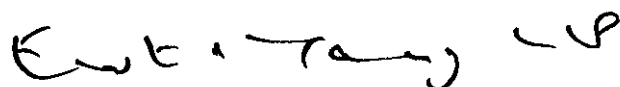
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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



**Independent auditors' report**  
to the shareholders of Hunter-Fleming Limited

**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 group's and the parent company's affairs as at 31 December 2005 and of the group's loss for the year then ended; and the financial statements have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP  
Registered Auditor  
Exeter

1.6.2006



## Consolidated profit and loss account

For the year ended 31 December 2005

	Notes	2005 £	2004 £
Income		2,682	2,500
Research and development expenditure		(567,691)	(1,353,741)
Administrative expenses		(1,348,465)	(1,444,043)
<b>Operating loss</b>	2	(1,913,474)	(2,795,284)
Profit realised on consolidation	3	-	36,140
<b>Loss on ordinary activities before interest and taxation</b>		(1,913,474)	(2,759,144)
Interest receivable		2,378	36,648
Interest payable	5	(18,472)	-
<b>Loss on ordinary activities before taxation</b>		(1,929,568)	(2,722,496)
Tax on loss on ordinary activities	6	103,526	246,650
<b>Loss on ordinary activities after taxation</b>		(1,826,042)	(2,475,846)
Loss attributable to equity minority interest		8,591	19,531
<b>Retained loss for the year</b>	14	(1,817,451)	(2,456,315)

The company's results for the year above are derived entirely from continuing activities.

There were no recognised gains or losses other than the loss of £1,817,451 for the year (2004: loss of £2,456,315) and therefore no separate statement of total recognised gains and losses has been presented.

# Consolidated balance sheet

As at 31 December 2005

	Notes	2005 £	2004 £
<b>Fixed assets</b>			
Intangible assets	8	2,341,730	2,536,199
Tangible assets	9	23,331	24,877
		<u>2,365,061</u>	<u>2,561,076</u>
<b>Current assets</b>			
Debtors	11	164,554	331,596
Cash at bank and in hand		3,963	268,569
		<u>168,517</u>	<u>600,165</u>
<b>Creditors: amounts falling due within one year</b>	12	(1,516,652)	(318,273)
<b>Net current (liabilities)/assets</b>		<u>(1,348,135)</u>	<u>281,892</u>
<b>Total assets less current liabilities</b>		<u>1,016,926</u>	<u>2,842,968</u>
<b>Capital and reserves</b>			
Called up share capital	13	102,559	102,559
Share premium	14	12,927,179	12,927,179
Other reserves	14	1,370,385	1,370,385
Profit and loss account	14	(15,153,753)	(13,336,302)
Shares to be issued	14	1,774,618	1,774,618
<b>Total equity shareholders' funds</b>		<u>1,020,988</u>	<u>2,838,439</u>
Net (liabilities)/assets attributable to equity minority interest		(4,062)	4,529
		<u>1,016,926</u>	<u>2,842,968</u>

The accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities.

Approved by the Board

J R Murray  
Director

30.5.2006

# Company balance sheet

As at 31 December 2005

	Notes	2005 £	2004 £
<b>Fixed assets</b>			
Tangible assets	9	23,331	24,877
Investments	10	60,100	60,100
		<u>83,431</u>	<u>84,977</u>
<b>Current assets</b>			
Debtors	11	164,554	331,596
Cash at bank and in hand		20	173,519
		<u>164,574</u>	<u>505,115</u>
<b>Creditors:</b> amounts falling due within one year	12	(1,514,752)	(245,870)
<b>Net current (liabilities)/assets</b>		<u>(1,350,178)</u>	<u>259,245</u>
<b>Total assets less current liabilities</b>		<u>(1,266,747)</u>	<u>344,222</u>
<b>Capital and reserves</b>			
Called up share capital	13	102,559	102,559
Share premium	14	12,927,179	12,927,179
Profit and loss account	14	(14,300,710)	(12,689,741)
Shares to be issued	14	4,225	4,225
<b>Total equity shareholders' funds</b>		<u>(1,266,747)</u>	<u>344,222</u>

The accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities.

Approved by the Board.

J R Murray  
Director

30.1.2006

## Notes to the financial statements

At 31 December 2005

### 1. Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities.

#### **Basis of consolidation**

The group financial statements consolidate the financial statements of Hunter-Fleming Limited, and its subsidiary undertakings drawn up to 31 December 2005. No profit and loss account is presented for Hunter-Fleming Limited as permitted by section 230 of the Companies Act 1985.

#### **Goodwill**

Positive goodwill arising on acquisitions is capitalised, classified as an intangible asset on the balance sheet and amortised on a straight line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Goodwill arising on the acquisition of Aegis Pharmaceuticals Limited is being amortised evenly over the directors' estimate of its useful economic life of 17 years.

#### **Depreciation**

Depreciation has been provided at the following rates in order to write off the assets over their estimated useful lives.

Plant and machinery	-	20% reducing balance
Computer equipment	-	20% reducing balance

#### **Cash flow**

The directors have taken advantage of the exemptions in Financial Reporting Standard No. 1 from including a cash flow statement in the accounts on the grounds that the group is small.

#### **Foreign currencies**

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

#### **Research and development**

Research expenditure is written off as incurred.

#### **Taxation**

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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, or a right to pay less, tax in the future have occurred. Deferred tax assets are recognised only if recovery without replacement by equivalent debit balances is reasonably certain.

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

# Notes to the financial statements

At 31 December 2005

## 1. Accounting policies (continued)

### *Pensions*

The group operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

### *Operating leases*

The rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

## 2. Operating loss

	2005	2004
	£	£
Rentals – land and buildings	59,130	53,724
Depreciation of owned fixed assets	4,758	6,615
Amortisation of goodwill	194,469	194,469
Auditors' remuneration	19,000	19,000
Research and development expenditure	567,691	1,486,746

## 3. Exceptional profit

	2005	2004
	£	£
An exceptional profit was realised on consolidation by virtue of the excess consideration paid by the minority interest for the voting rights obtained	-	36,140

## 4. Staff costs

### *(a) Staff costs*

	2005	2004
	£	£
Wages and salaries	554,591	640,587
Social security costs	51,563	67,659
Other pension costs	30,519	26,747
	636,673	734,993

The average monthly number of employees during the year was made up as follows:

	2005	2004
	No.	No.
Administration	8	8
Research and development	5	6
	13	14

## Notes to the financial statements

At 31 December 2005

### 4. Staff costs (continued)

#### (b) Directors' emoluments

	2005 £	2004 £
Directors' emoluments	339,000	377,775
	<u>          </u>	<u>          </u>
	No.	No.
Number of directors accruing benefits under Defined Contribution Scheme	1	1
	<u>          </u>	<u>          </u>
Emoluments payable to the highest paid director are as follows:		
	£	£
Aggregate emoluments	109,200	110,016
	<u>          </u>	<u>          </u>

### 5. Interest payable and similar charges

	2005 £	2004 £
Bank loans and overdrafts	5,673	-
Other loans	12,799	-
	<u>          </u>	<u>          </u>
	18,472	-
	<u>          </u>	<u>          </u>

### 6. Tax on loss on ordinary activities

	2005 £	2004 £
<b>UK corporation tax credit:</b>		
UK corporation tax recovered on results of the year	106,281	246,650
Adjustment in respect of previous year	(2,755)	-
	<u>          </u>	<u>          </u>
	103,526	246,650
	<u>          </u>	<u>          </u>

#### Factors affecting the tax charge for the year

The tax charged on the loss on ordinary activities for the year is lower than the standard rate of corporation tax in the UK.



# Notes to the financial statements

At 31 December 2005

## 6. Tax on loss on ordinary activities (continued)

The differences are explained below:

	2005 £	2004 £
Loss on ordinary activities before tax	1,929,568	2,722,496
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004:30%)	578,870	816,749
<b>Effect of:</b>		
Disallowable expense	(551)	(680)
Goodwill amortisation	(58,341)	(58,341)
Other timing differences	1,060	(1,846)
R&D tax credits – current year	(21,634)	(58,467)
Adjustment in respect of prior year	2,755	-
Tax losses	(384,822)	(461,607)
Other	(13,811)	10,842
	103,526	246,650

There is an unrecognised deferred tax asset of £3,044,777 (2004: £2,659,955). The asset arises predominantly on trading losses, which are available to carry forward. The asset is recoverable against future profits of the same trade.

## 7. Loss attributable to members of the parent company

The loss dealt within the financial statements of the parent company was £1,610,969 for the year ended 31 December 2005 (2004: loss of £2,342,415).

## 8. Intangible fixed assets

**Group**

	<i>Goodwill</i> £
<b>Cost:</b>	
At 1 January 2005 and 31 December 2005	3,305,972
<b>Amortisation:</b>	
At 1 January 2005	769,773
Charge for the year	194,469
At 31 December 2005	964,242
<b>Net book value:</b>	
At 31 December 2005	2,341,730
At 31 December 2004	2,536,199

## Notes to the financial statements

At 31 December 2005

### 9. Tangible fixed assets

*Group and Company*

*Plant and machinery  
& computer equipment*  
£

**Cost:**

At 1 January 2005	47,638
Additions	3,212

At 31 December 2005	50,850
---------------------	--------

**Depreciation:**

At 1 January 2005	22,761
Charge for the year	4,758

At 31 December 2005	27,519
---------------------	--------

**Net book value:**

At 31 December 2005	23,331
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At 31 December 2004	24,877
---------------------	--------

### 10. Investment

*Company*

*Subsidiary  
undertakings*  
£

**Cost:**

At 1 January 2005	182,651
Additions	-

At 31 December 2005	182,651
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**Amounts provided:**

At 1 January 2005	122,551
Provided during the year	-

At 31 December 2005	122,551
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**Net book value:**

At 31 December 2005	60,100
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At 31 December 2004	60,100
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# Notes to the financial statements

At 31 December 2005

## 10. Investment (continued)

The following information relates to the company's subsidiary undertakings:

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Aegis Pharmaceuticals Limited	England	Ordinary shares	100%	Dormant
Hunter Oncology Ltd	Northern Ireland	Ordinary shares	80%	Research and development relating to oncology

## 11. Debtors

### Group

	2005 £	2004 £
Taxation recoverable	102,197	244,677
Other debtors	18,741	41,522
Prepayments	43,616	45,397
	<u>164,554</u>	<u>331,596</u>

### Company

	2005 £	2004 £
Taxation recoverable	102,197	244,677
Other debtors	18,741	41,522
Prepayments	43,616	45,397
	<u>164,554</u>	<u>331,596</u>

## 12. Creditors: amounts falling due within one year

### Group

	2005 £	2004 £
Bank loans and overdrafts	339,571	-
Other loans	862,500	-
Trade creditors	253,630	216,917
Other taxes and social security costs	16,047	18,350
Accruals	44,904	83,006
	<u>1,516,652</u>	<u>318,273</u>

**At 31 December 2005****Company**

	2005	2004
	£	£
Bank loans and overdrafts	339,571	-
Other loans	862,500	-
Trade creditors	253,630	160,197
Other taxes and social security costs	16,047	18,350
Accruals	43,004	67,323
	<u>1,514,752</u>	<u>245,870</u>

**Included within other loans is a loan of £862,500 (2004 : £Nil) which is secured by a fixed and floating charge over the assets of the company.**

### 13. Share capital

	2005		2004	
	No.	£	No.	£
<b>Authorised:</b>				
1p 'A' Ordinary shares	-	-	2,250,000	22,500
1p 'B' Ordinary shares	25,000,000	250,000	-	-
1p Ordinary shares	25,000,000	250,000	7,500,000	75,000
Convertible Preferred 1p 'B' Ordinary shares	-	-	2,250,000	22,500
	<u>50,000,000</u>	<u>500,000</u>	<u>12,000,000</u>	<u>120,000</u>

	2005		2004	
	No.	£	No.	£
<i>Allotted, called up and fully paid:</i>				
1p 'A' Ordinary shares	-	-	2,228,942	22,289
1p 'B' Ordinary shares	2,078,530	20,786	-	-
1p Ordinary shares	8,177,342	81,773	5,948,410	59,484
Convertible Preferred 1p 'B' Ordinary shares	-	-	2,078,530	20,786
	<u>10,255,872</u>	<u>102,559</u>	<u>10,255,882</u>	<u>102,559</u>

On 27 July 2005 the authorised share capital of the company was changed to £500,000, divided into 25,000,000 ordinary shares of 1p each ("Ordinary shares") and 25,000,000 'B' ordinary shares of 1p each ("B' Ordinary shares").

## Notes to the financial statements

At 31 December 2005

### 13. Share capital (continued)

The ordinary shares and the 'B' ordinary shares constitute separate classes of shares but rank pari passu in all respects except as follows:

In the event of a winding up of the company the assets of the company available for distribution amongst the members shall be applied and distributed in the following order;

- first, in paying to the holders of the 'B' ordinary shares the amounts of capital paid up or credited as paid up thereon (including any premium) together with a sum equal to any arrears, deficiency or accruals of any dividends payable thereon;
- second, in paying to the holders of the ordinary shares the amounts of capital paid up or credited as paid up thereon (including any premium) together with a sum equal to any arrears, deficiency or accruals of any dividends payable thereon; and
- finally, in paying any balance to the holders of the ordinary shares and the 'B' ordinary shares pari passu and pro rata to the number of such shares held by each holder.

#### Share option schemes

Following the fundraising in 2000 the company is obliged to grant 274,724 options to existing Shareholders, to subscribe for further ordinary shares in the capital of the company. These share options vest on the achievement of certain milestones, and will only be exercisable in the event of a sale or flotation of the company or similar "exit" event. The exercise price is based on a predetermined formula related to past fundraising activity.

In addition, as part of the consideration for Aegis Pharmaceuticals Limited in 2000, a total of 157,748 share options were granted to the option holders of the Aegis scheme in consideration for the release and exchange of the Aegis options, which are exercisable at a price of 1p per share, as well as contingent rights to acquire 422,528 shares.

### 14. Reconciliation of shareholders' funds and movement on reserves

#### Group

	Share capital £	Share premium £	Shares to be issued £	Other reserves £	Profit and loss account £	Total £
At 1 January 2004	88,452	9,002,827	5,726,067	1,370,385	(10,879,987)	5,307,744
Adjustment to shares to be issued	-	-	(12,990)	-	-	(12,990)
Retained loss	-	-	-	-	(2,456,315)	(2,456,315)
Issue of shares	14,107	3,924,352	(3,938,459)	-	-	-
At 1 January 2005	102,559	12,927,179	1,774,618	1,370,385	(13,336,302)	2,838,439
Retained loss	-	-	-	-	(1,817,451)	(1,817,451)
At 31 December 2005	102,559	12,927,179	1,774,618	1,370,385	(15,153,753)	1,020,988

# Notes to the financial statements

At 31 December 2005

## 14. Reconciliation of shareholders' funds and movement on reserves (continued)

*Company*

	<i>Share capital £</i>	<i>Share premium £</i>	<i>Shares to be issued £</i>	<i>Other reserves £</i>	<i>Profit and loss account £</i>	<i>Total £</i>
At 1 January 2004	88,452	9,002,827	3,955,674	-	(10,347,326)	2,699,627
Adjustment to shares to be issued	-	-	(12,990)	-	-	(12,990)
Retained loss	-	-	-	-	(2,342,415)	(2,342,415)
Issue of shares	14,107	3,924,352	(3,938,459)	-	-	-
At 1 January 2005	102,559	12,927,179	4,225	-	(12,689,741)	344,222
Retained loss	-	-	-	-	(1,610,969)	(1,610,969)
At 31 December 2005	102,559	12,927,179	4,225	-	(14,300,710)	(1,266,747)

## 15. Other financial commitments

At 31 December 2005 the company had commitments under operating leases as set out below:

	<i>Land and buildings</i>	
	<i>2005</i>	<i>2004</i>
	<i>£</i>	<i>£</i>
<i>Operating leases which expire:</i>		
- within one year	4,977	13,986

## 16. Related parties

There were no other material transactions in the period with the directors or shareholders holding more than 20% of the issued share capital other than as disclosed in note 12.