

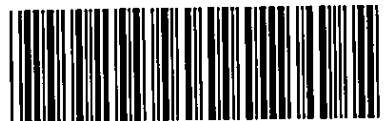
Hunter-Fleming Limited

Report and Financial Statements

31 December 2007

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COMPANIES HOUSE

Hunter-Fleming Limited

Registered No 03720556

Directors

G Vardey (Chairman)
J R Murray
J S Fox
N Hockaday
E Wulfert
D Holbrook
M J Capaldi
R Brown (appointed 24 January 2007)
M Fotiadis (resigned 24 January 2007)

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

Chairman's report

2007 was a very challenging year for the company. Given overall difficult market conditions for funding, the board decided that the company pursue just three objectives: the development and licensing of its main compound and the need to raise further finance.

As a result, Hunter-Fleming focused its activities and resources on the following three main strategic objectives:

-Firstly, we pursued the clinical development of our lead compound, HF 0220, which continues to progress through Phase II human clinical trials in Alzheimer's disease. The full results will be available in the second half of 2008 and we are very optimistic that these will confirm the exciting potential of this compound. We also continued further work on our other compounds HF 0420 and HF 0299 in new indications.

-Secondly, alongside our clinical trial programmes, we pursued a sustained marketing programme of our lead compound HF 0220, to many of the leading pharmaceutical companies, that are seeking new and exciting compounds to add their portfolios.

We received strong interest from over 10 major pharmaceutical companies that could see the potential of the compound but wanted to confirm this with the results of the Phase II trials before proceeding with a licensing deal with us.

-Thirdly, the company proceeded with a further funding round with both existing shareholders and potential equity venture investors. This was launched against a backdrop of very difficult public equity markets that remained unfavourable to biotech companies. During that process over the last few months, it became clear that there was insufficient support from all types of investors, because of the weak market conditions. As a result, the management pursued a programme of seeking corporate partners who could both finance the development of our compounds and give our investors an appropriate return. This resulted in three serious corporate development options for the company, the most attractive being the offer from Newron Pharmaceuticals S p A in February 2008.

The company has always kept a very close eye on market developments and the sale to Newron is, in our view, a good outcome for our shareholders in that our compounds are now part of a larger well resourced publicly listed organisation with strong ambition to succeed in the same clinical areas we have pursued since the company was founded in 1999.



Giles Vardey
Chairman

13.3.2008

Directors' report

The directors present their report and financial statements for the year ended 31 December 2007

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 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, progress was made in the testing of the lead compound in Phase II clinical trials and the patent portfolio was maintained.

The retained loss for the year amounts to £3,170,509 (2006 - loss of £5,272,232). The directors do not recommend the payment of a dividend. The group is exempt from the requirement to prepare a full-enhanced directors' report as required by the Companies Act.

The company transferred the project HF 1020 to Trident Pharmaceuticals Inc in 2006 and, as part of that transaction, received 17% of Trident, together with warrants that maintained that percentage through further planned investments by the other investors. In September 2007, the other investors contributed a further US \$2million to Trident but the investment by the company has therefore been maintained at 17% with no further contribution.

Post Balance Sheet Events

On 11 February 2008 the company announced that it had reached agreement to be acquired by Newron Pharmaceuticals S p A, subject to shareholder approval, expected in April 2008.

Directors

The directors who served during the year ended 31 December 2007 are listed on page 1.

Disclosure of Information to the auditors

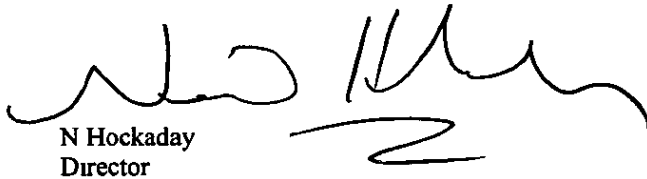
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor,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

Directors' report

Re-appointment of auditors

In accordance with s 385 of the Companies Act 1985, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the Company

On behalf of the Board



N Hockaday
Director

13.3.2008

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice

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 2007, which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read 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 and the Chairman's Statement. 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

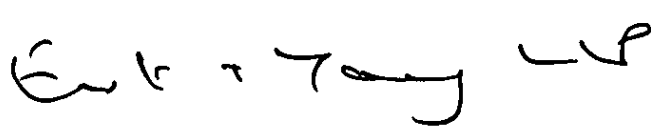
Opinion

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 2007 and of the group's loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter – going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the accounts concerning funding of pre-commercialisation activity and the company's ability to continue as a going concern. The financial statements have been prepared on a going concern basis, the validity of which depends upon approval of the acquisition of the company by the shareholders of Newron Pharmaceuticals S p A (expected April 2008) and subsequent financial support being provided. If this acquisition and funding is not successful alternative sources of funding will need to be found from either out-licensing of products or additional capital being raised before the current funds have been depleted. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include any adjustments, which would result if the company was unable to continue as a going concern. Our opinion is not qualified in this respect.



Ernst & Young LLP
Registered Auditor
Exeter

18.3.2008

[Notes

- 1 The maintenance and integrity of the Hunter-Fleming Limited website is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website, and
- 2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions]

Consolidated profit and loss account

for the year ended 31 December 2007

	Notes	2007 £	2006 £
Income		127	604
Research and development expenditure		(783,324)	(1,094,812)
Administrative expenses (including exceptional item)		(2,430,849)	(2,522,748)
Operating loss	3	(3,214,046)	(3,616,956)
Exceptional item - loss on disposal of HF1020 in return for shares in Trident Pharmaceuticals Inc	4	-	(1,803,160)
Loss on ordinary activities before interest and taxation		(3,214,046)	(5,420,116)
Interest receivable		56,409	142,684
Interest payable	6	(171,934)	(192,586)
Loss on ordinary activities before taxation		(3,329,571)	(5,470,018)
Tax on loss on ordinary activities	7	159,047	197,162
Loss on ordinary activities after taxation		(3,170,524)	(5,272,856)
Loss attributable to equity minority interest		15	624
Retained loss for the year		(3,170,509)	(5,272,232)

The group's results for the year above are derived entirely from continuing activities. There were no recognised gains or losses in the year other than the retained loss for the year of £3,170,509 (2006 loss of £5,272,232).

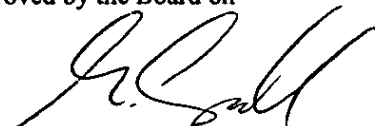
Consolidated balance sheet

as at 31 December 2007

	Notes	2007 £	2006 £
Fixed assets			
Tangible assets	9	43,211	53,623
Investments	10	489,953	489,953
		<u>533,164</u>	<u>543,576</u>
Current assets			
Debtors	11	243,191	396,236
Cash at bank and in hand		3,781	2,531,689
		<u>246,972</u>	<u>2,927,925</u>
Creditors: amounts falling due within one year	12	(1,628,028)	(914,980)
		<u>(1,381,056)</u>	<u>2,012,945</u>
Net current (liabilities)/assets			
		<u>(847,892)</u>	<u>2,556,521</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	13	(126,042)	(839,204)
		<u>(973,934)</u>	<u>1,717,317</u>
Capital and reserves			
Called up share capital	15	139,913	139,913
Share premium	16	18,370,579	18,370,579
Other reserves	16	1,370,385	1,370,385
Profit and loss account	16	(22,620,503)	(19,929,267)
Shares to be issued	16	1,770,393	1,770,393
		<u>(969,233)</u>	<u>1,722,003</u>
Total equity shareholders' (deficit)/funds			
Net liabilities attributable to equity minority interest		<u>(4,701)</u>	<u>(4,686)</u>
		<u>(973,934)</u>	<u>1,717,317</u>

Approved by the Board on

13.1.2008



M J Capaldi
Director

~~J R Murray~~
Director

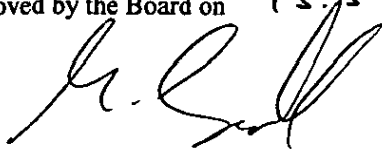
Company balance sheet

as at 31 December 2007

	Notes	2007 £	2006 £
Fixed assets			
Tangible assets	9	43,211	53,623
Investments	10	-	-
		<u>43,211</u>	<u>53,623</u>
Current assets			
Debtors	11	243,191	396,236
Cash at bank and in hand		243	2,528,099
		<u>243,434</u>	<u>2,924,335</u>
Creditors: amounts falling due within one year	12	(1,625,236)	(912,213)
		<u>(1,381,802)</u>	<u>2,012,122</u>
Net current (liabilities)/assets			
		<u>(1,338,591)</u>	<u>2,065,745</u>
Total assets less current liabilities			
		<u>(1,338,591)</u>	<u>2,065,745</u>
Creditors: amounts falling due after more than one year	13	(126,042)	(839,204)
		<u>(1,464,633)</u>	<u>1,226,541</u>
		<u><u>(1,464,633)</u></u>	<u><u>1,226,541</u></u>
Capital and reserves			
Called up share capital	15	139,913	139,913
Share premium	16	18,370,579	18,370,579
Profit and loss account	16	(19,975,125)	(17,283,951)
Shares to be issued	16	-	-
		<u>-</u>	<u>-</u>
Total equity shareholders' (deficit)/funds		<u>(1,464,633)</u>	<u>1,226,541</u>
		<u><u>(1,464,633)</u></u>	<u><u>1,226,541</u></u>

Approved by the Board on

13.3.2008



M J Capaldi
Director

Notes to the financial statements

at 31 December 2007

1. Fundamental accounting concept

Hunter-Fleming Limited is an early stage pharmaceutical development company, specialising in the development of 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, areas in which management has a proven track record in the successful development of novel compounds.

Hunter-Fleming Limited's strategy is to build a balanced portfolio of innovative development projects and technologies with leading academic groups and the pharmaceutical industry. To date, assembling the portfolio has involved entering into a number of licensing agreements, the acquisition of Aegis Pharmaceuticals and the formation of Hunter Oncology Ltd. As is usual for a company at this stage of its development, it currently incurs significant research and development expenditure and therefore significant losses. It is dependent on the receipt of further funding to advance the commercialisation of its technologies and products and on its ability to generate revenues and cash flows from out-licensing of its products.

On 11 February 2008 the company reached agreement to be acquired by Newron Pharmaceuticals S.p.A. ("Newron"). The proposed acquisition by Newron would provide additional funding to enable the company to advance its commercialisation process.

The acquisition is subject to Newron shareholder approval expected in April 2008. Should approval not be obtained then the company would seek alternative sources of funding. However, at the current time it is not possible to predict the amount or timing of the related future cash receipts.

Should the company be unable to raise sufficient additional funds to enable it to successfully advance the commercialisation process, and should it be unable to generate sufficient revenues and cash flows from its products available for out-licensing or reduce its cost base, then it would be unable to continue as a going concern. Adjustments would have to be made to reduce the balance sheet value of assets to their recoverable amounts and to provide for further liabilities that might arise.

2. Accounting policies

The financial statements have been prepared under the historical cost convention.

Basis of consolidation

The group financial statements consolidate the financial statements of Hunter-Fleming Limited, and its subsidiary undertakings drawn up to 31 December 2007. 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 was being amortised evenly over the directors' estimate of its useful economic life of 17 years. During the year to 31 December 2006, the intellectual property to which the goodwill was associated was disposed of (See note 4).

Notes to the financial statements

at 31 December 2007

2. Accounting policies (continued)

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.

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.

Notes to the financial statements

at 31 December 2007

2. Accounting policies (continued)

Share-based payments

Equity settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the share of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

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

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

The Group has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards so as to apply FRS 20 only to those equity settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

Notes to the financial statements

at 31 December 2007

3. Operating loss

The operating loss is stated after charging

	2007	2006
	£	£
Rentals – land and buildings	106,274	109,473
Depreciation of owned fixed assets	10,724	7,795
Amortisation of goodwill	-	48,617
Auditors' remuneration - audit services	21,000	27,000
- non audit services – taxation and advisory services	17,950	32,650
Research and development expenditure	-	1,094,812
Exceptional item – liability to previous advisor re raising finance	270,000	-
	<u>270,000</u>	<u>-</u>

4. Exceptional item

	2007	2006
	£	£
An exceptional loss was realised by virtue of the disposal of HF1020 (including related purchased goodwill, Intellectual Property and know how) transferred to Trident Pharmaceuticals, Inc in return for 17% investment in Trident (see note 10)	-	1,803,160
	<u>-</u>	<u>1,803,160</u>

5. Staff costs

(a) Staff costs

	2007	2006
	£	£
Wages and salaries	1,394,583	1,379,961
Social security costs	102,805	99,926
Other pension costs	43,218	27,358
	<u>1,540,606</u>	<u>1,507,245</u>

Included in wages and salaries is a total expense of share-based payments of £409,419 (2006 - £412,680) which arises from transactions accounted for as equity-settled share-based payment transactions

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

	2007	2006
	No	No
Administration	8	8
Research and development	6	6
	<u>14</u>	<u>14</u>

Notes to the financial statements

at 31 December 2007

5. Staff costs (continued)

(b) Directors' emoluments

	2007 £	2006 £
Directors' emoluments (excluding charges under FRS 20)	663,087	685,414
Company contributions paid to money purchase pension scheme	23,124	6,768
Number of directors accruing benefits under Defined Contribution Scheme	3	1

Emoluments payable to the highest paid director are as follows

	2007 £	2006 £
Aggregate emoluments (excluding charges under FRS 20)	152,500	158,870
Company contributions paid to money purchase scheme	2,820	-

6. Interest payable and similar charges

	2007 £	2006 £
Bank loans and overdrafts	830	7,337
Other loan	149,974	169,401
Amortisation of issue costs of other loan	21,130	15,848
	171,934	192,586

7. Tax on loss on ordinary activities

(a) UK corporation tax credit

	2007 £	2006 £
UK corporation tax recovered on results of the year	159,047	197,162
Adjustment in respect of previous year	-	-
	159,047	197,162

Notes to the financial statements

at 31 December 2007

7. Tax on loss on ordinary activities (continued)

(b) 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

The differences are explained below

	2007 £	2006 £
Loss on ordinary activities before tax	3,329,571	5,470,018
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 - 30%)	998,871	1,641,005
<i>Effect of:</i>		
Disallowable expense	(87,906)	(835)
Goodwill amortisation	-	(687,934)
Other timing differences	(1,598)	4,200
R&D tax credits – current year	(139,166)	(49,256)
Tax losses	(467,373)	(564,217)
Other	-	3,214
FRS 20	(143,781)	(149,015)
Taxation credit (note 7(a))	159,047	197,162

There is an unrecognised deferred tax asset of £3,324,587 (2006 - £3,094,749). The asset arises predominantly on trading losses, which are available to carry forward. The asset is recoverable against future profits of the same trade.

8. Loss attributable to members of the parent company

The loss dealt within the financial statements of the parent company was £3,170,447 (2006 - £3,479,959)

Notes to the financial statements

at 31 December 2007

9. Tangible fixed assets

Group and Company

*Plant and machinery
& computer equipment*
£

Cost:

At 1 January 2007

88,937

Additions

312

At 31 December 2007

89,249

Depreciation:

At 1 January 2007

35,314

Charge for the year

10,724

At 31 December 2007

46,038

Net book value.

At 31 December 2007

43,211

At 31 December 2006

53,623

10. Investment

Group

*Unlisted
investments*
£

Cost:

At 1 January 2007 and at 31 December 2007

2,293,113

Amounts provided:

At 1 January 2007 and at 31 December 2007

1,803,160

Net book value:

At 31 December 2007 and at 31 December 2006

489,953

The group disposed of HF1020 in return for 17% of the shares of Trident Pharmaceuticals Inc. The cost of investment shown above is equal to the carrying value of goodwill related to HF1020 immediately prior to disposal. This has been written down to its carrying amount of £489,953, based on the \$6m initially contributed by other investors to Trident.

Notes to the financial statements

at 31 December 2007

10. Investment (continued)

Company

	<i>Subsidiary undertakings £</i>
Cost:	
At 1 January 2007	182,651
Disposals	(122,551)
At 31 December 2007	60,100
Amounts provided:	
At 1 January 2007	182,651
Disposals	(122,551)
At 31 December 2007	60,100
Net book value:	
At 31 December 2007	-
At 31 December 2006	-

The following information relates to the company's subsidiary undertaking

<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>
Hunter Oncology Ltd	Northern Ireland	Ordinary shares	80%	Research and development relating to oncology

Another subsidiary, Aegis Pharmaceuticals Limited was struck off during the year

11. Debtors

Group

	<i>2007 £</i>	<i>2006 £</i>
Taxation recoverable	158,912	197,027
Other debtors	38,699	90,635
Prepayments	45,580	108,574
	243,191	396,236

Notes to the financial statements

at 31 December 2007

11. Debtors (continued)

Company

	2007	2006
	£	£
Taxation recoverable	158,912	197,027
Other debtors	38,699	90,635
Prepayments	45,580	108,574
	<u>243,191</u>	<u>396,236</u>

12. Creditors: amounts falling due within one year

Group

	2007	2006
	£	£
Bank loans and overdrafts	243,146	-
Other loans (2006 net of issue costs)	713,162	628,908
Trade creditors	323,402	218,433
Other taxes and social security costs	36,320	36,503
Accruals	311,998	31,136
	<u>1,628,028</u>	<u>914,980</u>

Company

	2007	2006
	£	£
Bank loans and overdrafts	243,146	-
Other loans (2006 net of issue costs)	713,162	628,908
Trade creditors	322,621	217,672
Other taxes and social security costs	36,320	36,503
Accruals	309,987	29,130
	<u>1,625,236</u>	<u>912,213</u>

The bank overdraft is secured by a fixed and floating charge over the assets of the company

13. Creditors: amounts falling due after more than one year

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Loans	<u>126,042</u>	<u>839,204</u>	<u>126,042</u>	<u>839,204</u>

Notes to the financial statements

at 31 December 2007

14. Loans

	2007	Group 2006	2007	Company 2006
	£	£	£	£
Amounts falling due:				
in one year or less	734,292	650,038	734,292	650,038
in more than one year but not more than two years	131,321	734,293	131,321	734,293
in more than two years but not more than five years	-	131,321	-	131,321
in more than five years	-	-	-	-
	865,613	1,515,652	865,613	1,515,652
Less: unamortised issue costs	26,409	47,540	26,409	47,540
	839,204	1,468,112	839,204	1,468,112
Less: included in creditors' amounts falling due within one year	713,162	628,908	713,162	628,908
	126,042	839,204	126,042	839,204

Group and Company

The other loans of £865,613 (2006 - £1,515,652) are secured by a fixed and floating charge over the assets of the company

Notes to the financial statements

at 31 December 2007

15. Share capital

	2007		2006	
	No	£	No	£
<i>Authorised.</i>				
1p 'A' Ordinary shares	-	-	-	-
1p 'B' Ordinary shares	25,000,000	250,000	25,000,000	250,000
1p Ordinary shares	25,000,000	250,000	25,000,000	250,000
Convertible Preferred 1p 'B' Ordinary shares	-	-	-	-
	<u>50,000,000</u>	<u>500,000</u>	<u>50,000,000</u>	<u>500,000</u>
	2007		2006	
	No	£	No	£
<i>Allotted, called up and fully paid</i>				
1p 'A' Ordinary shares	-	-	-	-
1p 'B' Ordinary shares	5,199,206	51,993	5,199,206	51,993
1p Ordinary shares	8,792,079	87,920	8,792,079	87,920
Convertible Preferred 1p 'B' Ordinary shares	-	-	-	-
	<u>13,991,285</u>	<u>139,913</u>	<u>13,991,285</u>	<u>139,913</u>

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

Notes to the financial statements

at 31 December 2007

15. Share capital (continued)

Share option schemes

Following the fundraising in 2000 the company is obliged to grant 137,362 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. The contingent rights were exercised during the period to 30 June 2006.

As part of the fundraising in 2006, an option deed has been made with ETV Capital (Jersey) Limited granting to them an option to subscribe for the Option Shares (number of new preferred shares) for £250,000 for all of the Option Shares. The number of such shares will be driven by the new issue price (which means the lowest price of any New Preferred Shares issued by the company pursuant to the Next Fundraising). The option period is for 10 years and runs to 20 March 2016. The option is exercisable at any time during the option period (conditional always on the completion of a Next Fundraising).

A number of the share options granted have been granted under an EMI scheme. As at 31 December 2007, in addition to the items documented above, the following share options are outstanding.

14,000 options to subscribe for ordinary shares of 1p each at an exercise price of 90p per share exercisable at any time between 8 August 2006 and 20 March 2011

167,500 options to subscribe for ordinary shares of 1p each at an exercise price of 70p per share exercisable between 28 November 2002 (the date of the grant) and 28 November 2012. It should be noted that the proportion of these options which become exercisable is as follows:

35% on the date of the grant

65% on the first anniversary of the date of the grant

85% on the second anniversary of the date of the grant

100% on the third anniversary of the date of the grant

18,000 options to subscribe for ordinary shares of 1p each at an exercise price of 70p per share exercisable between 30 April 2003 (the date of the grant) and 30 April 2013. It should be noted that the proportion of these options which become exercisable is as follows:

25% on the date of the grant

50% on the first anniversary of the date of the grant

75% on the second anniversary of the date of the grant

100% on the third anniversary of the date of the grant

25,500 options to subscribe for ordinary shares of 1p each at an exercise price of 70p per share exercisable between 30 April 2003 (the date of the grant) and 30 April 2013. It should be noted that the proportion of these options which become exercisable is as follows:

25% on the first anniversary of the date of the grant

50% on the second anniversary of the date of the grant

75% on the third anniversary of the date of the grant

100% on the fourth anniversary of the date of the grant

Notes to the financial statements

at 31 December 2007

15. Share capital (continued)

17,000 options to subscribe for ordinary shares of 1p each at an exercise price of 70p per share exercisable between 24 March 2004 (the date of the grant) and 24 March 2014. It should be noted that the proportion of these options which become exercisable is as follows:

25% on the first anniversary of the date of the grant

50% on the second anniversary of the date of the grant

75% on the third anniversary of the date of the grant

100% on the fourth anniversary of the date of the grant

12,500 options to subscribe for ordinary shares of 1p each at an exercise price of 70p per share exercisable between 30 March 2004 (the date of the grant) and 30 March 2014. It should be noted that the proportion of these options which become exercisable is as follows:

19,000 options to subscribe for ordinary shares of 1p each at an exercise price of 90p per share exercisable between 26 April 2006 (the date of the grant) and 26 April 2016. It should be noted that the proportion of these options which become exercisable is as follows:

25% on the first anniversary of the date of the grant

50% on the second anniversary of the date of the grant

75% on the third anniversary of the date of the grant

100% on the fourth anniversary of the date of the grant

100,000 options to subscribe for ordinary shares of 1p each at an exercise price of £1.755 per share exercisable between 1 May 2006 and 20 March 2011.

100,000 options to subscribe for ordinary shares of 1p each at an exercise price of £1.755 per share exercisable between the period when notice is given to the option holder of an impending sale or a listing and the completion of that sale or listing.

45,720 options to subscribe for ordinary shares of 1p each at an exercise price of 90p per share exercisable between 28 July 2006 and 28 July 2016.

140,000 options to subscribe for ordinary shares of 1p each at an exercise price of 90p per share exercisable between 6 November 2006 and 6 November 2016.

140,000 options to subscribe for ordinary shares of 1p each at an exercise price of 90p per share exercisable between the period when notice is given to the option holder of an impending sale, listing or a further fund raising and the completion of that sale, listing or further fund raising. Failing the completion of the aforementioned events the option will lapse on 6 November 2016.

140,000 options to subscribe for ordinary shares of 1p each at an exercise price of 90p per share exercisable 12 months after the completion of a listing or further fund raising. Failing the completion of the aforementioned events the option will lapse on 6 November 2016.

15,000 options to subscribe for ordinary shares of 1p each at an exercise price of 90p per share exercisable between 31 January 2007 (the date of the grant) and 31 January 2017. It should be noted that the proportion of these options which become exercisable is as follows:

25% on the first anniversary of the date of the grant

50% on the second anniversary of the date of the grant

75% on the third anniversary of the date of the grant

100% on the fourth anniversary of the date of the grant

Notes to the financial statements

at 31 December 2007

15. Share capital (continued)

28,500 options to subscribe for ordinary shares of 1p each at an exercise price of 90p per share exercisable between 26 July 2007 (the date of the grant) and 26 July 2017. It should be noted that the proportion of these options which become exercisable is as follows

25% on the first anniversary of the date of the grant

50% on the second anniversary of the date of the grant

75% on the third anniversary of the date of the grant

100% on the fourth anniversary of the date of the grant

Warrants

As part of the fundraising in 2006, a warrant instrument was made with ETV Capital (Jersey) Limited, constituting warrants to subscribe for warrant shares in Hunter-Fleming Ltd

The options are exercisable at the later of any time before 20 March 2016, and the fifth anniversary of a Listing. The number of options and their exercise price are determined by a formula. This is currently estimated to be 89,000 options at £1.755

On 26 April 2006, a warrant was granted to Seymour Pierce Limited to subscribe for 39,610 Ordinary shares of 1p each at an exercise price of £1.755 per share exercisable at any time within the period from the date of the deed to 20 March 2009

16. 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 2006	102,559	12,927,179	1,774,618	1,370,385	(15,153,753)	1,020,988
Retained loss	-	-	-	-	(5,272,232)	(5,272,232)
Other movements						
- proceeds from issue of shares net of issue costs of £337,586	33,129	5,443,400	-	-	-	5,476,529
- issuing of shares to be issued	4,225	-	(4,225)	-	-	-
Reserve credit for share-based payments	-	-	-	-	496,718	496,718
At 1 January 2007	139,913	18,370,579	1,770,393	1,370,385	(19,929,267)	1,722,003
Retained loss	-	-	-	-	(3,170,509)	(3,170,509)
Reserve credit for share-based payments	-	-	-	-	479,273	479,273
	139,913	18,370,579	1,770,393	1,370,385	(22,620,503)	(969,233)

Notes to the financial statements

at 31 December 2007

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

Company

	Share capital £	Share premium £	Shares to be issued £	Other reserves £	Profit and loss account £	Total £
At 1 January 2006	102,559	12,927,179	4,225	-	(14,300,710)	(1,266,747)
Retained loss	-	-	-	-	(3,479,959)	(3,479,959)
Other movements						
- proceeds from issue of shares net of issue costs of £337,586	33,129	5,443,000	-	-	-	5,476,529
- issuing of shares to be issued	4,225	-	(4,225)	-	-	-
Reserve credit for share-based payments	-	-	-	-	496,718	496,718
At 1 January 2007	139,913	18,370,579	-	-	(17,283,951)	1,226,541
Retained loss	-	-	-	-	(3,170,447)	(3,170,447)
Reserve credit for share-based payments	-	-	-	-	479,273	479,273
	139,913	18,370,579	-	-	(19,975,125)	(1,464,633)

17. Other financial commitments

At 31 December 2007 the company had commitments under operating leases as set out below

	Land and buildings	
	2007	2006
	£	£
Operating leases which expire:		
- within one year	9,370	78,246

At 31 December 2007 the company had committed to research and development expenditure of £842,986 (2006 - £435,557)

Notes to the financial statements

at 31 December 2007

18. Share-based payments

The employee share option arrangements in place are described in more detail in note 15

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2007 is £409,419 (2006 - £412,680). The portion of the total share-based payment charge arising from equity-settled share-based payment transactions is £69,854 (2006 - £84,038)

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year

	2007 No	2007 WAEP	2006 No	2006 WAEP
Outstanding as at 1 January (*)	1,362,940	£1 12	535,610	£0 70
Granted during the year	43,500	£0 90	827,330	£1 24
Forfeited during the year	-	-	-	-
Exercised	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at 31 December (*)	1,406,440	£1 11	1,362,940	£1 12
Exercisable at 31 December	532,845	£0 97	519,095	£0 98

(*) Included within this balance are options over 295,110 (2006 - 295,110) shares that have not been recognised in accordance with FRS 20 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with FRS 20. These shares are excluded from the weighted average exercise prices shown above.

For the share options outstanding as at 31 December 2007, the weighted average remaining contractual life is 6.96 years (2006 - 7.85 years).

The weighted average fair value of options granted during the year was £1.36 (2006 - £1.27 granted). The range of exercise prices for options outstanding at the end of the year was £0.70 - £1.76 (2006 £0.70 - £1.76).

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2007 and 31 December 2006

	2007	2006
Dividend yield (%)	Nil	Nil
Expected share price volatility (%)	70	70
Risk-free interest rate (%)	4.47 - 4.72	4.14 - 4.40
Expected life of option (years)	6	6
Weighted average share price (£)	1.76	1.76

The expected life of the options is based on historical sector data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility in the sector is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of options grant were incorporated into the measurement of fair value.

Notes to the financial statements

at 31 December 2007

19. Related parties

During the year an overpayment of £6,247 was made to G Vardey, a director of the company, the balance outstanding at the year end was £1,249 (2006 £Nil) This amount was repaid in January 2008.