

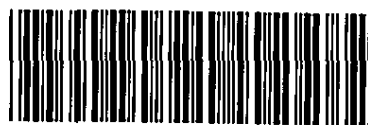
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Hunter-Fleming Limited

Report and Financial Statements

31 December 2009

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COMPANIES HOUSE

Hunter-Fleming Limited

Registered No 03720556

Directors

L Benatti
S Weber

Auditors

Ernst & Young LLP
One Bridewell Street
Bristol
BS1 2AA

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

Grosvenor House
1 New Road
Brixham
Devon
TQ5 8LZ

Directors' report

The directors present their report and financial statements for the year ended 31 December 2009

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.

A decision was made by the company's parent on 17th December 2009 to scale down the UK activities of the company and to shelve further activities.

The whole of the company's shares continue to be held by Newron Pharmaceuticals S p A.

During the year the company's activities exposed it to a variety of risks and uncertainties being market risk, credit risk and liquidity risk.

Market Risk - The company operates internationally and is exposed to foreign exchange risk arising from various exposures, primarily with respect to the Swiss franc, Euro and US dollar.

Credit Risk - Credit risk exists as the company is reliant on the parent company for funding in order to continue operations. The parent company is exposed to the possibility of credit risk as its receivables are related to only one partner which directly impacts on the subsidiary.

Liquidity Risk - The principal source of liquidity is the cash injections from the parent company and thus risk exists in the ability of the parent company to maintain adequate cash reserves to advance to the company in order to sustain activities in the medium-long term.

The retained loss for the year amounts to £1,359,674 (2008: £4,199,498). The directors do not recommend the payment of a dividend.

Directors

The directors who served during the year ended 31 December 2009 are as 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.

Re-appointment of auditors

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

Directors' report

Going Concern

The company's business activities, together with the factors likely to affect its future development, its financial position and the principle risks and uncertainties are described above

The company is a wholly owned subsidiary of Newron Pharmaceuticals S p A. Newron Pharmaceuticals S p A have confirmed that they will continue to provide financial support to the company for a period of at least 12 months from the date of these financial statements

The directors, having reviewed the financial plans of Newron Pharmaceuticals S p A, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Newron Pharmaceuticals group to continue as a going concern or its ability to continue with current loan arrangements

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

On behalf of the Board



Stefan Weber

Director

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the directors' report and financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 Companies Act 2006. 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.

Independent auditor's report

to the members of Hunter-Fleming Limited

We have audited the financial statements of Hunter-Fleming Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

Independent auditor's report

to the members of Hunter-Fleming Limited

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

Ernst & Young LLP

Jane Barwell (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol

27 September 2010

Profit and loss account

For the year ended 31 December 2009

	Notes	2009 £	2008 £
Income		-	3,215
Research and development expenditure		(389,453)	(1,999,432)
Administrative expenses		(819,770)	(1,151,768)
Operating loss	2	(1,209,223)	(3,147,985)
Loss on ordinary activities before interest and taxation		(1,209,223)	(3,187,985)
Restructuring costs	3	(169,916)	(1,291,877)
Interest receivable		1,085	6,624
Interest payable	5	(15,791)	(121,164)
Loss on ordinary activities before taxation		(1,393,845)	(4,554,402)
Tax on loss on ordinary activities	6	34,171	354,904
Loss on ordinary activities after taxation		(1,359,674)	(4,199,498)
Retained loss for the year	13	(1,359,674)	(4,199,498)

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 £1,359,674 for the year (2008 loss of £4,199,498) and therefore no separate statement of total recognised gains and losses has been presented

Balance sheet

As at 31 December 2009

	Notes	2009 £	2008 £
Fixed assets			
Tangible assets	7	5,656	37,574
Investments	8	-	-
		<u>5,656</u>	<u>37,574</u>
Current assets			
Debtors	9	193,316	537,881
Cash at bank and in hand		228,782	476,493
		<u>422,098</u>	<u>1,014,374</u>
Creditors: amounts falling due within one year	10	(390,570)	(1,005,090)
		<u>31,528</u>	<u>9,284</u>
Net current assets			
		37,184	46,858
Total assets less current liabilities			
Creditors amounts falling due after more than one year	11	(1,350,000)	(5,615,251)
		<u>(1,312,816)</u>	<u>(5,568,393)</u>
Total liabilities			
Capital and reserves			
Called up share capital	12	220,327	139,913
Share premium	13	23,905,416	18,370,579
Profit and loss account	13	(25,438,559)	(24,078,885)
		<u>(1,312,816)</u>	<u>(5,568,393)</u>
Total equity shareholders' deficit			

Approved by the Board on 21 Sept '10 and signed on its behalf by -


Mr Stefan Weber
Director

Notes to the financial statements

At 31 December 2009

1. Accounting policies

Fundamental accounting policies

The accounts have been prepared under the going concern basis because the parent company has agreed not to recall amounts advanced to the company (which at 31st December 2009 amounted to £1,350,000) in preference to third party creditors and to provide adequate funds for the company to meet its liabilities as they fall due

Basis of preparation

The financial statements have been prepared under the historical cost convention

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

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. These payments are continuing to be made over the notice period

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 2009

1. 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 company 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 2009

2. Operating loss

	2009	2008
	£	£
Rentals – land and buildings	95,454	115,796
Depreciation of owned fixed assets	7,178	8,239
Auditors' remuneration	30,366	41,000
Loss on disposal of assets	27,215	-

3. Restructuring costs

	2009	2008
	£	£
Legal and professional costs	-	106,975
Staff notice and compensation payments	169,916	861,411
Stock option charge	-	323,491
	169,916	1,291,877

4. Staff costs

(a) Staff costs

	2009	2008
	£	£
Wages and salaries	453,504	1,505,348
Social security costs	40,997	146,528
Other pension costs	46,926	31,737
	541,427	1,683,613

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

	2009	2008
	No	No
Administration and patent	2	3
Research and development	4	5
	6	8

Notes to the financial statements

At 31 December 2009

4. Staff costs (continued)

(b) Directors' emoluments

	2009	2008
	£	£
Directors' emoluments	-	401,381
Compensation for loss of office (including compensation re share options)	-	923,362
	<u> </u>	<u> </u>
Company contributions paid to money purchase pension scheme	-	14,852
	<u> </u>	<u> </u>
	<i>No</i>	<i>No</i>
Number of directors accruing benefits under Defined Contribution Scheme	-	3
	<u> </u>	<u> </u>
Emoluments payable to the highest paid director are as follows		
	£	£
Aggregate emoluments	-	90,780
Compensation for loss of office (including compensation re share options)	-	250,189
	<u> </u>	<u> </u>
Company contributions paid to money purchase pension scheme	-	4,700
	<u> </u>	<u> </u>

No compensation was paid to the serving directors of the company during the year as they were all remunerated by the parent company

5. Interest payable and similar charges

	2009	2008
	£	£
Bank loans and overdrafts	-	13,346
Other loans	15,791	86,688
Amortisation of issue costs of other loan	-	21,130
	<u>15,791</u>	<u>121,164</u>
	<u> </u>	<u> </u>

6. Tax on loss on ordinary activities

	2009	2008
	£	£
UK corporation tax credit.		
UK corporation tax recovered on results of the year	24,260	354,904
Adjustment in respect of previous year	9,911	-
	<u>34,171</u>	<u>354,904</u>
	<u> </u>	<u> </u>

Notes to the financial statements

At 31 December 2009

6. Tax on loss on ordinary activities (continued)

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

	2009 £	2008 £
Loss on ordinary activities before tax	1,393,845	4,554,402
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 28%)	390,277	1,275,232
Effect of		
Disallowable expense	-	(167)
Other timing differences	(7,620)	(618)
R&D tax credits – current year	(24,260)	(266,178)
Tax losses	(313,055)	(533,911)
FRS 20	-	(90,577)
Other	(1,260)	(28,877)
Adjustments in respect of prior years	(9,911)	-
	34,171	354,904

There is an unrecognised deferred tax asset of £4,286,318 (2008 £3,949,075) 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. Tangible fixed assets

	<i>Plant, machinery, computer equipment & improvements</i> £
Cost	
At 1 January 2009	87,277
Additions	2,475
Disposals	(64,155)
At 31 December 2009	25,597
Depreciation	
At 1 January 2009	49,703
Charge for the year	7,178
Disposals	(36,940)
At 31 December 2009	19,941
Net book value	
At 31 December 2009	5,656

Notes to the financial statements

At 31 December 2009

At 31 December 2008

37,574

8. Investment

In 2006 the group disposed of HF 1020 in return for 17% of the shares of Trident Pharmaceuticals Inc
The cost of the investment was nil to the company

9. Debtors

	2009 £	2008 £
Taxation recoverable	87,871	354,904
Other debtors	33,915	74,673
Prepayments	71,530	108,304
	<u>193,316</u>	<u>537,881</u>

10. Creditors: amounts falling due within one year

	2009 £	2008 £
Other loans (net of issue costs)	-	334,450
Trade creditors	149,857	246,601
Other taxes and social security costs	38,412	8,451
Accruals and other creditors	202,301	415,588
	<u>390,570</u>	<u>1,005,090</u>

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

	2009 £	2008 £
Loans due to parent company	1,350,000	5,615,251
	<u>1,350,000</u>	<u>5,615,251</u>

12. Share capital

	2009		2008	
	No	£	No	£
<i>Authorised</i>				
1p 'A' Ordinary shares	-	-	-	-
1p 'B' Ordinary shares	-	-	-	-
1p Ordinary shares	50,000,000	500,000	50,000,000	500,000
	<u>50,000,000</u>	<u>500,000</u>	<u>50,000,000</u>	<u>500,000</u>

Notes to the financial statements

At 31 December 2009

12. Share capital (continued)

	2009		2008	
	No	£	No	£
<i>Allotted, called up and fully paid</i>				
1p 'A' Ordinary shares	-	-	-	-
1p Ordinary shares	22,032,716	220,327	13,991,285	139,913
	<u>22,032,716</u>	<u>220,327</u>	<u>13,991,285</u>	<u>139,913</u>

During the year there was a further equity share capital subscription to Newron Pharmaceuticals S p A which represented the balance of payable that was outstanding at 31 December 2008

13. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Share premium</i>	<i>Profit and loss account</i>	<i>Total</i>
	£	£	£	£
At 1 January 2008	139,913	18,370,579	(19,975,125)	(1,464,633)
Share issue	-	-	-	-
Retained loss	-	-	(4,199,498)	(4,199,498)
Reserve credit for share-based payments	-	-	95,738	95,738
At 1 January 2009	<u>139,913</u>	<u>18,370,579</u>	<u>(24,078,885)</u>	<u>(5,568,393)</u>
Retained loss	-	-	(1,359,674)	(1,359,674)
Share issue	80,414	5,534,837	-	5,615,251
At 31 December 2009	<u>220,327</u>	<u>23,905,416</u>	<u>(25,438,559)</u>	<u>(1,312,816)</u>

14. Other financial commitments

At 31 December 2009 the company had commitments under operating leases as set out below

	<i>Land and buildings</i>	
	2009	2008
	£	£
<i>Operating leases which expire</i>		
- within one year	<u>7,585</u>	<u>9,782</u>

15. Related parties

The company is exempt from disclosing transactions with group companies under FRS8

There were no other material transactions in the period

Notes to the financial statements

At 31 December 2009

16. Share-based payments

No share based payments were made in the year and none were provided for at the balance sheet date

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2008 is £310,185 (2007 £409,419). The portion of the total share-based payment charge arising from equity-settled share-based payment transactions is £13,306 (2007 £69,854). The total expense reflects both the acceleration of the cumulative charge due to cancellation of the options during the year, and an apportionment of the cash consideration paid to option holders, in excess of the fair value of the options at cancellation date. The balance of the cash consideration paid has been charged against reserves.

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

	2008 No	2008 WAEP	2007 No	2007 WAEP
Outstanding as at 1 January (*)	1,406,440	£1 12	1,362,940	£1 12
Granted during the year	-	-	43,500	£0 90
Cancelled during the year	(1,406,440)	-	-	-
Outstanding at 31 December	-	-	1,406,440	£1 11
Exercisable at 31 December	-	-	532,845	£0 97

(*) Included within this balance were options over 295,110 (2007 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.

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 2008 and 31 December 2007.

	2008	2007
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 was 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 2009

16. Share-based payments (continued)

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

	2009 No	2009 WAEP	2008 No	2008 WAEP
Outstanding as at 1 January (*)	-	-	1,406,440	£1 12
Granted during the year	-	-	-	-
Cancelled during the year	-	-	(1,406,440)	-
Outstanding at 31 December	-	-	-	-
Exercisable at 31 December	-	-	-	-

(*) Included within this balance were options over 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.

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 2009 and 31 December 2008.

	2009	2008
Dividend yield (%)	Nil	Nil
Expected share price volatility (%)	Nil	70
Risk-free interest rate (%)	Nil	4.47 – 4.72
Expected life of option (years)	Nil	6
Weighted average share price (£)	Nil	1.76

The expected life of the options in the 2008 year was 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.

17. Parent undertaking

The parent undertaking is Newron Pharmaceuticals S.p.A., a company incorporated in Italy and quoted on the Swiss stock exchange. The group financial statements are publicly available.