

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £'000	2004 £'000
Revenue	1	824	502
Research and development costs		(9,327)	(9,013)
Administrative expenses		(2,865)	(4,359)
Other operating income: grants receivable		135	364
Operating loss		(11,233)	(12,506)
Analysed as:			
Operating loss before exceptional item		(11,233)	(10,938)
Exceptional administrative expense		-	(1,568)
Operating loss		(11,233)	(12,506)
Interest payable and similar charges	3	(31)	(13)
Interest receivable	3	969	1,171
Loss before tax	1,4	(10,295)	(11,348)
Taxation	5	1,210	884
Loss for the financial year	21	(9,085)	(10,464)
Basic loss and diluted loss per ordinary share	6	(2.4p)	(2.8p)

The results for the years above are derived entirely from continuing operations.

There is no difference between the loss before tax and the loss for the years stated above, and their historical cost equivalents.

BALANCE SHEETS

AT 31 DECEMBER 2005

	Notes	Group		Company	
		2005 £'000	2004 £'000	2005 £'000	2004 £'000
Assets					
Non-current assets					
Intangible assets	8	1,641	1,627	-	-
Property, plant and equipment	9	831	1,237	-	-
Financial assets: Investments in subsidiaries	10	-	-	101,535	72,544
		2,472	2,864	101,535	72,544
Current assets					
Trade and other receivables	11	1,777	1,618	23	15
Current tax assets		1,175	1,685	-	-
Financial assets: Available for sale investments	12	23,500	17,500	-	-
Cash and cash equivalents	12	20,317	4,917	1	-
		46,769	25,720	24	15
Current liabilities					
Trade and other payables	13	2,180	1,741	55	49
Current tax liabilities		1	-	-	-
Provisions	14	67	73	-	-
		2,248	1,814	55	49
Net current assets/(liabilities)		44,521	23,906	(31)	(34)
Non-current liabilities					
Provisions	14	393	391	-	-
Net assets		46,600	26,379	101,504	72,510
Shareholders' equity					
Ordinary shares	17	4,984	3,721	4,984	3,721
Share premium	20	106,097	78,309	106,097	78,309
Other reserves	22	84	88	406	147
Retained losses	21	(64,565)	(55,739)	(9,983)	(9,667)
Total equity		46,600	26,379	101,504	72,510

The financial statements on pages 48 to 70 were approved by the Board of Directors on 15 March 2006 and were signed on its behalf by:

Professor A J Kingsman
Chief Executive Officer

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Group		Company	
		2005 £'000	2004 £'000	2005 £'000	2004 £'000
Cash used in operating activities					
Cash used in operations	23	(10,074)	(10,753)	(321)	(130)
Interest received		1,040	1,109	11	-
Interest paid		(11)	(13)	-	-
Tax credit received		1,786	400	-	-
Overseas tax paid		(65)	-	-	-
Net cash used in operating activities		(7,324)	(9,257)	(310)	(130)
Cash flows from investing activities					
Loan to subsidiary		-	-	(28,732)	(151)
Proceeds from sale of property, plant and equipment		-	110	-	-
Purchases of property, plant and equipment		(327)	(316)	-	-
Purchases of intangible assets		(14)	(229)	-	-
Net (purchase)/maturity of available for sale investments		(6,000)	5,650	-	-
Net cash (used in)/generated by investing activities		(6,341)	5,215	(28,732)	(151)
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		29,043	281	29,043	281
Effects of exchange rate changes		22	(8)	-	-
Net increase/(decrease) in cash and cash equivalents		15,400	(3,769)	1	-
Cash and cash equivalents at 1 January		4,917	8,686	-	-
Cash and cash equivalents at 31 December	12	20,317	4,917	1	-

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Notes	Share capital £'000	Share premium £'000	Translation reserve £'000	Merger reserve £'000	Retained losses £'000	Total £'000
At 1 January 2004		3,703	78,045	(576)	711	(45,400)	36,483
Exchange adjustments		-	-	(47)	-	-	(47)
Loss for the year		-	-	-	-	(10,464)	(10,464)
Share options							
Proceeds from shares issued	17, 20	11	179	-	-	-	190
Value of employee services	19	-	-	-	-	125	125
Issue of shares excl. options	17, 20	7	104	-	-	-	111
Costs of share issues	20	-	(19)	-	-	-	(19)
At 31 December 2004		3,721	78,309	(623)	711	(55,739)	26,379
Exchange adjustments		-	-	(4)	-	-	(4)
Loss for the year		-	-	-	-	(9,085)	(9,085)
Share options							
Proceeds from shares issued	17, 20	60	978	-	-	-	1,038
Value of employee services	19	-	-	-	-	259	259
Issue of shares excl. options	17, 20	1,203	28,879	-	-	-	30,082
Costs of share issues	20	-	(2,069)	-	-	-	(2,069)
At 31 December 2005		4,984	106,097	(627)	711	(64,565)	46,600

Company	Notes	Share capital £'000	Share premium £'000	Other reserve £'000	Retained losses £'000	Total £'000
At 1 January 2004		3,703	78,045	22	(9,539)	72,231
Loss for the year		-	-	-	(128)	(128)
Share options:						
Proceeds from shares issued	17, 20	11	179	-	-	190
Credit in relation to employee share schemes	22	-	-	125	-	125
Issue of shares excluding options	17, 20	7	104	-	-	111
Costs of share issues	20	-	(19)	-	-	(19)
At 31 December 2004		3,721	78,309	147	(9,667)	72,510
Loss for the year		-	-	-	(316)	(316)
Share options:						
Proceeds from shares issued	17, 20	60	978	-	-	1,038
Credit in relation to employee share schemes	22	-	-	259	-	259
Issue of shares excluding options	17, 20	1,203	28,879	-	-	30,082
Costs of share issues	20	-	(2,069)	-	-	(2,069)
At 31 December 2005		4,984	106,097	406	(9,983)	101,504

ACCOUNTING POLICIES

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2005

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and International Financial Reporting Interpretations Committee ('IFRIC') interpretations endorsed by the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements are prepared in accordance with the historical cost convention as modified by revaluation of available for sale investments. Financial information relating to the year ended 31 December 2004 has been restated in accordance with IFRS and the accounting policies set out below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

TRANSITIONAL ARRANGEMENTS

The Group is required to establish its IFRS accounting policies for the year ended 31 December 2005 and apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 1 January 2004. IFRS 1 'First-time adoption of International Financial Reporting Standards' sets out the procedure that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group has taken advantage of two optional exemptions under IFRS 1:

- 1) Share-based payments: The Group operates share option schemes, which all of its employees are entitled to participate in. Under IFRS, income statement charges are based on the fair value of equity-settled share-based awards at grant date. The cost is calculated using an option pricing model, and the Group has taken the exemption provided in IFRS 1 which allows the charge to be calculated only in respect of options granted to employees after 7 November 2002 which had not vested by 1 January 2005, amortised over the vesting period of the options.
- 2) Business combinations: The Group and Company have elected not to apply IFRS 3 'Business combinations' retrospectively to business combinations which took place prior to the transition date, namely that the acquisition in 1996 of 100% of the issued share capital of Oxford BioMedica (UK) Limited has been accounted for by the merger accounting method.

An explanation of the impact of how transition from UK GAAP to IFRS has affected the Group's financial position, income statement and cash flows is contained in note 28.

BASIS OF CONSOLIDATION

The consolidated income statement and Group balance sheet include the accounts of the Company and its subsidiary undertakings made up to 31 December. Intra-group sales and profits are eliminated fully on consolidation.

REVENUE

The Group generates revenue as a result of technology licence transactions. Typically, these transactions are structured such that there is an initial upfront non-refundable payment on execution of the licence and the potential for further annual maintenance payments for the term specified in the licence. Where the initial fee paid is non-refundable and there are no ongoing commitments from the Group, and the licence has no fixed end date, the Group recognises the element received up front, as a payment in consideration of the granting of the license, on execution of the contract. Maintenance fees within the contracts are spread over the period to which they relate, usually a year. Amounts recognised exclude value added tax. Differences between cash received and amounts recognised are included as deferred revenue where cash received exceeds revenue recognised and as accrued revenue where revenue has yet to be billed to the customer.

SEGMENTAL REPORTING

The Group has one single business, based upon its proprietary technology, operated out of two geographical locations – Oxford (UK), which is the principal operating site, generating all the revenue, and San Diego (USA), which provides intellectual property management and business development services to the UK subsidiary.

FINANCIAL INSTRUMENTS

The Group and Company's financial instruments comprise investments in subsidiaries and joint ventures, cash and cash equivalents, together with available for sale investments, debtors and creditors arising directly from operations and the onerous lease provision. Cash and cash equivalents comprise cash in hand and short term deposits which have an original maturity of three months or less and are readily convertible into known amounts of cash. Bank deposits with maturity of more than three months at the date of inception are classified as financial assets: available for sale investments, and are carried at their historic purchase price unless there is objective evidence of impairment, in which case they are written down to fair value. Financial instruments are valued at fair value, subject to review for impairment at the balance sheet date.

The Group does not enter into derivative transactions, and it is the Group's policy not to undertake any trading in financial instruments. The Group does not have any committed borrowing facilities, as its cash, cash equivalents and available for sale investments are sufficient to finance its current operations. Cash balances are mainly held on short and medium term deposits with quality financial institutions with a credit rating of at least A, in line with the Group's policy to minimise the risk of loss. The main risks associated with the Group's financial instruments relate to interest rate risk and foreign currency risk. The Group's policy in relation to interest rate risk is to monitor short and medium term interest rates and to place cash on deposit for periods that optimise the amount of interest earned while maintaining access to sufficient funds to meet day to day cash requirements. In relation to foreign currency risk, the Group's policy is to hold the majority of its funds in sterling, and no hedging of foreign currency cash outflows is undertaken. These policies have been applied consistently throughout the periods reported.

LEASES

Assets acquired under leases are reviewed to see if they are finance leases or operating leases, based on the following assumptions:

- If the leases transfer ownership of the assets at the end of the lease
- If they have a bargain purchase option
- If the lease term is for the major part of the economic life of the asset
- If the leased assets are specialised for the lease only

No leases have been classified as finance leases. Costs in respect of operating leases are charged on a straight line basis over the lease term.

ONEROUS LEASE PROVISION

When leasehold properties become redundant or excess space arises in those properties, the Group provides for all costs to the end of the lease or the anticipated date of surrender of the lease, net of anticipated income. Such provisions are then discounted using the UK government zero-coupon bond yield applicable to the term of the cashflows.

PROPERTY PLANT AND EQUIPMENT

Property, plant and equipment are carried at their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of property, plant and equipment less their estimated residual values on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Short leasehold improvements	20 or the remaining lease term if shorter
Computer equipment	33
Office and laboratory equipment, fixtures and fittings	20

INTANGIBLE ASSETS

Intangible fixed assets, relating to intellectual property rights acquired through licensing or assigning patents and know-how are carried at historic cost, less accumulated amortisation, where the useful life of the asset is finite and the asset will probably generate economic benefits exceeding costs. Where a finite useful life of the acquired intangible asset cannot be determined, the asset is not subject to amortisation but is tested annually for impairment. No amortisation has been charged to date, as the products underpinned by the intellectual property rights are not yet available for commercial use.

Expenditure on product development is capitalised as an intangible asset and amortised over the expected useful life of the product concerned. Capitalisation commences from the point at which technical feasibility and commercial viability of the product can be demonstrated and the Group is satisfied that it is probable that future economic benefits will result from the product once completed. Capitalisation ceases when the product receives regulatory approval for launch. No such costs have been capitalised to date.

Expenditure on research activities and development activities that do not meet the above criteria, including ongoing costs associated with acquired intellectual property rights and intellectual property rights generated internally by the Group, is charged to the income statement as incurred.

FINANCIAL ASSETS: INVESTMENTS

Financial assets: investments are carried at cost less any provision made for impairment.

GOVERNMENT AND OTHER GRANTS

Income from Government and other grants is recognised over the period necessary to match them with the related costs which they are intended to compensate, on a systematic basis. This grant income is included as other operating income within the income statement, and the related costs are included within research and development costs and administrative expenses. Where the purchase of property, plant and equipment is supported by a grant, the relevant asset is included in the balance sheet at its full purchase price, and grant income is recognised over the useful life of the asset. The difference between grant income receivable and income recognised is included in accruals and deferred income.

RENTAL INCOME

Rental income from the Group's redundant former R&D facility in San Diego, USA is offset in the income statement against the rent payable under the head lease.

EMPLOYEE BENEFIT COSTS

The Group operates defined contribution pension schemes for its Directors and employees. The assets of the schemes are held in independently administered funds. The pension cost charge recognised in the period represents amounts payable by the Group to the funds.

SHARE BASED PAYMENT

Equity settled share-based payments are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period of the award. At each balance sheet date the Group revises its estimate of the number of options that are expected to become exercisable.

The fair value of share options is measured using a Black-Scholes option pricing model. When share options are exercised the proceeds received are credited to share capital (nominal value) and share premium.

OTHER EMPLOYEE BENEFITS

The expected cost of compensated short term absence (e.g. holidays) is recognised when employees render services that increased their entitlement. Accrual is made for holidays earned but not taken, and prepayments recognised for holidays taken in excess of days earned.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held on call with banks and other short term highly liquid investments with original maturities of three months or less. Bank deposits with original maturities between three months and twelve months are included in current assets and are classified as available for sale financial assets.

CURRENCY TRANSLATION

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transaction. Foreign exchange differences are taken to the income statement in the year in which they arise.

Assets and liabilities of the Company's US subsidiary are translated to sterling at the year-end exchange rate, whilst its statements of income and cash flows are translated at monthly average rates. The translation differences that arise are taken directly to a currency translation account within equity.

TAXATION INCLUDING DEFERRED TAX

The charge for current tax is based on the results for the period, adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group and Company are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

1 SEGMENTAL ANALYSIS

The Group's primary segment reporting is by geographical location of assets, with business sector as the secondary format. Revenue and loss on ordinary activities before taxation are derived entirely from the principal activity, biotechnology research and development. The business segments comprise the Group's UK and US operations. The majority of the Group's activities take place in the UK, with the US subsidiary providing intellectual property management and business development support to the UK operation. Prior to the reorganisation in 2004, research and development activities were also carried out in the USA. Purchases and sales between subsidiaries are eliminated on consolidation.

The segment results for the years ended 31 December 2005 and 31 December 2004 are as follows:

Primary reporting format – geographic	2005			2004		
	United Kingdom £'000	United States of America £'000	Total £'000	United Kingdom £'000	United States of America £'000	Total £'000
Revenue	824	-	824	502	-	502
Segmental operating loss	(10,679)	(554)	(11,233)	(9,926)	(2,580)	(12,506)
Operating loss before exceptional item	(10,679)	(554)	(11,233)	(9,906)	(1,032)	(10,938)
Exceptional administrative expenses	-	-	-	(20)	(1,548)	(1,568)
Operating loss	(10,679)	(554)	(11,233)	(9,926)	(2,580)	(12,506)
Interest cost	(11)	(20)	(31)	-	(13)	(13)
Interest income	968	1	969	1,169	2	1,171
Loss before tax	(9,722)	(573)	(10,295)	(8,757)	(2,591)	(11,348)
Taxation credit/(payable)	1,268	(58)	1,210	885	(1)	884
Loss for the financial year	(8,454)	(631)	(9,085)	(7,872)	(2,592)	(10,464)

Other segmental items included in the income statement are:

Primary reporting format – geographic	2005			2004		
	United Kingdom £'000	United States of America £'000	Total £'000	United Kingdom £'000	United States of America £'000	Total £'000
Depreciation	671	3	674	693	347	1,040
Loss on disposal of property, plant and equipment	33	-	33	34	226	260
Impairment of intangibles	-	-	-	7	-	7
Impairment of fixed asset investments	-	-	-	26	-	26
Employee share based payments	260	(1)	259	122	3	125

The segment assets and liabilities at 31 December 2005 and 31 December 2004, and capital expenditure in the years then ended, are as follows:

Primary reporting format – geographic	2005			2004		
	United Kingdom £'000	United States of America £'000	Total £'000	United Kingdom £'000	United States of America £'000	Total £'000
Segment assets	5,123	301	5,424	5,868	299	6,167
Unallocated assets	-	-	43,817	-	-	22,417
Total liabilities	2,122	519	2,641	1,638	567	2,205
Capital expenditure	299	2	301	334	5	339
Purchase of intangibles	14	-	14	229	-	229

The Group's revenue derives from assets located in the UK. By destination, revenue derives from the UK, other EU states and the USA.

Revenue by destination	2005 £'000	2004 £'000
United Kingdom	-	35
Rest of Europe	53	57
North America	771	410
Total revenue	824	502

2 EMPLOYEES AND DIRECTORS

The average monthly number of persons (including Executive Directors) employed by the Group during the year was:

By activity	2005 Number	2004 Number
Office and management	10	10
Research and development	59	52
Total	69	62

Staff costs (for the above persons)	2005 £'000	2004 £'000
Wages and salaries	3,832	3,590
Social security costs	391	336
Other pension costs	237	201
Total staff costs	4,460	4,127

Key management compensation	2005 £'000	2004 £'000
Salaries and short term employee benefits	1,636	1,555
Post-employment benefits	91	83
Termination benefits	-	124
Share based payments	75	41
Total	1,802	1,803

The key management figures above include Executive and Non-Executive Directors. In respect of Directors' remuneration, the Company has taken advantage of the permission in paragraph 1(6) of schedule 6 to the Companies Act 1985 to omit aggregate information that is capable of being ascertained from the detailed disclosures in the Directors' Remuneration Report on pages 43 to 46, which forms part of these financial statements.

The Company had no employees during the year (2004: nil).

3 INTEREST EXPENSE AND INCOME

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Interest expense:				
Unwinding of discount in lease provision	(20)	(13)	-	-
Other interest paid	(11)	-	-	-
Interest and similar charges payable	(31)	(13)	-	-
Interest income:				
Bank interest receivable	955	1,171	11	-
Other interest receivable	14	-	-	-
Total interest receivable	969	1,171	11	-
Net interest income	938	1,158	11	-

4 LOSS BEFORE TAXATION

	Group	
	2005 £'000	2004 £'000
The following have been included in arriving at operating loss		
Staff costs (note 2)	4,460	4,127
Depreciation of property, plant and equipment (note 9)	674	1,040
Loss on disposal of property, plant and equipment	33	260
Impairment of intangibles (note 8)	-	7
Impairment of fixed asset investment (note 10)	-	26
Repairs and maintenance expenditure on property, plant and equipment	181	174
Other operating lease rentals payable		
- Plant and machinery	16	24
- Property	961	1,026
Redundancy costs	-	227
Net exchange gain/(loss) on foreign currency deposits	24	(14)
Rental income from sublessee	(336)	(64)

Services provided by the Group's auditor

During the year the Group (including its US subsidiary) obtained services from the Group's auditor as detailed below:

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Audit services				
Statutory audit	55	36	34	18
Audit related reporting	22	24	20	15
Tax compliance and advisory services	43	36	-	-
Other services	35	-	33	-
Total	155	96	87	33

In addition to the above costs which are included in the income statement, fees of £131,000 charged to the share premium account were paid to PricewaterhouseCoopers LLP relating to the placing, open offer and subscription in December 2005.

5 TAXATION

The Group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure. The amount included in the financial statements for the year ended 31 December 2005 represents the credit receivable by the Group for the year. These amounts have not yet been agreed with the relevant tax authorities.

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Current tax				
United Kingdom corporation tax research and development credit	(1,175)	(1,000)	-	-
Overseas taxation	43	1	-	-
	(1,132)	(999)	-	-
Prior years' tax adjustments				
United Kingdom corporation tax research and development credit	(101)	115	-	-
Overseas taxation	23	-	-	-
Taxation credit	(1,210)	(884)	-	-

The tax credit for the year is lower (2004: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Loss on ordinary activities before tax	(10,295)	(11,348)	(316)	(128)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	(3,089)	(3,404)	(95)	(38)
Effects of:				
Depreciation for the period in excess of capital allowances and other timing differences	191	538	-	-
Expenses not deductible for tax purposes (permanent differences)	33	63	-	-
R&D relief 50% mark-up on expenses	(734)	(629)	-	-
Difference in rate re R&D tax credits	1,028	875	-	-
Tax deduction for share options in excess of IFRS 2 charge	(141)	18	-	-
Overseas tax	8	7	-	-
Tax losses carried forward to future periods	1,567	1,665	95	38
Tax losses utilised in the year	-	(132)	-	-
Overseas tax rate differences	5	-	-	-
Prior year adjustment	(78)	115	-	-
Current tax credit for the year	(1,210)	(884)	-	-

At 31 December 2005, the Group had tax losses to be carried forward of approximately £43.3 million (2004: £38.4 million) of which £32.0 million has been agreed with the revenue authorities. Of the Group tax losses, £43.3 million (2004: £38.4 million) arose in the United Kingdom.

6 BASIC LOSS AND DILUTED LOSS PER ORDINARY SHARE

The basic loss per share has been calculated by dividing the loss for the year by the weighted average number of shares of 380,914,250 in issue during the year ended 31 December 2005 (2004: 371,457,455).

The Company had no dilutive potential ordinary shares in either year which would serve to increase the loss per ordinary share. There is therefore no difference between the loss per ordinary share and the diluted loss per ordinary share.

7 LOSS FOR THE FINANCIAL YEAR

As permitted by section 230 of the Companies Act 1985, the Company's income statement has not been included in these financial statements. The Company's loss for the financial year was £316,000 (2004: £128,000).

8 INTANGIBLE ASSETS

Group	Intellectual property rights 2005 £'000	Intellectual property rights 2004 £'000
Cost		
At 1 January	1,991	1,762
Additions	14	229
Disposals	(85)	-
At 31 December	1,920	1,991
Accumulated amortisation and impairment		
At 1 January	364	357
Impairment in the year	-	7
Disposals	(85)	-
At 31 December	279	364
Net book amount at 31 December	1,641	1,627

Impairment charges are included within research and development costs in the income statement.

The Company had no intangibles at 31 December 2005 or 31 December 2004.

9 PROPERTY, PLANT AND EQUIPMENT

Group	Short leasehold improvements £'000	Office equipment, fixtures and fittings £'000	Computer equipment £'000	Laboratory equipment £'000	Total £'000
Cost					
At 1 January 2005	2,213	86	308	2,494	5,101
Exchange adjustments	40	-	1	-	41
Additions at cost	17	1	88	195	301
Disposals	-	(1)	(127)	(39)	(167)
At 31 December 2005	2,270	86	270	2,650	5,276
Accumulated depreciation					
At 1 January 2005	1,768	59	267	1,770	3,864
Exchange adjustments	40	-	1	-	41
Charge for the year	285	16	40	333	674
Disposals	-	(1)	(96)	(37)	(134)
At 31 December 2005	2,093	74	212	2,066	4,445
Net book amount at 31 December 2005	177	12	58	584	831
Net book amount at 31 December 2004	445	27	41	724	1,237

The Company had no property, plant and equipment at 31 December 2005 or 31 December 2004.

10 INVESTMENTS

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Fixed asset investments				
Shares in group undertakings				
At 1 January and 31 December	-	-	2,476	2,476
Loans to group undertakings				
At 1 January	-	-	79,036	78,885
Additions in the year	-	-	28,732	151
At 31 December	-	-	107,768	79,036
Impairment				
At 1 January and 31 December	-	-	9,115	9,115
Net book amount at 31 December	-	-	98,653	69,921
Capital contribution in respect of employee share schemes (see note 22)				
At 1 January	-	-	147	22
Additions in the year	-	-	259	125
At 31 December	-	-	406	147
Interests in joint ventures				
Cost: at 1 January and 31 December	26	26	-	-
Impairment				
At 1 January	26	-	-	-
Impairment in the year	-	26	-	-
At 31 December	26	26	-	-
Net book amount at 31 December	-	-	-	-
Total investments	-	-	101,535	72,544

INTERESTS IN SUBSIDIARY UNDERTAKINGS

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held by the Group and Company	Nature of business
Oxford BioMedica (UK) Limited	Great Britain	1p ordinary shares	100%	Gene therapy research and development
BioMedica Inc.	United States of America	\$0.001 common stock	100%	Gene therapy research and development

Both of the above subsidiaries have been consolidated in these financial statements.

At each year end the Directors review the carrying value of the Company's investment in subsidiaries, by reference to the Group's market capitalisation on the London Stock Exchange. Where there is a material and sustained shortfall, the Directors consider this to be a trigger of an impairment review as set out in IAS 36, and the carrying value of the Company's investments in subsidiaries is reduced. The Directors consider that reference to the market capitalisation of the Group is an appropriate external measure of the value of the Group. The Directors considered that no change was required to the impairment provision at 31 December 2005.

INTERESTS IN JOINT VENTURES

The Company's subsidiary Oxford BioMedica (UK) Limited holds 10,000 ordinary shares of 5,000 Won each, representing 50% of the issued share capital of ViroTech Limited, a company incorporated in South Korea. ViroTech Limited's business is gene therapy research and development. To date no significant level of transactions has been entered into. The accounting year-end for ViroTech Limited is 31 December. At 31 December 2005 the share capital and reserves of ViroTech Limited were approximately £71,000 (2004: £61,000). However, as there is currently no agreed business plan for ViroTech Limited, the Directors have written down the Group's investment to zero. Due to the immaterial size of the joint venture it had been included in the Group accounts as a fixed asset investment.

11 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Amounts falling due after more than one year				
Other receivables – rent deposit	205	214	-	-
Amounts falling due within one year				
Trade receivables	119	162	-	-
Other receivables	676	619	11	-
Other tax receivable	242	124	-	-
Prepayments	442	434	12	15
Accrued income	93	65	-	-
	1,572	1,404	23	15
Total trade and other receivables	1,777	1,618	23	15

Non-current receivables are not discounted as the impact of discounting would not be material.

12 CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Cash at bank and in hand	185	40	1	-
Short term bank deposits	20,132	4,877	-	-
Total cash and cash equivalents	20,317	4,917	1	-

In addition to the cash and cash equivalents described above, the Group held bank deposits of £23,500,000 (2004: £17,500,000) with an initial term to maturity between six and twelve months classified as available for sale investments. The Company held no available for sale investments in 2005 or 2004.

13 TRADE AND OTHER PAYABLES - CURRENT

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Trade payables	397	351	-	-
Other taxation and social security	263	219	-	-
Accruals	1,415	1,090	55	49
Deferred income	105	81	-	-
Total trade and other payables	2,180	1,741	55	49

14 PROVISIONS

Group – Onerous lease provision	2005 £'000	2004 £'000
At 1 January	464	-
Exchange adjustments	50	(26)
Charged to the income statement	-	568
Utilised in the year	(74)	(91)
Amortisation of discount	20	13
Total provisions	460	464

	2005 £'000	2004 £'000
Current	67	73
Non-current	393	391
Total provisions	460	464

The onerous lease provision relates to the estimated rental shortfall in respect of a redundant property in San Diego, USA which has been sub-let for the remainder of the lease term until June 2012, discounted at 4.09% per annum (2004: 4.55% per annum). The provision will be utilised over the term of the lease.

The Company had no provisions at 31 December 2005 or 31 December 2004.

15 FINANCIAL INSTRUMENTS

The Group's and Company's financial instruments comprise investments in subsidiaries and joint ventures, cash and cash equivalents, together with available for sale investments, trade and other receivables, trade and other payables, and the onerous lease provision. Additional disclosures are set out in the Corporate Governance Statement relating to risk management.

The Group had the following financial instruments at 31 December each year:

	Assets		Liabilities	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Cash and cash equivalents	20,317	4,917	-	-
Available for sale investments	23,500	17,500	-	-
Trade and other receivables	1,777	1,618	-	-
Trade and other payables	-	-	2,180	1,741
Onerous lease provision	-	-	460	464
	45,594	24,035	2,640	2,205

The weighted average interest rates and average deposit terms for fixed rate deposits are shown below. Floating rate instant access deposits earned interest at prevailing bank rates.

	2005			2004		
	Weighted average rate	Year end deposits Weighted average term	Yr. average Weighted average rate	Weighted average rate	Year end deposits Weighted average term	Yr. average Weighted average rate
Sterling	4.60%	204 days	4.82%	4.88%	272 days	4.51%
Euro	2.38%	31 days	2.15%	2.18%	14 days	2.20%
US dollars	4.25%	31 days	3.31%	2.16%	63 days	1.31%

In accordance with IAS 39 'Financial instruments: Recognition and measurement' the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no such derivatives at 31 December 2005 or 31 December 2004.

FAIR VALUE

The Directors consider that the fair values of the Group's financial instruments do not differ significantly from their book values.

16 DEFERRED TAXATION

Neither the Company nor the Group had any recognised deferred tax assets or liabilities at 31 December 2005 (2004: nil). In light of the Group's continuing losses, recovery of the deferred tax asset is not sufficiently certain, and therefore no asset has been recognised.

Group	Accelerated tax depreciation	Provisions	Tax losses	Share options	Total
Deferred tax assets – not recognised	£'000	£'000	£'000	£'000	£'000
At 1 January 2005	(515)	(235)	(11,626)	(62)	(12,438)
Charged/(credited) to income statement	(207)	24	(1,299)	(115)	(1,597)
Credit in relation to employee share schemes	-	-	-	(37)	(37)
At 31 December 2005	(722)	(211)	(12,925)	(214)	(14,072)
Assets receivable in less than 12 months	-	(11)	-	-	(11)
Assets receivable in 12 months or more	(722)	(200)	(12,925)	(214)	(14,061)

17 CALLED-UP SHARE CAPITAL

Group and Company

	2005	2004
Authorised	£'000	£'000
650,000,000 (2004: 500,000,000) ordinary shares of 1p each	6,500	5,000

	2005	2004
Issued and fully paid	£'000	£'000

Ordinary shares of 1p each

At 1 January – 372,094,163 (2004: 370,306,199) shares	3,721	3,703
Allotted on exercise of share options – 6,016,006 (2004: 1,119,051) shares	60	11
Allotted for cash to licensors of patent rights – nil (2004: 668,913 shares)	-	7
Subscription by collaborative partner – 11,528,041 shares	115	-
Placing and open offer – 108,800,000 shares	1,088	-
At 31 December – 498,438,210 (2004: 372,094,163) shares	4,984	3,721

Between 20 January 2005 and 18 October 2005 the Company issued 6,016,006 ordinary shares of 1p each on the exercise of share options under share option schemes for aggregate cash consideration of £1,038,000. There were no costs in respect of these share issues.

On 12 December 2005 at an extraordinary general meeting, shareholders approved an increase in the authorised share capital from 500,000,000 to 650,000,000 1p ordinary shares.

On 15 December 2005 the Company issued 108,800,000 ordinary shares of 1p each for cash at 25p per share in a placing and open offer. Total proceeds before expenses were £27,200,000. At the same time, the Group's strategic partner Sigma-Aldrich Inc. subscribed cash of £2,882,000 (equivalent to US\$5,000,000) for 11,528,041 ordinary shares of 1p each at 25p per share. Costs for the placing, open offer and subscription, which have been charged to the share premium account, were £2,069,000.

18 OPTIONS OVER SHARES OF OXFORD BIOMEDICA PLC

The Company has two unapproved share option schemes. The Oxford BioMedica 1996 Share Option Plan was established to enable selected individuals who are not employees of the Group to hold options to subscribe for ordinary shares. The Oxford BioMedica 1996 (No.1) Share Option Scheme relates to options granted to Directors and employees. Options have also been granted to individuals (mainly employees of the Company's US subsidiary BioMedica Inc.) under individual option agreements.

Options granted under the Share Option Scheme after 5 April 1999 could give rise to a National Insurance liability on exercise. The Company has obtained undertakings from the holders of all options that could trigger such a liability that the optionholder would pay any secondary National Insurance so arising.

The total number of options over ordinary shares of 1p each that had been granted and had not been exercised or lapsed at 31 December 2005 was as follows:

Options granted to employees (including Directors) under the Oxford BioMedica 1996 (No. 1) Share Option Scheme

Number of shares	Exercise price per share	Date from which exercisable	Expiry date
1,741,416	19.0p to 21.0p	01/04/02 to 04/10/02	01/04/06 to 04/10/06
1,129,926	60.0p to 79.0p	22/03/03 to 04/12/03	22/03/07 to 04/12/07
876,938	24.0p to 72.0p	05/02/04 to 03/12/04	05/02/08 to 03/12/08
1,311,394	7.0p to 39.0p	14/01/05 to 31/10/05	14/01/09 to 31/10/09
2,289,902	6.0p to 19.25p	07/03/06 to 27/10/06	07/03/10 to 27/12/10
2,981,241	16.5p to 23.0p	26/03/07 to 29/11/07	26/03/11 to 29/11/11
3,931,628	20.25p to 43.25p	01/04/08 to 15/12/08	01/04/12 to 15/12/12
14,262,445			

Options granted under the Oxford BioMedica 1996 Share Option Plan

Number of shares	Exercise price per share	Date from which exercisable	Expiry date
26,387	78.0p	06/11/03	06/11/07
68,607	23.0p to 27.0p	09/11/04 to 19/12/04	09/11/08 to 19/12/08
284,985	10.0p to 31.0p	02/01/05 to 06/09/05	02/01/09 to 06/09/09
379,979			

Options granted under individual contracts

Number of shares	Exercise price per share	Date from which exercisable	Expiry date
3,362,034	51.0p	25/05/2002	25/05/2011
661,485	34.0p to 43.0p	25/06/02 to 20/08/02	25/06/11 to 20/08/11
211,100	53.0p	17/04/04	17/04/08
100,000	37.75p	20/10/06	20/10/15
4,334,619			
Total options	18,977,043		

19 SHARE BASED PAYMENTS

All employees of the Group are awarded share options. Option grants to UK employees are under the Oxford BioMedica 1996 (No.1) share option scheme ('the Scheme'). Options granted under the Scheme have a fixed exercise price based on the market price at the date of grant. The contractual life of the options is seven years. Options cannot normally be exercised before the third anniversary of the date of grant. For options granted to Directors and certain other employees since 2001, the options are exercisable only if at the time of exercise, or for at least 12 months in aggregate in the three years before exercise, the percentage increase in Oxford BioMedica plc's total shareholder return since the grant of the option exceeds the percentage increase in the FTSE techMARK mediscience index. It is the Company's policy to make at least six grants of options to UK employees, at approximately six-month intervals.

Options granted to employees at the Group's US subsidiary are generally a single grant at the time of joining the company, and have a contractual life of ten years. Twenty five percent of the total shares under option become exercisable twelve months after the date of grant, with the remainder becoming exercisable thereafter at the rate of 2.0834 percent per month.

Options were valued using the Black-Scholes option pricing model. The Group has taken the exemption provided in IFRS 1 which allows the charge for share-based payment to be calculated only in respect of options granted to employees after 7 November 2002 which had not vested by 1 January 2005. For each relevant option grant, individual valuation assumptions were assessed based upon conditions at the date of grant. The range of assumptions in the calculations is as follows:

Grant dates	25.11.02 to 27.10.03	26.03.04 to 29.11.04	01.04.05 to 15.12.05
Share price at grant date	6.125p to 19.25p	16.5p to 22.75p	20.25p to 42.75p
Exercise price	6.125p to 19.25p	16.5p to 23.0p	20.25p to 43.25p
Shares vesting in 1 year	-	-	25,000
Shares vesting between 1 and 2 years	14,583	-	25,000
Shares vesting between 2 and 3 years	2,465,695	3,112,111	4,019,015
Shares vesting between 3 and 4 years	133,438	-	25,000
Total number of shares under option	2,613,716	3,112,111	4,094,015
Expected volatility	67.9% to 84.5%	73.2% to 76.7%	55.3% to 72.2%
Expected life (years)	3.39 to 10.0	5.01 to 6.26	4.05 to 10.0
Risk free rate	3.84% to 4.99%	4.51% to 5.21%	4.19% to 4.65%
Expected rate of forfeit before vesting	12.9% to 100%	12.9%	6.0% to 12.9%
Expectation of meeting performance criteria	100%	100%	100%
Fair value per option	4.24p to 13.48p	11.56p to 15.78p	13.54p to 28.29p

Expected volatility is based on historical volatility for a period the same length as the expected option life ending on the date of grant. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life.

A reconciliation of movements in all options over the year to 31 December 2005 is shown below:

	2005		2004	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January	21,550,692	28.1p	23,175,708	28.3p
Granted	4,031,628	31.0p	3,133,221	20.9p
Expired	(91,668)	20.4p	(1,238,374)	30.8p
Forfeited	(497,603)	30.3p	(2,400,812)	26.5p
Exercised	(6,016,006)	17.3p	(1,119,051)	11.8p
Outstanding at 31 December	18,977,043	32.2p	21,550,692	28.1p
Exercisable at 31 December	9,674,272	40.3p	13,072,234	35.2p
Exercisable and above water at 31 December	3,546,511	17.6p	2,725,459	13.6p

Range of exercise prices	2005				2004			
	Weighted average exercise price	Number of shares	Weighted average remaining life		Weighted average exercise price	Number of shares	Weighted average remaining life	
			Expected	Contractual			Expected	Contractual
Under 10p	8.0p	1,994,676	3.42	3.90	8.2p	2,816,028	4.93	5.32
10p to 20p	18.6p	1,722,217	3.13	4.84	16.0p	4,405,967	1.91	2.58
20p to 30p	23.4p	7,992,289	3.67	4.71	21.9p	8,046,547	3.45	3.88
30p to 40p	33.6p	538,612	4.89	5.04	32.6p	467,830	4.49	4.66
40p to 50p	42.9p	1,543,260	5.57	6.33	43.0p	503,160	6.48	6.48
50p to 60p	51.1p	3,598,658	5.18	5.19	51.1p	3,598,658	6.18	6.19
Over 60p	67.6p	1,587,331	1.64	1.67	67.7p	1,712,502	2.64	2.67
		18,977,043				21,550,692		

The weighted average share price for options exercised during the year was 17.3p (2004: 11.8p). The total charge for the year relating to employee share based payment plans was £259,000 (2004: £125,000) all of which related to equity-settled share based payment transactions.

20 SHARE PREMIUM ACCOUNT

Group and Company	2005 £'000	2004 £'000
At 1 January	78,309	78,045
Premium on shares issued during the year under the share option schemes	978	179
Premium on shares issued during the year to licensors of patent rights	-	104
Subscription by collaborative partner	2,767	-
Placing and open offer	26,112	-
Costs associated with issue of shares	(2,069)	(19)
At 31 December	106,097	78,309

21 RETAINED LOSSES

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
At 1 January (deficit)	(55,739)	(45,400)	(9,667)	(9,539)
Loss for the year	(9,085)	(10,464)	(316)	(128)
Value of employee service	259	125	-	-
At 31 December (deficit)	(64,565)	(55,739)	(9,983)	(9,667)

At 31 December 2005 neither the Company nor its subsidiary undertakings had reserves available for distribution (2004: nil).

22 OTHER RESERVES

Group	Translation reserve £'000	Merger reserve £'000	Total £'000
At 1 January 2004	(576)	711	135
Exchange adjustments	(47)	-	(47)
At 31 December 2004	(623)	711	88
Exchange adjustments	(4)	-	(4)
At 31 December 2005	(627)	711	84

The merger reserve is the reserve arising from consolidation of Oxford BioMedica (UK) Limited using the merger method of accounting.

Company	Share scheme reserve £'000
At 1 January 2004	22
Credit in relation to employee share schemes	125
At 31 December 2004	147
Credit in relation to employee share schemes	259
At 31 December 2005	406

Options over the Company's shares have been awarded to employees of subsidiary companies. In accordance with IFRS 2 'Share-based Payment' the expense in respect of these awards is recognised in the subsidiaries' financial statements (see note 19). In accordance with IFRIC draft interpretation D17, the Company has treated the awards as a capital contribution to the subsidiaries, resulting in an increase in the cost of investment of £406,000 (2004: £147,000) (see note 10) and a corresponding credit to reserves.

23 CASH FLOW FROM OPERATING ACTIVITIES RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Continuing operations				
Net loss	(9,085)	(10,464)	(316)	(128)
Adjustment for:				
Tax	(1,210)	(884)	-	-
Depreciation	674	1,040	-	-
Loss on disposal of property, plant and equipment	33	260	-	-
Impairment of fixed asset investments	-	26	-	-
Impairment of intangibles	-	7	-	-
Interest income	(969)	(1,171)	(11)	-
Interest expense	31	13	-	-
Charge in relation to employee share schemes	259	125	-	-
Changes in working capital:				
Increase in trade and other receivables	(190)	(394)	-	(13)
Increase in payables	457	225	6	11
(Decrease)/increase in provisions	(74)	464	-	-
Net cash used in operations	(10,074)	(10,753)	(321)	(130)

24 PENSION COMMITMENTS

The Group operates defined contribution pension schemes for its Directors and employees. The assets of the schemes are held in independently administered funds. The pension cost charge of £237,000 (2004: £201,000) represents amounts payable by the Group to the funds. Contributions of £27,000 (included in accruals) were payable to the funds at the year-end (2004: £22,000).

25 OPERATING LEASE COMMITMENTS – MINIMUM LEASE PAYMENTS

Group	2005		2004	
	Property £'000	Vehicles, plant and equipment £'000	Property £'000	Vehicles, plant and equipment £'000
Not later than one year	614	10	1,015	13
Later than one year and not later than five years	1,957	25	1,841	12
Later than five years	793	-	1,170	-
Total lease commitments	3,364	35	4,026	25
Total future minimum sublease payments receivable	2,683	-	2,725	-

The Group leases equipment under non-cancellable operating lease agreements. The Group also leases its laboratories and offices under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The figures for property leases include a redundant building in San Diego, USA which has been sublet. A provision of £460,000 has been made (2004: £464,000) for the expected rental shortfall under this lease (see note 14).

The Company had no operating lease commitments during the year (2004: none).

26 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities at 31 December 2005 or at 31 December 2004. The Group had commitments for capital expenditure for plant and equipment not provided in the financial statements of £25,000 at 31 December 2005 (2004: none).

27 RELATED PARTY TRANSACTIONS

Identity of related parties

The Group consists of a parent, Oxford BioMedica plc and two wholly-owned subsidiaries. The main trading company is Oxford BioMedica (UK) Limited. The second subsidiary BioMedica Inc. provides services in the USA to Oxford BioMedica (UK) Limited under a transfer pricing agreement.

The parent company is responsible for financing and setting Group strategy. Oxford BioMedica (UK) Limited carries out the Group strategy, employs all the UK staff including the Directors, and owns and manages all the Group's intellectual property. The proceeds of the issue of shares is passed from Oxford BioMedica plc to Oxford BioMedica (UK) Limited as a loan, and Oxford BioMedica (UK) Limited manages Group funds and makes payments, including the expenses of the parent company.

Company: transactions with subsidiary	2005	2004
	£'000	£'000
Purchases:		
Parent company expenses paid by subsidiary	(944)	(149)
Transactions involving parent company shares:		
Proceeds of parent company share issues received by subsidiary	28	144
Proceeds of subsidiary employee share sales received by parent	(346)	(61)
Cash management:		
Cash loaned by parent to subsidiary	29,994	218

The loan from Oxford BioMedica plc to Oxford BioMedica (UK) Limited is unsecured and interest free. The loan is not due for repayment within 12 months of the year end. The year end balance on the loan was:

Company: year end balance of loan	2005	2004
	£'000	£'000
Loan to subsidiary	107,768	79,036

In addition to the transactions above, options over the Company's shares have been awarded to employees of subsidiary companies. In accordance with IFRIC draft interpretation D17, the Company has treated the awards as a capital contribution to the subsidiaries, resulting in an increase in the cost of investment of £406,000 (2004: £147,000).

There were no transactions (2004: none) with the dormant joint venture ViroTech Limited.

As described in the Directors' Remuneration Report, in 2004 Oxford BioMedica (UK) Limited entered into a consultancy agreement with Mark Berninger, a Non-Executive Director, in connection with the Group's licensing strategy for the LentiVector technology. In addition to Directors' fees for 2004 and 2005, a total of £22,387 (2004: £29,593) was incurred in consultancy fees.

A close family member of Andrew Wood is employed by the Group and is paid at market rate. Total compensation comprising salary, national insurance and pension cost was £57,000 (2004: £55,000).

28 RECONCILIATION OF NET ASSETS AND LOSS UNDER UK GAAP TO IFRS

Oxford BioMedica plc reported under UK GAAP in its previously published financial statements for the year ended 31 December 2004. The analyses below show reconciliations for the Group and the Company of the net assets under UK GAAP to IFRS at the transition date, which was 1 January 2004, and of the losses and net assets as reported under UK GAAP as at 31 December 2004 to the revised losses and net assets under IFRS as reported in these financial statements.

Group - Reconciliation of equity at 1 January 2004 (Date of transition to IFRS)	Notes	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Intangible assets	(a)	135	1,270	1,405
Property, plant and equipment		2,331	-	2,331
Financial assets: Investment in joint venture		26	-	26
Total non-current assets		2,492	1,270	3,762
Trade and other receivables		1,186	-	1,186
Current tax assets		1,200	-	1,200
Financial assets: available for sale investments		23,150	-	23,150
Cash and cash equivalents		8,686	-	8,686
Total current assets		34,222	-	34,222
Total assets		36,714	1,270	37,984
Liabilities: Trade and other payables		(1,501)	-	(1,501)
Total assets less total liabilities		35,213	1,270	36,483
Ordinary shares		3,703	-	3,703
Share premium		78,045	-	78,045
Other reserves		135	-	135
Retained losses	(a)	(46,670)	1,270	(45,400)
Total equity		35,213	1,270	36,483

Company - Reconciliation of equity at 1 January 2004 (Date of transition to IFRS)	Notes	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets: Investment in subsidiaries	(c)	72,246	22	72,268
Current assets: Trade and other receivables		2	-	2
Total assets		72,248	22	72,270
Liabilities: Trade and other payables		(39)	-	(39)
Total assets less total liabilities		72,209	22	72,231
Ordinary shares		3,703	-	3,703
Share premium		78,045	-	78,045
Other reserves	(c)	-	22	22
Retained losses		(9,539)	-	(9,539)
Total equity		72,209	22	72,231

Group - Reconciliation of loss before interest	Notes	Year ended 31 December 2004 £'000
Net loss before interest reported under UK GAAP		(12,652)
Intangibles	(a)	271
Share based payment	(b)	(125)
Net loss before interest reported under IFRS		(12,506)

There was no impact on the loss before interest of the Company.

Group - Reconciliation of net loss	Year ended 31 December 2004 £'000
	Notes
Net loss for the year reported under UK GAAP	(10,610)
Intangibles	(a) 271
Share based payment	(b) (125)
Net loss for the year reported under IFRS	(10,464)

There was no impact on the net loss of the Company.

Group - Reconciliation of loss For the year ended 31 December 2004	Notes	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Revenue		502	-	502
Research and development costs	(a,b)	(9,190)	177	(9,013)
Administrative expenses	(b)	(4,328)	(31)	(4,359)
Other operating income: grants receivable		364	-	364
Operating loss		(12,652)	146	(12,506)
Interest receivable – net		1,158	-	1,158
Taxation		884	-	884
Net loss for the year		(10,610)	146	(10,464)

There was no impact on the loss of the Company.

Group - Reconciliation of equity at 31 December 2004	Notes	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Intangible assets	(a)	86	1,541	1,627
Property, plant and equipment		1,237	-	1,237
Total non-current assets		1,323	1,541	2,864
Trade and other receivables		1,618	-	1,618
Current tax assets		1,685	-	1,685
Financial assets: available for sale investments		17,500	-	17,500
Cash and cash equivalents		4,917	-	4,917
Total current assets		25,720	-	25,720
Total assets		27,043	1,541	28,584
Trade and other payables		(1,741)	-	(1,741)
Provisions		(464)	-	(464)
Total liabilities		(2,205)	-	(2,205)
Total assets less total liabilities		24,838	1,541	26,379
Ordinary shares		3,721	-	3,721
Share premium		78,309	-	78,309
Other reserves		88	-	88
Retained losses	(a)	(57,280)	1,541	(55,739)
Total equity		24,838	1,541	26,379

Company - Reconciliation of equity at 31 December 2004

	Notes	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets: Investment in subsidiaries	(c)	72,397	147	72,544
Current assets: Trade and other receivables		15	-	15
Total assets		72,412	147	72,559
Liabilities: Trade and other payables		(49)	-	(49)
Total assets less total liabilities		72,363	147	72,510
Ordinary shares		3,721	-	3,721
Share premium		78,309	-	78,309
Other reserves	(c)	-	147	147
Retained losses		(9,667)	-	(9,667)
Total equity		72,363	147	72,510

Reconciliation of loss**For the year ended 31 December 2005**

	Notes	Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Operating loss	(a,b)	(11,037)	(196)	(11,233)
Interest receivable – net		938	-	938
Taxation		1,210	-	1,210
Net loss for the year		(8,889)	(196)	(9,085)

EXPLANATION OF RECONCILING ITEMS BETWEEN UK GAAP AND IFRS**(a) Intangibles**

Under IFRS acquired intellectual property rights are capitalised as intangibles and either amortised or reviewed for impairment at each balance sheet date. Under UK GAAP the costs of purchased intellectual property rights were written off in the accounting period in which they were incurred, with the exception of certain intellectual property rights acquired by the Group at inception, which were capitalised as intangibles and amortised over ten years. On the adoption of IFRS, at 1 January 2004 expenditure of £1,270,000 that had previously been charged to the profit and loss account was reclassified as intangible fixed assets, and amortisation totalling £357,000 that had previously been charged to the profit and loss account was replaced by impairment losses of £357,000. In 2004 a further £229,000 that had been charged to the profit and loss account under UK GAAP was reclassified as intangible fixed assets, and an amortisation charge of £49,000 was replaced by further impairment losses of £7,000.

(b) Share based payment

Under IFRS 2 a charge is required for all share-based payments including share options. The charge in the income statement is based on the fair value of the options at the grant date. Under UK GAAP there was no charge to the profit and loss account, as there was no difference between the exercise price and the market price at the date of issue. The Company has taken advantage of an exemption in IFRS 1, and has not included charges for share options issued before 7 November 2002 or options which had already vested at 1 January 2005. The IFRS 2 charge for 2005 was £259,000 (2004: £125,000). There is no impact on net assets.

The adjustments set out above were sent to shareholders with the interim financial statements in September 2005.

(c) Investment in subsidiaries/other reserve

In accordance with IFRIC draft interpretation D17, the Company has treated the awards of options over shares in the Company to employees of subsidiary companies as a capital contribution to the subsidiaries, resulting in an increase in the cost of investment of £22,000 at 1 January 2004, £147,000 at 31 December 2004 and £406,000 at 31 December 2005. A corresponding credit to reserves was made at each of the above dates.

EXPLANATION OF MATERIAL ADJUSTMENTS TO THE CASH FLOW STATEMENTS

Net interest received of £1,029,000 (2004: £1,096,000) and net tax received of £1,721,000 (2004: £400,000) are classified as part of operating cash flows under IFRS, but were included under 'Returns on investment and servicing of finance' and 'Taxation' in the UK GAAP cash flow statement.

Expenditure on acquired intellectual property rights of £14,000 (2004: £229,000) is classified as part of cash flows from investing activities under IFRS, but had been included under UK GAAP in the net cash outflow from operating activities.

Cash and cash equivalents include short term deposits of £20,132,000 (2004: £4,877,000) under IFRS. Under UK GAAP these amounts were included in the management of liquid resources category. There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.