

Intercytex Group plc

Annual Report and Financial Statements

31 December 2005

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Chairman's statement

I am very pleased to report Intercytex's first set of results as an AIM listed Company and to welcome the Company's new shareholders. During 2005 we made considerable progress in developing our product pipeline, management team and financial base and are now well-positioned for the future.

Products

In terms of products, we completed a Phase IIB clinical trial of ICX-PRO, our lead product for the treatment of chronic ulcers. The results of the trial, in which 74 patients with chronic venous leg ulcers of at least 6 months' duration were evaluated per protocol, indicated good efficacy and beneficial performance characteristics. In particular, over 80% of patients showed clinical benefit and 35% had completely healed at 24 weeks post treatment. In addition, 41% of patients with baseline wounds of up to 41 square centimetres achieved complete wound closure during the study period. On the basis of these results we commenced a multi-centre Phase III trial in the US, UK and Canada which is expected to be completed during the first half of 2007.

Our second product, ICX-TRC for hair regeneration in male-pattern baldness, completed a Phase I safety trial in which five out of seven subjects showed an increase in hair numbers. This was a medical first. We also learnt much from the trial regarding the delivery and dosing requirements of this product. We are now in the process of preparing applications to commence a Phase II clinical efficacy programme, initially in the UK.

The third product, ICX-RHY, for facial rejuvenation, was conceived during the first half of the year, and by early 2006 the first volunteer had been consented to a Phase I trial being undertaken in the UK. The speed with which this product candidate has progressed demonstrates our ability to leverage our cell therapy assets and know-how to fast-track product development timelines. In the case of ICX-RHY our expertise with allogeneic human dermal fibroblasts has been crucial.

ICX-SKN is our fourth product candidate. Again, this project has been progressed rapidly moving from early stage research in 2004 to GMP manufacturing process validation by 2006. ICX-SKN is intended as a true living skin substitute that will provide immediate closure of both chronic and acute wounds. It has been designed as a full thickness skin replacement which could replace the need for some skin autograft procedures. To date we have been able to demonstrate skin-like tertiary collagen structure, tensile strength and sufficient toughness to take sutures. We intend to commence a phase I trial of this product later this year.

All our products are manufactured in our GMP facility in Manchester. This was granted an MHRA licence in 2004, and in 2005 it underwent a full MHRA inspection which I am pleased to say it passed. This is a testament to the professionalism of our production and quality staff.

Management and Board

Two key appointments were made to our senior management team. Nick Higgins was appointed as Chief Executive Officer at the beginning of the year, and John St Clair Roberts was appointed as VP Medical Affairs. Nick joined us from Acambis where he was Chief Business Officer and John from Microscience where he was Medical Director. The impact of both appointments has been substantial and Nick's appointment has enabled Paul Kemp, our founder, to apply his unique cell therapy experience full time as Chief Scientific Officer.

Our Board has also developed with the transition to public company status. Alan Suggett and John Aston joined as non-executive directors during the year and have already made a significant contribution. Alan brings considerable expertise in woundcare and cell therapy from his time as Group R&D Director at Smith & Nephew, and John has acquired a decade of experience in the development of a successful biotech company as CFO of Cambridge Antibody Technology. I would like to thank the outgoing non-executive directors of the Company, Mark Docherty, Andrew Fraser, Alan Goodman, Brian Kerr and Zeev Zehavi, for their support and encouragement over the past years.

Chairman's statement

Fundraising and Financial Results

In July 2005 the existing shareholders of the Company committed a further £12m of investment. £8m of this (before costs of issue) was drawn down prior to the year end and the balance subscribed as part of the IPO process.

The operating cash outflow for the year was £6.3m (2004: £4.8m). The net cash inflow after financing (excluding liquid resources) was £3.9m (2004: (£4.7m)) resulting in year-end cash and cash equivalents of £5.7m (2004: £1.8m). A further £13.7m of net proceeds was received in February 2006 from the IPO. Intercytex now has sufficient cash to fund its development through a series of milestones which should add considerable value to the Company.

The pre-tax loss for the year was £7.2m (2004: £5.1m). The increase reflects higher research and development costs, due in particular to the transition of ICX-PRO to Phase III trials, the enhanced effort on ICX-SKN and the establishment of the ICX-RHY programme. General and administrative costs were also higher mainly as a consequence of fundraising costs and the expanded management team.

Prospects

Intercytex has achieved much in the 6 years since it commenced operations. It has a well-developed pipeline of products all of which have been generated internally. The added financial strength which the IPO has brought should underpin another year of significant achievement.



I Kent

Chairman

28 March 2006

Directors' report

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

Principal activity and business review

The principal activity of the Group is to research, develop and commercialise cell-based therapies for treatment of tissue and organ failure. Specific therapeutic targets include skin wounds and hair loss. A more detailed review of the Group's R&D activities is included in the Chairman's Statement.

Results and dividends

The loss for the year amounted to £6,507,922 (2004: loss £4,536,014). The directors do not recommend the payment of any dividends.

Directors and their interests

The directors who held office during the year were:

I Kent	(Chairman)
N Higgins	(Chief Executive Officer) – appointed 4 January 2005
P Kemp	(Chief Scientific Officer)
R Moulson	(Chief Financial Officer and Company Secretary)
J Aston	(Non-executive) – appointed 22 September 2005
A Suggett	(Non-executive) – appointed 29 April 2005
M Docherty	(Non-executive) – resigned 25 January 2005
A Fraser	(Non-executive) – resigned 9 January 2005
A Goodman	(Non-executive) – resigned 21 July 2005
B Kerr	(Non-executive) – resigned 25 January 2005
Z Zehavi	(Non-executive) – resigned 21 July 2005

The directors at 31 December 2005 and their interests in the share capital of the Company were as follows:

	<i>2005</i> <i>ordinary shares</i> <i>of 1p each</i>	<i>2004 *</i> <i>ordinary shares</i> <i>of 1p each</i>
I Kent	Nil	Nil
N Higgins	114,280	11,428
P Kemp	900,000	90,000
R Moulson	Nil	Nil
J Aston	Nil	Nil
A Suggett	Nil	Nil
M Docherty	Nil	Nil
A Fraser	Nil	Nil
B Kerr	Nil	Nil

* Stated before 10:1 share split in Intercytex Limited.

Directors' report

As at 31 December 2005 the following options had been granted over ordinary shares of 1p each to certain directors of the Company:

	<i>Options held at 1 January 2005*</i>	<i>Share split</i>	<i>Granted</i>	<i>Exercised</i>	<i>Options held at 31 December 2005</i>
I Kent	15,000	135,000	625,000	-	775,000
N Higgins	-	-	2,305,000	-	2,305,000
P Kemp	85,000	765,000	185,000	-	1,035,000
R Moulson	85,000	765,000	385,000	-	1,235,000

* Options held at 1 January 2005 reflect options over shares in Intercytex Limited before a 10:1 share split. These options were adjusted for the share split and subsequently exchanged for equivalent options over shares in the Company during 2005.

Further details of the directors' share options are provided in the notes to the financial statements.

The directors do not have any other interests required to be disclosed under Schedule 7 of the Companies Act 1985.

Post balance sheet events

In January 2006 the Company completed a placing and subscription over 13,888,889 new ordinary shares in aggregate at 108p per share through an initial public offering on the AIM market of the London Stock Exchange. The placing and subscription became wholly unconditional on 2 February 2006 by which time the entire issued share capital of the Company had been admitted to trading on AIM.

The placing and subscription raised £13.7 million net of estimated expenses.

Pursuant to the IPO Messrs Docherty, Fraser and Kerr resigned from the Board of Intercytex Group plc.

Overseas branches

The Group has a branch office in the United States of America.

Creditors

The Group agrees terms and conditions for business transactions with its suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier.

The number of trade creditor days at 31 December 2005 was 38 days (2004: 39 days).

The Company had no trade creditors as at 31 December 2005.

Auditors

Ernst & Young LLP were appointed as auditors during the year and a resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.

By order of the board



R A Moulson
Secretary
28 March 2006

Statement of directors' responsibilities in respect of the financial statements

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 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 Intercytex Group plc

We have audited the financial statements of Intercytex Group plc for the year ended 31 December 2005 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Consolidated and Company Balance Sheets, Consolidated Cash Flow Statement and the related notes 1 to 24. These financial statements have been prepared on the basis of 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 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 in relation to the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions with the Group is not disclosed.

We read the other information contained in the Annual Report, and considered whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement and Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statement. 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

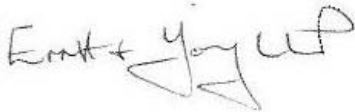
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 Intercytex Group plc (continued)

Opinion

In our opinion the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Principles, of the state of the Group's and the parent company's affairs as at 31 December 2005 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Cambridge
5 April 2006

Consolidated profit and loss account

for the year ended 31 December 2005

	<i>Year ended</i> 31 Dec 2005	<i>Year ended</i> 31 Dec 2004
<i>Notes</i>	£	£
Operating Income	-	-
Research and development costs	(5,604,736)	(4,241,618)
General and administrative expenses	(1,590,068)	(901,557)
Total expenses	(7,194,804)	(5,143,175)
<i>Operating loss</i>	2 (7,194,804)	(5,143,175)
Interest receivable	5 88,454	141,409
Interest payable and similar charges	6 (129,229)	(60,810)
	(40,775)	80,599
<i>Loss on ordinary activities before taxation</i>	(7,235,579)	(5,062,576)
<i>Tax on loss on ordinary activities</i>	7 727,657	526,562
<i>Loss on ordinary activities after taxation</i>	(6,507,922)	(4,536,014)
<i>Loss per share:</i>		
Basic and diluted *	8 (20.6p)	(16.8p)

* Continuing activities and in total.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2005

There are no recognised gains or losses other than the loss of £6,507,922 attributable to the shareholders for the year ended 31 December 2005 (2004: loss of £4,536,014).

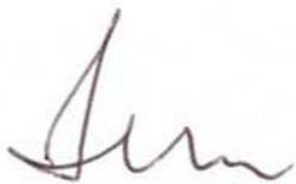
The implementation of the new accounting standards FRS 15, 21, 22 and certain aspects of FRS 25 and FRS 28 resulted in no changes to comparative disclosures and no prior year adjustments. This impact of the Group implementing merger accounting in respect of the Group re-organisation is given in note 20.

Consolidated and Company balance sheets

at 31 December 2005

	Notes	Group 2005 £	Group 2004 £	Company 2005 £
Fixed assets				
Tangible assets	10	587,306	732,474	-
Investments	11	-	-	310,434
Current assets				
Stocks	12	49,771	4,436	-
Debtors	13	1,156,693	774,666	3,568,910
Cash at bank and in hand		5,686,613	1,799,521	4,000,001
Creditors: amounts falling due within one year	14	6,893,077 (1,867,131)	2,578,623 (963,899)	7,568,911 (588,695)
Net current assets		5,025,946	1,614,724	6,980,216
Total assets less current liabilities		5,613,252	2,347,198	7,290,648
Creditors: amounts falling due after more than one year	15	(108,199)	(207,046)	-
Net assets		5,505,053	2,140,152	7,290,650
Capital and reserves				
Called up share capital	19,20	418,250	269,349	418,250
Share premium account	20	7,580,362	-	7,580,362
Merger reserve	20	18,902,411	16,987,916	-
Capital redemption reserve	20	229,065	-	229,065
Profit and loss account	20	(21,625,035)	(15,117,113)	(937,027)
Equity shareholders' funds		5,505,053	2,140,152	7,290,650

The financial statements were approved by the Board on 28 March 2006 and signed on its behalf by;



I F Kent
Director

Consolidated cash flow statement

for the year ended 31 December 2005

	<i>Year ended</i>	<i>Year ended</i>
	<i>31 Dec</i>	<i>31 Dec</i>
	<i>2005</i>	<i>2004</i>
<i>Notes</i>	<i>£</i>	<i>£</i>
<i>Net cash outflow from operating activities</i>	22(a) (6,259,625)	(4,814,009)
<i>Returns on investments and servicing of finance</i>		
Interest received and similar income	88,454	141,409
Interest element of finance lease rental payments	(63,884)	(60,810)
	<u>24,570</u>	<u>80,599</u>
<i>Taxation</i>		
R&D tax credits received	589,099	492,994
<i>Capital expenditure and financial investment</i>		
Purchase of tangible fixed assets	(22,202)	(146,874)
<i>Net cash outflow before management of liquid resources</i>	<u>(5,668,158)</u>	<u>(4,387,290)</u>
<i>Management of liquid resources</i>		
Decrease in short term deposits	500,000	4,500,000
<i>Financing</i>		
Issue of ordinary share capital (net of issue costs of £82,756)	7,868,408	-
Issue of unsecured convertible loan notes	1,939,091	-
Repayments of capital element of finance leases	(252,249)	(287,541)
	<u>9,555,250</u>	<u>(287,541)</u>
<i>Increase/(decrease) in cash</i>	<u><u>4,387,092</u></u>	<u><u>(174,831)</u></u>

Consolidated reconciliation of net cash flow to movement in net funds

for the year ended 31 December 2005

	<i>Year ended 31 Dec 2005</i>	<i>Year ended 31 Dec 2004</i>
<i>Notes</i>	<i>£</i>	<i>£</i>
<i>Increase/(decrease) in cash</i>	4,387,092	(174,831)
Capital element of finance lease repayments	252,249	287,541
New finance leases	(183,096)	(320,846)
Reduction in short term deposits	(500,000)	(4,500,000)
Issue of unsecured convertible loan notes	(1,939,091)	-
Conversion of unsecured convertible loan notes	1,939,091	-
	<hr/>	<hr/>
<i>Movement in net funds</i>	3,956,245	(4,708,136)
<i>Net funds at start of year</i>	22(b) 1,373,858	6,081,994
	<hr/>	<hr/>
<i>Net funds at end of year</i>	22(b) 5,330,103	1,373,858
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

for the year ended 31 December 2005

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom. During the year the Group implemented the new accounting standards FRS 15, 21, 22, the presentational requirements of FRS25, and FRS28. These implementations did not result in any restatements of the current or prior year balance sheets or profit and loss account amounts.

Consolidation

The Group accounts consolidate the accounts of Intercytex Group plc and its subsidiary undertakings drawn up to 31 December each year. The results of the subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method of accounting.

Intercytex Group plc was incorporated on 24 January 2005 and on 25 April 2005 acquired the entire issued share capital of Intercytex Limited via the issue of shares. The transaction meets the requirements laid down in Financial Reporting Standard 6 and the Companies Act 1985 which permit merger accounting. The transaction has therefore been accounted for using the merger method of accounting. The profit and loss accounts, balance sheets and cash flow statements, along with the related notes have been prepared as if the Group had always been in existence in its current form, with the results for the year ended 31 December 2005 being the consolidated results for Intercytex Group plc and the results for the year ended 31 December 2004 being the results for Intercytex Limited.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Laboratory equipment	-	20% per annum
Fixtures and fittings	-	20-25% per annum
Computer equipment	-	33.33% per annum

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale	-	purchase cost on a first-in, first-out basis.
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Notes to the Financial Statements

for the year ended 31 December 2005

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets and gains on disposal of fixed assets that have been rolled over into replacement assets only to the extent that at the balance sheet date there is a binding agreement to dispose of the assets concerned. However, no provision is made where on the basis of all available evidence at the balance sheet date it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold; and
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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 retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset has passed to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss accounts over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss accounts on a straight line basis over the lease term.

Pension costs

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.

Notes to the Financial Statements

for the year ended 31 December 2005

1. Accounting policies (continued)

Share options

Pursuant to UITF 17, Employee Share Schemes, the cost of awards to employees and third parties that take the form of share options representing the difference between the fair value of the shares at the date the options were granted and the option exercise value are recognised over the period to which the employees' or third parties' performance relates. The period of the employees' and third parties' performance represents the period from the date of granting the options to the earliest date on which it is expected the options will be exercised. National insurance liabilities arising from share options are borne by the employee.

Capital instruments

During the period, a convertible debt instrument with warrants was issued. The debt instrument and warrants were converted into share capital in the period. On issuance, the instrument was split into its liability and equity components. Interest expense on the debt instrument was recognised in the profit and loss account. On conversion, the carrying amount of the debt component, including accrued interest was transferred to equity, and no gain or loss was recognised on conversion. Amounts recorded in equity were appropriately allocated to share capital and share premium on issuance of shares from conversion of the debt instrument and exercise of the warrants.

2. Operating loss

This is stated after charging:

	<i>Year ended</i> <i>31 Dec</i> <i>2005</i> <i>£</i>	<i>Year ended</i> <i>31 Dec</i> <i>2004</i> <i>£</i>
Auditors' remuneration - audit services	22,404	10,500
- non-audit services	14,460	15,370
	<u>350,466</u>	<u>392,706</u>
Depreciation of owned fixed assets	94,200	93,333
Depreciation of assets held under finance leases	256,266	299,373
	<u>433,140</u>	<u>410,025</u>
Operating lease costs - land and buildings	433,140	410,025
- other	3,901	3,576
	<u>437,041</u>	<u>413,601</u>
Net (gain)/loss on foreign currency translation	(5,931)	26,163

The Company auditors' remuneration was £9,000.

Notes to the Financial Statements

for the year ended 31 December 2005

3. Staff costs

	<i>Year ended 31 Dec 2005 £</i>	<i>Year ended 31 Dec 2004 £</i>
Wages and salaries	2,132,160	1,626,859
Social security costs	240,594	206,902
Other pension costs	138,165	99,531
	<u>2,510,919</u>	<u>1,933,292</u>

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

	<i>Year ended 31 Dec 2005 No.</i>	<i>Year ended 31 Dec 2004 No.</i>
Administration and scientific	44	41
Management and executive directors	12	7
	<u>56</u>	<u>48</u>

4. Directors' emoluments

	<i>Year ended 31 Dec 2005 £</i>	<i>Year ended 31 Dec 2004 £</i>
Emoluments	716,001	397,841
Company pension contributions to money purchase schemes	43,551	34,953

	<i>Year ended 31 Dec 2005 No.</i>	<i>Year ended 31 Dec 2004 No.</i>
Members of money purchase pension schemes	3	3

No director exercised options in the year.

Notes to the Financial Statements

for the year ended 31 December 2005

4. Directors' emoluments (continued)

The amounts in respect of the highest paid director were as follows:

	<i>Year ended</i> <i>31 Dec</i> <i>2005</i> £	<i>Year ended</i> <i>31 Dec</i> <i>2004</i> £
Emoluments	276,285	130,667
Company pension contributions to money purchase scheme	17,500	13,068

5. Interest receivable

	<i>Year ended</i> <i>31 Dec</i> <i>2005</i> £	<i>Year ended</i> <i>31 Dec</i> <i>2004</i> £
Bank interest receivable	88,454	141,409

6. Interest payable and similar charges

	<i>Year ended</i> <i>31 Dec</i> <i>2005</i> £	<i>Year ended</i> <i>31 Dec</i> <i>2004</i> £
Finance charges payable under finance leases	63,884	60,810
Interest on convertible loan notes	65,345	-
	129,229	60,810

Notes to the Financial Statements

for the year ended 31 December 2005

7. Taxation on ordinary activities

(a) Tax on loss on ordinary activities

The tax credit comprises:

	<i>Year ended</i> <i>31 Dec</i> <i>2005</i> £	<i>Year ended</i> <i>31 Dec</i> <i>2004</i> £
Current tax:		
UK corporation tax:		
UK corporation tax on results of the year	(720,000)	(550,000)
Tax repayments under-accrued in previous years	(39,099)	-
	<u>(759,099)</u>	<u>(550,000)</u>
Foreign tax:		
Tax on results of the period	14,557	-
Tax under provided in previous years	16,885	23,438
	<u>31,442</u>	<u>23,438</u>
	<u>(727,657)</u>	<u>(526,562)</u>
Total current tax (note 7(b))	<u>(727,657)</u>	<u>(526,562)</u>

The corporation tax repayable is available under regulations which provide for tax relief and a tax credit repayment in respect of research and development expenditure.

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the period is higher than the standard rate of corporation tax in the UK of 19% (2004: 19%). The differences are reconciled below:

	<i>Year ended</i> <i>31 Dec</i> <i>2005</i> £	<i>Year ended</i> <i>31 Dec</i> <i>2004</i> £
Loss on ordinary activities before taxation	<u>(7,235,579)</u>	<u>(5,062,576)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax	(1,374,760)	(961,889)
Overseas tax	14,557	-
Disallowed expenses and non-taxable income	(193,509)	(217,218)
Depreciation in excess of capital allowances	8,521	8,666
Adjustments in respect of prior periods	(22,214)	23,438
Tax losses carried forward	704,748	518,076
Loss surrendered for R&D tax credit	855,000	653,125
Other timing differences	-	(760)
R&D tax credit claimed	(720,000)	(550,000)
	<u>(727,657)</u>	<u>(526,562)</u>
Total current tax (note 7(a))	<u>(727,657)</u>	<u>(526,562)</u>

Notes to the Financial Statements

for the year ended 31 December 2005

7. Taxation on ordinary activities (continued)

(c) Factors that may affect future tax charges

A deferred tax asset of £2,451,569 (2004: £1,772,927), comprising mainly tax losses, has not been recognised on the basis that the Group's main activity continues to be research and development, therefore there will not be suitable taxable profits to enable the asset to be recovered in the near future.

8. Loss per share

Earnings per share (EPS) have been calculated in accordance with FRS 22 "Earnings per share", by dividing the loss for the year by the weighted average number of ordinary shares in issue during the year based on the following information:

	<i>Year ended</i> 31 Dec 2005	<i>Year ended</i> 31 Dec 2004
Loss attributable to the shareholders	£6,507,922	£4,536,014
Basic weighted average number of shares	31,634,872	26,934,920

The exercise of share options would have the effect of reducing the loss per ordinary share and is not therefore dilutive under the terms of FRS 22. The convertible loan notes and warrants in issue during the year would also have had the effect of reducing the loss per share.

9. Loss attributable to the members of the parent company

The Group has taken advantage of the exemption contained in s230 of the Companies Act 1985 and not presented the profit and loss account of the parent company.

The loss dealt with in the accounts of the parent company was £937,027.

10. Tangible fixed assets

Group

	<i>Laboratory equipment</i> £	<i>Fixtures & fittings</i> £	<i>Computer equipment</i> £	<i>Total</i> £
Cost:				
At 1 January 2005	1,288,589	144,043	276,579	1,709,211
Additions	106,656	13,680	84,962	205,298
At 31 December 2005	1,395,245	157,723	361,541	1,914,509
Depreciation:				
At 1 January 2005	637,747	113,324	225,666	976,737
Provided during the year	288,516	20,138	41,812	350,466
At 31 December 2005	926,263	133,462	267,478	1,327,203
Net book value:				
At 31 December 2005	468,982	24,261	94,063	587,306
At 1 January 2005	650,842	30,719	50,913	732,474

Notes to the Financial Statements

for the year ended 31 December 2005

10. Tangible fixed assets (continued)

The net book value of assets above includes an amount of £337,800 (2004: £410,971) in respect of assets held under finance leases.

Company

The Company has no fixed assets.

11. Investments

Group

The Group has no investments.

Company

	<i>Shares in subsidiary undertaking £</i>
Acquisition of Intercytex Limited	310,434
	<u> </u>

Details of the investments in which the Group and the Company hold 20% or more of the nominal value of any class of share capital are as follows:

<i>Name of Company</i>	<i>Country of registration</i>	<i> Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Intercytex Limited	England and Wales	100%	100%	Biotechnology company

Subsidiary undertakings which are wholly immaterial to the Group are not listed above.

On 25 April 2005, the Company acquired 100% of the issued share capital of Intercytex Limited for consideration comprising ordinary shares in the Company on a one-for-one basis. In accordance with s131 of the Companies Act 1985, the Company has taken no account of any premium on the shares issued and has recorded the cost of the investment at the nominal value of the shares issued. The resulting difference arising on consolidation has been credited to the merger reserve.

12. Stocks

	<i>Group 2005 £</i>	<i>Group 2004 £</i>	<i>Company 2005 £</i>
Raw materials	49,771	4,436	-
	<u> </u>	<u> </u>	<u> </u>

Notes to the Financial Statements

for the year ended 31 December 2005

13. Debtors

	<i>Group</i> 2005 £	<i>Group</i> 2004 £	<i>Company</i> 2005 £
Corporation tax repayable	665,099	526,562	-
Other debtors	61,349	80,335	-
Prepayments and accrued income	430,245	167,769	3,568,910
	<u>1,156,693</u>	<u>774,666</u>	<u>3,568,910</u>

14. Creditors: amounts falling due within one year

	<i>Group</i> 2005 £	<i>Group</i> 2004 £	<i>Company</i> 2005 £
Obligations under finance leases (note 16)	248,311	218,617	-
Trade creditors	452,800	302,094	-
Other taxation and social security	8,290	55,941	-
Other creditors	422	-	-
Accruals and deferred income	1,157,308	387,247	588,695
	<u>1,867,131</u>	<u>963,899</u>	<u>588,695</u>

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

	<i>Group</i> 2005 £	<i>Group</i> 2004 £	<i>Company</i> 2005 £
Obligations under finance leases (note 16)	108,199	207,046	-
	<u>108,199</u>	<u>207,046</u>	<u>-</u>

Notes to the Financial Statements

for the year ended 31 December 2005

16. Obligations under finance leases

The maturity of these amounts is as follows:

	<i>Group</i> 2005 £	<i>Group</i> 2004 £	<i>Company</i> 2005 £
Amounts payable:			
Within one year	272,178	267,916	-
In two to five years	116,155	214,683	-
	<u>388,333</u>	<u>482,599</u>	<u>-</u>
Less: finance charges allocated to future periods	(31,823)	(56,936)	-
	<u>356,510</u>	<u>425,663</u>	<u>-</u>
Finance leases are analysed as follows:			
Current obligations (note 14)	248,311	218,617	-
Non-current obligations (note 15)	108,199	207,046	-
	<u>356,510</u>	<u>425,663</u>	<u>-</u>

17. Commitments under operating leases

Group

At 31 December 2005 the Company had annual commitments under non-cancellable operating leases as set out below:

	<i>2005</i>		<i>2004</i>	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£	£	£	£
Operating leases which expire:				
Within one year	-	-	-	-
In two to five years	64,135	3,901	52,350	3,901
In over five years	337,205	-	337,205	-
	<u>401,340</u>	<u>3,901</u>	<u>389,555</u>	<u>3,901</u>

Company

The Company has no operating leases.

18. Related party transactions

No transactions with related parties were undertaken such as are required to be disclosed under FRS 8.

Notes to the Financial Statements

for the year ended 31 December 2005

19. Share Capital (continued)

The convertible loan notes held the following rights:

- (i) automatic conversion into C ordinary shares of 1p each immediately prior to sale or listing, at the conversion price of one C ordinary share of 1p each for each £0.742 of loan note held;
- (ii) a coupon of 7.5% p.a. rolled up and converted into new shares at the conversion price of one C ordinary share of 1p each for each £0.742 of loan note held;
- (iii) repayable in cash only in the event of default and non transferable outside the holders of the loan notes; and
- (iv) warrants, to subscribe at 1p each for one C ordinary share of 1p each.

On 20 July 2005 the warrants were exercised, the loan notes were converted and the accrued interest on the loan notes was settled through the issue of 4,108,420 C ordinary shares. Also on 20 July 2005 all resulting C ordinary shares in Intercytex Limited were exchanged on a 1:1 basis for ordinary shares in Intercytex Group plc.

On 17 January 2005, Intercytex Limited had issued loan notes of nominal value £1,939,091 for cash at par, to certain investors. Such loan notes (plus accrued interest thereon) were converted into C ordinary shares of 1p each at a price of 74.2p per share on 20 July 2005. The C ordinary shares so issued by Intercytex Limited were immediately transferred to the Company in consideration of the issue by Intercytex Group plc of an equal number of C ordinary shares of 1p each. A total of 2,701,320 C ordinary shares were so issued by the Company.

On 17 January 2005, Intercytex Limited had issued warrants to certain investors in respect of a total of 1,407,100 C ordinary shares of 1p each. The warrants were exercisable at nominal value. On 20 July 2005 the investors exercised the warrants and acquired C ordinary shares in the capital of Intercytex Limited. The C ordinary shares issued by Intercytex Limited were immediately transferred to the Company in consideration of the issue by the Company of an equal number of C ordinary shares of 1p each. A total of 1,407,100 C ordinary shares were so issued by the Company.

On 20 July 2005, a number of investors entered into an investment agreement with Intercytex Group plc. This provided for three investment rounds of £4.0 million each in cash at a share price of 74.2p per ordinary share of 1p nominal value. Two tranches were subsequently subscribed on 20 July /3 August 2005 and 1 December 2005, with the final tranche invested on IPO in January 2006.

On 20 July 2005, Intercytex Group plc restructured its authorised share capital as follows:

- the 3,500,000 authorised and issued A ordinary shares of 1p each were re-organised so as to comprise 474,034 ordinary shares and 3,025,966 deferred shares;
- the 10,000,000 authorised and issued B ordinary shares of 1p each were re-organised so as to comprise 2,031,572 ordinary shares and 7,968,428 deferred shares;
- the 32,094,800 authorised C ordinary shares of 1p each were re-organised so as to comprise 8,693,721 ordinary shares and 23,401,079 deferred shares (such that the 16,337,600 issued C ordinary shares of 1p each were re-organised so as to comprise 4,425,469 ordinary shares and 11,912,131 deferred shares); and
- the authorised share capital was increased from £534,395.10 to £1,200,000 by the creation of 66,560,490 ordinary shares of 1p each.

On 3 August 2005, Intercytex Group plc made a bonus issue of 22,906,510 ordinary shares, credited as fully paid up as to nominal value. Such bonus issue was made only to investors by reference to their holding of ordinary shares and the number of ordinary shares which they had agreed to subscribe pursuant to the investment agreement.

Notes to the Financial Statements

for the year ended 31 December 2005

19. Share Capital (continued)

On 11 August 2005, Intercytex Group plc cancelled the 22,906,525 deferred shares. The consideration paid to the holders of such shares was 1p in aggregate.

A summary of the above transactions on the issued share capital of Intercytex Group plc is included below:

	<i>Description</i>	<i>Ordinary No.</i>	<i>Deferred No.</i>	<i>A ord. No.</i>	<i>B ord. No.</i>	<i>C ord. No.</i>
28/2/05	Incorporation	1	-	-	-	-
25/4/05	Re-organisation of nominal value of ordinary shares from £1 to 1p	99	-	-	-	-
25/4/05	Acquisition of Intercytex Limited	1,205,640	-	3,500,000	10,000,000	12,229,180
20/7/05	Conversion of loan notes	-	-	-	-	2,701,320
20/7/05	Exercise of warrants	-	-	-	-	1,407,100
20/7/05	Re-organisation to convert A, B and C shares to ordinary and deferred shares	-	-	(3,500,000)	(10,000,000)	(16,337,600)
	A	474,034	3,025,966	-	-	-
	B	2,031,572	7,968,428	-	-	-
	C	4,425,469	11,912,131	-	-	-
20/7/05	Issue of new ordinary shares	5,096,581	-	-	-	-
3/8/05	Issue of new ordinary shares	294,249	-	-	-	-
3/8/05	Bonus issue	22,906,510	-	-	-	-
11/8/05	Cancellation of deferred shares	-	(22,906,525)	-	-	-
1/12/05	Issue of new ordinary shares	5,390,830	-	-	-	-
Total		41,824,985	-	-	-	-

Notes to the Financial Statements

for the year ended 31 December 2005

19. Share capital (continued)

At 31 December 2005 the following options had been granted to the directors of the Company:

<i>Date of grant</i>	<i>Number of ordinary shares under option</i>	<i>Option price per share (p)</i>	<i>Latest date of purchase</i>
5 February 2001	500,000	1	5 February 2011
22 July 2002	600,000	60	22 July 2012
25 February 2003	100,000	60	25 February 2013
4 January 2005	1,750,000	60	4 January 2015
7 January 2005	300,000	60	7 January 2015
10 January 2005	300,000	60	10 January 2015
4 February 2005	500,000	60	4 February 2015
15 February 2005	150,000	60	15 February 2015
1 December 2005	960,000	60	1 December 2015
13 December 2005	190,000	108	13 December 2015

At 31 December 2005 the following options had been granted to the employees of the Company:

<i>Date of grant</i>	<i>Number of ordinary shares under option</i>	<i>Option price per share (p)</i>	<i>Latest date of purchase</i>
20 January 2000	100,000	1	20 January 2010
5 February 2001	300,000	1	5 February 2011
1 June 2001	25,000	52.5	1 June 2011
17 December 2001	12,500	52.5	17 December 2011
4 March 2002	12,500	52.5	4 March 2012
24 February 2003	82,500	60	24 February 2013
25 February 2003	332,500	60	25 February 2013
25 July 2003	10,000	60	25 July 2013
7 January 2005	50,000	60	7 January 2015
4 February 2005	75,000	30	4 February 2015
4 February 2005	220,500	52.5	4 February 2015
4 February 2005	689,750	60	4 February 2015
5 September 2005	200,000	60	5 September 2015
1 December 2005	969,600	60	1 December 2015

Notes to the Financial Statements

for the year ended 31 December 2005

19. Share capital (continued)

At 31 December 2005 the following options had been granted to third parties:

<i>Date of grant</i>	<i>Number of ordinary shares under option</i>	<i>Option price per share (p)</i>	<i>Latest date of purchase</i>
30 November 1999	40,000	1	30 November 2009
20 March 2000	10,000	1	20 March 2010
1 November 2001	25,000	52.5	1 November 2011

The exercise of all the share options awarded at 31 December 2005 is conditional on flotation or sale of the Company. No share options have lapsed nor been exercised in 2005.

20. Reconciliation of shareholders' funds and movement on reserves

Group

	<i>Share capital</i>	<i>Share premium account</i>	<i>Merger reserve</i>	<i>Capital redemption reserve</i>	<i>Profit and loss account</i>	<i>Total shareholders' funds</i>
	£	£	£	£	£	£
At 1 January 2004 as reported in the accounts of Intercytex Limited	269,349	16,987,916	-	-	(10,581,099)	6,676,166
Merger accounting on formation of Group		(16,987,916)	16,987,916	-	-	-
At 1 January 2004 (restated)	269,349	-	16,987,916	-	(10,581,099)	6,676,166
Loss for the year	-	-	-	-	(4,536,014)	(4,536,014)
At 31 December 2004 (restated)	269,349	-	16,987,916	-	(15,117,113)	2,140,152
Loss for the year					(6,507,922)	(6,507,922)
Conversion of loan notes & exercise of warrants	41,084	-	1,914,495	-	-	1,955,579
New equity share capital subscribed*	107,817	7,809,427			-	7,917,244
Redemption of shares	(229,065)		-	229,065	-	-
Bonus issue of shares	229,065	(229,065)	-	-	-	-
At 31 December 2005	418,250	7,580,362	18,902,411	229,065	(21,625,035)	5,505,053

Notes to the Financial Statements

for the year ended 31 December 2005

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

Company	<i>Share capital</i>	<i>Share premium account</i>	<i>Capital redemption reserve</i>	<i>Profit and loss account</i>	<i>Total share- holders' funds</i>
	£	£	£	£	£
On incorporation	1	-	-	-	1
Loss for the period	-	-	-	(937,027)	(937,027)
New equity share capital subscribed*	107,817	7,809,427	-	-	7,917,244
Conversion of loan notes & exercise of warrants	41,084	-	-	-	41,084
Acquisition of Intercytex Limited	269,348	-	-	-	269,348
Redemption of shares	(229,065)	-	229,065	-	-
Bonus issue of shares	229,065	(229,065)	-	-	-
At 31 December 2005	<u>418,250</u>	<u>7,580,362</u>	<u>229,065</u>	<u>(937,027)</u>	<u>7,290,650</u>

* Net of issue costs of £82,756

21. Post balance sheet events

In January 2006 the Company completed a placing and subscription over 13,888,889 new ordinary shares in aggregate at 108p per share through an initial public offering on the AIM market of the London Stock Exchange. The placing and subscription became wholly unconditional on 2 February 2006 by which time the entire issued share capital of the Company had been admitted to trading on AIM.

The placing and subscription raised £13.7 million net of estimated expenses.

Pursuant to the IPO Messrs Docherty, Fraser and Kerr resigned from the Board of Intercytex Group plc.

22(a). Notes to the cash flow statement

	<i>Year ended 31 Dec 2005 £</i>	<i>Year ended 31 Dec 2005 £</i>
Total operating loss	(7,194,804)	(5,143,175)
Depreciation and amortisation charges	350,466	392,706
(Increase)/decrease in stock	(45,335)	54,974
Increase in debtors	(243,490)	(163,127)
Increase in creditors	873,538	44,613
Net cash outflow from operating activities	<u>(6,259,625)</u>	<u>(4,814,009)</u>

Notes to the Financial Statements

for the year ended 31 December 2005

22(b). Notes to the cash flow statement

	<i>At 1 January</i> 2005 £	<i>Cash</i> <i>flow</i> £	<i>Other</i> <i>non-cash</i> <i>movements</i> £	<i>At 31</i> <i>December</i> 2005 £
Cash at bank and in hand	299,521	4,387,092	-	4,686,613
Short term deposits *	1,500,000	(500,000)	-	1,000,000
Finance leases	(425,663)	252,249	(183,096)	(356,510)
Unsecured convertible loan notes	-	(1,939,091)	1,939,091	-
	<u>1,373,858</u>	<u>2,200,250</u>	<u>1,755,995</u>	<u>5,330,103</u>

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

22(c). Material non-cash transactions

The following material non-cash transactions took place during the year:

- Inception of new finance leases;
- The conversion of the unsecured convertible loan notes into new C ordinary shares as described in Note 19;
- The acquisition of Intercytex Limited in exchange for new ordinary shares as described in Note 19; and
- The restructuring of the Company's authorised and issued share capital into ordinary shares and subsequent bonus issue as described in Note 19.

Notes to the Financial Statements

for the year ended 31 December 2005

23. Financial instruments

The Group's principal financial instruments comprise cash and liquid resources, finance leases and debtors and creditors arising in the normal course of business. These are used to finance the Group's operations and hence safeguarding them is regarded as a top priority. The Group's objective in using financial instruments is to maximise the returns on funds held consistent with this priority. Balance sheets at 31 December 2005 and 2004 are not representative of the positions throughout the year as cash and short-term investments fluctuate considerably depending on when share issues have occurred.

It is, and has been throughout the year, the Group's policy that no speculative trading in financial instruments or derivatives is undertaken.

Short-term debtors and creditors have been excluded from the following disclosures, other than currency risk disclosures, as permitted by FRS 13 "Derivatives and other financial instruments". The Group had no borrowing facilities in 2005 or 2004.

Interest rate risk and liquidity risk of the Group's financial assets

The Group is principally funded with equity and invests its funds in instant access higher rate deposit accounts and short-term bank treasury deposits. Therefore exposure to interest rate movements is minimal although movements in interest rates over time will affect the Group's interest income.

The Group always has access to funds at short notice so that it is always able to meet its financial liabilities as and when they fall due.

Interest rate profile of the Group's financial assets and liabilities

Financial assets comprise floating rate financial assets of £5.7m (2004: £1.8m). The sterling financial assets are LIBOR-based with variable interest rates and the US dollar financial assets are Federal Reserve Rate-based with variable interest rates.

The Group's financial liabilities were all denominated in sterling at fixed rates of interest and consisted of unsecured convertible loan notes and finance leases. Details of the finance leases are set out in note 16. The weighted average interest rate on finance leases was 10.8% (2004: 11.3%), which was fixed over a weighted average term of 8 months (2004: 8 months). The unsecured convertible loan notes were converted into ordinary shares during the year and accrued interest at the rate of 7.5% which was paid via the issue of additional ordinary shares at 74.2p per share.

Currency risk profile

The Group has a small operation in the USA which incurs US dollar costs but receives no income. The Group's operations have not to date been materially affected by exchange rate fluctuations and the Group has no formal hedging in place though some of the Group's cash has been held in US dollar denominated bank accounts and bank treasury deposits.

At the year end the Group had net monetary foreign currency assets of £372,517 (2004: £ nil) substantially all of which were held as US dollars.

Fair values

The directors consider there to be no material difference between the fair value and carrying values of the financial instruments at the balance sheet date.

Notes to the Financial Statements

for the year ended 31 December 2005

24. Consolidated profit and loss account from the date of incorporation to 31 December 2005

	<i>Period ended</i>
	<i>31 Dec</i>
	<i>2005</i>
	<i>£</i>
Operating Income	-
Research and development costs	(5,222,736)
General and administrative expenses	(1,380,068)
	<hr/>
Total expenses	(6,602,804)
	<hr/>
<i>Operating loss</i>	(6,602,804)
	<hr/>
Interest receivable	83,454
Interest payable and similar charges	(124,691)
	<hr/>
	(41,237)
	<hr/>
<i>Loss on ordinary activities before taxation</i>	(6,644,041)
	<hr/>
<i>Tax on loss on ordinary activities</i>	667,019
	<hr/>
<i>Loss on ordinary activities after taxation</i>	(5,977,022)
	<hr/> <hr/>

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