

VASTOX

**VASTox plc
Interim Report**

For the six months ended 31 July 2006

Highlights

VASTox plc is a drug discovery company with world-leading technology in the field of chemical genomics.

The Company has a number of novel proprietary in-house drug programmes and is a provider of high-value services to the pharmaceutical and life science industries.

Financial highlights

- Turnover increased 133% to £468,591 (H1 2005/06: £201,156) as a result of 15 new chemical genomics service contracts
- R&D expenditure increased to £1.28 million (H1 2005/06: £0.16 million) primarily to accelerate development of the lead neuromuscular drug discovery programme in Duchenne muscular dystrophy (DMD), and to fund two new programmes initiated during the period
- In-line with expectations, pre-tax losses up to £1.31 million (H1 2005/06: £0.13 million) owing to increased investment in proprietary drug discovery programmes
- Strengthened cash position following successful placing in February 2006 which raised £10.45 million (gross) – cash and short term investments up to £20.2 million at period end (H1 2005/06: £12.9 million)

Operational highlights

- Orphan drug designation awarded by European Medicines Agency (EMA) for the Company's initial compound for the treatment of DMD following positive preclinical studies
- Fifth and sixth drug discovery programmes initiated in cancer and stem cell therapy, respectively, the latter will be funded with a UK Department of Trade & Industry grant
- Board of Directors and Senior Management strengthened:
 - Richard Storer, DPhil appointed Chief Scientific Officer
 - Darren Millington, ACMA appointed Chief Financial Officer
 - James Taylor appointed Chief Commercial Officer
- On the 26 September 2006, VASTox announced two further Board changes:
 - Barry Price, PhD appointed as Non-Executive Chairman to replace Professor Stephen Davies who steps down to Non-Executive Director
 - Colin Wall, PhD appointed Non-Executive Director to replace John Montgomery who has resigned as Non-Executive Director

Contents

1	Chief Executive's statement
4	Consolidated profit and loss account
5	Consolidated balance sheet
6	Consolidated cash flow statement
6	Reconciliation of operating loss to net cash flow from operating activities
7	Notes to the interim results
8	Independent review report to VASTox plc
ibc	Company information

Chief Executive's statement

Introduction

In the year to date we have continued to make excellent progress in all areas of the business. Our own drug discovery programmes are advancing rapidly, our services business has grown significantly, and we have added senior R&D and commercial experience to the management team and board. Overall, our operations are now well positioned to enable us to deliver the key elements of our corporate strategy.

Our expenditure and R&D investment for the first six months of the year is in line with our budget and the Company's cash position remains strong having been bolstered significantly by the successful placing undertaken in February 2006, which raised £10.45 million in gross proceeds. This money has been ring-fenced specifically to accelerate our lead drug discovery programme: the development of innovative and effective new products to treat Duchenne muscular dystrophy (DMD).

Operational highlights

Lead programme in Duchenne Muscular Dystrophy accelerated

Considerable progress has been made in our lead drug discovery programme during 2006. The exciting progress we made in preclinical studies enabled us to raise more than £10 million in a secondary placing with new and existing investors to accelerate the development of this programme. The preclinical studies, announced in January 2006, resulted in the identification of a novel lead series of compounds that up-regulate utrophin production to reverse the effects of the defective dystrophin production mechanism that causes DMD. Preliminary toxicology assessment of this lead series of compounds has also been conducted using our proprietary zebrafish models.

Both this progress and the clear medical need for an effective treatment for DMD have supported our application for orphan drug designation for clinical candidates that emerge from the programme. Consequently, in June 2006, VASTox was awarded orphan drug status by the European Medicines Agency (EMA) for the Company's initial compound.

This designation provides an important external validation of VASTox's approach to the treatment of

DMD. From a commercial perspective, orphan status provides a quicker and cheaper route to market as the drug's development is fast-tracked through the EU's regulatory stages.

During the first half of 2006, VASTox also became a key commercial partner in a five-year, EU-wide network of leading researchers, clinicians and charities involved in the development of new treatments for neuromuscular dystrophies (NMD). The TREAT-NMD network, as it is called, involves 21 organisations from 11 countries and is funded by a €10 million grant from the EU.

Two new drug discovery programmes initiated

VASTox's approach for identifying new drug discovery programmes aims to capitalise on attractive academic research programmes where a clear rationale for the treatment of a particular disease has already been developed. To date in 2006, we have initiated two new drug discovery programmes in the areas of cancer and stem cell therapy based on this approach. The Company now has six drug discovery programmes in both niche neuromuscular diseases, such as DMD and spinal muscular atrophy, as well as more common diseases such as tuberculosis, osteoarthritis and cancer.

The fifth programme initiated in April 2006 in cancer is focused on the Wnt signalling pathway. This pathway is active during embryonic development and inactive in adults. It appears to be re-activated in certain types of cancer and leads to uncontrolled cell growth. VASTox has developed a whole organism screening programme in fruitflies in order to model the Wnt pathway and potentially identify compounds that can affect the pathway safely and effectively for development into therapeutics.

The sixth drug discovery programme, announced in September 2006, is focused on stem cell therapies and, initially, is part of a £910,000 collaborative programme that will be jointly funded by VASTox, the UK Department of Trade & Industry and the Medical Research Council. As part of the programme, entitled *Understanding Molecular Activation of Stem Cells* ("UNMASC"), VASTox will screen small molecules in zebrafish and fruitfly models to identify compounds that affect stem cell behaviour. Promising compounds can then be developed for use in a wide

Chief Executive's statement continued

range of regenerative therapies for diseases. Any intellectual property generated that relates to potential drugs will reside exclusively with VASTox.

VASTox continues to deliver on its commitments to progress all of its drug programmes using its in-house drug discovery expertise. The Company has now put in place an enlarged team of medicinal chemists and biologists who can use VASTox's unique chemical genomics platform to produce good quality drug candidates.

Services business continues to grow

During the first six months of this financial year VASTox has worked with 20 life science organisations, 15 of which are new. Each contract is profitable, increases our expertise in chemical genomics and makes our service offerings more valuable both for customers and our own drug programmes. We have pro-actively managed the services division to ensure that we can increase the size of customer contracts that we sign as well as to increase the gross margin that we earn.

Furthermore, our services offering, particularly in carbohydrate chemistry was enhanced during 2006 by the appointment of Professor George Fleet as specialist consultant. Professor Fleet is at the University of Oxford and is widely acknowledged as one of the world's foremost experts on carbohydrate chemistry and has consulted for many of the leading pharmaceutical and biotechnology companies.

New appointments strengthen development and commercial capabilities

VASTox has made positive steps forward during the first half of 2006 to bring in experienced industry professionals to its senior management team and board in order to maximise the potential of both its drug discovery and development, and its commercial capabilities.

Today, VASTox is very pleased to announce the appointment of Barry Price, PhD as Non-Executive Chairman. Barry brings a wealth of industry experience and is currently Chairman of the Boards of Biowisdom Limited and Antisoma plc, and a Non-Executive Director of Shire plc, one of the UK's largest life sciences companies. Professor Stephen Davies will step down as Chairman and remain as a

Non-Executive Director. Professor Davies has been Chairman since he founded VASTox in January 2003 and has guided the Company through a successful flotation in October 2004 and a growth phase that sees it now employing 50 scientists and managers. Professor Davies is stepping down as Chairman to focus more time on his new role as Waynflete Professor and Chairman of Chemistry at the University of Oxford, one of the most prestigious academic posts in UK science. We thank Steve for his contribution as Chairman and look forward to his continuing involvement as a Non-Executive Director.

The Company also announces today the appointment of Colin Wall, PhD as Non-Executive Director. Colin has significant public company experience and will act as the Company's senior independent Non-Executive Director. He replaces John Montgomery as Non-Executive Director. John is a co-founder of the Company and has been a director since its formation in 2003. We would like to thank John for his contributions to VASTox during his time as a director and at the same time welcome Barry and Colin to the board.

Earlier in 2006, VASTox added significant R&D and commercial experience to the executive management team. In April, Richard Storer, DPhil joined the board as Chief Scientific Officer. Richard has more than 30 years' R&D experience within the pharmaceutical industry and will oversee the development of VASTox's preclinical programmes with a key objective of advancing the most promising candidates into clinical trials. A major focus will be to accelerate the Company's DMD programme, from which we anticipate advancing a compound in clinical development during early 2007.

In May, Darren Millington, ACMA was appointed to the Board as Chief Financial Officer and Company Secretary. Darren has eight years' of financial and consulting experience and previously worked with IP2IPO Group plc (now IP Group plc), Arthur Andersen and Deloitte & Touche. Darren has worked with VASTox since the Company's successful flotation in October 2004.

In July, VASTox appointed James Taylor to the board as Chief Commercial Officer with responsibility to grow the services business and to lay the platform

for commercial progress with our own proprietary drug programmes. James has more than 20 years' business experience in the life science industry with a track record of delivering successful commercial deals. The majority of his career was spent at AstraZeneca and most recently, he was Vice President of Business Development at Cellzome, where he was responsible for commercialising its complex drug discovery technology as well as licensing early-stage drug programmes.

These significant appointments complete the senior management team and will provide VASTox with the experience needed to accelerate the growth of the business.

Financial review

Turnover during the first half of 2006 increased 133% to £468,591 (H1 2005/06: £201,156) as a result of 15 new chemical genomics service contracts. In addition to revenue growth, the gross margins of the services business have increased to 67% (H1 2005/06: 62%).

R&D expenditure increased in line with budget to £1.28 million (H1 2005/06: £0.16 million) primarily to accelerate development of our DMD drug discovery programme, and to fund additional programmes initiated during period in cancer and stem cell therapy.

Pre-tax losses during the period were £1.31 million, up from £0.13 million in H1 2005/06, as we continued to increase investment in advancing our drug discovery programmes. Recognising an R&D tax credit for the period has resulted in a post-tax loss of £1,143,290 (loss of £128,920 for H1 2005/06).

In February 2006, the Company raised £10 million after expenses by issuing a further 5,903,955 Ordinary Shares in a successful secondary placing. This fund-raising was supported by existing and new investors and the money has been ring-fenced for the DMD programme, for which it is expected to fund development until mid-2008.

The Company continues to make careful use of investors' funds and at 31 July 2006, VASTox had a strong cash position of £20.2 million, compared to £12.9 million on 31 July 2005 and £12.6 million on 31 January 2006).

FRS 20 restatement

All quoted UK companies are required to implement accounting standard FRS 20 – "Share based payment" for financial periods commencing on or after 1 January 2006. This standard requires recognition of the fair value of issued share options and is made retrospectively, leading to a restatement in prior periods. It is important to note that in the six month period to 31 July 2006, the charge due to the implementation of FRS 20 is £155,588; this compares to a charge of £7,200 for the six month period to 31 July 2005.

Summary and outlook

In the remainder of the current financial year, we expect to continue making good progress with our in-house drug programmes and remain on track to select our first clinical candidate from our lead DMD programme early in 2007.

In addition, we expect our services business to continue growing as our chemical genomics capabilities improve and expand, and our reputation for high quality and value-creating services is enhanced.

We believe that VASTox has had a strong first half of 2006/07 and through the development of its management and business is well placed to build on its rapid growth and deliver value for investors. None of this progress is possible without a team of committed scientists and managers; we thank them for their hard work and dedication.



Steven Lee, PhD
Chief Executive Officer

Consolidated profit and loss account

for the six months ended 31 July 2006

	Unaudited Six months ended 31 July 2006 £	Restated unaudited Six months ended 31 July 2005 £	Restated Year ended 31 January 2006 £
Turnover	468,591	201,156	531,361
Cost of sales	(154,828)	(75,894)	(233,444)
Gross profit	313,763	125,262	297,917
Administrative expenses			
Research and development	(1,284,466)	(159,069)	(1,025,683)
Other	(733,539)	(400,435)	(1,071,992)
	(2,018,005)	(559,504)	(2,097,675)
Operating loss	(1,704,242)	(434,242)	(1,799,758)
Interest receivable	414,324	305,322	582,868
Interest payable	(20,175)	–	–
Loss on ordinary activities before taxation	(1,310,093)	(128,920)	(1,216,890)
Tax on loss on ordinary activities	166,803	–	155,437
Loss on ordinary activities after taxation	(1,143,290)	(128,920)	(1,061,453)
Basic and diluted loss per ordinary share	3.21p	0.41p	3.39p

Consolidated balance sheet

at 31 July 2006

	Unaudited 31 July 2006 £	Restated unaudited 31 July 2005 £	Restated 31 January 2006 £
Fixed assets			
Intangible assets	57,977	35,000	28,016
Tangible assets	1,847,593	1,139,645	1,261,082
	1,905,570	1,174,645	1,289,098
Current assets			
Stock	29,207	–	27,000
Debtors	855,864	429,687	541,300
Cash on short term deposits	16,700,796	12,900,000	11,593,626
Cash at bank	3,512,585	19,730	1,039,690
	21,098,452	13,349,417	13,201,616
Creditors: amounts falling due within one year	(315,269)	(555,886)	(704,833)
Net current assets	20,783,183	12,793,531	12,496,783
Creditors: amounts falling due after more than one year	(610,442)	–	(690,812)
Net assets	22,078,311	13,968,176	13,095,069
Capital and reserves			
Called up share capital	3,721,707	3,131,311	3,131,311
Share premium account	22,327,396	12,946,848	12,946,848
Other reserves	(1,942,589)	(1,942,589)	(1,942,589)
Profit and loss account	(2,028,203)	(167,394)	(1,040,501)
Shareholders' funds	22,078,311	13,968,176	13,095,069

Consolidated cash flow statement

for the six months ended 31 July 2006

	Unaudited Six months ended 31 July 2006 £	Unaudited Six months ended 31 July 2005 £	Year ended 31 January 2006 £
Net cash flow from operating activities	(1,934,163)	(371,110)	(1,447,680)
Return on investments and servicing of finance	276,410	305,322	507,652
Taxation: R&D tax credit received	–	–	29,041
Capital expenditure	(652,964)	(1,175,734)	(1,373,553)
Cash outflow before management of liquid resources and financing	(2,310,717)	(1,241,522)	(2,284,540)
Management of liquid resources			
(Increase) decrease in short term deposits	(5,107,170)	900,000	2,206,374
Financing			
Issue of share capital	9,970,944	–	–
(Repayment) increase in debt during the year	(80,162)	–	756,604
	9,890,782	–	756,604
Increase (decrease) in cash in the period	2,472,895	(341,522)	678,438

Reconciliation of operating loss to net cash flow from operating activities

	Unaudited Six months ended 31 July 2006	Unaudited Six months ended 31 July 2005	Restated Year ended 31 January 2006
Operating loss	(1,704,242)	(434,242)	(1,799,758)
Depreciation charge	108,771	18,645	127,520
Amortisation of intangible fixed assets	4,409	3,797	7,767
FRS 20 charge for fair value of share options	155,588	7,200	66,626
Increase in debtors	(30,022)	(336,547)	(246,547)
Increase in stock	(2,207)	–	(27,000)
(Decrease) Increase in creditors	(466,460)	370,037	423,712
Net cash outflow from operating activities	(1,934,163)	(371,110)	(1,447,680)

Notes to the interim results

1. Basis of preparation

The results for the half-year are unaudited and do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. They have been prepared on the basis of the accounting policies expected to apply for the financial year to 31 January 2007.

The results shown for the full year ended 31 January 2006 are not the company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under section 237 (2)–(3) of the Companies Act 1985.

FRS 20 restatement

All quoted UK companies are required to implement accounting standard FRS 20 – “Share based payment” for financial periods commencing on or after 1 January 2006. This standard affects all companies that issue share options and results in a non-cash charge to the profit and loss statement to reflect the “fair value” of issued share options. The fair value of VASTox share options is calculated using the Black-Scholes formula. In common with the implementation of all accounting standards, prior year results must be restated as if the accounting standard had always been in force. In the six month period to 31 July 2006 the charge due to the implementation of FRS 20 is £155,588 (six month period to 31 July 2005: £7,200; year to 31 January 2006: £66,626). This restatement has had no impact on the net assets in the periods presented in these interim results.

2. Loss per share calculation

The loss per share has been calculated by dividing the loss for the period of £1,143,290 (for the period ended 31 July 2005: restated loss of £128,920; for the year ended 31 January 2006: restated loss of £1,061,453) by the weighted average number of 35,577,079 shares in issue during the six month period to 31 July 2006 (for the six month period ended 31 July 2005: 31,313,111; for the year ended 31 January 2006: 31,313,111).

Since the group has reported a net loss, diluted loss per share is equal to basic loss per share.

3. Analysis of changes in net funds

	Unaudited Six months ended 31 July 2006 £	Unaudited Six months ended 31 July 2005 £	Year ended 31 January 2006 £
Increase (decrease) in cash in the period	2,472,895	(341,522)	678,438
Increase (decrease) in short term deposits	5,107,170	(900,000)	(2,206,374)
Cash outflow (inflow) from loan finance	80,162	–	(756,604)
Opening net funds	11,876,712	14,161,252	14,161,252
Closing net funds	19,536,939	12,919,730	11,876,712

Independent review report to VASTox plc

We have been instructed by the Company to review the financial information for the six months ended 31 July 2006 on pages 4 to 7. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the London Stock Exchange for companies trading securities on the Alternative Investment Market and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report, in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom by auditors of fully listed companies. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 July 2006.



BDO STOY HAYWARD LLP

Chartered Accountants
Southampton

26 September 2006

Company information

Directors

B Price, PhD Non-Executive Chairman
S Lee, PhD Chief Executive Officer
R Storer, DPhil Chief Scientific Officer
D Millington, ACMA Chief Financial Officer
J Taylor Chief Commercial Officer
Professor S G Davies Non-Executive Director
D Norwood Non-Executive Director
Sir B Richards Non-Executive Director
C Wall, PhD Non-Executive Director

Company secretary

D Millington, ACMA

Registered office

91 Milton Park
Abingdon
Oxfordshire OX14 4RY

Company number

05197494

Nominated advisers & brokers

Evolution Securities Limited
100 Wood Street
London EC2V 7AN

Public relations advisers

Citigate Dewe Rogerson
3 London Wall Buildings
London Wall
London EC2M 5SY

Auditors

BDO Stoy Hayward LLP
Arcadia House, Maritime Walk
Ocean Village
Southampton SO14 3TL

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham BR3 4TU

Website: vastox.com

Investor contact: investors@vastox.com

vastox.com

91 Milton Park
Abingdon
Oxfordshire
OX14 4RY

Tel: +44 (0) 1235 44 39 10
Fax: +44 (0) 1235 44 39 99