

**Proteome Sciences plc**

**INTERIM  
REPORT  
2004**



# Contents

	<b>Page</b>
Highlights	2
Chairman's Statement	4
Unaudited Profit and Loss Account	8
Notes to the Financial Information	11

**Proteome Sciences plc**  
**Interim Statement**  
**For six months to 30<sup>th</sup> June, 2004**

R.S. Harris, BPharm, FR PharmS  
(Chairman)\*

A.J. Green BSc (Commercial Director)

J.L. Malthouse FCA (Finance Director)

C.D.J. Pearce (Chief Executive)

Professor W. Dawson, DSc, FR PharmS,  
FRSC\*

Dr. A. Lindberg\*

Dr. S.C. Steiner (Research & Development  
Director)

(\*non-executive Directors)

Dear Shareholder,

I am pleased to set out below the full text of the Company's half yearly statement which was released to the Stock Exchange on 30<sup>th</sup> September, 2004. The main events of the period can be summarised as follows:

**Financial**

- Loss after taxation reduced to £2.26m (2003: £3.58m).
- Headline Loss (excluding non-cash items and associates) declined 19% to £1.85m (2003: £2.27m).
- Cash balance at 30<sup>th</sup> June 2004 of £4.31m.
- Low and predictable cash burn.

**Commercialisation**

- License for high throughput stroke markers expected in next six months.
- Progress on BSE ante-mortem test and vCJD with samples now coming through.
- Biomarkers for early diagnosis of Alzheimer's discovered in CSF and serum. No objective clinical diagnosis currently exists. Selection of licensing partners underway.
- Discovery of novel kinases and good potential new Alzheimer's drug targets.
- New areas of application for ProteoSHOP<sup>®</sup>. Commercial deals expected to commence in the near future.
- Advanced negotiations in process for Sensitizer<sup>®</sup> family reagents.

**Veri-Q Inc**

- Good scientific results achieved and EU approval to use microarray platform for in vitro diagnostics should lead to fast track commercialisation.

**Intronn Inc**

- Groups at Cornell and Duke Universities, USA have successfully used and published results with SMaRT<sup>®</sup> for a broad range of new applications.
- Further grant and scientific news expected shortly.

Commenting on these results, Christopher Pearce, Chief Executive of Proteome Sciences, said:

“Our main focus remains the delivery of revenue from commercialising our scientific research and intellectual property through licensing deals and strategic alliances. Strong progress is being made with our existing partners and anticipated commercialisation deals are most advanced in the areas of high throughput stroke, ProteoSHOP<sup>®</sup> and Sensitizer<sup>®</sup>.

We continue to keep a tight control of costs and expect to see further efficiencies following the recent move of our research facilities in Frankfurt. We are maintaining a low and predictable rate of cash burn and have sufficient cash resources to support our ongoing requirements.

“We strongly believe that we will make considerable progress with commercialisation and revenue generation over the rest of the year and during 2005. We remain very confident about our future prospects.”

# Chairman's Statement

## Biomarkers

The news from Biosite at the end of July 2004 that our biomarkers were unlikely to be on their first stroke point of care panel, which uses a whole blood sample, because of potential interference from haemolysis was unexpected and disappointing and diverted attention away from the significant progress made in the period. A detailed statement was released at the AGM in August to put the situation into proper context in relation to the diagnostic market for stroke, where high throughput clinical laboratory applications account for over 90% of the total market size and where plasma or serum samples from which red blood cells have been removed is used. This has now been thoroughly investigated at our laboratories and should not have any negative implications for the commercialisation of our stroke markers for the main market application, high throughput diagnosis. Biosite still have not completed the testing process for all our biomarkers for haemolysis against highly characterised stroke patient samples and they continue to evaluate these in parallel to the wider stroke trials that they will shortly commence.

Active discussions are ongoing with the major global diagnostic companies that dominate the high throughput stroke field and further collaboration and licence agreements are anticipated in the next six months.

Progress is being maintained in our research collaborations, on BSE with IDEXX Laboratories Inc. to develop an ante-mortem blood test for screening live herds of cattle and with the Medical Research Council Prion Unit to develop blood bank screening of vCJD, the human form of "mad cow disease". We have been frustrated by the delays and lack of availability of samples in the past but that process has started to be resolved with samples now coming through the system. Both of these opportunities present enormous untapped potential and we have focused our research activities to bring assays to the market as quickly as possible.

Rapid advances have been made in our neurodegenerative research, in particular Alzheimer's disease, where we have established a very strong position in less than 12 months for both diagnostic and therapeutic applications. Two grants were awarded in early 2004, one under the EU 6<sup>th</sup> Framework to address patient response to drugs for depression and the other for the early detection of Alzheimer's disease in blood and the discovery of new targets for therapy. It is widely considered that a patient will have had Alzheimer's for ten to fifteen years before there are any clinical symptoms and onset increases dramatically in those over 65. No objective clinical assays currently exist. In March 2004 we announced a panel of CSF (cerebrospinal fluid) biomarkers, followed in June by the discovery of novel serum biomarkers for the early detection of the disease to be developed into a diagnostic assay. In a separate programme we presented the discovery of novel kinase activity in Alzheimer's in the USA in May as good potential new drug targets to prevent and / or delay the progression of Alzheimer's. These are major areas of unmet need and the process to select the appropriate licencing partners to develop the diagnostic assays is well underway.

## ProteoSHOP®

Proteome Sciences ProteoSHOP® toolbox continues to be developed and impressive new data and results supporting a range of applications was presented at the bi-annual proteomics conference in Siena at the beginning of September. This is the main global stage for new technology, developments and applications in proteomics. No major new techniques / developments were presented which threatened or undermined the position Proteome Sciences has established and we were one of the few delegates who showed validated data for disease application. Proteome Sciences and its collaborators had a considerable representation in the proceedings with 13 major presentations / poster sessions covering biomarker discovery through to chemical tags, including new biomarkers in CJD and stroke. Five significant new areas of application of ProteoSHOP® have been identified from which we are convinced that we can realise major economic value and for which our technical capabilities are ideally suited:

- Toxicoproteomics – Early toxicity / mechanisms of toxicity
- Pharmacoproteomics – Drug efficacy and mode of action
- Responder Profiling – Responder vs Non Responder
- Drug Recovery – Drugs failed under development
- Drug Refurbishment – Compounds that have gone off patent

It is expected that an announcement will be made in the near future concerning the first ProteoSHOP® commercial deal and we see ProteoSHOP® being involved in strategic alliances in three main areas of application: biomarkers, target validation and toxicoproteomics in 2005.

## Reagents

Particular emphasis and details were given in the last Annual Report and Accounts to the Sensitizer® family of reagents, where the size and range of opportunities is considerably greater than was originally anticipated. One of the principal areas addressed at the Siena meeting related to the requirement to simplify and / or reduce the amount of “information” being generated and to improve the performance and quantitation of protein separation and characterisation with mass spectrometry, bioinformatics, statistics and pattern recognition. Chemical mass tagging for the purpose of isobaric and isomeric tagging was identified as a key technology to advance this process. Until the high profile presentations of PST®, qPST™ and TMT® at Siena, the peer leaders in proteomics may not have appreciated the extent to which Proteome Sciences had already developed and applied chemical tagging and its core proteomics technologies to such a broad range of applications. The showcase at the Siena conference provided an ideal backcloth to demonstrate the Sensitizer® family and accelerate the commercialisation process. Advanced negotiations are underway for several of the reagents and licence agreements are expected to be concluded shortly.

## **Veri-Q**

Strong progress has been made on the microarray programme between Duke University and NCSU. Data and results generated confirm that many oligonucleotides used to manufacture microarrays are not fully deprotected and consequently have poor hybridisation on the “spotted” arrays, leading to inaccurate results. As EU approval was granted earlier this month to use a microarray platform for in vitro diagnostics, this should lead to fast track commercialisation of the Veri-Q technology by way of outlicencing.

## **Intronn**

Intronn’s main research effort is directed to its therapeutic pipelines, building a franchise in RNA therapeutics for the liver in haemophilia, hypercholesterolemia and AAT deficiency (alpha 1-antitrypsin), a well as addressing substantial commercial opportunities in cancer and molecular imaging.

Proteome Sciences increased its shareholding in June 2004 to a fully diluted level of approximately 40% (compared to its previous holding of 30%) through the subscription of US\$3.5m. This was financed through the issuance and placing of 1.85m shares in Proteome Sciences. As in the past, the Intronn shareholding will be held as a strategic investment.

The recent funding should enable Intronn to finance its progress through to clinical trials, by which time it intends to enter into partnering programmes, where significant portions of clinical and commercial development, including upfront payments and sponsored research collaborations, will be provided by strategic partners.

The research at Intronn using SMaRT<sup>®</sup> continues to advance well, in particular in relation to the RNA programmes for liver related disorders. Very encouraging results have been generated from the high capacity screen developed at Intronn last year which show considerable improvements in trans-splicing efficiency compared with traditional PTMs (*pre-trans-splicing molecules*). It has been particularly encouraging to see that a number of leading academic groups at Cornell and Duke have independently used and applied SMaRT<sup>®</sup> successfully across a broad range of new applications and published scientific papers in the major journals, thereby providing strong external validation for SMaRT<sup>®</sup> technology. Further news on grant developments and scientific results is expected shortly.

## **Financial Results**

The financial results for the six months to 30<sup>th</sup> June, 2004 show a Headline Loss (being the operating loss excluding non-cash operating costs and share of associate’s losses) of £1,846,850 compared with £2,267,873 in the corresponding period in 2003. Non-cash operating costs (amortisation of goodwill, depreciation and National Insurance on notional share option gains, as extracted from the profit and loss account) were £183,542 against £962,573 in 2003. The period to 30<sup>th</sup> June, 2004 also contains a share of associates’ losses at

Intronn Inc of £229,223 (30<sup>th</sup> June, 2003: £352,096). The loss on ordinary activities after taxation for the six months to 30<sup>th</sup> June, 2004 was £2,259,615 (30<sup>th</sup> June, 2003: £3,582,542). Cash at 30<sup>th</sup> June, 2004 stood at £4.3m.

The 37% reduction in the loss on ordinary activities after taxation for the sixth month period is in part a reflection of the tight financial control of the business following the acquisition of the German activities and also the movement in non-cash items. Additional cost savings will be made following the move of our research facilities in Frankfurt which was completed last month. The company is well funded and continues to have a low and predictable rate of cash burn with no major capital expenditure envisaged for the foreseeable future.

### **Non-Executive Directors**

Following the acquisition of Aventis by Sanofi we are pleased to announce the appointment of Dr. Alf Lindberg to the Board as a non-executive director, with effect from the 1<sup>st</sup> October, 2004.

Dr. Lindberg, aged 64 was formerly executive vice-president of research and development and a board member of Aventis Pasteur and is a Director of Microscience Limited, Medivir AB, Gemvax AS and Vaxin Inc.

Dr. Lindberg replaces Dr. W.M.H.H. Schüller who retires as a non-executive director, with effect from the 30<sup>th</sup> September, 2004 and we are delighted to welcome him to the Board and look forward to benefiting from the knowledge, experience and judgement he has developed over a highly successful research and commercial career.

We would also like to thank Dr. Schüller for his wise council and valuable contribution and wish him well for the future.

### **Future Prospects**

The main focus at Proteome Sciences is the conversion of our scientific research and intellectual property into revenue through licence deals and strategic alliances. In the near term this will be generated from the three main parts of the business:- proprietary biomarkers for diagnostic and therapeutic applications, (high throughput stroke, blood transfusion screening, Alzheimer's disease and cancer), ProteoSHOP<sup>®</sup> where we expect to enter into a number of strategic alliances and from reagents where we expect to conclude licences for several of the Sensitizer<sup>®</sup> family reagents. These should become increasingly visible as we move into 2005 and should generate sustainable and growing revenue and royalties. We remain confident about our future prospects.

R.S. Harris  
Chairman  
25 October 2004

## Unaudited consolidated profit and loss account

### For the Six Months ended 30th June, 2004

	Six months ended 30th June 2004	Six months ended 30th June 2003	Year ended 31st December 2003
	£	£	£
<b>Turnover – continuing operations</b>			
	47,342	108,720	170,051
Cost of sales	<u>(35,879)</u>	<u>(64,571)</u>	<u>(82,924)</u>
<b>Gross profit</b>	11,463	44,149	87,127
Administrative expenses excluding non-cash items	(2,158,079)	(2,345,831)	(5,021,346)
Amortisation of goodwill	(324,480)	(324,480)	(648,960)
Depreciation	(288,319)	(301,271)	(585,234)
N.I. on notional share option gains	429,257	(336,822)	(713,943)
Administrative expenses	<u>(2,341,621)</u>	<u>(3,308,404)</u>	<u>(6,969,483)</u>
<b>Operating loss – continuing operations</b>	(2,330,158)	(3,264,255)	(6,882,356)
Share of associate's operating loss	<u>(229,223)</u>	<u>(352,096)</u>	<u>(573,024)</u>
Group operating loss – continuing operations	(2,559,381)	(3,616,351)	(7,455,380)
Interest receivable	89,377	37,369	124,682
Interest payable and similar charges	<u>(1,611)</u>	<u>(3,560)</u>	<u>(5,905)</u>
<b>Loss on ordinary activities before taxation</b>	(2,471,615)	(3,582,542)	(7,336,603)
Tax credit on loss on ordinary activities	<u>212,000</u>	<u>-</u>	<u>555,444</u>
<b>Loss for the financial period</b>	<u>(2,259,615)</u>	<u>(3,582,542)</u>	<u>(6,781,159)</u>
<b>Headline loss</b>	<u>(1,846,850)</u>	<u>(2,267,873)</u>	<u>(4,259,998)</u>
<b>Loss per share</b>			
<b>Headline loss per share (note 3c)</b>	(1.53p)	(1.99p)	(3.65p)
<b>Basic and diluted loss per share (note 3a)</b>	(1.87p)	(3.14p)	(5.81p)

## Unaudited consolidated balance sheet

As at 30<sup>th</sup> June, 2004

	30th June 2004 £	30th June 2003 £
<b>Fixed Assets</b>		
Goodwill	6,096,534	5,840,641
Tangible assets	833,760	1,280,729
Investments in associates	1,048,611	574,826
Other investments	<u>225,756</u>	<u>225,756</u>
	<u>8,204,661</u>	<u>7,921,952</u>
<b>Current Assets</b>		
Debtors	1,180,177	928,748
Cash held on deposit as short term investment	3,300,000	1,164,162
Cash at bank and in hand	<u>1,007,280</u>	<u>6,749,536</u>
	<u>5,487,457</u>	<u>8,842,446</u>
<b>Creditors:</b> Amounts falling due within one year	(1,636,057)	(1,941,965)
	_____	_____
<b>Net current assets</b>	<u>3,851,400</u>	<u>6,900,481</u>
<b>Total assets less current liabilities</b>	12,056,061	14,822,433
<b>Creditors:</b> Amounts falling due after more than one year	(110,000)	(110,000)
Provisions for liabilities and charges	<u>(301,625)</u>	<u>(353,761)</u>
<b>Net assets</b>	<u>11,644,436</u>	<u>14,358,672</u>
<b>Capital and reserves</b>		
Called-up share capital	1,224,009	1,189,211
Share premium account	24,164,336	21,331,605
Other reserve	10,755,000	10,755,000
Profit and loss account	<u>(24,498,909)</u>	<u>(18,917,144)</u>
<b>Equity shareholders' funds</b>	<u>11,644,436</u>	<u>14,358,672</u>

## Unaudited consolidated cash flow statement

For six months 30<sup>th</sup> June, 2004

	Six Months ended 30 <sup>th</sup> June 2004	Six Months ended 30 <sup>th</sup> June 2003
	£	£
<b>Net cash outflow from operating activities</b>	(2,025,849)	(2,192,225)
Returns on investments and servicing of finance	87,766	33,809
Capital expenditure and financial investment	<u>(2,015,138)</u>	<u>(11,904)</u>
<b>Cash outflow before use of liquid resources and financing</b>	(3,953,221)	(2,170,320)
Management of liquid resources	1,495,161	2,185,093
Financing	<u>2,100,117</u>	<u>5,828,268</u>
<b>(Decrease) / Increase in cash in the period</b>	<u>(357,943)</u>	<u>5,843,041</u>

### Reconciliation of operating loss to operating cash flows

	2004	2003
	£	£
Operating loss	(2,330,158)	(3,264,255)
Depreciation charges	288,319	301,271
Amortisation charges	324,480	324,480
National Insurance on notional share option gains	(429,257)	336,822
Loss on sale of tangible fixed assets	2,816	-
Decrease / (increase) in debtors	194,352	(196,496)
(Decrease) / increase in creditors	<u>(76,401)</u>	<u>305,953</u>
<b>Net cash outflow from operating activities</b>	<u>(2,025,849)</u>	<u>(2,192,225)</u>

## Notes to the Financial Information

1. There has been no change to any of the accounting policies set out in the 2003 statutory accounts.
2. Following the loss of £2,259,615 incurred in the period, the Directors do not recommend the payment of a dividend.
3.
  - a. The calculation of the loss per share for the six months ended 30th June 2004 is based on the loss for the financial period of £2,259,615 and on 120,826,460 Ordinary Shares, being the weighted average number of shares in issue and ranking for dividend during the period (six months ended 30th June 2003 – loss £3,582,542, number of Ordinary Shares in issue and ranking for dividend, 114,248,076).
  - b. The calculation of the loss per share for the year ended 31st December 2003 is based on the loss for the year of £6,781,159 and on 116,739,021 Ordinary Shares, being the weighted average number of shares in issue and ranking for dividend during the year.
  - c. The losses used to calculate the headline loss per share are as follows:

	<b>Six Months Ended 30<sup>th</sup> June, 2004</b>	<b>Six Months Ended 30<sup>th</sup> June, 2003</b>	<b>Year Ended 31<sup>st</sup> December, 2003</b>
	£	£	£
Loss for the Financial Period	(2,259,615)	(3,582,542)	(6,781,159)
<b>Deduct / (Add)</b>			
Amortisation of Goodwill	324,480	324,480	648,960
Depreciation	288,319	301,271	585,234
National Insurance on			
Notional Share Option Gains	(429,257)	336,822	713,943
Share of Associate's			
Operating Loss	<u>229,223</u>	<u>352,096</u>	<u>573,024</u>
<b>Headline Loss</b>	<u>(1,846,850)</u>	<u>(2,267,873)</u>	<u>(4,259,998)</u>

The Headline loss per share is considered by the Directors to be a more meaningful measurement of financial performance than the basic loss per share as it excludes goodwill amortisation and other non-cash items and better reflects the cash outflow of the business.

4. The preceding financial information does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information for the year to 31st December 2003 is based on the statutory accounts for that year. Those accounts, upon which the auditors issued an unqualified opinion, and which did not contain any statement under Section 237(2) or (3) of the Companies Act 1985, have been delivered to the Registrar of Companies.





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