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A copy of this document, which comprises a prospectus and has been drawn up in accordance with the Public Offers of Securities Regulations 1995 (as amended) (the "Regulations") has been delivered to the Registrar of Companies in England and Wales for registration in accordance with regulation 4(2) of the Regulations. Copies of this document will be available free of charge to the public during normal business hours on any day (Saturdays, Sundays and public holidays excepted) at the offices of Collins Stewart Limited, 9th floor, 88 Wood Street, London EC2V 9QR from the date of this document until the date on which Admission takes place, which is expected to be 13 June 2002 and for one month thereafter.

Application will be made for the Ordinary Shares to be admitted to trading on the Alternative Investment Market of the London Stock Exchange. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not Officially Listed. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

The rules of AIM are less demanding than those of the Official List of the UK Listing Authority. Furthermore, London Stock Exchange has not itself examined or approved the contents of this document.

For a discussion of risks and other factors that should be considered in connection with an investment in the Company, prospective investors should read the section entitled "Risk Factors" set out in Part II of this document.

It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on 13 June 2002. The Placing Shares to be issued or sold pursuant to the Placing will, on Admission, rank *pari passu* in all respects with the Ordinary Shares and will rank in full for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company. The Placing Shares are not being made available to the public in conjunction with the Placing.

Cobra Bio-Manufacturing plc

(incorporated and registered in England and Wales with registered number 4442927)

Placing of 7,000,000 ordinary shares of 10p each at

100p per share

**Application for admission to trading on
the Alternative Investment Market**

Nominated Adviser and Broker

Collins Stewart Limited

SHARE CAPITAL IMMEDIATELY FOLLOWING THE PLACING

Authorised			Issued and fully paid	
Number	Amount		Number	Amount
20,000,000	£2,000,000	Ordinary Shares of 10p each	13,000,000	£1,300,000

This document does not constitute an offer to sell or an invitation to subscribe for, or the solicitation of an offer to buy or subscribe for, Placing Shares in any jurisdiction where such an offer or solicitation is unlawful and is not for distribution in or into the United States, Canada, Japan or Australia. The Placing Shares have not been, and will not be registered under the United States Securities Act of 1933 (as amended) or under the applicable securities laws of Canada, Japan or Australia and, subject to certain exceptions, may not be offered for sale or subscription, or sold or subscribed, directly or indirectly, within the United States, Canada, Japan or Australia or to or by any national, resident or citizen of such countries.

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No person is authorised, in connection with the Placing, to give any information or make any representation other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by the Company or Collins Stewart or their respective directors.

Collins Stewart, which is regulated by The Financial Services Authority, is acting as nominated adviser and broker of the Company in respect of the Placing and no one else, and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Collins Stewart or for providing advice in relation to the matters contained in this document or any matter concerning the Placing. The responsibility of Collins Stewart as nominated adviser and broker is owed solely to the London Stock Exchange. Collins Stewart has not authorised the contents of this document.

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PLACING STATISTICS

Placing Price	100p
Number of Ordinary Shares in issue prior to the Placing	6,000,000
Number of Placing Shares being placed	7,000,000
Number of Ordinary Shares in issue following the Placing	13,000,000
Market capitalisation of the Company at the Placing Price	£13 million
Estimated total Proceeds of the Placing	£7 million
Estimated expenses of the Placing	£0.84 million
Estimated net proceeds of the Placing receivable by the Company	£6.16 million
Percentage of the enlarged ordinary issued share capital available in the Placing	54 per cent.

EXPECTED TIMETABLE

Date of the Placing	7 June 2002
Dealings in the Ordinary Shares to commence on AIM	13 June 2002
CREST accounts credited	13 June 2002
Definitive share certificates despatched by	20 June 2002

DIRECTORS AND ADVISERS

Directors	Geoffrey Peter Fothergill (Executive Chairman) David Robert Thatcher (Chief Executive) Peter Alistair Coleman (Finance Director) David Philip Bloxham (Non-executive Director) Nigel Kenneth Harry Slater (Non-executive Director) all of: Stephenson Building, Keele University Science Park, Keele, Staffordshire ST5 5SP
Registered Office	Stephenson Building Keele University Science Park Keele Staffordshire ST5 5SP
Company Secretary	Peter Alistair Coleman
Nominated Adviser and Broker	Collins Stewart Limited 88 Wood Street London EC2V 7QR
Reporting Accountants and Registered Auditor to the Company	Ernst & Young LLP 100 Barbirolli Square Manchester M2 3EY
Solicitors to the Company	Memery Crystal 31 Southampton Row London WC1B 5HT
Solicitors to ML	Stringer Saul 17 Hanover Square London W1S 1HU
Patent Agent to the Company	Harrison Goddard Foote Belgrave Hall Belgrave Street Leeds LS2 8DD
Registrars	Capita IRG Plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU

DEFINITIONS

The following definitions apply throughout this document unless otherwise stated or the context otherwise requires:

“Act”	the Companies Act 1985, as amended
“Admission”	the admission of the Existing Ordinary Shares and the Placing Shares to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules published by the London Stock Exchange governing admission to and the operation of AIM
“Approved Scheme”	the proposed Inland Revenue approved company share option scheme of the Company to be called the Cobra Bio-Manufacturing plc 2002 Approved Company Share Option Scheme
“Articles”	the Company’s Articles of Association
“Cobra”	Cobra Therapeutics Limited, a subsidiary of the Company
“Collins Stewart”	Collins Stewart Limited
“Collins Stewart Warrant”	the warrant to be issued to Collins Stewart conditional on Admission to subscribe 390,000 Ordinary Shares at the Placing Price representing 3 per cent. of the Enlarged Share Capital
“Company”	Cobra Bio-Manufacturing plc, a wholly owned subsidiary of ML prior to the Placing
“Combined Code”	the principles of good governance and code of practice prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel, published in June 1998
“CREST”	the electronic settlement system operated by CRESTCo Limited, which facilitates the transfer of title to shares in uncertificated form
“Directors” or “ Board”	the directors of the Company at the date of this document
“Enlarged Share Capital”	the issued ordinary share capital following the Placing
“Existing Ordinary Shares”	the 6,000,000 Ordinary Shares in issue prior to the Placing, all of which are owned by ML
“Group”	the Company and Cobra
“London Stock Exchange”	London Stock Exchange plc
“Manufacturing Business”	the manufacturing business of Cobra which is focussed on the manufacture of DNA and protein based pharmaceuticals, and which will following Admission be the ongoing business of Cobra
“ML”	ML Laboratories plc
“ML Group”	ML and its subsidiaries following Admission
“Ordinary Shares”	ordinary shares of 10p each in the capital of the Company
“Placing”	the proposed placing of the New Ordinary Shares

“Placing Agreement”	the conditional agreement dated 7 June 2002 between the Company, ML, Collins Stewart, and the Directors relating to the Placing, particulars of which are set out in paragraph 9 of Part VII of this document
“Placing Price”	100p per Placing Share
“Placing Shares”	the 7,000,000 new Ordinary Shares to be issued at the Placing Price for cash by the Company pursuant to the Placing
“POS Regulations”	The Public Offers of Securities Regulations 1995, as amended
“R&D Business”	the Research and Development Business of Cobra which is focused on the development of pharmaceutical products based on DNA which, by Admission, will have been sold by Cobra to ML
“Share Option Schemes”	the Approved Scheme and the Unapproved Scheme
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of The Financial Services and Markets Act 2000
“Unapproved Scheme”	the unapproved company share option scheme of the Company to be called the Cobra Bio-Manufacturing plc 2002 Unapproved Company Share Option Scheme
“\$”	US dollars

GLOSSARY

The following glossary of terms apply throughout this document unless otherwise stated or the context otherwise requires:

“AIDS”	Acquired Immune Deficiency Syndrome
“antibody”	a protein produced by the body in response to stimulation by foreign substances, including infections: part of the body’s natural defence system against many infections
“biopharmaceuticals”	medicines where the active principal cannot be chemically synthesised and comprise either recombinant DNA, virus or protein
“DNA”	deoxy-ribonucleic acid, a molecule that encodes genetic information
“DNA Product”	a medicine where the active ingredient is DNA and exerts its effect through transmission of a transferred unit of DNA. This DNA may be delivered in the form of plasmid DNA or be a recombinant virus
“DNA vaccine”	a vaccine where the active ingredient is DNA. These vaccines may be designed to protect the healthy recipient (prophylactic) or a patient suffering from the disease (therapeutic)
“EU Grade C”	air quality standard for the manufacture of sterile product intermediates
“genes”	the basic units of inherited characteristics. At the molecular level a single gene consists of a length of DNA encoding the structure of an RNA molecule which in turn usually codes for the structure of a protein molecule. Most of the genes’ influence on the structure and development of the body is through the action of these proteins
“gene expression”	this is the process whereby the instructions in the DNA are converted into a functional activity in a cell, usually synthesis of a protein
“gene therapy”	a procedure whereby a gene is introduced into a cell such that there is a beneficial effect to the patient as a result of its effect on the behaviour of the cell
“genome”	the entire inherited genetic makeup of an individual or species
“genomics”	the analysis of the genomes of various species, including man, for the identification and understanding of the function of genes useful in therapy and diagnosis of human disease
“GMP”	Good Manufacturing Practice – the part of quality assurance which ensures that medicinal products are consistently produced and controlled to the quality standards appropriate for their intended use
“GTAC”	Gene Therapy Advisory Committee
“HIV”	Human Immuno-deficiency Virus, a virus transmitted maternally or by transfer of body fluids which infects a sub-set of cells of the immune system leading to their eventual depletion and resulting in severe, usually fatal immunodeficiency known as AIDS
“in vivo”	a process performed in a living organism
“in vitro”	a process performed outside a living organism in, for example, a test tube
“MCA”	Medicines Control Agency

“MRC”	Medical Research Council
“Phase I/II”	first trials of a new candidate therapy in which a small number of patients rather than healthy volunteers take part
“Phase I”	the first safety test of a new therapeutic in man, usually conducted on healthy volunteers
“Phase II”	trials of a new therapeutic where the most effective dose and treatment regiment are ascertained
“Phase III”	trials of a new therapeutic to compare its efficacy with the best available alternative treatments
“plasmid”	a relatively small unit of DNA which can replicate in bacteria (but not in man). Plasmids can be engineered to incorporate individual human genes, and thus provide a route to production of large quantities of DNA containing such genes
“plasmid DNA therapeutics”	medicines where the active ingredient is made of DNA produced in bacteria and which encodes a therapeutic gene
“pre-clinical”	a stage in drug development before clinical trials, at or after the stage of candidate drug selection
“protein therapeutics”	medicines where the active ingredient is protein
“QA”	quality assurance
“QC”	quality control
“recombinant”	organism or molecule produced after the manipulation of DNA in a test tube
“R&D”	research and development
“RNA”	ribonucleic acid, a substance which acts as the repository of genetic information is produced as part of the process of gene expression in all organisms and has various other functions
“toll manufacture”	use of spare capacity by a pharmaceutical company to manufacture products for other pharmaceutical companies on a contract basis
“Viral DNA therapeutics”	medicines where the active ingredient is a recombinant virus engineered to deliver DNA encoding a therapeutic gene

PART I

Information on the Group

Introduction

Cobra is a biotechnology company whose manufacturing division is focused on the manufacture of both DNA and protein based pharmaceuticals and has been operating from facilities at the University of Keele Science Park for the past 8 years. Since March 2000, it has been a wholly owned subsidiary of ML. Cobra also has a research and development division, which focuses on the development of pharmaceutical products based on DNA known as gene therapy. Cobra has contracted to sell the R&D Business to ML prior to Admission.

The Manufacturing Business was originally established in order to expedite Cobra's own R&D programmes. Cobra subsequently invested in industry-standard manufacturing facilities and developed technology for the manufacture of both DNA and protein based pharmaceuticals.

In 1998, the Manufacturing Business began to offer manufacturing services to the pharmaceutical industry and since that time external revenues from this business have grown from £81,900 in 1998 to £1.1 million in 2001. The Manufacturing Business is now recognised as a leader in the contract manufacture of DNA vaccines and serves customers on four continents.

Cobra aims to become a major contract supplier of DNA therapeutics for clinical trials and subsequently to diversify and become a major full service custom manufacturer of licensed biopharmaceutical products for commercial sale.

History

Cobra was founded in 1992 as a start up biotechnology company specialising in gene therapy. Cobra was initially financed by a number of venture capital funds, and subsequently went on to raise £6.4 million in 1993. In 1996, Cobra raised a further £22.5 million from investors. In 1998, Cobra acquired Cobra Biosciences Limited, a company involved in viral gene therapy. In March 2000, ML acquired Cobra for £10.36 million plus contingent deferred consideration which has not been payable to date.

The R&D Business, which Cobra has contracted to sell to ML prior to Admission, has continued to have a focus on gene therapy and drug discovery technologies and is likely to be an important customer of Cobra following Admission.

The Market

The Biopharmaceuticals Market

Biopharmaceuticals are medicines whose active ingredient cannot be chemically synthesized. These products are usually produced by genetically engineered bacteria or cell lines and their manufacture requires specialised expertise and technology. For those pharmaceutical companies which either do not have such technology or lack sufficient internal capacity, manufacturing services are often outsourced to contract manufacturing organisations such as Cobra.

Biopharmaceuticals are now an expanding and increasingly important sector of the pharmaceutical industry, accounting for approximately \$23 billion of sales in 2000. The recent commercial success of several protein-based biopharmaceuticals and the number of biopharmaceutical products in the development pipeline suggests this sector of the market will increase at twice the rate (estimated at 13-16 per cent. per annum) as that of conventional drugs. Increased investment in research and development in the sector has already resulted in a shortage of capacity for biopharmaceuticals production and this situation is predicted to continue for some years.

The total biopharmaceuticals contract-manufacturing sector had an estimated value of approximately \$1 billion in 2000 and unlike the fine chemicals sector is expected to continue growing, reaching approximately \$2 billion by 2004 and approximately \$5 billion by 2009.

The Market for Cobra's Services

Cobra currently operates in two areas:

- manufacture of DNA and protein-based therapeutics for clinical trials; and
- development services.

By 2006, Cobra hopes to compete in a third market segment, the manufacture of licensed commercial DNA and protein therapeutic products.

The Directors believe the estimated size of these markets will be approximately \$2 billion by 2004.

Manufacture of DNA Therapeutics

DNA therapeutics are pharmaceutical products where the active ingredient is a DNA molecule. This DNA may be carried in the form of bacterial DNA, called plasmid DNA, or by a genetically engineered virus. Although no plasmid DNA or viral DNA therapeutics have yet reached the market, there are over 60 companies developing such products, several of which are now in later phase clinical trials and the first approvals are expected within the next 2 years. The total market for DNA therapeutics approved for commercial sale has been estimated to grow to \$3.3 billion by 2009.

DNA-based medicines are expected to be commercialised in the same way as other recombinant biopharmaceuticals and it is expected that the same ongoing trend towards outsourcing commercial manufacture will be followed, particularly in view of the specialised nature of the technology used in their manufacture. A recent survey commissioned by Cobra suggests that in 2000 the contract manufacturing market for DNA therapeutics was \$88 million and the market is expected to grow by approximately 30 per cent. per annum and reach \$424 million by 2006.

Manufacture of Protein Therapeutics

In 2000, 70 per cent. of the \$1 billion contract manufacturing market was related to the manufacture and development of protein-based therapeutics. 15 per cent. of this revenue was estimated to be from commercial manufacture and 44 per cent. from manufacture for clinical trials. This market has been predicted to continue growing at approximately 16 per cent. per annum although the introduction of DNA therapeutics and transgenic production (manufacture in animal milk or in plants) may erode these revenues.

Development Services

Unlike the conventional pharmaceutical fine chemicals industry, the technologies for the production of biopharmaceuticals are still evolving and each product candidate usually requires development of a customised process. As this technology is highly specialised, much of this activity is outsourced to contract manufacturers. In 2000 it is estimated that of the \$1 billion biopharmaceutical contract manufacturing spend, 29 per cent. was devoted to development services such as cell line development (engineering the cells to produce the product), cell banking (establishing a stable bank of cells for future production) and process development.

Customer Base

For early stage DNA and protein-based therapeutics manufacture for clinical trials and development services there are three main customer categories:

- non-commercial research organisations;
- small to medium companies; and
- large pharmaceutical companies.

Small to medium companies are prominent in biopharmaceutical development, the successful products being licensed on to pharmaceutical companies. These companies usually have to outsource manufacture of their products, as they do not have the capital resources to build their own facilities. Consequently such companies are the major customers for clinical trials manufacture. Large pharmaceutical companies have the resources to manufacture in-house but often cut financial risks by outsourcing manufacture at different stages within the product life cycle. All customers are under pressure to accelerate product development and the time and expense needed to acquire specialised and sophisticated manufacturing technology make outsourcing of the manufacture of these products an attractive option.

The Business

Over the past 7 years, using pioneering developments in process technology, Cobra has established a strong position in the manufacture of biopharmaceutical products. Cobra has:

- gained a track record for quality and service in the custom manufacture of products for clinical trials worldwide;
- constructed and validated a GMP accredited manufacturing facility capable of manufacturing biopharmaceuticals for early stage clinical trials (MCA approved in 1999);
- attracted an experienced management team with key manufacturing know how; and
- built a portfolio of intellectual property rights to heighten the Manufacturing Business' competitive advantage.

Manufacture of DNA Therapeutics for Clinical Trials

Cobra has established a worldwide reputation in the manufacture of plasmid DNA therapeutics and is supporting or is preparing to support clinical trials in the USA, Europe, Africa, China and Australia.

Cobra has been granted patents over a plasmid DNA manufacturing process. DNA manufactured by this process has been shown to be safe and active in humans and the technology has been found to be particularly attractive to companies developing treatments where patients suffer from bacterial infections such as HIV, diabetic ulcers and tuberculosis. Cobra also expects this intellectual property to generate future royalty income.

Cobra also manufactures viral DNA products. Cobra is supporting one of the R&D Business's products in clinical trials in the UK and The Netherlands. Cobra is also manufacturing viral products for external customers including products for trials planned in the USA and in Australia.

Protein Therapeutic Product Manufacture

Cobra has wide experience in the manufacture of protein therapeutics. Since 1999 Cobra has been providing process development services in this sector. Although Cobra's fermentation capacity currently constrains its ability to compete in this area, Cobra has won contracts for the clinical production of two protein therapeutics. Given that protein therapeutics constitute 70 per cent. of the biopharmaceuticals contract manufacturing market, as Cobra grows, the Directors believe income from this manufacturing service will increase significantly.

Development Services

Cobra also provides services for the development of cell lines for protein therapeutics production. Cobra has developed an expression technology, which enables the isolation of stable high producer cell lines for protein therapeutics manufacture. Cobra has rights to license this technology for the development of cell lines and commercial manufacture. Cobra also expects this intellectual property to generate future royalty income.

Facilities

Cobra has invested approximately £5 million in developing and equipping over 11,000 sq ft of leasehold facilities for the Manufacturing Business at the Keele University Science Park. The existing facility includes 4500 sq ft of EU Grade C clean room space required for key stages in the manufacture of biopharmaceutical products. The Manufacturing Business has recently expanded its GMP manufacturing operations significantly, doubling virus manufacturing capacity and increasing fermentation capacity four fold. A further GMP inspection of the enlarged facility is expected by the end of July. Cobra also has a process development facility and separate QA/QC laboratories. To date, revenues have been generated from a microbial production suite (75L fermenter), a virus production suite and process development and QC laboratories. The Manufacturing Business expansion programme completed in February 2002 added a second microbial production suite and an additional virus production suite.

There is a worldwide shortage of capacity for clinical trials manufacture for DNA therapeutics and Cobra's manufacturing facilities are booked 6-12 months in advance with firm commitments for all production suites.

Future services

Cobra's immediate objective is to use its existing assets to become a major supplier of DNA products for clinical trials. Cobra's second objective is to enter into the supply of pharmaceutical products licensed for commercial sale. This will require a further fundraising within the next 2 years in order to provide the required capital investment.

Competition

There are approximately 60 companies engaged in the contract manufacture of biopharmaceutical products worldwide. A recent survey of contract manufacturers for these products has estimated that the industry will experience a shortfall of fermentation capacity over at least the next 5 years. As entrants require both specialised facilities and significant technological expertise, there are high barriers to participation. The only fine chemicals manufacturers to have entered this market have done so through acquisition.

Pharmaceutical companies which have developed manufacturing technology in-house to support internal biopharmaceutical programmes can compete in the market by carrying out toll manufacture, supplying unused capacity to the market. Competition from these companies is significant with an estimated \$325 million of business carried out by them in 2000. Some companies have made the transition from toll manufacturing to being major contract manufacturing operations by investing in major new assets to supply external customers.

In the DNA therapeutics sector, so far as the Directors are aware, only two companies offer custom manufacture of plasmid DNA therapeutics for commercial sale. Early phase clinical trials manufacture of plasmid DNA is supported by six companies worldwide. At present, so far as the Directors are aware, only three companies have constructed facilities for the contract manufacture of viral products on a commercial scale. As would be expected given the size of the market, many more companies are active in the manufacture of protein therapeutics.

Intellectual Property

Cobra has been granted 20 patents covering the design of cell lines for manufacturing products and the technology for producing and manufacturing such products. Cobra also has rights to novel expression technology for the manufacture of protein therapeutics. An independent report on Cobra's patents is set out in Part VI of this document.

DNA Therapeutics Manufacturing Technology

Cobra has patented a novel and robust system for the production of plasmid DNA. This system enables the plasmid DNA to be manufactured without the use of antibiotics and using Cobra's proprietary cell lines, the customer is able to delete the antibiotic resistance gene from the plasmid product. As manufacture of plasmid DNA requires use of Cobra's proprietary cell lines, the patents granted to Cobra are anticipated by the Directors to generate revenue income as these products are commercialised. As mentioned under the heading "Third Party Rights" in the Patent Agent's report in Part VI of this document, one of Cobra's two patent families which cover this technology may infringe a patent family of a third party. However, Cobra's business is not dependent on this family of patents, and the Directors do not consider possible infringements in this area to constitute a material risk to the future development of the business of the Group.

Protein Therapeutics Manufacturing Technology

Many of the major biopharmaceutical products on the market are produced in mammalian cell lines. Production strains for such products are difficult to isolate, may take years to improve and are potentially extremely valuable. A novel technology developed by Cobra accelerates the isolation of cell lines with the key properties of stability and high productivity. Cobra also has an exclusive licence to contract manufacture protein therapeutics using this technology and is entitled to royalties on sales of all such protein products whether manufactured in-house or by third parties.

Process Technology

Cobra has developed its own approach to the manufacture of high quality DNA. The value of this technology derives in part from patents granted on the process and patents pending on process

improvements and in part from the know how built up over several years of working on plasmid DNA production. A key step in the process of plasmid DNA manufacture is scale up of the extraction step. Cobra has developed its own approach to the design of equipment to perform this step which is covered by a recently issued US patent. Cobra is also prosecuting patent applications on novel host strains designed to produce higher quality plasmid DNA.

Financial Information

The financial record of Cobra over the three year and nine month period ended 30 September 2001 is set out in Part IV of this document, from which the following table has been extracted. Investors should not rely only on the summarised information set out below but should read the whole of this document.

	<i>Year ended</i> <i>31 December</i>	<i>Year ended</i> <i>31 December</i>	<i>Nine months</i> <i>ended</i> <i>30 September</i>	<i>Year ended</i> <i>30 September</i>
	1999	2000	2000	2001
	£'00	£'000	£'000	£'000
Turnover				
Manufacturing Business	82	157	496	1,134
R&D Business	3	60	1,010	15
	<u>85</u>	<u>217</u>	<u>1,506</u>	<u>1,149</u>
Gross Profit	85	217	1,368	762
Research and development costs	(2,540)	(2,919)	(2,851)	(3,617)
Sales, marketing and distribution costs	(47)	(85)	(34)	(43)
Administrative expenses	(3,203)	(3,385)	(1,283)	(1,740)
Operating loss	<u>(5,705)</u>	<u>(6,172)</u>	<u>(2,800)</u>	<u>(4,638)</u>
Loss on ordinary activities before taxation	<u>(4,782)</u>	<u>(5,725)</u>	<u>(2,715)</u>	<u>(4,654)</u>

The results include those relating to the R&D Business which will be sold to ML prior to Admission.

The significant contributor to revenues for Cobra in the year ended 30 September 2001 was the Manufacturing Business, generating revenues of £1,134,000 out of a total of £1,149,000. In the nine months ended 30 September 2000 Cobra received a £1,000,000 milestone payment attributable to the R&D Business for the licensing of Cobra's gene expression technology.

For the 3 years and nine month period Cobra has operated at a loss, with the majority of the expenditure being on research and development primarily for the R&D Business. The majority of staff costs are included in research and development with year end headcount growing from 63 at December 1999 to 70 by September 2001 with 37 attributable to the Manufacturing Business. Both costs and headcount reflect the investment Cobra has made in both businesses.

Further financial information on Cobra is set out in Part IV of this document.

Current Trading

Trading continues to be in line with Cobra's expectations, and is ahead of the same period last year. Cobra's manufacturing facilities are booked 6-12 months ahead with firm commitments for all production suites. A worldwide lack of manufacturing capacity for clinical trials production suggests that demand will remain buoyant.

In the six months to 31 March 2002, Cobra has invested a further £1,400,000 in new capital equipment, £1,300,000 of that investment has been in the Manufacturing Business. During that period Cobra's obligations under finance leases has increased by £363,000.

Strategy and Prospects

The objective of the Group is to become a major manufacturer of DNA therapeutics for third parties for clinical trials and subsequently to diversify and become a major full service custom manufacturer of licensed biopharmaceutical products for commercial sale. This will require a further fundraising within the next two years in order to provide the required capital investment.

Cobra intends to spread the risk of being too heavily dependent on the manufacture of DNA therapeutics by developing its business into protein therapeutics manufacture and protein product development. Cobra's most significant asset in this respect is its expression technology. Expression technology enables the isolation of stable high producer cell lines for protein manufacturing and will provide Cobra with an opportunity to obtain a share of the protein therapeutics market, the largest market in the sector.

Cobra is a niche player in a rapidly evolving global market with an experienced management team, state of the art facilities and intellectual property platforms which support the proposition that the Company can become a major player in its sector.

Board and Senior Management

Directors

Peter Fothergill (Age 56), Executive Chairman

Peter Fothergill read Economics and Economic History at the University of Durham and has over 30 years experience in the Healthcare Industry, starting as a medical representative followed by marketing appointments for Health and Beauty products (Brand Manager to International Marketing Manager), International Corporate Development (acquisitions, strategy development and licensing) and thence General Management in North America, Australasia and the UK, leading to Chairmanship of Fisons plc's Consumer Health Division and also its multinational research-based Pharmaceutical Division operating in all major markets involving 7,000 employees worldwide. He was a main Board Director during the period when Fisons plc was a FTSE 100 company and led a series of strategic development initiatives, including acquisitions in North America, Europe and Asia, whilst achieving significant organic growth.

He subsequently formed his own strategic management company which has been involved in a number of management buy-out and buy-in arrangements, consultancies and the creation of new businesses in the private company sector. He is a board director of ML, but will step down on completion of the Placing, (whilst continuing to retain certain functions as an ML employee on a part time basis) and is also chairman of I Holland Limited, the world's leading supplier of tablet moulding tools to the pharmaceutical industry. He has a number of further non-executive appointments and is a fellow of the Chartered Institute of Marketing and a member of the Institute of Directors.

David Thatcher (Age 54), Chief Executive

David Thatcher was trained as a protein chemist at the Universities of Newcastle on Tyne and Edinburgh. In 1981 he moved to Biogen SA in Geneva where he worked on the isolation of recombinant cytokines. In 1985 he became Director of Process Development of Biogen Inc, Cambridge Mass. where he was responsible for the development of large scale processes for the production of gamma interferon, GM-CSF and several other products.

In 1988 he left Biogen and joined Zeneca Pharmaceuticals as head of their Protein Production Lab where he was responsible for the production of a number of biopharmaceutical products for clinical evaluation. In 1994 he joined Therexsys (now Cobra) as the second employee and has been responsible for managing the evolution of Cobra's manufacturing technology and assets and developing the contract manufacturing business.

Peter Coleman (Age 36), Finance Director

Peter Coleman qualified as a chartered management accountant in 1996 and in 2001 was awarded an MBA with distinction jointly from the Manchester Business School and the University of Wales.

He joined ML in 1994. During that time he has worked in a variety of senior financial and corporate development roles at ML's head office. Prior to his employment at ML, he was a director of SPD Holdings, a family owned sub-contract aerospace manufacturing company. On Admission, he will cease to be an employee of ML and will take up the position of full-time finance director of the Company.

David Bloxham PhD (Age 55), Non-executive Director

David Bloxham trained as a biochemist and pursued an academic career in Europe and America before entering the pharmaceutical industry. He has held a number of senior R&D positions and was a main board member of Celltech plc and Laboratories Almirall SA. He was chief executive officer of Cobra when it was sold to ML. He is currently CEO of Evolutes Ltd and a non-executive director of Profile Therapeutics plc and Provalis plc.

Professor Nigel Slater (Age 49), Non-executive Director

Nigel Slater is Professor of Chemical Engineering at the University of Cambridge with research interests in the process development and formulation of protein biopharmaceuticals, viral vaccines and gene therapeutics. His research portfolio has included collaborations with a number of leading pharmaceutical companies and he is the author of sixty nine scientific papers and patents. Prior to this he was professor and head of chemical engineering and applied chemistry at Aston University and has served as a director and governor of Silsue Research Institute and as chairman of the UK Biotechnology and Biological Sciences Research Council. In addition, he has biopharmaceutical development and engineering experience with Wellcome plc and Unilever Nederland BV.

It is the Board's intention to appoint a Commercial Director once a suitable candidate has been identified.

Senior Management

Julian Hanak B.Sc. (Hons) MSc, (Age 37), Production Manager

After gaining an honours degree in Biochemistry at University College London, Julian Hanak obtained an MSc at the University College of North Wales and then trained in cell culture and microbial fermentation at the National Institute of Medical Research. He then moved to the Bioproducts Laboratory (Elstree) where his duties involved the pilot scale production of human monoclonal antibodies for clinical trials. He was also responsible for running a sterile fill operation and supervising the commissioning of a new GMP production suite.

In 1992 he moved to Zeneca Pharmaceuticals where he was involved with process development of several immunotherapy products and the development of virus expression systems for protein production. He joined Cobra in 1994 and took over responsibility for production in 1995.

Geoff Sharpe BSc PhD, (Age 55), Quality Manager

After having gained a degree in Applied Chemistry at Liverpool, Geoff Sharpe trained as a research chemist working for ICI Corporate Laboratory in Runcorn. He switched to the ICI Corporate Biotechnology Centre and went on to complete a PhD in Molecular biology at Leicester University.

In 1991 he transferred to ICI Pharmaceuticals (now Zeneca) where he was involved with the cloning and expression of recombinant proteins and managed the corporate DNA sequencing laboratory. In 1993 he moved to Zeneca Pharmaceuticals, Pharmaceutical Department where he managed a team involved in the development and manufacture of both small molecule and biotechnology based therapeutics. In 1996 he joined Cobra as their Quality Assurance Manager and has been trained as a Qualified Person under Article 23 of Directive 75/319/EEC.

Joan Barratt MSc (Age 49) Facilities Manager

Joan Barratt held various position in the NHS before being appointed Senior Technician in the University of Keele, Life Sciences Department. She was responsible for operations in an independent research unit within the department. In 1994 she joined the Company as a research scientist and was appointed Facilities Manager for the whole company in 1997. She is also site safety coordinator.

Tony Hitchcock BSc (Age 41) Section Head Downstream Processing

Tony Hitchcock has over 18 years' experience in the large scale manufacture of biopharmaceuticals, having held positions in the Blood Products Laboratory (Elstree) and at Zeneca Pharmaceuticals (protein process development). Tony was a founding staff member of the Company and has been responsible for the development of much of Cobra's DNA manufacturing technology. He has published several papers in the field and is an inventor on two families of the Company's process patents.

Sharon Longhurst BSc, PhD (Age 33) Section Head Mammalian Cell Products and Molecular Biology

Sharon Longhurst gained her PhD at the University of Warwick working on the biology of the measles virus and subsequently spent two years working on recombinant adeno-associated virus at the Paterson Institute (Manchester) before joining the Company as Senior Scientist in 1997. She has published several important papers in the field of virology and has been responsible for establishing adenovirus manufacturing capability at Cobra.

Amanda Weiss BSc, MSc (Age 32) Section Head Fermentation

Amanda Weiss was trained at the University of Birmingham, Centre for Biochemical Engineering before joining the Company in 1996 as a fermentation scientist. She has expertise in both microbial and mammalian cell culture.

Roy Cowell BSc (Hons), CChem, MRSC (Age 37) Quality Control Team Leader

Roy Cowell has sixteen years' experience of analytical development and quality control of pharmaceuticals within the associated regulatory framework; ten years employed by Zeneca (now AstraZeneca) Pharmaceuticals working on new chemical entities and candidate biotherapeutics and six years employed by the Company working on candidate DNA products. Roy is currently undergoing training leading to eligibility for Qualified Person status.

ML

Following the Placing, ML will own 46 per cent. of the Enlarged Share Capital.

ML has been a quoted company since 1987 and was admitted to the Official List in 1996 since which time its principal activity has been the development and commercialisation of a substantial portfolio of pharmaceutical products.

ML recently announced that it had completed the final phase of a strategic review of its business from which it concluded that it would focus on the development of cancer management products. As a result, the remainder of its activities, including the biological manufacturing facility and related technology at its Cobra subsidiary, are no longer core to its business and would be divested when optimal to do so.

ML intends to realise its investment in Cobra over time but has agreed with Collins Stewart not to dispose of any of its shares for a period of twelve months from Admission, and fifty per cent. of its holding for the subsequent twelve month period.

ML's ongoing focus in cancer therapeutics will require manufacture of a variety of biotherapeutics. It is the intention of Cobra to enter into an agreement with ML for the supply of such products.

ML has agreed with the Company that, following completion of the Acquisition, it will allow the Company to govern its affairs independently of ML and that all transactions and arrangements between the Company and ML and its subsidiaries will be on arms length terms. ML and the Company have entered into a conditional agreement dated 7 June 2002 to this effect, further details of which are set out in paragraph 10 of Part VII of this document.

Use of Proceeds

The net proceeds from the Placing will be used in part to repay £3 million of an existing overdraft facility to Cobra's bankers and the remainder will be used for the Group's working capital purposes and further capital expenditure to develop the Manufacturing Business.

Details of the Placing

The Company is issuing 7,000,000 new Ordinary Shares pursuant to the Placing at the Placing Price to raise £7 million (net of expenses) which will represent approximately 54 per cent. of the Enlarged Share Capital.

The Placing has been fully underwritten by Collins Stewart and is conditional upon the Placing Agreement becoming unconditional in all respects save for Admission and not having been terminated in accordance with its terms, and Admission becoming effective on 13 June 2002 (or such later date as the Company and Collins Stewart may agree).

Peter Fothergill, David Thatcher, Peter Coleman and David Bloxham have subscribed for 10,000, 10,000, 2,500 and 5,000 Ordinary Shares respectively at the Placing Price, pursuant to the Placing.

Further details of the Placing Agreement are set out in paragraph 9 of Part VII of this document.

Share Option Schemes and Collins Stewart Warrant

In order to confer more advantageous tax benefits in relation to the grant and exercise of employee options, it is proposed to adopt an Inland Revenue approved company share option scheme and an unapproved company share option scheme. On Admission, the Board will grant options to members of the Board and to employees of Cobra under the Unapproved Scheme as detailed in paragraph 5 of Part VII. It is proposed that these options will be granted at an exercise price equal to the Placing Price and the remuneration committee of the Board will determine at the relevant time the performance criteria which should attach to such options. Further details of the Share Option Schemes are set out at paragraph 5 of Part VII of this document.

As part of Collins Stewart's fee for the provision of corporate finance advice and services in relation to the Placing it is proposed that the Company issues to Collins Stewart a warrant to subscribe for 390,000 Ordinary Shares at the Placing Price. The Collins Stewart Warrant, which is conditional upon Admission, may be exercised at any time following Admission up until the fifth anniversary of Admission.

Approximately 5.4 per cent. of the Enlarged Share Capital will be reserved for share options to be issued on Admission under the Share Option Schemes, and not exceeding ten per cent. in total, as referred to in paragraph 5 of Part VII.

Further details of the Collins Stewart Warrant are set out at paragraph 10 of Part VII.

Lock-In Arrangements

ML has agreed with Collins Stewart, that for a period of twelve months from Admission, it will not, without the prior written consent of Collins Stewart and subject to certain limited exceptions, dispose of any of its Ordinary Shares. In the subsequent twelve month period, ML will be entitled to dispose of up to 50 per cent. of its Ordinary Shares provided that any such disposal is made through Collins Stewart in an orderly manner. Thereafter, ML will be entitled to dispose of the balance of its shareholding in an orderly manner through Collins Stewart.

In addition, the Directors have agreed with Collins Stewart that they will not (save in limited circumstances), for a period of twelve months from the date of Admission, dispose of any Ordinary Shares in the Company and that thereafter, whilst Collins Stewart is broker to the Company, any disposal to be made by them should be made through Collins Stewart in an orderly manner.

Corporate Governance

The Board is committed to maintaining high standards of corporate governance. The Board intends, so far as practicable given the Company's size and the constitution of the Board, to comply with the Combined Code as modified by the recommendations of the Quoted Companies Alliance.

The Board has established an audit committee and a remuneration committee, each of which comprises the Chairman and the non-executive Directors of the Company and each has duties and responsibilities delegated by the Board. Any new non-executive directors appointed by the Company will be asked to join these committees.

The audit committee will receive and review reports from management and the Company's auditors relating to the annual and interim accounts and the accounting and internal control systems in use throughout the Group. The audit committee has unrestricted access to the Company's external auditors.

The remuneration committee reviews the scale and structure of the executive directors' remuneration and the terms of their appointments. The remuneration and terms and conditions of appointment of the non-executive directors and the Chairman will be set by the Board as constituted from time to time. The remuneration committee will also administer the Share Option Schemes and will be responsible for setting any performance criteria in relation to the exercise of options granted under the Share Option Schemes.

Dividend Policy

The Board intends to commence the payment of dividends when it is commercially prudent to do so and subject to the availability of distributable reserves. The Board considers that during a period of growth, it is likely to be more prudent to retain cash generated to fund the expansion of the Group. It is therefore inappropriate at this stage to give an indication of the likely level of any future dividends.

The City Code on Takeovers and Mergers

Rule 9 of the City Code on Takeovers and Mergers ("Rule 9") stipulates, *inter alia*, that a person or a group of persons acting in concert who hold shares carrying (i) 30 per cent. or more but not more than 50 per cent. or (ii) less than 30 per cent. of the voting rights of a public company will incur a mandatory bid obligation and will be required to make a general offer to the shareholders of such a company to acquire the balance of the equity share capital of that company if, in the case of (i) above, they acquire any further shares carrying voting rights with the result that their percentage holding of voting rights increases, or in the case of (ii) above, they acquire further shares resulting in their holding of voting rights being 30 per cent., or more.

ML will hold 6,000,000 Ordinary Shares representing 46 per cent. of the issued share capital of the Company following the Placing as set out in paragraph 6 of this Part VII of this document. The Panel has confirmed that no mandatory bid obligation under Rule 9 would be triggered by virtue of ML holding such number of Ordinary Shares following the Placing.

However, Rule 9 would continue to apply to ML in respect of any acquisition by it or by anyone acting in concert with it, of shares carrying voting rights in the Company which would increase ML's percentage shareholding.

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Articles of Association of the Company permit the holding of Ordinary Shares in CREST. All of the Ordinary Shares will be in registered form and no temporary documents of title will be issued. The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted and accordingly enabled for settlement in CREST on the date of Admission. It is expected that Admission will become effective and dealings in Ordinary Shares will commence on 13 June 2002. Accordingly, settlement of transactions in Ordinary Shares following Admission may take place within the CREST system if any Shareholder so wishes.

Taxation

Further information regarding United Kingdom taxation is set out in paragraph 8 of Part VII of this document. **If you are in any doubt as to your tax position, you should contact your professional adviser immediately.**

Application has been made to the Inland Revenue for clearance that the Company is a qualifying company for the purposes of the Venture Capital Trust ("VCT") legislation. However, investors should note that the Company does not make any representations as to whether any investment in

the Company will be one in respect of which tax relief under VCT will be available or that any such tax relief will not subsequently be withdrawn by virtue of the Company's future actions.

Further Information

Your attention is drawn to the further information set out in Parts II to VII of this document.

PART II

Risk Factors

Investors should consider carefully whether investment in the Ordinary Shares is suitable for them in the light of the information in this document and their personal circumstances. Before making any final decision, prospective investors in any doubt should consult an investment adviser authorised under the Financial Services and Markets Act 2000. If any of the following risks were to materialise, the Group's business, financial condition, and results of future operations could be materially adversely effected. In such case, the market price of the Ordinary Shares could decline and an investor may lose all or part of his investment. Additional risks and uncertainties not presently known to the Board, or which the Board currently deems immaterial, may also have an adverse effect upon the Group.

Stage of Development of Cobra

Cobra's main business focus is in the supply of DNA products for clinical trials in gene therapy and DNA vaccination and the regulation of these products continues to evolve. None of these products has yet been approved for commercial sale. Although Cobra's manufacturing technology, facilities and quality standards have been approved for clinical trials purposes, this does not mean that these criteria will necessarily be acceptable in the future or for licensed product manufacture.

The business prospects of Cobra will also be influenced by the success rates of customer clinical trials, a factor beyond the control of Cobra. The rate of attrition of such drug candidates in the pharmaceutical development process is not predictable and there is no reason to believe that these products will be any more successful than conventional drugs.

History of Operating Losses and Accumulated Deficit

Cobra has experienced operating losses in each year since its inception. The revenue and profit goals of the Group depend on a number of factors outside the Group's control and there can be no assurance that the Group will ever achieve significant revenues or profitability.

Fluctuation of Operating Results

The operating results of the Group may fluctuate significantly as a result of a variety of factors, many of which are outside the Board's control. Period-to-period comparisons of the Group's operating results may not be meaningful and investors should not rely on them as indications of the Group's future performance. The Group's operating results may fall below the expectations of securities analysts and investors. In that event, the trading price of the Ordinary Shares would almost certainly fall.

Product liability and insurance

The Group's business exposes it to potential product liability and professional indemnity risks which are inherent in the manufacture of biopharmaceutical products. There can be no assurance that the necessary insurance cover will be available to the Group at an acceptable cost or that, in the event of any claim, the level of insurance carried by the Group now or in the future will be adequate or that a product liability or other claim would not materially and adversely affect the business.

Competition

The Group is operating in a competitive market. Many competitors will have greater research, development, marketing, financial and personnel resources than the Group. Competitors may succeed in developing manufacturing processes that are more effective or economically viable than those of the Group. Competitors of the Group could render the Group's technology obsolete and/or otherwise non-competitive. Such organisations could also have the resources to undercut Cobra's prices in the marketplace thereby eroding Cobra's market share and profit margins.

Protection of patents and proprietary rights

The Group's ability to compete effectively with other companies depends, amongst other things, on the exploitation of its technology. However, there can be no assurance that competitors have not developed or will not develop better techniques or processes or otherwise gain access to the Group's technology. There can be no assurance that patents will be issued with respect to applications now pending or which may be applied for in the future. The lack of any such patents may have a material adverse effect on the Group's ability to develop its business. No assurance can be given that patents granted to the Group will be sufficiently broad in their scope to provide protection for the Group's intellectual property rights against third parties. There can be no assurance as to the validity or scope of any patents which have been, or may in the future be, granted to the Group or that claims relating to the patents will not be asserted by other parties.

The commercial success of the Group also depends upon the Group not infringing patents granted to third parties who may have filed applications or who have obtained or may obtain patents relating to business processes which might inhibit the Group's ability to develop and exploit its own business. If this is the case, the Group may have to obtain alternative technology or reach commercial terms on the exploitation of other parties' intellectual property rights. There can be no assurance that the Group will be able to obtain alternative technology or, if any licences are required, the Group will be able to obtain any such licence on commercially favourable terms, if at all. This may have a material adverse effect on the Group. The particular attention of investors is drawn to the final section of the Patent Report on Cobra in Part VI of this document headed "Third Party Rights" and the "Intellectual Property" section in Part I.

To the extent that the Group's processes are protected by intellectual property rights and that the Group is alleged to infringe third party intellectual property rights, then litigation may be necessary and could result in substantial costs to, and diversion of efforts by, the Group with no guarantee of success.

Dependence upon key personnel

In common with many smaller companies, the Group's future success is substantially dependent on its senior management. The loss of any senior management of the Group could harm or delay the plans of the business whilst management time is directed to finding suitable replacements and may have a material adverse effect on the future of the Group's business.

Share price volatility and liquidity

The share price of publicly traded companies at a relatively early stage of development can be highly volatile. The price at which the Ordinary Shares will be quoted and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to the Group and its operations and some which may affect the quoted healthcare sector or quoted companies generally. These factors could include the performance of the Group's possible future sales, large purchases or sales of Ordinary Shares, legislative changes in the healthcare environment and general economic conditions. The value of the Ordinary Shares may go down as well as up.

Admission to AIM should not be taken as implying that there will be a liquid market for the Ordinary Shares. It may be more difficult for an investor to realise his investment on AIM than to realise an investment in a company whose shares are quoted on the Official List of the UK Listing Authority.

Additional funds

The Group's future capital requirements to achieve its objective detailed in "Strategy and Prospects" in Part I of this document will not be met by profits generated by the existing business. There can be no guarantee that funds required from the issue of equity capital will be available at the relevant time. If additional funds should be raised by issuing equity securities, dilution to the existing shareholders may result.

PART III

Accountants' Report on Cobra Bio-Manufacturing plc



Ernst & Young LLP
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The Directors
Cobra Bio-Manufacturing plc
Stephenson Building
Keele University Science Park
Keele
Staffordshire ST5 5SP

The Directors
Collins Stewart Limited
9th Floor
88 Wood Street
London EC2V 7QR

7 June 2002

Dear Sirs

1. Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus dated 7 June 2002 of Cobra Bio-Manufacturing plc (“Cobra Bio-Manufacturing”).

Basis of preparation

The financial information set out in paragraphs 2 to 3 is based on the audited financial statements of Cobra Bio-Manufacturing for the period ended 20 May 2002 to which no adjustments were considered necessary.

Cobra Bio-Manufacturing was incorporated on 20 May 2002 and the audited financial statements of Cobra Bio-Manufacturing for the period ended 20 May 2002 were prepared for the purposes of the prospectus.

Responsibility

Such financial statements are the responsibility of the directors of Cobra Bio-Manufacturing who approved their issue.

The directors of Cobra Bio-Manufacturing are responsible for the contents of the prospectus dated 7 June 2002 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It is also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the prospectus dated 7 June 2002, a true and fair view of the state of affairs of Cobra Bio-Manufacturing as at 20 May 2002.

Consent

We consent to the inclusion in the prospectus dated 7 June 2002 of this report and accept responsibility for this report and the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

2. Balance sheet

	<i>Notes</i>	<i>At 20 May 2002</i>
		<i>£</i>
Current assets		
Debtors		2
		<u>2</u>
Capital and reserves		
Called up share capital	(ii)	2
Equity shareholders' funds		<u>2</u>

3. Notes to the financial information

(i) *Accounting policy*

Basis of preparation

The financial information has been prepared under this historical cost convention.

The accounts are prepared in accordance with applicable United Kingdom accounting standards.

(ii) *Share capital*

<i>Authorised</i>	<i>20 May 2002</i>	<i>20 May 2002</i>
	<i>Number</i>	<i>£</i>
Ordinary shares of £1 each	50,000	50,000
	<u>50,000</u>	<u>50,000</u>
<i>Allotted, called up and fully paid</i>	<i>20 May 2002</i>	<i>20 May 2002</i>
	<i>Number</i>	<i>£</i>
Ordinary shares of £1 each	2	2
	<u>2</u>	<u>2</u>

(iii) *Post balance sheet event*

On 6 June 2002, the authorised share capital was increased to £2,000,000 and each ordinary share of £1 was sub-divided into 10p Ordinary Shares.

On 6 June 2002 Cobra Bio-Manufacturing entered into an agreement, as disclosed in the prospectus, to acquire the entire share capital of Cobra Therapeutics Limited, satisfied by the issue of 5,999,980 Ordinary Shares of 10p each credited as fully paid. Apart from this transaction and the issue of shares described above, Cobra Bio-Manufacturing has not entered into any other transactions since incorporation.

Yours faithfully

Ernst & Young LLP

PART IV

Accountants' Report on Cobra Therapeutics Limited



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100 Barbirolli Square
Manchester M2 3EY

The Directors
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Stephenson Building
Keele University Science Park
Keele
Staffordshire ST5 5SP

The Directors
Collins Stewart Limited
9th Floor
88 Wood Street
London EC2V 7QR

7 June 2002

Dear Sirs

1. Introduction

We report on the financial information set out in paragraphs two to six below. This financial information has been prepared for inclusion in the prospectus dated 7 June 2002 of Cobra Bio-Manufacturing plc ("Cobra Bio-Manufacturing").

Basis of preparation

The financial information set out in paragraphs two to six is based on the audited financial statements of Cobra for the two years ended 31 December 1999, the nine months ended 30 September 2000 and the year ended 30 September 2001 and has been prepared on the basis set out in note 6.1, after making such adjustments as we considered necessary.

Cobra has contracted to sell, prior to Admission, the trade, assets and liabilities of its activities into the research and development of potential therapeutic pharmaceutical products and licensing of technologies to third parties ("the R&D Business").

The financial information includes that relating to Cobra's R&D Business as, other than turnover, it is not possible to separately identify the R&D Business' financial information from Cobra's accounting records. Consequently, the financial information set out below may not be representative of the continuing business activities of Cobra.

Responsibility

Such financial statements are the responsibility of the directors of Cobra who approved their issue.

The directors of Cobra Bio-Manufacturing are responsible for the contents of the prospectus dated 7 June 2002 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that

recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the prospectus dated 7 June 2002, a true and fair view of the state of affairs of Cobra as at the dates stated and of its losses, cash flows and recognised gains and losses for the periods then ended.

Consent

We consent to the inclusion in the prospectus dated 7 June 2002 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 of the Public Offers of Securities Regulations 1995.

2. Profit and Loss Accounts

		<i>Year ended</i> <i>31 December</i>	<i>Year ended</i> <i>31 December</i>	<i>Nine months</i> <i>ended</i> <i>30 September</i>	<i>Year ended</i> <i>30 September</i>
	<i>Notes</i>	<i>1998</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>	<i>2001</i> <i>£'000</i>
Turnover					
Manufacturing Business		82	157	496	1,134
R&D Business		<u>3</u>	<u>60</u>	<u>1,010</u>	<u>15</u>
Cost of sales	2 3	<u>85</u>	<u>217</u>	<u>1,506</u>	<u>1,149</u>
Gross profit		<u>—</u>	<u>—</u>	<u>(138)</u>	<u>(387)</u>
Research and development costs	3	85	217	1,368	762
Sales, marketing and distribution costs	3	(2,540)	(2,919)	(2,851)	(3,617)
Administrative expenses	3	(47)	(85)	(34)	(43)
Operating (loss)	4	<u>(3,203)</u>	<u>(3,385)</u>	<u>(1,283)</u>	<u>(1,740)</u>
Investment income		(5,705)	(6,172)	(2,800)	(4,638)
Interest (payable)	7	927	453	89	—
(Loss) on ordinary activities before taxation		<u>(4)</u>	<u>(6)</u>	<u>(4)</u>	<u>(16)</u>
Tax on (loss) on ordinary activities	8	(4,782)	(5,725)	(2,715)	(4,654)
(Loss) on ordinary activities after taxation		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
(Loss) per share	9	<u>(4,782)</u>	<u>(5,725)</u>	<u>(2,715)</u>	<u>(4,654)</u>
		<u>(34.4p)</u>	<u>(41.2p)</u>	<u>(19.6p)</u>	<u>(33.5p)</u>

There is no difference between the loss on ordinary activities before taxation and the loss for the period stated above, and their historical cost equivalents.

3. Statement of total recognised gains and losses

Cobra has no recognised losses in the period other than those included in the loss for the periods above and therefore no separate statement of total recognised gains and losses has been presented.

Reconciliation of Shareholders' funds

	<i>Year ended</i> <i>31 December</i>	<i>Year ended</i> <i>31 December</i>	<i>Nine months</i> <i>ended</i> <i>30 September</i>	<i>Year ended</i> <i>30 September</i>
	<i>1998</i> <i>£'000</i>	<i>1999</i> <i>£'000</i>	<i>2000</i> <i>£'000</i>	<i>2001</i> <i>£'000</i>
Total recognised gains and losses	(4,782)	(5,725)	(2,715)	(4,654)
Other movements:				
Reversal of share option compensation charge	(9)	264	—	—
New shares issued	1	1	—	—
Premium arising on shares issued	9	—	—	—
Total movements during the period	<u>(4,781)</u>	<u>(5,460)</u>	<u>(2,715)</u>	<u>(4,654)</u>
Opening shareholders' funds	<u>16,046</u>	<u>11,265</u>	<u>5,805</u>	<u>3,090</u>
Closing shareholders' funds	<u><u>11,265</u></u>	<u><u>5,805</u></u>	<u><u>3,090</u></u>	<u><u>(1,564)</u></u>

4. Balance sheets

		<i>At</i> <i>31 December</i> 1998 £'000	<i>At</i> <i>31 December</i> 1999 £'000	<i>At</i> <i>31 September</i> 2000 £'000	<i>At</i> <i>30 September</i> 2001 £'000
	<i>Notes</i>				
Fixed assets					
Tangible assets	10	1,301	1,046	866	920
Current assets					
Stocks	11	—	—	—	347
Debtors	12	149	376	1,463	896
Short term investments		10,144	5,200	—	—
Cash at bank and in hand		245	—	1,799	—
		<u>10,538</u>	<u>5,576</u>	<u>3,262</u>	<u>1,243</u>
Creditors: amounts falling due within one year	13	<u>(533)</u>	<u>(786)</u>	<u>(709)</u>	<u>(3,636)</u>
Net current assets/(liabilities)		<u>10,005</u>	<u>4,790</u>	<u>2,553</u>	<u>(2,393)</u>
Total assets less current liabilities		11,306	5,836	3,419	(1,473)
Creditors: amounts falling due after more than one year	14	<u>(41)</u>	<u>(31)</u>	<u>(329)</u>	<u>(91)</u>
		<u>11,265</u>	<u>5,805</u>	<u>3,090</u>	<u>(1,564)</u>
Capital and reserves					
Called up share capital	16	1,388	1,389	1,389	1,389
Share premium account	17	28,940	28,940	28,940	28,940
Profit and loss account	17	<u>(19,063)</u>	<u>(24,524)</u>	<u>(27,239)</u>	<u>(31,893)</u>
Shareholders' funds		<u>11,265</u>	<u>5,805</u>	<u>3,090</u>	<u>(1,564)</u>

5. Statement of Cash Flows

		<i>Year ended</i> <i>31 December</i> <i>1998</i> <i>£'000</i>	<i>Year ended</i> <i>31 December</i> <i>1999</i> <i>£'000</i>	<i>Nine months</i> <i>ended</i> <i>30 September</i> <i>2000</i> <i>£'000</i>	<i>Year ended</i> <i>30 September</i> <i>2001</i> <i>£'000</i>
	<i>Notes</i>				
Net cash outflow from operating activities	18(a)	<u>(5,431)</u>	<u>(5,402)</u>	<u>(3,599)</u>	<u>(3,531)</u>
Returns on investments and servicing of finance					
Interest element of finance lease rental payments		(4)	(6)	(4)	(16)
Investment income received		<u>927</u>	<u>310</u>	<u>89</u>	<u>—</u>
		<u>923</u>	<u>304</u>	<u>85</u>	<u>(16)</u>
Taxation					
Corporation tax paid		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		<u>(276)</u>	<u>(154)</u>	<u>(82)</u>	<u>(382)</u>
Net cash (outflow) before management of liquid resources and financing		<u>(4,784)</u>	<u>(5,252)</u>	<u>(3,596)</u>	<u>(3,929)</u>
Management of liquid resources					
Decrease in short term deposits		<u>4,346</u>	<u>4,944</u>	<u>5,200</u>	<u>—</u>
Financing					
Issue of ordinary share capital		10	1	—	—
New long-term loans		—	—	—	116
Repayments of capital element of finance leases and hire purchase contracts		(5)	(9)	(11)	(48)
Decrease/(Increase) in amount owed to ML Laboratories plc		<u>—</u>	<u>—</u>	<u>278</u>	<u>(264)</u>
		<u>5</u>	<u>(8)</u>	<u>267</u>	<u>(196)</u>
(Decrease)/increase in cash	18(b)	<u>(433)</u>	<u>(316)</u>	<u>1,871</u>	<u>(4,125)</u>

Reconciliation of Net Cash Flow to movement in net debt

		<i>Year ended</i> <i>31 December</i>	<i>Year ended</i> <i>31 December</i>	<i>Nine months</i> <i>ended</i> <i>30 September</i>	<i>Year ended</i> <i>30 September</i>
		1998	1999	2000	2001
	<i>Notes</i>	£'000	£'000	£'000	£'000
(Decrease)/Increase in cash		(433)	(316)	1,871	(4,125)
Cash outflow from increase in loans		—	—	—	(116)
Repayments of capital element of finance leases		5	9	11	48
(Decrease)/Increase in amount owed to ML Laboratories plc		—	—	(278)	264
Cash inflow from short term deposits		<u>(4,346)</u>	<u>(4,944)</u>	<u>(5,200)</u>	<u>—</u>
Change in net debt resulting from cash flows	18(b)	(4,774)	(5,251)	(3,596)	(3,929)
New finance leases		<u>(55)</u>	<u>—</u>	<u>(41)</u>	<u>—</u>
Movement in net debt		(4,829)	(5,251)	(3,637)	(3,929)
Opening net cash (debt)	18(b)	<u>15,167</u>	<u>10,338</u>	<u>5,087</u>	<u>1,450</u>
Closing net cash (debt)	18(b)	<u><u>10,338</u></u>	<u><u>5,087</u></u>	<u><u>1,450</u></u>	<u><u>(2,479)</u></u>

6. Notes to the financial information

1. Accounting policies

Basis of preparation

The financial information has been prepared under the historical cost convention.

The financial information is prepared in accordance with applicable United Kingdom accounting and financial reporting standards.

The financial information has been prepared on a going concern basis, which assumes the availability of additional finance. This finance has been arranged under the placing which has been underwritten by Collins Stewart and which is subject to the admission of the issued share capital of Cobra Bio-Manufacturing to trading on the Alternative Investment Market.

Depreciation

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

Plant and equipment	– 15 per cent. per annum
Office equipment	– 25 per cent. per annum
Short leasehold building improvements	– 15 per cent. per annum

During the year ended 31 December 1999 the principal rates used to depreciate fixed assets within the short leasehold building improvements and plant and equipment categories were revised from 25 per cent. to 15 per cent.

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 and consumables – purchase cost on a first-in, first-out basis.

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

Prior to the year ended 30 September 2001, stock items were immaterial and were expensed.

Revenue recognition

Amounts received or receivable in respect of licence fees are recognised as revenue when the licence rights are granted or the specific conditions stipulated in the contract or agreement have been satisfied.

Revenues are recognised on manufacturing contracts only when it can be determined that all obligations relating to those revenues have been fulfilled. Where the contract is split into stages, revenues are recognised on completion of each stage. The labour, third party and consumable costs of manufacturing contracts are matched with revenue. The other direct costs are expensed as they are incurred.

Research and development

Research and development expenditure is written off as incurred and includes, *inter alia*, all internal and external costs in incurred is patenting, external studies, analysis and consultants.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions and other post-retirement benefits, to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. All foreign exchange differences are taken to profit and loss account in the year in which they arise.

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 have passed to Cobra, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under 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 account 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 account on a straight line basis over the lease term.

Intellectual property

The cost of acquiring rights to intellectual property is written off to the profit and loss account as it is incurred.

Government grants

Revenue grants are credited to the profit and loss account when received. Capital grants are included in deferred income and amortised in the profit and loss accounts over the expected useful life of the qualifying assets.

Share options

When options are granted a charge, being the estimated value of the shares at the date of the grant less the exercise price of the options, is made to the profit and loss account in accordance with the Urgent Issues Task Force Abstract No 17. The charge is then credited back to reserves.

Pensions

Cobra operates a defined contribution pension scheme covering certain of its employees. Contributions are charged against revenue.

2. Turnover and segmental analysis

Turnover represents the amounts derived from the provision of goods and services which fall within Cobra's ordinary activities, stated net of value added tax.

Cobra operates in two principal areas of activity:

Manufacturing Business

Contract manufacture of biopharmaceuticals focusing in DNA products for gene therapy (viruses and DNA).

R&D Business

The discovery and development of gene based medicines with a focus on cancer therapies, and the development of technologies for drug discovery and development (expression and gene delivery systems).

The financial results of the R&D Business, other than turnover, are not identifiable separately from the accounting records.

Turnover is analysed as follows:

Area of activity

	<i>Manufacturing Business £000</i>	<i>R&D Business £000</i>	<i>Total £000</i>
Turnover			
1998	82	3	85
1999	157	60	217
2000	496	1,010	1,506
2001	<u>1,134</u>	<u>15</u>	<u>1,149</u>

Cobra also operates within three geographical markets, the United Kingdom the United States and Europe.

Geographical area

	<i>Year ended 31 December 1998 £000</i>	<i>Year ended 31 December 1999 £000</i>	<i>Nine months ended 30 September 2000 £000</i>	<i>Year ended 30 September 2001 £000</i>
Turnover, by destination				
Manufacturing Business				
United Kingdom	82	149	84	396
United States	—	8	391	311
Europe	<u>—</u>	<u>—</u>	<u>21</u>	<u>427</u>
	82	157	496	1,134
R&D Business	<u>3</u>	<u>60</u>	<u>1,010</u>	<u>15</u>
	<u>85</u>	<u>217</u>	<u>1,506</u>	<u>1,149</u>

All turnover originates in the United Kingdom.

3. Cost of sales and operating expenses

Cost of sales

Cost of sales in the nine month period ended 30 September 2002 and the year ended 30 September 2001 relate to Cobra's Manufacturing Business.

Cobra's ability to identify its cost of sales (both direct labour and consumables) has developed during the financial periods covered by this report. Consequently, for the year ended September 2001 both direct consumables and direct labour costs have been allocated to cost of sales.

For the nine month period ended 30 September 2000 the direct cost of consumables were included in cost of sales. However, the direct labour costs were not included and were classified as research and development and are therefore not separately identifiable.

Cost of sales for the year ended 31 December 1998 and 1999 were not separately identified in the accounting records.

Research and development costs and administration expenses

The research and development costs and administrative expenses have not historically been analysed between the Manufacturing Business and the R&D Business. Consequently, the historic research and development costs and administrative expenses may not be representative of the level which will be incurred following the disposal of the R&D Business.

4. Operating loss

This is stated after charging:

	<i>Year ended</i> <i>31 December</i>	<i>Year ended</i> <i>31 December</i>	<i>Nine months</i> <i>ended</i> <i>30 September</i>	<i>Year ended</i> <i>30 September</i>
	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Auditors' remuneration – audit services	<u>11</u>	<u>13</u>	<u>10</u>	<u>8</u>
Auditors's remuneration – non-audit services	<u>18</u>	<u>8</u>	<u>1</u>	<u>—</u>
Depreciation of owned assets	892	401	291	398
Depreciation of assets held under finance leases and hire purchase contracts	<u>6</u>	<u>9</u>	<u>11</u>	<u>21</u>
Total depreciation charge	<u>898</u>	<u>410</u>	<u>302</u>	<u>419</u>
Operating lease rentals – other assets	12	11	5	20
Operating lease rentals – rental of premises	<u>136</u>	<u>160</u>	<u>139</u>	<u>262</u>
Share option compensation charge	<u>—</u>	<u>264</u>	<u>—</u>	<u>—</u>

The share option compensation charge arose from the charge made on granting share options. The charge is the difference between the market value of the shares at the date of the grant and the exercise price of the options.

5. Directors' emoluments

Directors' remuneration and pension entitlements

	<i>Year ended</i> <i>31 December</i>	<i>Year ended</i> <i>31 December</i>	<i>Nine months</i> <i>ended</i> <i>30 September</i>	<i>Year ended</i> <i>30 September</i>
	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Aggregate emoluments	460	481	205	—
Company contributions paid to defined contribution pension schemes	29	39	18	—
Aggregate gains made on exercise of share options	<u>—</u>	<u>—</u>	<u>599</u>	<u>—</u>
	<u>489</u>	<u>520</u>	<u>822</u>	<u>—</u>

The remuneration and pension entitlements of the highest paid director are as follows:

	<i>Year ended</i> <i>31 December</i>	<i>Year ended</i> <i>31 December</i>	<i>Nine months</i> <i>ended</i> <i>30 September</i>	<i>Year ended</i> <i>30 September</i>
	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Aggregate emoluments including gains on share options	171	192	326	—
Company contributions to defined contributions pension scheme	15	25	9	—
	<u>186</u>	<u>217</u>	<u>335</u>	<u>—</u>

No director waived emoluments in respect of the year ended 30 September 2001 (2000: none; 1999: none; 1998: none).

No directors had retirement benefits accruing to them from money purchase pension schemes, in respect of qualifying services (2000: none; 1999: three; 1998: three) .

6. Staff costs

	<i>Year ended</i> <i>31 December</i>	<i>Year ended</i> <i>31 December</i>	<i>Nine months</i> <i>ended</i> <i>30 September</i>	<i>Year ended</i> <i>30 September</i>
	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Wages and salaries	2,012	2,283	1,608	2,153
Social security costs	201	233	161	207
Other pension costs (note 21)	111	183	105	127
	<u>2,324</u>	<u>2,699</u>	<u>1,874</u>	<u>2,487</u>

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

	<i>Year ended</i> <i>31 December</i>	<i>Year ended</i> <i>31 December</i>	<i>Nine months</i> <i>ended</i> <i>30 September</i>	<i>Year ended</i> <i>30 September</i>
	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>
	<u>67</u>	<u>69</u>	<u>73</u>	<u>69</u>

7. Interest payable and similar charges

	<i>Year ended</i> <i>31 December</i>	<i>Year ended</i> <i>31 December</i>	<i>Nine months</i> <i>ended</i> <i>30 September</i>	<i>Year ended</i> <i>30 September</i>
	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Finance charges payable under finance leases and hire purchase contracts	<u>4</u>	<u>6</u>	<u>4</u>	<u>16</u>

8. Tax on (loss) on ordinary activities

Due to the incidence of tax losses there was no taxation charge for the year ended 30 September 2001 (2000: £nil; 1999: £nil; 1998: £nil).

9. Earnings per Ordinary Share

The loss per ordinary share have been calculated on the loss after taxation attributable to ordinary shareholders of £4,654,098 (2000: loss of £2,715,223; 1999: loss of £5,724,307; 1998: loss of £4,782,287) and 13,889,913 (2000: 13,889,708; 1999: 13,887,036; 1998: 13,879,849) shares, being the weighted average number of combined ordinary shares, preferred ordinary shares and "A" preferred ordinary shares in issue.

10. Tangible Fixed Assets

	<i>Short leasehold building improvements</i> £000	<i>Office equipment</i> £000	<i>Plant and equipment</i> £000	<i>Total</i> £000
Cost or valuation:				
At 1 January 1998	1,762	244	1,842	3,848
Additions	67	20	244	331
At 1 January 1999	1,829	264	2,086	4,179
Additions	16	31	108	155
At 1 January 2000	1,845	295	2,194	4,334
Additions	—	49	73	122
At 1 October 2000	1,845	344	2,267	4,456
Additions	—	72	402	474
At 30 September 2001	1,845	416	2,669	4,930
Depreciation:				
At 1 January 1998	978	113	889	1,980
Provided during the year	391	59	448	898
At 1 January 1999	1,369	172	1,337	2,878
Provided during the year	141	51	218	410
At 1 January 2000	1,510	223	1,555	3,288
Provided during the period	105	35	162	302
At 1 October 2000	1,615	258	1,717	3,590
Provided during the year	140	40	240	420
At 30 September 2001	1,755	298	1,957	4,010
Net book value at 30 September 2001	90	118	712	920
Net book value at 1 October 2000	230	86	550	866
Net book value at 1 January 2000	335	72	639	1,046
Net book value at 1 January 1999	460	92	749	1,301

The net book value of fixed assets includes £205,352 (2000: £64,759; 1999: £39,875; 1998: £48,125) in respect of assets held under finance leases.

11. Stocks

	<i>At 31 December 1998</i> £000	<i>At 31 December 1999</i> £000	<i>At 30 September 2000</i> £000	<i>At 30 September 2001</i> £000
Raw materials and consumables	—	—	—	347

12. Debtors

	<i>At</i> <i>31 December</i> <i>1998</i> <i>£000</i>	<i>At</i> <i>31 December</i> <i>1999</i> <i>£000</i>	<i>At</i> <i>30 September</i> <i>2000</i> <i>£000</i>	<i>At</i> <i>30 September</i> <i>2001</i> <i>£000</i>
Trade debtors	—	84	250	465
Other debtors	76	225	70	293
Prepayments	73	67	1,143	138
	<u>149</u>	<u>376</u>	<u>1,463</u>	<u>896</u>

13. Creditors: amounts falling due within one year

	<i>At</i> <i>31 December</i> <i>1998</i> <i>£000</i>	<i>At</i> <i>31 December</i> <i>1999</i> <i>£000</i>	<i>At</i> <i>30 September</i> <i>2000</i> <i>£000</i>	<i>At</i> <i>30 September</i> <i>2001</i> <i>£000</i>
Bank overdraft	—	72	—	2,327
Obligations under finance leases and hire purchase contracts	9	10	24	65
Trade creditors	210	236	283	710
Other taxes and social security costs	—	107	65	60
Accruals and deferred income	314	361	337	474
	<u>533</u>	<u>786</u>	<u>709</u>	<u>3,636</u>

Cobra has entered into an arrangement to provide an unlimited multilateral guarantee in respect of the bank overdraft of ML Laboratories plc and its fellow subsidiaries. No loss is expected to arise from this arrangement.

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

	<i>At</i> <i>31 December</i> <i>1998</i> <i>£000</i>	<i>At</i> <i>31 December</i> <i>1999</i> <i>£000</i>	<i>At</i> <i>30 September</i> <i>2000</i> <i>£000</i>	<i>At</i> <i>30 September</i> <i>2001</i> <i>£000</i>
Obligations under finance leases and hire purchase contracts	41	31	47	73
Amount owed to ML Laboratories plc	—	—	278	14
Amount owed to other ML Laboratories plc undertakings	—	—	4	4
	<u>41</u>	<u>31</u>	<u>329</u>	<u>91</u>

15. Obligations Under Leases and Hire Purchase Contracts

Amounts due under finance leases and hire purchase contracts:

	<i>At</i>	<i>At</i>	<i>At</i>	<i>At</i>
	<i>31 December</i>	<i>31 December</i>	<i>30 September</i>	<i>30 September</i>
	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Amounts payable:				
Within one year	15	15	30	75
In two to five years	49	35	52	78
	<u>64</u>	<u>50</u>	<u>82</u>	<u>153</u>
Less: finance charges allocated to future periods	(14)	(9)	(11)	(15)
	<u>50</u>	<u>41</u>	<u>71</u>	<u>138</u>

Annual commitments under non-cancellable operating leases are as follows:

	<i>Land and buildings</i>			
	<i>At</i>	<i>At</i>	<i>At</i>	<i>At</i>
	<i>31 December</i>	<i>31 December</i>	<i>30 September</i>	<i>30 September</i>
	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:				
Within one year	128	17	3	70
In two to five years	26	142	180	—
In over five years	—	—	—	154
	<u>154</u>	<u>159</u>	<u>183</u>	<u>224</u>

	<i>Other</i>			
	<i>At</i>	<i>At</i>	<i>At</i>	<i>At</i>
	<i>31 December</i>	<i>31 December</i>	<i>30 September</i>	<i>30 September</i>
	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:				
Within one year	7	—	2	1
In two to five years	5	5	4	2
In over five years	—	—	—	—
	<u>12</u>	<u>5</u>	<u>6</u>	<u>3</u>

16. Share Capital

	<i>At</i>	<i>At</i>	<i>At</i>	<i>At</i>
	<i>31 December</i>	<i>31 December</i>	<i>30 September</i>	<i>30 September</i>
	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Authorised</i>				
5,015,904 ordinary shares of 10p each	502	502	502	502
5,949,999 preferred ordinary shares of 10p each	595	595	595	595
6,666,667 "A" preferred ordinary shares of 10p each	667	667	667	667
	<u>1,764</u>	<u>1,764</u>	<u>1,764</u>	<u>1,764</u>

<i>Allotted, called up and fully paid</i>	<i>At</i>	<i>At</i>	<i>At</i>	<i>At</i>
	<i>31 December 1998</i>	<i>31 December 1999</i>	<i>30 September 2000</i>	<i>30 September 2001</i>
	<i>thousands</i>	<i>thousands</i>	<i>thousands</i>	<i>thousands</i>
Ordinary shares of 10p each	1,515	1,520	1,521	1,521
Preferred ordinary shares of 10p each	5,950	5,950	5,950	5,950
“A” preferred ordinary shares of 10p each	6,419	6,419	6,419	6,419
	<i>At</i>	<i>At</i>	<i>At</i>	<i>At</i>
	<i>31 December 1998</i>	<i>31 December 1999</i>	<i>30 September 2000</i>	<i>30 September 2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Ordinary shares of 10p each	151	152	152	152
Preferred ordinary shares of 10p each	595	595	595	595
“A” preferred ordinary shares of 10p each	642	642	642	642
	<u>1,388</u>	<u>1,389</u>	<u>1,389</u>	<u>1,389</u>

Issue of share capital

During the year ended 31 December 1998, 1,109 ordinary shares of 10p each were issued for a total cash consideration of £133. The issues of shares occurred on the exercise of share options.

During the year ended 31 December 1998, 8,333 preferred ordinary shares of 10p each were issued for a total cash consideration of £9,999. The issues of shares occurred on the exercise of warrants.

During the year ended 31 December 1999, 4,933 ordinary shares of 10p each were issued for a total cash consideration of £699. The issues of shares occurred on the exercise of share options.

During the nine months ended 30 September 2000, 410 ordinary shares of 10p each were issued for a total cash consideration of £48.

No shares were issued during the year ended 30 September 2001.

Share options

Cobra operated a share options scheme for its directors in 1998 and 1999. During the period ended 30 September 2000 Cobra was acquired by ML Laboratories plc resulting in the share options scheme being cancelled.

17. Reserves

	<i>Share premium account</i>	<i>Profit and loss account</i>
	<i>£000</i>	<i>£000</i>
At 1 January 1998	28,930	(14,272)
Retained (loss) for the year	—	(4,782)
Reversal of credit on lapse of share options	—	(9)
Premium arising on share issue	10	—
At 1 January 1999	28,940	(19,063)
Reversal of share option compensation charge	—	264
Retained (loss) for the year	—	(5,725)
At 1 January 2000	28,940	(24,524)
Retained (loss) for the period	—	(2,715)
At 1 October 2000	28,940	(27,239)
Retained (loss) for the year	—	(4,654)
At 30 September 2001	<u>28,940</u>	<u>(31,893)</u>

18. Notes to the Statement of Cash Flows

(a) Reconciliation of operating loss to net cash inflow from operating activities

	<i>Nine months</i>			
	<i>Year ended</i> 31 December 1998 £000	<i>Year ended</i> 31 December 1999 £000	<i>ended</i> 30 September 2000 £000	<i>Year ended</i> 30 September 2001 £000
Operating loss	(5,705)	(6,172)	(2,800)	(4,638)
Depreciation	898	410	302	420
Share option compensation charge	—	264	—	—
Reversal of credit on lapse of share options	(9)	—	—	—
Decrease/(increase) in debtors	(50)	(83)	(1,086)	567
(Increase) in stocks	—	—	—	(347)
Increase/(decrease) in creditors	(565)	179	(19)	467
Increase in amount owed to other ML Laboratories plc undertakings	—	—	4	—
Net cash outflow from operating activities	<u>(5,431)</u>	<u>(5,402)</u>	<u>(3,599)</u>	<u>(3,531)</u>

(b) Analysis of net debt

	<i>At</i> 1 January 1998 £000	<i>Cash</i> <i>flow</i> £000	<i>Other</i> <i>non-cash</i> <i>movements</i> £000	<i>At</i> 31 December 1998 £000
	<i>At</i> 1 January 1999 £000			<i>Cash</i> <i>flow</i> £000
Cash at bank and in hand	678	(433)	—	245
Bank overdrafts	—	—	—	—
Cash	678	(433)	—	245
Short term investments	14,489	(4,346)	—	10,143
Finance leases	—	5	(55)	(50)
	<u>15,167</u>	<u>(4,774)</u>	<u>(55)</u>	<u>10,338</u>
		<i>At</i> 1 January 1999 £000	<i>Cash</i> <i>flow</i> £000	<i>At</i> 31 December 1999 £000
Cash at bank and in hand		245	(245)	—
Bank overdrafts		—	(72)	(72)
Cash		245	(317)	(72)
Short term investments		10,144	(4,944)	5,200
Finance leases		(50)	9	(41)
		<u>10,338</u>	<u>(5,251)</u>	<u>5,087</u>

	<i>At</i> <i>1 January</i> <i>2000</i> <i>£000</i>	<i>Cash</i> <i>flow</i> <i>£000</i>	<i>Other</i> <i>non-cash</i> <i>movements</i> <i>£000</i>	<i>At</i> <i>30 September</i> <i>2000</i> <i>£000</i>
Cash at bank and in hand	—	1,799	—	1,799
Bank overdrafts	(72)	72	—	—
Cash	(72)	1,871	—	1,799
Short term investments	5,200	(5,200)	—	—
Amount owed to ML Laboratories plc	—	(278)	—	(278)
Finance leases due within a year	(10)	(13)	—	(24)
Finance leases due within more than one year	(31)	25	(41)	(47)
	<u>5,087</u>	<u>(3,596)</u>	<u>(41)</u>	<u>1,450</u>

	<i>At</i> <i>1 October</i> <i>2000</i> <i>£000</i>	<i>Cash</i> <i>flow</i> <i>£'000</i>	<i>At</i> <i>30 September</i> <i>2001</i> <i>£000</i>
Cash at bank and in hand	1,799	(1,799)	—
Bank overdrafts	—	(2,326)	(2,326)
Cash	1,799	(4,125)	(2,326)
Amount owed to ML Laboratories plc	(278)	264	(14)
Finance leases due within one year	(24)	(42)	(65)
Finance leases due within more than one year	(47)	(26)	(73)
	<u>1,450</u>	<u>(3,929)</u>	<u>(2,479)</u>

19. Capital Commitments

Amounts contracted for but not provided for at 30 September 2001 amounted to £19,000 (2000: £nil 1999: £nil; 1998: £24,869).

20. Contingent Liabilities

At 30 September 2001 there were no contingent liabilities other than the guarantee referred to in note 13 and those arising from the ordinary course of business in respect of which no material losses are expected to arise.

21. Pension Commitments

Cobra operates a defined contribution pension scheme established with Scottish Widows PLC. The assets of the scheme are held separately from those of Cobra and are independently administered. The pension cost charge represents contributions payable by Cobra under the scheme and amounted to £126,759 (2000: £104,980; 1999: £183,339; 1998: £111,462). Contributions totalling £nil (2000: £nil; 1999: £nil) were payable at the year-end.

22. Post Balance Sheet Event

Cobra has contracted to sell, prior to Admission, the trade, assets and liabilities of its R&D Business to ML Laboratories plc, for a consideration equal to the amount by which Cobra's bank borrowings and borrowings from ML at completion exceed £3 million.

Yours faithfully

Ernst & Young LLP

PART V

Unaudited Pro Forma Statement of Net Assets of the Group

The unaudited pro forma statement of net assets of the Group is provided for illustrative purposes only to show the effect on the net assets of the Placing, the acquisition of Cobra and the disposal of Cobra's R&D Business. It has been compiled on the bases described below from the net assets of the Company at 20 May 2002 and of Cobra at 30 September 2001 as set out in Parts III and IV of this document. Due to its nature, the pro forma statement of net assets may not give a true picture of the financial position or results of the Group and is designed to give only an indication of the net assets of the Group.

	<i>Adjustments</i>					
	<i>Company as at 20 May 2002 £'000</i>	<i>Cobra as at 30 September 2001 £'000</i>	<i>Cobra Acquisition Note 1 £'000</i>	<i>Cobra R&D Business Note 2 £'000</i>	<i>Placing Note 3 £'000</i>	<i>Unaudited Pro forma £'000</i>
Fixed assets						
Tangible assets	—	920	—	(332)	—	588
	—	920	—	(332)	—	588
Current assets						
Stocks	—	347	—	—	—	347
Debtors	—	896	—	(145)	—	751
Cash at bank and in hand	—	—	—	—	3,160	3,160
	—	1,243	—	(145)	3,160	4,258
Creditors: amounts falling due within one year						
Bank overdraft	—	(2,327)	(673)	—	3,000	—
Other creditors	—	(1,309)	—	609	—	(700)
	—	(3,636)	(673)	609	3,000	(700)
Net current assets/(liabilities)	—	(2,393)	(673)	464	6,160	3,558
Total assets less current liabilities	—	(1,473)	(673)	132	6,160	4,146
Creditors: amounts falling due after one year	—	(91)	—	26	—	(65)
Net assets	—	(1,564)	(673)	158	6,160	4,081

Notes:

1. The agreement between the Company and ML for the acquisition of Cobra provides that the agreed level of bank borrowings will be £3 million at completion. The bank overdraft has therefore been increased by £673,000 to reflect this.
2. The sale of Cobra's R&D Business to ML. The consideration for the disposal is equal to the amount by which Cobra's bank borrowings and borrowings from ML at completion exceed £3 million.
3. The gross proceeds of the Placing of £7 million, after deducting estimated expenses of £840,000 have been added to cash at bank and in hand.
4. The acquisition of Cobra by the Company in exchange for the issue of 5,999,980 Ordinary Shares credited and fully paid, will be accounted for as a merger in the current financial period.
5. No adjustments have been made to take account of any changes in the financial position of the Company since 20 May 2002 or of Cobra since 30 September 2001.

PART VI

Patent Report on Cobra Therapeutics Limited

harrison goddard foote

patent and trade mark attorneys

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7 June 2002

Dear Sirs

Cobra Therapeutics Limited: Intellectual Property Report

Introduction

Cobra Therapeutics Limited (“Cobra”) is involved in various biotechnological activities, including the manufacture of certain products and research and development in various areas. Patent applications have been filed to protect a considerable number of inventions.

Cobra is aware of the importance of intellectual property rights and has taken steps to protect its inventions throughout the world.

This report describes the patent rights owned by or licensed to Cobra as well as third party rights of which we are aware and includes a brief description of the inventions which form the subject matter of the patent rights with brief details of their technical background. The report also details the filing history and current prosecution status together with, to the extent practicable, a report on the breadth and strength of the claims set out in the patent or patent applications.

Harrison Goddard Foote is a firm of Patent and Trademark Attorneys and is responsible for the filing and prosecution of patent and trademark applications throughout the world.

Harrison Goddard Foote has acted for Cobra since October 2000, following the acquisition of Cobra by ML Laboratories plc. The writer, Michael Harrison, is the Managing Partner of Harrison Goddard Foote and has overall responsibility for the intellectual property work carried out by Harrison Goddard Foote on behalf of both ML Laboratories plc and Cobra. Harrison Goddard Foote has been instructed in connection with the proposed admission of Cobra Bio-Manufacturing plc to the Alternative Investment Market.

INTELLECTUAL PROPERTY RIGHTS

Patents protect inventions and are registered rights, granted by national or regional patent offices if the invention satisfies particular requirements, primarily novelty and inventive step (non-obviousness). Patents give the patent owner a monopoly right to prevent others from carrying out the invention claimed in the patent. The right, once granted, may be kept in force for a limited period (normally 20 years from the date of application for the patent) by payment of renewal fees.

Patents are territorial in nature and it is often the case that an invention is the subject of patent applications, and eventual patents, in a number of territories.

A UK national patent may be obtained by filing a patent application at the British Patent Office, having the application subjected to a novelty search and also to a procedure known as substantive examination. A UK patent may typically be granted after perhaps three or four years from its original filing date, assuming an examiner at the Patent Office is satisfied that the application meets the appropriate requirements, including novelty and inventive step.

A British patent application may also serve as a so-called priority application for national applications to be filed in other countries and also for various types of international patent applications, of which the most important are European patent applications and PCT (International) patent applications.

A European patent application is filed at the European Patent Office which carries out both a novelty search and a full examination of the application. It may take three to six years, or even longer, before a European patent is granted. Once this happens, the patent can then be validated in some or all of the European countries which were designated in the original application. The European patent then takes on the character of a “bundle of national patents”, each of which has to be kept in force by the payment of renewal fees to cover a particular national territory.

In other territories, national patents are obtained often, as in the cases of USA and Japan, only after the national Patent Office carries out both a novelty search and a full examination of the application.

Where an invention has two or more different aspects to it, it may be necessary, or at least desirable, to obtain two or more corresponding patents. Such further patents, termed divisional patents, have been obtained on a significant number of inventions owed by or licensed to Cobra.

A PCT application is often filed when it is desired that the invention be protected in at least several territories. The application may designate a large number of territories, including Europe, USA and Japan. It is normally filed 12 months after the original British (priority) patent application and has the effect of postponing entry into the national/regional patent offices until 20/21 or 30/31 months from the original British priority date. A PCT patent application is subject to a novelty search and, optionally, a first stage examination procedure (International Preliminary Examination), both carried out by the European Patent Office.

DETAILS OF COBRA PATENTS AND PATENT APPLICATIONS

We have been informed by the Directors of Cobra that all its patent rights relating to the manufacturing business are listed below and that they know of no other facts or matters relating to validity other than those set out in this report.

The patent applications in respect of all the inventions are currently being prosecuted by Harrison Goddard Foote and I confirm that these applications are subsisting and have the status indicated below. No adverse interest by third parties has been recorded against any of the patent applications.

The overall patent position is believed to be strong. For many inventions patents have been granted by at least one of the key examining patent offices (USA, Europe and Japan) and the position of pending patent applications is, for most inventions, favourable. Further details are given below in connection with each individual invention.

Other than the matters confirmed in this report, we are not aware of any matter that the Company should take into account in respect of the transaction referred to in our letter of instruction.

DNA Manufacturing technology

Invention 1 – Plasmid stabilisation (ORT)

The invention relates to a host vector system which permits the production of plasmid DNA without the use of antibiotics and without the requirement for antibiotic resistant or other selectable genes on the plasmid. Maintenance of the plasmid is by a system of repressor titration.

The invention has potential relevance to future regulatory requirements, not only for gene therapy but also for many other more general biotechnology applications, including the production of bacterial vaccines.

The following patents have been granted:

- Austria E199.168
- Belgium 0851932
- Australia 710494
- Europe*
- USA 5972708

*The granted European patent has been validated in the following European states: Belgium, Switzerland, Germany, Denmark, Spain, Finland, France, United Kingdom, Greece, Ireland, Italy, Sweden, Netherlands, Portugal.

In addition, there are the following pending patent applications:

- USA 09/439008
- Canada 2231784
- Japan 9-510994
- South Korea 701773/98
- Mexico 681826

The patents and patent applications are derived from initial filings in the UK (9518395 filed on 8 September 1995) and USA (60/004271 filed 25 September 1995). These earlier patent applications have been allowed to lapse and serve only as priority dates for the current patents and patent applications.

The granted patents give broad protection for this invention. The opposition period of the European application has now ended and no oppositions were filed. The patent position for this invention is considered strong.

The owner of the invention is Cobra Therapeutics Limited, the inventors being D.J. Sherratt, S.G. Williams and J.A Hanack.

Invention 2 – ORT in vivo

This invention relates to the use of ORT vectors inside living cells and its main application is in the field of live attenuated vaccines. The invention is the result of a collaboration between Cobra and DSTL at Porton Down where current developments include use as a plague vaccine.

The application is in its early stages and the patent position cannot be commented upon as yet.

A separate application covering specific embodiments of strains and vectors used in the collaboration is in preparation and will be filed imminently.

Invention 3 – DNA process

This invention relates to a method for the production of plasmid DNA involving the optimising of alkaline lysis conditions for a bacterial culture. It covers the standard method used by Cobra for custom DNA production.

The following patents have been granted:

- USA 5981735
- Australia 724318

In addition, there are the following patent applications:

- Europe 97903440.2
- USA 09/329422
- Canada 2244115
- Japan 9-528313

The patents and patent applications are derived from British patent application No 9602825.3 filed on 12 February 1996. The British application has been allowed to lapse and serves only as a priority date for the current patents and patent applications.

The invention belongs to Cobra Therapeutics Limited, the inventors being D.Thatcher, A.G. Hitchcock, J.A. Hanack and D. Varley.

The granted patents give broad cover for the Cobra manufacturing process.

Invention 4 – Inducible RNase

Ribonuclease is an expensive additive to the DNA manufacturing process. The invention relates to the construction of a plasmid DNA production strain that expresses Ribonuclease and thus avoids the need to add the enzyme in the process.

There are the following pending patent applications:

- Australia 34348/99
- Canada 2325575
- Europe 99915927.0
- Hong Kong 0 1 1063 54.6
- Japan 2000-543566
- 09/291347

The patent applications derive from British patent application No 9807922.1 and US patent application No 60/081726, both filed on 14 April 1998. These earlier patent applications have been allowed to lapse and serve only as priority dates for the current patent applications.

The invention is owned by Cobra Therapeutics Limited, the inventors being J.A. Hanack and S. Williams.

Examination of the European application is now in the final stages. Grant of a European patent directed to the method of the invention is imminent. The patent position is considered strong and the application is commercially valuable as it represents a refinement of a large scale industrial process.

Invention 5 –Inducible restriction enzyme

Contamination of bacterial lysates with chromosomal DNA significantly hampers efficient recovery of plasmid DNA or recombinant proteins. The invention concerns the construction of a plasmid DNA production strain that inducibly expresses a restriction endonuclease to which a production plasmid is resistant. The combined action of the restriction enzyme and exonucleases destroys the chromosomal DNA, simplifying the purification process.

The invention is the subject of PCT patent application No GBOO/04006. Priority is claimed from British patent application No 9924973.2, filed on 21 October 1999. The priority application has been allowed to lapse.

The invention belongs to Cobra Therapeutics Limited, the inventors being J.A. Hanack and J.M. Ward.

The International Examination Report for this application was encouraging and recognised the novelty and inventive step of all method claims. The patent position is considered strong and the invention is commercially valuable as it represents a refinement of a large scale industrial process.

Invention 6 – Lysis vessel

This invention relates to a vessel for mixing a cell lysate. The invention is based on the design parameters for the large-scale lysis of bacteria as well as a method for the high yield recovery of plasmid DNA from the lysate.

There are the following patent applications:

- Australia 29335/00
- Canada 2361699
- China 00804899.1
- Europe 00907873.4
- India IN/PCT/2001/00622/DEL
- Japan 2000-603789
- North Korea 01-1318
- South Korea 2001-7010678
- Singapore 200104758-8
- USA 09/522631
- Hong Kong 1159062

Examination has been carried out in the USA and a Notice of Allowance has issued from the US Patent Office.

The patent applications are derived from British patent application No 9905646.7, filed on 11 March 1999 and US patent application No 60/125747, filed on 23 March 1999. These earlier patent applications have been allowed to lapse and serve only as priority dates for the current patent applications.

The invention is owned by Cobra Therapeutics Limited, the inventors being A.W. Nienow, A.G. Hitchcock and G.L. Riley.

The International Preliminary Examination Report relating to this invention is very positive. The patent position is strong and this application is likely to proceed to grant very quickly.

Invention 7 – UCOE (Ubiquitous Chromatin Opening Element)

UCOEs are genetic elements that confer high-level expression on linked genes in a broad range of tissues. The “silencing” of transgenes is currently a major limitation in the gene expression field and UCOEs have great potential to overcome this. The invention concerns UCOEs which maintain surrounding chromatin in an open state facilitating gene expression of a linked gene in any cell type.

There are the following pending patent applications:

- Australia 50534/99
- Canada 2333852
- China 99811155.4
- Europe 99934910.3
- Hong Kong 01104768.1
- Japan 2000-561336
- South Korea 2001-7000883
- Mexico PA/a/2001/000830
- USA 09/358082

The patent applications are derived from British patent application No 9815879.3 filed on 21 July 1998. The British application has been allowed to lapse and serves only as a priority date for the current patent applications.

Examination of the US application is now taking place. Although difficulties have been encountered due to the wide breadth of protection being sought for what is regarded to be a fundamental invention, all prior art objections have now been overcome and the only obstacle to

obtaining a granted US patent is an objection by the US Examiner that there is insufficient detail in the application to support the broad scope of protection being sought. Material directed to dealing with this objection has been filed at the US Patent Office. Recent developments indicate that a favourable outcome is likely. The granted patent will provide strong, broad protection for this important invention.

Examination of the European application is also underway. Objections raised in the latest examination report will be overcome with appropriate claim amendment. The patent position for this invention is considered strong.

The invention is owned by Cobra Therapeutics Limited, the inventors being M. Antoniou and R.L. Crombie.

Invention 8 – Artificial UCOE

This invention is concerned with artificially-constructed UCOEs rather than sequences occurring in nature. It allows the construction of a smaller, more efficient UCOEs.

There exists pending PCT patent application No PCT/GB01/04210 which derives from GB patent application No 0022995.5 filed 20 September 2000, and pending US application No 09/957,974. Entry of the international application into the national/regional patent offices is due by March/April 2003.

The invention is owned by Cobra Therapeutics Limited, the inventors being M. Antoniou and R.L. Crombie.

Since neither the international or US application has been subjected to a novelty search or examination, the strength of the patent position remains unknown at present. Experience gained with invention 5 suggests that it is unlikely that there is any prior art which would hinder patent protection for this invention.

Invention 9 – Flanking Selectable Element

This invention is concerned with a transgene having a UCOE at one end and a selectable element at the other end. An example is the use of the *Streptomyces* puromycin resistance gene in a vector as both a selectable marker and a means of increasing expression. The invention further improves UCOE-driven transgene expression.

The invention is the subject of four “priority” applications, these being:

- United Kingdom 0108405.7
- United Kingdom 0109335.0
- USA 60/281605
- USA 60/298675

The earliest of these applications was filed on 5 April 2001. A PCT patent application and US substantive application was filed on 5 April 2002.

Securing grant of the broader claims of the application may prove difficult. Narrower claims directed to specific vectors are considered more robust and will provide useful protection for the vectors in which Cobra is currently dealing.

The invention is owned by Cobra Therapeutics Limited, the inventors being R.L. Crombie and J.G. Williams.

THIRD PARTY RIGHTS

Invention 1 – Plasmid stabilisation (ORT)

A third party has two US patents, and corresponding patent applications in other territories, relating to vectors using operator repressor titration as a means of selection. We consider that Cobra's vectors do not infringe one of the US patents nor will they infringe any patents which may be granted on the corresponding patent applications in other territories. However, Cobra's vectors may infringe the other US patent and, potentially, patents granted on its corresponding patent applications in other territories.

Yours faithfully

Harrison Goddard Foote

PART VII

Additional Information

1. Responsibility

The Directors, whose names appear on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company and Cobra

2.1 The Company

- (a) The Company was incorporated on 20 May 2002 in England and Wales under the Act with registered number 4442927 as a public company limited by shares under the name Cobra Bio-Manufacturing plc and, accordingly, the liability of its members is limited.
- (b) The Company is the holding company of Cobra Therapeutics Limited, whose business is described in this document.
- (c) The Company's registered office is at Stephenson Building, Keele University Science Park, Keele, Staffordshire ST5 5SP.

2.2 Cobra

- (a) This is the only subsidiary of the Company. It was incorporated on 29 April 1992 under the name Foray 437 Limited. The Company's name was changed on 20 July 1992 to Therapeutic Expression Systems Limited, on 15 December 1992 to Therexsys Limited and to its present name on 20 February 1998.
- (b) The registered office of Cobra is Stephenson Building, Keele University Science Park, Keele, Staffordshire ST5 5SP, and the Company number is 02710654.
- (c) The existing authorised and issued fully paid up share capital of Cobra is:

	<i>Authorised Number</i>	<i>Amount £</i>	<i>Issued Number</i>	<i>Amount £</i>
Ordinary shares of 10p each	17,632,570	1,763,257	13,894,000	1,389,400

- (d) The directors of Cobra are the same as those of the Company.

3. Share capital

- 3.1 The existing authorised and issued fully paid up share capital of the Company as at the date of this document is:

	<i>Authorised Number</i>	<i>Amount £</i>	<i>Issued and fully paid Number</i>	<i>Amount £</i>
Ordinary Shares of 10p	20,000,000	2,000,000	6,000,000	600,000

- 3.2 The authorised and issued fully paid up share capital of the Company as it is expected to be following completion of the Placing is set out below:

	<i>Authorised Number</i>	<i>Amount £</i>	<i>Issued and fully paid Number</i>	<i>Amount £</i>
Ordinary Shares of 10p	20,000,000	2,000,000	13,000,000	1,300,000

- 3.3 (a) On incorporation, the authorised share capital of the Company was £50,000 divided into 50,000 Ordinary Shares of £1 each and 2 shares were issued to the subscribers and then transferred to ML.

- (b) On 6 June 2002 the authorised share capital of the Company was increased to £2,000,000, each ordinary share of £1 was subdivided into 10p Ordinary Shares, the Company’s current Articles of Association were adopted and Ordinary Shares of the Company were issued as consideration to ML for the acquisition by the Company of the entire issued share capital of Cobra.
- (c) On 7 June 2002 the Company obtained a certificate to commence business and borrow.
- 3.4 By Resolutions passed at an extraordinary general meeting of the Company on 6 June 2002 (“the Resolution”) the Company resolved that, *inter alia*:
- (i) the Directors be generally and unconditionally authorised pursuant to Section 80 of the Act to allot, grant options over, offer or otherwise deal with relevant securities up to an aggregate nominal amount of £1,999,998 during the period expiring on the fifth anniversary of the passing of the Resolution provided that the Company may before such expiry make an offer or agreement which would or might require such shares to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority conferred by the Resolution had not expired.
- (ii) the Directors be empowered to allot equity securities pursuant to the authority referred to in sub-paragraph (i) above as if Section 89(1) of the Act did not apply to any such allotment limited to the allotment of:
- (i) 7,000,000 Placing Shares;
- (ii) the allotment of a warrant to subscribe for 390,000 Ordinary Shares; and
- (iii) the allotment of equity securities for cash up to an aggregate nominal value of £140,857 otherwise pursuant to sub-paragraph (i) and (ii) above.
- 3.5 The provisions of Section 89(1) of the Act (which, to the extent not disapplied pursuant to section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of securities which are, or are to be paid up in cash other than by way of allotment to employees under any employee’s share scheme as defined in Section 743 of the Act) apply to the authorised but unissued share capital of the Company to the extent not disapplied as described in paragraph 3.4(ii) above. Subject to certain limited exceptions, unless the approval of shareholders in general meeting is obtained, the Company must normally offer Ordinary Shares to be issued for cash to existing ordinary shareholders on a pro rata basis.
- 3.6 Save as stated in paragraph 3.3 above, there has been no increase or reduction in the authorised or issued share capital of the Company since the date of incorporation.
- 3.7 It is proposed that, on Admission, the following options to subscribe for Ordinary Shares will be granted under the Unapproved Scheme to Directors and others, all of which will be exercisable during the period of ten years from the date of grant at a price equal to the Placing Price:
- | <i>Grantee</i> | <i>Number of Ordinary Shares under Option</i> |
|------------------|---|
| Peter Fothergill | 200,000 |
| David Thatcher | 230,000 |
| Peter Coleman | 60,000 |
| David Bloxham | Nil |
| Nigel Slater | Nil |
| Others | 205,729 |
- 3.8 The Placing Shares will rank in full for all dividends or other distributions hereafter declared, paid or made on the ordinary share capital of the Company.
- 3.9 Of the balance of the authorised and unissued ordinary share capital of the Company following the Placing, amounting to 7,000,000 Ordinary Shares:
- (a) 1,085,729 Ordinary Shares will be reserved for issue under the Unapproved Scheme and the Collins Stewart Warrant; and
- (b) 5,914,271 Ordinary Shares will remain unissued and unreserved.
- 3.10 Save as disclosed in this paragraph 3:

- (a) on Admission, no unissued share or loan capital in the Company will be under option or will be agreed conditionally or unconditionally to be put under option and there is no current intention to issue any of the authorised and unissued Ordinary Shares; and
- (b) no share or loan capital of the Company has been issued for cash or other consideration within the period since incorporation of the Company and the date of this document and no such issue is proposed.

4. Memorandum and Articles of Association

4.1 The Memorandum of Association of the Company provides that its principal object is to carry on business as a general commercial company. Its objects are set out in full in clause 3 of the Memorandum of Association which is one of the documents referred to in paragraph 12 of this Part VII as being available for inspection.

4.2 The Articles of Association include provisions to the following effect:

(a) *Income*

The Company may by ordinary resolution declare a dividend to be paid to members according to their respective rights and interests in the profits of the Company. No dividend shall exceed the amount recommended by the Directors.

(b) *Voting and General Meetings*

(i) Subject to any rights or restrictions as to voting for the time being attached to any shares, on a show of hands every holder of Ordinary Shares who, being an individual, is present in person or, being a corporation, is present by a duly authorised representative, not being himself a member, shall have one vote and on a poll every holder of Ordinary Shares who is present in person or by proxy shall have one vote for every Ordinary Share held by him; and

(ii) unless the Directors otherwise decide, a member of the Company shall not be entitled, in respect of any Ordinary Share held by him, to vote, either personally or by proxy at any general meeting of the Company unless all calls and other amounts payable by him in respect of that Ordinary Share have been paid.

(c) *Variation of Rights*

Whenever the capital of the Company is divided into different classes of shares, the rights attached to any class may be altered or abrogated in such manner, if any, as may be provided by those rights or with the written consent of the holders of three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of such holders. In any such separate general meeting all the provisions of the New Articles of Association as to general meeting shall, *mutatis mutandis*, apply but, so that the necessary quorum shall be two or more persons holding or representing by proxy not less than one-third of the issued shares of that class. Every holder of shares of that class shall on a poll have one vote in respect of every share of the class held by him and a poll may be demanded by any one holder of shares of the class whether present in person or by proxy. The rights attached to any class of shares shall not be varied (unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares) by either the creation or issue of further shares ranking *pari passu* therewith.

(d) *Alteration of Capital*

The Company may by ordinary resolution increase its share capital or consolidate and divide its share capital into shares of larger amounts or sub-divide its shares into shares of smaller amounts or cancel any shares not taken or agreed to be taken. Subject to the provisions of the Statutes, the Company may by special resolution reduce its authorised or issued share capital, any capital redemption reserve, and any share premium account in any way.

(e) *Directors*

(i) A director is not required to hold any qualification shares.

- (ii) The amount of any fees payable to Directors shall be determined by the Directors provided that they shall not in any year exceed an aggregate amount of £100,000 or such other sum as may from time to time be approved by ordinary resolution. Any such fees shall be divisible among the Directors as they may agree, or failing agreement, equally. The Directors are also entitled to be repaid all reasonable expenses properly incurred by them respectively in the performance of their duties. Any director holding an executive office or otherwise performing services which in the opinion of the Directors are outside the scope of his ordinary duties as a director may be paid such remuneration as the Directors may determine.
- (iii) The Directors may establish and maintain or procure the establishment and maintenance of any non-contributory or contributory pension or superannuation funds for the benefit of, and give donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company or any other company which is a subsidiary of the Company or is allied to or associated with the Company or any such subsidiary of any such other company (“associated companies”) and the families and dependents of any such persons and the Directors shall have power to purchase and maintain insurance against liability for any persons who are or were at any time directors, officers or employees of the Company, its associated companies and for trustees of any pension fund in which employees of the Company or its associated companies are interested.
- (iv) The Directors may from time to time appoint one or more of their body to be the holder of any executive office (including the office of chairman, deputy chairman, managing director or chief executive) on such terms and for such period as they may determine.
- (v) Subject to the provisions of applicable law and provided that he has disclosed to the Directors the nature and extent of any material interest of his, a director notwithstanding his office:
 - (1) may be a party to, or otherwise interested in, any contract, transaction or arrangement with the Company or in which the Company is otherwise interested;
 - (2) may be a director or other officer of, or employed by, or a party to, any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested;
 - (3) may hold any other office or place of profit under the Company (except that of auditor or auditor of a subsidiary of the Company) in conjunction with the office of director and may act in a professional capacity to the Company on such terms as to remuneration and otherwise as the Directors may arrange; and
 - (4) shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such contract, transaction or arrangement or from any interest in any such body corporate, and no such contract, transaction or arrangement shall be liable to be avoided on the grounds of any such interest or benefit.
- (vi) Save as specifically provided in the Articles, a Director may not vote in respect of any contract, transaction or arrangement or any other proposal whatsoever in which he has any material interest otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company. A director will not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

- (vii) Subject to applicable law, a Director is (in the absence of some material interest other than as indicated below) entitled to vote (and will be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
- (1) the giving of any guarantee, security or indemnity to a third party in respect of money lent or obligations incurred by him at the request or for the benefit of the Company or any of its subsidiary undertakings;
 - (2) the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
 - (3) any contract, transaction, arrangement or proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting thereof;
 - (4) any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of the Company;
 - (5) any contract or arrangement in which he is interested directly or indirectly and whether as an officer or a shareholder or otherwise, provided that he does not hold an interest (as defined in sections 198-211 of the Act) in one per cent. or more of the issued shares of any such body corporate;
 - (6) any proposal concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to the Directors and employees of the Company or any of its subsidiaries;
 - (7) any arrangement for the benefit of employees of the Company or of any of its subsidiaries under which the Director benefits in a similar manner to the employees; and
 - (8) any proposal, contract, transaction or arrangement concerning the purchase or maintenance of insurance for the benefit of directors or persons who include Directors.
- (viii) Subject to any applicable law, the Company may by ordinary resolution suspend or relax the provisions summarised under subparagraphs (vi) and (vii) above either generally or in relation to any particular matter, or ratify any transactions not duly authorised by reason of a contravention of such provision.

(f) *Transfer of Shares*

All transfers of uncertificated shares may be made in accordance with and be subject to the Uncertificated Securities Regulations 2001 (“the Regulations”) and the facilities and requirements of the relevant system of paperless transfer. All transfers of certificated shares may be effected by an instrument of transfer in writing in any usual form or in any other form acceptable to the Directors. The instrument of transfer must be executed by or on behalf of the transferor and except in the case of fully-paid shares, by or on behalf of the transferee. The registration of transfers may be suspended at such times and for such periods, not exceeding 30 days in any year, as the Board may from time to time determine and either generally or in respect of any class of shares. The Directors may, in their absolute discretion and without giving any reason for their decision refuse to register any transfer of a share which is not fully paid up or any transfer of a share fully paid up on which the Company has a lien, provided that such restrictions will not prevent dealings in the shares from taking place on an open and proper basis. The Directors may also refuse to register any transfer of certificated shares unless it relates to only one class of shares, it is lodged duly stamped at the registered

office of the Company or at such other place as the Directors may appoint and is accompanied by the share certificate and other such evidence as the Directors may reasonably require to show the transferor's title to make the transfer. The Directors may refuse to register a transfer of any share which would require shares to be held jointly by more than four persons.

(g) *Dividends and distribution of assets on liquidation*

The holders of shares are entitled *pari passu* amongst themselves, but in proportion to the numbers of shares held by them and to the amounts paid up or credited as paid up, to share in the whole of the profits of the Company paid out as dividends and the whole of any surplus in the event of liquidation of the Company save where there is a scrip dividend and the Directors otherwise determine the basis of allotment of the shares.

(h) *Dividends*

Unclaimed dividends will be forfeited after a period of 12 years after having been declared or become due for payment and will thereupon cease to remain owing by the Company.

5. Share Option Schemes

5.1 Subject to approval of the Inland Revenue, the Company will adopt the Cobra Bio-Manufacturing plc 2002 Approved Company Share Option Scheme (the "Approved Scheme") and the Cobra Bio-Manufacturing plc Unapproved Company Share Option Scheme (the "Unapproved Scheme") (together the "Share Option Schemes"). The Approved Scheme will be submitted to the Inland Revenue for approval and the Board shall have power to amend the Approved Scheme as necessary or desirable in order to gain such approval, and generally to carry it into effect.

The following summary relates to the rules of the Approved Scheme. The terms of the Unapproved Scheme are the same unless expressly indicated to the contrary.

(a) *Eligibility*

Options to acquire Ordinary Shares in the capital of the Company may be granted at the discretion of the remuneration committee of the Board (the "Remuneration Committee") to any employee including a director of the Company or any participating member of the Group, who, in respect of the Approved Scheme only, is required to devote a minimum of 25 hours per week to his duties, there is no such restriction on the Unapproved Scheme. Options may normally only be granted in respect of the Approved Scheme within 42 days of its approval by the Inland Revenue and in respect of the Unapproved Scheme within 42 days of its adoption by the Company. Thereafter, options may be granted under the Share Option Schemes within 42 days of the announcement of the Company's results for any period.

(b) *Scheme limits*

On any date, no option may be granted under the Share Option Schemes if, as a result, the total number of Ordinary Shares issued or issuable pursuant to options and other rights granted (1) under the Share Option Schemes and (2) during the previous ten years under all other employee share schemes established after Admission by the Company, would exceed ten per cent. of the issued ordinary share capital of the Company on that date of grant.

(c) *Individual limits*

No option may be granted to any individual if, as a result:

- (i) The aggregate market value of the Ordinary Shares issuable on the exercise of all options granted to that individual during the preceding period of 12 months (other than options and rights which have been exercised or which have been deemed never to have been granted or which were granted prior to Admission)

would exceed an amount equal to two times anticipated earnings for the 12 month period from the date of grant, or in exceptional circumstances and at the discretion of the Remuneration Committee, three times anticipated earnings for the 12 month period from the date of grant; and

- (ii) (In respect of the Approved Scheme only) the aggregate market value of Ordinary Shares which may be acquired pursuant to options and other rights granted to him under the Approved Scheme and any other Inland Revenue approved share option scheme (not being a savings-related option scheme) of the Company or any associated company of the Company but neither exercised nor lapsed, would exceed £30,000.

And to the extent that any grant would otherwise exceed these limits such grant shall (where applicable) be void *ab initio*.

(d) *Exercise price*

The exercise price of an option shall be fixed by the Remuneration Committee but shall not be less than the higher of: (1) in the case of an option to subscribe for Ordinary Shares, the nominal value of an Ordinary Share; and (2) the middle market quotation for dealings in the Ordinary Shares immediately prior to or on the date of grant, provided that at any time at which there are no dealings, the exercise price shall be not less than such sum as is agreed by the Inland Revenue to be the market value (or, in the case of the Unapproved Scheme, such sum as the directors may reasonably determine to be the market value) of an Ordinary Share.

The exercise price and the number of Ordinary Shares subject to an option may be adjusted by the Remuneration Committee (with, in respect of the Approved Scheme only, the agreement of the Inland Revenue) to take account of any rights issue, capitalisation issue, subdivision, consolidation of shares, reduction of share capital or other variation of the Company's ordinary share capital.

(e) *Additional conditions*

The Remuneration Committee may grant an option subject to such performance and/or objective condition or conditions as it in its discretion sees fit. Conditions attached to an option may be varied if an event occurs which causes the Remuneration Committee to consider that the varied conditions represent a fairer measure than the original conditions, but are no more difficult to satisfy than was the original when first set.

(f) *Exercise of options*

In normal circumstances, options may be exercised at any time between the third and tenth anniversaries of their date of grant provided that any performance and/or objective conditions to which they are subject have been fulfilled. Options may be capable of exercise during such other period(s) before or after the third anniversary of the date of grant, but not after the tenth anniversary of grant, as the Remuneration Committee may determine in their absolute discretion prior to or on the grant of an option. The Remuneration Committee will determine any question as to whether performance conditions have been satisfied. Options will become exercisable immediately on the death of a participant or on his ceasing to be an eligible employee by reason of injury, disability, retirement or redundancy, the sale or transfer out of the Group of the Company, business or that part of the business to which the employment relates. At the discretion of the Remuneration Committee, options may also become exercisable where the participant leaves for any other reason. Rights to exercise will also arise on a change in control as a result of a general offer or reconstruction of the Company (subject to the exercise of "roll-over" rights described in sub-paragraph (g) below), and in the event of a voluntary winding-up, notwithstanding that performance conditions have not been satisfied.

(g) *Voting, dividend, transfer and other rights*

Until options are exercised, option holders have no voting or other rights in respect of the Ordinary Shares covered by their options. Benefits obtained under the Share Option Schemes shall not be pensionable.

Shares issued pursuant to the Share Option Schemes shall rank *pari passu* in all respects with the Ordinary Shares already in issue except that they will not rank for any dividend or other distribution paid or made by reference to a record date falling prior to the date of exercise of the option.

Options are not transferable. On a change in control as a result of a general offer or reconstruction of the Company, options may, with the consent of the company acquiring control of the Company, be released in consideration for the grant of equivalent rights over the shares of the acquiring company or a company associated with it.

(h) *Administration and amendment*

The Remuneration Committee will administer the Share Option Schemes. The Board may amend the Share Option Schemes by resolution provided that at any time at which the Approved Scheme is and is intended to remain Inland Revenue approved no amendment shall have effect until approved by the Inland Revenue. Amendments adversely affecting participants may be made only with the consent of the participants concerned. The approval of the Company in general meeting will be required for any amendment to the advantage of participants affecting eligibility to participate, individual limitations or scheme limits, the basis of adjustment of options in the event of a variation in capital or the amendment clause itself except for minor amendments to benefit the administration of the Share Option Schemes and amendments to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any member of the Group.

(i) *Overseas schemes*

The Board may at any time and without further formality operate the Unapproved Scheme in any overseas territory and modify the Unapproved Scheme by the adoption of a schedule to take account of local tax, exchange controls or securities laws, regulation or practice.

(j) *Termination*

The Share Option Schemes may be terminated at any time by a resolution of the Board or by the Company in general meeting and shall in any event terminate on the tenth anniversary of the date on which (1) the Approved Scheme was approved by the Inland Revenue, and (2) the Unapproved Scheme was adopted by the Company. Termination shall not affect outstanding rights of participants.

6. Directors' and Other Interests

6.1 The interests of the Directors (all of which are beneficial unless otherwise stated) in the issued share capital of the Company as at 6 June 2002 (being the latest practicable date prior to the posting of this document) and as they will be following the Placing and Admission which have been or which will be required to be, notified by each Director to the Company pursuant to sections 324 or section 328 of the Act or which are or will be required pursuant to section 325 of the Act be entered into the register referred to therein or are interests of a connected person (within the meaning of section 346 of the Act) with a Director which would, if the connected person were a Director, be required to be disclosed and the existence of which is known to or could with reasonable diligence be ascertained by that Director, as follows:

	<i>Position as at 6 June 2002</i>		<i>Position following Admission</i>	
	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Share Capital</i>
<i>Director</i>				
Peter Fothergill	—	—	10,000	0.08
David Thatcher	—	—	10,000	0.08
Peter Coleman	—	—	2,500	0.02
David Bloxham	—	—	5,000	0.04
Nigel Slater	—	—	—	—

- 6.2 In addition to those interests disclosed at paragraph 6.1 above, the Directors are aware that the following were as at 6 June 2002, (being the latest practicable date prior to the posting of this document), or the Directors expect that immediately following Admission the following will be, interested directly or indirectly in three per cent. or more of the issued share capital of the Company:

<i>Name</i>	<i>Position as at 6 June 2002</i>		<i>Position following Admission</i>	
	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Share Capital</i>
ML Laboratories plc	6,000,000	100	6,000,000	46

- 6.3 Save as set out in paragraphs 6.1 and 6.2 above, the Directors are not aware of any person who is, or who will, immediately following Admission, be, interested (within the meaning of the Act) directly or indirectly in three per cent. or more of the issued share capital of the Company or who does, or who will, or could, directly or indirectly, jointly or severally, exercise control over the Company.

7. Directors' Service Agreements and Directorships

- 7.1 David Thatcher entered into an executive service agreement on 7 June 2002 with the Company which will take effect from Admission. Under this agreement he will be appointed Chief Executive Officer of the Company, with the appointment continuing for an indefinite period terminable by either party on 12 months' notice in writing. Subject to such notice periods the contract shall terminate automatically on David Thatcher's 65th birthday. Payment may be made in lieu of notice in respect of David Thatcher's salary and benefits. David Thatcher will be entitled to a salary of £115,000 per annum reviewable by the Board from time to time. There is no obligation on the Board to award any increase in salary. He is also entitled to a sum amounting to 10 per cent. of his salary as a contribution towards the use of his own car on company business. He is entitled to participate in the Share Option Schemes, the Company's pension scheme and any life assurance arrangements and private medical insurance schemes of the Company. The Board may also award David Thatcher (in its absolute discretion) bonus payments in such amount as the Board shall determine from time to time.
- 7.2 Peter Coleman entered into an executive service agreement on 7 June 2002 with the Company on the same terms as those set out in respect of David Thatcher's agreement, save that Peter Coleman's salary will be £60,000 per annum and he will be appointed Finance Director of the Company.
- 7.3 Peter Fothergill entered into an executive service agreement on 7 June 2002 with the Company which will take effect from Admission. Under this Agreement, he will be appointed as Executive Chairman of the Company, with the appointment continuing for an indefinite period, terminable by either party on not less than 6 months notice in writing. Subject to such

notice period the Agreement shall terminate automatically on Peter Fothergill's 65th birthday. Payment may be made in lieu of notice in respect of Peter Fothergill's salary and benefits. Peter Fothergill will be entitled to a salary of £100,000 per annum, reviewable by the Board from time to time. There is no obligation on the Board to award any increase in salary. He is also entitled to a contribution to his personal pension scheme. He is entitled to a car allowance, to participate in the Unapproved Scheme and any life assurance arrangements and permanent health insurance schemes of the Company. The Board may also award Peter Fothergill (at its absolute discretion) bonus payments in such amount, as the Board may determine from time to time.

7.4 Under the terms of their letters of engagement as non-executive directors of the Company, dated 7 June 2002, David Bloxham and Nigel Slater are each entitled to an annual fee of £18,000 per annum. Each engagement will continue for one year from the date of Admission, subject to re-election at the next annual general meeting of the Company, and be terminable thereafter by either party on one months notice.

7.5 Save as set out in paragraphs 7.1 to 7.3 above, there are no existing or proposed service contracts between the Directors and the Company.

7.6 The aggregate of the remuneration payable (including such benefits in kind) to the Directors by the Group in respect of the year ending 30 September 2002 under the arrangements in force at the date of Admission, is expected to amount to approximately £131,000.

7.7 The Directors:

(a) are or have been directors or partners of the following companies and partnerships at any time in the previous five years (excluding the Company and its subsidiaries):

<i>Director</i>	<i>Current directorships or partnerships</i>	<i>Past directorships or partnerships</i>
Peter Fothergill	Pinder Versatool Limited Countersett Limited Tabletting Science Limited Loughborough University Innovations Limited I Holland Limited Marsett Media Limited Bioinnovation Limited Movement Control Systems Limited Traversall Limited Mats (UK) Limited D. S. Pharmaceuticals Limited Biofil Limited Benest Engineering Limited Innovata Biomed Limited Loughborough Endowed Schools Loughborough University Consultants Limited Health Care Education Services Limited ML Laboratories plc	Renex Healthcare Limited Protherics Plc Bioincubator York Limited
David Thatcher	—	—
Peter Coleman	—	SPD (Holdings) Limited
David Bloxham	Bravacs Limited Evolutec Limited Limegrove Limited Opteval Limited Oxford Vacs Limited Profile Therapeutics plc Provalis plc Vacs of Life plc	Celltech Group plc Rodaris Pharmaceutical Limited Therexsys Limited Celltech Europe Limited Celltech US Limited Celltech R&D Limited St Vincent Mews Residentials Association Limited
Nigel Slater	Bio-Developments Limited Angel Technology Limited	Amcracker Limited Congelow Produce Limited Foodnatural.com Limited North Braden Farm Limited Silsoe Research Institute

(b) have no unspent convictions relating to indictable offences;

(c) have had no bankruptcies or individual voluntary arrangements;

- (d) have not been directors of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors of such company;
- (e) have not been partners of any partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangements of such partnership;
- (f) have not been partners of any partnership at the time of or within 12 months preceding a receivership of any assets of such partnership;
- (g) have not had any of their assets subject to any receivership; and
- (h) have not received any public criticisms by statutory or regulatory authorities (including recognised professional bodies) and have not been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

7.8 Except as disclosed in this document, no person (excluding professional advisers otherwise named in this document and trade suppliers) has:

- (a) received, directly or indirectly, from the Company within the 12 months preceding the date of this document; or
- (b) entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission,

either fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price or any other benefit with a value of £10,000 or more at the date of Admission.

8. United Kingdom Taxation

The following statements are intended only as a general guide to current United Kingdom tax legislation and to what is understood to be the current practice of the United Kingdom Inland Revenue (the “Inland Revenue”) for Shareholders who are resident, or ordinarily resident, in the United Kingdom for tax purposes and who hold their Shares as investments. Any person who is in any doubt as to his tax position is strongly recommended to consult his professional advisers immediately.

8.1 Taxation of dividends

(a) *Tax treatment of the Company*

Under current United Kingdom law no taxation will be withheld from dividends paid by the Company. In addition, there is no longer an obligation on the Company to account for advance corporation tax on dividends paid by it.

(b) *Tax treatment of United Kingdom resident individual shareholder*

An individual United Kingdom resident shareholder is generally entitled to a notional tax credit in respect of the dividend, which he can set off against his total liability to United Kingdom income tax. The amount of the tax credit is equal to 1/9th of the cash dividend. The cash dividend aggregated with the amount of the tax credit (“the gross dividend”) will be included in the shareholder’s income for United Kingdom tax purposes and will be treated as the top slice of the shareholder’s income. Thus, a shareholder receiving a dividend of £90 will be treated as having received income of £100 that has a tax credit of £10 attached to it.

An individual United Kingdom resident shareholder who, after taking into account the gross dividend, pays income tax at the lower rate or basic rate will have no further liability to account for income tax on the dividend.

An individual United Kingdom resident shareholder who, after taking into account the gross dividend, pays income tax at the higher rate will pay tax on the gross dividend at the Schedule F upper rate of 32.5 per cent. against which he can set the tax credit. Such a shareholder will have a liability to account for additional tax equivalent to 25 per cent. of the cash dividend received.

An individual United Kingdom resident shareholder who does not pay income tax or whose liability to income tax does not exceed the amount of the tax credit will not be entitled to claim repayment of the tax credit attaching to the dividend. In the case of a life interest trust resident in the United Kingdom, the person entitled to the income of the trust shall not be liable to account for income tax on any dividend received by the trust if that person pays income tax at lower or basic rate, since the tax credit attaching to the dividend will discharge that person's liability to tax on that dividend. However, if that person pays income tax at the higher rate, he will have a further liability to income tax on the dividend received by the trust.

(c) *Tax treatment of UK resident trustees*

Trustees of a UK resident discretionary trust will be liable to income tax at 25 per cent. of the gross dividend provided that the income is not distributed. This will mean that such trustee shareholders will have an additional tax liability equal to 16.67 per cent. of the cash dividend received. Trustees of discretionary trusts should, however, note that the changes to the tax treatment of dividends might impact adversely on the amount of income distributable to beneficiaries from the trust. Trustees who are in any doubt as to their position should consult their own professional advisers.

(d) *Tax treatment of UK resident corporate shareholders*

A United Kingdom resident corporate shareholder will not generally be liable to corporation tax on any dividend received from the Company.

(e) *Tax treatment of UK pension funds*

United Kingdom pension funds and charities are generally exempt from tax on dividends that they receive but are not entitled to claim repayment of the tax credit. Charities may receive some compensation for the loss of the tax credit on dividends paid up to 2003/4.

(f) *Non-UK resident shareholders*

Whether a non-United Kingdom resident shareholder is entitled to repayment of any part of the tax credit in respect of dividends paid to him, will depend upon the provisions of the double tax treaty (if any) between the country in which the shareholder is resident and the United Kingdom. Such a shareholder should be aware that changes to the value of the tax credit which took effect from 6 April 1999, will in general eliminate or reduce the amount that such a shareholder will be able to reclaim. A non-United Kingdom resident shareholder should consult his own professional adviser on the possible application of such provisions, the procedure for claiming repayment and what relief or credit (if any) may be claimed for such tax credit in the jurisdiction in which he is resident.

8.2 Taxation of capital gains

For the purpose of United Kingdom taxation on chargeable gains, the issue of Ordinary Shares to individuals and Trustees pursuant to the Placing will be regarded as an acquisition of a new holding in the share capital of the Company.

To the extent that a shareholder acquires Placing Shares allotted to him, the Placing Shares so allotted will be treated as acquired on the date of allotment for capital gains tax purposes.

The amount paid for the Placing Shares will constitute the base cost of a shareholder's holding. A subsequent disposal of Placing Shares may result in a liability to United Kingdom taxation of chargeable gains, depending upon individual circumstances. Any gain made on a disposal by an individual or a trust of the Placing Shares subscribed for may be eligible for taper relief allowance, depending on the length of time the shares are held.

A corporate shareholder resident for tax purposes in the UK that sells or otherwise disposes of its Ordinary Shares may, depending upon the shareholder's circumstances, and subject to any available relief, incur a liability to UK tax on any capital gain or deemed capital gain realised.

8.3 Stamp duty and stamp duty reserve tax

(a) *Placing*

No liability to stamp duty or stamp duty reserve tax should arise on the allotment of Placing Shares under the Placing.

(b) *Shares held outside the CREST system*

The conveyance or transfer on sale of the Ordinary Shares will usually be subject to stamp duty on the instrument of transfer, generally at the rate of 0.5 per cent. of the amount or value of the consideration. Stamp duty is charged in multiples of £5. An obligation to account for stamp duty reserve tax ("SDRT") at the rate of 0.5 per cent. of the amount or value of the consideration will also arise if an unconditional agreement to transfer the Ordinary Shares is not completed by a duly stamped instrument of transfer before the "accountable date" for SDRT purposes. The accountable date is the seventh day of the month following the month in which the agreement for the transfer is made (extended to 60 days from the date of the agreement by concession from the Inland Revenue). Any SDRT paid can be reclaimed if a duly stamped instrument is entered into within 6 years of the agreement and the appropriate stamp duty paid (although if this does not take place within the 60 day period referred to above, a liability to interest and penalties may arise). It is the purchaser of the shares who is in general liable to account for stamp duty or SDRT.

(c) *Shares held within the CREST system*

The transfer of the Ordinary Shares in uncertificated form in the CREST system will generally attract a liability to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration and this will generally be deducted automatically.

The above statements are intended as a general guide to the current position. Certain categories of person are not liable to stamp duty or SDRT, and others may be liable at a higher rate or may, although not primarily liable for the tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

9. Placing arrangements

On 7 June 2002 the Company (1), the Directors (2), Collins Stewart (3), and ML (4) entered into the Placing Agreement. The obligations of Collins Stewart under the Placing Agreement are conditional upon, *inter alia*, Admission taking place by 13 June 2002 or such later date as the Company and Collins Stewart may agree. Collins Stewart has agreed to use reasonable endeavours to procure places for the Placing Shares at the Placing Price failing which Collins Stewart has agreed as principal to subscribe for such shares itself at the Placing Price.

The Placing Agreement contains indemnities and warranties from the Company, ML and the Directors in favour of Collins Stewart. The liability of the Directors and ML for breach of warranty is limited. Collins Stewart may terminate the Placing Agreement in certain circumstances prior to Admission including circumstances where any of the warranties are found not to be true or accurate in any material respect.

Under the Placing Agreement the Company has agreed to pay Collins Stewart an advisory fee of £225,000 and a commission of 4 per cent. of the value of the New Ordinary Shares at the Placing Price. The Company has also agreed to issue the Collins Stewart Warrant to Collins Stewart pursuant to a warrant instrument, details of which are set out in paragraph 10.1(d) below.

10. Material Contracts

10.1 The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Group in the two years prior to the date of this document, and are or may be material:

- (a) the Placing Agreement details of which are set out in paragraph 9 of Part VII of this document;
- (b) The Hive-Out Agreement dated 7 June 2002 between Cobra (1) and ML (2) in respect of the sale of the R&D Business to ML. The consideration will be satisfied by a cash payment by ML to Cobra equal to the amount by which Cobra's bank borrowings and borrowings from ML at completion exceed £3 million. Cobra has undertaken to ML to repay the remaining £3 million of its overdraft liability, which is currently guaranteed and secured by ML, within two days of Admission.

Cobra and ML will also enter into the following ancillary agreements in respect of the Hive-Out Agreement:

- (i) an assignment from Cobra to ML of certain licences and patents in respect of the R&D Business;
 - (ii) a licence granted by Cobra to ML in respect of certain patents and related knowhow;
 - (iii) a licence granted by ML to Cobra in respect of certain patents and related knowhow; and
 - (iv) a licence granted by Cobra to ML entitling ML to occupy part of Cobra's premises in Keele for the purposes of the R&D Business.
- (c) Pursuant to an agreement dated the date of this document between the Company (1) the Directors (2) and Collins Stewart (3) Collins Stewart agreed to act as nominated adviser and broker to the Company for a fee of £30,000 per annum plus VAT if applicable. The agreement provides that either party may terminate the agreement in the event of a material breach by the other party by giving not less than three months' notice in writing such notice not to take effect prior to the first anniversary of the date of Admission.
 - (d) A Warrant Instrument dated 7 June 2002 constituting the Collins Stewart Warrant under the terms of which the Company will issue Collins Stewart, conditional on Admission a warrant to subscribe for 390,000 Ordinary Shares (representing 3 per cent. of the Enlarged Share Capital). The principal terms on which the Collins Stewart Warrant will be granted as follows:
 - (i) it is exercisable at the Placing Price;
 - (ii) it is exercisable at any time following Admission up until the fifth anniversary of Admission; and
 - (iii) it is not transferable save in certain circumstances.
 - (e) Under the terms of an agreement dated 7 June 2002 between the Company (1) and ML (2), ML agreed that the Company would be capable of carrying on its business independently from ML and that all transactions would be on an arm's length and on a normal commercial basis. The Company undertakes to provide ML with such written information as ML may reasonably request to enable ML to prepare its annual and half yearly accounts, but undertakes to provide no further information to ML. This agreement is conditional upon Admission
 - (f) An agreement dated 7 June 2002 between the Company (1) and ML (2) under which 5,999,980 Ordinary Shares were issued to ML in consideration of the sale to the Company of the whole of the issued share capital of Cobra.
 - (g) A deed dated 7 June 2002 under the terms of which the Company has undertaken to ML to pay the sum of £3 million to Cobra to enable Cobra to pay such sum to its bankers in accordance with the Hire-Out Agreement.

11. Miscellaneous

11.1 *No significant change*

Save as disclosed in Part I and IV of this document, there has been no significant change in the financial or trading position of Cobra since 30 September 2001 the end of the period for which the last audited results of Cobra have been published.

11.2 *Working capital*

The Directors are of the opinion that, having made due and careful enquiry, taking into account the net proceeds of the Placing, the working capital available to the Group will be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

11.3 *Litigation*

No member of the Group is involved in any legal or arbitration proceedings which are having or may have a significant effect on the Group's financial position nor is any member of the Group aware that any such proceedings are pending or threatened.

11.4 *Expenses*

- (a) The total proceeds which it is expected will be raised for the Company by the Placing of the Placing Shares (before expenses) are £7,000,000.
- (b) The total costs and expenses relating to the Placing (which are payable by the Company) are estimated to amount to £840,000 (including VAT) and accordingly the net proceeds which it is expected will be raised by the Placing (after the deduction of expenses) are £6,160,000.

11.5 *Consents*

- (a) Collins Stewart has given and has not withdrawn its written consent to the issue of this document and the references to its name in the form and context in which it is included.
- (b) Harrison Goddard Foote have given and have not withdrawn their written consent to the issue of this document and to the inclusion herein of their report and references to such report and to their name in the form and context in which they are respectively included and have accepted responsibility for such report.

11.6 *Exceptional factors*

The Directors are not aware of any exceptional factors which have influenced the Group's activities.

11.7 *Intellectual property*

Save as disclosed in this document, Cobra's business is not dependent on any intellectual property rights of fundamental importance to the Group.

11.8 *Investments in progress*

The Group has no significant investments in progress.

11.9 *Arrangements*

There are no agreements, arrangements or understandings (including any compensation arrangements) between any of the Directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Placing and Admission.

11.10 *Minimum amount*

There is no minimum amount which in the opinion of the Directors must be raised pursuant to the Placing for the purposes set out in paragraph 21(a) of the POS Regulations.

There are no amounts to be provided in respect of the matters mentioned above otherwise than out of the proceeds of the Placing.

11.11 *Nominated adviser and broker*

Collins Stewart, whose principal office is at 9th Floor, 88 Wood Street, London, EC2V 7QR and is regulated in the United Kingdom by the Financial Services Authority, is acting as the Company's nominated adviser and broker.

11.12 The accounting reference date of the Company following Admission is 30 September.

11.13 The Placing Price represents a premium over the nominal value of 10p per Ordinary Share of 90p.

11.14 Monies received from applicants pursuant to the Placing will be held in accordance with the terms of the application procedures issued by Collins Stewart until such time as the Placing becomes unconditional in all respects. If the Placing does not become unconditional in all respects by 3.00 p.m. on 27 June 2002 subscription monies will be returned to placees as soon as practicable at their own risk and without interest.

11.15 It is expected that definitive share certificates will be despatched by first class post on 20 June 2002. No temporary documents of title will be issued. In respect of uncertificated shares, it is expected that shareholders' CREST stock accounts will be credited by 13 June 2002.

12. Availability of document

Copies of this document will be available to the public, free of charge from the offices of Collins Stewart, 9th Floor, 88 Wood Street, London EC2V 7QR from the date of this document until at least one month after Admission.

Dated 7 June 2002

