cobra

making tomorrow's medicines

Cobra Biomanufacturing Plc

Interim Report 2003
for the half year ended 31 March 2003

Cobra's Interim Highlights

Financial

Results for the 6 months to 31 March 2003:

- **Manufacturing revenues £3.0 million** (up 306% on the six months to 31 March 2002 and 19% on the 12 months to 30 September 2002)
- **Gross margin 59%** (up from 24% for the six months to 31 March 2002 and 34% for the 12 months to 30 September 2002)
- **Profit before tax £0.48 million** (against losses before tax of £2.32 million for the six months to 31 March 2002 and a loss before tax of £0.94 million for the 12 months to 30 September 2002)
- **Profit after tax of £0.71 million** (against losses after tax of £1.35 million for the six months to 31 March 2002 and a profit after tax of £0.09 million for the 12 months to 30 September 2002)
- **Cash at bank £2.7 million** (against an overdraft of £5.5 million as at 31 March 2002 and cash at bank of £2.6 million as at 30 September 2002)

Corporate

- **Long-term supply agreements signed with South African AIDS Vaccine Initiative/Medical Research Council (SAAVI) and Mayne Pharma** (November and December 2002)
- **Launch of US Sales Office in Chicago** (November 2002)
- **GMP accreditation on expanded facility** (January 2003)
- **Placing and open offer of new ordinary shares raising £4.65 million net of expenses** (June 2003)
- **Aquisitions of additional biological manufacturing capacity** (June 2003)

Chairman's statement

Cobra became an independent AIM listed company on 13 June 2002 as a provider of knowledge based manufacturing solutions to the international biopharmaceutical industry. These maiden Interim Results confirm the predictions, made in the first Annual Report, that continued growth would be achieved in the financial year 2003.

Turnover for our continuing operations in the six months to 31 March 2003 was £3.0 million, which represents a 306% increase on the six months to 31 March 2002 and a 19% increase on the last full 12 months to 30 September 2002. More significantly, Cobra has become profitable with a profit before tax of £0.48 million and a profit after tax of £0.71 million. This sets a measurable reference point for a newly listed company within the sector.

It is a testament to Cobra's management and strategy that these excellent results have been achieved in a marketplace which remains variable due to the status of biotechnology funding across the world. Evidence of this success is demonstrated not only by the number of new customers we continue to obtain, but also in the level of repeat business achieved in an industry which is sophisticated and complex in its requirements. Cobra's pattern of business is increasingly global. Our business split is now 52% of sales in Europe (including the UK), 29% in Africa/Asia/Australia and encouragingly, 19% in the US. Our Chicago-based US office was opened in November 2002 and is already paying its way and providing rapid responses to customers in this the world's most important single market.

Further growth is anticipated as the business development team are actively pursuing new customers in each of the main markets mentioned above. This new business drive is supported by the capacity increases that came on stream at the beginning of this financial year.

There remains an upper limit to capacity. Consequently the Group has spent time examining ways of expanding its DNA, virus and protein capabilities in order to further increase market share and thereby the number of opportunities to participate in longer-term customer relationships.

Accordingly, in parallel with these results the Group is acquiring 15,000sq ft of pre-existing biological manufacturing capacity and will invest in this facility to provide state of the art equipment such that Cobra can double its capacity with even greater versatility of product. Full details have been sent out in a Prospectus, which contains details of the proposed placing and open offer of new ordinary shares raising £4.65 million net of expenses. This additional capacity will come on stream in the financial year 2004.

It is almost 12 months since Cobra was listed on AIM during which time the Group has evolved into a fully integrated independent business, including enhanced skills in business development, a North American office, expanded manufacturing capacity and long-term relationships with several major customers; and we have achieved our financial objective of becoming profitable. These achievements are a credit to our highly focused team of dedicated professionals committed to our primary objective of becoming a world class player in the biopharmaceutical industry.

We have set a performance standard for the future that we have every confidence in maintaining.

G P Fothergill
Executive Chairman

Chief Executive's Review

Cobra provides technology across a wide spectrum of biopharmaceutical products; manufacturing DNA and virus products through pre-clinical to late stage clinical development and providing process development and early stage manufacturing services for protein biopharmaceuticals.

Highlights

Increased turnover: At the time of the flotation in June 2002 the Group was in the process of completing a four-fold expansion of microbial fermentation capacity and a two-fold expansion of virus manufacturing capacity. These investments came on stream at the beginning of this financial year and now constitute the largest revenue-generating streams in the business. This has enabled us to increase turnover for continuing operations in the first 6 months to £3.0 million compared with £2.5 million for the whole of the financial year 2002 and £0.7 million for the equivalent six months to 31 March 2002.

Profitability: The Group has operated profitably from its flotation in June 2002. The fact that we have been profitable over the first six months of this current financial year despite the added commitment of strengthening the business development team and integrating all business operations within the Group is an achievement that the team can be very proud of. A profit before tax of £0.48 million and a profit after tax of £0.71million was achieved with a gross margin of 59% and an operating margin of 15%.

Long-term agreements: Cobra provides specialist know-how backed up by over 40 patents granted or in the process of validation. This intellectual property is made available to our customers in exchange for commercial and manufacturing rights. In November 2002 we announced an agreement with the South African AIDS Vaccine Initiative/Medical Research Council (SAAVI) covering commercialisation rights and manufacturing options on a vaccine for HIV. In April 2003 we added a second vaccine under the same agreement. In December 2002 we announced a long-term manufacturing agreement with the Australian pharmaceutical company FH Faulding Limited (a subsidiary of Mayne Pharma) covering production of a novel genetically engineered virus.

GMP accreditation: The Keele facilities were re-inspected by the Medicines and Healthcare products Regulatory Agency GMP inspectorate in August 2002 and a letter of accreditation was received in January 2003. GMP accreditation is now essential for companies wishing to supply clinical products in Europe. Although the GCP Directive (which requires manufacturers to be licensed) does not come into legal force until May 2004, many European countries have already implemented the Directive and require all clinical products to be fully GMP compliant and manufactured in validated facilities.

Expansion of the business development team: In November 2002 we appointed a sales executive and opened a US sales office in Chicago. The United States constitutes at least 70% of the world market for biopharmaceuticals and Cobra's continued rapid growth will require an increasing share of the US market. To date orders for the financial year 2003 from the USA stand at $2.2 million compared with $0.9 million for the whole of the financial year 2002.

Outlook

Despite the well-documented sharp reduction in investment in biotech, the demand for our services continues to increase and the long-term outlook for biotech looks bright. This optimism is underpinned by a continuing shift in the proportion of medicines containing bio-molecules. Although only 8% of the current pharmaceutical market contains biopharmaceuticals, they constitute 32% of late stage clinical development products. Not surprisingly therefore demand for outsourced manufacturing services for fine chemicals is stagnant whereas growth in the biopharmaceuticals sector is double digit. Cobra, with its expanded facilities, intends to take advantage of this trend.

Cobra's forte is the provision of sophisticated manufacturing technologies and services to the pharmaceutical industry. The focus is in highly potent complex bio-molecules such as genetically engineered viruses, proteins and DNA. Cobra's expertise and experience continues to underpin the Group's growth and is creating a long-term upside in potential licensing income and manufacturing/commercialisation rights. This business model is robust and should return value to our shareholders in the future.

D R Thatcher
Chief Executive

Summarised Group Profit and Loss Account

	Notes	Unaudited 6 months ended 31 March 2003 £	Unaudited 6 months ended 31 March 2002 £	Year ended 30 September 2002 £
Turnover				
Continuing operations		**3,019,525**	744,137	2,539,812
Discontinued operations		**-**	30,000	30,000
Group turnover	**2**	**3,019,525**	774,137	2,569,812
Cost of sales		**(1,234,737)**	(585,029)	(1,700,067)
Gross profit		**1,784,788**	189,108	869,745
Other operating costs		**(1,319,706)**	(2,493,568)	(4,196,529)
Operating profit/(loss)				
Continuing operations		**465,082**	(544,719)	(806,524)
Discontinued operations		**-**	(1,759,741)	(2,520,260)
Group operating profit/(loss)		**465,082**	(2,304,460)	(3,326,784)
Profit on transfer of discontinued operations		**-**	-	2,517,810
Reorganisation costs		**-**	-	(123,501)
Profit/(loss) on ordinary activities before interest and taxation		**465,082**	(2,304,460)	(932,475)
Bank interest receivable		**46,566**	-	27,264
Interest payable		**(28,755)**	(18,982)	(32,184)
Profit/(loss) before tax		**482,893**	(2,323,442)	(937,395)
Taxation	**3**	**225,000**	971,408	1,025,992
Retained profit/(loss) for the period	**5**	**707,893**	(1,352,034)	88,597
Earnings/(loss) per share				
Basic	**4**	**5.4p**	(22.5)p	1.1p
Adjusted	**4**	**5.4p**	(9.4)p	(10.0)p
Diluted	**4**	**5.4p**	(22.5)p	1.1p

There were no recognised gains or losses other than the profit/(loss) for the period/year.

Summarised Balance Sheet

	Notes	Unaudited 6 months ended 31 March 2003 £	Unaudited 6 months ended 31 March 2002 £	Year ended 30 September 2002 £
Fixed assets				
Tangible assets		**2,215,581**	1,317,690	2,168,393
		2,215,581	1,317,690	2,168,393
Current assets				
Stocks and work in progress		**244,530**	622,957	441,178
Debtors		**2,570,740**	3,072,426	2,373,389
Cash		**2,718,601**	63	2,614,546
		5,533,871	3,695,446	5,429,113
Creditors: amounts falling due within one year		**(1,967,404)**	(7,433,248)	(2,612,744)
Net current assets/(liabilities)		**3,566,467**	(3,737,802)	2,816,369
Total assets less current liabilities		**5,782,048**	(2,420,112)	4,984,762
Current liabilities				
Creditors: amounts falling due after more than one year		**(251,685)**	(495,886)	(162,292)
Net assets/(liabilities)		**5,530,363**	(2,915,998)	4,822,470
Capital and reserves				
Called up share capital	5	**1,300,000**	600,000	1,300,000
Share premium	5	**5,597,837**	-	5,597,837
Merger reserve	5	**29,728,872**	29,728,872	29,728,872
Profit and loss account	5	**(31,096,346)**	(33,244,870)	(31,804,239)
Equity shareholders' funds/(deficit)		**5,530,363**	(2,915,998)	4,822,470

Summarised Group Statement of Cashflows

	Notes	Unaudited 6 months ended 31 March 2003 £	Unaudited 6 months ended 31 March 2002 £	Year ended 30 September 2002 £
Net cash outflow from operating activities	**6**	**(439,350)**	(3,052,463)	(3,031,757)
Returns on investments and servicing of finance				
Interest received		**46,566**	-	27,264
Interest paid		**(28,755)**	(18,982)	(32,184)
		17,811	(18,982)	(4,920)
Taxation				
R&D tax credit		**496,522**	-	239,608
		496,522	-	239,608
Capital expenditure				
Payments to acquire tangible fixed assets		**(201,960)**	(636,769)	(2,040,253)
		(201,960)	(636,769)	(2,040,253)
Acquisitions and disposals				
Transfer of discontinued operations		**-**	-	3,298,391
Reorganisation costs		**-**	-	(123,501)
		-	-	3,174,890
Net cash outflow before the management of liquid resources and financing		**(126,977)**	(3,708,214)	(1,662,432)
Management of liquid resources				
Increase in short term deposits		**(150,000)**	-	(2,350,000)
Financing				
Issue of ordinary shares		**-**	-	7,000,000
Share issue costs		**-**	-	(702,163)
Repayment of capital element of finance leases		**(45,790)**	(38,578)	(81,469)
Lease finance acquired		**276,822**	400,598	400,598
Increase/(decrease) in amount owed to former parent undertaking		**-**	182,531	(13,804)
		231,032	544,551	6,603,162
(Decrease)/increase in cash	**7**	**(45,945)**	(3,163,663)	2,590,730

Reconciliation of Net Cash Flow to Movement in Net Funds

	Unaudited 6 months ended 31 March 2003 £	Unaudited 6 months ended 31 March 2002 £	Year ended 30 September 2002 £
(Decrease)/increase in cash	**(45,945)**	(3,163,663)	2,590,730
Repayment of capital element of finance leases	**45,790**	38,578	81,469
Lease finance acquired	**(276,822)**	(400,598)	(400,598)
(Decrease)/increase in amount owed to former parent undertaking	**-**	(182,531)	13,804
Cash outflow to short term deposits	**150,000**	-	2,350,000
Movement in net (debt)/funds during the period	**(126,977)**	(3,708,214)	4,635,405
Other	**-**	-	164,001
Movement in net (debt)/funds during the period	**(126,977)**	(3,708,214)	4,799,406
Net funds/(debt) at the start of the period	**2,320,823**	(2,478,583)	(2,478,583)
Net funds/(debt) at the end of the period	**2,193,846**	(6,186,797)	2,320,823

Notes to the Unaudited Results

1 INTERIM ACCOUNTS

The Group's Interim Results consolidate the results of the Company and its subsidiary company made up to 31 March 2003.

Under a group reconstruction on the 6 June 2002 the Company acquired the whole of the issued share capital of Cobra Therapeutics Limited in exchange for shares. The reconstruction has been accounted for in accordance with the principles of merger accounting set in the Financial Reporting Standard No6 (FRS 6) and in accordance with Schedule 4a of the Companies Act 1985. The Interim Results have been prepared as if Cobra Therapeutics Limited had been owned and controlled by the Company throughout the periods ended 31 March 2003, 31 March 2002 and 30 September 2002.

The interim financial information contained in this statement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. They have been prepared on the basis of the accounting policies set out in the Group's statutory accounts for the year ended 30 September 2002. These documents, on which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

The Board of directors approved the Interim Report on 28 May 2003.

2 TURNOVER

a) The geographical analysis of turnover by destination is shown as follows:

	Unaudited 6 months ended 31 March 2003 £	Unaudited 6 months ended 31 March 2002 £	Year ended 30 September 2002 £
Continuing			
United Kingdom	**1,089,752**	198,790	842,714
North America	**586,879**	284,896	553,280
Europe	**481,162**	197,451	971,737
Rest of the World	**861,732**	63,000	172,081
	3,019,525	744,137	2,539,812
Discontinued			
United Kingdom	**-**	10,000	10,000
North America	**-**	20,000	20,000
	-	30,000	30,000
	3,019,525	774,137	2,569,812

Notes to the Unaudited Results

2 TURNOVER (continued)

a) The geographical analysis of turnover by destination is shown as follows:

The Group operates in two principal areas of activity, that of contract manufacture and licensing.

The analysis by class of business of the Group's turnover and profit/(loss) on ordinary activities before tax is as follows:

	Contract Manufacture			Licensing			Total		
	Unaudited 6 months ended 31 March 2003 £	Unaudited 6 months ended 31 March 2002 £	Year ended 30 September 2002 £	**Unaudited 6 months ended 31 March 2003 £**	Unaudited 6 months ended 31 March 2002 £	Year ended 30 September 2002 £	**Unaudited 6 months ended 31 March 2003 £**	Unaudited 6 months ended 31 March 2002 £	Year ended 30 September 2002 £
Group turnover									
Continuing	**3,019,525**	744,137	2,539,812	**-**	-	-	**3,019,525**	744,137	2,539,812
Discontinued	**-**	-	-	**-**	30,000	30,000	**-**	30,000	30,000
	3,019,525	744,137	2,539,812	**-**	30,000	30,000	**3,019,525**	774,137	2,569,812
Cost of sales	**(1,234,737)**	(585,029)	(1,700,067)	**-**	-	-	**(1,234,737)**	(585,029)	(1,700,067)
Operating expenses	**(1,319,706)**	(703,827)	(1,646,269)	**-**	(1,789,741)	(2,550,260)	**(1,319,706)**	(2,493,568)	(4,196,529)
Segmental operating profit/(loss)	**465,082**	(544,719)	(806,524)	**-**	(1,759,741)	(2,520,260)	**465,082**	(2,304,460)	(3,326,784)
Profit on transfer of discontinued operations							**-**	-	2,517,810
Reorganisation costs							**-**	-	(123,501)
Bank interest receivable							**46,566**	-	27,264
Interest payable							**(28,755)**	(18,982)	(32,184)
Profit/(loss) before taxation							**482,893**	(2,323,442)	(937,395)

3 TAXATION

The Group is entitled to Research and Development tax relief under Schedule 20 of the Finance Act 2000, in respect of the six months ended 31 March 2003, six months ended 31 March 2002 and full year ended 30 September 2002.

The deferred tax asset has been recognised to the extent that deferred taxation is expected to be recoverable out of future profits. This is based on profit forecasts for the 12 months ended 31 March 2004. The unrecognised deferred tax asset will be available for offset against qualifying taxable profits arising in future periods. The effect of the utilisation of the unrecognised deferred tax assets in future periods will be to reduce the future tax rate to below the standard rate for UK Corporation Tax.

Notes to the Unaudited Results

3 TAXATION (continued)

	Unaudited 6 months ended 31 March 2003 £	Unaudited 6 months ended 31 March 2002 £	Year ended 30 September 2002 £
Taxation on profit/(loss) on ordinary activities			
Current tax:			
UK corporation tax on profit/(loss) of the period	-	(235,278)	(289,862)
Adjustments in respect of previous periods	-	(736,130)	(736,130)
Total current tax	-	(971,408)	(1,025,992)
Deferred tax:			
Origination & reversal of timing differences	(225,000)	-	-
Total deferred tax	(225,000)	-	-
Total tax	(225,000)	(971,408)	(1,025,992)

4 EARNINGS/(LOSS) PER ORDINARY SHARE

The calculation of basic earnings per ordinary share is based on the earnings for the period of £707,893 (six months ended 31 March 2002: £1,352,034 loss; year ended 30 September 2002: £88,597 profit) and the weighted average number of ordinary shares in issue during the period of 13,000,000 (six months ended 31 March 2002: 6,000,000; year ended 2002: 8,128,767).

	Unaudited 6 months ended 31 March 2003 £	Unaudited 6 months ended 31 March 2002 £	Year ended 30 September 2002 £
Basic weighted average number of shares	13,000,000	6,000,000	8,128,767
Dilutive potential ordinary shares:			
Employee share options	-	-	-
	13,000,000	6,000,000	8,128,767

Notes to the Unaudited Results

4 EARNINGS/(LOSS) PER ORDINARY SHARE (continued)

The adjusted earnings per share is shown to highlight the underlying earnings trend and is calculated using the same number of ordinary shares as the basic earnings calculation referred to above and the amounts shown below:

	Unaudited 6 months ended 31 March 2003 £	Unaudited 6 months ended 31 March 2002 £	Year ended 30 September 2002 £
Profit/(loss) after tax	**707,893**	(1,352,034)	88,597
Adjustments			
Profit on transfer of R&D operations	**-**	-	(2,517,810)
Reorganisation costs	**-**	-	123,501
Discontinued R&D operations	**-**	1,759,741	2,520,260
Discontinued operations R&D tax credit	**-**	(971,408)	(1,025,992)
Earnings/(loss) attributable to continuing operations	**707,893**	(563,701)	(811,444)

5 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share Capital £	**Share Premium £**	**Merger Reserve £**	**Profit and Loss Account £**	**Total £**
As at 1 October 2001	600,000	-	29,728,872	(31,892,836)	(1,563,964)
Loss for the period	-	-	-	(1,352,034)	(1,352,034)
As at 31 March 2002	600,000	-	29,728,872	(33,244,870)	(2,915,998)
Issue of shares	700,000	6,300,000	-	-	7,000,000
Issue costs	-	(702,163)	-	-	(702,163)
Profit for the period	-	-	-	1,440,631	1,440,631
As at 30 September 2002	1,300,000	5,597,837	29,728,872	(31,804,239)	4,822,470
Profit for the period	-	-	-	707,893	707,893
As at 31 March 2003	**1,300,000**	**5,597,837**	**29,728,872**	**(31,096,346)**	**5,530,363**

Notes to the Unaudited Results

6 RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Unaudited 6 months ended 31 March 2003 £	Unaudited 6 months ended 31 March 2002 £	Year ended 30 September 2002 £
Operating profit/(loss)	**465,082**	(2,304,460)	(3,326,784)
Depreciation of tangible fixed assets	**154,772**	239,301	432,993
Decrease/(increase) in stocks and work in progress	**196,648**	(276,026)	(162,146)
Increase in debtors	**(468,874)**	(1,205,626)	(834,975)
(Decrease)/increase in creditors	**(786,978)**	494,348	859,155
Net cash outflow from operating activities	**(439,350)**	(3,052,463)	(3,031,757)

7 ANALYSIS OF NET MOVEMENT IN NET FUNDS

	1 October 2002 £	Cash Flow £	**31 March 2003 £**
Cash at bank and in hand	264,546	(45,945)	**218,601**
Short term deposits *	2,350,000	150,000	**2,500,000**
Finance leases	(293,723)	(231,032)	**(524,755)**
	2,320,823	(126,977)	**2,193,846**

The majority of finance leases are arranged in respect of sale and leaseback transactions. Accordingly new finance leases are shown as a separate component of cash flow in the Cash Flow Statement.

* Short-term deposits are included within the cash at bank and in hand on the Balance Sheet.

Independent Review Report to Cobra Biomanufacturing Plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 31 March 2003 which comprises such as the Group Profit and Loss Account, Statement of Total Recognised Gains and Losses, Group Balance Sheet, Group Statement of Cash Flows, and the related notes 1 to 7. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report as required by the AIM Rules issued by the London Stock Exchange.

Review work performed

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

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2003.

Ernst & Young LLP
Manchester
28 May 2003

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