



making tomorrow's medicines



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Cobra Biomanufacturing Plc

Interim Report
for the half year ended 31 March 2004

Cobra's Interim Results 2004



Financial

For the six months to 31 March 2004

- Turnover £1.5m (H1 2003: £3.0m)
- Loss before tax of £1.2m (H1 2003: £0.5m profit)
- Loss after tax of £1.3m (H1 2003: £0.7m profit)
- Cash at bank 31 March 2004 of £3.8m

Operational

- The Oxford Facility completed on time and to budget
- Diversification into protein and virus manufacture to exploit increasing demand in these sectors
- Strengthened business development activity in the US
- As announced in February 2004, there is continuing decline in demand for plasmid DNA for both new and repeat business, particularly for DNA vaccines

Chairman's Statement



Cobra's second financial year as an independent business is proving to be extremely challenging as indicated in the February 2004 Trading Update. Revenue for the 6 months to March 2004 is down 50% to £1.5m (H1 2003 £3.0m) producing a loss before tax for the six months to 31 March 2004 of £1.2m (H1 2003 £0.5m profit) with cash at the bank of £3.8m.

The reasons for these results were explained in our February Trading Update as being due to delays and rescheduling of significant orders, together with a reduction in demand for plasmid DNA. Since February, it has become increasingly apparent that the decline in demand for plasmid DNA from new customers has been compounded by a dearth of repeat business particularly for DNA vaccines. DNA contributed to 53% of the revenue in 2003 and was the basis of the Group's previous growth. However Cobra's continued expansion always depended upon broadening our offering into servicing the protein and virus markets. This is already bearing fruit in the UK and Europe where our reputation is established with several key customers.

The US continues to represent the main opportunity for growth. Although the global DNA business is static, the demand for protein and virus manufacturing services in the US is increasingly buoyant. Furthermore, our expanded business development team led by our US based Commercial Director has already identified appropriate customers and is proactively focussed on the biotechnology clusters around Boston, San Diego and the San Francisco Bay area. This activity will begin to contribute to revenues during the second half of the year to September 2004.

In support of these initiatives we have now completed the Oxford Facility, which provides additional virus and protein capacity, more than doubling the scale of our original Keele Facility. The Oxford Facility is 'state of the art' and was brought in on time and to cost. We have already recruited high calibre key professionals to staff the unit and are planning the recruitment of operatives to match the contracts we have already secured for the facility.

As stated in February, we believe that the fundamentals are in place and the long-term potential of the business remains strong. The negative climate for the development of plasmid DNA products presents a serious challenge, which Cobra's broad based technologies and range of service offering can now accommodate. However it is still extremely difficult to forecast the year end, but we are confident of a meaningful improvement over these first half year results.

Finally, it is important for shareholders to recognise that Cobra is a business, which is operating through customers who are at the leading edge of scientific endeavour to create tomorrow's medicines, and we now mitigate that inherent risk by servicing customers across the full range of biopharmaceutical services. We are capable of so doing and you can be assured that both management and staff have made a significant contribution and are totally focussed on re-establishing Cobra's hitherto enviable track record and becoming a leading player in the vanguard of internationally recognised providers to the global biopharmaceutical industry.



G. Peter Fothergill
Chairman

Chief Executive's Review



Our performance for the first half of the financial year 2004 is well below expectations and has been affected by a combination of two factors:

- Delays and postponement of various manufacturing programmes in the second quarter of this financial year, coupled with reduced levels of repeat business, as some key customers face funding problems.
- Rapid softening of demand in the DNA market coupled with adverse exchange rate movements and aggressive competition in the US.

Overall however, our offering remains exceptional and we are currently building significant business in other markets - particularly in the field of manufacturing genetically engineered viruses.

Cobra occupies a unique place in the biomanufacturing space as we span manufacture of all four major types of biopharmaceutical: plasmid DNA, genetically engineered virus, recombinant protein and cellular products. The markets and market dynamics for these types of products differ and our flexibility will enable us to compensate for any shift in demand for one type of product.

Importance of the US Market: The US continues to be the hub of the worldwide biotechnology industry and Cobra's ability to gain a larger foothold in this market is crucial for the development of the Group. Although well known in the US as a DNA manufacturer, Cobra's other technologies are not widely recognised. Consequently, we have appointed Mark Carbeau as Commercial Director based in Boston with responsibilities for business development in the US and worldwide. With the imminent appointment of a sales representative in the San Francisco Bay area, Cobra will have a sales presence on the West Coast, in the Mid-West and on the East Coast of the US and I expect the North American territory to provide an increasing proportion of revenue in 2005. In this current period North America contributed 31% (2003 24%) of the revenue. Sales to all other territories were sluggish apart from the UK, which contributed 56% (2003 35%).

DNA Products: This sector has historically provided over 50% of Cobra's revenues and is the business in which we have had a strong global offering. Over the first six months of this financial year revenue from DNA fell by 73% compared with the same period last year. This fall was due to a declining worldwide market for plasmid DNA coupled with increased and aggressive competition in the US. 70% of the 2003 DNA revenue was to organisations developing DNA vaccines. The efficacy of this approach has not yet been proven convincingly in the clinic and a number of customers are delaying programmes as they wait for more compelling pre-clinical data before moving into full-scale manufacture. A number of customers are considering altering their strategy to systems that deliver the vaccine through the use of genetically engineered virus. The short-term outlook for DNA manufacturing will remain uncertain until more efficient delivery systems and formulations are developed.

Virus Products: Our ability to compete in virus manufacture is strengthening rapidly with revenue up 63% over the same period last year, with key contracts confirmed with Oxford BioMedica Plc and Oncolytics Biotech Inc. These accounts are for different virus types (Lentivirus and Reovirus respectively) and broaden the range of viruses with which Cobra has GMP (Good Manufacturing Practice) experience. Demand for our services in this sector, measured in terms of new contracts won and proposals generated, continues to improve over our like for like performance in 2003. The addition of massively increased capacity in our recently completed Oxford Facility means that we could potentially attain a leading position in this market.

Protein Products: This is a large market, but a market where Cobra has yet to become established in the US. In 2003 79% of Cobra's protein revenue was dependent upon a single UK clinical programme, which has now been delayed due to our customer's funding problems. As a result the Group's protein revenue for the first half of 2004 has fallen. However this fall was mitigated by the announcement in March 2004 of a major contract with the UK based company Avidex Limited for the manufacture of their repertoire of T-Cell receptor based products and we continue to compete effectively in the

Chief Executive's Review



UK protein market. Cobra has a great deal of technical experience in the development of both microbial and mammalian protein products and we expect revenues to grow in 2005 as we accelerate and focus our marketing campaign in the US.

Cell products: This is a new and emerging market, which is well suited to Cobra's assets and expertise. Last year we concluded agreements with Advaxis Inc on a Listeria programme and have recently begun a programme with the prestigious Ludwig Institute for Cancer Research. Cobra has also developed its own product development platform called ORT-VAC. Based on our ORT® technology these products are potentially the most potent genetically engineered oral vaccines. We are currently developing pre-clinical models in collaboration with the UK Government's Defence Science and Technology Laboratory at Porton Down and expect to be able to conclude the first commercial licences for the use of this technology during 2005.

Outlook for Cobra's Services: Cobra, since inception has grown by increasing market share at a time when the overall level of funding for the development of biotechnology products has been relatively static. The Cobra offering is strong and generates a high level of repeat business when customers are well funded. The value we bring to our customers is based on innovative and broad technical expertise, underpinned by dedication to the highest quality standards in the industry and backed up by a resourceful and flexible approach to customer relationships. I believe that our success in the DNA market can be replicated in the virus and protein manufacturing sectors and that Cobra's growth will be back on track during 2005.



D R Thatcher
Chief Executive

Group Profit and Loss Account

for the Half Year Ended 31 March 2004

	Notes	Unaudited 6 months ended 31 March 2004 £	Unaudited 6 months ended 31 March 2003 £	Year ended 30 September 2003 £
Turnover	2	1,529,751	3,019,525	6,020,293
Cost of sales		(930,085)	(1,234,737)	(2,617,732)
Gross profit		599,666	1,784,788	3,402,561
Other operating costs		(1,922,374)	(1,319,706)	(2,670,685)
(Loss)/profit on ordinary activities before interest and taxation		(1,322,708)	465,082	731,876
Bank interest receivable		98,500	46,566	131,528
Interest payable		(15,188)	(28,755)	(46,523)
(Loss)/profit before tax		(1,239,396)	482,893	816,881
Taxation	3	(50,500)	225,000	225,000
Retained (loss)/profit for the period		(1,289,896)	707,893	1,041,881
(Loss)/earnings per share				
Basic	4	(6.6)p	5.4p	6.9p
Diluted	4	(6.6)p	5.4p	6.9p

Group Statement of Total Recognised Gains and Losses

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

Group Balance Sheet

as at 31 March 2004

	Notes	Unaudited 6 months ended 31 March 2004 £	Unaudited 6 months ended 31 March 2003 £	Year ended 30 September 2003 £
Fixed assets				
Tangible assets		6,559,043	2,215,581	4,925,058
		6,559,043	2,215,581	4,925,058
Current assets				
Stocks and work in progress		213,869	244,530	206,919
Debtors		1,739,053	2,570,740	2,480,378
Cash		3,752,066	2,718,601	7,261,751
		5,704,988	5,533,871	9,949,048
Creditors: amounts falling due within one year		(1,956,480)	(1,967,404)	(3,151,602)
Net current assets		3,748,508	3,566,467	6,797,446
Total assets less current liabilities		10,307,551	5,782,048	11,722,504
Creditors: amounts falling due after more than one year		(1,048,440)	(251,685)	(1,173,497)
Net assets		9,259,111	5,530,363	10,549,007
Capital and reserves				
Called up share capital	5	1,950,000	1,300,000	1,950,000
Share premium	5	9,632,493	5,597,837	9,632,493
Merger reserve	5	29,728,872	29,728,872	29,728,872
Profit and loss account	5	(32,052,254)	(31,096,346)	(30,762,358)
Equity shareholders' funds		9,259,111	5,530,363	10,549,007

Group Statement of Cash Flows

for the Half Year Ended 31 March 2004

	Notes	Unaudited 6 months ended 31 March 2004 £	Unaudited 6 months ended 31 March 2003 £	Year ended 30 September 2003 £
Net cash (outflow)/inflow from operating activities	6	(1,701,298)	(439,350)	444,816
Returns on investments and servicing of finance				
Interest received		98,500	46,566	131,528
Interest paid		(15,188)	(28,755)	(46,523)
		83,312	17,811	85,005
Taxation				
R&D tax credit		323,278	496,522	496,522
		323,278	496,522	496,522
Capital expenditure				
Payments to acquire tangible fixed assets		(1,932,122)	(201,960)	(2,356,888)
		(1,932,122)	(201,960)	(2,356,888)
Net cash outflow before the management of liquid resources and financing		(3,226,830)	(126,977)	(1,330,545)
Management of liquid resources				
Decrease/(increase) in short term deposits		3,084,405	(150,000)	(4,427,964)
Financing				
Issue of ordinary shares		-	-	5,200,000
Share issue costs		-	-	(515,344)
Long term loans		-	-	1,087,500
Repayment of capital element of finance leases		(282,855)	(45,790)	(71,228)
Lease finance acquired		-	276,822	276,822
		(282,855)	231,032	5,977,750
(Decrease)/increase in cash	7	(425,280)	(45,945)	219,241

Reconciliation of Net Cash Flow to Movement in Net Funds for the Half Year Ended 31 March 2004

	Unaudited 6 months ended 31 March 2004 £	Unaudited 6 months ended 31 March 2003 £	Year ended 30 September 2003 £
	Notes		
(Decrease)/increase in cash	(425,280)	(45,945)	219,241
Cash inflow from increase in loans	-	-	(1,087,500)
Repayment of capital element of finance leases	282,855	45,790	71,228
Lease finance acquired	-	(276,822)	(276,822)
Cash outflow to short term deposits	(3,084,405)	150,000	4,427,964
Movement in net funds during the period	(3,226,830)	(126,977)	3,354,111
Net funds at the start of the period	5,674,934	2,320,823	2,320,823
Net funds at the end of the period	7 2,448,104	2,193,846	5,674,934

Notes to the Unaudited Results

for the Half Year Ended 31 March 2004

1 INTERIM ACCOUNTS

The Group's Interim Results consolidate the results of the Company and its subsidiary company made up to 31 March 2004.

The interim financial information has been prepared on the basis of the accounting policies set out in the Group's financial statements for the year ended 30 September 2003. The financial information contained in this interim statement does not constitute statutory accounts as defined in the Companies Act 1985. The financial information for the full preceding year is based on the financial statements for the financial year ended 30 September 2003. These accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

The Board of Directors approved the interim report on 2 June 2004.

2 TURNOVER

The Group operates in one principal area of activity, that of contract manufacture.

All turnover originates from the UK. The geographical analysis of turnover by destination is shown as follows:

	Unaudited 6 months ended 31 March 2004 £	Unaudited 6 months ended 31 March 2003 £	Year ended 30 September 2003 £
Continuing			
United Kingdom	862,922	1,089,752	2,114,096
North America	475,777	586,879	1,425,841
Europe	110,581	481,162	711,303
Rest of the World	80,471	861,732	1,769,053
	1,529,751	3,019,525	6,020,293

3 TAXATION

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 2005. 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

for the Half Year Ended 31 March 2004

3 TAXATION (continued)

	Unaudited 6 months ended 31 March 2004 £	Unaudited 6 months ended 31 March 2003 £	Year ended 30 September 2003 £
Taxation on (loss)/profit on ordinary activities			
Current tax:			
UK corporation tax on (loss)/profit of the period	(34,500)	-	-
Total current tax	(34,500)	-	-
Deferred tax:			
Origination & reversal of timing differences	85,000	(225,000)	(225,000)
Total deferred tax	85,000	(225,000)	(225,000)
Total tax	50,500	(225,000)	(225,000)

4 (LOSS)/EARNINGS PER ORDINARY SHARE

The loss per ordinary share is based on the losses for the period of £1,289,896 (six months ended 31 March 2003: £707,893 profit; year ended 30 September 2003: £1,041,881 profit) and on 19,500,000 ordinary shares (six months ended 31 March 2003: 13,000,000; year ended 30 September 2003: 15,124,531) being the weighted average number of shares in issue during the period.

	Unaudited 6 months ended 31 March 2004 No	Unaudited 6 months ended 31 March 2003 No	Year ended 30 September 2003 No
Basic weighted average number of shares	19,500,000	13,000,000	15,124,531
Dilutive potential ordinary shares:			
Employee share options	-	-	-
Warrants	-	-	-
	19,500,000	13,000,000	15,124,531

The loss for the period and the weighted average number of ordinary shares for calculating the diluted earnings per share for the 6 months ended 31 March 2004 is identical to those used for the basic earnings per share. This is because the outstanding share options and warrants would have the effect of reducing the loss per ordinary share and would therefore not be dilutive under the terms of Financial Reporting Standard No 14 (FRS 14).

Notes to the Unaudited Results

for the Half Year Ended 31 March 2004

5 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital £	Share premium £	Merger reserve £	Profit and loss account £	Total £
As at 30 September 2003	1,950,000	9,632,493	29,728,872	(30,762,358)	10,549,007
Loss for the period	-	-	-	(1,289,896)	(1,289,896)
As at 31 March 2004	1,950,000	9,632,493	29,728,872	(32,052,254)	9,259,111

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

	Unaudited 6 months ended 31 March 2004 £	Unaudited 6 months ended 31 March 2003 £	Year ended 30 September 2003 £
Operating (loss)/profit	(1,322,708)	465,082	731,876
Depreciation of tangible fixed assets	160,886	154,772	299,837
(Increase)/decrease in stocks and work in progress	(6,950)	196,648	234,259
Decrease/(increase) in debtors	361,334	(468,874)	(259,854)
Decrease in creditors	(893,860)	(786,978)	(561,302)
Net cash outflow from operating activities	(1,701,298)	(439,350)	444,816

7 ANALYSIS OF NET MOVEMENT IN NET FUNDS

	1 October 2003 £	Cash flow £	31 March 2004 £
Cash at bank and in hand	483,787	(425,280)	58,507
Short term deposits *	6,777,964	(3,084,405)	3,693,559
Bank loan	(1,087,500)	-	(1,087,500)
Finance leases	(499,317)	282,855	(216,462)
	5,674,934	(3,226,830)	2,448,104

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.

8 POST BALANCE SHEET EVENTS

On 20 May 2004 the Group entered into a £1.0m sale and leaseback funding agreement with Barclays Asset Finance for assets purchased in the six months ended 31 March 2004. The loan is repayable at a fixed rate over a five-year period.



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 2004, 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 8. 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 2004.

Ernst & Young LLP
Manchester
2 June 2004

Glossary of Terms

Bacteria – single cell organisms without a nucleus.

Biopharmaceuticals – medicines where the active principal cannot be chemically synthesised and comprise either recombinant DNA, protein or virus.

Cellular products/manufacture – medicines (the manufacture of medicines) where the active ingredients are live cells.

Cobra – Cobra Biomanufacturing Plc and its wholly owned subsidiary Cobra Biologics Limited ("the Group").

Defence Science and Technology Laboratory – DSTL, a division of the UK Ministry of Defence, responsible for delivering scientific advice, research and technical services to the UK armed forces and Government.

DNA – Deoxyribonucleic Acid, a molecule that encodes genetic information.

GMP – Good Manufacturing Practice, a code of practice that ensures medicinal products are produced consistently and to the appropriate quality standards. In the UK, manufacturers of medicinal products are required to be licensed by the Medicines and Healthcare products Regulatory Agency.

Lentivirus – a type of virus, which can be engineered to deliver useful genes to human tissues.

Listeria – a species of bacteria whose ability to invade human cells can be exploited to deliver therapeutic benefit.

Microbial protein products – proteins, produced and purified from bacteria that have been grown in a microbial fermentation process.

Mammalian protein products – proteins, produced and purified from a mammalian cell culture process.

ORT® – Operator Repressor Titration, a host vector system that avoids the use of antibiotics and antibiotic resistant genes during biological manufacture.

ORT-VAC – derived using ORT® technology, strains of attenuated bacteria bearing high copy number plasmids for use as live vaccines.

Plasmid – a circular, double stranded DNA molecule isolated from bacteria that is separate from the bacterium's own DNA.

Plasmid DNA vaccines/medicines – vaccines/medicines where the active ingredient is plasmid DNA purified from bacteria and which encodes a therapeutic gene.

Protein products/manufacture – medicines (the manufacture of medicines) where the active ingredient is protein.

Recombinant – produced by genetic engineering.

Reovirus – the Respiratory Enteric Orphan Virus, an RNA (ribonucleic acid) virus, whose genetic information is stored in RNA. This non-pathogenic virus could be engineered to deliver therapeutic effect for some forms of cancer.

T-Cell - T lymphocytes, a type of white blood cell, which assists in the production of antibodies to generate an immune response.

T-Cell receptor – the surface protein of a T-Cell, which enables the T-Cell to identify infected cells.

Virus products/manufacture – medicines (the manufacture of medicines) where the active ingredient is a recombinant virus engineered to deliver DNA encoding a therapeutic gene.