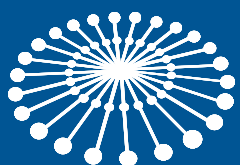




Systematic drug discovery

e-Therapeutics plc
Annual report and accounts 2011



e-Therapeutics plc

What's
inside

e-Therapeutics is a drug discovery and development company with a pioneering platform technology in network pharmacology.

e-Therapeutics has discovered potential new drug therapies for a variety of diseases. The Company is advancing the most promising of these drugs through clinical trials. At the same time, it is applying its network pharmacology platform to discover further new drug candidates, with a particular focus on cancer and degenerative diseases of the nervous system.

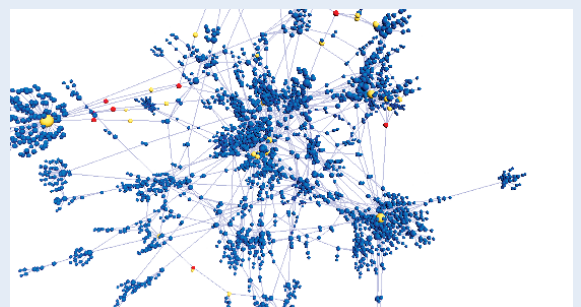
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Our
approach

What is network pharmacology?

Network pharmacology is a new and systematic approach to drug discovery.

Each cell contains many different proteins that interact with one another in complex networks. These networks are vital to normal function and also play a central role in disease. e-Therapeutics' platform uses sophisticated computational techniques to analyse protein networks. This allows us to identify the set of proteins that is most critical in any particular disease. We then seek drug molecules with the biggest effect on the whole set of relevant proteins, an approach distinct from conventional drug discovery, which focuses on targeting a single protein. This more holistic approach is also applied to safety: we screen drug candidates to select those with the least overall impact on normal protein networks. By applying network pharmacology in this way, we believe we can produce drug candidates that are more likely to show favourable efficacy and safety than those generated in the past using conventional approaches.



Highlights

(* = events after the year end)

Network pharmacology platform powers renewed drug discovery effort

- Company begins second wave of discovery using network pharmacology platform*
- Search for new candidates focuses on cancer and neurodegenerative diseases*
- Platform gains new US patent, strengthening intellectual property position
- Innovative approach recognised by Ernst and Young award to platform inventor, Professor Malcolm Young

Early outputs from platform fuel clinical development pipeline

- Best candidates from earlier discovery work selected for clinical development
- Four drugs prioritised, spanning cancer, infections and psychiatry*
- Preparations made for phase I and phase II trials
- Wealth of clinical data now expected in 2012 and 2013*

Organisation strengthened as discovery and development activities grow

- Former senior Merck executive Stephen Self appointed to direct drug development
- New CFO Daniel Elger brings added biotech, oncology and commercial experience*

Post-year end fundraising supports continuing investment in Research and Development

- Full-year net loss of £2.3 million (2010: loss of £1.8 million) reflects investment in business
- Cash and liquid resources of £0.9 million at 31 January 2011, before the March 2011 Placing (2010: £2.9 million)
- New resources secured to support drug discovery and development: £16.6 million of net new capital raised in equity Placing (March 2011)*
- Company well funded after Placing: working capital through 2013, with 30 June 2011 cash of c. £15.8 million (unaudited)*



Visit our website for more information about our business
www.etherapeutics.co.uk/information/about-us.html

Chairman's statement

Renewing discovery, driving development

Summary

- e-Therapeutics has a unique discovery platform in network pharmacology
- New wave of discovery work has begun
- Four drugs progressing in clinic
- Wealth of clinical trial data expected from 2012 onwards

Overview

I am pleased to report another period of considerable progress at the Company. We have prepared a systematic programme of clinical trials, which will evaluate in patients the most promising drugs we have generated using our network pharmacology platform. We have also restarted discovery activities, applying our unique platform with intent to produce further drug candidates for development. Pursuit of our business goals has been aided by the addition of substantial new funds to our balance sheet, and we thank investors for their support of our recent Placing. We have also benefited from strengthening our team, notably the addition of further experts in drug development. In both discovery and development, we are focusing our efforts and resources carefully on those programmes most likely to generate significant value for shareholders.

Exploiting our leadership in network pharmacology

e-Therapeutics has a pioneering position in a novel approach to drug discovery known as network pharmacology. This approach uses information on the way a drug interacts with the various proteins it encounters and on how different proteins interact with one another as they form networks within cells. Network pharmacology can be applied to anticipate the effectiveness of a drug against a diseased

cell or pathogen, and to see whether it could have unacceptable side effects in healthy tissues. The net result is a view of the likely total effect of the drug. This has advantages over conventional drug discovery, which focuses on the action of a drug on a single target and therefore ignores much of the complexity of biological systems. Our network pharmacology approach aims to overcome the disappointments seen with many 'targeted' treatments, which have proved less effective and/or less safe than their originators had hoped once faced with the real-life complexities encountered in medical application.

Building on the acclaimed work of our founder and CEO, Professor Malcolm Young, the Company has established a proprietary discovery platform based on network pharmacology. We have strong intellectual property protection for this approach, which was further enhanced during the period by the grant of a new US patent covering important features of the platform. The pioneering nature of our business was recognised in June 2010 when Professor Young received an Ernst and Young Innovation Entrepreneur of the Year Award.

Our discovery platform proved very productive during its period of full operation from 2005 to 2009. This first phase of our discovery effort focused exclusively on identifying novel uses for known molecules or combinations



“e-Therapeutics is entering a new phase, as the outputs from our unique platform in network pharmacology fuel a pipeline of drugs in clinical development.”

Professor Oliver James
Non-executive Chairman

of well-studied agents. Candidates of this kind have the potential for shortened development time because of pre-existing safety and toxicology data. As described below, four of the 'repositioned' drugs arising from this work have been selected for further clinical development.

Following our fundraising in March 2011, we have been able to initiate a second phase of discovery work. We plan both to identify further repositioning candidates and to discover novel molecules. We have undertaken a careful exercise to select disease areas in which we believe our technology has particular strengths and will be concentrating the majority of our effort in cancer and degenerative diseases of the nervous system. We have begun the recruitment of additional scientists with relevant expertise and also a search for a suitable site in the Oxford area, where we believe we can best establish a world-class discovery unit in network pharmacology. Renewal of our discovery efforts should enable us to maintain a good pool of drug candidates from which we can continue to select the most attractive, based on technical, clinical and commercial criteria, to advance into the clinic. It also enhances the potential for us to forge discovery collaborations with partners. We see the network pharmacology platform as a renewable source of new product assets from which value can be generated over a long period.

Detailed plans enacted for clinical pipeline products

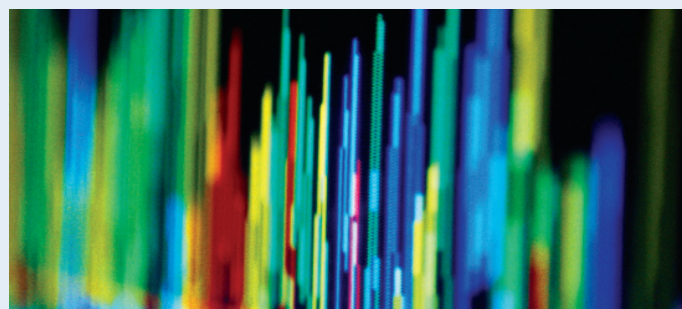
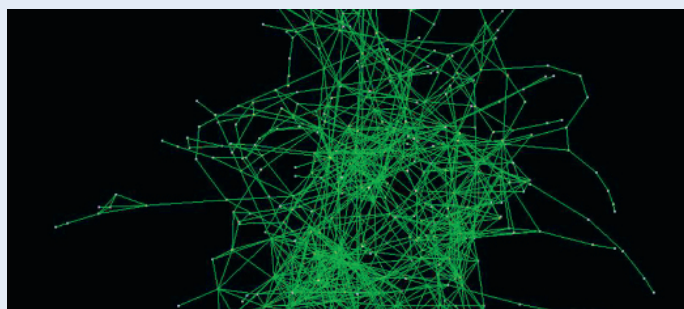
Following the appointment of new Board members (see page 4) and, in particular, extensive review of all our drug candidates by new Development Director Stephen Self, we have refined our plans for development of the Company's clinical-stage assets. Although we have generated a number of promising candidates, we have been rigorous in identifying the most commercially attractive and deselecting others. As indicated in our February 2011 Placing announcement, four of the candidates generated by the Company's earlier discovery effort have been selected for clinical development.

ETS2101 is a drug that promotes apoptosis (programmed death) of malignant cancer cells. It is supported by preclinical data in multiple cancer types and a substantial safety file from its previous development as a potential treatment for trauma patients. We will be engaging in discussions with regulators during August 2011 and expect to start treating cancer patients in clinical trials by early 2012. Two separate trials are planned: a dose-escalating phase I study that will enrol patients with a variety of solid tumours; and a focused investigator-initiated phase I trial in patients with primary or secondary tumours in the brain. Together, these trials will allow the Company to probe the broad range of cancers where ETS2101 could provide benefit while also pursuing a specific indication where

preclinical data were especially promising. Initial data from the trials should be available in 2012 and we now expect final results from both trials in 2013. The Company will conduct additional non-clinical work in parallel with the trials in order to allow rapid progress to phase II if data are positive.

ETX1153c is a drug with high potency against *C. difficile*, a bacterium that is responsible for severe and sometimes life-threatening outbreaks of diarrhoea in hospitalised patients. ETX1153c has shown activity that extends to resistant strains in laboratory testing. During 2011, we will be testing the compound in an animal model. Provided data support those seen *in vitro*, we expect to initiate phase I development in early 2012 and to complete this phase within that calendar year. The phase I study will be conducted in a small number of healthy volunteers, following which we could progress rapidly to a phase II trial in patients. Work is ongoing to formulate the drug for oral delivery to patients.

ETS6103 is a drug we are developing for major depressive disorder. The drug has already produced encouraging data in a small phase II study in which it was compared with the tricyclic antidepressant amitriptyline. Our next step is to conduct a phase IIb trial, which will evaluate a range of dosing options. We plan to start this trial early in 2012 and to complete it in the first half of 2013.



Chairman's statement continued

Board and balance sheet strengthened

“We look forward to an exciting period ahead, as we embark on a substantial programme of clinical trials for our lead drug candidates and the generation of new candidates using our network pharmacology platform.”

Detailed plans enacted for clinical pipeline products continued

ETX1153a is a topical agent being developed for resistant hospital-based infections such as those caused by MRSA. We are currently working on the formulation of the product and expect to start a phase I study in 2012.

Our primary aim in development of these candidates is to generate high quality data through trials conducted under the approval of regulators in established pharmaceutical markets. While we continue to believe that the drugs also have commercial potential in emerging markets, and have a licensing agreement with Khandelwal Laboratories in India that includes two of the above candidates, we do not anticipate any significant revenues from this source over the next two years, nor do we intend during this period to invest further in trials in emerging markets. We plan to generate data through our own clinical programmes that could support partnering deals covering a wide range of territories.

Balance sheet strengthened

We finished the financial year to 31 January 2011 with £0.9 million in cash and liquid resources, but then conducted a Placing in March that raised £16.6 million net of expenses. This has provided us with the resources we need to pursue thorough development of our clinical-stage assets and new discovery effort as described above. Concurrently with the Placing, we removed all debt from our balance sheet by paying off our loan notes and their associated interest. In addition, a majority of the warrants outstanding at the time were converted into ordinary shares, limiting any future dilution associated with these instruments.

Net losses for the period were £2.3 million (2010: £1.8 million loss); as in 2010, there were no revenues to offset our operating expenses. Net cash burn for the year was £2.0 million; we benefited from the receipt of £0.5 million in Research and Development tax credits based on the prior year's claim.

We anticipate continuing losses in future periods until such investment is matched by revenue from collaborations and/or partnering deals for the Company's products. In the short term, we expect cash utilisation and losses to increase as we invest the proceeds of our recent Placing in increased drug discovery and drug development activities. We expect that the funds currently available will be sufficient to continue this investment through 2013. We retain a high degree of flexibility in prioritisation of programmes and will keep under regular review the best use of the resources available, as well as continuing to

evaluate opportunities such as partnerships that could generate revenues and offset our outgoings.

Board changes

We have strengthened our Board with the appointment of Stephen Self as Development Director in December 2010. Stephen has a substantial track record in drug development, notably at Merck Generics, where he led development for eight years prior to the acquisition of the unit by Mylan. Since the period end we have also appointed to the Board former Antisoma executive Dr Daniel Elger as Chief Financial Officer. Former Finance Director John Cordiner has left the Board and the Company and I would like to thank him for his contribution to the Company's development. It is with great sadness that we note the passing of Dr Royston Drucker, our former Chief Medical Officer, who stepped down from our Board in September 2010. Royston was a respected friend and colleague and made an important contribution to the development of our business.

Outlook

We look forward to an exciting period ahead, as we embark on a substantial programme of clinical trials for our lead drug candidates and the generation of new candidates using our network pharmacology platform. Both these activities could add significant value to our business in the short to medium term. We have the capital resources needed to invest in this work and many of the key people required; we will add modestly to our numbers over the coming year as we recruit additional experts in discovery and development. Our work is underpinned by a unique proprietary platform that provides strong potential for sustained value creation not only over the next few years but also over the long term.

Professor Oliver James

Chairman

25 July 2011

Board of Directors

Professor Oliver James Non-executive Chairman

Oliver, 67, has served as Senior Medical Advisor to the Penrose Inquiry since 2009 and has been a Non-executive Director of the Newcastle upon Tyne Hospitals NHS Foundation Trust since 2006. He was a Non-executive Director of BUPA from 1999 until 2007 and of Goldsborough Health Care plc from its flotation on the main market in 1995 until it was acquired by BUPA in 1997.

Oliver qualified as a physician in 1975 and practised until 2004 when he became head of the medical faculty at Newcastle University. He was Senior Vice-President of the Royal College of Physicians from 1997 to 1999 and has also been a member of a number of national and governmental medical-related boards and committees. Oliver joined the Company as Non-executive Chairman in November 2007.

Professor Malcolm Young Chief Executive Officer

Malcolm, 50, is a scientist by background. He has been Director of the Complex Systems Group, Director of the Institute for Neuroscience, Provost of the Faculty of Science, Agriculture and Engineering and Pro-Vice Chancellor for Strategic Development at Newcastle University, after having been a Royal Society Research Fellow at the RIKEN Institute in Japan and at Oxford University. The main goals of his research have been to understand how biological function arises from structural aspects of complex biological systems.

Malcolm is one of 18 scientists worldwide nominated by the Sunday Times in 1999 as the 'Brains behind the 21st Century'. His scientific experience and expertise is now dedicated to delivering safe and effective new medicines through e-Therapeutics. Malcolm founded e-Therapeutics and has led its development since. He was awarded Innovation Entrepreneur of the Year by Ernst and Young for the North and Midlands in June 2010.

Mr Stephen Self Development Director

Steve, 57, began his career in chemistry in 1975 with The Wellcome Foundation. He held positions in both Research and Development and Operations before being appointed as a full time Project Manager in Wellcome Research in 1987. He became Head of Project Management in 1991 and was appointed Group Vice-President for Project Management in 1993.

Steve joined Boots Healthcare International in 1995 as Head of Respiratory and Analgesic product development, before joining Merck Generics in 1997 as European Technical Director. He was appointed as Merck Generic Group's Research and Development Director in 1999 and stayed with Merck until the sale of the company to Mylan in 2007. Since then he has worked for a private equity bank on major US pharmaceutical acquisitions, before joining e-Therapeutics to drive the Company's clinical development activities in December 2010.

Dr Daniel Elger Chief Financial Officer

Daniel, 41, has 17 years' experience in healthcare businesses. He began his career in medical publishing. He then spent five years at pharmaceutical marketing consultancies Blackwell Healthcare and Avenue, becoming a Programme Director in 1999 and leading accounts for GSK, Janssen, Roche, Pfizer and Merck.

In 2002 Daniel joined cancer drug developer Antisoma plc as Head of Corporate Communications, becoming Communications Director in 2005 and Vice-President, Marketing & Communications in 2008. He served on the Senior Management Team and played significant roles in corporate strategy, fundraisings and the acquisition of two US biotech companies.

Daniel has a BA in Physiological Sciences (Medicine) and a Ph.D in cancer cell biology, both from Oxford University. He joined e-Therapeutics in June 2011.

Mr Brad Hoy Non-executive Director

Brad, 48, has over 15 years' commercial experience in the pharmaceutical and biotechnology industries through financial and general management roles in the UK and US.

Brad is Director and co-founder of Seven Hills Venture Partners Limited, a life sciences advisory firm based in Edinburgh. Previously Brad was Chief Financial Officer of Plethora Solutions Holdings plc, an AIM-listed speciality pharmaceutical company, Chief Executive Officer of Xcellsys Limited, a UK venture capital-backed life science company, and Senior Director of Geron Corporation's stem cell-focused UK subsidiary. Prior to co-founding Seven Hills, Brad was Chief Financial Officer at Cyclacel Limited, a UK oncology company, and he held senior financial management positions at ChiRex Inc, a US-based pharmaceutical CMO. Brad is a Chartered Management Accountant. He was appointed as a Non-executive Director of e-Therapeutics in September 2008.

Directors' report

Period from 1 February 2010 to 31 January 2011

The Directors present their report and the audited financial statements for the period ended 31 January 2011.

Principal activities and status

The principal activity of the Company during the year was the discovery and development of drugs.

Business review

The Group's results for the year are set out in the Consolidated Income Statement on page 13. A review of the Group's performance during the year, together with its position at the end of the year and an assessment of its future prospects, is given in the Chairman's Statement.

Key performance indicators

The Directors consider cash resources (note 14) and Research and Development spend (note 3) to be the Group's financial key performance indicators (KPI) at this stage of its development. The Directors consider that the most important non-financial KPIs for the Group at this stage are the number and nature of outputs from its discovery platform, the number of drugs progressing from discovery to development and the progress made by drugs through development. These are discussed in the Chairman's Statement.

Principal risks and uncertainties

Intellectual property

In common with other companies engaged in drug discovery, the Group faces the risk that intellectual property rights necessary to exploit its Research and Development efforts may not be adequately secured or defended. The Group's intellectual property may also become obsolete, preventing commercial exploitation.

Research and Development risk

The Group may not generate further attractive drug candidates and candidates already in development may fail in preclinical testing or clinical trials because of lack of efficacy, unacceptable side effects or insurmountable challenges in conducting studies adequate to support regulatory approvals.

Regulatory risk

Drug development is a highly regulated activity governed by different regulatory authorities in different jurisdictions. It can be difficult to predict the exact requirements of different regulatory bodies, and decisions by regulators may lead to delays in development and approval of drugs or lack of marketing authorisations in some or all territories.

Technology risk

The Group's technology platform and its individual programmes may be superseded by direct competitors.

Commercial and economic risk

The Group may be unable to license its products to partners or may not be able to execute licensing deals that provide significant revenues. Development of alternative technologies or products may undermine the Group's capacity to generate revenue flowing from commercialisation of its assets. If the Group's drugs are commercialised, they may not generate significant revenues if their use and sale is restricted by regulators or by failure of healthcare payors to provide adequate reimbursement of drug costs.

Financial risk

The successful development of the Group's assets requires financial investment which can come from revenues, commercial partners or investors. Failure to generate additional funding from these sources may compromise the Group's ability to execute its business plans or to continue in business.

Wherever possible, the Directors aim to mitigate the potential impact of these risks.

Directors

The Directors of the Company at the end of the year, and their interests (in respect of which transactions are notifiable to the Company under Disclosure and Transparency Rule 3.1.2R) in the issued ordinary shares of the Company, are as follows:

	Ordinary shares of £0.001 each at 31 January 2011	Ordinary shares of £0.001 each at 1 February 2010
Malcolm Young*	20,620,482	20,620,482
Stephen Self	0	0
John Cordiner*	362,060	354,060
Oliver James	38,500	38,500
Brad Hoy	0	0

*Through interests in Novotech Investment Ltd and Novotech Syndicate LLP, each of Malcolm Young and John Cordiner indirectly held a further 428,512 shares in the Company.

Biographical details of the Directors are given on page 5. John Cordiner resigned as a Director on 10 June 2011. Royston Drucker resigned as a Director in September 2010. Daniel Elger was appointed as a Director on 10 June 2011.

Details of Directors' rights to subscribe for shares in the Company are disclosed in Note 5.

Research and Development

The Group continues to invest in discovery research conducted in-house and in drug development activities, aspects of which are outsourced when appropriate.

Political and charitable contributions

The Group made no political or charitable contributions during the current or prior year.

Financial instruments and financial risk management

The financial risks faced by the Group, and its policy towards these risks, are set out in Note 19 of the accounts.

Proposed dividend

The Directors do not recommend the payment of a dividend.

Employees

The Group provides equal opportunities to all staff and employees and recruits the most suitably qualified person for each position. Full and fair consideration is given to applications for employment from disabled persons.

Health and safety

The Directors are committed to high standards of health and safety at work. No incidents have been recorded during the period.

Policy and practice on payment of creditors

It is the Group's policy to pay suppliers in accordance with terms and conditions agreed prior to the commencement of trading, provided that the supplier has met its contractual obligations. The Group does not follow any standard code of practice for payment of suppliers. At the end of the year, outstanding invoices for the Group and the Company represented 30 days' purchases.

Major shareholdings

As at 13 July 2011 the Company has been notified of the following shareholdings with 3% or more of the issued share capital of the Company.

	Ordinary shares of 0.1p each	
	Number	Percentage
Invesco	65,384,615	47.3
Professor Malcolm Young	20,620,482*	14.9
Gartmore Investment Limited (Henderson Global Investors)	15,396,408	11.1
Octopus Group	8,768,508	6.3
Newcastle University Holdings Limited	6,744,000	4.9
RAB	4,557,950	3.3

* Through interests in Novotech Investment Ltd and Novotech Syndicate LLP, Professor Young also indirectly held a further 428,512 shares, representing 0.3% of the issued share capital.

Significant contracts

The following are significant contracts and arrangements:

Khandelwal Laboratories Pvt Limited

e-Therapeutics has licensed Indian rights to several drug candidates to Khandelwal Laboratories in return for potential royalty payments based on profits made in India. The Company does not expect any significant revenues from this contract over the next two years.

Infinitus Clinical Research Pvt Limited

The contract with Infinitus Clinical Research Pvt Limited, which was detailed in the Annual Report and Accounts 2010 and which related to performance of clinical trials in China and India, is no longer regarded as significant because e-Therapeutics is now concentrating its clinical trials effort in established pharmaceutical markets. There were no payments outstanding under this contract at the period end.

Articles of association and capital structure

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's articles of association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary.

There are no restrictions on the transfer or voting of securities in the Company and there are no agreements known to the Company which might result in such restrictions. There are no shareholders carrying special rights with regard to the control of the Company. No shares held by employee share schemes of the Company have rights regarding control of the Company that are not directly exercisable by employees.

Disclosure of information to Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as each of them is aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Independent Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG Audit Plc as Auditor of the Company is to be proposed at the forthcoming Annual General Meeting (AGM).

Going concern

After making detailed enquiries, which are summarised in Note 1 to the financial statements, the Board has a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future and accordingly continues to prepare the financial statements on a going concern basis.

Directors' and officers' liability insurance

The Company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the Directors indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

Post-balance sheet events

In March 2011 the Company raised £17.6 million (approximately £16.6 million net of expenses) through the placing of 67,740,904 new ordinary shares. As part of the same transaction, £857,769 warrants were exercised and the entire amount of the Company's loan notes of £1,049,233 were redeemed and all interest due to the date of redemption paid. Further details of these transactions are provided in Note 22 on page 29.

Directors' report continued

Period from 1 February 2010 to 31 January 2011

Annual General Meeting

At the AGM, the following resolutions will be proposed:

Resolution 1: Report and accounts

The Directors must present their report and the annual accounts to the meeting. This gives shareholders the opportunity to ask questions on the content before voting on the resolution.

Resolutions 2, 3 and 4: Directors

The Company's articles of association require Directors to retire and submit themselves for election at the first AGM following their appointment and for re-election at least every three years thereafter. The Directors who retire at each AGM are those who would otherwise have served for over three years without re-election by the date of the following AGM. Daniel Elger and Stephen Self have been appointed as the Company's Chief Financial Officer and Development Director, respectively, since the Company's last AGM. The Board believes that Brad Hoy, one of the Company's Non-executive Directors who is standing for re-election, has considerable experience invaluable to the Company.

Resolution 5: Appointment of Auditor

An ordinary resolution will be proposed to reappoint KPMG Audit Plc as the Company's Auditor to hold office from the conclusion of the AGM until the conclusion of the next general meeting at which accounts are laid before the Company.

Resolution 6: Remuneration of the Auditor

An ordinary resolution will be proposed to authorise the Directors to determine the remuneration payable to the Auditor.

Resolution 7: Directors' authority to allot shares

This resolution seeks shareholder approval for the Directors to be authorised to allot shares. Under the provisions of Section 551 of the Companies Act 2006, the Directors are not permitted to allot shares unless authorised to do so by the shareholders. This Act provides for such authority to be granted either by the Company in general meeting or by the articles of association and in both cases such authority must be renewed every five years. Notwithstanding the statutory provisions, the Company's policy is that this authority be renewed annually.

At the previous AGM of the Company held on 8 September 2010, the Directors were given authority to allot ordinary shares in the capital of the Company up to approximately 70% of the Company's then issued ordinary share capital. The Directors consider it appropriate that they be granted authority to allot shares in the capital of the Company up to a maximum nominal amount of £96,688.52, representing 70% of the Company's issued ordinary share capital as at 13 July 2011. This power will last until the conclusion of the next AGM of the Company in 2012. It is the present intention of the Board to seek a similar authority each year.

Resolution 8: Directors' power to disapply pre-emption rights

This resolution, which will be proposed as a special resolution, supplements the Directors' authority to allot shares in the Company proposed by resolution 7.

Section 561 of the Companies Act 2006 requires a company proposing to allot equity securities (which includes selling shares held in treasury) to offer them first to existing shareholders in proportion to their existing shareholdings. Equity securities includes ordinary shares (the only class of share capital the Company has at present) but does not include shares issued under employee share schemes. If resolution 8 is passed, the requirement imposed by Section 561 will not apply to allotments by the Directors in the specific cases referred to in the resolution and also:

1. in connection with a rights (or similar) issue, where strict application of the principle in Section 561 could (for example) either result in fractional entitlements to shares arising or require the issue of shares where this would be impractical because of local, legal or regulatory requirements in any given overseas jurisdiction; and
2. allotments of shares for cash up to a total nominal value of £27,625.29 (representing 20% of the Company's issued share capital at 13 July 2011). This gives the Directors flexibility to take advantage of business opportunities as they arise.

This authority will expire at the conclusion of the next AGM or, if earlier, 15 months after the passing of the resolution except insofar as commitments to allot shares have been entered into before that date. It is the present intention of the Directors to seek a similar authority annually.

This resolution has been drafted with a view to the Company being able to sell for cash a limited number of any shares which might be held by the Company in treasury, without first having to offer them to existing shareholders. The Company's ability to sell shares held in treasury and to issue new shares for cash without first offering them to existing shareholders is limited under this resolution to approximately 20% of the present issued share capital. Your Directors believe that the flexibility to hold shares in treasury and to sell them will be beneficial to the Company particularly in relation to the operation of the Company's share incentive scheme for employees.

Resolution 9: Company's authority to purchase shares

In some circumstances, companies can find it advantageous to use surplus funds to make market purchases of their own shares. Shares purchased in this way may either be cancelled (thus reducing the total number of shares in issue and potentially increasing future earnings on the remaining shares) or held as treasury shares in accordance with the Companies Act 2006. This resolution, which will be proposed as a special resolution, seeks to renew the existing authority for the Company to purchase its own shares in the market.

Resolution 9 specifies the maximum number of shares which may be purchased (representing 10% of the Company's issued share capital at 13 July 2011), the minimum and maximum prices at which they may be bought and when the authority will expire, reflecting the requirements of the Companies Act 2006. This limit is in line with investor protection guidelines. The maximum price at which the shares may be purchased is 5% above the average of the middle market values of those shares for the five business days before the purchase is made.

Purchases of shares under the proposed authority are required by the AIM Rules for Companies of the London Stock Exchange to be made in compliance with the Model Code. Accordingly, the Company would not exercise the authority at a time when the Directors would be precluded from dealing in the Company's shares. Specifically, purchases would not be made within the 60 days preceding the announcement of the interim or final results. This proposal should not be taken as an indication that the Company would purchase shares at any particular price or to imply any opinion on the part of the Directors as to the market or other value of the Company's shares.

Annual General Meeting continued

Resolution 9: Company's authority to purchase shares continued

The Companies Act 2006 enables certain listed companies to hold shares in treasury, as an alternative to cancelling them, following a purchase of own shares in accordance with that Act. Shares held in treasury may subsequently be cancelled, sold for cash or used to satisfy share options and share awards under the Company's share schemes. Once held in treasury, the Company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of those shares. Furthermore, no dividend or distribution of the Company's assets may be made to the Company in respect of those shares whilst held in treasury.

Accordingly, if the Directors exercise the authority conferred by Resolution 9, the Company will have the option of holding those shares in treasury rather than cancelling them.

During the year, the Directors did not use the authority granted at the AGM held on 8 September 2010.

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Professor Oliver James

Chairman

25 July 2011

Corporate governance

The rules relating to securities traded on the London Stock Exchange's AIM do not require AIM companies to report in accordance with the Combined Code. However, the Board believes in the principles of good corporate governance and is committed to applying the highest principles commensurate with its size.

Board of Directors

The Company has a Board of five Directors, two of whom are Non-executive. The Board is responsible to shareholders for the effective stewardship of the Company's affairs and has a formal schedule of matters specifically reserved for its decision which include:

- consideration of long-term strategic issues;
- financial and budgeting decisions and control; and
- ensuring the Company's compliance with good practice in corporate governance matters.

A brief biographical summary of each Director is given on page 5.

The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda and has no involvement in the day-to-day business of the Company. He facilitates the effective contribution of the Directors and ensures that they receive accurate, timely and clear information and that they communicate effectively with shareholders.

The Company Secretary has administrative responsibility for the meetings of the Board and its committees and is responsible for advising the Board through the Chairman on all governance matters. All of the Directors have access to the advice and services of the Company Secretary. Directors may also take independent professional advice at the Company's expense where necessary in the performance of their duties.

The Company's articles of association and the schedule of matters reserved to the Board for decision provide that the appointment and removal of the Company Secretary is a matter for the Board.

Independence of Directors

The Board currently comprises the Chairman, who is an independent Non-executive Director, three Executive Directors and one Non-executive Director. The independent Non-executive Directors, OFW James and BR Hoy, constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations. The independent Directors are of sufficient calibre that their views carry significant weight in the Board's decision making.

The Board considers OFW James and BR Hoy to be independent in character and judgement and they:

- have not been employees of the Group within the last five years;
- have not, or have not had within the last three years, a material business relationship with the Group;
- have not received remuneration other than a Director's fee and the options awarded to them*;
- have no close family ties with any of the Group's advisers, Directors or senior employees;
- do not hold cross-Directorships or have significant links with other Directors through involvement in other companies or bodies; and
- do not represent a significant shareholder.

* BR Hoy has undertaken a small amount of general consultancy work for the Group. The scale and nature of this work is not considered such as to compromise his independence.

Professional development

On appointment, the Directors take part in an induction programme where they receive information about the Group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the principal Board and management committees, the powers delegated to those committees, the Group's corporate governance practices and procedures, including the powers reserved to the Group's most senior executives and the latest financial information about the Group. This is supplemented by meetings with other key senior executives.

Throughout their period in office the Directors are continually updated on the Group's business, the competitive and regulatory environments in which it operates, corporate social responsibility matters and other changes affecting the Group and the industry it operates in as a whole, by written briefings and meetings with senior executives. Directors are also advised on appointment of their legal and other duties and obligations as a Director of a listed company, both in writing and in face-to-face meetings with the Company Secretary. They are reminded of these duties each year and they are also updated on changes to the legal and governance requirements of the Group and upon themselves as Directors.

Re-election

In accordance with the articles of association, one-third of Directors retire by rotation each year. All newly appointed Directors are also subject to election by the shareholders. Each Director must be subject to re-election at least every three years.

Board committees

The Board has appointed two standing committees to make recommendations to the Board in specific areas, as follows.

Audit committee

The audit committee comprises the two Non-executive Directors, OFW James and BR Hoy. The committee is chaired by BR Hoy. The Board considers that the members of the committee are independent Non-executives.

The audit committee's terms of reference include the following roles and responsibilities:

- reviewing and making recommendations to the Board in relation to the Company's published financial statements and other formal announcements relating to the Company's financial performance;
- reviewing and making recommendations to the Board in relation to the Group's internal control (including internal financial control) and risk management systems;
- periodically considering the need for an internal audit function;
- making recommendations to the Board in relation to the appointment, reappointment and removal of the external Auditor and approving the remuneration and terms of engagement of the external Auditor;
- reviewing and monitoring the external Auditor independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- monitoring the extent to which the external Auditor is engaged to supply non-audit services; and
- ensuring that arrangements are in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters.

The terms of reference are reviewed annually and are available on request from the Company Secretary. The audit committee meets at least annually and has direct access to KPMG Audit Plc, the Company's external Auditor.

The Company does not have an independent internal audit function as it is not deemed appropriate given the size of the Company and the nature of the Company's business.

Remuneration committee

The remuneration committee comprises the Non-executive Directors, OFW James and BR Hoy. The committee is chaired by OFW James. The Board considers that the members of the committee are independent Non-executives.

The remuneration committee is responsible for approving:

- the remuneration of the Executive Directors, having regard to their performance;
- details of service contracts, pension arrangements and other terms and conditions on which Executive Directors are employed;
- incentive bonus schemes and the allocation of share options and other long-term incentives to Executive Directors and other employees.

The committee normally meets once a year to consider all aspects of remuneration of the Executive Directors. The committee is directly accountable to shareholders. As chairman of the committee, OFW James will be available at the AGM to answer questions about the remuneration of Executive Directors.

Investor relations

The Board recognises the value of maintaining regular communications with shareholders. Formal reports are sent to shareholders following the year end and an opportunity is given at the AGM to question the Board. Proxy voting figures for each resolution are announced at the AGM.

Internal controls

The Directors have overall responsibility for ensuring that there are in place systems of internal control, both financial and non-financial, and for reviewing their effectiveness. The purpose of the internal financial controls is to ensure that proper accounting records are maintained, the Company's assets are safeguarded and the financial information used within the business and for publication is accurate and reliable; such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The Board regularly reviews financial performance and results.

The Directors confirm that by means of the procedures set out above, and in accordance with 'Internal Controls: Guidance for Directors on the Combined Code', published by the Institute of Chartered Accountants in England and Wales, they have established a continuing process for identifying, evaluating and managing the significant potential risks faced by the Company and have reviewed the effectiveness of the internal control systems. This process has been in place throughout and subsequent to the accounting period under review.

By order of the Board

Professor Oliver James

Chairman

25 July 2011

Independent Auditor's report to the members of e-Therapeutics plc

We have audited the financial statements of e-Therapeutics plc for the year ended 31 January 2011, set out on pages 13 to 29. The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 January 2011 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us;
- the parent company financial statements are not in agreement with the accounting records and returns;
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Nick Plumb (Senior Statutory Auditor) for and on behalf of KPMG Audit Plc Chartered Accountants and Statutory Auditor

KPMG Audit Plc
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom
25 July 2011

Consolidated income statement

For the year ended 31 January 2011

	Notes	2011 £000	2010 £000
Revenue		—	—
Cost of sales		—	—
Gross profit		—	—
Other operating income	2	—	1
Administrative expenses		(2,475)	(2,163)
Operating loss	3	(2,475)	(2,162)
Financial income	6	14	12
Financial expense	6,16	(194)	(105)
Loss before tax		(2,655)	(2,255)
Taxation	7	342	476
Loss for the year		(2,313)	(1,779)
Loss for the year attributable to equity holders of the Company		(2,313)	(1,779)
Loss per share – basic and diluted	9	(3.51)p	(2.96)p

Consolidated statement of comprehensive income

For the year ended 31 January 2011

	2011 £000	2010 £000
Loss for the financial year	(2,313)	(1,779)
Other comprehensive income	—	—
Total comprehensive income for the financial year	(2,313)	(1,779)

Consolidated statement of changes in equity

For the year ended 31 January 2011

	Share capital £000	Share premium £000	Warrant reserve £000	Retained earnings £000	Total £000
As at 1 February 2009	56	4,684	—	(3,793)	947
Total comprehensive income for year					
Loss for the financial year	—	—	—	(1,779)	(1,779)
Total comprehensive income for year	—	—	—	(1,779)	(1,779)
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	9	2,889	420	—	3,318
Total contributions by and distribution to owners	9	2,889	420	—	3,318
As at 31 January 2010	65	7,573	420	(5,572)	2,486
As at 1 February 2010	65	7,573	420	(5,572)	2,486
Total comprehensive income for year					
Loss for the financial year	—	—	—	(2,313)	(2,313)
Total comprehensive income for year	—	—	—	(2,313)	(2,313)
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	1	81	—	—	82
Equity-settled share-based payment transactions	—	—	—	18	18
Total contributions by and distribution to owners	1	81	—	18	100
As at 31 January 2011	66	7,654	420	(7,867)	273

Company statement of changes in equity

For the year ended 31 January 2011

	Share capital £000	Share premium £000	Warrant reserve £000	Retained earnings £000	Total £000
As at 1 February 2009	56	4,684	—	(969)	3,771
Total comprehensive income for year					
Loss for the financial year	—	—	—	(1,779)	(1,779)
Total comprehensive income for year	—	—	—	(1,779)	(1,779)
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	9	2,889	420	—	3,318
Total contributions by and distribution to owners	9	2,889	420	—	3,318
At 31 January 2010	65	7,573	420	(2,748)	5,310
As at 1 February 2010	65	7,573	420	(2,748)	5,310
Total comprehensive income for year					
Loss for the financial year	—	—	—	(2,313)	(2,313)
Total comprehensive income for year	—	—	—	(2,313)	(2,313)
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	1	81	—	—	82
Equity-settled share-based payment transactions	—	—	—	18	18
Total contributions by and distribution to owners	1	81	—	18	100
At 31 January 2011	66	7,654	420	(5,043)	3,097

Balance sheets

At 31 January 2011

	Notes	Group		Company	
		2011 £000	2010 £000	2011 £000	2010 £000
Non-current assets					
Property, plant and equipment	10	16	30	16	30
Goodwill	11	—	—	2,824	2,824
Other intangible assets	11	272	259	272	259
		288	289	3,112	3,113
Current assets					
Trade and other receivables	13	444	549	444	549
Cash and cash equivalents	14	927	2,880	927	2,880
		1,371	3,429	1,371	3,429
Total assets		1,659	3,718	4,483	6,542
Current liabilities					
Trade and other payables	15	351	200	351	200
		351	200	351	200
Non-current liabilities					
Interest bearing loans and borrowings	16	1,035	1,032	1,035	1,032
		1,035	1,032	1,035	1,032
Total liabilities		1,386	1,232	1,386	1,232
Net assets		273	2,486	3,097	5,310
Equity					
Share capital	18	66	65	66	65
Share premium	18	7,654	7,573	7,654	7,573
Warrant reserve	18	420	420	420	420
Retained earnings	18	(7,867)	(5,572)	(5,043)	(2,748)
Total equity attributable to equity holders of the Company	18	273	2,486	3,097	5,310

These financial statements were approved by the Board of Directors on 25 July 2011 and were signed on its behalf by:

M P Young
Director

D W Elger
Director

Registered number: 4304473

Statements of cash flow

For the year ended 31 January 2011

	Notes	Group		Company	
		2011 £000	2010 £000	2011 £000	2010 £000
Cash flows from operating activities					
Loss for the year		(2,313)	(1,779)	(2,313)	(1,779)
Adjustments for:					
Depreciation, amortisation and impairment	10, 11	135	20	135	20
Financial income		(14)	(12)	(14)	(12)
Financial expense		194	105	194	105
Equity-settled share-based payment expenses		18	—	18	—
Taxation		(342)	(476)	(342)	(476)
		(2,322)	(2,142)	(2,322)	(2,142)
(Increase)/decrease in trade and other receivables		(26)	362	(26)	362
Decrease in trade and other payables		(40)	(95)	(40)	(95)
Tax received		473	202	473	202
Net cash from operating activities		(1,915)	(1,673)	(1,915)	(1,673)
Cash flows from investing activities					
Interest received		14	12	14	12
Financial expense		—	(105)	—	(105)
Acquisition of property, plant and equipment	10	(4)	(8)	(4)	(8)
Acquisition of other intangible assets	11	(130)	(105)	(130)	(105)
Net cash from investing activities		(120)	(206)	(120)	(206)
Cash flows from financing activities					
Proceeds from issue of share capital	18	82	3,318	82	3,318
Proceeds from issue of loan notes		—	1,032	—	1,032
Net cash from financing activities		82	4,350	82	4,350
Net (decrease)/increase in cash and cash equivalents		(1,953)	2,471	(1,953)	2,471
Cash and cash equivalents at 1 February		2,880	409	2,880	409
Cash and cash equivalents at 31 January	14	927	2,880	927	2,880

Notes (forming part of the financial statements)

1 Accounting policies

e-Therapeutics plc (the "Company") is a company incorporated and domiciled in the UK. The nature of the operations and principal activities of the Company and its subsidiary undertakings (the "Group") are set out in the Directors' Report.

The Group financial statements consolidate those of the Company and its subsidiary. The parent company financial statements present information about the Company as a separate entity and not about its Group.

Both the parent company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with IFRS as adopted by the EU ("Adopted IFRS"). On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

Basis of preparation

The financial statements have been prepared on the historical cost basis.

These consolidated financial statements are presented in Sterling. All financial information presented has been rounded to the nearest thousand.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Standards and interpretations applied for the first time

A number of new standards and interpretations have become effective for the first time in these financial statements, albeit with no significant impact on accounting policies or disclosure. The most relevant of these new standards are:

- Revised IFRS 3 'Business Combinations' – this standard significantly changed the way in which business combinations are accounted for. This change will impact the Group if an acquisition takes place in the future. There are also consequential changes to IAS 27 'Consolidated and Separate Financial Statements'.
- Amendments to IAS 32 'Classification of Rights Issues' determines whether instruments issued are equity instruments.

No new standards or interpretations have been adopted early in these financial statements. The most relevant are likely to be the following but, again, no significant impact is currently anticipated:

- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' provides guidance if the Group were to undertake a debt for equity swap.
- IAS 24 'Related Party Disclosures' amends the definition of a related party.

Going concern

Further information on the Group's business activities, together with factors likely to affect its future development, performance and position, is set out in the Business Review and Principal Activities sections of the Directors' Report. Further information on the financial position of the Group, its cash flows and liquidity position, is provided in the Chairman's Statement. In addition Note 19 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, and its exposures to credit risk and liquidity risk. Note 22 includes details of the funds raised subsequent to the year end.

During the year the Group met its day-to-day working capital requirements through the cash reserves obtained through fundraising. The Directors consider that the current position of the Group is not unusual for a drug discovery and development company.

The Group has prepared financial forecasts and projections for the next twelve months. These forecasts assume no growth in sales and the continuation of costs regarding drug development. The forecasts show that the Group should be able to operate within the level of its current cash balances for at least the next twelve months from the date of these financial statements.

As a result of the above the Directors believe that the Group is well placed to manage its business risks despite the current economic conditions. After making enquiries, the Directors therefore have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and financial statements.

Use of estimates and judgements

The preparation of financial statements requires the Directors to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities and income and expenses. The key area requiring the use of estimates and judgements which may significantly affect the financial statements is considered to be:

- judgement as to whether the carrying value of goodwill (Company only) and patents and trademarks (Group and Company) will be recoverable with reference to estimated future income potential (see Note 11).

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists where the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial information from the date control commences until the date that control ceases.

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial information.

Notes (forming part of the financial statements) continued

1 Accounting policies continued

Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand, and form an integral part of the Group's cash management, are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are as follows:

Plant and equipment	33.33% straight-line
Fixtures and fittings	15% straight-line

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

No depreciation is charged when the asset is under construction.

Investment in subsidiaries

Investments in subsidiaries are shown in the Company balance sheet at cost and are reviewed annually for impairment.

Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and jointly controlled entities. In respect of business acquisitions that have occurred since 1 February 2006, goodwill represents the difference between the cost of the acquisition and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Research and Development

Expenditure on pure and applied research activities is recognised in the income statement as an expense as incurred.

Expenditure on drug development activities is capitalised if the product or process is technically and commercially feasible (typically when regulatory approval is received) and the Group intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved drugs. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and accumulated impairment losses.

Other intangible assets

External expenditure on patents and trademarks is capitalised as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. Patents and trademarks are amortised evenly over their legal lives.

1 Accounting policies continued

Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment; a financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate of recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Share-based payment transactions

The Group has an equity-settled share-based payment scheme, whereby options over shares in e-Therapeutics plc can be granted.

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Revenue

The Company expects to derive revenue in the future principally by licensing the products resulting from its drug discovery and development efforts. No revenues were recorded from this or other sources in the current period.

Other operating income

Other operating income represents grant income and is recognised when receivable.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Financing income and expenses

Financing expenses comprise interest payable.

Financing income comprises interest receivable on funds invested.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Notes (forming part of the financial statements) continued

1 Accounting policies continued

Taxation continued

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options and warrants granted to employees and non-employees. Where the Group makes a loss diluted EPS equates to basic EPS.

Segment reporting

The Board is considered to be the 'chief operating decision maker' of the Group in the context of the IFRS 8 definition. The Board believes that the Group has one business segment of drug discovery and development and that all activities are carried out in the UK.

The Board has carefully considered the requirements of IFRS 8 and concluded that, as there is only one reportable segment whose revenue, losses, assets and liabilities are measured and reported on a consistent basis within the Group financial statements, no additional numerical disclosures are necessary.

2 Other operating income

	2011 £000	2010 £000
Grant income	—	1

3 Expenses and Auditor's remuneration

Included in loss are the following:

	2011 £000	2010 £000
Depreciation of own assets	18	20
Research and Development costs	1,679	1,692
Operating leases – hire of other assets	47	47

Auditor's remuneration:

	2011 £000	2010 £000
Audit of these financial statements	21	20
Amounts receivable by the Auditors and their associates in respect of: – other services relating to taxation	14	6

4 Staff numbers and costs

The average number of persons employed by the Group and the Company (including Executive Directors) during the year, analysed by category, was as follows:

	Number of employees Group		Number of employees Company	
	2011	2010	2011	2010
Technicians	7	13	7	13
Directors	3	3	3	3
	10	16	10	16

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Wages and salaries	1,031	826	1,031	826
Share-based payments (see Note 17)	18	—	18	—
Social security costs	118	79	118	79
Contributions to defined contribution plans (see Note 17)	70	72	70	72
	1,237	977	1,237	977

5 Directors' remuneration

	2011 £000	2010 £000
Directors' emoluments	657	315
Amounts paid to third parties in respect of Directors' services	—	127
Company contributions to money purchase pension plans	47	33
	704	475

	2011			2010		
	Directors' emoluments	Amounts paid to third parties for Directors' services	Contributions to money purchase schemes	Directors' emoluments	Amounts paid to third parties for Directors' services	Contributions to money purchase schemes
	£000	£000	£000	£000	£000	£000
MP Young	217	—	21	104	127	7
JM Cordiner	134	—	13	80	—	14
SR Self	131	—	1	—	—	—
RF Drucker	122	—	12	101	—	12
OFW James	28	—	—	15	—	—
BR Hoy	25	—	—	15	—	—
	657	—	47	315	127	33

	Number of Directors	
	2011	2010
Retirement benefits are accruing to the following number of Directors under:		
– money purchase schemes	3	3
– Directors who exercised share options during the year	Nil	Nil

The Directors who held office during the financial year held share options as set out below:

Name	At end of year	At beginning of year	Exercise price £	Date from which exercisable	Expiry date
MP Young	—	—	—	—	—
JM Cordiner	356,870	356,870	£0.174	Vested	March 2013
JM Cordiner	699,690	699,690	£0.139	Vested	October 2016
RF Drucker	932,920	932,920	£0.139	Vested	October 2016
OFW James	118,020	118,020	£0.67	Vested	November 2017
BR Hoy	80,000	80,000	£0.375	Vested	November 2012
OFW James	25,000	0	£0.385	28 April 2013	28 October 2013
BR Hoy	25,000	0	£0.385	28 April 2013	28 October 2013
SR Self	500,000	0	£0.001	30 December 2013	30 June 2014
SR Self	350,000	0	£0.001	30 December 2014	30 June 2015

Professor OFW James and BR Hoy were each issued options over 25,000 ordinary shares during the financial year. These options are exercisable after three years; no other performance conditions attach.

SR Self was issued options over 850,000 shares. 500,000 are exercisable after three years subject to a share price target of £1 being achieved at the vesting date. 350,000 are conditional on continuing employment at the first anniversary of the grant; should that condition be satisfied, a three-year vesting period commences, with a share price target of £1.

The mid-market price of the Company's shares at 31 January 2011 was 25.5 pence and the range during the year was 24.5 pence to 41.0 pence.

All of the Directors benefited from qualifying third-party indemnity provisions. No Director sold shares or sold or exercised warrants or shares during the year.

6 Finance income and expenses

	2011 £000	2010 £000
Financial income		
Bank interest receivable	14	12
Financial expenses		
Interest payable on loan notes	194	105

Notes (forming part of the financial statements) continued

7 Taxation

Recognised in the income statement:

	2011 £000	2010 £000
Current tax income		
Current year	(345)	(299)
Adjustments for prior years	3	(177)
Current tax income	(342)	(476)
Deferred tax expense		
Origination and reversal of temporary differences	—	—
Reduction in tax rate	—	—
Recognition of previously unrecognised tax losses	—	—
Deferred tax expense	—	—
Total tax income	(342)	(476)

Reconciliation of effective tax rate:

	2011 £000	2010 £000
Loss for the year	(2,313)	(1,779)
Total tax income	(342)	(476)
Loss excluding taxation	(2,655)	(2,255)
Tax at 28% (2010: 28%)	(743)	(631)
Expenses not deductible for tax purposes	13	8
Enhanced relief for Research and Development	(296)	(362)
Surrender of tax losses	345	299
Unrelieved tax losses	332	384
Depreciation in excess of capital allowances	4	3
Adjustments in respect of prior period	3	(177)
Total tax income	(342)	(476)

The tax received relates to Research and Development tax income.

The Group has unrecognised deferred tax assets of £1,095,769 (2010: £897,249) and unused tax losses of £4,077,535 (2010: £3,233,135).

The deferred tax asset has not been recognised due to the uncertainty surrounding its future recovery against taxable profits.

On 22 June 2010 the Chancellor of the Exchequer announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011. This tax change became substantively enacted in July 2010 and, therefore, the effect of the rate reduction on the deferred tax balances as at 31 January 2011 has been included in the figures above.

On 23 March 2011 the Chancellor of the Exchequer announced a further reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011. This change became substantively enacted on 29 March 2011 and, therefore, the effect of the rate would create an additional reduction in the deferred tax asset of approximately £40,585. This has not been reflected in the figures above as it was not substantively enacted at the balance sheet date.

The Chancellor of the Exchequer also proposed changes to further reduce the main rate of corporation tax by 1% per annum to 23% by 1 April 2014, but these changes have not yet been substantively enacted and, therefore, are not included in the figures above. The overall effect of the further reductions from 27% to 23%, if these applied to the deferred tax balance at 31 January 2011, would be to further reduce the deferred tax asset by approximately £162,367.

8 Loss of the Company

The Company has taken advantage of the exemption available under section 408 of the Companies Act 2006 and has not presented its own income statement. The loss of the Company for the year was £2,313,000 (2010: £1,779,000).

9 Loss per share

The analysis of loss per share is as follows:

	2011	2010
Basic and diluted loss per share	(3.51)p	(2.96)p

Basic EPS is calculated by dividing the loss for the year of £2,313,000 (2010: £1,779,000) by the weighted average number of 65,836,292 shares (2010: 60,110,102) in issue during the year.

Diluted EPS is calculated in the same way as basic EPS but also with reference to reflect the dilutive effect of share options in existence at the year end of 3,993,880 (2010: 3,789,400) and of warrants over 3,497,433 (2010: 3,497,433) ordinary shares (see Notes 17 and 18). The diluted loss per share is identical to the basic loss per share, as potential dilutive shares are not treated as dilutive since they would reduce the loss per share.

10 Property, plant and equipment

Group and Company	Plant and equipment £000	Fixtures and fittings £000	Total £000
Cost			
Balance at 1 February 2009	103	40	143
Additions	8	—	8
Balance at 31 January 2010	111	40	151
Balance at 1 February 2010	111	40	151
Additions	4	—	4
Balance at 31 January 2011	115	40	155
Depreciation			
Balance at 1 February 2009	84	17	101
Depreciation charge for the year	12	8	20
Balance at 31 January 2010	96	25	121
Balance at 1 February 2010	96	25	121
Depreciation charge for the year	11	7	18
Balance at 31 January 2011	107	32	139
Net book value			
At 31 January 2010	15	15	30
At 31 January 2011	8	8	16

11 Goodwill and intangible assets – Group and Company

	Group			Company		
	Goodwill £000	Patents and trademarks £000	Total £000	Goodwill £000	Patents and trademarks £000	Total £000
Cost						
Balance at 1 February 2009	—	154	154	2,824	154	2,978
Other acquisitions – internally developed	—	105	105	—	105	105
Balance at 31 January 2010	—	259	259	2,824	259	3,083
Balance at 1 February 2010	—	259	259	2,824	259	3,083
Other acquisitions – internally developed	—	130	130	—	130	130
Balance at 31 January 2011	—	389	389	2,824	389	3,213
Amortisation and impairment						
Balance at 31 January 2010	—	—	—	—	—	—
Amortisation charge for year	—	3	3	—	3	3
Impairment charge	—	114	114	—	114	114
Balance at 31 January 2011	—	117	117	—	117	117
Net book value						
At 31 January 2009	—	154	154	2,824	154	2,978
At 31 January 2010	—	259	259	2,824	259	3,083
At 31 January 2011	—	272	272	2,824	272	3,096

Amortisation and impairment charge

Amortisation has been charged on patents for which the registration process is complete. Where the process is incomplete no charge has been raised.

Impairment testing

The goodwill arose following the hive up of the trade and assets of InRotis Technologies Limited on 15 November 2007.

The goodwill is allocated to drug development activities of the Group. In assessing goodwill impairment, recoverable amount is based on fair value less costs to sell.

The Group carries out annual portfolio reviews to establish the economic value of each drug in the patent portfolio. If the economic value of a patent is believed to be lower than the carrying value, the carrying value is reduced accordingly. The economic value is based on estimated future income potential taking into account technical and commercial risks and external information on the likely market demand and penetration for the drugs. The Directors also consider that the market capitalisation of the Group is a market indicator of the value of future income streams. There is a risk that should these estimations require significant downward revision there would be a material adverse impact on the income statement in any one year.

12 Investments in subsidiaries

The Company has the following investments in subsidiaries:

	Country of incorporation	Class of shares held	Ownership	
			2011	2010
InRotis Technologies Limited	United Kingdom	Ordinary	100%	100%

The value of investment in InRotis Technologies Limited, which has not traded in the year, is £1.

Notes (forming part of the financial statements) continued

13 Trade and other receivables

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Other receivables	373	524	373	524
Prepayments	71	25	71	25
	444	549	444	549

The Group has a variety of credit terms depending on the customer. The Group makes provision against trade receivables when it considers them to be impaired and takes into account the specific nature of the receivable, the Group's relationship with the customer and historical default rates.

There is no doubtful debt provision in respect of trade receivables in the current or prior year for the Group or the Company.

All debts are not past due in the current or prior year. The Group and the Company's management have received no indication that any unimpaired amounts will be unrecoverable.

14 Cash and cash equivalents

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Cash and cash equivalents per balance sheet	927	2,880	927	2,880
Cash and cash equivalents per cash flow statements	927	2,880	927	2,880

15 Trade and other payables

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Current				
Other trade payables	52	128	52	128
Non-trade payables and accrued expenses	299	72	299	72
	351	200	351	200

16 Interest bearing loans and borrowings

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Loan notes	1,035	1,032	1,035	1,032

The loan notes can be redeemed by the Company at any time and otherwise will be redeemed on 16 March 2014. The loan notes bear interest at the rate of 12% per annum, payable at six monthly intervals, and are secured by a floating charge over the intellectual property rights of the Company. The redemption price is £1,049,000, the carrying amount being disclosed net of capitalised arrangement fees of £14,000 (2010: £17,000).

17 Employee benefits

Defined-contribution arrangements

The Group makes defined pension contributions into schemes nominated by employees. The total expense relating to these plans in the current year was £70,025 (2010: £71,862).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Share-based payments

The Group and Company operate an Inland Revenue Approved Share Option Scheme.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date	Number of instruments at end of year	Number of instruments at beginning of year	Exercise price (pence)	Contractual life of options
October 2006 ⁽ⁱ⁾	2,023,570	2,756,810	13.9	10 years
April 2007 ⁽ⁱ⁾	92,730	92,730	38.6	10 years
October 2007 ⁽ⁱ⁾	118,020	118,020	67.0	10 years
October 2007 ⁽ⁱ⁾	278,190	384,970	13.9	10 years
October 2007 ⁽ⁱ⁾	356,870	356,870	17.4	5.5 years
November 2008 ⁽ⁱ⁾	80,000	80,000	37.5	4 years
April 2010 ⁽ⁱⁱ⁾	349,500	0	0.1	3.5 years
April 2010 ⁽ⁱⁱⁱ⁾	50,000	0	38.5	3.5 years
December 2010 ⁽ⁱⁱⁱ⁾	500,000	0	0.1	3.5 years
December 2010 ^(iv)	350,000	0	0.1	4.5 years

(i) Options issued prior to April 2010 are exercisable and vest immediately.

(ii) Options issued under the long-term incentive plan have a three-year vesting period subject to a share price target of £1 being achieved at the vesting date.

(iii) Options issued in April 2010 have a three-year vesting period with no other conditions attached.

(iv) These options are conditional on continuing employment at the first anniversary of the grant; should that condition be satisfied, a three-year vesting period commences, with a share price target of £1. As these options would not be issued until December 2011, they have been excluded from the table on the following page.

17 Employee benefits continued

Share-based payments continued

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2011 £	Number of options 2011	Weighted average exercise price 2010 £	Number of options 2010
Options				
Outstanding at the beginning of the year	0.170	3,789,400	0.169	3,909,860
Forfeited during the year	0.048	(310,320)	0.139	(120,460)
Exercised during the year	0.139	(733,240)	—	—
Granted during the year	0.018	1,103,040	—	—
Outstanding at the end of the year	0.142	3,848,880	0.170	3,789,400
Exercisable at the end of the year	0.179	2,949,380	0.170	3,789,400

The weighted average share price at the date of exercise of share options exercised during the year was £0.351 (2010: £nil). The options outstanding at the year end have an exercise price in the range of £0.001 to £0.67 and a weighted average contractual life of 7.9 years.

The fair value of warrants granted has been valued using the Black-Scholes option pricing model. The fair value of options has been valued using the Binomial option pricing model. Volatility has been estimated by reference to similar companies whose shares are traded on a recognised stock exchange.

The assumptions for each option grant during the year were as follows:

Date of grant	Options Dec-10	Options Apr-10	Options Apr-10
Share price at date of grant	£0.265	£0.385	£0.385
Vesting period	3 years	3 years	3 years
Expected volatility	38%	44%	44%
Risk free-rate	1.90%	2.18%	2.18%
Dividend yield	0%	0%	0%
Exercise price	£0.001	£0.001	£0.385
Number of shares	500,000	553,040	50,000
Fair value per option	£0.014	£0.082	£0.18

The number and weighted average exercise prices of warrants are as follows:

	Weighted average exercise price 2011 £	Number of warrants 2011	Weighted average exercise price 2010 £	Number of warrants 2010
Warrants				
Outstanding at the beginning of the year	0.67	60,000	0.67	60,000
Granted during the year	—	—	—	—
Expired during the year	0.67	(60,000)	—	—
Exercised during the year	—	—	—	—
Outstanding at the end of the year	—	—	0.67	60,000
Exercisable at the end of the year	—	—	0.67	60,000

The total expense recognised for the year arising from share-based payments is as follows:

	2011 £000	2010 £000
Group and company equity-settled share-based payment expense	18	—

Notes (forming part of the financial statements) continued

18 Capital and reserves

Reconciliation of movement in capital and reserves:

Group	Share capital £000	Share premium £000	Warrant reserve £000	Retained earnings £000	Total equity £000
Balance at 1 February 2008	56	4,684	—	(2,251)	2,489
Total recognised income and expense	—	—	—	(1,546)	(1,546)
Equity-settled share-based payment transactions	—	—	—	4	4
Balance at 31 January 2009	56	4,684	—	(3,793)	947
Balance at 1 February 2009	56	4,684	—	(3,793)	947
Total recognised income and expense	—	—	—	(1,779)	(1,779)
Issue of share capital	9	2,889	420	—	3,318
Balance at 31 January 2010	65	7,573	420	(5,572)	2,486
Balance at 1 February 2010	65	7,573	420	(5,572)	2,486
Total recognised income and expense	—	—	—	(2,313)	(2,313)
Issue of share capital	1	81	—	—	82
Equity-settled share-based payment transactions	—	—	—	18	18
Balance at 31 January 2011	66	7,654	420	(7,867)	273

Company	Share capital £000	Share premium £000	Warrant reserve £000	Retained earnings £000	Total equity £000
Balance at 1 February 2008	56	4,684	—	573	5,313
Total recognised income and expense	—	—	—	(1,546)	(1,546)
Equity-settled share-based payment transactions	—	—	—	4	4
Balance at 31 January 2009	56	4,684	—	(969)	3,771
Balance at 1 February 2009	56	4,684	—	(969)	3,771
Total recognised income and expense	—	—	—	(1,779)	(1,779)
Issue of share capital	9	2,889	420	—	3,318
Balance at 31 January 2010	65	7,573	420	(2,748)	5,310
Balance at 1 February 2010	65	7,573	420	(2,748)	5,310
Total recognised income and expense	—	—	—	(2,313)	(2,313)
Issue of share capital	1	81	—	—	82
Equity-settled share-based payment transactions	—	—	—	18	18
Balance at 31 January 2011	66	7,654	420	(5,043)	3,097

Share capital	Ordinary shares	
	2011 £000	2010 £000
On issue at 1 February	65,420	55,710
Issued for cash	588	9,710
On issue at 31 January – fully paid	66,008	65,420
	2011 £000	2010 £000
Allotted, called up and fully paid		
66,008,532 (2010: 65,420,292) ordinary shares of £0.001 each	66	65
Ordinary shares of £0.01 each	—	—
	66	65
Shares classified as liabilities	—	—
Shares classified in shareholders' funds	66	65
	66	65

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 28 April 2010 the Company issued 466,460 ordinary shares of 0.1 pence each following the exercise of options by an employee. On 2 August 2010 the Company issued 121,780 ordinary shares of 0.1 pence each following the exercise of options by two employees. A further 145,000 shares were issued shortly after the year end in respect of share options exercised in January 2011.

The warrant reserve relates to the issue in March 2009 of warrants over 3,497,433 ordinary shares. The warrants are exercisable at up to 30 pence per share at any time over the five-year period to March 2014.

19 Financial instruments

The Group's principal financial instruments comprise short-term debtors and creditors, short-term bank deposits and cash. The Group also has external debt in the form of fixed rate interest bearing loan notes. All of its financial assets and liabilities are denominated in Sterling. There is currently no material difference between the carrying value of financial assets and liabilities and their fair value. The prime objectives of the Group's policy towards financial instruments are to maximise returns on the Group's cash balances, manage the Group's working capital requirements and finance the Group's ongoing operations.

Capital management

The Group's policy is to maintain a strong capital base. The Group does not yet have any significant recurring revenues and finances its operations through the issue of new shares, loan notes and the management of working capital. The Group's capital resources are managed to ensure it has resources available to invest in operational activities designed to generate future income. These resources were represented by £927,000 of cash as at 31 January 2011 (2010: £2,880,000).

Management of financial risk

The main risks associated with the Group's financial instruments have been identified as credit risk and liquidity risk.

The Board is responsible for managing these risks and the policies adopted, which have remained largely unchanged throughout the year, are set out below.

Credit risk

The carrying amount of financial assets is as follows:

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Other receivables	444	549	444	549
Cash and cash equivalents	927	2,880	927	2,880
	1,371	3,429	1,371	3,429

Credit risk is the risk of financial loss if a customer fails to meet its contractual obligations and arises principally from the Group's other receivables. The carrying amount of other receivables in the balance sheet represents the maximum exposure to credit risk and details are given in Note 13 to the accounts. No amounts are past due in the current or prior years.

The Board considers the Group's exposure to credit risk to be acceptable and normal for an entity of its size given the industries in which it operates.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to access the necessary funds to finance its operations.

The Group finances its operations through a mixture of equity (comprising share capital, reserves and retained earnings), cash and debt (loan notes). The Group manages its liquidity risk by monitoring existing facilities and cash flows against forecast requirements based on two-year rolling cash forecasts.

The Group and the Company have the following financial liabilities:

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Principal amounts				
Loan notes repayable between two and five years	1,035	1,032	1,035	1,032
Trade and other payables – payable within one year	351	200	351	200
	1,386	1,232	1,386	1,232

Interest has been calculated on an effective interest basis.

Financial liabilities by category:

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Financial liabilities at amortised cost	1,386	1,232	1,386	1,232

The fair value of the Group and Company's financial assets and liabilities is not considered to be materially different from their book values.

The fixed interest rate on the loan notes is considered to approximate fair value for those instruments.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	2011						2010					
	Contractual Carrying amount £000	cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Contractual Carrying amount £000	cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Group and Company												
Non-derivative financial liabilities												
Loan notes	1,035	1,442	126	126	1,190	—	1,032	1,616	126	126	1,364	—
Trade and other payables	351	351	351	—	—	—	200	200	200	—	—	—

Notes (forming part of the financial statements) continued

19 Financial instruments continued

Interest rate risk

Interest rate risk reflects the Group's exposure to fluctuations to interest rates in the market. The Group has issued loan notes which have a fixed rate of interest. There is minimal interest risk as the interest rate does not vary with any change of Bank of England base rate.

The trade and other payables do not bear interest.

Financial liabilities

The interest rate risk profile of the Group's loan notes at the year end was as follows:

	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Total liabilities £000	Weighted average interest rate %	Average period over which rate is fixed
At 31 January 2011	1,035	—	1,035	12.0	3.1 years
At 31 January 2010	1,032	—	1,032	12.0	4.1 years

Sensitivity analysis

As the interest on the loan notes is fixed at 12%, a 1% increase in interest rates throughout the year and prior year, with all other variables remaining constant, would have no impact on income/loss and equity in the current and prior year.

20 Capital commitments

Neither the Group nor the Company had any capital commitments at the year end (2010: £nil).

21 Related parties

Identity of related parties with which the Group has transacted

The Group has a related party relationship with its subsidiary. Transactions between the Company and its subsidiary have been eliminated on consolidation and are not disclosed in this note.

The key management personnel of the Group are the Directors.

Transactions with key management personnel

The compensation of key management personnel is as follows:

	2011 £000	2010 £000
Directors' emoluments	657	315
Amounts paid to third parties in respect of Directors' services	—	127
Company contributions to money purchase pension fund	47	33
	704	475

During the period, Non-executive Director BR Hoy received payments of £2,500 for general consultancy work.

Transactions with subsidiary – Company

During the year the Company advanced no money to and made no capital contribution to its subsidiary undertaking and at 31 January 2011 the subsidiary undertaking owed the Company £nil (2010: £nil).

Transactions with Infinitus

During the period, payments totalling £359,557 were made to Infinitus Clinical Research Pvt Limited, a Contract Research Organisation; Royston Drucker was a Director of Infinitus during the period and of e-Therapeutics until he resigned in September 2010. No payment to Infinitus was outstanding at the year end.

Transactions with Novotech

On 30 June 2010, Novotech Investment Limited ("Novotech") sold approximately 1.23 million shares (c. 1.9% of the voting rights) in the Company for a consideration of approximately £430,562, to a newly formed entity, Novotech Syndicate LLP ("NSL") (the "Transfer"). Two individuals who served as Directors of the Company during the period, MP Young and JM Cordiner, are each a shareholder in, and a Non-executive Director of, Novotech and each is an equity partner in NSL. The Transfer was the result of a strategic decision by Novotech, with the approval of its shareholders, to organise some of its ongoing technology investing activities as a Limited Liability Partnership.

There was a slight reduction in the aggregate underlying interests of each of MP Young and JM Cordiner in the Company following the Transfer. There was no realisation of shares for value by either MP Young or JM Cordiner, who were prepared to accept the modest reductions in their interests in the Company in the wider interests of Novotech and NSL. Following the transfer, there was no change in the aggregate equity ownership of Novotech and NSL in the Company.

As at 31 January 2011 Novotech Investment Limited and Novotech Syndicate LLP had an aggregate ownership of 1,640,236 ordinary shares representing 2.48% of the issued share capital of the Company on that date.

21 Related parties continued

Transactions with Searchbolt

MP Young and JM Cordiner are both Non-executives of Searchbolt Limited (formerly OGS Search Limited). Searchbolt Limited is a search engine business, incorporated by way of a demerger from the Group on 14 November 2007. Searchbolt Limited holds a perpetual exclusive licence for network analysis technology of e-Therapeutics plc for the use of the technology in internet search. The technology won a successful grant and for historical reasons e-Therapeutics plc is the subject of the grant and administers it although any intellectual property created belongs to Searchbolt Limited. Under the grant 50% of all expenditure incurred in the project can be reclaimed by e-Therapeutics plc. The remaining 50% of any out of pocket expenditure on the project incurred by e-Therapeutics plc on the project is recharged by e-Therapeutics plc to Searchbolt Limited. During the year, e-Therapeutics plc incurred no costs (2010: £70,855) on the project. £3,049 of other costs incurred by e-Therapeutics plc on behalf of Searchbolt Ltd were recharged in full. As at 31 January 2011 there was no balance outstanding from Searchbolt Limited to e-Therapeutics plc (2010: nil) and the balance outstanding from e-Therapeutics plc to Searchbolt Ltd at the year end was nil (2010: £10,000).

22 Subsequent events

In March 2011 the following transactions had a significant impact on the Group's capital structure:

- the Company raised £17.6 million (approximately £16.6 million net of expenses) through the placing of 67,740,904 new ordinary shares. The Placing price was 26 pence and the new shares represented approximately 49.4% of the enlarged issued share capital;
- 12,944,954 existing ordinary shares were placed with new owners in a secondary share transaction;
- an exercise of 3,299,111 warrants occurred, leaving warrants over up to 198,332 ordinary shares outstanding, (which are capable of being exercised at the warrant holders' discretion at a price of up to 30 pence per share until 16 March 2014); and
- loan notes of £1,049,233 were redeemed and all interest due to the date of redemption paid.

Notice of Annual General Meeting

Notice is hereby given that the AGM of e-Therapeutics plc (the "Company") will be held at Block B, Holland Park, Holland Drive, Newcastle upon Tyne NE2 4LZ at 11.00am on 12 September 2011 to consider and, if thought fit, pass the following resolutions as ordinary resolutions other than resolutions 8 and 9 which will be proposed as special resolutions:

1. To receive the accounts for the financial year ended 31 January 2011 together with the Directors' Report and the Auditor's Report on those accounts.
2. To appoint D W Elger as a Director of the Company.
3. To appoint S R Self as a Director of the Company.
4. To re-elect B R Hoy as a Director of the Company.
5. To reappoint KPMG Audit Plc as the Auditor of the Company.
6. To authorise the Directors to agree the remuneration of the Auditors of the Company.
7. That the Directors be generally and unconditionally authorised for the purpose of section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £96,688.52 provided that:
 - 7.1 (except as provided in paragraph 7.2 below) this authority shall expire on the date of the next AGM of the Company; and
 - 7.2 the Company may before such expiry make an offer or agreement which would or might require shares or equity securities, as the case may be, to be allotted or such rights granted after such expiry and the Directors may allot shares or equity securities or grant such rights, as the case may be, in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

All unexercised authorities previously granted to the Directors to allot shares or to grant rights to subscribe for or to convert any security into shares be and are hereby revoked.

8. That, subject to the passing of resolution 7 above, the Directors, pursuant to the general authority conferred on them and in substitution for the authority granted to the Directors pursuant to a special resolution passed at the general meeting of the Company held on 3 March 2011, be empowered pursuant to section 570 of the Companies Act 2006 (the "Act") to allot for cash, either pursuant to the authority so conferred or where the equity securities are held by the Company as treasury shares (within the meaning of section 724(5) of the Act), to allot equity securities (within the meaning of section 560 of the Act) as if section 561 of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:
 - 8.1 made in connection with the allotment of ordinary shares of 0.1 pence each in the capital of the Company pursuant to the e-Therapeutics plc Long Term Incentive Plan 2007 (as amended from time to time);
 - 8.2 made in connection with the allotment of up to 1,963,440 ordinary shares of 0.1 pence each in the capital of the Company pursuant to those option agreements referred to in paragraphs 2.9 to 2.13 of Part VII of the admission document relating to the Company dated 22 November 2007 that have not been fully exercised or have lapsed;
 - 8.3 made in connection with the allotment and issue of up to 198,332 ordinary shares of 0.1 pence each in the capital of the Company pursuant to the unexercised warrants described in the circular to shareholders of the Company dated 25 February 2009;
 - 8.4 made in connection with the allotment and issue of up to 677,409 ordinary shares of 0.1 pence each in the capital of the Company pursuant to the unexercised warrants described in the circular to shareholders of the Company dated 15 February 2011;
 - 8.5 made in connection with the allotment and issue of up to 248,020 ordinary shares of 0.1 pence each in the capital of the Company pursuant to the options granted to BR Hoy and OFW James;
 - 8.6 made in connection with an offer of securities, open for acceptance for a fixed period, by the Directors to ordinary shareholders of the Company on the register on a fixed record date in proportion (as nearly as may be) to their then holdings of such shares (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares or any legal or practical problems under the laws or requirements of any recognised regulatory body or any stock exchange in any overseas territory or in connection with fractional entitlements) or by virtue of shares being represented by depositary receipts or any other matter whatsoever; and/or
 - 8.7 wholly for cash (otherwise than pursuant to paragraphs 8.1 to 8.5 above) up to an aggregate nominal value of £27,625.29 (being 20% of the issued share capital of the Company on 13 July 2011),

and shall expire on the conclusion of the next AGM of the Company or, if earlier, 15 months after the passing of this resolution but the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such an offer or agreement notwithstanding that the power conferred by this resolution has expired.

9. That in accordance with the "Act" the Company be generally and unconditionally authorised for the purposes of section 701 of the "Act" to make market purchases (within the meaning of section 693(4) of that Act) on the London Stock Exchange of ordinary shares of 0.1 pence each in the capital of the Company provided that:
- 9.1 the maximum aggregate number of ordinary shares hereby authorised to be purchased is 13,812.64;
 - 9.2 the minimum price which may be paid for such shares is 0.1 pence per ordinary share (exclusive of expenses);
 - 9.3 the maximum price (exclusive of expenses) which may be paid for such ordinary shares shall not be more than 5% above the average of the market values for an ordinary share as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the date on which the ordinary shares are purchased;
 - 9.4 unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Company's next AGM or 15 months from the date of this resolution (whichever is earlier); and
 - 9.5 the Company may make a contract or contracts to purchase ordinary shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

By order of the Board

S T Nicolson
Company Secretary
25 July 2011

Registered office

Block B
Holland Park
Holland Drive
Newcastle upon Tyne
NE2 4LZ

Incorporated in England and Wales, registered number: 4304473

Notes

The following notes explain your general rights as a shareholder and your right to attend and vote at this meeting or to appoint someone else to vote on your behalf.

1. Only those members registered in the register of members of the Company as at 6.00pm on 7 September 2011 shall be entitled to attend and vote at the meeting convened above in respect of the number of shares registered in their names at that time. This time will still apply for the purpose of determining who is entitled to attend and vote if the meeting is adjourned from its scheduled time by 48 hours or less. If the meeting is adjourned for longer, members who wish to attend and vote must be on the Company's register of members by 6.00pm two days before the time fixed for the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend or veto at the meeting.
2. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his/her proxy to exercise all or any of his/her rights to attend and to speak and vote at a meeting of the Company. Any such member may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by such member. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA. A proxy need not be a member of the Company. Appointing a proxy will not prevent a shareholder from attending in person and voting at the meeting. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the chairman of the meeting) and give your instructions directly to them. A proxy must vote in accordance with any instructions given by the appointing member.
3. A form of appointment of proxy is enclosed. To appoint a proxy using this form in hard copy form, it must be completed and signed, sent or delivered to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney of the company. If you return more than one proxy appointment, that received last by the registrar before the latest time for the receipt of proxies will take precedence.
4. The form of proxy includes a vote withheld option. Please note that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against any particular resolution.
5. The appointment of a proxy and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated should be deposited at Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA not later than 6.00pm on 7 September 2011 or 48 hours (but not including non-working days) before the time for holding any adjourned meeting.
6. In the case of joint holders of shares, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

Notice of Annual General Meeting continued

7. The previous statement as to proxy rights does not apply to a person who receives this notice of general meeting as a person nominated to enjoy "information rights" under section 146 of the Companies Act 2006. If you have been sent this notice of meeting because you are such a nominated person, the following statements apply:
 - 7.1 you may have a right under an agreement between you and the member of the Company by whom you were nominated to be appointed or to have someone else appointed as a proxy for this general meeting; and
 - 7.2 if you have no such right or do not wish to exercise it, you may have a right under such an agreement to give instructions to that member as to the exercise of voting rights.
8. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that:
 - 8.1 if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting then, on a poll, those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and
 - 8.2 if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the chairman is being appointed as described in 8.1 above.

9. During the period beginning on the date of this notice and meeting the conclusion of the meeting, the following documents are available for inspection during normal business hours at the registered office of the Company:
 - 9.1 copies of the Executive Directors' service contracts with the Company;
 - 9.2 copies of the Non-executive Directors' letters of appointment; and
 - 9.3 any indemnities between the Company and the Directors.
10. Except as provided above, members who have general queries about the meeting should write to the Company Secretary at the Company's registered office. No other methods of communication will be accepted. You may not use any electronic address provided either in this notice of meeting or any related documents (including the chairman's letter and proxy form) to communicate with the Company for any purposes other than those expressly stated.

Advisers

Nominated Adviser and Nominated Broker

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Registrars

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Company Secretary

Sean Nicolson





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