

For further information, please contact



Pharmagene plc
David Lee, Chairman
Ronald Openshaw, Acting CEO and CFO
Tel: +44(0) 1763 211600
www.pharmagene.com

Financial Dynamics
David Yates
Tel: +44(0) 20 7831 3113

Pharmagene Reports 2005 Interim Results

Pharmagene plc (LSE: PGN) (“Pharmagene” or the “Company”) announces its unaudited interim financial results for the six months ended 30 June 2005 as set out below.

In a separate announcement issued today, Pharmagene plc has stated its intention to enter into a merger with Asterand, Inc.

Review of the six months ended 30 June 2005

Drug Discovery Services

The Drug Discovery Services business recognised revenues of £1.20 million compared to £1.85 million in the first half of 2004 and this comparison reflects the month on month decline in the order book throughout 2004. The Company has taken steps to reorganise and strengthen its sales and marketing team and this has reversed the order book decline with the forward order book at the end of June 2005 up to £2.7 million.

In order to increase operational efficiency and ensure the rapid delivery of clients' projects the Company effected a structural reorganisation at the end of February to create separate divisions for those scientific staff executing client business and those addressing proprietary Therapeutics projects. These teams have clear leadership, goals and direction and the effects of this structure are delivering positive results.

The Company has also increased significantly its focus on achieving closer ties with its network of donor sites and on increasing the number of these sites in order to achieve improved customer service levels.

Pharmagene has recognised that in order to increase the rate of sales growth it must offer new services and products. Consequently, a vigorous new product development programme has been initiated. The first product from this programme was launched in August 2005 under the new brand XpressWay™. This product offering allows clients to access individual gene profiles in individual or multiple tissues in a more flexible and competitively priced manner. Further product development will result in continuing expansion of the existing product portfolio.

The Drug Discovery Services business recorded a loss for the half of £39,000 (2004: £87,000).

Therapeutics

In April the clinical evaluation of PGN1164 was terminated due to variable pharmacokinetics leaving a portfolio without a compound in clinical trials. As a result of this and to reduce costs the board took the decision to focus the Company's efforts only on the most advanced programmes. Consequently, work has been suspended on several early stage research projects. The Company has, therefore, been actively pursuing:-

- R1 - 5HT2B antagonists for IBS with back-up molecules to PGN1164
- R4 - EP4 antagonists for migraine
- R65 - EP2 agonists for myometrial disorders and glaucoma
- R99 – EP2 agonists for multiple indications.

The segmental result for the Therapeutics business in the six months to 30 June was a loss before tax of £3.6 million (2004: £3.2 million). This loss is similar to the previous year due to the PGN1164 Phase I clinical trial costs.

Merger and rationalisation

Following a strategic review, Pharmagene's Board concluded that it would focus on the human tissue based research services, and this in turn led to the proposal to enter into a merger with Asterand, Inc.

As a result, Pharmagene will complete that work necessary to bring each of its Therapeutic programmes to a point where the value of these assets can be realised.

Pharmagene has commenced a full review of its operational cost base. It is anticipated that this will lead to a number of redundancies across the Company.

Financial results

Pharmagene's interim results have been presented for the first time in accordance with the Company's accounting policies revised for compliance with International Financial Reporting Standards as set out in Note 1. There has been a small number of minor adjustments and these are set out in Note 5.

The Company recorded an operating loss for the first half of £4.4 million (2004: £3.9 million). Although the loss increased compared to the prior year on an ongoing basis the Company's cost base has been reduced by a general tightening of financial controls and cost reduction and by a 20% reduction in headcount compared to 30 June 2004.

At the end of June the Company had cash, cash equivalents and financial assets of £12.3 million, showing a reduction of £3.5 million since the end of 2004.

**Consolidated profit and loss account
for the six months ended 30 June 2005**

		Six months ended 30 June 2005 Unaudited	Six months ended 30 June 2004 Unaudited	Year ended 31 Dec 2004 Unaudited
	Note	£'000	£'000	£'000
Revenue	2	1,206	1,851	4,223
Cost of sales		(605)	(876)	(1,687)
Gross profit		601	975	2,536
Research and development		(3,708)	(3,633)	(8,198)
Selling and distribution costs		(424)	(528)	(1,142)
General and administrative expenses		(826)	(736)	(1,583)
Total operating expenses		(4,958)	(4,897)	(10,923)
Operating loss		(4,357)	(3,922)	(8,387)
Net interest receivable and similar income		366	385	761
Loss before tax		(3,991)	(3,537)	(7,626)
Taxation		537	422	817
Loss for the period		(3,454)	(3,115)	(6,809)
Loss per 5p ordinary share				
Basic and diluted	3	(6.6)p	(6.0)p	(13.1)p

All results arise from continuing operations

**Statement of recognised income and expense
for the six months ended 30 June 2005**

		Six months ended 30 June 2005 Unaudited	Six months ended 30 June 2004 Unaudited	Year ended 31 Dec 2004 Unaudited
	Note	£'000	£'000	£'000
Loss for the financial period		(3,454)	(3,115)	(6,809)
Exchange translation difference on consolidation		-	1	(1)
Total recognised expense for the period		(3,454)	(3,114)	(6,810)

**Consolidated balance sheet
as at 30 June 2005**

	Note	30 June 2005 Unaudited £'000	30 June 2004 Unaudited £'000	31 Dec 2004 Unaudited £'000
Assets				
<i>Non-current assets</i>				
Property, plant and equipment		710	977	877
<i>Current assets</i>				
Trade and other receivables		534	1,281	2,009
Current tax asset		1,335	1,549	799
Financial assets - available for sale investments		2,000	3,139	-
Cash and cash equivalents		10,261	15,939	15,713
		14,130	21,908	18,521
Liabilities				
<i>Current liabilities</i>				
Financial liabilities - finance leases		(24)	(22)	(23)
Trade and other payables		(2,836)	(4,119)	(4,015)
Provisions		(14)	(30)	(16)
		(2,874)	(4,171)	(4,054)
Net current assets		11,256	17,737	14,467
<i>Non-current liabilities</i>				
Financial liabilities - finance leases		(15)	(47)	(32)
Net assets		11,951	18,667	15,312
Shareholders' equity				
Ordinary shares		2,695	2,657	2,690
Share premium		47,199	46,902	47,178
Other reserves		3,083	3,083	3,083
Retained earnings		(41,026)	(33,975)	(37,639)
Total equity	4	11,951	18,667	15,312

**Consolidated cash flow statement
for the six months ended 30 June 2005**

	Six months ended 30 June 2005 Unaudited £'000	Six months ended 30 June 2004 Unaudited £'000	Year ended 31 Dec 2004 Unaudited £'000
Cash flows from operating activities			
Cash generated from operations	(3,944)	(2,817)	(8,054)
Interest received	471	278	717
Interest paid	-	-	(1)
Interest element of finance lease rental payments	(1)	(2)	(4)
Receipt of research and development tax credit	-	-	1,143
Tax paid	1	(3)	(1)
Net cash from operating activities	(3,473)	(2,544)	(6,200)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	-	1	1
Purchase of property, plant and equipment	6	(61)	(94)
Available for sale investments	(2,000)	(3,139)	-
Net cash used in investing activities	(1,994)	(3,199)	(93)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	26	133	443
Proceeds from exercise of ESOP share options	-	6	28
Finance lease principal payments	(11)	(11)	(19)
Net cash used in financing activities	15	128	452
Net decrease in cash and cash equivalents	(5,452)	(5,615)	(5,841)
Cash and cash equivalents at beginning of period	15,713	21,554	21,554
Cash and cash equivalents at end of period	10,261	15,939	15,713

Reconciliation of operating loss to cash generated from operations

	Six months ended 30 June 2005 Unaudited £'000	Six months ended 30 June 2004 Unaudited £'000	Year ended 31 Dec 2004 Unaudited £'000
Operating loss	(4,357)	(3,922)	(8,387)
Depreciation charge	173	205	406
Share option compensation charge	67	12	20
Decrease in debtors	1,358	938	152
(Decrease) in creditors	(1,185)	(50)	(245)
Cash generated from operations	(3,944)	(2,817)	(8,054)

Notes to the interim financial statements for the six months ended 30 June 2005

1. Accounting policies and basis of preparation

Basis of preparation and statement of compliance

The interim financial statements comprise the unaudited results for the six months to 30 June 2005 and 30 June 2004, together with the unaudited results for the 12 months ended 31 December 2004. Prior to 2005, the Group prepared its audited annual financial statements and unaudited interim results under UK Generally Accepted Accounting Principles (UK GAAP). The audited UK GAAP annual financial statements for 2004, which represent the statutory accounts for that year, and on which the auditors gave an unqualified opinion, have been filed with the Registrar of Companies.

From 1 January 2005, the Group is required to prepare its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and implemented in the UK. As the annual 2005 financial statements will include comparatives for 2004, the Group's date of transition to IFRS under IFRS1 (First time adoption of IFRS) is 1 January 2004 and the 2004 comparatives have been restated accordingly.

The financial information has been prepared under the historical cost convention, except in respect of certain financial instruments, and has been prepared on a basis consistent with the IFRS accounting policies as set out below. The accounting policies are consistent with those that the directors intend to use in the next annual financial statements. There is, however, a possibility that the directors may determine that some changes are necessary when preparing the full annual financial statements for the first time in accordance with accounting standards adopted for use in the European Union. The IFRS standards and IFRIC interpretations that will be applicable and adopted for use in the European Union at 31 December 2005 are not known with certainty at the time of preparing this interim financial information.

Basis of consolidation

The consolidated profit and loss account includes the financial statements of the Company and its subsidiary undertakings. The financial statements of Pharmagene Laboratories Limited have been consolidated using the principles of merger accounting since it was originally acquired. The results of overseas operations are translated at average exchange rates and their balance sheet is translated at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are dealt with through reserves. Intra-group transactions, profits and balances are eliminated in full on consolidation.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at actual rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet. Exchange differences are taken to the profit and loss account.

Revenue recognition

Amounts received or receivable for services provided under research and development contracts are recognised as revenue when earned. Amounts received or receivable in respect of milestone payments under contracts and agreements are recognised as revenue when the specific conditions in the contract have been satisfied. Licence fees for the provision of data sets are recognised when the Group has discharged all of its responsibilities and will incur no further significant costs in connection with the data sets.

Segmental reporting

The Group has not adopted IAS14 (Segmental information) in these interim financial statements but has presented information on a basis consistent with previous periods.

The Group has three business segments: Drug Discovery Services, Therapeutics and a Corporate function. The Group conducted an operational restructuring in February 2005 and employees form part of either Drug Discovery Services, Therapeutics or Corporate. Costs are allocated to each of these segments. To the extent that the Drug Discovery Services business conducts work for the Therapeutics business it recharges at an appropriate cost. All employees (excluding directors) are employed by Pharmagene Laboratories Limited, rather than separate entities. Other resources such as human tissue, consumables, facilities and capital equipment are shared between the business streams. At present, revenue is generated only by the Drug Discovery Services business segment. Certain central costs initially incurred by the Corporate division are re-allocated to the Drug Discovery Services and Therapeutics divisions where practicable. As a result, Corporate costs mainly comprise non-executive directors fees, costs related to the Company's public status such as investor relations fees, and central costs related to managing the business.

Net assets within each business segment include those assets or liabilities which are capable of being specifically attributed to either Drug Discovery Services or Therapeutics. Remaining assets (including all cash balances) or liabilities are shown within Corporate / unallocated.

Research and development

Research and development costs are expensed as incurred. Due to the regulatory and other uncertainties inherent in the development of the Group's new products, the criteria for development costs to be recognised as an asset, as prescribed by IAS 38, 'Intangible Assets', are not met until the product has been submitted for regulatory approval and when it is probable that future economic benefits will flow to the Group.

Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Benefits, such as rent-free periods, received and receivable as incentives to take on operating leases are spread on a straight-line basis over the lease term.

Pension scheme arrangements

Retirement benefits to employees and directors are provided by defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions made by the Group are charged to the profit and loss account in the period in which they become payable.

Property, plant and equipment

The cost of property, plant and equipment is the purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of property, less an expected residual value, plant and equipment on a straight-line basis over the expected useful economic lives of the assets concerned being:

Fixtures and fittings 5-10 years
Computer and office equipment 3-5 years
Laboratory equipment 5-10 years
Motor vehicles 3 years

Laboratory equipment purchased solely for a particular project is depreciated over the life of that project. Leasehold improvements are depreciated over the lease term concerned.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and deposits with banks that have a maturity of three months or less from the date of acquisition. Cash and cash equivalents are carried in the consolidated balance sheet at cost. Bank deposits that have maturities greater than three months but less than 12 months from the date of acquisition are included in short-term financial assets.

Provisions

In the absence of an equivalent IFRS standard the Group has applied Urgent Issues Task Force Abstract 25 ('National Insurance contributions on share options'). A provision is established based on the current employer's National Insurance rate applied to the difference between the market value of the shares under option and the option exercise price at the balance sheet date. The provision is charged to the profit and loss account over the period in which the share options vest.

Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements in accordance with IAS 12 'Income taxes'. Deferred tax assets are recognised to the extent that it is probable that they are recoverable. Deferred tax assets and liabilities are not discounted.

Employee share schemes

Shares in the Company held by employee trusts are funded by loans from the Company. These shares are presented as a deduction from equity at cost.

Share options

In accordance with IFRS 2 'Share-based payment', share options are measured at fair value at their grant date, in respect of options granted after 7 November 2002 and which had not vested by 1 January 2004. The fair value is charged to the profit and loss account over the share option's vesting period. When the option is exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

Financial instruments

Foreign exchange forward contracts, are initially recognised in the balance sheet at cost and are subsequently re-measured at their fair value. Gains and losses on forward exchange options contracts taken out to cover short-term receivable and payable exposures are recognised in the balance sheet and income statement. These derivatives transactions, while providing effective economic hedges under the group's risk management policy, do not qualify for hedge accounting under the specific rules of IAS 39. Accordingly, changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in the income statement as part of the financial result. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

2. Segmental reporting

Turnover is wholly attributed to Drug Discovery Services.

	Six months to 30 June 2005 Unaudited £'000	Six months to 30 June 2004 Unaudited £'000
Turnover by destination		
United Kingdom	30	124
Rest of Europe	473	704
North America	633	631
Japan	70	392
	1,206	1,851

The Group's loss before tax and net (liabilities)/assets arise in the United Kingdom, with the exception of immaterial amounts arising in the United States of America.

Unaudited	Turnover		Loss before interest and tax		Net (liabilities)/assets	
	Six months to 30 June 2005 £'000	Six months to 30 June 2004 £'000	Six months to 30 June 2005 £'000	Six months to 30 June 2004 £'000	As at 30 June 2005 £'000	As at 30 June 2004 £'000
Business segment analysis						
Drug Discovery Services	1,206	1,851	(39)	(87)	(851)	(745)
Therapeutics	-	-	(3,615)	(3,241)	612	771
Corporate/unallocated	-	-	(703)	(594)	12,190	18,641
	1,206	1,851	(4,357)	(3,922)	11,951	18,667

3. Loss per share

The basic loss per share of 6.6p (2004: 6.0p) is calculated by dividing the loss attributable to ordinary shareholders of £3,454,000 (H1 2004: £3,115,000) by the weighted average number of ordinary shares in issue during the period, being 52,699,335 ordinary shares of 5p each (H1 2004: 51,556,454 ordinary shares of 5p each). Potential ordinary shares are not treated as dilutive as their conversion to ordinary shares does not increase the net loss per share.

4. Reconciliation of shareholders' funds

	Six months to 30 June 2005 2004 Unaudited £'000	Six months to 30 June 2004 2003 Unaudited £'000	Year ended 31 December 2004 Unaudited £'000
Opening shareholders' funds	15,312	21,631	21,631
Proceeds from issue of ordinary shares	26	133	443
Transfer of ESOP shares	-	6	28
Loss for the period	(3,454)	(3,115)	(6,809)
Reversal of share option compensation charge	67	12	20
Exchange translation differences on consolidation	-	-	(1)
Closing shareholders' funds	11,951	18,667	15,312

5. Reconciliation of net assets and loss under UK GAAP to IFRS

Pharmagene plc reported under UK GAAP in its previously published financial statements for the year ended 31 December 2004 and half year ended 30 June 2004. The analysis below shows the reconciliation of net assets and loss as reported under UK GAAP as at 31 December 2004 and 30 June 2004 to the revised net assets and loss under IFRS as reported in these financial statements. In addition, there is a reconciliation of equity under UK GAAP to IFRS at the transition date for this company, being 1 January 2004.

	Note	Six months ended 30 June 2004 Unaudited £'000	Year ended 31 December 2004 Unaudited £'000
<i>Reconciliation of loss for the period</i>			
Loss for the period reported under UK GAAP		(3,152)	(6,693)
Adjustments			
Translation of hedge	(a)	45	(103)
Share option charge	(b)	(12)	(20)
Lease incentive amortisation	(c)	4	7
Loss for the period reported under IFRS		(3,115)	(6,809)

Reconciliation of equity at 1 January 2004

	Note	Previous GAAP Audited £'000	Effect of transition to IFRS Unaudited £'000	IFRS Unaudited £'000
Non-current assets		1,121		1,121
Current assets	(a)	24,688	103	24,791
Current liabilities	(c)	(4,126)	(7)	(4,133)
Net current assets		20,562	96	20,658
Long term liabilities and provisions	(c)	(136)	(12)	(148)
Net assets		21,547	84	21,631
Total equity		21,547	84	21,631

Reconciliation of equity at 30 June 2004

	Note	Previous GAAP Unaudited £'000	Effect of transition to IFRS Unaudited £'000	IFRS Unaudited £'000
Non-current assets		977		977
Current assets	(a)	21,760	148	21,908
Current liabilities	(c)	(4,172)	(7)	(4,179)
Net current assets		17,588	141	17,729
Long term liabilities and provisions	(c)	(31)	(8)	(39)
Net assets		18,534	133	18,667
Total equity		18,534	133	18,667

Reconciliation of equity at 31 December 2004

	Note	Previous GAAP Audited £'000	Effect of transition to IFRS Unaudited £'000	IFRS Unaudited £'000
Non-current assets		877	-	877
Current assets		18,522	-	18,522
Current liabilities	(c)	(4,031)	(7)	(4,038)
Net current assets		14,491	(7)	14,484
Long term liabilities and provisions	(c)	(44)	(5)	(49)
Net assets		15,324	(12)	15,312
Total equity		15,324	(12)	15,312

Explanation of reconciling items between UK GAAP and IFRS

(a) Translation of hedge

At 1 January 2004, Group had entered into certain forward foreign exchange contracts in order to hedge the risk of movements in foreign currency exchange rates which were not naturally hedged from operations. These transactions, while providing effective economic hedges under the Group's risk management policy did not qualify for hedge accounting under the specific rules of IAS 39. As a consequence, they were required to be recorded at their fair value at each balance sheet date determined by using forward exchange market rates. The contracts all matured in the second half of 2004. At 1 January 2004, forward contracts were held with a fair value of £103,000 (H1 2004: £148,000)

(b) Share option charge

In accordance with IFRS 2 'Share-based payment' a charge is required for all share-based payments including share options. The charge in the profit and loss account is based on the fair value of the options at grant date. Under UK GAAP, the profit and loss charge, if any, is based on the difference between the exercise price and the market price on the date of issue. In the year ended 31 December 2004 a charge of £20,000 was required under IFRS 2 (H1 2004: £12,000). There was no impact on net assets.

(c) Amortisation of lease incentive

In accordance with IAS 17 'Leases' and IFRIC interpretation SIC 15-5 the Group has amortised lease incentives granted at the inception of its leasehold premises agreements over the life of each respective lease agreement. Under UK GAAP, such incentives were amortised to the first break period in the lease. As a result, net assets at 1 January 2004 have been increased by £12,000 of which £7,000 was charged to the profit and loss account during 2004 (H1 2004 £4,000). The balance will be charged to the profit and loss account over the remaining lease terms.

Explanation of material adjustments to the cash flow statements for 2004

The share option compensation charge is shown as an adjustment to the operating loss in arriving at the net cash outflow from operating activities. Adjustments in respect of the amortisation of lease incentives are reflected in movements in creditors.

Independent review report to Pharmagene plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2005 which comprises the consolidated balance sheet as at 30 June 2005, the consolidated profit and loss account, consolidated cash flow statement, the statement of recognised income and expense and changes in shareholders' funds for the six months then ended and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in note 1 to the interim results, the next annual financial statements of the group will be prepared in accordance with accounting standards adopted for use in the European Union. This interim report has been prepared in accordance with the basis set out in note 1.

The accounting policies are consistent with those that the directors intend to use in the next annual financial statements. As explained in note 1, there is, however, a possibility that the directors may determine that some changes are necessary when preparing the full annual financial statements for the first time in accordance with accounting standards adopted for use in the European Union. The IFRS standards and IFRIC interpretations that will be applicable and adopted for use in the European Union at 31 December 2005 are not known with certainty at the time of preparing this interim financial information.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

PricewaterhouseCoopers LLP
Chartered Accountants
Cambridge
16 September 2005

Notes:

(a) The maintenance and integrity of the Pharmagene plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.