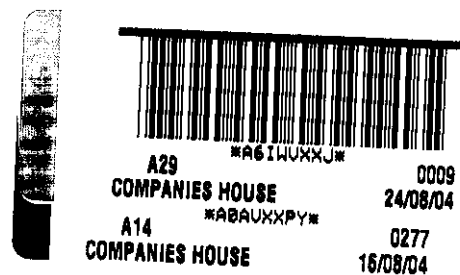


Registered no: 3252665

Oxford BioMedica plc

Report and Accounts 2003



Oxford BioMedica specialises in the development of novel gene-based therapeutics for the treatment of cancer and neurobiological diseases

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Chairman's and Chief Executive's Report

In 2003, Oxford BioMedica made significant progress in the advancement of its pipeline. The Company's lead cancer products, TroVax[®] and MetXia[®], moved further down the product development pathway with six new clinical trials initiated or planned for 2004. The Company also achieved a major milestone in its cancer antibody collaboration with Wyeth. In neurotherapy, preclinical proof of principle was demonstrated in four out of the five products, with the fifth anticipated in the first half of 2004. In addition, cash consumption was reduced and a successful rights issue raised £20 million, strengthening the balance sheet and providing working capital through to 2007. At 31 December 2003, the Group had a net cash position of £32 million.

During 2003, biotechnology was one of the best performing sectors of the London Stock Exchange and Oxford BioMedica outperformed its benchmark indices. The share price increased by over 225% during the year with significantly higher average daily trading volumes. This compares to a rise of 54% in the FTSE techMARK mediscience index and 42% in the NASDAQ Biotech index during 2003. In October, the Company benefited from this improved sentiment by completing a successful rights issue, which raised a total of £20 million net of expenses.

It was gratifying that the proportion of valid acceptances in the rights issue was 66% and that the balance of rights shares was placed in the market at a premium. The Company now has sufficient resources to reach key product development milestones and has strengthened its negotiating position with potential partners.

Oxford BioMedica has maintained its therapeutic focus in cancer and neurotherapy and has concentrated resources on proof of principle preclinical studies and on clinical trials.

This strategy has resulted in the Company achieving several key milestones over the year, which, in turn, have potentiated business development efforts. During 2003, TroVax, RetinoStat[®] and ProSavin[®] have been the subjects of significant discussions with potential partners. During 2004, the scope of the Company's business development initiatives will expand to include the seven lead product candidates as Oxford BioMedica increases its focus on commercial as well as technical and clinical goals.

targeting cancer through gene-based innovation

Oncology

The development of novel cancer therapies that combine efficacy and safety has been a primary goal of the Company since its inception. Although the market for cancer products is becoming increasingly fragmented and the design of clinical trials increasingly complex, this is a potentially lucrative market with scope for many novel products targeting specific types and stages of cancer. Oxford BioMedica has created three major opportunities in this area: TroVax, an active immunotherapy; MetXia, a potentiator of current chemotherapy; and an antibody-targeted 'magic bullet', partnered with Wyeth.

Oncology

TroVax has been designed specifically to stimulate an anti-cancer immune response and has potential application in most solid tumour types.

TROVAX®

TroVax is Oxford BioMedica's leading cancer immunotherapy product. It is designed specifically to stimulate an anti-cancer immune response and has potential application in most solid tumour types. TroVax targets one of the Company's proprietary tumour antigens, 5T4, which is broadly distributed across a wide range of solid tumours. The product consists of a pox virus (MVA) gene transfer system, which delivers the gene for 5T4. MVA is known to induce the breaking of immune tolerance to self-antigens that are expressed from the gene delivery system.

In 2002, the Company completed Phase I/II trials of TroVax in late-stage (Stage IV) colorectal cancer patients. The data showed that the product induced an anti-tumour immune response in more than 95% of patients and that it was safe and well tolerated. In addition clinical benefit was seen in some patients. Since the completion of those trials, ongoing patient monitoring during 2003 has shown a clear correlation between TroVax-induced antibody response and patient survival post-vaccination. Furthermore, almost 60% of patients survived for 50% longer than their expected median survival times. Although the number of patients

in the trials is small, these new data add to the body of encouraging results for this product.

Following on from these successes, a comprehensive Phase II programme was initiated during 2003, which comprises five Phase II trials. Patient recruitment is underway in two of these.

The two Phase II trials that are enrolling patients are investigating TroVax alongside current chemotherapy in Stage IV colorectal cancer patients. These two studies build on the experience gained in the Phase I/II studies and are designed such that a Phase III pivotal trial alongside chemotherapy can be planned. The primary endpoint of the two trials is a demonstrable anti-5T4 immune response in the context of the chemotherapy. TroVax is being administered with the two most common chemotherapy regimes used for colorectal cancer; 5-fluorouracil (5FU) with irinotecan in one trial and 5FU with oxaliplatin in the other.

In March 2003, the Company received approval from the UK Gene Therapy Advisory Committee (GTAC) and the Medicines and Healthcare products Regulatory Agency (MHRA) to proceed with the 5FU plus irinotecan trial.

The trial is being conducted at two centers: the Christie Hospital in

Manchester and the Queen Elizabeth Hospital in Birmingham. To date, a total of ten patients have been recruited. Four of these have been withdrawn from the trial because of an inability to withstand or respond to the chemotherapy. This level of withdrawal is normal and was anticipated in the design of the trial. The remaining patients are partway through their TroVax immunisation regime. There have been no adverse events that can be attributed to TroVax and there has been no reduction in T-cell (CD4 and CD8) counts, which are indicators of immune competence, supporting the notion that immunotherapy alongside chemotherapy is a feasible strategy. Furthermore, initial analysis suggests that TroVax can induce an anti-tumour immune response while chemotherapy is being used. The trial is almost fully enrolled and the Company plans to report further data later in the year.

In March 2003, the 5FU plus oxaliplatin trial was approved by the MHRA and clearance from GTAC was obtained in May. The trial is being conducted at the St James' Hospital in Leeds and the Hammersmith Hospital in London. Recruitment is ongoing and initial data from this trial are expected in the next few months.

In addition to these two trials using TroVax alongside chemotherapy, the

The next 12-18 months will be an exciting period for TroVax as data from the Phase II trials emerge.

Company is pursuing an application for TroVax in Stage IV colorectal cancer patients who undergo surgery for resectable liver metastases. In August 2003, the Company announced that this programme had attracted sponsorship from Cancer Research UK (CR-UK). The decision by CR-UK followed extensive review of the successful Phase I/II data of TroVax in colorectal cancer patients. In this adjuvant therapy setting following surgery, the goal is to eradicate any remaining cancer cells. In fact, adjuvant therapy offers promise for not just extending patients' lives, but helping to promote full recovery without recurrence of cancer.

Patients in the CR-UK trial will receive injections of TroVax followed by surgery approximately two weeks later. Biopsies of the tumour will be taken at surgery and analysed for TroVax stimulated immune activity. Further vaccinations will be given after surgery. Patients' management will then continue as standard. Patients will be followed after the final vaccination to assess immune responses and toxicity and then monitored over the longer term to assess for clinical benefit. CR-UK has received regulatory approval to start the trial and recruitment is expected to commence in April 2004.

While colorectal cancer is an excellent target market for TroVax, it is relatively competitive and crowded in terms of treatment options. However, the wide prevalence of the 5T4 antigen on different tumour types means that TroVax could have benefit not only in colorectal cancer but in an estimated 75% of all solid tumours. The Company is therefore expanding the commercial scope of the product by conducting

trials in patients with other types of cancer. Two trials are to be conducted in the USA under an Investigational New Drug (IND) application. The first is in patients with metastatic renal cancer and the second is in patients with advanced breast cancer. Both diseases represent important unmet medical needs, which in the case of renal cancer, is reflected in the poor prognosis for patients. Only about 20% of patients respond to current treatment for metastatic renal cancer and five-year survival rates are about 10%. Both the renal cancer and breast cancer trials are expected to start in Q3 2004.

In May 2003, the Company announced that TroVax had received clearance from the United States Recombinant DNA Advisory Committee (RAC) to enter the renal cancer trial. This is a prerequisite for a successful IND application. In December 2003, the Company submitted its IND application to the FDA and has subsequently addressed all the issues raised by the US regulatory body. TroVax will be tested alongside standard treatment with IL-2 in patients whose median survival is only about 13 months. Safety and immunogenicity will be the primary goals but patients will be monitored for clinical benefit including increased survival. The trial will be conducted at the Columbian Presbyterian Medical Center in New York and patient recruitment is expected to start in Q3 2004. The study should be complete, as far as the primary end-points are concerned, within about twelve months of initiation.

During 2003, the Southwest Oncology Group (SWOG), a clinical research consortium funded by the US National

Cancer Institute selected TroVax for sponsorship following an extensive review of Oxford BioMedica's preclinical and clinical data. The target disease is advanced breast cancer and the trial will recruit 120 patients. This size of trial has the potential to deliver very meaningful efficacy data. The trial will be a multicenter study in the USA and should start in Q3 2004. The study is expected to be fully recruited by the end of 2005.

Overall, apart from minor delays in patient recruitment in the UK, the TroVax programme is proceeding well. In excess of 200 patients will have been treated with TroVax once the planned Phase II trials are complete. Of particular note is the endorsement of TroVax by prestigious independent cancer research organisations. These organisations are supporting a significant part of the development of TroVax, yet they receive no commercial rights in return for their sponsorship. Clearly this enhances the value of the TroVax 'package'.

The next 12-18 months will be an exciting period for TroVax as data from the Phase II trials emerge. Importantly, the Company is progressing in its discussions with potential partners for TroVax, which will set the path for moving into pivotal trials and commercial launch. In the meantime, the Company is already preparing for registration trials. In 2003, a contract was signed for large-scale and commercial manufacture of TroVax with a major biologicals manufacturer. In addition, the Company has an ongoing interaction with the FDA and the MHRA regarding the requirements for product approval.

Oncology

During 2003, Wyeth exercised its option to continue with the licensing agreement for Oxford BioMedica's proprietary antibody and made a milestone payment to the Company.

TARGETED ANTIBODY THERAPY WYETH COLLABORATION

In January 2001, Oxford BioMedica licensed a proprietary antibody to Wyeth in an agreement that has the potential to bring \$24 million to the Company in milestone payments, and then significant royalties on product sales. The antibody targets one of the Company's proprietary tumour antigens. The product concept is that Wyeth uses its proprietary technology to link a toxic molecule, calicheamicin, to the anti-tumour antibody and the resulting conjugate is injected into a patient with cancer. The antibody docks onto cancer cells and the associated toxin then kills the cells. It is essentially the concept of the 'magic bullet' that only targets the intended victim.

Wyeth funds and carries out all of the preclinical development work for the product and will fund clinical trials. Over the past two years they have been conducting experiments to show that the Oxford BioMedica antibody, when linked to calicheamicin, can pass a number of critical preclinical tests that would indicate that the combined product might be successful.

During 2003, Wyeth achieved its objectives with the antibody in preclinical proof of concept models. As a result Wyeth exercised its option to continue with the programme and made a milestone payment to the Company.

TROVAX-VET™ INTERVET COLLABORATION

TroVax-VET is a veterinary version of TroVax that uses a canine or feline version of 5T4 instead of the human form. The market is solid cancers in companion animals (dogs and cats) and is likely to be \$100-200 million in size. In December 2003, an option to license agreement was signed with Intervet (a division of Akzo Nobel) confirming its previous commitment to the development of the product. Under the terms of the agreement Intervet funds all preclinical and clinical studies and Oxford BioMedica will receive milestones and royalties on sales. Key preclinical data in the target animals are expected in Q3 2004.

METXIA®

MetXia is Oxford BioMedica's leading gene-based cancer therapeutic. The product is based on a highly engineered retrovirus that delivers a specific human cytochrome P450 gene to tumour cells. The enzyme encoded by the P450 gene activates the commonly used cancer chemotherapy drug, cyclophosphamide, to a form that destroys cells. Therefore, MetXia converts the tumour into a 'drug factory', enabling increased local production of the anti-tumour, cytotoxic derivative of cyclophosphamide. MetXia is potentially useful in the treatment of all solid tumours and their metastases, particularly those where cyclophosphamide is commonly used.

In December 2003, the Company reported successful results from a second Phase I/II trial with MetXia, mainly in breast cancer and melanoma patients. The two completed Phase I/II trials have demonstrated proof of principle and enabled the optimal formulation of MetXia to be determined. MetXia was shown to be safe and to have the potential to enhance the efficacy of cyclophosphamide chemotherapy. The product achieved the desired delivery of the therapeutic gene to the tumour. The second trial used an improved formulation of MetXia that effectively increases the dose level. Taken together the trials involved 19 advanced patients with surface tumours. In line with expectations, the higher potency version delivered the therapeutic gene more efficiently than the original version of the product. Clinical benefit was seen in both trials including tumour regression. Furthermore, five out of seven patients assessed so far from the second trial have shown an increased immune response to known tumour associated molecules, confirming the immunogenic

properties of MetXia. Detailed data from the Phase I/II trials will be published during 2004 in peer reviewed journals and at conferences.

Having established that the basic concept of MetXia is sound the Company has initiated a study in patients with pancreatic cancer. This is an ideal disease setting for MetXia since both the product and the cyclophosphamide can be administered directly to the tumour. This is in contrast to the first trials in which cyclophosphamide was delivered orally. In October 2003, the Company received approval from GTAC to proceed with the pancreatic cancer trial and, in December 2003, the MHRA also approved the trial. The study will be conducted at two leading clinical centers, the Royal Liverpool University Hospital and the Leicester Royal Infirmary, and is expected to start in mid 2004. It is an open label study with an initial Phase I stage that is then designed to roll into a Phase II study. Initially, six patients will be recruited to assess the safety of MetXia in this clinical setting and to identify the optimal dose for the second stage.

In the second part of the trial, the cyclophosphamide prodrug will be gradually escalated to identify a maximum tolerated dose. Up to 21 patients will be recruited and endpoints include safety, clinical response and time to disease progression. Initial data should be available in Q1 2005.

Pancreatic cancer is amongst the most aggressive with median survival time of only 6-12 months from diagnosis for patients with inoperable cancers. Current treatment options are primarily based on the chemotherapeutic agents 5FU and, more recently, gemcitabine.

MetXia converts a tumour into a 'drug factory', enabling increased local production of the anti-tumour, cytotoxic derivative of cyclophosphamide.

However, these have a minimal effect on median survival underlining the need for novel therapeutic strategies. Given the short survival times for pancreatic cancer, MetXia could benefit from accelerated approval following pivotal trials.

COMMERCIAL DEVELOPMENT

There has already been significant external validation of the Oxford BioMedica oncology programme through the commercial commitments by Wyeth and Intervet and the sponsorship of clinical trials by CR-UK and SWOG. In the Spring of 2003 the Company initiated a business development programme aimed at securing strategic partnerships for the development of TroVax. That initiative has made good progress and discussions are ongoing with multiple interested parties. In 2004, MetXia will be introduced to potential partners with a view to securing a deal as results from the pancreatic cancer trial emerge.

**delivering therapies
directly to the
nervous system**

Neurotherapy

Nervous system disorders are the subject of intense research activity within the pharmaceutical industry. This is because the market opportunities are substantial and demographic changes mean that those markets are set to grow. Historically, small molecule drugs have achieved limited success in many central and peripheral nervous system conditions. However, it has become clear in recent years that the use of large biological molecules such as antibodies, growth factors and enzymes may provide new therapies with substantially increased efficacy and better safety profiles. However, the limiting step in exploiting the huge potential of biologicals, particularly in the brain, is delivery across the blood brain barrier. The Company's technology solves this problem.

Gene therapy, which can provide an endogenous factory within the nervous system for therapeutic biological molecules, removes the need to cross the blood brain barrier and therefore removes the limitations

of systemic delivery. Thus, gene therapy approaches open the way to the commercialisation of novel biologicals for the treatment of disorders in the central and peripheral nervous system. Oxford BioMedica's LentiVector® gene

delivery technology is arguably the most powerful technology currently available to turn this concept into reality. The Company has five LentiVector-based products in its neurotherapy pipeline, all in preclinical development.

Neurotherapy

PROSAVIN®

The Company's lead neurobiology product, ProSavin, is an innovative approach to the treatment of Parkinson's disease. Parkinson's disease affects 1% of the over 50 population, and approximately 10% of the over 60s. A patient with Parkinson's disease progressively loses the ability to make the neurotransmitter dopamine, the mediator of the control of movement. ProSavin is designed to convert a small area of the brain into a replacement dopamine factory by supplying the genes for dopamine synthesis to the target cells. The Company is completing preclinical studies with ProSavin.

During 2003, the manufacturing process for ProSavin, which was developed by the Company's San Diego team, has been transferred to Cobra Biomanufacturing's GMP facility in the UK in preparation for taking the product into Phase I/II clinical trials. In addition, quality control and release assays for the product have been transferred to the external contract research organisation Q-One Biotech, a unit of BioReliance. In short, the product is ready to enter clinical trials with respect to the complete manufacturing process. This has been a major undertaking because ProSavin is likely to be the first LentiVector-based product to be tested directly in humans. Therefore, at every step in the process the Company is breaking new ground with the requirements for regulatory approval. Importantly, the infrastructure put in place by the Company to take ProSavin into clinical trials can be used for all of the LentiVector-based products in the portfolio.

In 2002, the Company demonstrated efficacy with ProSavin in a particular preclinical model of Parkinson's disease. During the past year the Company has conducted additional preclinical

studies that are considered to be more predictive of efficacy in man. The results suggest that ProSavin is highly efficacious with an excellent safety profile. This puts ProSavin on track to go into clinical development during 2004, a little later than originally anticipated largely due to minor changes in the construction of the product that have made it even more potent than the earlier version. Data from various ProSavin preclinical studies will be published and presented at conferences during 2004 and will be used in the ongoing business development initiative aimed at securing a suitable development partner for the product.

RETINOSTAT®

RetinoStat is Oxford BioMedica's novel gene-based treatment for age-related macular degeneration (AMD) and diabetic retinopathy (DR). Both of these diseases lead to vision loss as a result of aberrant blood vessel growth in the retina of the eye. Together, AMD and DR represent the most common causes of blindness in the developed world. Several companies are attempting to reach this highly lucrative market. However, whereas most of the development candidates in this field require frequent intra-ocular administration, RetinoStat may only require a single injection.

In 2002, the Company entered into a research collaboration for RetinoStat with the Institute of Ophthalmology in London and, in May 2003, the first results from the collaboration were reported in a presentation at the Annual Meeting of the Association for Research in Vision and Ophthalmology, held in Florida. This is the world's biggest forum for eye research, attended by all principal commercial and scientific players in the field, a total of around 8,000 attendees. The preclinical data that were presented confirmed RetinoStat's ability to

target accurately the retina using the Company's LentiVector system. In addition, the Company's Hypoxia Response Element technology was shown to focus gene expression in those parts of the retina that are local to the pathological changes associated with AMD and DR.

The coming year will see a major drive towards finding appropriate partners for the neurotherapy portfolio.

In September 2003, the Company entered into an agreement with EntreMed under which it received exclusive rights to two of the most powerful anti-angiogenic genes currently available, angiostatin and endostatin, for use in ocular diseases. These genes form the therapeutic payload of RetinoStat. Finally, in November 2003, the RetinoStat programme attracted funding from one of the largest US charitable organisations for ocular disease, the Foundation Fighting Blindness (FFB). Initially the FFB will fund preclinical studies at the Wilmer Eye Institute, Johns Hopkins University in Baltimore, Maryland, under the direction of one of the world's leading clinical ophthalmologists, Professor Peter Campochiaro. Data from these studies will be central to moving RetinoStat into clinical trials, probably in the USA, and will also provide the Company with a powerful marketing package with which to attract partners. The development plan is on schedule and the product is expected to enter clinical trials in early 2005.

MONUDIN™

As well as being able to use the LentiVector technology to deliver products directly to local sites within the nervous system, the technology, with a minor modification, can also be used to target motor neurons indirectly by injecting the product into the major muscle groups. Injection into a particular muscle efficiently targets the motor neurons that control that muscle. MoNuDin is based on this approach and delivers a neuroprotective gene designed to treat the degeneration of motor neurons that occurs in diseases such as amyotrophic lateral sclerosis (ALS), the most common form of motor neuron disease. There is currently no cure or effective treatment for ALS, a condition affecting about 100,000 people in Europe and the US.

During 2003, the Company established preclinical proof of principle for MoNuDin in a collaboration with Professor Peter Carmeliet of the University of Leuven. In an industry standard model of ALS, MoNuDin substantially improved coordination of movement and increased survival time by a significant period. These results alone support taking the product into human clinical studies. In November 2003, some of these results were presented at the 14th International Symposium on Amyotrophic Lateral Sclerosis and Motor Neuron Disease held in Milan. This presentation has prompted a number of collaborative opportunities that are under consideration by the Company. In addition, other aspects of the MoNuDin programme have attracted funding from the US ALS Association via the Company's collaboration with the leading ALS expert, Dr. Nicholas Boulis, at the Cleveland Clinic Foundation in Ohio. The Company plans to start clinical development with MoNuDin in 2005 but will pursue potential collaborations during 2004 on the basis of the encouraging preclinical data.

SMN-1G

In addition to the ALS programme, Oxford BioMedica is developing a specialised product to treat a second motor neuron disease, spinal muscular atrophy (SMA). SMA is one of the most common causes of death in childhood and is as yet incurable. It is an inherited disorder caused by a defect in the SMN-1 gene that leads to premature degeneration of motor neurons. The product strategy is simply to replace the defective gene with the normal version by making use of the LentiVector's ability to target motor neurons selectively and deliver to those neurons the SMN-1 gene. During 2003, the Company achieved a key milestone with its SMN-1G product candidate, which comprises a LentiVector system carrying the SMN-1 gene. SMN-1G significantly increased motor neuron activity in a preclinical efficacy model of SMA, proving that the product concept is sound. These data represent the greatest impact on this model of the disease that has ever been achieved, and planning for clinical development of the product is underway.

The SMN-1G programme, like those for TroVax, RetinoStat and MoNuDin, has also attracted independent financial backing, in this case from the US charitable organisation FightSMA (formerly Andrew's Buddies) and it is the subject of a collaboration with Dr. Arthur Burghes of the Ohio State University, a leading authority on SMA.

INNUREX®

Spinal cord and nerve injuries affect approximately 20,000 people per year in Europe and the USA. There are virtually no products to treat these debilitating conditions and prognosis for functional recovery is often very poor. Innurex seeks to satisfy this unmet medical need that could represent a market of \$0.5-2.0 billion. The product comprises a LentiVector system carrying the RAR β 2 gene that induces nerve cells to regrow by a process known as 'sprouting'. Again, 2003 was a year of demonstrable progress with further preclinical proof of principle data reported.

In early 2001, the Company acquired exclusive rights to the RAR β 2 gene from King's College London where the initial observation that this gene could programme nerve cells to regrow *in vitro* was made. Since then the Company, in collaboration with the team at King's College, has evaluated Innurex in a range of preclinical models. In December 2003, results from the most recent studies were presented at the 10th International Symposium on Neural Regeneration held at Asilomar in California. The data showed that, *in vivo* as well as *in vitro*, Innurex was extremely efficient at inducing nerve sprouting. These results are highly encouraging and demonstrate that Innurex is achieving its objectives at the cellular level. The next step is to show that Innurex can restore function to the damaged limbs. These studies are ongoing and, if successful, could trigger Innurex's advance into clinical development. Functional data is anticipated around mid 2004.

COMMERCIAL DEVELOPMENT

As with the cancer programmes the neurotherapy products have achieved considerable external, independent validation via the support of three separate funding bodies. To date, the Company has only embarked on preliminary dialogue with potential partners for the neurotherapy products, preferring to wait until key preclinical proof of principle studies were completed successfully. The recent data with ProSavin in Parkinson's disease takes the product closer to clinical trials and provides a comprehensive commercial package for partnering discussions. In the case of MoNuDin, SMN-1G and Innurex, the preclinical results achieved in 2003 have raised the profile of these products and increased the prospects of securing suitable commercial partnerships. RetinoStat should achieve the same status by mid 2004. Therefore, the coming year will see a major drive towards finding appropriate partners for at least part of the neurotherapy portfolio.

**strong intellectual property
underpins all of our products**

Corporate developments

Oxford BioMedica has further improved its operational efficiency in 2003 and since the year end. The patent estate has been expanded in several areas and new commercial opportunities have opened for the LentiVector technology. Further rationalisation of research activities and in-house process development has enabled the Company to reduce cash consumption and report reduced losses for the year. Going forward, the successful rights issue in 2003 has strengthened the balance sheet and places the Company in an excellent position to pursue its clinical and commercial goals.

FINANCE

The Company's financial position has improved significantly in 2003. The net cash outflow before management of liquid resources and financing (often referred to as the cash burn) was £2.0 million lower than last year at £9.6 million. The improved cash burn was achieved despite increasing by £1.5 million the amount spent on external clinical and preclinical development.

This reflects the Company's continuing careful management of resources, as well as some successes in 2003 in increasing turnover and grant income. The net loss after tax was £10.7 million (2002: £11.7 million).

The successful rights issue in October 2003 raised new funds of £20.4 million net of expenses. The year-end bank balance of £31.8 million

is sufficient to fund the Company's presently planned activities into 2007, *even in the absence of revenue or other new sources of funds*. Already in 2004, the Company is ahead of these financial projections, following the announcement of a licence agreement with Merck & Co, and further revenue from licensing and commercial deals is anticipated.

Corporate developments

Oxford BioMedica's patent estate continues to strengthen with four new patents filed during 2003 and thirteen granted. Of particular note is the issue of a third LentiVector patent by the US patent office in December 2003. This patent, together with previously awarded patents in the USA and Europe, establish Oxford BioMedica as a dominant force in the lentiviral vector field.

INTELLECTUAL PROPERTY

In a biotechnology company the foundations of shareholder value reside in the intellectual property portfolio. Oxford BioMedica's patent estate continues to strengthen with four new patents filed during 2003 and thirteen granted. Of particular note is the issue of a third LentiVector patent by the US patent office in December 2003. This patent, together with previously awarded patents in the USA and Europe, establish Oxford BioMedica as a dominant force in the lentiviral vector field.

The Company's lentiviral vector patent estate is important for the in-house development of LentiVector-based products but it has also become

relevant in the context of technology deals in this field following recent court decisions in the US. In two recent cases in the US courts (*Integra Lifesciences, Ltd. v. Merck KGaA*, 331 F.3d 860 (Fed. Cir. 2003) and *Madey v. Duke University*, 307 F.3d 1351 (Fed. Cir. 2002)) the ability to claim research exemption from patent infringement narrowed significantly. The Company believes that this provides an opportunity to secure valuable revenue through the granting of research licenses to pharmaceutical and biotechnology companies that use lentiviral vectors. Several companies have approached Oxford BioMedica for research licenses. The first of these was agreed with Merck & Co on 5 February 2004.

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CHANGES TO THE BOARD

Having served on the Board of Oxford BioMedica for six years, Andy Allars resigned on 2 March 2004 in compliance with the recommendations of the new *Combined Code on corporate governance*. Replacing him is Nick Rodgers, a former investment banker with considerable experience in the life sciences sector. Nick now works as an independent consultant, having been Head of Life Sciences and Joint Head of Corporate Finance at Evolution Beeson Gregory until December 2003. Nick joined Beeson Gregory in 1989 from accountants Ernst & Young, having also worked in the Listing Department of the London Stock Exchange.

The transfer, during 2003, of the Company's LentiVector production technology to Cobra Biomanufacturing was a major step towards the commercialisation of the neurotherapy pipeline. The Company has signed a contract with Cobra for the GMP production of ProSavin and Cobra may be contracted to manufacture more of the Company's LentiVector products

in the future. The Company believes that working with Cobra is a more cost effective strategy than developing manufacturing capabilities in-house, at least for the foreseeable future. This development, together with the commitment of the Company to remain focussed on its current pipeline has allowed further rationalisation of resources in San Diego. The Company retains a strong US business development and intellectual property capability but has closed its process development and manufacturing unit. This will have no adverse impact on product timelines but will result in a net saving of more than £1.0 million per annum. As a result of the changes in San Diego, Doug Jolly has resigned from the Board but will be retained by the Company to explore additional commercial opportunities for the LentiVector technology.

We thank Andy and Doug for their contribution to the development of Oxford BioMedica and we welcome Nick to the team.

Conclusion

In 2003, Oxford BioMedica has made excellent progress with its clinical and preclinical pipeline while maintaining costs at levels below those of 2002 and well within budget. With a strengthened balance sheet from the October rights issue, the Company is in a strong position to achieve its goals of bringing novel medicines to market for unmet disorders in oncology and neurobiology.

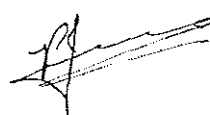
A particularly gratifying development over 2003, has been the extent to which external companies and funding agencies are 'buying in' to the Oxford BioMedica story and contributing, financially and in kind, to the development of the Company's products. In particular, Wyeth, Intervet, Cancer Research UK, the US Southwest Oncology Group, the US Foundation Fighting Blindness, the US ALS Association and FightSMA are all adding substantial real value to Oxford BioMedica either through the work that is going on in their own laboratories and clinics or through direct funding. It is worth noting that, in the case of the non-commercial funding agencies, that value is added without the Company losing any commercial rights. Oxford BioMedica will continue to pursue charitable and government funding

in order to maximise the value of a product prior to licensing out to a commercial partner.

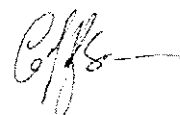
The progress of the product pipeline in 2003 has expanded the Company's commercial business development efforts. Discussions are ongoing with multiple potential partners for TroVax and a new marketing drive is underway for the neurotherapy portfolio. The Company's objective is to secure, in the next two years, a series of out-licensing deals which could generate substantial licensing income. However, the timing of such deals is difficult to predict, which was one of the main reasons for raising additional funds in 2003.

It is also pleasing to see the Oxford BioMedica share price recover from its lows of early 2003. As valuations

in the biotechnology sector continue to recover, the Company will strive to deliver shareholder value through success in product development and in business development. We are grateful to those shareholders who have been with us over the years and to the new shareholders who joined us at the time of the rights issue in October. Finally, as ever, we thank our remarkable staff for their continued dedication and professionalism.



Dr Peter Johnson
CHAIRMAN



Professor Alan Kingsman
CHIEF EXECUTIVE OFFICER



**deriving value
through our partnerships
and collaborations**

Board of Directors

PETER JOHNSON PHD NON-EXECUTIVE CHAIRMAN

Dr Peter Johnson, age 67, has been a non-executive director of Oxford BioMedica since 1999, and non-executive Chairman since January 2001. He has extensive R&D experience with Wellcome, Hoechst, SmithKline, Fisons and Astra. He was formerly chairman and managing director of SmithKline and French Research Ltd and group main board director of R&D worldwide for Fisons plc. A former director of Quadrant Healthcare plc and Proteus Molecular Design Ltd, he is currently chairman of Sterix Ltd and a non-executive director of CeNeS Pharmaceuticals plc. He is Chairman of Oxford BioMedica's audit and remuneration committees.

ALAN KINGSMAN MA PHD CHIEF EXECUTIVE OFFICER

Professor Alan Kingsman, age 53, is a co-founder of Oxford BioMedica and has been its Chief Executive Officer since 1996. He is an internationally recognised authority on gene expression and retrovirus research and has over 20 years' experience in this field, including 17 years as co-director (with Susan Kingsman) of the Retrovirus Molecular Biology Group within the Biochemistry department of the University of Oxford. He continues to hold the title of Professor of Biochemistry at Oxford University and is a former fellow of St Catherine's College, Oxford. He has published extensively in the field and is named inventor on numerous patent applications and issued patents. He has acted as an advisor or consultant to UK research councils, WHO and a number of UK and international companies.

SUSAN KINGSMAN MA PHD SENIOR VICE PRESIDENT: RESEARCH

Professor Susan Kingsman, age 51, is a co-founder of Oxford BioMedica, and has been a director of the Company since 1996. She has over 20 years' experience in virology, gene expression and retrovirus biology, including as co-director with Alan Kingsman of the Retrovirus Molecular Biology Group at Oxford University. She continues to hold the title of Professor of Molecular Genetics at Oxford University and is a former fellow of Trinity College, Oxford. She has published extensively in the field and is named inventor on numerous patent applications and issued patents. She advises research council and research charity committees and has been a consultant for a number of pharmaceutical and biotechnology companies.

ANDREW WOOD CHIEF FINANCIAL OFFICER

Andrew Wood, age 45, has been a director of Oxford BioMedica since 1996. He is a chartered accountant with wide experience of financial management in a number of industries. He also holds a first class degree in biochemistry from Oxford University. Before joining Oxford BioMedica he was finance director at the Yorkshire Cable Group (part of General Cable plc). Previously, he has held senior financial positions with subsidiaries of the Burton Group (now Arcadia plc), Associated Newspapers, and Fenner plc.

Oxford BioMedica's Board of Directors has the depth of experience in research, development, intellectual property management, manufacture, business development and finance needed to effectively manage a leading-edge biotechnology company in today's challenging environment.

PETER NOLAN

SENIOR VICE PRESIDENT:

COMMERCIAL DEVELOPMENT

Peter Nolan, age 50, was appointed to the board of Oxford BioMedica in May 2002, having been a senior member of the Company since its foundation. He is also a director of the UK BioIndustry Association and is a past chairman of the Oxfordshire Bioscience Network. He has broad experience and knowledge of the biotechnology sector. Prior to joining Oxford BioMedica, he was head of the *Biotechnology Unit* at the UK Department of Trade & Industry for eight years. In that role he was responsible for establishing and managing complex collaborative research programmes involving industry, research councils and other government departments. Previously he held senior positions in the Laboratory of the Government Chemist and also the Metropolitan Police Laboratory in London where he was a senior forensic scientist.

MARK BERNINGER

NON-EXECUTIVE DIRECTOR

Mark Berninger, age 55, joined the board of Oxford BioMedica in 1999. He has wide experience in the biotechnology industry in the US, including as vice-president of *business development* at Genetic Therapy Inc. (GTI). Prior to joining GTI he held a similar position at Gen-Probe Inc. and was director of intellectual property and technology acquisition at Life Technologies Inc. between 1989 and 1995. He is currently president and chief executive officer of AnhydroCyte Corporation.

RAJ UPPAL

NON EXECUTIVE DIRECTOR

Raj Uppal, age 41, joined the board of Oxford BioMedica in February 2001. He is a Chartered Accountant, and is currently chief executive officer of Quadrant Technologies Limited, having led a management buy-out of a UK-based drug delivery business from Elan Corporation plc. He was *previously a senior vice president* within Elan Enterprises, and was finance and commercial director of Quadrant Healthcare plc until its acquisition in December 2000 by Elan Corporation. Prior to joining Quadrant Healthcare in 1996 he was deputy chief executive of Ferry Pickering Group plc. He is a member of Oxford BioMedica's audit and remuneration committees.

NICK RODGERS

NON EXECUTIVE DIRECTOR

Nick Rodgers, age 45, joined the board of Oxford BioMedica in March 2004. He is a former investment banker with considerable experience in the life sciences sector. He now works as an independent consultant, having been head of life sciences and *joint head of corporate finance* at Evolution Beeson Gregory until December 2003. Nick joined Beeson Gregory in 1989 from accountants Ernst & Young, having also worked in the listing department of the London Stock Exchange. He is a member of Oxford BioMedica's audit and remuneration committees.

The Scientific Advisory Board

The members of the Scientific Advisory Board at Oxford BioMedica are experts of international repute and enable the Company to access the highest quality advice and guidance. In addition, collaborative programmes have been established with a number of key individuals, including members of the SAB who can contribute practical expertise and intellectual property to our gene delivery technology, our regulatory affairs and in our core areas of therapeutic focus.

PROFESSOR PATRICK AEBISCHER

Professor Aebischer is an MD by training and is presently Professor of Neurosciences and President at the Swiss Federal Institute of Technology in Lausanne, Switzerland. He is an internationally recognised leader in the area of gene therapy for neurodegenerative diseases. He has conducted gene therapy clinical trials for various neurological diseases and is currently focusing his interest in the application of lentiviral vectors for neurodegenerative diseases, including Parkinson's disease, Huntington's disease and motor neuron diseases. He advises Oxford BioMedica on the utilisation of ElAV vectors for application within the nervous system.

DR KRYS BANKIEWICZ MD PHD

Dr Bankiewicz is Professor of Neurological Surgery at the University of California and Scientist at Lawrence Berkeley National Laboratory, USA. Dr Bankiewicz is internationally recognised for his work on gene and cell delivery into the central nervous system. His main area of expertise focuses on *in vivo* models of Parkinson's Disease, neuroimaging, the dopaminergic system and convection enhanced delivery of viral vectors in the brain. He advises the Company on preclinical aspects of gene transfer technology.

PROFESSOR BEVERLY L DAVIDSON PHD

Professor Davidson is Roy J Carver Professor of Internal Medicine, Physiology, Biophysics and Neurology, University of Iowa College of Medicine, USA. Professor Davidson is internationally recognised for her work on viral mediated gene transfer to the eye and brain, as well as to peripheral organs including the liver, lung and muscle. Her major research focus is vector development with particular emphasis on therapies for diseases of the central nervous system. She advises Oxford BioMedica in its activities on vector biology and vector host interactions, and applications of recombinant retroviruses for neurodegenerative disease gene therapy.

PROFESSOR MARY COLLINS PHD
Professor Collins is Professor of Immunology at the Department of Immunology based at the Windeyer Institute for Medical Research at University College London, UK. She has made major research contributions in the areas of retrovirus biology and tumour biology and has also been closely involved in a gene therapy clinical trial. Her team is collaborating with Oxford BioMedica to develop improved vector production strategies.

PROFESSOR ADRIAN L HARRIS BSC DPHIL MBCHB FRCP
Professor Harris is Professor of Clinical Oncology and Director of the Cancer Research UK Medical Oncology Unit at the Churchill Hospital, Oxford. A leading authority on cancer therapies, including gene therapy, Professor Harris provides strategic clinical direction for the development of gene-based therapeutics for optimal integration with current and new anti-cancer treatment regimes. His research has led to a technique utilising a novel gene-switch mechanism (hypoxia response element) that will selectively activate genes in solid tumours, and which Oxford BioMedica has acquired. He has been the Principal Investigator in the Company's clinical trials of MetXia in breast cancer.

DR J WILLIAM LANGSTON

Dr Langston is the founder, Scientific Director and Chief Operating Officer of the Parkinson's Institute in Sunnyvale, California. He is internationally recognised for the discovery of the link between MPTP and parkinsonism, which has provided an entirely new tool to study neurodegeneration in Parkinson's disease and stimulated great interest finding environmental factors that may cause the disease. His current research interests include the study of mechanisms of neuronal degeneration, the aetiology of Parkinson's disease, and the development of new strategies to slow or halt disease progression. Dr Langston serves on numerous editorial boards and advisory committees and is Chief Scientific Advisor for Michael J Fox Foundation for Parkinson's Disease Research.

PROFESSOR NIALL QUINN MA MD FRCP

Professor Quinn is a clinical academic specialising in movement disorders at the Institute of Neurology and the National Hospital for Neurology and Neurosurgery, London, UK. He is a member of NECTAR (Network for European CNS Transplantation and Restoration), and was Project Leader on the NEST-HD (European Network for Striatal Transplantation in Huntington's Disease) Concerted Action, 1994-1997. He is currently Secretary of the International Movement Disorder Society. He has been involved since 1992 in collaborative clinical work on embryonic neuronal transplantation in Parkinson's disease with Professor Olle Lindvall in Lund University, Sweden.

DR PETER L STERN

Dr Stern is Head of the Cancer Research UK Department of Immunology at the Paterson Institute for Cancer Research. He is an expert in tumour immunology and is involved in numerous international collaborations in research and clinical oncology. His team is working with the Company to develop novel tumour targeting technologies that have been licensed to Oxford BioMedica by Cancer Research's technology transfer company.

PROFESSOR DAVID J WAXMAN

Professor Waxman is Professor of Cell and Molecular Biology at Boston University and Professor of Medicine at Boston University, School of Medicine. He is a leading authority on cytochrome P450 enzymes and genes, and on their role in metabolism leading to bioactivation of anti-cancer drugs. He has made major contributions to the development of P450-based prodrug activation strategies for cancer gene therapy, and he is working with Oxford BioMedica to carry these P450-based technologies through to the clinic.

Financial review

The continuing close review of expenditure has delivered more resources to the Company's key clinical and preclinical programmes.

FINANCIAL OVERVIEW

In 2003, Oxford BioMedica improved its financial position and outlook. The continuing close review of expenditure has delivered more resources to the Company's key clinical and preclinical programmes, while the overall cash outflow and net loss have been reduced. The amount of grant income increased, and, while still modest at this stage, turnover from licensing deals was also higher. Most importantly, through the rights issue in October 2003, the Company brought in additional cash of £20.4 million, net of expenses. As a result of this financing, the £31.8 million of cash in the 31 December 2003 balance sheet is sufficient to cover the Company's planned activities well into 2007, without any further sources of funds, and enables commercial discussions with potential partners to progress from a position of financial strength.

The Company reported in the 2002 annual report that it had curtailed early-stage research and development activities and reduced headcount to 81 at the end of 2002. Continuing the emphasis on the clinical and preclinical development of later-stage products, the cost-base has been rationalised further in 2003. Without compromising the output from the core programmes, the group headcount was reduced at 31 December 2003 to 61 (51 in Oxford, UK and 10 in San Diego, USA). Subsequent to the year-end, in 2004 the Company has initiated a further rationalisation of the US activity to improve operational efficiency.

2003 RESULTS

The net cash outflow before management of liquid resources and financing (often referred to as the cash burn) in 2003 was £2.0 million lower than last year at £9.6 million (2002: £11.6 million). Both operational expenditure and capital expenditure were lower in 2003.

The net loss for the year after tax was £1.0 million less than last year at £10.7 million (2002: £11.7 million). The net loss attributable to UK operations was £7.5 million (2002: £8.3 million), with the net loss from US operations £3.2 million (2002: £3.4 million). Due to the weakening US dollar, currency translation differences on foreign currency net investments in the US subsidiary in 2003 were £0.2 million (2002: £0.4 million), and the total recognised losses for the year were £10.9 million (2002: £12.1 million).

Operating expenses in 2003 were £13.7 million (2002: £14.3 million). Administration expenses were £0.5 million lower than last year at £2.9 million (2002: £3.4 million) and research and development costs were unchanged at £10.8 million (2002: £10.8 million). Within research and development costs, expenditure on external clinical and preclinical development was £1.5 million higher than last year, reflecting a greater focus on the lead programmes matched by a rationalisation of in-house research costs.

Grant income in 2003 was £0.7 million (2002: £0.1 million). The increase is attributable to three new grants in 2003: a UK government Eureka grant related to the TroVax programme, a UK government Link grant related to the Innurex programme and a grant from the US charity FightSMA, related to the SMN-1G programme.

Revenue of £0.4 million in 2003 (2002: £0.2 million) was principally from option fees, triggered by the achievement of a preclinical milestone under the Wyeth cancer antibody collaboration.

Interest receivable on bank deposits was £0.7 million (2002: £1.1 million). Despite the additional funds from the rights issue in October 2003, the average balance held on deposit in 2003 was lower than in 2002, and prevailing interest rates have been lower. Due to the timing of the maturity of bank deposits in 2002, the cash received from bank interest in 2003 (£0.6 million) was £0.9 million lower than last year (2002: £1.5 million).

The tax credit for 2003 of £1.2 million (2002: £1.3 million) comprises mainly the UK Research and Development Tax Credit.

There were no major capital expenditure projects initiated in 2003, and capital expenditure in the year was insignificant at less than £0.1 million (2002: £1.3 million).

ISSUES OF SHARES

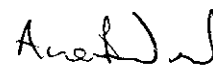
In September 2003 the Company announced its intention to raise additional capital through a fully underwritten 27 for 50 rights issue at 17p per share. The rights issue was approved by shareholders at an extraordinary general meeting on 2 October 2003, and was successfully closed at the end of October. Acceptances under the rights issue were received for 85.6 million shares (66% of the total available) with the balance of 44.2 million shares placed by Collins Stewart at a small premium to the rights price. Before costs, the rights issue raised £22.1 million. Costs associated with the issue were £1.7 million, and the net proceeds were £20.4 million.

0.3 million shares were issued to EntreMed in September 2003 at an agreed valuation of 26.075p per share as part of the consideration for the grant by EntreMed of a licence for the use of its proprietary anti-angiogenic genes endostatin and angiostatin. These genes are used in the RetinoStat programme for the treatment of vision loss.

During 2003, the Company issued a total of 1.4 million shares on the exercise of share options by employees and former employees, raising net proceeds of £0.1 million. New options over 2.5 million shares were granted in 2003, and in accordance with the relevant option scheme rules, following the rights issue in October 2003, existing options were adjusted by 5.55%, increasing the number of options by 1.2 million. 6.1 million options lapsed in 2003, mostly connected with the reduction in staff numbers. At 31 December 2003, the number of options outstanding was 23.2 million, an overall reduction of 3.8 million.

FUTURE PROSPECTS

The Company's strong financial position as a result of funds raised in 2003, continuing careful control of expenditure, and the maturing of the portfolio of candidate products in 2003 to a stage where its business development potential is higher than ever, puts it in a potentially very exciting position over the coming months and years. Even without revenue from existing or future commercial deals, the present cash is sufficient to fund currently projected activities into 2007. This financial projection has already been exceeded, as a new licence agreement was signed with Merck & Co in February 2004, which will result in an upfront payment and annual licence fees. Oxford BioMedica anticipates receiving further funds from existing deals, and expects to sign new deals in the future. The Company therefore looks to the future with increased optimism and confidence.



Andrew Wood
CHIEF FINANCIAL OFFICER

Directors' report

for the year ended 31 December 2003

The directors present their report and the audited financial statements for the year ended 31 December 2003.

Principal activity

Oxford BioMedica (LSE: OXB) is a biopharmaceutical company specialising in the development of gene-based products for a range of unmet medical needs with a focus on oncology and neurotherapy. The products are protected by multiple patents comprising a total intellectual property portfolio of approximately 70 patent families.

In addition to its technical research skill-base, Oxford BioMedica has in-house clinical, regulatory and manufacturing know-how. The development pipeline includes two novel anti-cancer products in clinical trials and a gene-based treatment for Parkinson's disease, which is in advanced preclinical studies.

TroVax, Oxford BioMedica's lead cancer immunotherapy product, has completed Phase I/II clinical trials, and is currently in Phase II trials for colorectal cancer and renal cancer. Further Phase II trials in colorectal cancer are pending, and a Phase II trial for breast cancer is planned. MetXia, Oxford BioMedica's lead gene-based cancer therapeutic, is based on a highly engineered retrovirus gene delivery system expressing a specific human cytochrome P450 gene. MetXia has completed Phase I/II trials in breast cancer, and is now in a Phase I/II clinical trial in pancreatic cancer.

Oxford BioMedica has a wholly owned subsidiary in San Diego, USA. The Group has corporate collaborations with Wyeth, Intervet, Amersham, Merck & Co, Arius Research and Kiadis.

At 31 December 2003 the Group had a staff of 61 at its facilities in Oxford and San Diego. In January 2004 the Group undertook a rationalisation of its US operations (see note 25).

Further information is available at <http://www.oxfordbiomedica.co.uk>

Review of the business and future developments

The consolidated profit and loss account for the year is set out on page 34. A review of the Group's activities and future developments is contained within the Chairman's and Chief Executive's Report on pages 1 to 16 and the Financial Review on pages 22 and 23.

Dividends

The directors do not recommend payment of a dividend. (2002: nil)

Group research and development activities

During the year the Group incurred expenditure of £10,773,000 on research and development (2002: £10,833,000), all of which was written off to the profit and loss account.

Charitable donation

During the year the Group made a contribution of £1,500 (2002: £1,500) to a charitable organisation in the UK.

Directors

The directors of the Company at 31 December 2003, who had been directors for the whole of the year then ended, were:

Andrew J Allars	Non-Executive Director
Mark Berninger	Non-Executive Director
Dr Peter Johnson	Non-Executive Chairman
Dr Doug J Jolly	Chief Executive Officer: BioMedica Inc.
Professor Alan J Kingsman	Chief Executive Officer
Professor Susan M Kingsman	Senior Vice President: Research
Peter J Nolan	Senior Vice President: Commercial Development
Raj Uppal	Non-Executive Director
Andrew B Wood	Chief Financial Officer

On 2 March 2004 Andrew Allars and Doug Jolly resigned as directors, and Nick Rodgers was appointed as a non-executive director.

All directors are subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of not more than three years. The following directors will retire at the 2004 Annual General Meeting and will be offering themselves for re-election:

- Mark Berninger will retire in accordance with article 93 of the Company's articles of association. Mark Berninger's appointment is subject to three months' notice.
- Alan Kingsman will retire in accordance with article 93 of the Company's articles of association. Alan Kingsman's contract of employment is subject to twelve months' notice.

- Andrew Wood will retire in accordance with article 93 of the Company's articles of association. Andrew Wood's contract of employment is subject to twelve months' notice.
- Nick Rodgers, who was appointed on 2 March 2004, will retire in accordance with article 99 of the Company's articles of association. Nick Rodgers' appointment is for a period of three years, and is subject to three months' notice.

Biographical details of all the directors, including those submitted for re-election are given on pages 18 and 19.

The interests of the directors at 31 December 2003 in the share capital of the Company are disclosed in the report of the remuneration committee on pages 28 to 32.

Employees

The Group communicates and consults regularly with employees throughout the year. Employees' involvement in the Group's performance is encouraged, with all employees participating in share option schemes, and certain employees participating in bonus schemes.

The Group's aim for all members of staff and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity regardless of sex, religion or ethnic origin. The Group does all that is practicable to meet its responsibility towards the employment and training of disabled people.

Health and safety

The Group is committed to providing and maintaining a safe working environment for all its employees. Health and safety procedures are subject to external review.

Environmental policy

The Group carries out environmental monitoring in order to meet regulatory and statutory requirements. The Group is committed to minimising the impact of its activities on the environment.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2003. The directors also confirm that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Group's website, www.oxfordbiomedica.co.uk is the responsibility of the directors. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Substantial shareholdings

At 20 February 2004 the Company had been notified of the following shareholdings amounting to 3% or more of the ordinary share capital of the Company.

Shareholder	Number of ordinary shares	Percentage of issued share capital
GNI Limited	40,866,598	11.02%
Prelude Trust plc	22,337,346	6.02%
M&G Investment Management	18,480,000	4.98%
Global Asset Management Limited	14,591,200	3.93%

No other person has reported an interest in the ordinary shares of the Company required to be notified to the Company.

Creditor payment policy

The Company and its subsidiaries agree the terms of payment when agreeing the terms and conditions for their transactions with suppliers. Payment is made in compliance with those terms, subject to the terms and conditions of the relevant transaction having been met by the supplier. The Group's average creditor payment period at 31 December 2003 was 16 days (2002: 16 days).

Corporate governance

Application of the principles in the Combined Code

The policy of the board is to manage the affairs of the Group to the highest standards of corporate governance and in accordance with the principles of good governance and the code of best practice as set out in the combined code (the 'Combined Code') annexed to the Financial Services Authority Listing Rules.

The board considers that it has complied throughout the year with the provisions for companies set out in Part 1 of the Combined Code, unless otherwise indicated below. The new Combined Code, issued on 23 July 2003, will apply to the Company's 2004 annual report. The Company expects to comply with the new Combined Code in 2004.

Compliance with the provisions of the Combined Code

The board

The Group is led and controlled by a board consisting of four independent non-executive directors and, since 2 March 2004, four executive directors. Until 2 March 2004 there were five executive directors. As set out in their biographies on pages 18 and 19, the directors have significant experience of the management and development of a biopharmaceutical group and of pharmaceutical research and the new drug development process. There is a clear division of responsibilities between the Chairman and Chief Executive Officer. The board considers all of the non-executive directors to be independent of management, notwithstanding any interests in the share capital of the Company that they may have.

The board meets regularly and at least eight times per year, with meeting dates agreed for each year in advance. There is a formal schedule of matters reserved to the board for its decision. The schedule covers senior appointments, business strategy and budgets, substantial transactions, contracts and commitments, financing treasury and risk policies, and the approval of certain documents and announcements including the annual report. There is frequent contact between executive and non-executive directors, and each director is supplied on a timely basis with financial and operational information sufficient for the board to discharge its duties. All directors have access, as required, to independent professional advice.

As appropriate, the board has delegated certain responsibilities to board committees, which operate within defined terms of reference and constitution. There is a remuneration committee, the report of which is on pages 28 to 32, and an audit committee.

The audit committee consists of three non-executive directors, Dr Peter Johnson (Chairman), Nick Rodgers and Raj Uppal. Nick Rodgers replaced Andrew Allars on 2 March 2004. The Company considers that the members of the audit committee possess recent and relevant financial experience. The audit committee has written terms of reference. It monitors the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them. It reviews the Company's internal financial controls and the internal control and risk management systems. It makes recommendations to the board, for it to put to shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditors, and approves the remuneration and terms of engagement of the external auditors. It reviews and monitors the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. It develops and implements policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm. It reports to the board, identifying matters in respect of which it considers that action or improvement is needed, making recommendations as to the steps to be taken. The audit committee also reviews arrangements by which staff of the Company may raise concerns about possible improprieties, and reviews annually the need for an internal audit function. The Chief Executive Officer and Chief Financial Officer may be in attendance at meetings of the audit committee.

Due to the size of the board, the directors do not consider it necessary to have a nomination committee as suggested by provision A.5.1 of the Combined Code. The appointment of directors is therefore considered by the whole board. In accordance with the articles of association, at each annual meeting any director who has served for three years, and one third of the other directors (or if their number is not a multiple of three the number nearest to but not exceeding one third) must retire from office by rotation. Up to now, the Company's articles of association have exempted the Chief Executive Officer from retirement by rotation. A resolution will be put to the 2004 annual general meeting to remove this exemption, and the Chief Executive Officer is offering himself for re-appointment at the 2004 annual general meeting.

Having considered the independence of the Chairman and the size of the board, the Company has not appointed a senior independent director as required by provision A.2.1. The need for a senior independent director will be reviewed in 2004. In 2004 a formal process of rigorous annual evaluation of the performance of the board, the committees and the individual directors will be introduced.

The board retains overall responsibility for, and control of, the Group. Management is conducted by the Chief Executive Officer and the executive directors who, together with other senior managers, form the executive management group. Until the restructuring of the US operation in 2004, the Chief Executive Officer of BioMedica Inc. was responsible to the board for monitoring activities in the US. Following the resignation of Dr Doug Jolly on 2 March 2004, the continuing US activities will be integrated into the UK management structure. Executive directors sit on the following committees and management groups:

the executive management group, the executive research group, the clinical development group, the safety committee, the commercial development committee and the internal patent group. By this means, a direct and ongoing link exists between the determination of strategy by the board and the execution of Group policies by the Group's employees.

The Scientific Advisory Board ('SAB')

The SAB is a body of independent experts comprising a multidisciplinary group of leading international scientists. Its role is to assist the Group with the assessment of its existing and potential research and development projects. The SAB provides access to a large academic and industrial network to add value to the Group's projects, including by collaboration where appropriate and by evaluating new strategies and competitors. Biographical details of the SAB are on pages 20 and 21.

Relations with shareholders

Oxford BioMedica attaches a high priority to effective communication with both private and institutional shareholders. The annual report contains a full business review and a description of the candidate products and of the research and development portfolio. An interim business review is also provided with the half-year report sent to all shareholders. With these documents and the Group's press releases, the board seeks to present a balanced and understandable assessment of the Group's position and prospects. The Group's website (www.oxfordbiomedica.co.uk) provides extensive other information about the Group.

The annual general meeting is the principal forum for dialogue with private shareholders. A business presentation is made by the Chief Executive Officer and there is an opportunity for shareholders to put questions to the directors. Oxford BioMedica maintains regular contact with institutional shareholders through a programme of one-to-one visits and briefings.

Internal control

The directors are responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss. As described above, the active involvement of the executive directors in the Group's management groups and committees allows the board to continually monitor and assess significant business, operational, financial, compliance and other risks, and to review the effectiveness of internal control. This is reinforced by the provision to the board by the executive directors of regular and detailed reports covering, *inter alia*, financing, investor relations, research and development, clinical development, financial performance, commercial interactions and intellectual property management. In addition the board annually reviews the effectiveness of all significant aspects of internal control.

The Group has procedures in place which incorporate the recommendations on Internal Control: Guidance for Directors on the Combined Code (Turnbull).

Internal audit

The Group does not consider that an internal audit function is appropriate given the current scale and complexity of its operations. The board reviews the need for an internal audit function each year.

Going concern

Oxford BioMedica plc is a research and development based business with no currently marketed products. It expects to incur further losses as it continues to develop its portfolio of candidate products and related technology, and may require additional financing for the future operation of its business, including further equity funding as appropriate, before it reaches sustained profitability.

After making suitable enquiries, the directors confirm that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

BIA code

The UK BioIndustry Association ('BIA'), of which the Company is a member, adopted a code of best practice in 1999. The BIA code includes principles and provisions relating to corporate governance matters, access to external advice, confidentiality, dealings in the Company's shares and standards of public announcements. It is intended to operate by reference to the particular circumstances of bioscience companies in support of the Combined Code and the rules of the Financial Services Authority. Throughout 2003 the Company has complied with the relevant provisions of the BIA code.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting.

By order of the board



Andrew Wood

Company Secretary

Report of the remuneration committee

Only paragraphs marked with “*” within this report have been audited.

The remuneration committee comprises three non-executive directors, Dr Peter Johnson (Chairman), Nick Rodgers and Raj Uppal. Nick Rodgers replaced Andrew Allars on 2 March 2004. The remuneration committee determines, on behalf of the board, the Company's policy for executive remuneration and the individual remuneration packages for the executive directors including the grant of share options. The Chief Executive Officer may be in attendance at the meetings of the remuneration committee. The committee has access to professional advice, both inside and outside the Company.

Remuneration policy

The company's policy on remuneration is to attract, retain and incentivise the best staff in a manner consistent with the goals of corporate governance. In setting the Company's remuneration policy, the remuneration committee considers a number of factors, including the basic salaries and benefits available to executive directors of comparable companies.

Remuneration of executive directors

Consistent with this policy, the Company's remuneration packages awarded to executive directors are intended to be competitive and comprise a mix of performance-related and non-performance-related elements. There is a discretionary bonus scheme, subject to the achievement of agreed goals and targets, for executive directors which is designed to incentivise them to perform at the highest levels and to align their interests with those of the shareholders. In 2003, 20% of the performance-linked remuneration was assessed on overall measures of company performance, including share price. The balance was based on individual job-specific assessments. The performance-linked remuneration of the Chief Executive Officer is determined by the average of the assessments for the other executive directors. The targeted composition of each director's remuneration is as follows:

	Non-performance related	Performance related
Andrew Allars	100%	0%
Mark Berninger	100%	0%
Dr. Peter Johnson	100%	0%
Dr. Doug Jolly	71%	29%
Professor Alan Kingsman	71%	29%
Professor Susan Kingsman	83%	17%
Peter Nolan	83%	17%
Raj Uppal	100%	0%
Andrew Wood	83%	17%

In 2003, bonuses of between 9 and 34 per cent of basic salary were paid to the executive directors.

Benefits, detailed in the table of directors' emoluments, comprise healthcare insurance and the provision of a company car. Where a director has elected not to have a company car, a cash equivalent is included in the director's salary.

The Company makes contributions to defined contribution personal pension schemes for the executive directors other than Dr Doug Jolly.

Share options have been granted to employees, including executive directors and the Chairman, to reward past performance. The exercise price for these share options is the average mid-market price of the Company's ordinary shares for the three trading days prior to the date of grant. Details of share options outstanding at 31 December 2003 are given in note 17 to the financial statements. Share options become exercisable between one and four years from the date of grant, and cease to be exercisable between seven and ten years from the date of grant. The award of share options is at the discretion of the remuneration committee. There were no performance-based conditions for the exercise of share options granted up to April 2001. For all share options granted to directors after April 2001, the options are exercisable only if at the time of exercise, or for at least 12 months in the three years before exercise, the percentage increase in Oxford BioMedica plc's Total Shareholder Return since the grant of the option exceeds the percentage increase in the FTSE techMARK mediscience index.

No directors exercised options during 2003. A former director, Dr Neill MacKenzie, who resigned from the board on 30 November 2002, exercised options over 794,343 shares in May 2003. The profit on exercise (market value of the shares less the exercise price) was £2,365. Options held by Dr MacKenzie over a further 1,351,332 shares lapsed on 31 May 2003. A total of 525,892 options held by Peter Nolan and Andrew Wood that had been granted in November 1996 lapsed in November 2003.

Following the rights issue in October 2003, a total of 629,000 share options were awarded to certain executive directors. These options are exercisable at a price of 19.25p per share between three and seven years from the date of grant, subject to the performance-based condition described above.

In addition, in accordance with the rules of the relevant share option schemes and agreements, following the rights issue, an adjustment was applied to share options (including those held by directors) that were outstanding on 2 October 2003. The adjustment increased the number of shares subject to the options by 5.55% (rounded down to the nearest whole number) and reduced the exercise price by 5.55% (rounded up to the nearest whole penny).

Remuneration of non-executive directors

The fees paid to the non-executive directors are determined by the board. Non-executive directors do not receive pension contributions or a bonus. Generally, non-executive directors do not participate in the Company's share option schemes. However, following his appointment as Chairman in 2001, Dr Peter Johnson was awarded 200,000 share options (increased by 5.55% in October 2003 following the rights issue, as described above). These options do not comply fully with recommendations introduced by the new Combined Code requiring shareholder approval and a period of retention for shares acquired on the exercise of share options. The Company does not consider it appropriate to revise the terms of this share option retrospectively.

The Chairman and other non-executive directors have appointments that are for three years unless terminated by three months' written notice by either party. Non-executive directors' appointments may be renewed by mutual agreement. Non-executive directors would not normally be expected to serve more than two three-year terms. For this reason, the renewal of the Chairman's appointment in January 2004 was for a period of approximately 19 months, which would take his service as a non-executive director, and latterly as non-executive chairman, to a total of six years.

Directors' service contracts

It is Oxford BioMedica plc's policy that directors' service contracts should be no more than three years in duration, that they should have notice periods of not more than one year and that the contractual termination payments should not exceed the director's current salary, benefits and bonus entitlement for the notice period.

The details of service contracts of those who served as directors during the year are:

	Contract dates	Unexpired term	Notice period	Contractual termination payments
Andrew Allars	25 March 2001	Not applicable ¹	3 months	Notice period only
Mark Berninger	7 January 2002	10 months	3 months	Notice period only
Dr. Peter Johnson	1 January 2004	1 year 4 months	3 months	Notice period only
Dr. Doug Jolly	25 May 2001	Not applicable ¹	12 months	Notice period only
Professor Alan Kingsman	2 January 2001	nil ²	12 months	Notice period only
Professor Susan Kingsman	2 January 2001	nil ²	12 months	Notice period only
Peter Nolan	1 May 2002	nil ²	12 months	Notice period only
Raj Uppal	12 February 2004	2 years 11 months	3 months	Notice period only
Andrew Wood	31 October 1996	nil ²	12 months	Notice period only

¹ Andrew Allars and Doug Jolly resigned as directors on 2 March 2004.

² Executive directors' contracts are for an initial term of 12 months and thereafter are subject to 12 months' notice.

Directors' remuneration *

Details of individual directors' emoluments for the year are as follows:

					Year ended 31 December 2003 Total £	Year ended 31 December 2002 Total £
Name of director	Basic salary and fees £	Bonus £	Benefits £	Pension contribution £		
Executive						
Dr Paul Durrands	-	-	-	-	-	184,599
Dr Doug Jolly	134,992	11,083	7,388	-	153,463	166,495
Professor Alan Kingsman	162,570	53,359	13,650	15,694	245,273	182,890
Professor Susan Kingsman	134,445	23,108	7,682	12,838	178,073	161,128
Dr Neill MacKenzie	-	-	-	-	-	125,122
Peter Nolan	126,683	21,945	3,660	11,550	163,838	95,862
Andrew Wood	162,260	29,105	1,160	14,553	207,078	158,242
Non-executive						
Andrew Allars ¹	21,000	-	-	-	21,000	20,000
Mark Berninger ¹	19,808	-	-	-	19,808	18,631
Dr Peter Johnson ¹	36,750	-	-	-	36,750	35,000
Raj Uppal	21,000	-	-	-	21,000	20,000
	819,508	138,600	33,540	54,635	1,046,283	1,167,969

¹ These amounts represent amounts payable to third parties for the services of non-executive directors

Retirement benefits are accruing to four directors (2002: four) under Oxford BioMedica (UK) Limited's money purchase pension schemes.

Directors' interests

Interest in shares

The interests of the directors in the shares of the Company at 31 December 2003, together with their interests at 1 January 2003 were as follows:

The Company – ordinary shares of 1p each

	Number of ordinary shares	
	31 December 2003	1 January 2003
Dr Peter Johnson	154,000	100,000
Dr Doug Jolly	50,000	50,000
Professor Alan Kingsman ¹	8,603,451	8,603,451
Professor Susan Kingsman ¹	8,739,139	8,739,139
Peter Nolan	87,780	57,000
Raj Uppal	154,000	100,000
Andrew Wood	128,950	116,800

¹ Includes 210,000 (1 January 2003: 210,000) ordinary shares held jointly by Professor Alan Kingsman and Professor Susan Kingsman and 100,000 ordinary shares (1 January 2003: 100,000) held by the son of Professor Alan Kingsman and Professor Susan Kingsman.

*Interests in share options –**

The interests of the directors in options over the ordinary shares of the Company were as follows:

	Options over ordinary shares of 1p each						Exercise Price	Date from which exercisable	Expiry date
	1 January 2003	Granted in the year	Adjustment for rights issue	Exercised	Lapsed	31 December 2003			
Dr Peter Johnson	200,000	-	11,100	-	-	211,100	53.0p	17.04.04	17.04.08
Dr Doug Jolly	3,185,253	-	176,781	-	-	3,362,034	51.0p	¹ 25.05.02	25.05.11
Prof Alan Kingsman	-	180,000	-	-	-	180,000	19.25p	27.10.06	27.10.10
Prof Susan Kingsman	-	150,000	-	-	-	150,000	19.25p	27.10.06	27.10.10
Dr Neill MacKenzie	643,125	-	-	643,125	-	-	10.0p	13.11.99	13.11.03
Dr Neill MacKenzie	692,002	-	-	-	692,002	-	80.0p	13.11.99	13.11.03
Dr Neill MacKenzie	224,388	-	-	-	224,388	-	15.5p	07.04.01	07.04.05
Dr Neill MacKenzie	151,218	-	-	151,218	-	-	11.5p	24.09.01	24.09.05
Dr Neill MacKenzie	159,781	-	-	-	159,781	-	22.0p	01.04.02	01.04.06
Dr Neill MacKenzie	159,781	-	-	-	159,781	-	22.0p	17.08.02	17.08.06
Dr Neill MacKenzie	51,130	-	-	-	51,130	-	82.5p	22.03.03	22.03.07
Dr Neill MacKenzie	64,250	-	-	-	64,250	-	75.5p	27.09.03	27.09.07
	2,145,675	-	-	794,343	1,351,332	-			
Peter Nolan	221,440	-	12,289	-	233,729	-	76.0p	13.11.99	13.11.03
Peter Nolan	215,757	-	11,974	-	-	227,731	15.0p	07.04.01	07.04.05
Peter Nolan	145,401	-	8,069	-	-	153,470	11.0p	24.09.01	24.09.05
Peter Nolan	153,636	-	8,526	-	-	162,162	21.0p	01.04.02	01.04.06
Peter Nolan	153,636	-	8,526	-	-	162,162	21.0p	17.08.02	17.08.06
Peter Nolan	64,896	-	3,601	-	-	68,497	60.0p	05.04.03	05.04.07
Peter Nolan	61,779	-	3,428	-	-	65,207	72.0p	27.09.03	27.09.07
Peter Nolan	-	132,000	-	-	-	132,000	19.25p	27.10.06	27.10.10
	1,016,545	132,000	56,413	-	233,729	971,229			
Andrew Wood	276,801	-	15,362	-	292,163	-	76.0p	13.11.99	13.11.03
Andrew Wood	363,516	-	20,175	-	-	383,691	32.0p	06.08.00	06.08.04
Andrew Wood	248,552	-	13,794	-	-	262,346	15.0p	07.04.01	07.04.05
Andrew Wood	167,503	-	9,296	-	-	176,799	11.0p	24.09.01	24.09.05
Andrew Wood	530,965	-	29,468	-	-	560,433	21.0p	01.04.02	01.04.06
Andrew Wood	77,875	-	4,322	-	-	82,197	21.0p	17.08.02	17.08.06
Andrew Wood	56,636	-	3,143	-	-	59,779	79.0p	22.03.03	22.03.07
Andrew Wood	20,353	-	1,129	-	-	21,482	72.0p	27.09.03	27.09.07
Andrew Wood	-	167,000	-	-	-	167,000	19.25p	27.10.06	27.10.10
	1,742,201	167,000	96,689	-	292,163	1,713,727			

¹ 2,171,344 of the options held by Dr Doug Jolly had become exercisable by 31 December 2003. The remaining share options will become exercisable in monthly increments of 70,044 shares each month thereafter.

The market value of ordinary shares as at 31 December 2003 was 19.5p (31 December 2002: 6.25p). The market value of ordinary shares during the year ranged from 5.75p to 28.5p.

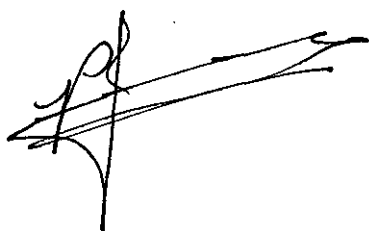
Except as detailed above, no other directors had interests in shares or share options of the Company or any other Group company at 31 December 2003. There have been no changes in the interests of the directors in ordinary shares of the Company between 31 December 2003 and the date of this report.

Comparison of five year total shareholder return

The chart shows the value of £100 invested on 31 December 1998 in Oxford BioMedica 1p ordinary shares, taking account of the rights issues in 1999 and 2003, compared to the change in the FTSE all-share index over the same period. Over the whole five year period the Company's share price has shown significant volatility, a feature shared by many small high-tech companies whose valuations are significantly influenced by investor sentiment and attitude to risk. Until April 2001 the shares were traded on the Alternative Investment Market of the London Stock Exchange. Since April 2001 they have been included in the UK Listing Authority Official List.

In the opinion of the directors, the FTSE all-share index is an appropriate index against which the total shareholder return of Oxford BioMedica plc may be measured over a five-year term, because it represents a broad-based, objective measure of investment return. The creation in 2001 of the FTSE techMARK mediscience index, made up of emerging healthcare companies in the early stages of growth, may provide a benchmark that better reflects the factors bearing on the UK biotechnology sector. It is included in this comparison from 31 December 2001. As at the end of 2003 Oxford BioMedica's five year shareholder return had outperformed both benchmark indices.

Dr Peter Johnson
Chairman of the remuneration committee

A handwritten signature in black ink, appearing to be 'Dr Peter Johnson', written over a set of horizontal lines.

Independent auditors' report

to the members of Oxford BioMedica plc

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of Group total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the report of the remuneration committee ("the auditable part").

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the report of the remuneration committee.

Our responsibility is to audit the financial statements and the auditable part of the report of the remuneration committee in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the report of the remuneration committee have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the report of the remuneration committee, the Chairman's and Chief Executive's report, the financial review and the biographies of the directors and scientific advisory board.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

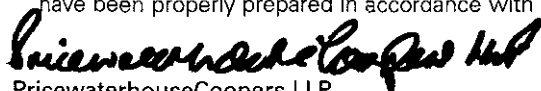
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the report of the remuneration committee. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the report of the remuneration committee are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2003 and of the loss and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the report of the remuneration committee required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading
2 March 2004

Consolidated profit and loss account

for the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Turnover	2	374	173
Research and development costs		(10,773)	(10,833)
Administrative expenses		(2,922)	(3,420)
Operating expenses		(13,695)	(14,253)
Other operating income: government and other grants receivable		669	63
Net operating expenses		(13,026)	(14,190)
Operating loss		(12,652)	(14,017)
Interest receivable	4	711	1,094
Loss on ordinary activities before taxation	2,5	(11,941)	(12,923)
Tax credit on loss on ordinary activities	6	1,203	1,263
Loss for the year	18	(10,738)	(11,660)
Basic loss and diluted loss per ordinary share	8	(3.9p)	(4.6p)

The results for the years above are derived entirely from continuing operations.

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

Statement of Group total recognised gains and losses

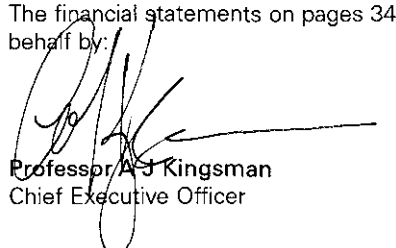
	Note	2003 £'000	2002 £'000
Loss for the financial year		(10,738)	(11,660)
Currency translation differences on foreign currency net investments	18	(179)	(395)
Total recognised losses for the year		(10,917)	(12,055)

Balance sheets

at 31 December 2003

	Notes	Group		Company	
		2003 £'000	2002 £'000	2003 £'000	2002 £'000
Fixed assets					
Intangible assets	9	135	185	-	-
Tangible assets	10	2,331	3,394	-	-
Investments	11	26	26	72,246	14,923
		2,492	3,605	72,246	14,923
Current assets					
Debtors	12	2,386	2,223	2	2
Cash at bank and in hand		31,836	20,964	-	2
		34,222	23,187	2	4
Creditors: amounts falling due within one year	13	(1,501)	(1,254)	(39)	(1)
Net current assets/(liabilities)		32,721	21,933	(37)	3
Total assets less current liabilities		35,213	25,538	72,209	14,926
Provisions for liabilities and charges	15	-	(6)	-	-
Net assets		35,213	25,532	72,209	14,926
Capital and reserves					
Called-up share capital	16	3,703	2,388	3,703	2,388
Share premium account	18	78,045	58,762	78,045	58,762
Other reserve	18	711	711	-	-
Profit and loss account (deficit)	18	(47,246)	(36,329)	(9,539)	(46,224)
Equity shareholders' funds	19	35,213	25,532	72,209	14,926

The financial statements on pages 34 to 48 were approved by the board of directors on 2 March 2004 and were signed on its behalf by:


Professor A J Kingsman
 Chief Executive Officer

Consolidated cash flow statement

for the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Operating activities			
Net cash outflow from continuing operating activities (reconciliation to operating loss below)		(11,488)	(13,390)
Returns on investments and servicing of finance			
Interest received		638	1,550
Taxation			
UK R&D tax credit received		1,259	1,553
Overseas tax received/(paid)		8	(9)
		1,267	1,544
Capital expenditure			
Purchase of tangible fixed assets		(51)	(1,349)
Net cash outflow before management of liquid resources and financing		(9,634)	(11,645)
Management of liquid resources			
Transfer to deposit accounts		(12,368)	(6)
Transfer to current accounts		1,329	11,741
	20	(11,039)	11,735
Financing			
Issue of ordinary shares	19	22,215	79
Expenses of share issue	19	(1,695)	-
Net cash inflow from financing		20,520	79
(Decrease)/increase in cash in the year	20	(153)	169

Reconciliation of operating loss to net cash outflow from operating activities

	2003 £'000	2002 £'000
Continuing activities		
Operating loss	(12,652)	(14,017)
Amortisation of intangible fixed assets	50	49
Depreciation of tangible fixed assets	943	1,166
Loss on disposal of fixed assets	71	138
Non-cash consideration for acquired intellectual property rights	79	-
Increase in debtors due after more than one year	-	(329)
(Increase)/decrease in other debtors and other tax receivable	(232)	90
Increase in prepayments and accrued income	(18)	(11)
Decrease in trade creditors	(74)	(230)
Increase/(decrease) in other taxation and social security	31	(17)
Increase/(decrease) in accruals and deferred income	360	(88)
Exchange rate differences	(46)	(141)
Net cash outflow from continuing operating activities	(11,488)	(13,390)

Notes to the consolidated financial statements

for the year ended 31 December 2003

1 Principal accounting policies

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable Accounting Standards. A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Basis of consolidation

The consolidated profit and loss account and Group balance sheet include the accounts of the Company and its subsidiary undertakings made up to 31 December. Intra-group sales and profits are eliminated fully on consolidation.

Tangible fixed assets and intangible fixed assets

The cost of tangible and intangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual value on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Short leasehold improvements	10-20 or the remaining lease term if shorter
Computer equipment	33
Office and laboratory equipment, fixtures and fittings	20

Intangible fixed assets, relating to intellectual property rights acquired by the Group at inception, are amortised on a straight line basis over their useful economic life which has been estimated by the directors to be 10 years, with provision made for any impairment. Expenditure relating to other intellectual property rights, including those generated by the Group, is written off to the profit and loss account in the year in which it is incurred, as this expenditure relates entirely to the Group's research and development activities.

Fixed asset investments

Fixed asset investments are carried at cost less any provision made for impairment.

Financial instruments

The Group's financial instruments, as defined in FRS 13, comprise cash and liquid resources, together with debtors and creditors arising directly from operations.

The Group does not enter into derivative transactions, and it is the Group's policy not to undertake any trading in financial instruments. The Group does not have any committed borrowing facilities, as its cash balances are sufficient to finance its current operations. Cash balances are mainly held on short and medium-term deposit with quality financial institutions, in line with the Group's policy to minimise the risk of loss. The main risks associated with the Group's financial instruments relate to interest rate risk and foreign currency risk. Numerical disclosures relating to these are given in note 14 to the financial statements. The Group's policy in relation to interest rate risk is to monitor short and medium term interest rates and to place cash on deposit for periods that optimise the amount of interest earned while maintaining access to sufficient funds to meet day to day cash requirements. In relation to foreign currency risk, the Group's policy is to hold the majority of its funds in sterling, and no hedging of US dollar cash outflows is undertaken. These policies have been applied consistently throughout the year.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transaction.

Assets and liabilities in the accounts of the overseas subsidiary are translated at the rate of exchange ruling at the balance sheet date and the results of the subsidiary are translated at the average rate for the year.

The exchange differences arising on the translation of the overseas subsidiary are taken directly to reserves. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Turnover

Turnover, which excludes value added tax, sales between Group companies and trade discounts, represents the value of goods and services supplied. Non refundable access fees, option fees and milestone payments are recognised when they become contractually binding, provided that there are no related commitments of the Group, and that recoverability is assured. All other licence income and contract research fees are recognised over the accounting periods in which the relevant services are provided.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Research and development

Research and development expenditure is written off in the period in which it is incurred.

Government and other grants

Income from government and other grants is recognised in the period in which the expenditure to which the grants relate is incurred.

Pension costs

The Group operates defined contribution pension schemes for its directors and employees. The assets of the schemes are held in independently administered funds. The pension cost charge recognised in the year (see note 3) represents amounts payable by the Group to the funds.

Deferred taxation

Deferred taxation is provided on a full provision basis on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that the tax will arise. The deferred taxation balance has been measured at the rate expected to apply when timing differences reverse. Deferred tax assets are recognised to the extent that it is regarded more likely than not they will be recovered.

Related parties

FRS 8 "Related Party Disclosures" requires the disclosure of the details of material transactions between the reporting entity and any related parties. The Company has adopted the provisions of FRS 8. However transactions between the Company and its subsidiaries have not been disclosed in accordance with the exemption in FRS 8 paragraph 3(a).

2 Turnover and loss on ordinary activities before taxation

The Group's turnover and loss on ordinary activities before taxation are derived entirely from its principal activity.

The Group has operations in the United Kingdom and in the United States of America.

	2003		2002	
Turnover	Turnover by destination	Turnover by origin	Turnover by destination	Turnover by origin
Geographical analysis	£'000	£'000	£'000	£'000
United Kingdom	29	374	1	173
North America	345	-	172	-
	374	374	173	173
Loss on ordinary activities before taxation	2003		2002	
Geographical analysis	£'000		£'000	
United Kingdom	8,693		9,541	
North America	3,248		3,382	
	11,941		12,923	
Net assets	2003		2002	
Geographical analysis	£'000		£'000	
United Kingdom	2,216		3,020	
North America	1,161		1,548	
Net operating assets	3,377		4,568	
Cash at bank and in hand	31,836		20,964	
	35,213		25,532	

3 Employees and directors

The average monthly number of persons (including executive directors) employed by the Group during the year was:

By activity	2003 Number	2002 Number
Office and management	13	15
Research and development	59	70
	72	85
Staff costs (for the above persons)		
	2003 £'000	2002 £'000
Wages and salaries	3,899	4,232
Social security costs	310	332
Other pension costs	190	209
	4,399	4,773

In respect of Directors' remuneration, the Company has taken advantage of the permission in paragraph 1(6) of Schedule 6 to the Companies Act 1985 to omit aggregate information that is capable of being ascertained from the detailed disclosures in the report of the remuneration committee on pages 28 to 32, which forms part of these financial statements.

4 Interest receivable

	2003 £'000	2002 £'000
Bank interest receivable	711	1,094

5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging	2003 £'000	2002 £'000
Amortisation of intangible fixed assets	50	49
Depreciation charge for the year on owned tangible fixed assets	943	1,166
Loss on disposal of tangible fixed assets	71	138
Redundancy costs	82	206
Auditors' remuneration for:		
Audit (Company £16,000; 2002: £15,000)	38	43
Other services to the Company and its subsidiaries ¹	45	27
Hire of plant and machinery – operating leases	38	68
Hire of other assets – operating leases	1,021	949

¹ Fees in respect of other services relate to remuneration paid to PricewaterhouseCoopers LLP, for advice relating to the Group's UK statutory accounts of £11,000 and for tax compliance and advisory work of £34,000. In addition, fees of £137,000 inclusive of VAT, charged to the share premium account, were paid to PricewaterhouseCoopers LLP relating to the rights issue in October 2003 and the issue of shares to EntreMed Inc. in September 2003 (see note 16).

6 Tax credit on loss on ordinary activities

The Group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure. The amount included in the financial statements for the year ended 31 December 2003 represents the credit receivable by the Group for the year. These amounts have not yet been agreed with the relevant tax authorities.

Group	2003 £'000	2002 £'000
Current tax		
United Kingdom corporation tax research and development credit	(1,200)	(1,262)
Overseas taxation	-	-
	(1,200)	(1,262)
Prior years' tax adjustments		
United Kingdom corporation tax research and development credit	3	7
Overseas taxation	-	(14)
Total current tax net credit	(1,197)	(1,269)
Deferred tax		
(Reversal)/origination of timing differences: overseas tax	(6)	6
Total deferred tax (note 15)	(6)	6
Tax credit on loss on ordinary activities	(1,203)	(1,263)

The tax credit for the period is lower (2002: lower) than the standard rate of corporation tax in the UK (30%).
The differences are explained below:

	2003 £'000	2002 £'000
Loss on ordinary activities before tax	(11,941)	(12,923)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	(3,582)	(3,877)
Effects of:		
Depreciation for the period in excess of capital allowances	214	293
Expenses not deductible for tax purposes (permanent differences)	24	22
R&D relief 50% mark-up on expenses	(898)	(935)
US R&D tax credit	-	(75)
Other timing differences	6	(7)
Difference in rate re R&D tax credits	1,050	1,104
Tax losses carried forward to future periods	1,968	2,250
Tax losses utilised in the year	(24)	-
Overseas taxes	-	(36)
Overseas tax rate differences	42	(1)
Prior year adjustment	3	(7)
Current tax credit for the year	(1,197)	(1,269)

At 31 December 2003, the Group had tax losses to be carried forward of approximately £32.6 million (2002: £26.0 million) of which £18.7 million has been agreed with the Revenue Authorities. Of the Group tax losses, £32.1 million (2002: £25.6 million) arose in the United Kingdom.

7 Loss for the financial year

As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. The Company's profit for the financial year was £36,685,000 (2002: loss of £45,971,000). This includes a credit on the release of a provision amounting to £36,770,000 (2002: charge of £45,885,000 to establish the provision) for impairment of the value of the Company's investment in its subsidiaries, based on the market capitalisation of Oxford BioMedica plc at 31 December 2003 (see note 11).

8 Basic loss and diluted loss per ordinary share

The basic loss per share has been calculated by dividing the loss for the year by the weighted average number of shares of 273,876,723 in issue during the year ended 31 December 2003 (2002: 251,920,367). The number of shares in issue prior to the rights issue in October 2003 has been adjusted as required by FRS 14 (Earnings per Share).

The Company had no dilutive potential ordinary shares in either year which would serve to increase the loss per ordinary share. There is therefore no difference between the loss per ordinary share and the diluted loss per ordinary share.

9 Intangible fixed assets

Group	Intellectual property rights £'000
Cost at 1 January 2003 and 31 December 2003	492
Aggregate amortisation	
At 1 January 2003	307
Charge for the year	50
At 31 December 2003	357
Net book amount at 31 December 2003	135
Net book amount at 31 December 2002	185

10 Tangible fixed assets

Group	Short leasehold improvements £'000	Office equipment, fixtures and fittings £'000	Computer equipment £'000	Laboratory equipment £'000	Total £'000
Cost					
At 1 January 2003	2,288	243	379	3,059	5,969
Additions	(9)	-	3	57	51
Disposals	-	(6)	(51)	(160)	(217)
Exchange differences	(41)	(6)	(6)	(85)	(138)
At 31 December 2003	2,238	231	325	2,871	5,665
Accumulated depreciation					
At 1 January 2003	875	133	200	1,367	2,575
Charge for the year	326	29	109	479	943
Disposals	-	(6)	(51)	(89)	(146)
Exchange differences	(6)	(2)	(4)	(26)	(38)
At 31 December 2003	1,195	154	254	1,731	3,334
Net book amount at 31 December 2003	1,043	77	71	1,140	2,331
Net book amount at 31 December 2002	1,413	110	179	1,692	3,394

11 Fixed asset investments

Group	Shares in joint ventures £'000
Cost at 1 January 2003 and 31 December 2003	26
Amounts written off at 1 January 2003 and 31 December 2003	-
Net book amount at 31 December 2003	26
Net book amount at 31 December 2002	26

Interests in joint ventures

The Company's subsidiary Oxford BioMedica (UK) Limited holds 10,000 ordinary shares of 5,000 Won each, representing 50% of the issued share capital of ViroTech Limited, a company incorporated in South Korea. ViroTech Limited's business is gene therapy research and development. To date no significant level of transactions has been entered into. At 31 December 2003 the share capital and reserves of ViroTech Limited were approximately £55,000 (2002: £59,000). Due to the immaterial size of the joint venture it has been included in the Group accounts as a fixed asset investment.

Company	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
Cost			
At 1 January 2003	2,476	58,332	60,808
Additions	-	20,553	20,553
At 31 December 2003	2,476	78,885	81,361
Amounts written off			
At 1 January 2003	-	45,885	45,885
Provision for impairment written back	-	(36,770)	(36,770)
Amounts written off at 31 December 2003	-	9,115	9,115
Net book amount at 31 December 2003	2,476	69,770	72,246
Net book amount at 31 December 2002	2,476	12,447	14,923

Interests in subsidiary undertakings

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held by the Group and Company	Nature of business
Oxford BioMedica (UK) Limited	Great Britain	1p ordinary shares	100%	Gene therapy research and development
BioMedica Inc.	United States of America	\$0.001 common stock	100%	Gene therapy research and development
Chemileon Limited	Great Britain	£1 ordinary shares	100%	Dormant
Epigene Limited	Great Britain	£1 ordinary shares	50%	Dormant

All of the above subsidiaries have been consolidated in these financial statements.

Chemileon Limited has not traded since incorporation and has net assets of £1 (2002: £1).

At 31 December 2003 Epigene Limited had net liabilities of £9,000 (2002: net liabilities of £9,000).

In 2002, the Company's share price fell below previous levels such that at 31 December 2002 the market capitalisation of Oxford BioMedica plc, based on the closing mid-market price quoted on the London Stock Exchange, was £14,926,000. The directors considered this reduction in value of the Group to be a trigger of an impairment review as set out in FRS 11. Therefore, the carrying value of the Company's investments in subsidiaries was reviewed and reduced by £45,885,000 to £14,923,000 based on this valuation less the book value of the Company's net assets. The directors consider that reference to the market capitalisation of the Group is an appropriate external measure of the value of the Group and have used this as the valuation adopted for the Company's investment in subsidiaries.

At 31 December 2003 the Company's share price had recovered significantly, such that the market capitalisation of Oxford BioMedica plc, based on the closing mid-market price quoted on the London Stock Exchange, was £72,210,000. Based on this valuation, adjusted for the book value of the Company's net liabilities, the directors have written back £36,770,000 of the provision that was established in 2002.

12 Debtors

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Amounts falling due after more than one year				
Other debtors – rent deposit	263	291	-	-
Amounts falling due within one year				
Other debtors	374	123	-	-
Corporation tax receivable	1,200	1,262	-	-
Other tax receivable	107	115	-	-
Prepayments and accrued income	442	432	2	2
	2,123	1,932	2	2
Total debtors	2,386	2,223	2	2

13 Creditors: amounts falling due within one year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade creditors	310	379	-	-
Other taxation and social security	195	164	-	-
Accruals and deferred income	996	711	39	1
	1,501	1,254	39	1

14 Financial instruments

Details of the Group's objectives and policies with respect to financial instruments are given in note 1 to the financial statements. The numerical disclosures in this note deal with the financial assets and liabilities defined in FRS 13 as financial instruments. Except with respect to disclosures regarding currency risk, short term debtors and creditors have been excluded from the financial instruments disclosure.

Interest rate risk profile of financial assets

	2003				2002			
	Floating rate £'000	Fixed rate £'000	Non interest bearing £'000	Total £'000	Floating rate £'000	Fixed rate £'000	Non interest bearing £'000	Total £'000
Sterling	-	30,086	(60)	30,026	-	19,043	(3)	19,040
Euro	-	258	-	258	-	-	-	-
US Dollars	14	1,356	445	1,815	198	1,618	399	2,215
	14	31,700	385	32,099	198	20,661	396	21,255
of which:								
Cash at bank and in hand	14	31,700	122	31,836	198	20,661	105	20,964
Other debtors (rent deposit)	-	-	263	263	-	-	291	291
	14	31,700	385	32,099	198	20,661	396	21,255

The weighted average interest rates and average deposit terms for fixed rate deposits in 2003 are shown below. Floating rate instant access deposits earned interest at prevailing bank rates.

	2003			2002		
	Year end deposits Weighted average rate	Year end deposits Weighted average term	Yr. average Weighted average rate	Year end deposits Weighted average rate	Year end deposits Weighted average term	Yr. average Weighted average rate
Sterling	4.3%	271 days	3.8%	3.9%	141 days	4.4%
Euro	2.1%	31 days	2.1%	-	-	-
US Dollars	1.1%	15 days	1.3%	1.7%	167 days	1.7%

Currency exposures

The Group's functional currencies are Sterling and United States Dollars. The Group held the following net foreign currency financial assets/(liabilities) in currencies other than the functional currency:

	2003				2002			
	Sterling £'000	US Dollars £'000	Euro £'000	Total £'000	Sterling £'000	US Dollars £'000	Euro £'000	Total £'000
Functional currency:								
Sterling	-	823	39	862	-	1,655	(2)	1,653
US Dollars	-	-	-	-	-	-	-	-
	-	823	39	862	-	1,655	(2)	1,653

Fair value

The directors consider that the fair values of the Group's financial instruments do not differ significantly from their book values.

15 Provision for liabilities and charges

Deferred taxation

Deferred taxation provided in the financial statements, and the amount unprovided/(not recognised) of the total potential liability/(asset), are as follows. In light of the Group's continuing losses, recovery of the deferred tax asset is not sufficiently certain, and therefore no asset has been recognised at 31 December 2003 (2002: nil).

Group	Amount provided		Deferred asset not recognised	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000s
Tax effect of timing differences				
Excess of capital allowances over depreciation	-	126	(618)	(488)
Other	-	-	(9)	-
Losses	-	(120)	(9,953)	(7,810)
	-	6	(10,580)	(8,298)

Company	Amount provided		Deferred asset not recognised	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Tax effect of timing differences due to losses	-	-	(127)	(102)

16 Called-up share capital

Group and Company

Authorised	2003 £'000	2002 £'000
500,000,000 (2002: 500,000,000) ordinary shares of 1p each	5,000	5,000
Allotted, called-up and fully paid	2003 £'000	2002 £'000
Ordinary shares of 1p each		
At 1 January - 238,815,315 shares	2,388	2,382
Allotted on exercise of share options - 1,388,950 (2002: 590,969) shares	14	6
Allotted as part consideration for patent rights - 301,748 (2002: nil) shares	3	-
Allotted in rights issue - 129,800,186 shares (2002: nil)	1,298	-
At 31 December - 370,306,199 shares	3,703	2,388

Between 19 May 2003 and 31 October 2003 the Company issued 1,388,950 ordinary shares of 1p each on the exercise of share options under share option schemes for aggregate cash consideration of £144,000. Costs of £1,000 in respect of these share issues have been charged to the share premium account.

On 8 September 2003 the Company issued 301,748 ordinary shares of 1p each to EntreMed Inc. at an agreed valuation of 26.075p per share as part of the consideration for the grant by EntreMed Inc of an exclusive licence for the use of its proprietary anti-angiogenic genes endostatin and angiostatin in the development of locally delivered gene-based therapeutics for ocular diseases. Costs of £16,000 in respect of this share issue have been charged to the share premium account.

On 27 October 2003 the Company issued 129,800,186 ordinary shares of 1p each for cash in a 27 for 50 rights issue at 17p per share, raising proceeds of £22,071,000 before costs. Costs of £1,679,000 in respect of the rights issue have been charged to the share premium account.

17 Options in shares of Oxford BioMedica plc

The Company has two unapproved share option schemes. The Oxford BioMedica 1996 Share Option Plan was established to enable selected individuals who are not employees of the Group to hold options to subscribe for ordinary shares. The Oxford BioMedica 1996 (No.1) Share Option Scheme relates to options granted to directors and employees. Options have also been granted to individuals (predominantly employees of the Company's US subsidiary BioMedica Inc) under individual option agreements.

In accordance with the rules of the relevant share option schemes and agreements, following the rights issue, an adjustment was applied to share options that were outstanding on 2 October 2003. The adjustment increased the number of shares subject to the options by 5.55% (rounded down to the nearest whole number) and reduced the exercise price by 5.55% (rounded up to the nearest whole penny).

The total number of options over ordinary shares of 1p each that had been granted and had not been exercised or lapsed at 31 December 2003 were as follows:

Options granted to employees (including directors) under the Oxford BioMedica 1996 (No. 1) Share Option Scheme

Number of shares	Exercise price per share	Date from which exercisable	Expiry date
1,078,564	32.0p	06/08/00 to 07/04/01	06/08/04 to 07/04/05
3,150,245	11.0p to 15.0p	07/04/01 to 24/09/01	07/04/05 to 24/09/05
3,604,198	19.0p to 21.0p	01/04/02 to 04/10/02	01/04/06 to 04/10/06
1,319,430	60.0p to 79.0p	22/03/03 to 04/12/03	22/03/07 to 04/12/07
557,873	51.0p to 72.0p	05/02/04 to 29/05/04	05/02/08 to 29/05/08
1,001,331	24.0p to 28.0p	12/09/04 to 03/12/04	12/09/08 to 03/12/08
881,851	22.0p to 39.0p	14/01/05 to 10/04/05	14/01/09 to 10/04/09
1,614,511	7.0p to 8.75p	12/09/05 to 31/10/05	12/09/09 to 31/10/09
869,486	6.0p to 7.0p	07/03/06 to 31/03/06	07/03/10 to 31/03/10
1,509,182	19.0p to 19.25p	24/10/06 to 27/10/06	24/10/10 to 27/10/10

Options granted under the Oxford BioMedica 1996 Share Option Plan

Number of shares	Exercise price per share	Date from which exercisable	Expiry date
204,512	32.0p to 76.0p	06/03/00 to 06/08/00	06/03/04 to 06/08/04
194,729	15.0p to 20.0p	02/04/01 to 30/06/02	02/04/05 to 30/06/06
68,607	23.0p to 27.0p	09/11/04 to 19/12/04	09/11/08 to 19/12/08
232,210	21.0p to 31.0p	02/01/05 to 31/05/05	02/01/09 to 31/05/09
52,775	10.0p	06/09/05	06/09/09

Options granted under individual contracts

Number of shares	Exercise price per share	Date from which exercisable	Expiry date
3,362,034	51.0p	¹ 25/05/02	25/05/11
2,253,552	28.0p to 51.0p	¹ 29/05/02 to 15/10/02	29/05/11 to 15/10/11
501,768	21.0p to 44.0p	¹ 01/02/03 to 17/06/03	01/02/12 to 17/06/12
422,200	8.5p	¹ 02/12/03	02/12/12
211,100	53.0p	17/04/04	17/04/08
105,550	14.0p	¹ 02/07/04	02/07/14
23,175,708			

¹ Options granted to employees of BioMedica Inc. Twenty five percent of the total shares under option become exercisable twelve months after the date of grant, with the remainder becoming exercisable thereafter at the rate of 2.0834 percent per month.

18 Share premium account and reserves

Group	Share premium account £'000	Other reserve ¹ £'000	Profit and loss account £'000
At 1 January 2003 – surplus/(deficit)	58,762	711	(36,329)
Share premium arising on share issues	20,979	-	-
Costs associated with issue of shares	(1,696)	-	-
Exchange differences	-	-	(179)
Loss for the year	-	-	(10,738)
At 31 December 2003 – surplus/(deficit)	78,045	711	(47,246)

¹ Represents the reserve arising from consolidation of Oxford BioMedica (UK) Limited using the merger method of accounting.

Company	Share premium account £'000	Profit and loss account £'000
At 1 January 2003 – surplus/(deficit)	58,762	(46,224)
Share premium arising on share issues	20,979	-
Costs associated with issue of shares	(1,696)	-
Profit for the year	-	36,685
At 31 December 2003 – surplus/(deficit)	78,045	(9,539)

At 31 December 2003 neither the Company nor its subsidiary undertakings had reserves available for distribution (2002: nil).

19 Reconciliation of movements in Group shareholders' funds

	2003 £'000	2002 £'000
Loss for the year	(10,738)	(11,660)
New share capital issued	22,294	79
Expenses of share issue	(1,696)	-
Exchange differences	(179)	(395)
Net addition to/(reduction in) shareholders' funds	9,681	(11,976)
Opening shareholders' funds	25,532	37,508
Closing shareholders' funds	35,213	25,532

20 Reconciliation of net cash flow to movement in net funds

	2003 £'000	2002 £'000
(Decrease)/increase in cash in the year	(153)	169
Cash outflow/(inflow) from change in liquid resources	11,039	(11,735)
Change in net funds resulting from cash flows	10,886	(11,566)
Exchange movements	(14)	(115)
Net funds at beginning of the year	20,964	32,645
Net funds at end of the year	31,836	20,964

21 Analysis of net funds

	At 1 January 2003 £'000	Cash flow £'000	Exchange movements £'000	At 31 December 2003 £'000
Cash	303	(153)	(14)	136
Liquid resources	20,661	11,039	-	31,700
Net funds/cash at bank and in hand	20,964	10,886	(14)	31,836

Liquid resources relate to bank deposits which are not immediately accessible within 24 hours without financial penalty.

22 Contingent liabilities and capital commitments

There were no contingent liabilities at 31 December 2003 or at 31 December 2002. The Group had commitments for capital expenditure of £73,000 at 31 December 2003 (2002: nil).

23 Pension cost

The Group operates defined contribution pension schemes for its directors and employees. The assets of the schemes are held in independently administered funds. The pension cost charge of £190,000 (2002: £209,000) represents amounts payable by the Group to the funds. Contributions of £18,000 (included in accruals) were payable to the funds at the year-end (2002: nil).

24 Financial commitments

At 31 December 2003 the Group had annual commitments under non-cancellable operating leases as follows:

	2003		2002	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Expiring within one year	-	2	9	9
Expiring between two and five years inclusive	599	18	599	25
Expiring after five years	412	-	433	-
	1,011	20	1,041	34

25 Post balance sheet event

In January 2004, the Group completed a review of its operations and resources. The successful transfer of LentiVector production technology to the contract manufacturer Cobra BioManufacturing, together with the commitment of the Company to remain focussed on its current pipeline, has allowed a further rationalisation of resources in San Diego, USA. The Company retains a strong US business development and intellectual property capability but has closed its process development and manufacturing unit. Decommissioning of the unit is underway, as are negotiations for the disposal of its leasehold property and tangible assets. It is anticipated that this will be completed in 2004. No costs in respect of this rationalisation have been charged to the 2003 profit and loss account. The directors estimate that the cash cost of the rationalisation, less anticipated proceeds from sale of assets, will be approximately £0.2 million in 2004. Including estimated additional depreciation, a total charge to the profit and loss account of £0.9 million is anticipated. This is less than the directors' estimate of operational savings, and the rationalisation is expected to be cash and earnings positive in 2004 and beyond.

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