Proteome Sciences plc

and subsidiary undertakings

Annual Report and Accounts for the year ended 31st December 2005 including Directors' and Independent Auditors' Reports and Chairman's Statement

Registered number: 2879724

Directors and advisers

Directors	R.S. Harris, BPharm, FR PharmS (Chairman)* (i) (ii) C.D.J. Pearce, (Chief Executive) J.L. Malthouse, FCA (Finance Director) A.J. Green, BSc (Commercial Director) Professor W. Dawson, DSc, FR PharmS, FRSC* (i) (ii) Dr. A.E.A. Lindberg, MD Ph D * * non-executive Directors and members of the (i) Audit and (ii)Remuneration Committees
Secretary and registered office	J.L. Malthouse, FCA Coveham House Downside Bridge Road Cobham Surrey KT11 3EP
Nominated Advisers and Stockbrokers	Teather & Greenwood Limited Beaufort House 15 St. Botolph Street London EC3A 7QR
Auditors	Deloitte & Touche LLP Chartered Accountants Southampton
Solicitors	Lovells 50 Holborn Viaduct London EC1A 2FG
Bankers	Barclays Bank Plc Pall Mall Corporate Banking Group 50 Pall Mall London SW1Y 5AX
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

Chairman's Statement

For the year ended 31st December 2005

Dear Shareholder,

I am pleased to report on the progress made for the year ended 31st December 2005.

The Company has enjoyed considerable success from its research with strong advances achieved in biomarker discoveries, methodologies and chemical tagging. Against this, the pace of acceptance of protein related technology by the life sciences industry, which has historically been dominated by genomics, was slower than anticipated and this was reflected by the delayed timing of commercial deals which were expected to conclude in the period.

The first half of 2006 has seen a significant increase in the number of pharmaceutical companies approaching the company in connection with our existing biomarker portfolio and the ProteoSHOP® toolbox. Other than for diagnostic purposes, intended uses include measurement of our biomarkers on model systems during pre-clinical development and testing of patients during clinical trials. This reflects the pharmaceutical industry's increasing awareness of the value of biomarkers in improving clinical development and is a clear signal that they are responding positively to the challenges set out in the U.S. FDA's Critical Path Initiative. This has resulted in an increased need to use biomarkers, largely discovered through proteomics, to improve clinical trial data, accelerate drug development, reduce costs and expand the process of personalised medicine.

Against this background, the Board therefore believes that prospects for the commercialisation of the company's research programmes remain strong.

Commercialisation of the company's research programmes will generate considerable confidence in the company's technology and its applicability in the use of biomarkers for diagnostic and therapeutic applications and in its chemical mass tags as a key methodology for quantitative measurement of differential protein expression in disease.

This has been reflected by the recent announcements of two non-exclusive licences to test our biomarkers in blood for the high-throughput diagnostic platforms with two of the global leaders in clinical diagnostics for the detection, diagnosis and monitoring of stroke. Discussions are taking place with a number of other players in stroke and further licences are expected.

Over the course of 2005, the problem of access to samples for validation of previously discovered protein biomarkers improved considerably and strong progress has been made which we are confident will result in the conclusion of further licences with diagnostics and pharmaceutical companies, in particular in the areas of Alzheimer's, cancer and TSEs.

The interim statement reflected the company's disappointment at the pace of TMT® negotiations. With the termination of exclusivity, the field was re-opened to other shortlisted parties in the last quarter of 2005, all of which are suitable to undertake global commercialisation of the company's isobaric tagging reagents and the Board is encouraged by the progress of discussions which are at an advanced stage of negotiation.

There are initially two streams of revenue expected from licensing TMT®, one from the direct reagent product itself and the second from the intellectual property ("IP") relating to the field of isobaric mass labelling where the Board believes that the company's patent filings are comfortably ahead of competitors. The market for the TMT® product is considerably larger than was initially contemplated and the rapid acceptance of new tools for biomarker discovery and validation was clearly signposted as a key requisite in the FDA Critical Path guidelines. The second stream of revenue, the licence to the chemistry behind the isobaric mass labels should cover third party reagents/products in the market which would sit under the IP umbrella. Both activities should provide strong cash flow for the company when commercial licences are completed. The Board remains determined to conclude the TMT® licensing process as soon as possible.

Chairman's Statement (continued)

Over 2005, eleven patents have been granted including lung and oesophagus cancer, chronic rejection, TSE, oligonucleotides and protein sequence tags and new patent applications have been filed for discoveries made in Alzheimer's, Huntington's, colorectal cancer and Sensitizer® mass tags.

Biomarkers

From its research and through its collaborative partners, Proteome Sciences has established a large portfolio of biomarkers that can be used for the early detection and monitoring of disease, the evaluation of new compounds and measuring the efficiency of treatment.

Considerable progress has been made during the year and into 2006 from the portfolio of biomarkers that have been discovered through our research programmes.

Neurological

In stroke, additional stroke and stroke mimic samples were sourced during the summer which has both expanded and provided robust validation of the data supporting the sensitivity, specificity and performance of our existing stroke biomarkers and their application in high throughput screening (HTS). This has been reflected by the licenses announced in stroke with bioMerieux and, most recently, with a second licencee in the top 10 in global clinical diagnostics. Discussions are actively underway with other leading HTS diagnostics companies in stroke.

Major new research has been underway at the Geneva University Hospital to discover novel biomarkers uniquely present in brain disease in deceased patients' cerebrospinal fluid (CSF) to further extend the leading position Proteome Sciences has established in neurological disorders. This has been highly successful and has resulted in the discovery of 195 proteins showing differential expression in CSF with potential application across a broad range of diseases. Patent applications have been filed and the process to progressively start the exploitation of these biomarkers in a targeted way has commenced.

Transplant Rejection

In the middle of 2005, we received a large retrospective plasma sample set from 40 patients spanning 5 years post kidney transplantation from the Oxford Transplant Centre. This takes Proteome Sciences into a new area of transplant rejection alongside its existing research into acute and chronic rejection in heart disease following transplantation. With ProteoSHOP®, we undertook a depletion process to remove some of the highly-abundant proteins in serum which make up around 90 per cent of the content of serum, in order to concentrate on the differential protein expressions after transplant rejection. Across a 240 patient sample set, we identified 29 proteins differentially expressed of which we consider 17 may be novel biomarkers of kidney transplant rejection. These findings have subsequently been confirmed from the results of a recent second validation study. There is a serious unmet need for a diagnostic test in kidney transplantation and the introduction of such a test should generate considerable medical application and commercial value.

Cancer

In the middle of 2005 we also entered into a collaborative agreement with a French company, RNTech, who have provided a set of high quality colon cancer samples, a disease Proteome Sciences had not previously addressed directly itself. Again, using ProteoSHOP®, outstanding results have been forthcoming with the discovery of 22 differentially expressed proteins, half of which would appear to be novel biomarkers for colorectal cancer. Further validation is underway to extend these results.

Similarly, Proteome Sciences has, for the first time, become directly involved in supporting and further developing the granted patents in lung and oesophageal cancer from its IP portfolio through an immunohistochemistry validation study of Annexin 1 and 2 expression in a larger patient population. The primary purpose of this new work was to extend the preliminary data in lung cancer to all non-small cell lung cancers.

Chairman's Statement (continued)

Most interestingly, recent data published in several scientific journals has confirmed the central role that Annexins 1 and 2 play in tumour development, particularly in lung cancers and other solid tumours. As a consequence, a number of research groups propose using Annexins as vaccines for treatment. Proteome Sciences has exclusively licensed granted patents for the use of Annexins 1 and 2 for purposes of vaccination in lung and oesophagus cancer.

Not only does this validation of Annexins in histopathology significantly increase the diagnostic value of our biomarkers as immunohistochemical markers of non-small cell lung cancer (which accounts for over 70% of all lung cancers), but it should also considerably enhance their therapeutic value and utility.

This is enabling Proteome Sciences to expand and exploit some of the strong intellectual property positions it had previously established in cancer, both from differential protein expressions and also from the use of auto-antibodies and secreted proteins in serum.

Neurodegeneration / TSE

As stated in the Interim Report, encouraging results have been obtained in the vCJD research programme with the MRC resulting in patents being filed for plasma protein markers in vCJD and Huntington's. This work has continued to progress well and the validation of previous experiments has enabled us to design a novel test based on the disease specific fragmentation of peptides. An additional patent application relating to this novel assay method and format was filed earlier this year and we are progressing its development and evaluation.

The success achieved in Huntington's by the discovery of certain plasma biomarkers showing a strong correlation with disease progression accelerated our efforts to discover other new biomarkers and to further validate the results already achieved by expanding the number of Huntington's samples analysed. From this, six proteins of particular importance have been identified and the behaviour and performance of these proteins is being further assessed and validated. Patent applications have been filed to protect these discoveries. Considerable commercial opportunities are available for Huntington's biomarkers for the early detection of neurodegeneration in this disease, monitoring its progression in clinical trials of new compounds and for monitoring disease progress and severity in patients undergoing treatment.

In the past, the lack of availability of samples in BSE has severely hampered the development of the research programmes. This has now been resolved allowing additional validation and endorsement of existing biomarkers and facilitating the discovery of new differentially expressed proteins for the detection of BSE in live cattle.

To expand and identify further potential diagnostic markers in Alzheimer's disease, a ProteoSHOP® study comparing 50 disease versus 50 control patients in blood has recently been completed using a combination of three complementary approaches (2DE, SELDI and qPST). This has revealed 36 proteins with differential protein expression of significance, ten of which were confirmed by more than one method.

We have previously reported the discovery and patenting of novel tau kinase activity in Alzheimer's and a good start has been made in validating these new targets and designing a virtual library of small molecule 'hits' against the targets in order to file IP on novel inhibitors of the targets and to strengthen further the patent position around tau. The first part of this programme has delivered a selection of compounds possessing drug-like properties and the second part will involve testing the compounds in activity assays. Prospective partners have expressed interest in this research, and particularly in the demonstration of drugability of the validated targets to delay and/or prevent the progression of Alzheimer's, and this will add significant value to the project.

Data and results from all the biomarker programmes at Proteome Sciences are being actively presented to commercial partners by our scientists and business development team to accelerate future revenue generation through outlicencing.

Chairman's Statement (continued)

ProteoSHOP®

ProteoSHOP® provides an integrated proteomics toolbox to enhance biomarker discovery. Based on multiple technology platforms, ProteoSHOP® offers highly cost- and time-effective means of increasing the output of biomarker discovery programmes.

Development of new in vitro diagnostics for clinically difficult diseases such as cancer and neurodegeneration, target validation, evaluation of safety profiles early in drug development and surrogate markers of efficacy in clinical trials, all require integration of biomarker measurements to expedite the regulatory process. Critical insights in all of these areas are generated using ProteoSHOP® to identify differential protein expression across a variety of body fluids and tissue from diseased and/or treated individuals compared to relevant controls.

The ProteoSHOP® toolbox of gel-based and gel-free proteomics technologies has been developed to address differential protein expression for diagnostic and pharmaceutical research and development. Built on our considerable expertise across generic proteomic technologies in combination with proprietary techniques (PST®, qPST™ and TMT®) for gel-free identification and relative quantitation of proteins in cells, body fluids and tissues, ProteoSHOP® provides customers with simple, cost-effective and timely access to protein expression profiling across a broad range of human diseases and model systems.

ProteoSHOP® incorporates leading edge proprietary technology spanning sample collection, storage, protein separation, identification and characterisation with bioinformatics and data mining. The high sensitivity and high throughput characteristics from ProteoSHOP® combine to deliver high output proteomic data for biomarker discovery and validation.

Impressive progress has been made during the last year with the quantitative protein sequence tags (qPST®). One of the key advantages offered by ProteoSHOP® is the 50% increase in coverage of proteins identified using qPST® in combination with two dimensional gel electrophoresis (2DE). It also provides a very high level of confidence in the data and results, demonstrating reproducibility and independent secondary validation of 50% of the total number of proteins identified using separate and different approaches.

With qPST® now available for routine use, Proteome Sciences has a highly competitive proprietary technology in its ProteoSHOP® toolbox which is being actively marketed to the global pharmaceutical industry for discovering biomarkers of efficacy, safety and toxicity in clinical trials, one of the main areas highlighted in the FDA Critical Path guidelines in March 2006.

An extensive marketing campaign to raise the profile of ProteoSHOP® with customers was started earlier this year and this has been extended by the co-marketing agreement announced in March with Medical Solutions plc. By combining the two companies' highly complementary technologies (Medical Solutions concentrates on immunohistochemistry with automated image analysis and histopathology), customers are provided with a one-stop-shop from biomarker discovery through to implementation in diagnostics and drug development.

With these capabilities, Proteome Sciences is well positioned to secure further revenue and deals for ProteoSHOP® accelerating the discovery of protein biomarkers and targets relevant to major human diseases. A number of new contracts are currently under negotiation.

Reagents

The purpose behind the development and validation of reagents within Proteome Sciences has been to establish and apply proprietary next generation proteomics technologies to improve the discovery of protein biomarkers and targets relevant to major human diseases and to capitalise on their value.

Chairman's Statement (continued)

The Sensitizer® family of reagents developed in Frankfurt (including TMT®, qPST™ and Combi SMT™) have unique applications and utility but inherent in each is a common feature which enables an increase in the number of peptides and proteins that can be identified and quantified from complex protein mixtures.

Considerable progress has been made over the period and into 2006 with our TMT® isobaric mass labelling technology. Over this time, a fully functioning six plex set of mass tags has been developed which provide strong accuracy and consistency to quantify simultaneously differential protein expression in six samples. The elegance and simplicity of the chemical structure and design allows the format to be readily expanded to a ten plex which will fully address the needs of the marketplace.

There are initially two streams of revenue expected from licensing TMT®, one from the reagent product itself and the second from the intellectual property relating to the field of isobaric mass labelling where, having the earliest priority date, the Board believes that the company's patent filings are comfortably ahead of competitors.

The market for the TMT® product is considered to be larger than was initially contemplated and the rapid acceptance of new tools for biomarker discovery and validation was clearly signposted as a key requisite in the March 2006 FDA Critical Path Guidelines. The second stream of revenue, the licence to the chemistry controlling isobaric mass labels, will potentially cover third party reagents/products in the market which come within the scope of the IP umbrella. Both activities should provide strong cashflow for the Group.

The development of isobaric mass labelling is now largely completed and the main focus of our efforts in chemistry has switched to applications in biology to accelerate the discovery and validation of biomarkers in human diseases.

Veri-Q Inc.

Synthetic oligonucleotides are widely used in biomedical research, in-vitro diagnostics (microarrays) and more recently as therapeutic agents in antisense drugs. These applications require exacting levels of product purity and quality. Quality control is essential to ensure the effective and reproducible performance of oligonucleotides and the FDA in the US has expressed concern about quality control of oligonucleotides. Oligonucleotide quality is often compromised by incomplete removal (de-protection) of chemical groups (protecting groups) which are required for the proper chemical synthesis of these polymers. The quality of oligonucleotides can also be decreased by the presence of incomplete products.

Veri-Q has developed a toolbox of antibodies against oligonucleotide protecting groups that can be used both for monitoring oligonucleotide quality and for the selective removal of impurities. Using this technology, Veri-Q has demonstrated that many commercially manufactured oligonucleotides are not fully deprotected and this creates inaccurate and misleading results. In the last 12 months, Veri-Q has shown that the presence of these impurities has a significant affect on the performance of gene expression analysis using microarrays. Two high profile scientific papers are in press awaiting publication.

Commercial discussions with prospective licencees started in 2005 and certain pilot projects have been undertaken and are in process. The prospects for these reagents look attractive and Veri-Q intends to outlicence the technology principally as QC reagents in RNAi and for DNA microarrays as soon as practicable.

In May 2005, Proteome Sciences converted its loan into further stock in Veri-Q, increasing its shareholding to 76.9 per cent.

Intronn Inc.

Following the development of the high capacity screen, the main objective was to apply SMaRT® successfully in RNA therapeutics in liver disease by demonstrating in-vivo proof of principle for one of its three primary programmes in haemophilia, dyslipidemia (hypercholesterolemia) or AAT deficiency.

Chairman's Statement (continued)

Considerable progress was made in 2005, initially in March by confirming in-vivo proof of principle in dyslipidemia, followed in June by the successful stimulation of the production of the protein component of good cholesterol (HDL) which confirmed SMaRT® transplicing at the RNA level. To put this into context, there are two types of cholesterol, good cholesterol (HDL) and bad cholesterol (LDL). For a healthy population, the goal is to raise the HDL levels and to lower the LDL levels, and whilst statins (a high value class of drugs) are able to lower levels of LDL, they do not moderate HDL levels. The development of SMaRT® HDL may therefore provide a very positive improvement in increasing HDL levels, which may be further enhanced with the use of statins.

Having achieved significant increase in the level of HDL, further studies have been undertaken over the course of the year which have continued to reproduce the same high levels of improvement in the protein component of HDL. These results have provided the backcloth for Intronn to start to prepare the design for a human clinical trial to assess the ability to raise HDL levels, the timing of which will become more defined in the second half of 2006.

In the interim report, it was announced that the AAT programme had successfully completed in-vivo proof of principle with SMaRT® for the first time. Good progress has continued to be made with AAT and we are pleased to announce that exciting in-vivo proof of principle results have now also been generated in the haemophilia programme (Factor VIII) where the levels of Factor VIII have been significantly increased using SMaRT® transplicing. These results have subsequently been repeated with similar outcomes and have been achieved nearly twelve months ahead of schedule. Development of the pre-transplicing molecules (PTM) for human studies in haemophilia is straightforward, and with the benefit of the results and data from other programmes using SMaRT®, it suggests that Phase 1 studies for haemophilia could be significantly earlier that previously considered.

As expected, the funding provided in 2004 has taken Intronn through into 2006 and up to the position where it can now prepare for clinical trials. Intronn has been in active discussions with a broad range of commercial parties to establish strategic partners/alliances for the clinical and commercial development of SMaRT® across its main programmes and in advanced negotiations to secure further funding to move SMaRT® RNA therapy into clinical trials for dyslipidemia and haemophilia. That process has not as yet been completed and, in order to protect the valuable SMaRT® technology/intellectual property, the US Board for the time being has downsized and focussed the scale of its research activities until the process is completed.

In conclusion, the science has moved on strongly last year and into 2006 with in-vivo proof of principle achieved in the three lead programmes, and with the design of clinical trials now underway for dyslipidemia and haemophilia.

Results

The financial results for the twelve month period ended 31st December 2005 show a headline loss (being the loss for the financial year excluding non-cash costs and share of associate company's losses) of £4,166,673 compared with £4,016,637 in 2004. Non cash costs (amortisation of goodwill, amounts written off fixed asset investment, depreciation and National Insurance on notional share option gains, as extracted from the profit and loss account) were £1,262,689 against £589,198 in 2004. The period to 31st December 2005 also contains a share of associate's losses at Intronn Inc. of £735,684 (2004 : £593,366). The loss on ordinary activities after taxation for the twelve month period ended 31st December 2005 was £6,165,046 (2004: £5,199,201). The net cash outflow from operating activities for the year was £4,908,985 (2004 : £4,542,774).

At the year end, cash held on deposit stood at £2,587,155 (2004: £2,425,943).

The cash spend in 2005 was consistent with previous years and this pattern is expected to continue in 2006. The licences announced this year to date and the commercialisation anticipated, combined with grant income and the R&D tax credit, *should provide significant cash inflows and have a positive effect on the financial requirements of the Company.* In addition, in order to provide further working capital, a loan facility of up to £2 million has been made available to the Company from C.D.J. Pearce, the Chief Executive, full details of which are disclosed in Note 29(b) to the accounts.

The directors have assumed that the timing of the cash inflows from the anticipated commercial income will be appropriate to meet the cash requirements of the business; however, the margin of cash available over the cash requirements is not large and, inherently, there can be no certainty in relation to these matters.

Having regard to the assumptions made in respect of the timing of receipt of the anticipated commercial income, combined with grant income, the R&D tax credit and other cash inflows, including the loan facility of up to £2 million made available by C.D.J. Pearce, the directors continue to adopt the going concern basis in preparing the accounts, and accordingly the financial statements do not contain any adjustments that would result if sufficient commercial income were not to be received on a timely basis.

In relation to the loan facility from C.D.J. Pearce, the Directors of the Company, (with the exception of C.D.J. Pearce who, in view of his interest in the transaction, has taken no part in the consideration thereof), having consulted with its nominated adviser, consider that the terms of this transaction are fair and reasonable insofar as shareholders are concerned.

On 29th December 2005, the company filed a claim in the District Court of Frankfurt am Main ("the Court") against Sanofi-Aventis Deutschland GmbH ("Sanofi-Aventis") under which it is seeking damages, amongst other things, for the breach of certain warranties provided by Sanofi-Aventis at the time of the acquisition of Xzillion Proteomics GmbH & Co. KG (now Proteome Sciences R&D GmbH & Co. KG) on 4th July 2002. On 7th June 2006 Sanofi-Aventis filed a notice with the Court of its intention to defend the claim.

Full provision for all costs arising in 2005 in connection with the claim has been made in the 2005 financial statements. Whilst it is not possible to predict the outcome of this matter, the Directors intend to pursue this action vigorously and will keep shareholders informed of material developments.

Current Outlook

The recent text of the U.S. FDA's Critical Path Initiative has considerably raised the profile and potential to use biomarkers and biomarker data to accelerate and improve drug development and to expand the advancement of personalised medicine which has been reflected by the pharmaceutical industry's increasing awareness of the value and importance of biomarkers in improving clinical development.

At the same time, the FDA has clearly signalled its willingness to widen the scope of biomarker data that it will consider in voluntary submissions for new drug approval applications, specifically stating it is "open minded" to reviewing proteomic biomarkers. This is a significant and positive result which augurs well for the position and results that the company has established from its research.

The Board is encouraged by the recent progress that has been achieved in advancing and concluding licences and remains convinced that it will successfully commercialise the three main areas of the company's research: biomarkers, ProteoSHOP® and TMT®. It would also like to re-affirm to shareholders that it attaches the highest priority to the completion of further external licences and looks to the future prospects with increasing confidence.

Steve Harris
Chairman

30th June, 2006

Directors' report

For the year ended 31st December 2005

The Directors present their annual report on the affairs of the Group, together with the financial statements and independent auditors' report, for the year ended 31st December 2005.

Directors' responsibilities

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the results of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent, and
- state whether applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records which 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 the system of internal control, 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.

Principal activity and business review

The principal activity of the Group is research and development primarily in the field of proteomics, both through proprietary research and through collaborative agreements with a number of prestigious academic institutions.

The Group is involved in research to identify biomarkers, primarily in blood, the presence of which may be used to identify specific disease states, and in the development of associated diagnostic techniques and clinical applications. The Group's research largely concentrates on proteins relating to neurological diseases, neurodegeneration, cardiovascular, cancers, rejection after solid organ transplantation, diabetes and obesity.

Intronn Inc., an associate company in which the Group has an interest of 42.69%, (assuming full conversion of Intronn Inc.'s convertible stocks), has developed a proprietary method for modification of gene expression, spliceosome mediated RNA technology, or SMaRT™, with a broad spectrum of potential applications, ranging from RNA therapies for inherited genetic disorders, cancer, cholesterol, haemophilia, repair of genetic mutations (such as those causing cystic fibrosis) and to addressing the modification of gene expression in plants.

Veri-Q Inc., a subsidiary company in which the Group has an interest of 76.9%, is developing technologies for the quality control of synthetic oligonucleotides, and is well placed to benefit from the anticipated expansion of antisense and RNA interference therapeutics.

Further details of the Group's performance during the year and expected future developments are contained in the Chairman's statement.

Results and dividends

Following the loss after tax of £6,165,046 (2004: £5,199,201) incurred in the year, the Directors do not recommend the payment of a dividend (2004 : £nil). The Group results are described in the profit and loss account on page 22.

Directors' report (continued)

Directors and their interests

The Directors who served during the year are as shown below:

R.S. Harris	Non-Executive, Chairman
C.D.J. Pearce	Chief Executive
J.L. Malthouse	Finance Director
A.J. Green	Commercial Director
Dr. S.C. Steiner	Research & Development Director (resigned as a Director on 30th September 2005)
Professor W. Dawson	Non-Executive
Dr. A.E.A. Lindberg	Non-Executive

In accordance with the Company's articles, C.D.J. Pearce and A.J. Green retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election. .

The Directors at 31st December 2005 and their interests in the share capital of the Company were as follows:

a) Beneficial interests in Ordinary Shares:

Name of Director	31st December 2005 Number of Ordinary Shares of 1p each	31st December 2004 * Number of Ordinary Shares of 1p each
R.S. Harris	153,000	153,000
C.D.J. Pearce	5,654,951	5,012,111
J.L. Malthouse	300,000	300,000
A.J. Green	-	-
Professor W. Dawson	15,124	15,124
Dr. A.E.A. Lindberg	-	-

No changes in the beneficial interests of the Directors took place between 31st December 2005 and 30th June, 2006.

* or date of appointment if later

Directors' report (continued)

Directors and their interests (continued)

b) Number of Ordinary Shares under option:

		Number at 31st December 2004*	Granted in the year	Exercised in the year	Lapsed in the year	Number at 31st December 2005	Exercise price (pence)	Date of grant
C.D.J. Pearce	(i)	81,395	-	-	(81,395)	-	172p	22nd December 1995
(iii)	(ii)(v)(vi)	450,000	-	-	(450,000)	-	37p	19th May 1998
	(ii)	433,124	-	-	-	433,124	45p	20th April 2000
	(ii)	126,190	-	-	-	126,190	89p	12th January 2001
	(ii)	500,000	-	-	-	500,000	69.5p	5th June 2002
	(ii)	555,743	-	-		555,743	50.5p	29th January 2003
	(ii)	264,255	-	-	-	264,255	117.5p	9th July 2004
	(vi)	-	450,000	-	-	450,000	37p	3rd June 2005
		2,410,707	450,000	-	(531,395)	2,329,312		
J.L. Malthouse	(i)	52,326	-	-	(52,326)	-	172p	22nd December 1995
	(ii)(v)(vi)	375,000	-	-	(375,000)	-	37p	19th May 1998
	(ii)	200,000	-	-	-	200,000	61p	30th March 2000
	(ii)	51,671	-	-	-	51,671	89p	12th January 2001
	(ii)	325,000	-	-	-	325,000	69.25p	5th June 2002
	(ii)	342,653	-	-	-	342,653	50.5p	29th January 2003
	(ii)	159,574	-	-	-	159,574	117.5p	9th July 2004
	(vi)	-	375,000	-	-	375,000	37p	3rd June 2005
		1,506,224	375,000	-	(427,326)	1,453,898		
A.J. Green	(i)	52,631	-	-	-	52,631	57p	17th June 2002
	(ii)	297,369	-	-	-	297,369	57p	17th June 2002
	(ii)	350,495	-	-	-	350,495	50.5p	29th January 2003
	(ii)	157,021	-	-	-	157,021	117.5p	9th July 2004
		857,516	-	-	-	857,516		

* or date of appointment if later

(i) Denotes options granted under the Approved Scheme which was adopted in 1995. The options are exercisable on or after the third anniversary of the date of the grant (or, if earlier, the date on which any shares in the Company are first admitted to the Official List of the London Stock Exchange) and will lapse on the tenth anniversary of the date of grant.

Directors and their interests (continued)

(ii) Denotes options granted under the Unapproved Scheme which was adopted in 1994. The options are exercisable on or after the third anniversary of the date of grant (or, if earlier, the date on which any shares in the Company are first admitted to the Official List of the London Stock Exchange) and will lapse on the seventh anniversary of the date of grant.

(iii) Under an agreement dated 31st March 1993, Proteome Sciences, Inc. granted to C.D.J. Pearce an option to purchase 99,998 $0.001 shares of Proteome Sciences, Inc. Common Stock at $7.50 per share, of which 35,714 were exchanged for shares in the Company under a Warrant Exchange agreement described in note 21 (iii) (the "Warrant Exchange"). C.D.J. Pearce was entitled to exercise 10,714 options a year in each of the years 1995 to 2000. The option originally terminated on the earlier of 15th April 2000 or the termination of his employment with the Company.

On 20th April 2000, following the approval of shareholders at an Extraordinary General Meeting of the Company held on that day, the term of the warrant was extended so that, subject to Mr. Pearce's continuing employment with the company, it would expire on 15th April 2005.

Accordingly, pursuant to the terms of the Warrant Exchange, on the exercise of all his outstanding warrants in respect of Proteome Sciences, Inc. Common Stock, Mr. Pearce had a right to receive up to 642,840 Ordinary Shares of 1p each in the Company in exchange for such Proteome Sciences, Inc. Common Stock.

This warrant was exercised in full on 31st March 2005.

(iv) Details of options to Directors lapsing during the year are set out in (b) above.

(v) Denotes options granted under the Unapproved Share Option Scheme.

The exercising of the options is dependent upon the future development of the business and the generation of revenue streams.

(vi) On 3rd June 2005 options were granted to C.D.J. Pearce and J.L. Malthouse to replace options under the Unapproved Share Option Scheme which lapsed on the 19th May 2005, when the company was in a close period.

The options, which are on similar terms to those lapsing on the 19th May 2005, are exercisable for a period of one month from the date of grant, except if the Company enters into an unforeseen close period during that month in which case the new options will be exercisable for a period of one month from the end of that close period.

The options granted were as follows:

	Number of Shares	Exercise Price Per Share
C.D.J. Pearce	450,000	37p
J.L. Malthouse	375,000	37p

c) Directors' interests in the Long-Term Incentive Plan ("LTIP"):

The maximum number of shares to be allocated to the directors under the LTIP, in each case for an aggregate consideration of £1, are as follows:

	Number at 31st December 2004	Granted in the Year	Number at 31st December 2005	First Vesting Date
C.D.J. Pearce	425,675	-	425,675	1st October 2007
J.L. Malthouse	198,648	-	198,648	1st October 2007
A.J. Green	184,459	-	184,459	1st October 2007

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to in the LTIP section on page 17. The figures shown are maximum entitlements and the actual number of shares (if any) will depend on these performance conditions being achieved.

Awards made have no performance retesting facility.

The market price at the date of grant of the above awards was 74p.

d) The market price of the Ordinary Shares at 30th December 2005 was 71p and the range during the year was 54p to 100p.

Non-executive Directors

R. Steve Harris, Chairman, is a Fellow of the Royal Pharmaceutical Society. Until June 1995 he was Director of Development and Licensing at Medeva plc. He has worked in the pharmaceutical industry for 40 years including ICI, Merck Sharp & Dohme, Eli Lilly, Boots, Reckitt and Colman, and Gensia. He is a non-executive Director of Skye Pharma plc, Premier Research plc, Advanced Medical Solutions plc and GeneMedix plc, and is the non-executive Chairman of Sinclair Pharma plc and Convé plc.

Professor William Dawson retired from Eli Lilly and Company in August 1996 after 27 years' service, 14 as Research Director in the UK and latterly as Director of Technology Acquisition, Europe. He is a Director of Bionet Limited, Creative Peptides Limited, Onyvax Limited, Antitope Limited and a Governor of the University of Brighton, a Fellow of the Royal Pharmaceutical Society and of the Royal Society of Chemistry.

Dr. Alf A. Lindberg retired from his position as Executive Vice President of Research & Development at Aventis Pasteur in 2001. Before that he held the same position at Wyeth Vaccines between 1992 and 1995. From 1982 to 1992 he was Professor of Clinical Bacteriology at the Huddinge University Hospital, Karolinska Institute, Stockholm, Sweden. He is a consultant to the biotech and pharmaceutical industry and a non-executive Director of Avant Immunotherapeutics in the United States of America, Pharmexa A/S in Denmark and Medivir AB and Catella Health Care in Sweden.

Directors' report (continued)

Substantial shareholdings

As at 28th June, 2006, the Company had received notification, in accordance with Sections 198 to 208 of the Companies Act 1985 of the following significant interests in the ordinary share capital of the Company:

Name of Holder	Number of Ordinary Shares	Percentage of issued Ordinary Share Capital
C.D.J. Pearce	5,654,951	4.30
Sanofi-Aventis Deutschland GmbH	18,000,000	13.69
Man Financial Limited	5,302,476	4.03
Credit Agricole Cheuvreux International Limited	8,094,933	6.16
Fidelity International Limited & FMR Corp.	10,459,773	7.96

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and by circulation of copies of the interim and annual accounts. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Corporate Governance

Although, as a Company listed on the Alternative Investment Market of the London Stock Exchange, the Company is not required to make a formal statement setting out the extent of its compliance with the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 (the "Combined Code"), the policy of the Board of Directors of the Company (the "Board") is to try to manage the affairs of the Company in accordance with the principles of the Combined Code insofar as it considers it practical to do so and is appropriate for a company of its size.

The Company has formalised the following matters by Board resolution:

- a formal schedule of Board responsibilities;
- the procedure for Directors to take independent professional advice if necessary, at the Company's expense;
- the procedure for the nomination and appointment of non-executive Directors, for specified periods and without automatic re-appointment; and
- establishment of and written terms of reference for an audit committee and remuneration committee.

Directors' report (continued)

Internal control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of accurate financial information and the safeguarding of assets.

The key features of the internal control system that operated throughout the year are described under the following headings:-

- *Control environment:* particularly the definition of the organisation structure and the appropriate delegation of responsibility to operational management.

- *Identification and evaluation of business risks and control objectives:* particularly through a formal process of consideration and documentation of risks and controls which is periodically undertaken by the Board.

- *Main control procedures:* which include the setting of annual and longer term budgets and the monthly reporting of performance against them, agreed treasury management and physical security procedures, formal capital expenditure and investment appraisal and approval procedures and the definition of authorisation limits (both financial and otherwise).

- *Monitoring:* particularly through the regular review of performance against budgets and the progress of research activities undertaken by the Board.

The Board reviews the operation and effectiveness of this framework on a regular basis. The Directors consider that there have been no weaknesses in internal controls that have resulted in any losses, contingencies or uncertainties requiring disclosures in the accounts.

Going concern

Having regard to the assumptions made in respect of the timing of receipt of the anticipated commercial income and the other cash inflows, including the loan facility of up to £2 million made available by Christopher Pearce, the Chief Executive (see note 29(b) to the accounts for details of the conditions relating to this loan facility), the directors continue to adopt the going concern basis in preparing the accounts and accordingly the financial statements do not contain any adjustments that would result if sufficient commercial income were not to be received on a timely basis. Given the above, there is a material uncertainty which may cast significant doubt as to the company's ability to continue as a going concern.

Remuneration committee report

The Remuneration Committee is made up of two non-executive Directors, Professor W. Dawson and R.S. Harris. The role of the Committee is to make recommendations to the Board, within its agreed terms of reference, on the Company's framework of executive remuneration and its cost and to determine specific remuneration packages for each of the executive Directors. The remuneration of non-executive Directors is fixed by the Board as a whole.

The remuneration policy for Executive Directors and senior employees is to ensure that they are rewarded competitively and in line with their individual performance.

Full details of the remuneration packages of individual Directors and information on share options and long-term incentive schemes are set out in note 8 to the accounts and in the Directors' report. Following a review by Halliwell Consulting of the existing executive remuneration and share option arrangements, proposals for the adoption of new share plans were approved by shareholders on 4th August 2004, and the Committee views the Long-Term Incentive Plan, introduced in 2004, as the most appropriate vehicle for long-term incentivisation for executive directors and other key executives.

All employees, except for participants in the LTIP, can be granted options over shares in the Company under the Company's 2004 Share Option Plan, under which both Enterprise Management Incentive options and unapproved options may be granted.

The share option schemes are designed to incentivise employees to achieve genuine performance targets, and options are normally granted annually, in line with market practice.

The objectives of the LTIP are to align the interests of executives with those of shareholders by making a significant part of remuneration dependent on the success of management in delivering superior returns to shareholders, and to ensure that the total remuneration package is sufficiently competitive in the relevant markets to attract and retain high-calibre executives.

Awards under the LTIP are made subject to performance conditions determined by the Committee. Executive directors currently receive a maximum annual award of 150% of annual base salary, payable in shares over a three year vesting period.

The release of shares to participants will depend upon growth in Proteome Sciences' total shareholder return (TSR) over a three-year performance period relative to a comparator group of companies at the start of that period. TSR is the aggregate of share price growth and the value of dividend payments during the performance period. No shares will be released unless the Company's TSR performance is in the median position of the comparator group with full vesting only if the Company is in the upper quartile. 30% of the award will vest if performance is at the median, and where performance is between the 50th and 75th percentiles awards will vest on a straight line basis.

TSR was selected by the Committee to be the appropriate measure for this plan as it believes it to be a long-term indication of financial success and one which is acceptable to shareholders.

In view of the Company's dependence on its key executives, the service contracts of Mr. Pearce and Mr. Malthouse were amended during 1997 to provide for a notice period of not less than 2 years. A.J. Green has a contract with a notice period of one year.

Creditor payment policy

It is the policy of the Group to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, providing that the supplier has also complied with them. As the Company owed no amounts to trade creditors at 31st December 2005, the number of days to be shown in this Report, to comply with the provisions of paragraph 12(3) of Part VI of Schedule 7 to the Companies Act 1985, is nil (2004: nil). The equivalent figure for the Group is 33 days (2004: 11 days).

Auditors

The Directors will place a resolution before the Annual General Meeting to re-appoint Deloitte & Touche LLP as auditors for the ensuing year.

Liability insurance for Company officers

As permitted by the Companies Act 1985 (as amended), the Company has purchased insurance cover for the Directors against liabilities that might arise in relation to the Company.

Directors' report (continued)

Special business at the Annual General Meeting

At the Annual General Meeting of the Company to be held on 27th July, 2006, as well as the routine business, the following items will be proposed as Special Business:

i) An Ordinary Resolution 5, as set out in the Notice on page 51, will be proposed to increase the authorised share capital of the company from £1,800,002 to £2,300,002. Whilst the Directors do not have any present intention of issuing further shares, they consider it prudent to create some headroom should any opportunity or need arise in the future requiring the issue of further shares.

ii) An Ordinary Resolution (Resolution 6), as set out in the Notice on page 51, will be proposed to renew the Directors' authority to allot relevant securities up to an aggregate nominal amount of £433,788.78 which represents approximately 33 per cent of the current issued Ordinary Share capital of the Company as at 30th June, 2006. The authority will lapse five years from the date on which the resolution is passed. The Directors do not have any present intention of exercising this authority.

iii) Resolution 7, which is set out in the Notice on page 52, will be proposed as a Special Resolution of the Company. The Resolution will renew the Directors' authority under Section 95 of the Companies Act 1985 to disapply pre-emption rights, thereby enabling the allotment of a limited number of shares for cash up to an aggregate nominal amount of £131,451.14, representing 10 per cent of the current issued Ordinary Share capital of the Company as at 30th June, 2006. The proposed authority, if granted, will expire at the conclusion of the next Annual General Meeting after the passing of the Resolution or the period of fifteen months after the passing of the Resolution, whichever is the earlier.

Coveham House
Downside Bridge Road
Cobham
Surrey KT11 3EP

30th June, 2006

By order of the Board,

J.L. Malthouse
Company Secretary

Independent auditors' report

For the year ended 31st December 2005

To the Members of Proteome Sciences plc

We have audited the group and individual financial statements of Proteome Sciences plc for the year ended 31st December 2005 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities in the Directors' report. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are 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 other transactions is not disclosed.

We read the Directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 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.

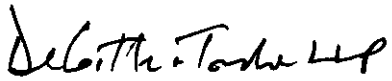
Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company and of the Group as at 31st December 2005 and of the loss of the Group for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Emphasis of matter – Going concern

Without qualifying our opinion, we draw attention to the disclosures made in note 2(b) of the financial statements concerning the Group's ability to continue as a going concern. The Group incurred a net loss of £6,165,046 during the year ended 31st December 2005, with a headline loss of £4,166,673 (being the loss for the financial year excluding non-cash costs and share of associate company losses) and a net cash outflow from operating activities of £4,908,985. This, along with other matters as set forth in Note 2(b), indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Southampton, United Kingdom

Date: 30th June, 2006

Consolidated profit and loss account

For the year ended 31st December 2005

	Notes	2005	2004
		£	£
Turnover – continuing operations	2, 3	16,200	72,971
Cost of sales		(11,340)	(40,801)
Gross profit		4,860	32,170
Administrative expenses excluding non-cash items		(4,764,026)	(4,655,426)
Amortisation of goodwill		(648,960)	(648,960)
Depreciation		(425,843)	(529,313)
National Insurance on notional share option gains		(75,008)	701,953
Administrative expenses	4	(5,913,837)	(5,131,746)
Operating loss – continuing operations		(5,908,977)	(5,099,576)
Share of associate's operating loss	16	(735,684)	(593,366)
Group operating loss – continuing operations		(6,644,661)	(5,692,942)
Interest receivable and similar income		140,628	151,969
Interest payable and similar charges	5	(882)	(1,942)
Amounts written off fixed asset investment	15	(112,878)	(112,878)
Loss on ordinary activities before taxation	3, 6	(6,617,793)	(5,655,793)
Tax credit on loss on ordinary activities	9	452,747	456,592
Loss for the financial year	22	(6,165,046)	(5,199,201)
Headline loss		(4,166,673)	(4,016,637)
Loss per share			
Basic and diluted loss per share	10	(4.77p)	(4.27p)
Headline loss per share		(3.22p)	(3.30p)

Reconciliation of loss per share to headline loss per share

The headline loss and headline loss per share is presented by the Directors as an additional measurement of financial performance. The calculations of headline loss per ordinary share are based on the following losses and on the numbers of shares shown in note 10.

	2005	2005 Loss per share	2004	2004 Loss per share
	£	pence	£	pence
Loss for the financial year	(6,165,046)	(4.77)	(5,199,201)	(4.27)
Add back/(deduct):				
Amortisation of goodwill	648,960	0.50	648,960	0.53
Amounts written off fixed asset investment	112,878	0.09	112,878	0.09
Depreciation	425,843	0.33	529,313	0.44
National Insurance on notional share option gains	75,008	0.06	(701,953)	(0.58)
Share of associate's operating loss	735,684	0.57	593,366	0.49
Headline loss	(4,166,673)	(3.22)	(4,016,637)	(3.30)

Consolidated statement of total recognised gains and losses

For the year ended 31st December 2005

	2005 £	2004 £
Loss for the financial year	(6,165,046)	(5,199,201)
Gain/(loss) on foreign currency translation	73,840	(19,850)
Gain on deemed part disposal of associate	111,536	-
Total recognised losses relating to the year	(5,979,670)	(5,219,051)

A Statement of movements on reserves is given in note 22.

Consolidated balance sheet

As at 31st December 2005

	Notes	2005 £	2004 £
Fixed assets			
Intangible assets	11, 12	4,218,241	4,867,201
Tangible assets	13	489,058	740,662
Investments in associates	16	954,837	1,514,792
Other investments	15	-	112,878
		5,662,136	7,235,533
Current assets			
Debtors	17	1,326,592	680,924
Cash held on deposit as short term investment		1,900,000	1,800,000
Cash at bank and in hand		687,155	625,943
		3,913,747	3,106,867
Creditors: Amounts falling due within one year	18	(1,433,260)	(1,387,097)
Net current assets		2,480,487	1,719,770
Total assets less current liabilities		8,142,623	8,955,303
Creditors: Amounts falling due after more than one year	19	(188,043)	(123,000)
Provisions for liabilities and charges	20	(103,937)	(28,929)
Net assets		7,850,643	8,803,374
Capital and reserves			
Called-up share capital	21	1,314,512	1,225,418
Share premium account	22	29,145,773	24,207,928
Other reserve	22	10,755,000	10,755,000
Profit and loss account	22	(33,364,642)	(27,384,972)
Equity shareholders' funds	23	7,850,643	8,803,374

Signed on behalf of the Board

C.D.J. Pearce Director

J.L. Malthouse Director

30th June, 2006

The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet

As at 31st December 2005

	Notes	2005 £	2004 £
Fixed assets			
Investments	14	30,937,839	26,025,232
Current assets			
Debtors	17	4	4
Cash held on deposit as short term investment		1,900,000	1,800,000
Cash at bank and in hand		522,354	422,597
		2,422,358	2,222,601
Creditors: Amounts falling due within one year	18	(247,333)	(254,879)
Net current assets		2,175,025	1,967,722
Total assets less current liabilities		33,112,864	27,992,954
Provisions for liabilities and charges	20	(103,937)	(28,929)
Net assets		33,008,927	27,964,025
Capital and reserves			
Called-up share capital	21	1,314,512	1,225,418
Share premium account	22	29,145,773	24,207,928
Group reconstruction reserve	22	1,082,244	1,082,244
Profit and loss account	22	1,466,398	1,448,435
Equity shareholders' funds		33,008,927	27,964,025

Signed on behalf of the Board

C.D.J. Pearce Director

J.L. Malthouse Director

30th June, 2006

The accompanying notes are an integral part of this Company balance sheet.

Consolidated cash flow statement

For the year ended 31st December 2005

	Notes	2005 £	2004 £
Net cash outflow from operating activities	24	(4,908,985)	(4,542,774)
Returns on investments and servicing of finance	25	139,746	150,027
Taxation		-	622,337
Capital expenditure and financial investment	25	(181,334)	(2,122,149)
Cash outflow before use of liquid resources and financing		(4,950,573)	(5,892,559)
Management of liquid resources	25	(100,000)	2,995,161
Financing	25	5,111,785	2,158,118
Increase/(decrease) in cash in the year	26	61,212	(739,280)

The accompanying notes are an integral part of this consolidated cash flow statement.

Notes to the financial statements (continued)

1 Principal activity

The principal activity of the Group is research and development, primarily in the field of proteomics, both through proprietary research and collaborative agreements with a number of prestigious academic institutions.

2 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a) Basis of accounting

The financial statements are prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards.

b) Basis of preparation – Going concern

The cash spend in 2005 was consistent with previous years and this pattern is expected to continue in 2006. The licences announced this year to date and the commercialisation anticipated should provide significant cash inflows and have a positive effect on the financial requirements of the Company. In addition, in order to provide further working capital, a loan facility of up to £2 million has been made available to the Company from C.D.J. Pearce, the Chief Executive, full details of which are disclosed in Note 29(b) to the accounts.

The directors have assumed that the timing of the cash inflows from the anticipated commercial income will be appropriate to meet the cash requirements of the business; however, the margin of cash available over the cash requirements is not large and, inherently, there can be no certainty in relation to these matters.

Having regard to the assumptions made in respect of the timing of receipt of the anticipated commercial income and the other cash inflows, including the loan facility of up to £2 million made available by C.D.J. Pearce, the directors continue to adopt the going concern basis in preparing the accounts, and accordingly the financial statements do not contain any adjustments that would result if sufficient commercial income were not to be received on a timely basis.

Given the above, there is a material uncertainty which may cast significant doubt as to the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

c) Basis of consolidation

The Group financial statements consolidate the accounts of Proteome Sciences plc and all its subsidiary undertakings made up to 31st December 2005 using the acquisition method of accounting. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

No profit and loss account is presented for Proteome Sciences plc as provided by section 230 of the Companies Act 1985. The Company's profit for the year, determined in accordance with the Act, was £17,963 (2004: £847,339).

d) Turnover

Turnover represents earned income from collaborative agreements, licence fees, option fees, revenue grants and customers in respect of goods supplied and services rendered. Such income is recognised in the period in which the goods or services are provided unless it is related to the achievement of specified objectives in which case it is recognised when those objectives have been met. All amounts exclude Value Added Tax.

Revenues from collaborative research agreements which are related to time are recognised evenly over the period specified in the respective agreements. Revenues from collaborative research agreements which are related to the achievement of specified objectives are recognised when those objectives have been met. The balance of advance payments are treated as deferred income.

2 Accounting polices (continued)

e) Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. The Directors believe that ten years is a suitable period over which to amortise the goodwill based on the expected benefits to be derived from the technology acquired.

Provision is made for any impairment.

Goodwill arising on acquisitions in the year ended 31st December 1997 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard, the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

f) Research and development expenditure and patent costs

Research and development expenditure and patent costs (comprising legal fees and other direct costs incurred in obtaining patents) are written off in the year of expenditure.

g) Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Laboratory equipment, fixtures and fittings	5 years (20% per annum)
Motor vehicles	4 years (25% per annum)

h) Investments

Fixed asset investments are shown at cost less provision for impairment. Provisions are made for permanent diminutions in value. Provisions for temporary fluctuations in value are not made. In the Company's accounts, investments in subsidiary undertakings are stated at cost less amounts written off. Only dividends received and receivable are credited to the Company's profit and loss account.

i) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

2 Accounting polices (continued)

j) Pension costs

The Group operates both defined benefit and defined contribution pension schemes.

For defined contribution schemes the amounts charged to the profit and loss account are the contributions payable in the year. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested.

The two defined benefit schemes are multi-employer schemes, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. The Group's share of the net assets and liabilities are not separately identifiable. The majority of the employees of the scheme are employees of companies other than group companies. The amounts charged to the profit and loss account are the contributions payable in the year.

k) Foreign currency

In the accounts of individual undertakings, transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction (or, where appropriate, at the rate of exchange in a related forward exchange contract). Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date (or, where appropriate, at the rate of exchange in a related forward exchange contract). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

The results of overseas subsidiary undertakings and their balance sheets are translated at the closing rates of exchange for the year. Exchange differences arising on the translation of the opening net assets or liabilities and results of such overseas operations are dealt with through reserves.

l) Leases

Leasing agreements, which transfer to the Group substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over their lease term to their expected residual values. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

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

m) Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

Where grants are repayable if the related project achieves commercial success, the balance is recorded within creditors and released to the profit and loss account in the event that the project did not achieve commercial success.

n) Derivatives and other financial instruments

The Group's financial instruments comprise cash, liquid resources and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

2 Accounting polices (continued)

The Group does not enter into derivative transactions. It has been, throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged during the year.

Interest rate risk

The Group finances its operations through existing funds placed on the money markets. The risk is that movements in interest rates will affect investment income from cash on deposit. The risk is managed by monitoring of banking arrangements.

Foreign currency risk

The Group has one overseas subsidiary which operates in Germany and whose revenues and expenditure are denominated mainly in euros and two overseas subsidiaries which operate in the United States of America and whose revenues and expenditure are denominated mainly in US dollars.

The Group does not use foreign currency contracts.

o) Associates

In the Group financial statements, investments in associates are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of associates' profits less losses, while the Group's share of the net assets of the associates is shown in the consolidated balance sheet.

3 Segment information

All amounts derive from the Company's principal activity.

Geographical segments:

	United Kingdom		Germany		US		Group	
	2005	2004	2005	2004	2005	2004	2005	2004
	£	£	£	£	£	£	£	£
Turnover by destination and origin:								
Sales to third parties	16,200	54,130	-	18,841	-	-	16,200	72,971
Segment loss	(3,791,138)	(2,550,387)	(2,184,192)	(2,615,139)	(782,209)	(640,294)	(6,757,539)	(5,805,820)
Net interest receivable/(payable)	136,882	144,932	2,925	5,092	(61)	3	139,746	150,027
Loss on ordinary activities before tax	(3,654,256)	(2,405,455)	(2,181,267)	(2,610,047)	(782,270)	(640,291)	(6,617,793)	(5,655,793)
Segment net assets/(liabilities) (excluding associates)	6,897,238	7,410,238	(543)	(65,537)	(889)	(56,119)	6,895,806	7,288,582
Share of associates' net assets / goodwill					954,837	1,514,792	954,837	1,514,792
Net assets					953,948	1,458,673	7,850,643	8,803,374

4 Administrative expenses

	2005	2004
	£	£
Administrative expenses excluding research and development	(2,782,018)	(1,654,736)
Research and development expenses	(3,131,819)	(3,477,010)
Administrative expenses	(5,913,837)	(5,131,746)

5 Interest payable and similar charges

	2005	2004
	£	£
Bank loans, overdrafts and other loans	882	1,048
Charges payable under hire purchase contracts	-	894
	882	1,942

6 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2005	2004
	£	£
Depreciation and amounts written off tangible fixed assets		
- owned	425,843	492,313
- held under hire purchase contracts	-	37,000
Research and development	3,131,819	3,477,010
Amortisation of goodwill	648,960	648,960
Amortisation of associate company goodwill	90,485	45,243
Amounts written off fixed asset investment	112,878	112,878
Operating lease rentals		
- other	184,330	275,287
Auditors' remuneration for audit services		
- Company	7,500	7,000
- Group	25,000	23,000
(Profit)/loss on sale of fixed assets	(5,805)	2,986

Amounts paid to the auditors in respect of non-audit services totalled £39,890 (2004: £21,364) and includes fees for taxation services of £31,585 (2004: £19,109).

7 Staff costs

The average monthly number of employees (including executive Directors) was:

	2005	2004
	Number	Number
Research and development	32	34
Administration	7	8
	39	42

Their aggregate remuneration (including that of executive Directors) comprised:	£	£
Wages and salaries	2,035,144	2,245,765
Social security costs	373,480	(380,278)
Other pension costs	182,291	123,057
	2,590,915	1,988,544

Social security costs shown above include a charge of £75,008 (2004: credit of £701,953) in respect of an increase (2004: decrease) in the provision for notional National Insurance contributions payable on unrealised share options gains.

Notes to the financial statements (continued)

8 Directors' remuneration and transactions

The Directors' emoluments in the year ended 31st December 2005, excluding pension costs, were:

	Basic salary £	Incentive payments £	Benefits in kind £	2005 £	2004 £
Executive Directors					
C.D.J. Pearce	225,000	-	7,545	232,545	232,142
J.L. Malthouse	140,208	-	21,579	161,787	160,833
A.J. Green	130,000	-	2,172	132,172	131,778
Dr. S.C. Steiner (i)	127,503	-	-	127,503	158,410
Non-Executive Directors					
Prof. W. Dawson	27,500	-	-	27,500	27,500
R.S. Harris	38,000	-	-	38,000	38,000
Dr.A.E.A.Lindberg (ii)	25,000	-	-	25,000	6,250
	713,211	-	31,296	744,507	754,913

(i) Resigned as a Director on 30th September 2005

(ii) Appointed as a Director on 1st October 2004.

(iii) The remuneration of the Executive Directors is decided by the Remuneration Committee.

(iv) Aggregate emoluments disclosed above do not include any amounts for the value of options to subscribe for Ordinary Shares in the Company granted to or held by the Directors.

(v) No options were exercised by Directors during the year.

(vi) Details of the options in place and of awards under the Company's Long-Term Incentive Plan are given in the Directors' Report on pages 12 to 14.

The number of Directors in pension schemes is as follows:

	2005	2004
Money purchase pension schemes	3	3

Pension costs in the year ended 31st December 2005 were as follows:

	2005 £	2004 £
C.D.J. Pearce	22,500	22,500
J.L. Malthouse	16,812	16,812
A.J. Green	12,000	12,000
	51,312	51,312

Dr. S.C. Steiner's basic salary included an allowance of £10,125 (2004: £12,000) to enable her to make her own pension arrangements.

8 Directors' remuneration and transactions (continued)

Directors' transactions

a) Professor W. Dawson is a shareholder in Bionet Ltd which provided consultancy services to the Company during the year at a cost of £7,485 (2004: £7,763).

b) Save as disclosed in (a) above, no Director had a material interest in any contract of significance with the Company in either year, but since the year end the company has entered into an agreement with C.D.J. Pearce, details of which are set out in note 29(b).

9 Tax credit on loss on ordinary activities

	2005	2004
	£	£
UK Corporation tax – R&D tax credit	526,000	502,589
Overseas tax charge	(43,499)	(112,890)
Adjustment in respect of prior period	(29,754)	66,893
Group tax credit for the year	452,747	456,592

The UK Corporation tax credit relates to research and development tax credits claimed under the Finance Act 2000.

At 31st December 2005 there were tax losses available for carry forward of approximately £27.3 million (2004: £18.5 million).

The tax credit and trading losses to be carried forward for the year are subject to the agreement of the Inland Revenue.

Factors affecting the tax credit for the period
The tax credit for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2005	2004
	£	£
Group loss on ordinary activities before tax	(6,617,793)	(5,655,793)
Tax credit on Group loss at standard UK Corporation tax rate of 30%	1,985,338	1,696,738
Effects of:		
Expenses not deductible for tax purposes	(272,646)	(223,261)
Fixed asset timing differences	(64,459)	(46,691)
R&D enhancement	352,178	332,811
Losses surrendered for R&D tax credit	(1,002,762)	(942,355)
Current year tax losses not recognised	(997,649)	(817,242)
Effect of overseas tax	(43,499)	(112,890)
R&D tax credit claimed	526,000	502,589
Adjustment in respect of prior period	(29,754)	66,893
Group tax credit for the year	452,747	456,592

Deferred tax assets of approximately £8.2 million (2004: £5.5 million) relating to losses, and approximately £18,000 (2004: liability of £60,000) relating to fixed asset timing differences have not been recognised as the directors are not certain of their recovery. The assets will be recovered if the group makes sufficient taxable profits in the future against which the losses can be utilised.

10 Loss per ordinary share

The calculations of basic and diluted loss per ordinary share are based on the following losses and numbers of shares.

	Basic and Diluted	
	2005	2004
	£	£
Loss for the financial year	(6,165,046)	(5,199,201)

	2005 Number of shares	2004 Number of shares
Weighted average number of ordinary shares:	129,243,696	121,648,577

The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per ordinary share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of Financial Reporting Standard 22.

11 Intangible fixed assets - patents

The movement in the year was as follows:

Group	Patent costs
	£
Cost : 1st January 2005 and 31st December 2005	94,799
Amortisation : 1st January 2005 and 31st December 2005	94,799
Net book value : 1st January 2005 and 31st December 2005	-

12 Intangible fixed assets - goodwill

	Goodwill £
Cost	
1st January 2005 and 31st December 2005	6,489,601
Amortisation	
1st January 2005	1,622,400
Charge for the year	648,960
31st December 2005	2,271,360
Net book value	
31st December 2004	4,867,201
31st December 2005	4,218,241

Goodwill relates to the acquisition of Proteome Sciences R&D GmbH & Co. KG in the year ended 31st December 2002. The goodwill is being amortised over 10 years.

13 Tangible fixed assets

Tangible fixed assets comprise laboratory equipment, fixtures and fittings and motor vehicles held by the Group. The movement in the year was as follows:

	Laboratory equipment, fixtures and fittings £	Motor vehicles £	Total £
Cost			
1st January 2005	2,202,373	26,293	2,228,666
Exchange adjustments	(36,435)	-	(36,435)
Additions during the year	168,705	19,150	187,855
Disposals during the year	(166,827)	(26,293)	(193,120)
31st December 2005	2,167,816	19,150	2,186,966
Depreciation			
1st January 2005	1,461,712	26,292	1,488,004
Exchange adjustments	(23,514)	-	(23,514)
Eliminated on disposals	(166,133)	(26,292)	(192,425)
Charge for the year	425,045	798	425,843
31st December 2005	1,697,110	798	1,697,908
Net book value			
31st December 2004	740,661	1	740,662
31st December 2005	470,706	18,352	489,058

The Company owned no fixed assets during either the current or preceding financial year.

14 Fixed asset investments

Company	Cost of shares in subsidiary undertakings £	Loans to subsidiary undertakings £	Associate undertakings £	Total £
At 1st January 2005	2,130,739	20,519,465	3,375,028	26,025,232
Additional investment in the year	116,010	4,796,597	-	4,912,607
At 31st December 2005	2,246,749	25,316,062	3,375,028	30,937,839

Principal Group investments

The Company has investments in the following subsidiary undertakings, which affect the net assets of the Group:

Principal subsidiary undertakings	Country of incorporation and operation	Principal activity	Description and proportion of shares held by the	
			Company	Group
Proteome Sciences R&D Verwaltungs GmbH	Germany	Administrative Company	100% Share Capital	100% Share Capital
Proteome Sciences R&D GmbH & Co. KG	Germany	Research Company	100% Partnership Interest	100% Partnership Interest
Xzillion GmbH & Co. KG	Germany	Administrative Company	100% Partnership Interest	100% Partnership Interest
Proteome Sciences, Inc.	U.S.A.	Research Company	100% Common Stock	100% Common Stock
Electrophoretics Limited	United Kingdom	Administrative and Research Company	100% Ordinary Shares	100% Ordinary Shares
Veri-Q Inc.	U.S.A.	Research Company	76.9% Common Stock	76.9% Common Stock
Phenomics Limited	United Kingdom	Dormant	100% Ordinary Shares	100% Ordinary Shares

14 Fixed asset investments (continued)

(i) The investments in Proteome Sciences, Inc., Electrophoretics Limited and Phenomics Limited comprise the entire issued share capital of each subsidiary undertaking and carry 100% of the voting rights.

(ii) During the year the Company converted a loan to Veri-Q Inc. into Common Stock, thereby increasing its interest in Veri-Q Inc. to 76.9% of its Common Stock.

15 Other investments

Group

	£
Cost at 1st January 2005 and 31st December 2005	225,756
Amounts written off	
At 1st January 2005	112,878
Written off	112,878
At 31st December 2005	225,756
Net Book Value	-

The Group owns shares of $0.001 common stock of Geneva Proteomics, Inc. which is incorporated in Delaware, United States of America, and shares of CHF100 in Europroteome SA, which is incorporated in Switzerland. Geneva Proteomics Inc. is currently closing down its operations, and filed a certificate of dissolution in March 2005. At this stage it is not possible to determine the extent of any repayment of capital to shareholders, and therefore the Directors believe that it is prudent to make a provision against the balance of the carrying cost of this investment.

Europroteome SA is currently in insolvency proceedings.

16 Investments in associates

		Group £
(i)	**Share of associate's net assets**	
	At 1st January 2005	655,182
	Gain on deemed part-disposal	111,536
	Exchange adjustments	64,193
	Share of retained loss for the year	(645,199)
	At 31st December 2005	185,712
(ii)	**Goodwill**	
	Cost	
	At 1st January 2005 and at 31st December 2005	904,853
	Amortisation	
	At 1st January 2005	45,243
	Charge for the year	90,485
	At 31st December 2005	135,728
	Net book value of goodwill	769,125
	Net book value of investments in associates	954,837

(iii) The Group's share of capital commitments of associates at 31st December 2005 was £nil (31st December 2004: £nil).

(iv) At 31st December 2005 the Company's investment in Intronn Inc consisted of:

- 3,000,000 shares of Common stock, $0.001 par value
- 300,913 shares of Series A Convertible Preferred stock, $0.001 par value.
- 5,833,333 shares of Series A-1 Convertible Preferred Stock, $0.001 par value.

The total issued capital of Intronn Inc at 31st December 2005 was as follows.

	Number
Shares of Common Stock, $0.001 par value	5,494,269
Series A Convertible Preferred Stock, $0.001 par value	5,361,148
Series A-1 Convertible Preferred Stock, $0.001 par value	7,499,999

The holders of the Series A Preferred Stock have the right to convert, at the option of the holder at any time, into shares of Common Stock of Intronn Inc at a ratio of one share of Series A Preferred Stock for each 1.25 shares of Common Stock, and have the right to that number of votes equal to the aggregate number of shares of Common Stock issuable upon conversion of such shares.

The holders of the Series A-1 Preferred Stock have the right to convert, at the option of the holder at any time, into shares of Common Stock of Intronn Inc. at a ratio of one share of Series A-1 Preferred Stock for each share of Common Stock, and have the right to that number of votes equal to the aggregate number of shares of Common Stock issuable upon conversion of such shares.

Upon full conversion of the Series A Convertible Preferred Stock the Company would own 42.69% of Intronn Inc's Common Stock.

16 Investments in associates (continued)

On 9th June 2004 Intronn Inc issued 6,666,666 shares of Series A-1 Preferred stock, $0.001 par value, of which 5,833,333 were issued to the Company.

On 6th August 2005 Intronn Inc issued 833,333 shares of Series A-1 Preferred Stock, $0.001 par value. The resulting dilution of the Company's shareholding in Intronn Inc has been treated as a deemed disposal under the rules of FRS 9, and the Company's increase in its share of the net assets of Intronn Inc resulting from the share subscription has been shown as a gain on deemed part-disposal in the table at (i) above.

(v) The following information is given in respect of the group's share of the results and net assets of Intronn Inc, which is incorporated in the United States of America.

	2005	2004
	£	£
Turnover	246,747	76,698
Loss before tax	(645,199)	(548,123)
Taxation	-	-
Fixed assets	83,626	104,257
Current assets	239,354	611,898
Liabilities	(137,268)	(60,973)
Net assets	185,712	655,182

The share of associate's operating loss as presented in the profit and loss account comprises the following:

	2005	2004
	£	£
Continuing operations	645,199	548,123
Amortisation of goodwill	90,485	45,243
	735,684	593,366

17 Debtors

	Group 2005	Company 2005	Group 2004	Company 2004
	£	£	£	£
Amounts falling due within one year:				
R&D tax credit recoverable	1,011,391	-	502,589	-
Trade debtors	-	-	13,110	-
VAT	42,633	4	57,506	4
Prepayments and accrued income	272,568	-	107,719	-
	1,326,592	4	680,924	4

18 Creditors: Amounts falling due within one year

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Taxation	164,860	-	113,949	-
Loan repayable to subsidiary company	-	247,333	-	254,877
Trade creditors	27,518	-	5,100	-
Other creditors:				
- social security and PAYE	117,024	-	116,108	-
- other creditors	279,334	-	173,366	-
Accruals and deferred income	844,524	-	978,574	2
	1,433,260	247,333	1,387,097	254,879

19 Creditors: Amounts falling due after more than one year

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Other creditors – government grants	188,043	-	123,000	-
Government grants falling due:				
From two to five years	188,043	-	123,000	-

20 Provisions for liabilities and charges

	Group £	Company £
Provision for notional National Insurance on unrealised share option gains		
At 1st January 2005	28,929	28,929
Charged to profit and loss account in the year	75,008	75,008
At 31st December 2005	103,937	103,937

This provision relates to National Insurance contributions which will become payable on exercise of share options. The share options can be exercised between 30th March 2003 and 9th July 2011. The amount payable is dependent on the Company's share price at the date of exercise of the options. The provision has been calculated based on the share price at the balance sheet date of 71p per share (2004 : 59p) and on the assumption that all employees will exercise their share options and that the rate of National Insurance contributions will be 12.8% (2004 : 12.8%).

21 Share capital

	2005 £	2004 £
i) Authorised		
180,000,200 (2004: 180,000,200) Ordinary Shares of 1p each	1,800,002	1,800,002
49,998 Redeemable Ordinary Shares of £1 each	49,998	49,998
1,063,822 5% (gross) Redeemable Preference Shares of £1 each (voting)	1,063,822	1,063,822
786,178 5% (gross) Redeemable Preference Shares of £1 each (non-voting)	786,178	786,178
	3,700,000	3,700,000

The 5% (gross) Redeemable Preference Shares (voting) and the 5% (gross) Redeemable Preference Shares (non-voting) entitle the holders in priority to any payment of dividend to the holders of Ordinary Shares to payment of a fixed non-cumulative preferential dividend at the gross rate of 5 per cent per annum.

Every registered holder of the 5% (gross) Redeemable Preference Shares (voting) and the 5% (gross) Redeemable Preference Shares (non-voting) has the right to receive notice of and to attend but not to speak or vote at any general meeting unless, in the case of a registered holder of 5% (gross) Redeemable Preference Shares (voting), either:

(i) any of the 5% (gross) Redeemable Preference Shares (voting) required to be redeemed have not been redeemed on the due date (in which case the holder of such Preference Shares has the right to speak and vote on any Resolution at a general meeting of the Company): or

(ii) the business of the general meeting includes a Resolution varying the rights attaching to the 5% (gross) Redeemable Preference Shares (voting) (in which case the holders of such Preference Shares shall be entitled to speak and vote on that Resolution only): or

(iii) the business of the general meeting includes consideration of a Resolution for winding-up the Company or reducing its share capital or any share premium account or capital redemption reserve.

In the circumstances described in (i) to (iii) above, registered holders of 5% (gross) Redeemable Preference Shares (voting) are entitled to one vote each on a show of hands or, on a poll, to one vote in respect of each fully paid 5% (gross) Redeemable Preference Share and any registered holder of 5% (gross) Redeemable Preference Shares may call a poll.

All members of the Company shall rank pari passu with each other in respect of any distribution on a return of capital save that the holders of the 5% (gross) Redeemable Preference Shares (voting) and the 5% (gross) Redeemable Preference Shares (non-voting) shall only be entitled to receive up to a sum equal to the amount paid up thereon and are not entitled to any further rights of participation in the assets of the Company.

Both classes of 5% (gross) Redeemable Preference Shares are redeemable at the option of the Company, at any time on written notice to the holders of those shares but, in any event must be redeemed at par by 31st December 2019. They are classified as non-equity.

21 Share capital (continued)

ii) Allotted and called-up	2005 £	2004 £
131,451,147 Ordinary Shares of 1p each (2004: 122,541,806)	1,314,512	1,225,418

	Ordinary Shares of 1p each £
At 1st January 2005	1,225,418
Issued in placing	80,877
Issued on the exercise of options	8,217
At 31st December 2005	1,314,512

During the year the Company allotted 8,087,658 Ordinary Shares with a nominal value of £80,877 and at a premium of £4,731,280 in order to provide additional working capital for the Company and 821,683 Ordinary Shares with a nominal value of £8,217 and at a premium of £315,587 in connection with the exercise of share options and a warrant.

21 Share capital (continued)

iii) Options and Warrants

At 31st December 2005 options had been granted and were still outstanding in respect of the Company's Ordinary Shares of 1p under the Company's share option schemes as follows:

	Number of shares	Amount of capital £	Subscription price	Dates normally exercisable
Approved				
(1)	101,694	1,016.94	59p	17.05.04 - 18.05.11
(2)	63,829	638.29	47p	23.08.04 - 23.08.11
(3)	54,464	544.64	34.5p	01.10.04 - 01.10.11
(4)	52,631	526.31	57p	17.06.05 - 17.06.12
(5)	60,301	603.01	49.75p	25.11.05 - 25.11.12
Unapproved				
(6)	200,000	2,000.00	61p	30.03.03 - 30.03.07
(7)	433,124	4,331.24	45p	20.04.03 - 20.04.07
(8)	177,861	1,778.61	89p	12.01.04 - 12.01.08
(9)	50,848	508.48	59p	17.05.04 - 17.05.08
(10)	80,000	800.00	28.75p	05.10.04 - 05.10.08
(11)	67,500	675.00	37.25p	25.04.05 - 25.04.09
(12)	825,000	8,250.00	69.25p	05.06.05 - 05.06.09
(13)	297,369	2,973.69	57p	17.06.05 - 17.06.09
(14)	8,000	80.00	44.5p	31.07.05 - 31.07.09
(15)	10,000	100.00	41.5p	26.09.05 - 26.09.09
(16)	50,251	502.51	49.75p	25.11.05 - 25.11.09
(17)	1,248,891	12,488.91	50.5p	29.01.06 - 29.01.10
(18)	50,000	500.00	62.25p	28.04.06 - 28.03.10
(19)	50,000	500.00	63p	02.04.06 - 02.04.10
(20)	4,000	40.00	146.5p	01.08.06 - 01.08.10
(21)	50,000	500.00	156.5p	12.11.06 - 12.11.10
(22)	389,600	3,896.00	221.5p	18.12.06 - 18.12.10
(23)	13,300	133.00	143p	24.04.07 - 24.04.11
(24)	60,000	600.00	88.5p	30.04.07 - 30.04.11
(25)	580,850	5,808.50	117.5p	09.07.07 - 09.07.11
Granted under separate Option Deeds				
(26)	825,000	8,250.00	37p	Note f
	5,804,513			

Options under both schemes may also be exercised from the date on which any shares in the Company are first admitted to the Official List of the London Stock Exchange.

21 Share capital (continued)

The above options were granted in the following periods:

a) Year to 31st December 2000 - (136) and (7).
b) Year to 31st December 2001- (1) to (3) and (8) to (10).
c) Year to 31st December 2002 - (4) to (5) and (11) to (16).
d) Year to 31st December 2003 – (17) to (22).
e) Year to 31st December 2004 – (23) to (25).
f) Year to 31st December 2005 – (26)

On 3rd June 2005 options were granted to C.D.J. Pearce and J.L. Malthouse to replace options under the Unapproved Share Option Scheme which lapsed on 19th May 2005, when the company was in a close period.

The options, which are on similar terms to those lapsing on the 19th May 2005, are exercisable for a period of one month from the date of grant, except if the Company enters into an unforeseen close period during that month in which case the new options will be exercisable for a period of one month from the end of that close period.

Share Exchange/Warrant Exchange
On 4th November 1994, the shareholders of Monoclonetics International, Inc. (now called Proteome Sciences, Inc.) approved a Share Exchange agreement whereby they received one Ordinary Share of £1 each of the Company or $0.15 in cash (the "Share Exchange") for every 10 $0.001 shares of the Common Stock of Monoclonetics International, Inc.

Also on 4th November 1994, certain holders of options and warrants in Monoclonetics International, Inc. agreed to the Warrant Exchange whereby they received Ordinary Shares of £1 each in the Company pursuant to an exchange formula based on the per share exercise price of each warrant.

Under the terms of the Warrant Exchange (referred to above), a warrant holder or option holder who did not exchange his warrants or options in Monoclonetics International, Inc. and, subsequent to the termination of the Warrant Exchange exercises his warrants or options by paying the exercise price therefore, will have the right to receive, at his election (i) 100 Ordinary Shares of 1p each in the Company in respect of each ten $0.001 shares of Common Stock of Monoclonetics International, Inc., underlying the warrants, or (ii) $0.15 in cash in respect of each ten $0.001 shares of Common Stock underlying the warrants.

Under an agreement dated 31st March 1993, Monoclonetics International, Inc. granted to C.D.J. Pearce an option to purchase 99,998 $0.001 shares of Proteome Sciences, Inc. Common Stock at $7.50 per share, of which 35,714 were exchanged for shares in the Company under a Warrant Exchange agreement described above (the "Warrant Exchange"). C.D.J. Pearce was entitled to exercise 10,714 options a year in each of the years 1995 to 2000. The option originally terminated on the earlier of 15th April 2000 or the termination of his employment with the Company.

In part consideration for the waiver by Mr. Pearce of his accrued salary entitlement for the fifteen months to the 31st March 2000, the term of the warrant was extended on 20th April 2000 so that, subject to Mr. Pearce's continuing employment with the group, it would expire on 15th April 2005.

Accordingly, pursuant to the terms of the Warrant Exchange, on the exercise of all his outstanding warrants in respect of Monoclonetics International, Inc. Common Stock, Mr. Pearce had a right to receive up to 642,840 Ordinary Shares of 1p each in the Company in exchange for such Monoclonetics International, Inc. Common Stock. This warrant was exercised in full on 31st March 2005.

21 Share capital (continued)

(iv) Long-Term Incentive Plan ("LTIP")

At 31st December 2005, the maximum number of the Company's Ordinary Shares of 1p each to be potentially allocated under the LTIP was as follows:

Number at 31st December 2004	Granted in the Year	Lapsing in the year	Number at 31st December 2005	First Vesting Date
1,064,187	-	(255,405)	808,782	1st October 2007
100,000	-	-	100,000	6th December 2007

(v) 2004 Share Option Plan

At 31st December 2005 options had been granted and were still outstanding in respect of the Company's Ordinary Shares of 1p under the Company's 2004 Share Option Plan as follows:

Number of Shares	Amount of Capital £	Subscription Price	Dates Normally Exercisable
10,000	100.00	92.5p	15.7.08 – 15.7.15
29,891	298.91	92p	19.7.08 – 19.7.15

22 Reserves

Group

	Other reserve £	Share premium account £	Profit and loss account £	Total £
1st January 2005	10,755,000	24,207,928	(27,384,972)	7,577,956
Share issues	-	5,046,867	-	5,046,867
Expenses of share issues	-	(109,022)	-	(109,022)
Gain on foreign currency translation	-	-	73,840	73,840
Gain on deemed part-disposal of associate	-	-	111,536	111,536
Retained loss for the year	-	-	(6,165,046)	(6,165,046)
31st December 2005	10,755,000	29,145,773	(33,364,642)	6,536,131

The cumulative amount of goodwill written off against reserves was £2,987,741 (2004: £2,987,741).

Company

	Share premium account £	Group reconstruction reserve £	Profit and loss account £	Total £
1st January 2005	24,207,928	1,082,244	1,448,435	26,738,607
Share issues	5,046,867	-	-	5,046,867
Expenses of share issues	(109,022)	-	-	(109,022)
Retained profit for the year	-	-	17,963	17,963
31st December 2005	29,145,773	1,082,244	1,466,398	31,694,415

22 Reserves (continued)

Of total reserves shown in the Company's balance sheet, the following amounts are regarded as non-distributable or otherwise:

	2005 £	2004 £
Non-distributable		
- share premium	29,145,773	24,207,928
- Group reconstruction reserve	1,082,244	1,082,244
Distributable		
- profit and loss account	1,466,398	1,448,435
Total reserves	31,694,415	26,738,607

The Company has taken advantage of Group reconstruction relief as allowed by section 132 of the Companies Act 1985.

23 Reconciliation of movements in Group shareholders' funds

	2005 £	2004 £
Loss for the financial period	(6,165,046)	(5,199,201)
Gain/(loss) on foreign currency translation	73,840	(19,850)
Gain on deemed part-disposal of associate	111,536	-
New share capital subscribed (net of issue costs)	5,026,939	2,178,530
Net reduction in shareholders' funds	(952,731)	(3,040,521)
Opening shareholders' funds	8,803,374	11,843,895
Closing shareholders' funds	7,850,643	8,803,374

24 Reconciliation of operating loss to operating cash flows

	2005 £	2004 £
Operating loss	(5,908,977)	(5,099,576)
Depreciation charges	425,843	529,313
Amortisation charges	648,960	648,960
Increase/(decrease) in provisions	75,008	(701,953)
(Profit)/loss on sale of tangible fixed assets	(5,805)	2,986
(Increase)/decrease in debtors	(139,862)	271,813
Decrease in creditors	(4,152)	(194,317)
Net cash outflow from operating activities	(4,908,985)	(4,542,774)

Notes to the financial statements (continued)

25 Analysis of cash flows

	2005	2004
	£	£
Returns on investments and servicing of finance		
Interest received	140,628	151,969
Interest paid	(882)	(1,048)
Interest element of finance lease rentals	-	(894)
Net cash inflow	139,746	150,027
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(187,855)	(196,533)
Sale of investments	21	-
Investment in associate company	-	(1,925,616)
Sale of tangible fixed assets	6,500	-
Net cash outflow	(181,334)	(2,122,149)
Management of liquid resources		
(Increase)/decrease in cash held on deposit	(100,000)	2,995,161
Financing		
Issue of ordinary share capital	5,026,939	2,178,530
Loans received	84,846	13,000
Capital element of finance lease rental payments	-	(33,412)
Net cash inflow	5,111,785	2,158,118

26 Analysis and reconciliation of net debt

	Cash held on deposit as short term investment	Cash at bank and in hand	Net funds
	£	£	£
31st December 2004	1,800,000	625,943	2,425,943
Cash flow	100,000	61,212	161,212
31st December 2005	1,900,000	687,155	2,587,155

	2005	2004
	£	£
Increase/(decrease) in cash in the year	61,212	(739,280)
Cash outflow/(inflow) from increase/(decrease) in liquid resources	100,000	(2,995,161)
Cash outflow from decrease in debt and lease financing	-	33,412
Change in net funds resulting from cash flows	161,212	(3,701,029)
Net funds at 1st January 2005	2,425,943	6,126,972
Net funds at 31st December 2005	2,587,155	2,425,943

27 Guarantees and other financial commitments

a) Capital commitments

At the end of the year the Company and Group had capital commitments amounting to nil (2004: £nil).

b) Lease commitments

The Group leases certain land and buildings on short-term operating leases. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays insurance, maintenance and repairs of these properties.

The minimum annual rentals under the foregoing leases are as follows:

	Group 2005 £	Group 2004 £
Operating leases which expire		
- within 1 year	-	-
- within 2-5 years	106,479	109,724
- over 5 years	59,531	59,531
	166,010	169,255

c) Pension arrangements

As a result of the acquisition of Proteome Sciences R&D Verwaltungs GmbH and Proteome Sciences R&D GmbH & Co KG from Aventis Research & Technologies GmbH & Co. KG, the Group contributes to two defined benefit pension schemes in Germany. Both schemes are multi-employer defined benefit schemes administered by Pensions Kasse der Mitarbeiter der Hoechst-Gruppe. The schemes' assets are held in separately administered funds. The other employers who contribute to the schemes are not members of the Group. The Group has not been able to identify its share of the underlying assets and liabilities of the schemes. Accordingly the schemes have been accounted for as defined contributions schemes. The Group's contributions to the schemes are included within the amount charged to the profit and loss account in respect of pension contributions.

No information is available about any surplus or deficit that exists in the schemes.

28 Derivatives and other financial instruments

The notes to the accounts provide an explanation of the role that financial instruments have had during the year in creating or changing the risks the Group faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts and the strategies for achieving those objectives that have been followed during the period.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in FRS 13: Derivatives and other financial instruments.

As permitted by FRS 13, short-term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

Currency exposures

There are no currency exposures from transactional sources. Such exposures would be the monetary assets and liabilities of the Group that are not denominated in the operating currency of the operating unit.

28 Derivatives and other financial instruments *(continued)*

Interest rate profile

The Group has no financial assets other than sterling cash deposits of £1,900,000 (2004: £1,800,000) which are part of the financing arrangements of the Group and cash at bank and in hand of £687,155 (2004: £625,943). The sterling cash deposits comprise deposits placed on the money market at call monthly rates.

The interest rate on floating rate financial assets is linked to Libor rates.

Save as disclosed in note 29(b) below, the Group has no other financial liabilities.

29 Subsequent events

(a) On 29th December 2005, the company filed a claim in the District Court of Frankfurt am Main ("the Court") against Sanofi-Aventis Deutschland GmbH ("Sanofi-Aventis") under which it is seeking damages of up to €30m for, amongst other things, the breach of certain warranties provided by Sanofi-Aventis at the time of the acquisition of Xzillion Proteomics GmbH Co. KG (now Proteome Sciences R&D GmbH Co. KG) on 4th July 2002. On 7th June 2006 Sanofi-Aventis filed a notice with the Court of its intention to defend the claim.

Full provision for all costs arising in 2005 in connection with the claim has been made in the 2005 financial statements. Whilst it is not possible to predict the outcome of this matter, the Directors intend to pursue this action vigorously.

(b) On 29th June, 2006 the company entered into an agreement with C.D.J. Pearce, the Chief Executive of the company, under which he agreed to provide an unsecured loan facility of up to £2m to the company. The loan facility will be available from the 1st August, 2006 and carries interest at 2.5% above the base rate of Barclays Bank Plc.

It is repayable on seven days notice, or immediately in the event of:

(i) C.D.J. Pearce ceasing to be an executive director of the company.

(ii) A general offer to the shareholders of the company being announced to acquire its issued share capital.

(iii) The occurrence of any of the usual events of default attaching to this sort of agreement.

Proteome Sciences plc

(Registered in England No: 2879724)

Notice of meeting

Notice is hereby given that the 12th Annual General Meeting of Proteome Sciences plc will be held at the Institute of Chartered Accountants, One Moorgate Place, Moorgate, London EC2R 6EA on Thursday 27th July, 2006 at 10:30am, for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as ordinary and special Resolutions.

Ordinary Business

1 To receive the financial statements and the reports of the Directors and of the auditors for the year ended 31st December 2005.

2 To re-appoint C.D.J. Pearce as a Director.

3 To re-appoint A.J. Green as a Director.

4 To re-appoint Deloitte & Touche LLP as auditors of the Company and to authorise the Directors to fix their remuneration.

Special Business

Ordinary Resolutions

5 THAT:

pursuant to and in accordance with Section 121 of the Companies Act 1985 ("the Act") the authorised share capital of the Company be and it is hereby increased from £1,800,002 to £2,300,002 by the creation of 50,000,000 ordinary shares of 1p each, ranking in all respects pari passu with the existing ordinary shares of 1p each.

6 THAT:

pursuant to and in accordance with Section 80 of the Companies Act 1985 ("the Act") and in substitution for any unexercised authority in that behalf, the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities having an aggregate nominal amount of £433,788.78 until the expiry of five years from the passing of this Resolution. Pursuant to such authority, the Directors may, before the expiry of such five year period, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such period and the Directors may allot relevant securities in pursuance of such an offer as if the authority conferred hereby had not expired.

Words and expressions defined in or for the purposes of Part IV of the Act shall have the same meanings in this Resolution.

Special Resolution

7 THAT:

subject to, and upon Resolution 6 above, having been passed and becoming effective, the Directors be and are hereby authorised and empowered pursuant to Section 95 of the Companies Act 1985 (the "Act") to allot equity securities of the Company for cash pursuant to the authority conferred upon them by Resolution 5 above, as if Section 89(1) of the Act did not apply to such allotment provided that the authority and power in this Resolution shall be limited:

(a) to the allotment of equity securities in connection with a rights issue or any other pre-emptive offer in favour of holders of equity securities where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be) to the respective amounts of equity securities held by them subject only to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or legal or practical difficulties under the laws or the rules or regulations of any jurisdiction, stock exchange or other regulatory body whatsoever; and

(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities which are or are to be wholly paid up in cash up to an aggregate nominal amount of £131,451.14.

and provided further that the authority and power conferred by this Resolution shall expire at the conclusion of the next Annual General Meeting of the Company or the period of fifteen months from the passing of this Resolution, whichever is the earlier, unless such authority is renewed or extended at or prior to such time, save that the Company may before such expiry make any offer, agreement or other arrangement which would or might require equity securities to be allotted otherwise than in accordance with Section 89 of the Act after the expiry of this authority and the Directors may then allot equity securities in pursuant of such an agreement as if the authority and power hereby conferred had not expired.

Words and expressions defined in or for the purposes of Part IV of the Act shall have the same meanings in this Resolution.

By order of the Board

Coveham House
Downside Bridge Road,
Cobham
Surrey KT11 3EP

J.L. Malthouse
Secretary

30th June, 2006

Notes:

A member of the Company entitled to attend and vote at this meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. In accordance with Article 90, any such appointment is valid only if the instrument of proxy is deposited with the Company's registrars, not less than 48 hours before the time appointed for holding the meeting. A proxy need not also be a member of the Company. A form of proxy is enclosed; completion of an instrument of proxy will not prevent members from attending and voting in person should they wish to do so.

Form of proxy for use by holder of Ordinary Shares at the 12th
ANNUAL GENERAL MEETING of
PROTEOME SCIENCES plc
to be held on 27th July, 2006 at 10:30am.

I/We (1) .....

of .....

being (a) member(s) of the above-named company hereby appoint the chairman of the meeting (2) or .....as my/our proxy and to vote for me/us and on my/our behalf at the Company's Annual General Meeting to be held on 27th July, 2006 at 10:30am, at the Institute of Chartered Accountants, One Moorgate Place, Moorgate, London EC2R 6EA, and at any adjournment thereof.

Dated this..... day of 2006

Signature(s) .....

Please indicate with an X in the space below how you wish your votes to be cast. If no instructions are given as to how the proxy shall vote, on any particular matter, the proxy will abstain or vote as he thinks fit.

Resolution	For	Against
Ordinary Business		
1. To receive the financial statements		
2. To re-appoint C.D.J Pearce as a Director		
3. To re-appoint A.J. Green as a Director		
4. To re-appoint Deloitte & Touche LLP as auditors		
Special Business		
5. To increase the authorised share capital of the company		
6. To renew the Directors' authority to allot shares		
7. To renew the Directors' authority to disapply pre-emption rights for the allotment of shares		

(1) Fill in your name(s) and address(es) in block capitals.

(2) A member may appoint a proxy of his own choice and if any other proxy is preferred, strike out 'the chairman of the meeting' and add the name of the proxy or proxies desired and initial the alteration.

NOTES

(a) This form of proxy duly completed must, to be valid for use at the meeting, be deposited, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, with the Company's registrars, not less than forty-eight hours before the time for holding the meeting or adjourned meeting. A proxy may only vote on a poll.

(b) A corporation may execute either under seal or under the hand of an officer or attorney so authorised.

(c) In the case of joint holders of shares, any one of such holders may vote but, if two or more joint holders are present in person or by proxy, the vote of the senior will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority is determined by the order in which the names stand in the register.

(d) A member may appoint as his proxy any one or more persons whether members of the Company or not. Appointment of a proxy will not preclude a member from attending and voting in person at the meeting.

Third fold and tuck in

Please affix postage

Capita Registrars
The Registry
34 Beckenham Road
BECKENHAM
Kent BR3 4BR

First fold

Second fold