

SR Pharma plc (“SR Pharma” or “the Company”)

Acquisition of Atugen AG

On 21 June 2005 the Company announced that it had entered into a conditional agreement to acquire Atugen AG a biotechnology company based in Berlin, Germany. By virtue of its size, this transaction constitutes a reverse take-over under the AIM Rules and as such requires the approval of SR Pharma shareholders. The Company requested a short suspension of trading in SR Pharma's shares pending publication of a circular to shareholders.

The Company is today posting a circular, comprising an AIM admission document, to shareholders, giving details of the proposed transaction and convening an extraordinary general meeting at 9.30 a.m. on 11 July 2005 at which SR Pharma shareholders are being asked to approve the proposed acquisition of Atugen AG. The full text of the Chairman's letter contained within the circular is appended below. Copies of the circular will be available at the Company's registered office, 22 Melton Street, London NW1 2BW during normal working hours until at least 12 August 2005.

The Company has today also requested that the Company's shares be restored to trading on AIM and this is expected to take place with immediate effect.

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LETTER FROM THE CHAIRMAN OF SR PHARMA PLC

24 June 2005

To the holders of Ordinary Shares

Dear Shareholder

Proposed acquisition of Atugen Re-admission to AIM

Introduction

On 21 June 2005, the Company entered into the Acquisition Agreement conditional, *inter alia*, on the consent of Shareholders, to acquire approximately 96 per cent. of the issued share capital of Atugen and an agreement to acquire certain indebtedness of Atugen for a total consideration of £6.16 million to be satisfied by the issue of the Consideration Shares. An offer has been made to acquire the remaining shares

in Atugen for an aggregate consideration of approximately €52,000 to be satisfied by a combination of Consideration Shares and cash.

By virtue of its size, the Acquisition constitutes a reverse takeover under the AIM Rules and requires the consent of Shareholders. The purpose of this document is to provide Shareholders with information on the Company, Atugen and the Acquisition, to explain why the Directors believe that the Acquisition is in the best interests of the Company and Shareholders as a whole and to seek the requisite approval for it at the EGM, notice of which is set out in Part V of this document.

Background to the Acquisition

SR Pharma was established to develop novel therapeutic applications based on the Company's proprietary *M. vaccae* technology. Although SR Pharma has been unable so far to demonstrate a clear therapeutic advantage for its *M. vaccae* products, the Directors believe that these products have considerable potential in the oncology sector and in inflammatory conditions.

Following a review of the Company's position, the Board took the decision in late 2004 to adopt a merger and acquisition strategy and, in particular, to target the acquisition of under-valued assets and businesses in order to augment the Company's capabilities and provide a basis to re-evaluate *M. vaccae* in specific indications. The proposed acquisition of Atugen is the first such transaction to come to fruition.

Information on Atugen

Established in 1998, Atugen is a biotechnology company based in Berlin, Germany, which is developing RNAi therapeutics as a new class of drugs with a significant pharmaceutical market potential. Atugen has 34 staff, including a discovery research team, which has established core competencies in the field of siRNA therapeutics, where it is one of the market leaders. RNAi is a process whereby the production of disease causing proteins by a target cell can be stopped by preventing the translation of the genes which encode them by inhibiting or "silencing" their function. This RNAi process can be initiated by the introduction into the target cell of synthetic short interfering RNA ("siRNA").

Atugen's proprietary technologies include atuRNAi, chemically stabilised siRNA molecules and atuPLEX, a liposomal system for the in vivo delivery of these molecules. In particular, Atugen is focusing on systemic delivery applications for RNAi.

A key element of Atugen's technology is Atugen's proprietary GeneBloc® molecules, small, synthetic DNA and RNA-containing molecules that bind specifically to target mRNA in the cell. This binding of GeneBloc® molecules prevents translation of the target mRNA into protein, thus interfering with normal biological function and, where disease causing proteins are targeted, inhibiting thereby the production of disease-causing proteins. GeneBlocs® are used for cross-validation experiments to confirm the specificity of its siRNA molecules as well as for target validation studies.

Atugen has benefited from approximately €30 million of venture capital investment (including from TBG and Ribozyme Pharmaceuticals Inc.) and has also been able to access more than €7 million of German government grant funding to support the development of its product and intellectual property portfolio.

Atugen's current intellectual property portfolio includes exclusive and non-exclusive licenses to more than 100 patents and patent applications along with approximately 50 of Atugen's own patent applications, covering technologies including GeneBloc®, RNAi technology, transfection reagents and internally-validated drug targets. Among the portfolio of Atugen's proprietary, functionally validated drug targets are druggable and non-druggable targets in oncology. In addition to its oncology programme, Atugen has shown the utility of its siRNA candidates for treatment of metabolic and inflammatory diseases.

The Directors and the Proposed Directors believe that Atugen's technology has a number of important strengths including, *inter alia*, a stability that makes intravenous use possible, the potential ability to introduce siRNA therapeutics into the cytoplasm of cells and a high degree of specificity with respect to the mRNA embodying the genetic sequence of the targeted gene. As a result the Directors and the Proposed Directors believe that Atugen has today a well established 'leading edge' proprietary technology base in the RNA interference therapeutic area using its proprietary siRNA molecules.

Atugen has targeted the oncology sector as an appropriate market for its therapeutic molecules and has a number of product candidates in pre-clinical development. In addition, through its contract research activity, Atugen has been able to establish a source of revenue income.

Atugen has established drug development collaborations in the field of RNAi therapeutics with a number of companies including Sanofi-Aventis and Quark Biotech, Inc. In addition, Atugen has generated approximately €20 million of contract research revenues to date through its partners who have included, amongst others, AstraZeneca plc, Berlex, Inc. (a subsidiary of Schering AG), Altana Pharma AG and Sankyo Ltd and has initiated academic collaborations with high profile institutions such as University of California, San Francisco and the ETH, Zurich.

Competition

Atugen considers Alnylam Pharmaceuticals, Inc., Sirna Therapeutics, Inc. and Acuity Pharmaceuticals, Inc. as its major direct competitors in the therapeutic RNA interference area using synthetic siRNA molecules. There are other potential competitors, e.g. Benitec, Inc. and Nucleonics, Inc., which are using a form of RNA known as “expressed short hairpin RNA” molecules. However, Atugen believes that the expressed short hairpin RNA molecules will face the same difficulties as those faced by gene therapy companies, namely delivery and persistent expression in the target cells.

There are other possible competitors using antisense technology such as Isis Pharmaceuticals, Inc. and Genta Incorporated. Antisense technology involves the use of mirror images of RNA molecules to bind to them, making them unavailable to enable translation, thereby inhibiting the synthesis of the proteins they encode. However, Atugen believes that its siRNA technology, in particular the mode of action of siRNA molecules and their delivery to target cells using liposomes, has benefits over antisense approaches, such as higher potency and catalytic mode of action in gene silencing.

In principle, companies developing small molecule drugs and antibodies could also be viewed as competitors. However, to neutralise disease-causing proteins, antibodies require access to them, such that they must be outside of cells. Similarly, small molecules require, in the majority of instances, so called druggable targets for efficacy. In contrast, the Atugen siRNA technology is not restricted by any of these constraints. siRNA molecules can, in principle, be developed against any gene target irrespective of whether the target is druggable or non-druggable, intra- or extra-cellular.

Atugen trading

During the year ended 31 December 2004 Atugen generated revenues of €3.5 million on which it made a net loss of €2.8 million after incurring research and development expenditure of €3.1 million. Atugen has continued to generate revenues from contract research, target validation and other services and grants, albeit at a lower level than in 2004, incurring further losses. Atugen has continued to invest in research and development, also at a lower level than in 2004, due principally to cash constraints.

Reasons for the Acquisition

The Directors and the Proposed Directors believe that the Acquisition will allow SR Pharma to strengthen considerably its research and development capability and broaden its product pipeline and intellectual property portfolio. By combining the competencies of the two companies, the Directors and the Proposed Directors believe that the Enlarged Group will be able to build a credible European biotechnology business. In particular, the Directors and the Proposed Directors believe the Acquisition will enable SR Pharma to:

- access a technology platform already proven to be the source of innovative products and a team of scientists experienced in the discovery and pre-clinical development of new therapeutic molecules;
- access technology that is applicable to, and scientific personnel with capabilities and experience in, the oncology and inflammatory market sectors;
- expand its intellectual property portfolio by providing coverage for a new class of therapeutics and the delivery thereof;
- access third party collaborators and partners who could further enhance the development of SR Pharma’s existing product and intellectual property portfolio; and

- build a sustainable revenue-generating contract services business.

Integration of SR Pharma and Atugen

The Enlarged Group will combine its expertise and technologies to position itself as a European biotechnology group with an expanded range of innovative product opportunities. The Enlarged Group will seek to derive value by focusing on four specific initiatives, comprising:

- the development of oncology therapeutics up to and including Phase II clinical trials, thereafter seeking collaborative partners;
- the development of inflammatory therapeutics in collaboration with third parties;
- out-licensing and partnering the Enlarged Group's product portfolio for all other therapeutic sectors; and
- the development of a growing and sustainable revenue stream based upon contract research and collaboration revenues.

The Enlarged Group will concentrate upon those projects that the Directors and the Proposed Directors believe have the highest chance of technical success and the greatest commercial potential. As a consequence, the Enlarged Group may discontinue, license out and/or dispose of certain projects.

Once SR Pharma has integrated Atugen, the Directors and the Proposed Directors intend to locate the Enlarged Group's discovery research activities in Berlin, to outsource its pre-clinical and clinical development to Fulcrum Pharma Developments Limited in the UK and to appoint Eden Biopharm Limited, of which I am a director, in the North West of England to advise on appropriate product development and GMP manufacturing strategies for the Enlarged Group's products. The Enlarged Group will retain a small corporate development office in London and it is intended that the integration of the businesses of the Enlarged Group will be completed within three months of the Acquisition.

The Directors and the Proposed Directors intend to operate the Enlarged Group under the SR Pharma name and will operate Atugen as a wholly owned subsidiary. The Enlarged Group will make use of the Atugen trademarks where considered appropriate.

Acquisition Agreement

As set out above, the Company has entered into the Acquisition Agreement. The Acquisition Agreement provides that the Company will acquire approximately 96 per cent. of the issued share capital of Atugen in consideration of the issue to certain Atugen shareholders of 19,734,033 Consideration Shares. The remaining 4 per cent. of Atugen's issued share capital (the "Atugen Minority Shares") will be acquired by SR Pharma either in return for the issue of further Consideration Shares or cash or at the option of SR Pharma compulsorily for cash pursuant to German squeeze-out legislation. The maximum number of Consideration Shares (including the Placing Shares referred to below) that may be issued in return for the acquisition of 100 per cent. of the issued share capital of Atugen and certain indebtedness of Atugen as discussed below is 22,949,019 Consideration Shares, which would comprise 49 per cent. of the issued share capital of SR Pharma as enlarged by the issue of the Consideration Shares. To the extent that any Atugen Minority Shares are acquired for cash, the number of Consideration Shares to be issued would reduce and the Directors and Proposed Directors anticipate that the maximum cash consideration payable would not exceed €52,000. The Consideration Shares will, when issued, rank *pari passu* in all respects with the existing issued Ordinary Shares.

The Acquisition is conditional upon, *inter alia*, the following:

- approval by Shareholders at an extraordinary general meeting of the Company;
- admission of the Consideration Shares to trading on AIM; and
- the lock-in arrangements detailed in paragraph 5(b) of Part IV of this document being duly entered into.

TBG has granted soft loans to Atugen (the “Soft Loans”). Pursuant to the agreement detailed in paragraph 5(d) of Part IV of this document, it is intended that the Company will acquire the Soft Loans in the following manner:

- (i) the Company will issue 2,481,765 Ordinary Shares (the “Placing Shares”) to Apax Europe IV-A LP (“Apax”) at a price of 27p per Ordinary Share, amounting to £670,076.55 in aggregate; and
- (ii) the Company will acquire the Soft Loans from TBG for approximately £700,000.

The issue of Ordinary Shares to Apax and acquisition of the Soft Loans are interconditional with the Acquisition and Admission.

In addition, Apax has agreed that it will sell the Placing Shares to TBG, such sale to take effect immediately following Admission. Upon Admission, but before the sale of the Placing Shares to TBG, Apax will hold approximately 33 per cent. of the issued share capital of the Company. The Panel on Takeovers and Mergers has agreed that Apax does not need to make an offer for the Company pursuant to Rule 9 of the City Code on Takeovers and Mergers, on the basis that the Placing Shares are to be transferred to TBG immediately following Admission and that Apax will therefore not be able to vote in respect of the Placing Shares.

Current trading and prospects

Both SR Pharma and Atugen have incurred net losses in each year since their respective inceptions and the Enlarged Group is expected by the Directors and the Proposed Directors to continue to incur substantial losses and cash outflows for the foreseeable future. It is expected that the expenditure to be incurred over the next three years will be financed by existing cash reserves, revenues and new equity finance.

The Directors and Proposed Directors expect that revenues will be generated in the form of research and development fees, milestone payments, licence fees and royalties from both existing and new clients, collaborative partners and licensees. In addition, the Enlarged Group will seek further development partners to share development costs, particularly the significant costs typically associated with late-stage trials and commercialisation.

Substantial profitability will only be achieved if the technology and product portfolio of the Enlarged Group result in healthcare products achieving regulatory and marketing approval and are commercialised, perhaps in partnerships with major companies.

Financing proposals

In order to develop the technologies of the Enlarged Group, SR Pharma will need to raise additional funds, which the Directors and the Proposed Directors currently anticipate would be by means of an equity fundraising through a placing with institutional investors organised by Mulier Capital Limited (“Fundraising”). The Fundraising would also be intended to enable the Enlarged Group to exploit opportunities that may arise to acquire undervalued assets and businesses. As a result, there is an intention to incentivise the Directors and the Proposed Directors at the time of the Fundraising in the form of bonuses and options, details of which proposals are set out in paragraphs 3(d) and 3(e) of Part IV of this document.

The Acquisition is not conditional upon the Fundraising. If, however, the Fundraising did not take place, the Company would need to take steps to reduce its cashburn and the Directors and the Proposed Directors have identified specific actions including the delay and or cancellation of some of the identified development projects, a general reduction in research and development, a reduction in staff numbers and additional measures to reduce central administration costs. In addition, the Directors and the Proposed Directors would be forced to look at partnering projects at an earlier stage than otherwise anticipated in order to generate additional funds in the short term. This could lead to a potential delay in the creation of shareholder value and a possible diminution of long term value.

Action the SR Pharma Directors would take if the Proposals were rejected

The proposed Acquisition is the result of analysis of the various opportunities available. The Directors believe that Atugen represents the best of the opportunities that they have reviewed. If Shareholders do not

approve the Acquisition, the Directors would continue their ongoing search for an alternative acquisition or merger opportunity which they believed would form the basis for a significant fundraising, having regard for the fact that the Company will have declining cash resources.

Directors and Proposed Directors

Following the Acquisition, I will become Executive Chairman and, dependent on the success of the Fundraising, will devote up to 75 per cent. of my time to the development of the Enlarged Group. Melvyn Davies will continue as Finance Director with Peter Reynolds and Iain Rugheimer remaining as Non-Executive Directors. Upon completion of the Acquisition, Jeremy Curnock Cook, Dr David U’Pritchard and Dr Bernd Wetzel, all currently members of the Atugen Supervisory Board, will join the Board as Non-Executive Directors. Details of the proposed terms of employment of the Directors and the Proposed Directors are set out in paragraphs 3(d) and 3(e) of Part IV of this document.

Upon completion, Melvyn Davies, Jeremy Curnock Cook and I will comprise the Supervisory Board of Atugen and Thomas Christely, Chief Operating Officer and Dr Klaus Giese, Chief Scientific Officer will form the Management Board of Atugen.

Upon completion of the Acquisition, Dr Jeremy Reffin, Dr Steven St. Peter and Dr Michael Steinmetz, currently on the Supervisory Board of Atugen, will resign as directors and will have no further involvement in the Enlarged Group. Atugen’s current Chief Executive Officer, Dr Peter Buckel, will also shortly stand down.

Under the existing service contracts and letters of appointment, each of the Directors was entitled to a bonus upon a change of control of the Company. Although the Acquisition will not constitute a change of control, given the magnitude of the Acquisition, the Board of Directors of the Company has agreed to pay bonuses to each of the Directors upon completion of the Acquisition as if the Acquisition did constitute a change of control. The Directors have agreed to defer payment of these bonuses until completion of the Fundraising. Further details of these bonuses are set out in paragraphs 3(d) and 3(e) of Part IV of this document.

Current Directors

Iain Ross, aged 51, BSc (Hons) Biochemistry, is an experienced business entrepreneur in the pharmaceutical and biotechnology sector and has held a number of senior positions with companies in the UK and internationally including Sandoz AG, Hoffmann-La Roche AG and Celltech Group plc. He has raised substantial funds, both publicly and privately and has direct experience of mergers and acquisitions both in the UK and USA. Currently Mr Ross is Chairman of Biomer Technology Ltd and is a non-executive director of a number of companies in the sector including Angle plc, Eden Biopharma Group Limited and Pharmacia Diagnostics (Swedish DIA (Sweden) AB). Mr Ross, who joined the Board in 2004, is a Chartered Director of the UK Institute of Directors.

Melvyn Davies, aged 49, is a Chartered Accountant with over 25 years’ experience advising and assisting both large and small businesses. Formerly a partner with a medium-sized London based firm of Chartered Accountants, he joined the Board in 1994 having provided external advice to the Group since its formation and is responsible for the Group’s financial, legal and taxation affairs.

Peter Reynolds, aged 67, was appointed a Non-Executive Director in 2004. He has spent over 30 years as a director of a range of both public and private companies. Mr Reynolds is currently the director of a number of companies including Chairman of Eckoh Technologies plc and a non-executive director of Swallow Ventures Limited.

Iain Rugheimer, aged 51, was appointed a Non-Executive Director in 1994. He previously specialised in pharmaceutical and healthcare company research as an investment banker with a number of UK and European investment banks. More recently he has focused on helping develop new enterprises either directly or as a consultant through Gunnarson & Co. Limited, of which he is Chief Executive.

Proposed Directors

Jeremy Curnock Cook, aged 55, is Chairman of Atugen's supervisory board and Executive Chairman of Bioscience Managers Limited a corporate and investment advisory company. Mr. Curnock Cook founded Bioscience Managers Limited in February 2001, following his time at N.M. Rothschild & Sons Limited. During his 13 years at Rothschild, Mr. Curnock Cook created and led the Rothschild Bioscience Unit — the international and multidisciplinary team responsible for the investment advisory and management of a number of funds. Prior to joining Rothschild, Mr Curnock Cook founded the International Biochemicals Group (IBG) in 1975 and built an 80-person company which he sold to Royal Dutch Shell in 1985. Mr. Curnock Cook has served on more than 30 boards of directors in the life science sector in the UK, Europe, USA, Canada, Japan and Australia.

Dr David U'Pritchard, aged 57 was, from 1999 to 2003, Chief Executive Officer and a member of the Board of Directors of 3-Dimensional Pharmaceuticals, Inc., Yardley PA ("3DP"). During that time he took 3DP public and secured large collaborations with Bristol-Myers Squibb and Johnson & Johnson. In March 2003, 3DP became a part of Johnson & Johnson Pharmaceutical R&D. From 1997 to 1999, Dr U'Pritchard served as Chairman of Research and Development at SmithKline Beecham. While at SmithKline Beecham, Dr U'Pritchard oversaw the entry of approximately ten compounds into global development, the international registration of the diabetes drug Avandia® and the entry of four compounds into Phase III trials and six compounds into early clinical trials; additionally, he instituted several major restructuring efforts at the company. Prior to SmithKline Beecham, he worked for ICI/Zeneca from 1986 to 1997, as Executive Vice President and International Research Director from 1994 to 1997.

Professor Dr Bernd Wetzel, aged 60, is a member of the advisory and supervisory board of several companies. In almost 30 years in the global pharmaceutical industry, Professor Wetzel has acquired extensive experience in many disease areas and enabling technologies, in strategic research and development and management across functions and sites. In 1997 he was appointed Head of Worldwide Research and Non-clinical Development with responsibility for Boehringer Ingelheim's international research sites and for more than 3,000 people. Since 1982 Professor Wetzel has served in various senior management positions, amongst them Chief Scientific Officer and member of the board of Boehringer Ingelheim, Germany. In 1990 Bernd Wetzel was appointed Honorary Professor at the Ludwig Maximilian University in Munich, lecturing in Medicinal Chemistry. Professor Wetzel was originally trained in synthetic and theoretical organic chemistry and obtained a Ph.D. from the Ludwig Maximilian University in Munich in 1970.

Share Option Schemes

The Directors and the Proposed Directors believe that the Group's future success is highly dependent on its management and employees. To assist in the recruitment, retention and motivation of high quality key employees, the Group must have an effective remuneration strategy. The Directors and the Proposed Directors consider that an important part of its remuneration strategy will be the ability to award equity incentives and, in particular, share options to key employees.

The Group currently operates an Inland Revenue Approved Share Option Scheme, an Unapproved Share Option Scheme and an Enterprise Management Investment Scheme, the provisions of which are set out in paragraph 2(h) of Part IV of this document. Including options and other subscription rights granted prior to Admission, the Board currently intends that no more than 15 per cent. of the Company's issued share capital will be under option from time to time. This will be in addition to any issue of warrants referred to in paragraph 5(f) of Part IV.

Lock-in Arrangements

The following have agreed not to sell any of their Consideration Shares (amounting, in aggregate, to 21,605,568 Ordinary Shares representing approximately 46 per cent. of the Enlarged Issued Share Capital) for a period of 12 months following completion of the Acquisition, without the prior written consent of the Company: Novartis Forschungsstiftung, Apax Europe IV-A LP, BB BioVentures LP, MPM BioVentures Parallel Fund LP, MPM Asset Management 1998 LLC, MPM Asset Management LLC, TBG, Thomas

Christely, Dr Klaus Giese, Dr Anke Klippel-Giese, Dr Andre Lochter, Dr Peter Buckel, Dr Jorg Kaufmann and Dr Oliver Keil.

This 12 month lock-in period is, however, subject to a number of carve outs, including:

- (a) upon the acceptance of an offer for the entire issued share capital of the Company; and
- (b) if the Company is advised by Mulier Capital Limited or its AIM Broker that such shares can be sold as part of a successful block-trade.

Corporate governance

The Directors and Proposed Directors will continue to give careful consideration to the principles of corporate governance as set out in the Combined Code appended to the Listing Rules issued by the Financial Services Authority, although as a Company quoted on the AIM Market it is not required to comply with the Combined Code. The Company is small and it is the opinion of the Directors and Proposed Directors that not all of the provisions of the Code are either relevant or desirable for a Company of this size.

The Board meets regularly and has ultimate responsibility for the management of the Company and sub-committees comprising the Non-Executive Directors meet as and when required to deal with Remuneration and Audit matters.

The Directors and Proposed Directors have also considered the guidance published by the Institute of Chartered Accountants in England and Wales (commonly known as the Turnbull report) concerning the internal control requirements of the Combined Code. The Board will regularly review and manage key business risks in addition to financial risks facing the Company in the operation of its business.

The Company has adopted and will operate a share dealing code for Directors and senior employees on the same terms as the Model Code appended to the Listing Rules of the UKLA.

Financial information

The Company's annual report and accounts for the year ended 31 December 2004 were posted to shareholders on 1 June 2005 and a copy will be available until a date at least one month after Admission at the Company's website www.srpharma.com.

Financial information on Atugen is set out in Part III (A) of this document, along with pro forma financial information set out in Part III (B) showing the Balance Sheet of the Enlarged Group as if the Company had acquired Atugen on 31 December 2004. Copies of the financial statements of Atugen for the three years ended 31 December 2004 are included as appendices to this document.

Taxation

General information regarding UK taxation in relation to the Proposals and Admission is set out in paragraph 8 of Part IV of this document. **If you are in any doubt as to your tax position you should consult your own financial adviser immediately.**

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the relevant shareholders so wish.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

Dividend policy

The Directors and Proposed Directors anticipate that, following Admission, earnings will be retained for development of the Enlarged Group's business and will not be distributed for the foreseeable future. The declaration and payment by the Company of any future dividends and the amount will depend on the results

of the Enlarged Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time.

Additional information

Your attention is drawn to Part II of this document which contains risk factors relating to any investment in the Company and to Parts III, IV and the appendices to this document which contain further information on the Company and on Atugen.

Annual General Meeting

The 2005 Annual General Meeting will be held at 9.30 a.m. on Thursday 30 June at Farmers and Fletchers Hall, 3 Cloth Street, London EC1A 7LD. The formal notice of the AGM and the resolutions to be proposed, have already been sent to Shareholders. Resolution 7 would, if passed, authorise the Directors to allot for cash Ordinary Shares up to an aggregate nominal amount of £1,000,000. Although this resolution is not being specifically proposed to enable the Company to undertake the Acquisition and the Fundraising, it would provide the Directors with sufficient authority to issue Ordinary Shares pursuant to those transactions and it is the Directors' current intention to utilise that authority in this manner.

Extraordinary General Meeting

You will find set out at the end of this document the notice convening the Extraordinary General Meeting of the Company to be held at Farmers and Fletchers Hall, 3 Cloth Street, London EC1A 7LD on 11 July 2005 at 9.30 a.m. At the EGM, an ordinary resolution will be proposed to approve the Acquisition.

Action to be taken

Shareholders will find enclosed with this document a Form of Proxy for use at the Extraordinary General Meeting. Forms of Proxy should be completed and returned in accordance with the instructions printed thereon so as to arrive at the Company's registrars, Capita Registrars, Proxy Department, PO Box 25, Beckenham, Kent BR3 4TU as soon as possible and in any event not later than 9.30 a.m. on 9 July 2005. Completion and return of a Form of Proxy will not prevent Shareholders from attending and voting at the Extraordinary General Meeting should they so wish.

Recommendation

The Directors and the Proposed Directors consider the Proposals described in this document to be fair and reasonable and in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Resolution to be proposed at the Extraordinary General Meeting, as they and those connected with them intend to do in respect of their own beneficial holdings of Ordinary Shares which amount to 234,533 Ordinary Shares (representing approximately one per cent. of the voting rights exercisable at the EGM).

Yours faithfully

Iain Ross
Chairman

Definitions used within the above text can be found within the circular, copies of which will be available at 22 Melton Street, London NW1 2BW during normal working hours until at least 12 August 2005.