



Ark Therapeutics Group plc
Interim report 2007

From Science to Patients



Market focused specialist healthcare products

Ark Therapeutics is a specialist healthcare group focused on vascular disease and cancer, two of the largest therapeutic markets in the world.

Ark has three marketed products and an exciting late-stage portfolio addressing significant areas of unmet clinical need. The pipeline is supported by a number of advanced pre-clinical candidates which have already shown encouraging pre-clinical results.

| Product | Description | Phase I | Phase II | Phase III | Marketed |
|------------|----------------------------|---------------|----------------|---------------|----------|
| Kerraboot® | Wound management | | | | Marketed |
| Flaminal® | Topical anti-microbial gel | | | | Marketed |
| Kerraped® | Medical footwear | | | | Marketed |
| Cerepro® | Gene-based medicine | Stage entered | Stage complete | Stage entered | |
| Vitor™ | Small molecule | Stage entered | Stage complete | Stage entered | |
| Trinam® | Gene-based medicine | Stage entered | Stage complete | Stage entered | |

Key: Stage entered Stage complete Marketed

Highlights

Period Highlights

- Positive outcome from the Data and Safety Monitoring Board review of first 130 patients in Cerepro® Phase III trial
- Phase III Cerepro® study completes recruitment
- Cerepro® moved significantly closer to becoming the first gene therapy approved in Europe with the clearance from the EMEA of historically difficult technical barriers
- Positive outcome from Trinam® FDA end of Phase II meeting
- US Recombinant DNA Advisory Committee (RAC) gives early clearance for Trinam® Phase III trial
- Ark Therapeutics-led consortium awarded €2.5m European Commission grant for baculoviral vectors research
- Positive outcome from pre-Phase III FDA and EMEA scientific advice meetings for Vitor™

- Scavidin® demonstrates pre-clinical effectiveness in slowing tumour development and improving survival time in glioma model
- Wound care portfolio strengthened with in-licensing of Kerraped®, UK price re-imburement secured for this first in class device (launched August 2007)
- Cash, cash equivalents and money market investments of £37.5m at 30 June 2007 (£49.4m at 30 June 2006, £48.4m at 31 December 2006)

Post Period Highlights

- Formal grant of key patent for stroke in Europe
- First Data and Safety Monitoring Board review of fully recruited Cerepro® trial concludes no safety issues and recommends trial continues as planned

| Indication | Comment |
|---------------------------|--|
| Foot and leg ulcers | Launched in the UK and US approved. |
| Wound healing | Launched in the UK. |
| Foot ulcers | Launched in the UK. |
| Operable malignant glioma | Phase III study recruited. Orphan Drug Status (FDA/EMEA). |
| Cancer-related cachexia | Fast Track Designation. Undergoing Special Protocol Assessment for Phase III study (FDA). |
| Haemodialysis access | Undergoing Special Protocol Assessment (FDA) for Phase III Study. Orphan Drug Status (FDA/EMEA). |

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Chairman's and Chief Executive's review

BROAD PROGRESS WITH MAJOR ACHIEVEMENTS IN GENE-BASED MEDICINE

The first half of 2007 has seen Ark make some notable progress. Our three lead programmes have moved through key clinical milestones into Phase III development and whilst the EMEA confirmed that data from the ongoing Phase III study will be needed for full approval, we are particularly pleased to report our success with Cerepro® in pioneering the regulatory pathway and standards for approval of gene-based medicines in Europe. A number of the achievements in the period could be considered as the most significant so far in the history of the Company. Our follow-on pre-clinical portfolio has also shown encouraging data from *in vitro* and *in vivo* work, building on the results reported last year. We have also added to our wound care product portfolio and sales in that division have shown good growth over the comparable period last year.

We opened the year by hosting our first ever R&D day for analysts and investors at our new laboratories in Kuopio, Finland. We are also pleased to report that our cGMP manufacturing unit at the Kuopio site continued to operate well during the period and passed its first routine inspection, thereby maintaining our unique manufacturing licence for commercial gene

medicine production in Europe. A number of key process improvements and discoveries in the gene medicine manufacturing area made by our scientists in the period are expected to strengthen our intellectual property portfolio for our gene-based products.

In the period we were also successful in prosecuting our European patent filing covering the use of 23 agents that affect the renin angiotensin system for use in stroke and, post period, we announced formal receipt of the grant certificate, allowing us to implement our plans to exploit its further commercial potential.

The first half of 2007 has thus seen the Company strengthen the key aspects of its business.

PIPELINE REVIEW Cerepro®

Early in the year we received a positive outcome from the Data and Safety Monitoring Board ("DSMB") review of the first 130 patients entered into the Phase III study. The safety profile was found to be similar to that seen in previous Cerepro® trials and the DSMB recommended that the study should continue without alteration. In April we completed enrolment of all 250 patients in line with expectations. Also in that month, the EMEA concluded their first

review of our application for early/conditional marketing approval based on Phase II data. Cerepro® cleared all the important historical technical barriers of the important Chemistry and Manufacturing Controls (“CMC”), pre-clinical and environmental sections of the application and the EMEA requested we provide further evidence of efficacy from the Phase III study prior to granting an approval. Consequently post period we withdrew our conditional approval application from the EMEA and are preparing to file for full approval based on the Phase III trial outcome. The achievement of clearing the technical barriers indicates that gene therapy is, for the first time, an approvable platform once clinical results are achieved. This is an enormous step forward both for the Company and for the biotechnology sector overall. Post period we were delighted to report that the first DSMB review of all 250 patients in the fully recruited Phase III found that there were no safety issues and recommended the study should be continued with no changes to the conduct or protocol. This result is in line with the study analysis plan and Company expectations.

Trinam®

Following the requested “End of Phase II” meeting with the FDA in late 2006, we announced early in the period that the FDA had offered Special Protocol Assessment

(“SPA”) to allow the product to enter Phase III development. The documents allowing the SPA to commence were submitted to the FDA mid-period and the process is now ongoing. The final Phase III trial architecture and data requirement necessary for a marketing approval in the USA will be defined during the SPA. A potential major obstacle in commencing Phase III development was overcome in the period when the US Recombinant Advisory Committee (“RAC”) approved the study without the need for a public hearing. The latter again reflects the recent more positive attitude to adenoviral gene-based medicines by the regulators.

Vitor™

Following meetings with both the EMEA and FDA late in 2006 the Company was informed it could commence Phase III development and the FDA has opened an SPA process to assist us in finalising the architecture for the Phase III trial. The SPA process commenced mid-period and is ongoing and the Company has opened discussions with clinical research organisations to plan the preliminary logistics for the trial.

Chairman's and Chief Executive's review continued

PRE-CLINICAL RESEARCH

In January we hosted a research and development update day for analysts and investors at our new facility in Kuopio. This was very well attended and a number of analysts commented on the scope and capabilities of the facility in notes afterwards. In the period our most advanced pre-clinical candidate, Scavidin[®], showed encouraging therapeutic effects in a model of glioma, where intravenous treatment with yttrium-90, a radiotherapeutic, given at about one-fifth the current dose, was targeted by Scavidin[®] to the cancer. A slowing of disease progression and a significant improvement in mean survival time was found, backing up the anti-cancer effects previously found in two other cancer models. We have also made solid pre-clinical progress during the period in the research areas of neuropilin (NP-1) and targeted vector technologies and our early scientific work continues to receive recognition for its quality and applicability as evidenced by the European Commission grant relating to baculovirus vectors research.

WOUND CARE DIVISION

The first half of 2007 saw the sales in our wound care business grow consistently in line with early signs and the period closed with actual sales up 65% on the comparable period in 2006. Flaminal[®] entered the market well and has maintained a consistent and promising upwards sales

trend. In the period we also successfully in-licensed and obtained pricing approval in the UK for Kerraped[®], the first ever off-loading shoe for diabetic foot ulcers to be made available on prescription. This product has just been launched. We are continuing with our work to expand our wound care product portfolio and build the unit into a profitable business.

PATENT PORTFOLIO UPDATE

Ark has 53 granted patents and 140 pending applications and continues to be successful in overcoming the various objections and oppositions in the prosecution processes. In the period, the Company has been granted six patents in various international territories covering Trinam[®], Scavidin[®], targeted gene vector technology and other discoveries. During the period, we also successfully prosecuted the European stroke patent. Post period, we have filed applications covering manufacturing processes which if granted would give our gene-based products protection out to 2027.

FINANCIAL REVIEW

The unaudited financial information for the six months ended 30 June 2007 is prepared in accordance with the Group's accounting policies and is in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Revenues of £0.25m were recorded in our wound care business in the first six months of 2007 (six months ended 30 June 2006: £0.15m) reflecting the successful launch of Flaminal® at the end of 2006. The gross margin in the period was impacted by one-time costs as the older version of Kerraboot® passed its expiry date together with the write-off of product development costs.

Research and development expenditure in the first six months of 2007 was £7.8m (six months ended 30 June 2006: £6.2m), reflecting the excellent progress with the Cerepro® Phase III study, where recruitment completed during the period, together with preparatory work for the Trinam® and Vitor™ Phase III studies and the continuing scale-up of our cGMP manufacturing facility in Finland.

Sales and marketing expenses for the period were £1.1m (six months ended 30 June 2006: £0.8m). The increase of £0.3m related to initial pre-marketing activities for Cerepro®.

Administrative expenses for the period were £3.5m (six months ended 30 June 2006: £3.2m), with almost half the increase attributable to the share-based compensation charge in the period.

In the six months ended 30 June 2007, the Group earned interest on its cash deposits of £1.1m (six months ended 30 June 2006: £0.8m), reflecting the £25.5m of cash received in May 2006 from the net placing and open offer.

Net cash outflow from operating activities for the period was £11.6m (six months ended 30 June 2006: £10.5m). Cash, cash equivalents and money market investments were £37.5m at 30 June 2007 (£49.4m at 30 June 2006).

SUMMARY AND OUTLOOK

The first half of 2007 has seen Ark make substantial progress across key elements of our business. The pioneering of the European regulatory standards for gene therapy during the Cerepro® Marketing Authorisation Application review, the transitioning of our clinical leads into Phase III development and the successful prosecution of our stroke patent can be considered as the most significant achievements so far in the history of the Company. These achievements, together with a number of important advances in our manufacturing capability, allow Ark to maintain its leading position in the exciting, breakthrough area of gene-based medicine.

Chairman's and Chief Executive's review continued

During the second half of 2007 we will give appropriate safety updates on the Cerepro® Phase III trial and continue it according to plan with a further DSMB review around the end of the year. The SPA processes for both Trinam® and Vitor™ are expected to conclude and, subject to our achieving a satisfactory outcome, Phase III trials will commence. We also expect to report progress on bringing further wound care products into our marketed portfolio, on the securing of a US re-imburement price for Kerraboot® and with out-licensing negotiations for our oxidised LDL cardiovascular risk test. We also look forward to progressing further commercialisation of our stroke patent, as well as entering into discussions for the commercialisation of Cerepro® in territories

not core to Ark's own marketing plans and moving some of our earlier research leads into more formal development.



Dennis Turner
Chairman



Nigel Parker
Chief Executive Officer

29 August 2007

Consolidated income statement

for the six months ended 30 June 2007 (unaudited)

| | Six months ended 30 June 2007 £'000 | Six months ended 30 June 2006 £'000 | Year ended 31 December 2006 £'000 |
|---|--|--|--|
| Revenue | 245 | 148 | 344 |
| Cost of sales | (224) | (61) | (147) |
| Gross profit | 21 | 87 | 197 |
| Research and development expenses | (7,797) | (6,181) | (12,845) |
| Selling, marketing and distribution costs | (1,081) | (836) | (1,842) |
| Other administrative expenses | (2,894) | (2,749) | (5,413) |
| Share-based compensation | (589) | (477) | (1,071) |
| Administrative expenses | (3,483) | (3,226) | (6,484) |
| Other income | 16 | 17 | 33 |
| Operating loss | (12,324) | (10,139) | (20,941) |
| Investment income | 1,075 | 753 | 1,867 |
| Finance costs | (12) | (12) | (23) |
| Loss on ordinary activities before taxation | (11,261) | (9,398) | (19,097) |
| Taxation | 1,047 | 700 | 1,584 |
| Loss on ordinary activities after taxation, being retained loss for the period | (10,214) | (8,698) | (17,513) |
| Loss per share (basic and diluted) | 2 | 6.2p | 6.5p |
| | | 6.5p | 11.9p |

All results relate wholly to continuing activities.

Consolidated balance sheet

as at 30 June 2007 (unaudited)

| | 30 June 2007 £'000 | 30 June 2006 £'000 | 31 December 2006 £'000 |
|---|--------------------------|--------------------------|------------------------------|
| Non-current assets | | | |
| Goodwill | 1,306 | 1,306 | 1,306 |
| Other intangible assets | 263 | 268 | 329 |
| Property, plant and equipment | 2,351 | 1,437 | 2,034 |
| | 3,920 | 3,011 | 3,669 |
| Current assets | | | |
| Inventories | 475 | 138 | 470 |
| Trade and other receivables | 1,329 | 1,400 | 1,470 |
| Research and development tax credits receivable | 2,557 | 2,284 | 1,499 |
| Money market investments | 27,000 | 45,180 | 40,000 |
| Cash and cash equivalents | 10,515 | 4,253 | 8,433 |
| | 41,876 | 53,255 | 51,872 |
| TOTAL ASSETS | 45,796 | 56,266 | 55,541 |
| Non-current liabilities | | | |
| Obligations under finance leases | 37 | - | 43 |
| Loans | 316 | 411 | 338 |
| | 353 | 411 | 381 |
| Current liabilities | | | |
| Trade and other payables | 5,257 | 4,112 | 5,539 |
| Current tax liabilities | - | - | 14 |
| Obligations under finance leases | 10 | - | 10 |
| Loans | 86 | 46 | 86 |
| | 5,353 | 4,158 | 5,649 |
| TOTAL LIABILITIES | 5,706 | 4,569 | 6,030 |
| Equity | | | |
| Share capital | 1,662 | 1,594 | 1,659 |
| Share premium | 81,397 | 75,226 | 81,196 |
| Merger reserve | 36,989 | 36,989 | 36,989 |
| Foreign currency translation reserve | (24) | (21) | (22) |
| Share-based compensation | 2,633 | 1,447 | 2,042 |
| Retained loss | (82,567) | (63,538) | (72,353) |
| TOTAL EQUITY | 40,090 | 51,697 | 49,511 |
| TOTAL LIABILITIES AND EQUITY | 45,796 | 56,266 | 55,541 |

Consolidated statement of changes in equity (unaudited)

| | Share capital | Share premium | Merger reserve | Foreign currency translation reserve | Share-based compensation | Retained loss | Total |
|---|------------------|------------------|-------------------|---|-----------------------------|------------------|----------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance as at | | | | | | | |
| 31 December 2005 | 1,275 | 50,032 | 36,989 | (21) | 970 | (54,840) | 34,405 |
| Share-based compensation | - | - | - | - | 477 | - | 477 |
| Loss for the period | - | - | - | - | - | (8,698) | (8,698) |
| Issue of share capital | 318 | 26,775 | - | - | - | - | 27,093 |
| Equity share options issued | 1 | 4 | - | - | - | - | 5 |
| Share issue expenses | - | (1,585) | - | - | - | - | (1,585) |
| Balance as at | | | | | | | |
| 30 June 2006 | 1,594 | 75,226 | 36,989 | (21) | 1,447 | (63,538) | 51,697 |
| Exchange differences on translating foreign operations recognised directly in equity | - | - | - | (1) | - | - | (1) |
| Share-based compensation | - | - | - | - | 595 | - | 595 |
| Loss for the period | - | - | - | - | - | (8,815) | (8,815) |
| Issue of share capital | 63 | 6,088 | - | - | - | - | 6,151 |
| Equity share options issued | 2 | 94 | - | - | - | - | 96 |
| Share issue expenses | - | (212) | - | - | - | - | (212) |
| Balance as at | | | | | | | |
| 31 December 2006 | 1,659 | 81,196 | 36,989 | (22) | 2,042 | (72,353) | 49,511 |
| Exchange differences on translating foreign operations recognised directly in equity | - | - | - | (2) | - | - | (2) |
| Share-based compensation | - | - | - | - | 591 | - | 591 |
| Loss for the period | - | - | - | - | - | (10,214) | (10,214) |
| Equity share options issued | 3 | 201 | - | - | - | - | 204 |
| Balance as at | | | | | | | |
| 30 June 2007 | 1,662 | 81,397 | 36,989 | (24) | 2,633 | (82,567) | 40,090 |

Consolidated cash flow statement

for the six months ended 30 June 2007 (unaudited)

| | | Six months ended 30 June 2007 £'000 | Six months ended 30 June 2006 £'000 | Year ended 31 December 2006 £'000 |
|--|------|--|--|--|
| | Note | | | |
| Net cash outflow from operating activities | 3 | (11,601) | (10,450) | (17,419) |
| Investing activities | | | | |
| Interest received | | 1,251 | 802 | 1,784 |
| Proceeds from/(purchase of) money market investments | | 13,000 | (17,180) | (12,000) |
| Purchases of property, plant and equipment | | (646) | (369) | (1,223) |
| Purchases of intangible assets | | (40) | (317) | (692) |
| Net cash generated from/ (used in) investing activities | | 13,565 | (17,064) | (12,131) |
| Finance activities | | | | |
| Repayment of borrowings | | (28) | (22) | (48) |
| Proceeds on issue of shares (net of expenses) | | 4 | 25,512 | 31,753 |
| Finance costs | | (10) | (11) | (19) |
| Grants received | | 152 | - | - |
| Net cash generated from financing activities | | 118 | 25,479 | 31,686 |
| Net increase/(decrease) in cash and cash equivalents | | 2,082 | (2,035) | 2,136 |
| Cash and cash equivalents at beginning of period | | 8,433 | 6,290 | 6,290 |
| Effect of exchange rate changes | | - | (2) | 7 |
| Cash and cash equivalents at end of period | | 10,515 | 4,253 | 8,433 |

Notes to the financial information

1 BASIS OF PREPARATION - IFRS BASIS

This interim financial information was approved by the Board on 22 August 2007 and does not constitute statutory financial information within the meaning of Section 240 of the Companies Act 1985. A copy of the statutory accounts for the year ended 31 December 2006 has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under Section 237(2) or (3) of the Companies Act 1985.

This interim financial information has been prepared using the accounting policies set out in the Group's 2006 statutory accounts.

Results for the six-month periods ended 30 June 2006 and 30 June 2007 have not been audited.

Copies of the interim results for the six months ended 30 June 2007 are being sent to all shareholders. A copy can also be found on the Company's website at www.arktherapeutics.com.

2 LOSS PER SHARE

International Accounting Standards require presentation of diluted earnings per share when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-money options. Since it seems inappropriate to assume that option holders would exercise out-of-money options, no adjustment has been made to diluted loss per share for out-of-money share options.

The calculation of basic and diluted loss per ordinary share is based on the loss of £10,214,000 for the six months ended 30 June 2007 (six months ended 30 June 2006: £8,698,000; year ended 31 December 2006: £17,513,000) and on 165,917,412 ordinary shares (June 2006: 133,836,891; December 2006: 147,291,176) being the weighted average number of ordinary shares in issue.

Notes to the financial information (continued)

3 RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | Six months ended 30 June 2007 £'000 | Six months ended 30 June 2006 £'000 | Year ended 31 December 2006 £'000 |
|---|--|--|--|
| Operating loss | (12,324) | (10,139) | (20,941) |
| Depreciation and amortisation | 435 | 517 | 993 |
| Deferred income | (16) | (17) | (33) |
| Share-based compensation | 589 | 477 | 1,071 |
| Operating cash flows before movements in working capital | (11,316) | (9,162) | (18,910) |
| Increase in receivables | (35) | (194) | (132) |
| (Increase)/decrease in inventories | (5) | 113 | (219) |
| (Decrease)/increase in payables | (220) | (1,171) | 195 |
| Cash used by operations | (11,576) | (10,414) | (19,066) |
| Research and development tax credit (overpaid)/received | - | (36) | 1,648 |
| Income taxes paid | (25) | - | (1) |
| Net cash outflow from operating activities | (11,601) | (10,450) | (17,419) |

Independent review report to Ark Therapeutics Group plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2007 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 3. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in

preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

Deloitte & Touche LLP

Chartered Accountants
Cambridge, UK

29 August 2007

Notes: A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.



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