



Ark Therapeutics Group plc
Annual Report and Accounts 2008

Pioneering essential biomedicines





A focus on unmet clinical need

Ark Therapeutics is a specialist healthcare group focused on vascular disease and cancer.

Highlights

Cerepro®

→ Phase III trial reported positive efficacy results. Marketing Approval Application filed at EMEA

Vitor™

→ Phase III pilot study approved in Europe and patient enrolment commenced

Wound care

→ Neuropad® and KerraMax® launched and combined product sales grew at 66% year-on-year, attaining sales of just below £1 million in the year

Trinam®

→ FDA Special Protocol Assessment granted and IND requirements met allowing Phase III to commence in USA

Pre-clinical

→ Advances made with results and regulatory advice to allow three programmes to be selected for Phase I/IIa development using validated adenovirus vector platform and VEGF genes

Ark concentrates on areas of serious, unmet clinical need and has an exciting late-stage pharmaceutical development portfolio, as well as a growing range of marketed innovative wound care products. The pipeline is supported by a number of advanced pre-clinical candidates which have already shown encouraging results in disease models and we are currently moving the most advanced of these into the clinic.

→ Pharmaceuticals

Ark has leveraged its pioneering expertise and experience in the area of gene-based medicines to create a late-stage pipeline of highly innovative therapies. To date these have been focused on the specialist areas of cancer and vascular disease. For the future, Ark plans to develop additional gene-based products using its established adenoviral technology platform in an expanded range of indications including cardiac and peripheral vascular disease.

→ Wound Care

The wound care portfolio continues to expand and now includes a total of five products delivering significant clinical benefit and health economic savings in the prevention and treatment of foot, lower-leg and infected wounds, with more products planned for launch in 2009.

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Corporate/Commercial

- Acquisition of Lymphatix Oy securing milestone and royalty-free VEGF-C and -D gene exploitation rights in angiogenesis areas
- New manufacturing facility opened in Finland
- Cash and money market investments of £40.6m at 31 December 2008 (£65.1m at 31 December 2007)

Post-Period Events

- VEGF-C and -D gene and technologies for lymphatic disease licensed to Oy Lx Therapies Ltd in Finland
- Cerepro® MAA filing cleared validation and review commenced at EMEA
- First Named Patient Supply approval for Cerepro®
- Multiple gene regulation technology patent filed
- Dennis Turner, Chairman since September 1999, to retire at end June 2009. Andrew Christie, Non-Executive Director, appointed Chairman from 1 July 2009

Pharmaceuticals

Ark's late-stage pharmaceutical development pipeline comprises highly innovative approaches for the treatment of a number of conditions where there remains unmet medical need. Cancer and vascular disease are two such areas where breakthrough gene-based medicines could be expected to achieve widespread usage by specialist hospital-based physicians.

GENE-BASED

There are an increasing number of serious and life-threatening conditions that, despite the best efforts of the traditional health care industry, remain poorly treated. Small molecule approaches are unlikely to deliver expected efficacy outcomes and it is the belief of many experts that these conditions are likely to require a more fundamental bio-therapeutic approach matched to the complex biology of the disease to achieve treatment success.

Gene-based medicines are now considered one of the most likely approaches to deliver success in a number of difficult-to-treat conditions. There has recently been a significant shift in perception of gene-based medicines, with

regulators and clinical specialists all seeing this approach as having the potential to tackle conditions that have so far proved intractable with standard approaches.

Ark's progress with Cerepro[®], in having pioneered regulatory standards through the first EMEA review, has demonstrated that adenoviral gene-based medicine is an approvable platform. This is reflected by increasing interest in advanced biologics by the pharmaceutical industry, particularly in areas of high, unmet clinical need.

Ark's leading position in gene-based medicines has allowed the Company to file patent applications which when granted will secure significant IP protection for its platforms, as well

as allowing the generation of numerous potentially high value leads. The more mature of these can now be seen filling the clinical development candidate list opposite.

Critical to the regulatory and development progress made has been the establishment of a commercial level manufacturing process and the establishment of an approvable adenoviral delivery technology platform. All of the necessary quality systems, assays and standards have been created at Ark's gene medicine manufacturing facility in Kuopio, Finland, leading to the EMEA granting the first GMP licence for commercial supply of Cerepro[®], a gene-based medicine, in 2005.

Ark is uniquely positioned both to be one of the first companies to introduce a gene-based medicine and to follow on that success by leveraging its capabilities to develop a number of follow-on pre-clinical programmes. Its pre-clinical VEGF programmes utilise the validated adenoviral platform used in Cerepro[®] and Trinam[®]. By selecting a therapeutic gene (VEGF-D) with multiple therapeutic applications and



using this vector, we have been able to move their development towards entering Phase I/IIa clinical development in a very rapid, highly cost-effective manner.

Ark's targeted integrated vector technology platform has the potential to remove many of the perceived risks of integrating gene-based medicines by being able to specify the location of gene integration, thereby controlling and limiting the activity of the gene to that desired for the intended therapeutic outcome.

Additionally our post period announcement of the chromosomal gene regulation technology represents a further step forwards in DNA-based medicine and a major advance on the existing siRNA gene silencing approaches.

Ark is a leader in this rapidly evolving area and is well positioned to benefit from its pioneering expertise.

Ark is uniquely positioned to be one of the first companies to introduce a gene-based medicine

Late stage product portfolio

Product	Indication	Phase	Description	Comment
Cerepro[®]	Operable malignant brain cancer	III	Adenoviral gene-based product	MAA review underway at EMEA
Trinam[®]	Treatment to prevent haemodialysis access surgery complications	III	Adenoviral gene-based product	SPA awarded and Phase III commencing patient recruitment
Vitor[™]	Cancer cachexia	III	New use for existing small molecule	Phase III Pilot Study underway

Clinical development candidates

Product	Indication	Phase	Comment
NP-1 antagonist	Cancer	Lead optimisation	Novel approach for solid tumours
Scavidin[®]	Cancer	Manufacturing vector development	Gene-based system to target chemo/radiotherapy treatments
Targeted Integrating Vector Technology	Multi-therapeutic indications	Early pre-clinical	Gene-vector technology for site-specific gene integration
EG011	Refractory angina	Entering Phase I/IIa	Restores blood supply to ischaemic heart muscle
EG012, 13, 15	→ Foetal growth restriction → Peripheral Vascular Disease → Wound healing	Pre-clinical toxicity Entering Phase I/IIa Final disease model POP	Line extensions of EG011 which work by stimulating angiogenesis and blood flow for improved clinical outcomes

Wound care

A large number of companies work in the wound care area. Despite the activity, many wounds do not heal and a significant unmet clinical need still remains. Many of the products used in wound care are commodity or 'me-too' type products that offer, at best, only marginal benefit.

Ark's approach has been to focus on introducing innovative products that deliver significant clinical advantages over existing products and demonstrate a positive cost benefit to the health care system.

The portfolio to date contains one product to identify patients at risk from diabetic foot ulcers, Neuropad®, three products focused on improving outcomes for patients with leg and foot ulcers, Kerraboot®, Kerraped® and KerraMax® and an antimicrobial gel, Flaminal® that can be used on any type of infected wound, including those infected with MRSA, S. pyogenes and C. difficile 'superbugs'.

Ark's intention is to introduce further wound care products during 2009.

Ark's approach has been to focus on introducing innovative products that deliver significant clinical advantages

Products marketed

Product	Description	Comment
Kerraboot®	Reduces dressing times by approximately 70%	Kerraboot® is a novel wound dressing device for leg and foot ulcers. It has achieved a CE Mark in Europe and is listed with the FDA. In clinical studies carried out to date, Kerraboot® reduced dressing time by approximately 70% and both patients and health care workers rated Kerraboot® significantly better than previous dressings they had used.
Flaminal®	Reduced wound area by 63% over 28 days	Flaminal® is a new non-cytotoxic alginate gel with anti-microbial properties utilising a novel enzyme system. Flaminal® is indicated for wounds which show delayed healing as a result of local infection or high bacterial load. Flaminal® is particularly effective against Streptococcus pyogenes and methicillin-resistant Staphylococcus aureus (MRSA), two of the most troublesome and difficult to manage pathogens in wound care.
Kerraped®	First product of its class to be available on prescription in the UK	Kerraped® is a medical footwear device for the management of diabetic foot ulcer patients. It is suitable for all patients who need to reduce plantar pressure (pressure on vulnerable areas of the sole of the foot) and can be used with Ark's Kerraboot® and will improve patients' mobility as well as provide protection to wounds on the foot.
Neuropad®	First simple, non-subjective test for diabetic foot neuropathy	Neuropad® is an easy to use screening test for autonomic neuropathy and an early detection test for diabetic foot syndrome. Neuropad®, unlike other currently available tests in primary care, can detect early stage small fibre neuropathy allowing early intervention and preventative strategies leading to a reduction in the incidence of diabetic foot ulcers.
KerraMax®	A new super absorbent dressing that absorbs and retains wound fluid well, even under moderate compression bandaging.	Containing the super absorbent material developed for Kerraboot®, KerraMax® offers a more economical and effective option for managing wound exudate.

Chairman and Chief Executive's review

During 2008 Ark continued to build its pioneering DNA-based medicine capabilities and advance its position as a world leader in this exciting new area of medicine. Our lead products in Phase III, Cerepro® (for brain tumours), Trinam® (for haemodialysis access), and Vitor™ (for muscle wasting in cancer) all made material progress. Of most significance, at the end of the year, we submitted Cerepro® for marketing approval in Europe.

Our UK wound care business achieved consistent and strong growth (66% period on period) through the year and we were pleased to report successful UK reimbursement and full launch of two new products: Neuropad® and KerraMax®. The inclusion of Kerraboot®, Kerraped® and Flaminal® in the NHS Advanced Wound Care and Topical Negative Pressure Therapy Contract was clear evidence of the significant health economic benefits of our range of wound care products.

Regulatory progress was also significant with successful completion of the Trinam® SPA process mid year and subsequent clearance to start patient recruitment, approval in Europe of the Phase III pilot for Vitor™ and publication of Phase III results and filing of the European

Marketing Authorisation Application ("MAA") for Cerepro®.

Mid year we announced the opening of our new Finnish manufacturing facility (GMP 3), considerably strengthening our capabilities in full-scale production and filling for commercial supply of gene-based medicine. Validation and certification of the new facility is ongoing and we received renewal of our certification for our existing facility GMP 1 and an extension to a second theatre, GMP2, from the Finnish National Agency of Medicines in 2008.

We were pleased to report the acquisition of Lymphatix Oy earlier in the year which has allowed us to accelerate VEGF product development which will help maximise their value to the Company. Post period we also completed the out-licensing of the VEGF-C and VEGF-D gene and adenoviral technologies for lymphatic disorders to a new Finnish-based company, Oy Lx Therapies Ltd ("Lx Therapies"), in return for an 'evergreen' equity stake in the business and royalties on future sales. Lymphatic disease is a very specialised medical area and we were pleased to grant this licence to a company with the appropriate expertise.

We also plan to manufacture product for Lx Therapies in our Kuopio facility as their new business develops.

In summary, we are very pleased with the progress made in 2008. We look forward to strengthening our leadership role in the DNA-based medicines sector and to reporting further success in 2009 as we advance all our commercialisation activities.

PIPELINE REVIEW

Cerepro®

We commenced the year with the announcement that the Cerepro® Phase III trial (Study 904) would give an initial read-out of results in July 2008. In April, the EMEA formally approved the paediatric investigation plans. In late July we announced that Cerepro® treatment resulted in a statistically significant improvement in the primary endpoint (time to death or reintervention). This is a milestone result for the Group.

Further results were presented in September at the European Association of Neuro-Oncology Congress and the Principal Investigator

Cerepro® → for operable malignant brain cancer



Product

Cerepro® is a gene-based medicine which 'harnesses' healthy brain cells to destroy cancer cells as they attempt to reproduce to form a tumour. It is being developed for the treatment of patients with operable high-grade glioma, a type of malignant brain tumour where the average survival period for patients, once diagnosed, is about twelve months. Cerepro® is given at the time of surgery.

SIGNIFICANT INCREASE IN SURVIVAL (COMPARED WITH STANDARD CARE)

Development status

Cerepro® has been granted Orphan Drug Status by the European Committee for Orphan Medicinal Products and by the FDA in the US. It has completed four clinical trials. Phase II and III trials have demonstrated significant improvements in mean survival time, (defined as time to death or re-intervention to prevent death) compared with standard care surgery and radiotherapy. Cerepro® was well tolerated overall and there was no evidence of deterioration in the patients' quality of life, or of an increased dependency on concomitant therapies.

The Marketing Approval Application for Cerepro® was filed at the EMEA in late 2008 and, following successful validation, formal review commenced immediately post period end. The outcome of the review is expected mid to late H2 2009. Post year-end, the Company announced that the first Named Patient Supply for Cerepro® had been approved.

Chairman and Chief Executive's review continued

concluded with the very positive comment that "gene therapy history had been made with the Cerepro® results".

Also in Q3, we met with the rapporteur from the EMEA to discuss the MAA and, following certain further analyses, we submitted the MAA in December. We were pleased to report post period that the application had passed validation and the formal review of the dossier had commenced. The first annual update of the trial results is due late this quarter in accordance with the regulations for gene therapy trials and we look forward to working closely with the EMEA as the MAA review progresses

Post period, the Company announced that the first Named Patient Supply for Cerepro® had been approved by the French Medicines Control Agency (AFSSAPS) following a 'nominative' ATU (Autorisation Temporaire d'Utilisation) application made by a neuro-surgeon in France.

Vitor™

Following our decision in late 2007 to conduct a pilot study to provide data to enable us to determine the final architecture for the Phase III study, we completed manufacturing the product

for clinical trials supply and filed applications to commence the pilot study in a number of European countries. With the increased number of review committees now in operation, the processing of the applications was slower than we initially hoped but we secured approval to commence the study in June.

Following this, Ethics Committee approvals were obtained during the second half of 2008 and recruitment into the trial commenced late in the year. Preliminary results are expected in the second half of 2009.

Trinam®

We continued to work closely with the US regulators to progress the SPA process through the first half of the year and this was formally awarded in June 2008. Concurrently, the Investigative New Drug ("IND") application reviewer requested that one of the battery of batch release assays be 'qualified' with further data. Work on qualification commenced immediately as did work with US investigator sites to enable enrolment of the first patient into the trial as soon as clearance of the assay was received.

A suitable assay was qualified late in the period in line with the revised draft guideline covering this area issued by the FDA in October. Post-period we have filed the requisite IND updates with the FDA and recruitment of the first patient is expected shortly.

PRE-CLINICAL

Following the progress we made with our clinical stage gene-based technology and manufacturing we took the decision late in 2007 to invest in a number of the most promising pre-clinical gene-based programmes in order to move up to three into Phase I/IIa development.

The most advanced of these (EG011) is a short-form VEGF-D gene in our adenoviral delivery platform (as used in Cerepro® and Trinam®) under development for treatment of refractory angina. This reported very promising pre-clinical results in June 2008. In a heart attack model, treatment with EG011 restored the ejection fraction (the amount of blood pumped from the affected ventricle), a key measure of heart function, from 60% to 90% of the level observed before the heart attack occurred.

Vitor™ → for cancer cachexia



Product

Vitor™ is an oral, small molecule therapy for the treatment of muscle wasting (cachexia), a secondary, often fatal, condition commonly seen in patients with cancer.

Muscle wasting occurs frequently amongst patients with all types of solid tumours and also occurs in patients with other diseases including heart disease, liver cirrhosis and AIDS. In cancer, muscle wasting is often reported as the final cause of death.

Development status

Following the encouraging results of the 200 patient Phase II/III study, Ark commenced the Special Protocol Assessment process with the FDA. This has progressed well and a pilot Phase III Study commenced H2 2008.

SIGNIFICANT THERAPEUTIC EFFECT DEMONSTRATED IN TWO CANCERS

A further programme (EG013), also based on adenovirally delivered VEGF, is under development for foetal growth restriction, a serious disorder caused through insufficient blood supply to the placenta. This also showed promising results by producing improved blood flow for up to 50 days in an *in vivo* model. In April we held a meeting with the Gene Therapy Working Party ("GTWP") at the EMEA to discuss these findings, which clarified the indication of severe foetal growth restriction and the method of administration. They also commented positively both on a proposed programme of *in vivo* and *in vitro* work to be completed prior to Phase I/IIa and on the nature of the Phase I/IIa trial endpoints.

In addition, during the first half of 2008 we had a successful meeting with the GTWP to discuss Scavidin® in pre-clinical development for non-operable gliomas. The combination status of the product was confirmed as well as the manufacturing process and route of administration. In another of our pre-clinical programmes, EG014, a neuropilin-1 ("NP-1") receptor antagonist, we reported the discovery and understanding of the precise NP-1 receptor pocket structure and molecular binding site characteristics, allowing us to

continue what we believe is the last stage of lead optimisation work to provide a compound to take into the clinic.

Through the latter half of the year we prioritised our pre-clinical programmes further and as well as making the determination to take our short-form adenoviral VEGF-D construct into Phase I/IIa in both myocardial ischaemia (EG011) and foetal growth restriction (EG013) we also selected, following early academic trials results, peripheral vascular disease prior to by-pass surgery as a clinical opportunity. All these programmes utilise the adenoviral vector platform on which Cerepro® and Trinam® are based with the short-form D gene allowing us to leverage both the 'approvable status' of this delivery technology and a single manufacturing process.

The combination of our DNA-based research capability and manufacturing expertise has put us in a unique position to develop these pioneering products, all of which address large markets with high clinical need. Whilst remaining attractive, our other pre-clinical programmes have been de-prioritised to give priority in time and resources to the most promising. Work on these will continue in

academia capitalising on our academic partnerships, an important strength of Ark's approach to research.

Overall, our pre-clinical programmes have developed encouragingly towards the key value-creating Phase I/IIa trial milestones. We believe that such progress in these gene-based programmes is uniquely possible at Ark through the capabilities developed in our lead clinical products.

Going forward we expect to announce in the first half of 2009 the commencement of at least two of the Phase I/IIa programmes with our short-form VEGF-D construct in collaboration with academia.

WOUND CARE

UK wound care sales maintained the growth trend experienced in the first half ending the year 66% up on the previous year with sales of just below £1m.

We were very pleased to see Flaminal®, Kerraboot® and Kerraped® accepted for inclusion on the new NHS Advanced Wound Care and Topical Negative Pressure Therapy

Trinam® → treatment to prevent haemodialysis access surgery complications



Product

Trinam® consists of a local delivery device and a gene-based medicine using VEGF. It is being developed to prevent the blocking of veins after vascular surgery. This is caused by an abnormal overgrowth of muscle cells occurring in the wall of the otherwise healthy blood vessels. Known as intimal hyperplasia, this is a significant problem as it can cause a complete blockage (*de novo* stenosis) of the blood vessel, which usually results in the need for further surgery to avoid serious complications. The initial target market is haemodialysis access graft surgery for patients who have kidney failure.

Development status

Trinam® has received clearance from the Recombinant DNA Advisory Committee for the proposed Phase III Study in patients receiving a graft for haemodialysis access. The Special Protocol Assessment process commenced in mid 2007 and SPA was granted mid 2008. All IND requests for extra work completed and Phase III study recruitment expected to start in Q1 2009.

PHASE II PATIENTS HAD MARKEDLY INCREASED GRAFT PATENCY RATES

Chairman and Chief Executive's review continued



Contract as part of the new NHS supply chain purchasing system. Products on the contract are effectively deemed 'NHS best practice' and to achieve acceptance each has to pass a range of new, independently assessed, NHS standards of clinical and cost effectiveness. Ark's three products will now be actively promoted by the NHS supply chain to all NHS and primary care trusts via its catalogue. In the period we announced the in-licensing and launch of Neuropad® for diabetic patients initially available via podiatrists through non-reimbursed purchase.

In October, both Neuropad® and KerraMax® secured UK Drug Tariff reimbursement and the launch of KerraMax® in November was very well received by the nursing community. Early sales trends indicate KerraMax® has the potential for rapid growth.

Post year end sales continue to show an encouraging rate of growth and we are very pleased with the way this business is gaining momentum towards break even.

PATENT PORTFOLIO UPDATE

In 2008, Ark had 25 new patents granted and we secured milestone and royalty-free exploitation rights to the angiogenic and lymphangiogenic gene application to VEGF-C and -D. We filed 7 new applications and through our continuous review policy ceased prosecution of 10 patent families which were considered not to have sufficient scientific or commercial value. At present, Ark has 170 patents granted and 76 pending applications and we remain successful in overcoming the various objections and oppositions that occur in the prosecution process.

We have recently announced a particularly interesting breakthrough technology patent application covering the ability to up and down regulate multiple genes in the same construct. This can be delivered with established gene delivery vectors and has the potential to supersede current RNA silencing technology, which has recognised limitations with specificity and delivery.

We have commenced dialogue with a number of companies regarding our stroke patent and have now initiated more direct activities to realise its commercial potential through the formal system. Prosecution of the stroke patent has been slow in the USA but it has now been prioritised at the US Patent Office and prosecution is now active. We look forward to the US grant at the Office's discretion.

CORPORATE ACTIVITIES

Early in the period we completed the acquisition of Lymphatix Oy in an all-shares transaction, securing for Ark milestone and royalty free exploitation rights to VEGF-C and VEGF-D genes in Ark's area of interest. The transaction also secured certain pre-clinical science and results that have enabled us to move our pre-clinical programmes forward more rapidly.

In February we completed the work to validate our existing manufacturing facility in Finland (GMP 1) to US standards. Throughout the year we have continued to manufacture commercial grade product in GMP 1. We were also able to announce the extension by the Finnish National Agency for Medicines ("NAM") of the Company's GMP certification to include GMP 2, Ark's second Finnish production unit, increasing significantly our commercial grade manufacturing flexibility.

These are significant achievements allowing us to be self-sufficient in manufacturing all our gene-based products

In mid-July we also expanded our future production capabilities with the opening of GMP 3. GMP 3 is linked to Ark's existing laboratory suites and has been built with the aid of funding from Finnish government agencies. This commercial scale facility initially contains 547m² of clean rooms and will operate to Biosafety Level 2. GMP 3 provides Ark with two additional manufacturing suites specifically designed to manufacture gene-based medicines, particularly those in viral vector constructs. The facility is supported with full utilities and services for bioreactor and wavebag batch volume production, and is equipped through to commercial scale filling and packaging of finished product. We are now using it for large scale manufacturing process development and validation. This will allow the fully equipped production suites to be validated to enable full GMP certification to meet both EMEA and FDA standards.

GMP 3 was completed with the aid of a Euro 2.19m grant from the Employment and Economic Development Centre of Finland ("TE-Centre") which is the largest investment grant awarded to the biotech pharma industry by the TE-Centre since its foundation in 2000.

These are significant achievements allowing us to be self-sufficient in manufacturing all the gene-based products in our portfolio from research through to commercial supply.

Post year end, we announced that we had granted a licence for VEGF-C and VEGF-D to Lx Therapies for exploitation in the lymphoedema areas. Lx Therapies will take on all development and certain patent maintenance costs and, in return, Ark has received an 'evergreen' equity position in Lx Therapies as well as royalties on future product sales.

SUMMARY AND OUTLOOK

In 2008 we continued to make solid progress in pioneering and building our specialist gene-based medicine products and capabilities. Not only have the Phase III leads moved successfully through key late-stage regulatory milestones, but we have strengthened the underlying pre-clinical pipeline to be in a position to take three more gene-based products into the Phase I/IIa trial stage in 2009. Our UK wound care sales are showing increasing strength and whilst sales are still relatively small we are optimistic for the growth of the wound care business towards break-even in 2009. Our manufacturing capabilities have been successfully expanded and we are now self-sufficient for our own needs and rapidly becoming recognised as the 'state-of-the-art' European site for production and fill of viral gene-based medicines and comparable advanced biologics. The new facility has already prompted a number of enquiries for third party manufacture.

During 2009 we expect to give the first annual update of the Cerepro[®] Phase III results, the read-out of the results for the Vitor[™] Phase III pilot study and to report on the progress of recruitment for the Phase III trial for Trinam[®]. As the year progresses we will report the

outcome of the Cerepro[®] MAA and on our plans for commercialising the product in Europe and non-core territories. We also look forward to reporting on our activities to realise the value of our stroke patent. Finally, we expect to give periodic updates on progress of short-form VEGF-D based programmes in the Phase I/IIa trial stage.

We entered 2009 with cash and money market investments of £40.6m and in a period of global financial uncertainty, the Company will maintain its focus on managing its resources and cost base carefully and proactively to ensure that it can continue to meet its key value-generating objectives.

This is the last letter I will write as Chairman having reached the decision to step down at the end of June after ten years in that role. This is one of a planned series of steps we have been taking at Ark to prepare for our successful transition to a commercial DNA-based medicine business. I am delighted that Andrew Christie, who joined the Board last March and has strong strategic financial and banking credentials, has accepted the Board's invitation to take over the Chairmanship from 1 July 2009.

In summary we will continue to build and strengthen our position in the DNA-based medicine area and increase our commercial effectiveness to develop Ark into a sustainable advanced biomedicines provider.



Dennis Turner,
Chairman
13 March 2009



Nigel Parker,
Chief Executive Officer

Expert teams

Directors

Dennis Turner Non-Executive Chairman

Dennis Turner joined Ark as Non-Executive Chairman in 1999. Most of his career has been spent creating, financing and building international companies in the medical and pharmaceutical services sectors. Most recently, he was Chairman and Chief Executive Officer of Pharmaceutical Marketing Services Inc. and Walsh International Inc. (both NASDAQ listed) and a non-executive director of International Biotechnology Trust (LSE-listed). Mr Turner is a member of the Nomination Committee.

Andrew Christie Non-Executive Director

Andrew Christie joined the group as Non-Executive Director in April 2008. He is a member of the Remuneration Committee. Mr Christie has 25 years of investment banking and international corporate finance experience. During his career with Credit Suisse, Hill Samuel & Co and BZW he held a number of senior positions, including Head of Investment Banking, Asia Pacific for both Credit Suisse First Boston and BZW Limited. Mr Christie is also a non-executive director of Elementis plc.

David Prince Non-Executive Director

David Prince is Chairman of the Audit Committee and a member of the Nomination Committee. He was appointed to the Board in May 2004. Mr Prince was, until December 2003, Group Finance Director of Cable and Wireless plc. Prior to this he held Board positions at PCCW, as Group Chief Financial Officer and Hong Kong Telecom as Deputy CEO and Group Finance Director. He also holds a non-executive board position at Adecco SA and is a non-executive director of SmarTone Telecommunications Holdings (Hong Kong).

Dr Nigel Parker Chief Executive Officer

Dr Nigel Parker has been Chief Executive Officer of Ark since 1998 and is responsible for the strategy and development of the Group. A graduate in life sciences, he has over 25 years' experience in the pharmaceutical business, where he has undertaken senior international management roles in companies such as Teva Pharmaceuticals Limited and Pharmaceutical Marketing Services Inc.

Peter Keen Non-Executive Director

Peter Keen is Chairman of the Remuneration Committee and is a member of the Audit and Nomination Committees. He is a Chartered Accountant with over 24 years' experience of financial management in biotechnology companies and is currently Corporate Development and Finance Director of the biotechnology company Serentis Ltd. In 1992 he was a co-founder of Chiroscience Group Plc and then helped establish Merlin Biosciences, which co-founded Ark in 1997. He has served on the board of a number of public and private biotechnology companies and is currently a non-executive director of Abcam plc and the Biotech Growth Trust plc.

Sir Mark Richmond Non-Executive Director

Sir Mark Richmond is senior independent Director, Chair of the Nomination Committee and a member of the Remuneration Committee. Sir Mark was appointed as a Non-Executive Director of Ark in 1997. He was formerly Group Head of Research at GlaxoSmithKline plc. He also holds a non-executive board position at Cytos AG.

Martyn Williams Chief Financial Officer and Company Secretary

Martyn Williams has been Chief Financial Officer of the Company since 1998. Prior to that he was the Chief Financial Officer of Walsh International Inc. In April 1996, he was a key member of the team responsible for the completion of the initial public offering of that company on NASDAQ. He has over 20 years' experience in senior financial positions in international businesses.

Dr Wolfgang Plischke Non-Executive Director

Dr Wolfgang Plischke is a member of the Audit Committee, having been appointed to the Board in December 2003. Until 1 March 2006 Dr Plischke was a member of the Bayer Healthcare Executive Committee and President of the Global Pharmaceuticals Division of Bayer. With effect from 1 March 2006, he became a member of the Board of Management of Bayer AG.

Professor Seppo Ylä-Herttuala Consultant Director of Molecular Medicine, Non-Executive Director

Professor Seppo Ylä-Herttuala was one of Ark's co-founders in 1997. Since 1995, he has developed the University of Kuopio's Gene Therapy Unit into one of the most active centres in Europe, with experience in ten human gene therapy trials to date. As a world-renowned expert in gene expression technology, the pathogenesis of vascular diseases and malignant glioma, he brings invaluable knowledge to the Group. His experience includes pioneering work in vascular gene therapy, where he performed the first adenoviral gene transfers to human peripheral arteries.

Senior management

Dr Edward Bliss General Counsel

Dr Edward Bliss joined Ark in June 2005 and following his appointment as General Counsel on 1 April 2008, is responsible for all legal aspects of the Group's business and operations. Prior to joining Ark, Dr Bliss worked in the London office of the US international law firm, Covington & Burling, as a solicitor in its Life Sciences group where he practised in corporate, commercial and intellectual property matters relating to the pharmaceutical industry. Dr Bliss is also a graduate in physiology with a doctorate in neuroscience.

Cécile Miles Director of Commercial Development

Cécile Miles, Director of Commercial Development, joined Ark in August 2008 and has extensive operational and strategic experience in the pharmaceutical industry. Prior to joining Ark, Cécile worked at PLIVA as Global Business Development Director where she spearheaded the creation and implementation of the product portfolio strategy and at Ranbaxy as European Director. In a seventeen-year career with Fisons, Cécile performed a number of roles from Sales Representative, Product Manager and European Marketing through to Country Manager.

Dr David Eckland Director of Research and Development

Dr David Eckland joined Ark in May 2005. He previously worked at Takeda Europe Research and Development Centre, where he became Managing Director in 2002, after leaving Glaxo Wellcome plc in 1997, where he was International Director of Metabolic Disease Clinical Research. A graduate in Biochemistry and Medicine, and with a doctorate in Neuroendocrinology, Dr Eckland is a Fellow of the Royal College of Physicians.

Robert Shaw Technical Director

Robert Shaw joined Ark in June 2005, having previously acted as a consultant to the Company on operational matters. Mr Shaw oversees Ark's manufacturing operational activities and manufacturing development within Ark Therapeutics Limited. Mr Shaw is responsible for Ark Therapeutic Oy's quality management - as Responsible Director in Kuopio, Finland. He is an industrial pharmacist with a record of achievements, both in the industrialisation of new processes and the management of established products.

Professor John Martin Chief Scientific Officer

Professor John Martin is Chief Scientific Officer at Ark and was one of Ark's co-founders in 1997. He is a practising cardiovascular physician and holds the Chair of Cardiovascular Medicine at University College London. He was Vice President of the European Society of Cardiology from 2000 to 2002 and as a member of the board of the Society he has initiated a high level political endeavour on heart disease in Europe through the European Commission and the Presidencies of several countries. He was the biology finalist for the Descartes Prize in Research 2004. In 2008 he was awarded the Gold Medal of the European Society of Cardiology.

Financial review

Overview

We report a loss for the year ended 31 December 2008 of £15.9m (2007: £18.2m). The Group's losses have decreased in the year primarily as a result of unrealised exchange gains on inter-company loans and gains on operational foreign exchange strategies pursued by the Group in the year.

Cash and money market investments at 31 December 2008 totalled £40.6m (2007: £65.1m).

RESULTS OF OPERATIONS YEARS ENDED 31 DECEMBER 2008 AND 2007

Revenue

Revenue of £0.9m was recorded in 2008 (2007: £1.1m). Sales in the UK of wound care products were £0.93m (2007: £0.57m), the increase in the year arising from higher Flaminal[®] and Kerraped[®] sales. The balance of revenues recorded in 2007 comprised a further milestone receipt due under the licensing agreement with Boehringer Ingelheim and an initial milestone payment in respect of the out-licensing of marketing rights for the Ox-LDL heart attack risk test kit. It is expected for 2009 that the primary sources of revenues will continue to be wound care product sales and out-licensing receipts. In future years an increasing proportion of revenues is expected to come from the products now in late stage clinical development, together with further out-licensing receipts.

Research and development expenses

Ark conducts research at its facilities in Kuopio, Finland, at University College London and through a specialist chemistry sub-contractor. Clinical studies are carried out by approved clinical research organisations within Europe and North America under the close supervision of senior project managers employed by the Group. Research and development expenditure in 2008 was £16.5m (2007: £14.6m), the increase reflecting additional expenditure on selected pre-clinical programmes and on manufacturing scale-up and support for Cerepro[®] and Trinam[®]. Research and development expenses comprise clinical development costs, manufacturing development costs and research costs and are detailed below.

Clinical development costs

Major expenditures during the year were to complete the Phase III study for Cerepro[®] and to prepare the Marketing Approval Authorisation Application (MAA) for submission to the EMEA, the commencement of recruitment into the Vitor[™] Phase III pilot study and preparatory activities for the Trinam[®] Phase III study. It is anticipated that 2009 will see the completion of the Vitor[™] Phase III pilot study, the commencement of recruitment into the Trinam[®] Phase III study and further expenditure on the

late-stage pre-clinical programmes, including initial clinical work.

Manufacturing development costs

Manufacturing development expenditure increased during 2008 to support the MAA process for Cerepro[®], to continue commercial scale-up of GMP manufacturing capability and to manufacture GMP material for the selected pre-clinical programmes.

Research costs

Research costs rose by £0.8m due to continuing investment, in Finland and in the UK, in the Group's promising pre-clinical pipeline.

Sales and marketing expenses

Selling, marketing and distribution costs for the period were £1.7m (2007: £2.0m). These costs related largely to UK sales force expenses and marketing activities for wound care products which showed a small increase year on year. The reduction in expenditure in the year related to lower pre-marketing activities for Cerepro[®], following initial key opinion leader development activities in 2007.

Other administrative expenses

Other administrative expenses for the period were £5.3m (2007: £5.8m). These administrative expenses consist primarily of remuneration for employees in executive and operational functions (including finance, commercial development, legal and IT), facilities costs and professional fees. The lower spending in the year was a result of headcount reductions and other cost saving measures.

Share-based compensation

Share-based compensation charges for the period were £1.0m (2007: £1.0m).

Other income and expenses

Other income and expenses comprised exchange gains, fair value gains on hedging arrangements, the cost of foreign currency options and income from EU and Government grants. The increase in other income and expenses from £0.5m, in 2007, to £3.5m, in 2008, arose principally from unrealised exchange gains on inter-company loans, the gain on which increased from £0.2m to £2.5m over the same period. These Euro denominated loans were granted to the Finnish subsidiary, Ark Therapeutics Oy, in order to finance the new biologics manufacturing facility. The £0.6m fair value gain on USD forward exchange contracts, taken out during 2008, also contributed to the increase.

Investment income

The Group invests its surplus cash in bank deposits of up to one year in accordance with the terms of the Investment Policy approved by the Board. This policy has as its principal aim the security of the Group's cash balances and

contains strict criteria on minimum credit ratings and maximum deposit size. Net interest receivable comprises the interest income generated from cash invested in term and overnight deposits. In the year ended 31 December 2008 the Group earned investment income of £2.9m (2007: £2.2m) on cash deposits. The increase was primarily due to the higher balance of cash deposits following the placement and open offer in December 2007.

Taxation

There were no UK corporation tax charges for the year under review due to the incidence of tax losses. We continue the policy of surrendering tax losses for cash by making research and development tax claims to the tax authorities and anticipate a tax credit receivable of £1.7m in respect of the year ended 31 December 2008 (2007: £1.8m), resulting from the continued investment in research and development in the year.

Balance sheet

Total net assets (defined as total assets less total liabilities) have fallen from £68.1m at 31 December 2007 to £55.1m at 31 December 2008, principally as a result of the operating cash outflows during the period. Property, plant and equipment at 31 December 2008 totalled £15.1m, up from £5.3m as at 31 December 2007, reflecting the increased investment in the biologics manufacturing facility in Finland.

Cash flow

The net cash outflow from operating activities for the year was £20.4m (2007: £18.1m). The Group's net cash outflow from capital expenditure was £8.9m (2007: £3.0m). The capital expenditure was principally the investment in upgrading the Group's biologics manufacturing facilities in Kuopio, Finland.

Intangible capital expenditure included licence payments to access technology used in the Group's development programmes.

The Group's net cash inflow from financing activities was £2.1m (2007: £35.7m) primarily through the proceeds of the grant from the Employment and Economic Development Centre of Finland for the GMP3 facility. Interest received from term and overnight deposits was £2.7m (2007: £2.1m).

The Board operates an Investment Policy governing the investment of the Group's cash resources, under which the primary objective is to invest in low risk cash or cash equivalent investments to safeguard the principal, ensuring that these resources remain available to fund the Group's operations.

Martyn Williams

Chief Financial Officer 13 March 2009

Corporate governance

The Company believes that an effective system of corporate governance, appropriate to the Company at this stage of its development, assists its corporate aim of delivering shareholder value. In this annual report, the Board is reporting formally on its compliance with the Combined Code on corporate governance (published in June 2006) (the "Code"). The Board recognises that it is accountable to shareholders for the Company's standard of governance and seeks to demonstrate how the principles of good governance, advocated by the Code, have been and continue to be applied within the Company.

Statement of compliance with the Code

In accordance with the Listing Rules of the Financial Services Authority, the Company confirms that during the reporting period (1 January 2008 to 31 December 2008) it was compliant with the provisions of, and applied the principles of, Section 1 of the Code. The following sections, together with the Directors' remuneration report, provide details of how the Company applies the principles and complies with the provisions of the Code.

The role of the Board

The Code requires every company to be headed by an effective board, which is collectively responsible for the success of the company. The Company has implemented a policy setting out which matters are reserved for the decision of the Board, which includes responsibility for strategy and overall management of the Company, approval of items of major capital expenditure, annual and interim reports and interim management statements, accounts, budgets (including review of performance against budget), risk management review, changes to the structure, size and composition of the Board and determination of the remuneration policy of Directors and senior management. This policy also identifies those matters where full delegation to a Board Committee is not normally permitted, as a final decision on the matter is required to be taken by the whole Board. Matters which the Board considers suitable for delegation are contained in the terms of reference of its Committees.

The Board considers that it has shown its commitment to leading and controlling the Company by meeting eight times during the period (including meetings held on short notice to consider specific business and which could not be arranged at times to enable full Board attendance) and conducting annual strategy and budget reviews. During the reporting period Sir Mark Richmond, Dennis Turner, David Prince and Peter Keen were each unable to attend one of the Board meetings held on short notice. Professor Seppo Ylä-Herttuala was unable to attend four Board meetings and Dr Wolfgang Plischke was unable to attend five Board meetings during the period, in each case the unattended meetings including the Board meetings held on short notice. Up until his resignation from the Board on 24 April 2008, Dr Bruce Carter was unable to attend two Board meetings, with Andrew Christie attending all Board meetings since his appointment on 24 April 2008.

Division of responsibilities between Chairman and Chief Executive

The Board has shown its commitment to dividing responsibilities for running the Board and running the Company's business by: appointing Dennis Turner as non-executive Chairman; naming Sir Mark Richmond as senior independent Director; establishing an executive management team under the leadership of the Chief Executive, Dr Nigel Parker; and establishing a procedure whereby the executive management team reports formally to the Board at each Board meeting.

Board balance

The Code requires a balance of Executive Directors and Non-Executive Directors ("NEDs") (and in particular independent NEDs) such that no individual or small group of individuals can dominate the Board's decision taking. A smaller company, such as Ark, must have at least two independent NEDs. In the period under review, seven of the nine current Board members were NEDs, five of whom (excluding the Chairman) the Board considers to be independent. The senior independent Director is Sir Mark Richmond. The NEDs come from diverse business backgrounds and each has specific and relevant expertise, materially enhancing the judgment and overall performance of the Board. Following Dr Bruce Carter's resignation from the Board on 24 April 2008 and Andrew Christie's appointment as a new NED also on 24 April 2008, the Board again considers that five NEDs out of seven are independent.

Independence of NEDs

As explained in previous annual reports, in order to assist in securing the recruitment and retention of high calibre NEDs, the Company historically granted NEDs options to acquire shares in the Company, in addition to fees, but no longer does so. No NEDs were granted options under the NED Share Participation Plan in the period under review. Professor Seppo Ylä-Herttuala was granted share options in the period under the Group's Consultancy Share Option Plan, not in relation to his directorship but as part of the benefits he receives for the consultancy services he supplies to the Group.

The holding of share options by NEDs could, amongst other things, be relevant in determining whether a NED is independent. After detailed consideration, the Board has determined that it does not believe that the holding of share options by its NEDs impacts on their independence in character and judgment. Options granted to NEDs are not subject to any performance conditions and the number of shares which may be acquired on the exercise of an option is solely dependent on the NED's period of service with the Company. In accordance with the recommendations of the Code, NEDs are required to hold shares arising from the exercise of any Directors' share options granted since the IPO for one year from the date that they cease to be a Director.

Notwithstanding the fact that Peter Keen and Sir Mark Richmond have each been a NED of the parent company of the Group for eleven years, the Board has evaluated their performance rigorously and considers that both are fully independent of the Company.

The Board has therefore determined that during the period under review Dr Bruce Carter, Dr Wolfgang Plischke, David Prince, Sir Mark Richmond and Peter Keen met and continue to meet the independence criteria set out in the Code. The Board has also determined that Andrew Christie, who replaced Dr Bruce Carter as a NED on 24 April 2008, meets and continues to meet the independence criteria set out in the Code.

During the reporting period the NEDs met twice without executive management being present, including once without the Chairman being present.

The Board Committees

The Board has established a Remuneration Committee, a Nomination Committee and an Audit Committee, whose make-up complies with the requirements of the Code. The terms of reference of each Committee can be downloaded from the Company's website.

The Nomination Committee

The Nomination Committee meets at least once a year or more if necessary and has responsibility for considering and making appropriate recommendations to the Board on the size, structure and composition of the Board and retirements and appointments of additional and replacement Directors. The Code recommends that a majority of members of the Nomination Committee are independent NEDs. Sir Mark Richmond chairs the Nomination Committee, and its other members in the review period were Dennis Turner, David Prince and Dr Bruce Carter who was replaced by Peter Keen on 24 April 2008. Consequently, three out of four members of the Committee were considered by the Company to be independent NEDs for the duration of the reporting period (Mr Turner, as Chairman of the Board, not being eligible for consideration as independent). The Nomination Committee met once during the period, in February 2008, with full attendance by all Committee members.

The Remuneration Committee

The Code requires that, in the case of a smaller company, the Remuneration Committee consists of at least two independent NEDs. Dr Bruce Carter, the Committee's former Chairman, resigned from the Remuneration Committee on 31 December 2007 and was replaced on 1 January 2008 by Peter Keen, who chaired the Committee for the duration of the reporting period. The Committee's other members were Sir Mark Richmond and Dennis Turner. Dennis Turner resigned from the Committee on 24 April 2008 and was replaced by Andrew Christie on the same date. Peter Keen, Sir Mark Richmond and Andrew Christie were considered by the Board to be independent.

The Committee has responsibility for making recommendations to the Board on the Company's policy on the performance evaluation and remuneration of Directors, and for determining, within agreed terms of reference, specific remuneration packages for each of the Executive Directors and members of senior management, including pension rights, any compensation payments and the implementation of executive incentive schemes. The Committee met twice during the reporting period and the Board can confirm full attendance by all member Directors.

The Audit Committee

The Code recommends that in the case of a smaller company the Audit Committee should consist of at least two independent NEDs, one of whom has recent and relevant financial experience. The Company complies with these recommendations, with two of the Audit Committee members (David Prince and Peter Keen) having recent and relevant financial experience. David Prince is Chairman of the Committee and the other members are Dr Wolfgang Plischke, Sir Mark Richmond and Peter Keen. Sir Mark Richmond resigned from the Audit Committee on 24 April 2008. The Audit Committee met four times during the year. The Board can confirm full attendance by all member Directors except for one meeting when Dr Wolfgang Plischke was unable to attend. A detailed report on the duties of the Audit Committee and how it discharges its responsibilities is provided later in this Corporate governance report.

Timeliness and quality of Board information

The Board has sought to ensure that Directors are properly briefed on issues arising at Board meetings by establishing procedures for: distributing Board papers in a timely manner in advance of meetings; considering the adequacy and quality of the information provided before making decisions; and adjourning meetings or deferring decisions when Directors have concerns about the information available to them. Training is provided to all Directors on an ongoing and timely basis.

Transparency of Board appointments

There are formal, rigorous and transparent procedures for the appointment of new Directors to the Board. Short-listed candidates are interviewed by at least one member of the Nomination Committee and the Chairman of the Board and evaluations of appropriate candidates are circulated to all members of the Nomination Committee for consideration and approval prior to candidate recommendation to the Board.

In respect of Mr Christie's appointment as a NED on 24 April 2008, the Nomination Committee had determined to strengthen the Board in areas that would support the Company's strategic direction towards product commercialisation and, as a result of representations made by certain key shareholders, been counselled to secure a NED with relevant experience in equity capital markets and investment banking. Mr Christie, a former executive of Credit Suisse, was identified through the Company's relationship with Credit Suisse and he was interviewed by each member of the Nomination Committee. Committee members were impressed by his detailed understanding of capital markets and corporate finance and the interaction of these with the life science sector. After satisfying themselves on Mr Christie's ability to devote the appropriate amount of time to the Company's affairs, the Nomination Committee had no hesitation in recommending his appointment to the full Board.

Constructive use of the Annual General Meeting

The Board seeks to use the Annual General Meeting (together with other forums) to communicate with investors and encourage their participation by arranging presentations by executive management

and inviting shareholder questions. The Chairman of each of the Board Committees is, wherever possible, present at the Annual General Meeting to answer questions on the report on the relevant Committee's activities and matters within the scope of that Committee's responsibilities.

Dialogue with shareholders

The Directors seek to build on a mutual understanding of objectives between the Company and its shareholders. Apart from the Annual General Meeting, this is undertaken by way of the annual report and regular presentations to shareholders to discuss long-term issues and to obtain feedback. Through the presentation of the annual report and accounts, the interim report, the twice-yearly interim management statements and press releases (which are emailed automatically to registered web users), the Board seeks to present a balanced and understandable assessment of the Company's position and prospects. All periodic reports and accounts are mailed to shareholders. The Ark Therapeutics website provides additional information on the Company and access to press releases, reports and accounts and other materials issued by the Company.

Sir Mark Richmond, as senior independent Director, may be contacted directly by shareholders through a link on the Company's website. In addition, all NEDs have developed an understanding of the views of shareholders through corporate broker briefings and review of issued analyst notes.

Board performance evaluation

All Directors are subject to election by shareholders at the first Annual General Meeting after their appointment, and to re-election thereafter at intervals of no more than three years. In accordance with the Code, the Board undertakes an annual evaluation of its own performance and of that of its committees and individual Directors which has been formalised in the Board Review and Development Policy (a copy of which is available on the Company's website) adopted by the Board. Individual evaluations aim to confirm that each Director continues both to contribute effectively and to demonstrate commitment to the role (including the allocation of necessary time for preparation and attendance at Board and committee meetings and any other duties). The NEDs, led by the senior independent Director, are responsible for evaluating the performance of the Chairman of the Board and meet annually to conduct a formal review without the Chairman present, taking into account the views of executive management. Following the evaluation process, the Company considers that the Board and its individual members continue to perform effectively.

The performance of the five Directors being proposed for re-election at the Annual General Meeting (Martyn Williams and Professor Seppo Ylä-Herttuala for re-election by virtue of retirement by rotation, Sir Mark Richmond, Peter Keen and Dennis Turner as a result of having been a NED of the parent company of the Group for more than 9 years) has been formally evaluated and it has been determined that all five continue to perform effectively and are fully committed to their roles on the Board and relevant Committees. The Board considers Sir Mark Richmond and Peter Keen to be independent for the purposes of the Code.

Maintenance of a sound system of internal control

The Board maintains a sound system of internal control to safeguard shareholders' investment and the Group's assets, and has established a continuous process for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which has been in place throughout the reporting period and up to the date of approval of the annual report and accounts and which is in accordance with revised guidance on internal control published in October 2005 (the "Turnbull Guidance"). The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The concept of reasonable assurance recognises that the cost of a control procedure should not exceed the expected benefits. The Board confirms that it has, in the period under review, reviewed the effectiveness of the Group's system of internal controls including financial, operational and compliance controls and risk management systems.

Risk management review

In performing the risk management review process in the year under review, and up to the date of approval of the annual report, senior management undertook a risk review in the reporting period in each area of the Group, identifying material risks, grading them on the likelihood of occurrence and impact on the business. They then determined how best to manage or reduce each risk and highlighted areas where action was required. The Audit Committee then reviewed the risk management review process, reporting the results to the Board. The Board then reviewed the material risks identified by management and, after discussion and deliberation concluded that all material risks identified are being managed effectively. In addition, specific risks and their mitigation have been discussed by the Board and its committees at meetings during the year.

Other internal controls

Operational controls

As further discussed in the Corporate Social Responsibility Report on page 27, the Group's products are developed and manufactured in accordance with recognised quality guidelines and applicable national and international legislation. The Group's investigational medicinal products are manufactured, either by the Group or through a contract manufacturer, in accordance with Good Manufacturing Practice (GMP) to ensure that the products are manufactured consistently to the appropriate quality standards. Pre-clinical studies to determine the safety and efficacy of the Group's products in development are conducted in accordance with Good Laboratory Practice (GLP) at contractors who operate in conformity with those regulations. The Group carries out all its clinical studies in accordance with Good Clinical Practice (GCP). This ensures the health and well-being of the study subjects are carefully monitored during the study and that the data gathered are complete and reliable. All contract manufacturers and clinical studies are audited for compliance with the above regulations under the management of the Group's quality assurance function.

The Group has established policies and standard operating procedures (“SOPs”) that provide instruction on all aspects of the operation of the business. These SOPs are designed to ensure compliance with the quality management requirements of the Group and external regulations where appropriate. All SOPs are reviewed on a regular basis and updated where necessary.

Through the Audit Committee, the Board has reviewed the effectiveness of the internal controls. The Group’s organisational structure has clearly established responsibilities and lines of accountability. Employees are required to follow clearly laid out internal procedures and policies appropriate to the business and their position within the business. On an ongoing basis executive management monitors financial and operational performance in detail and where appropriate refers matters to the Board for further consideration.

The Group has implemented a contract authorisation procedure to formalise the negotiation and authorisation of material contracts to be entered into with third party providers. The process ensures that, in respect of each material contract that a member of the Group intends to enter into, specific legal and financial risks are assessed, and contractor due diligence is performed. The process results in an efficient and controlled process of contract approval, giving clarity to those responsible for the execution of the contract and ensuring appropriate risk management for the Group.

The Board has evaluated the performance of the Audit Committee and confirms that there are arrangements in place for considering financial reporting and internal control principles and for maintaining an appropriate relationship with the Group’s Auditors.

The Board has shown its commitment to formal and transparent arrangements for financial reporting, internal control and external audit by, amongst other things, reviewing the Group’s arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in these areas (formalised in a “whistleblowing” policy circulated to all employees) and having policies and procedures in place for financial reporting.

The Board monitors the activities of the Group through monthly reports on performance against key targets (principally the progress of the research and development portfolio through clinical development and the management of cash resources (both funding and cash outflows)). The Board retains responsibility for approving any significant financial expenditure or commitment of resources.

The Group has formal Health & Safety and Security Committees, comprising appropriate members of management and other employees which as part of their remit oversee the Group Health & Safety (see summary in the Directors’ report) and Security policies respectively.

Audit Committee responsibilities and relationships with Auditors

The Code requires that this annual report separately describes the work of the Audit Committee and how it discharges its responsibilities.

The Audit Committee focuses particularly on compliance with legal requirements, accounting standards and the Code and on ensuring that an effective system of internal financial controls is maintained. The ultimate responsibility for reviewing and approving the financial

statements in the interim and annual reports remains with the Board. Written terms of reference are modelled on the Code provisions and set out the main roles and responsibilities of the Audit Committee, including the monitoring of the Group’s whistleblowing procedures, reviewing financial reporting arrangements and the effectiveness of internal controls and risk management systems. The Audit Committee reports to the Board, identifying any need for action or improvement on any of these terms of reference and makes recommendations as to the steps to be taken. The effectiveness of the Audit Committee is reviewed by the Board annually.

In accordance with the Smith Guidance on audit committees, no one other than the Audit Committee Chairman and members receive automatic invitations to a meeting of the Audit Committee. The Audit Committee meets the external Auditors at least once a year without management present and its Chairman keeps in touch on a continuing basis with the key people involved in the Company’s governance, including the Board Chairman, the Chief Executive, the Chief Financial Officer and the external audit lead partner. An induction programme is provided for new Audit Committee members, covering the role of the Audit Committee, its terms of reference and an overview of the Group’s business, including the main business and financial dynamics and risks.

The Audit Committee reviews the financial integrity of the Group’s financial statements including relevant corporate governance statements prior to Board submission.

In exercising its responsibilities during the reporting period, the Audit Committee continued its review of the internal controls in place in the Group’s Finnish subsidiary, Ark Therapeutics Oy, and reviewed the Company’s Investment Policy in the light of the current global financial instability, contract authorisation process and internal controls in place to guard against fraud. It also assessed the process for the identification and management of key risks arising from senior management’s annual risk review exercise.

Accountability and audit

The Board is required by the Code to present a balanced and understandable assessment of the Group’s position and prospects. In relation to this requirement reference is made to the Statement of Directors’ Responsibilities for preparing the financial statements set out on page 29. The independent Auditors’ report on page 30 includes a statement by the Auditors about their reporting responsibilities.

The Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment and removal of the external Auditors and assesses annually the qualification, expertise, resources, remuneration and independence of the external Auditors as well as the effectiveness of the audit process. The Board confirms that it has not taken a different position from that of the Audit Committee in relation to the appointment of the external Auditors. The Audit Committee also receives a report on the external audit firm’s own internal quality control procedures. For each annual cycle, the Audit Committee ensures that appropriate plans are in place for the external audit.

As recommended by the Smith Guidance and in compliance with its terms of reference, the Audit Committee has developed and recommended to the Board and the Board has adopted a policy (the “Auditors’ Independence Policy”) to ensure Auditor independence and objectivity including in relation to the provision of non-audit services

by the Auditors. Under the Auditors' Independence Policy the auditors are permitted to supply the Group with audit and audit-related services (eg reviews of internal controls and reviewing the Group's interim financial statements). Certain permitted non-audit services are set out in the policy (eg tax compliance and planning) and such services require authorisation either by the Chief Financial Officer or the Audit Committee depending on their value. In order to ensure continued auditors' independence under the policy the auditors are prohibited from supplying certain services (including book-keeping and accounting services and actuarial services).

Any non-audit services that are to be provided by the external Auditors are reviewed in order to safeguard Auditor objectivity and independence. The Board can confirm that during the reporting period there have been no non-audit services that are considered to have impaired the objectivity and independence of the external Auditors. A full breakdown of payments made to the external Auditors during the financial year is disclosed within note 6 on page 41.

The Audit Committee considers the need for an internal audit function annually and has concluded that, given the current size of the Group's operations, it is not necessary at this time.

Compliance with the UK BioIndustry Association ("BIA") Code of Best Practice

The BIA, of which the Company is a member, has published a code to establish principles of best practice for information communication and management amongst its members. The principles support and extend the Company's duty to publish and communicate information in a fair, equal and balanced manner. The Board is committed to meaningful dialogue with its investors and can confirm that during the reporting period the Company complied with the BIA code (2006 Edition) with respect to those provisions relevant to the Group.

Going concern basis

As at 31 December 2008 the Group had cash and money market investments of £40.6m. In accordance with the Code the Board, having made relevant enquiries, has a reasonable expectation that at the time of approving the financial statements the Company has adequate resources to continue in operational existence for the foreseeable future. The Board receives regular, detailed cash forecasts from the Company's management. In view of the continuing review of these which takes place and considering the Company's current cash resources, the Board continues to adopt the going concern basis in preparing the financial statements.

Martyn Williams

Company Secretary
13 March 2009

Directors' remuneration report

Introduction

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985 (the "Act"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration in the Combined Code. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Act requires the Auditors to report to the Company's members on certain parts of the Directors' remuneration report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act. The report has therefore been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION Remuneration Committee

The Group has a Remuneration Committee ("the Committee") which the Company considers is constituted in accordance with the recommendations of the Combined Code. The members of the Committee during 2008 were Sir Mark Richmond, Dennis Turner, Andrew Christie and Peter Keen (Chairman). Mr Christie was appointed to the Committee with effect from the date of the Annual General Meeting, 24 April 2008. Mr Turner resigned from the Committee on the same date.

None of the Committee has any personal financial interest (other than as shareholders or option holders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Director plays a part in any discussion about his own remuneration.

In considering the Directors' remuneration for the year, the Committee consulted Dr Nigel Parker (CEO) and Martyn Williams (CFO) about its proposals and reviewed executive compensation packages in the UK biotech sector. The Committee also considered the recommendations of the Hay Group who reviewed all elements of remuneration for executive management and senior corporate at the end of 2006. The Committee also referred to a number of specialist studies on executive remuneration, including the annual survey carried out by Hewitt New Bridge Street Consultants LLP in the biotechnology sector.

Remuneration policy

Executive remuneration packages are prudently designed to attract, motivate and retain senior management of the high calibre needed to achieve the highest level of Group performance in accordance with the best interests of shareholders. They comprise a mixture of performance-related and non-performance-related remuneration. The performance measurement of the Executive Directors and key members of senior

management and the determination of their annual remuneration package are undertaken by the Committee. The remuneration of the NEDs is determined by the Board within limits set out in the Articles of Association. No changes in respect of the remuneration policy are expected in the foreseeable future.

There are five main elements of the remuneration package for Executive Directors and senior management:

- Basic annual salary and benefits;
- Annual bonus payments;
- Share option incentives;
- Pension arrangements; and
- Long-term incentive plans

The Group's policy is that a substantial proportion of the remuneration of the Executive Directors and senior management should be performance related. As described below, Executive Directors may earn annual incentive payments linked to a specified target percentage of their basic salary together with the benefits of participation in share-based incentive schemes.

Basic salary

An Executive Director's basic salary is determined by the Committee at the beginning of each year and, from time to time, when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and relies on objective research which gives up-to-date information on a comparator group of companies within the sector. Account is also taken of the individual performance of each Executive against objectives set by the Committee as well as the pay and conditions of all employees. Basic salaries were reviewed in January 2008, with increases taking effect from 1 January 2008. Executive Directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

In addition to basic salary, the Executive Directors receive certain benefits-in-kind, namely a car allowance and private medical insurance.

Annual bonus payments

The Group operates a performance-related bonus scheme for senior management, including Executive Directors, linked to a specified target percentage of their basic salary (Dr Nigel Parker: 50%, Martyn Williams: 40%). The Committee has the discretion to increase the above percentages by up to one half for exceptional performance. Bonuses are non-pensionable and, for the financial year 2008, the maximum bonus paid was 17% of basic salary. Bonus payments are based on the attainment of specific performance criteria which are directly related to defined strategic goals which have been approved by the Committee. Those criteria are intended to be challenging and are structured so as to encourage and reward high levels of achievement consistent with the interest of shareholders and the long-term objectives of the Group.

Share options

Options over ordinary shares have been granted to date under nine share option plans:

- the Ark Therapeutics Limited 2001 Enterprise Management Incentive Share Option Plan (the "2001 EMI Plan");
- the Ark Therapeutics Group Limited 2003 Enterprise Management Incentive Share Option Plan (the "2003 EMI Plan", together with the 2001 EMI Plan, the "EMI Plans");
- the Ark Therapeutics Limited Scavidin® Stand-alone Plan (the "Scavidin® Plan");
- the Ark Therapeutics Limited Share Option Plan (the "Old Executive Plan");
- the Ark Therapeutics Group Unapproved Share Option Plan (the "Unapproved Executive Plan");
- the Ark Therapeutics Group Approved Share Option Plan (the "Approved Executive Plan");
- the Non-Executive Director Share Participation Plan (the "NED Plan");
- the Ark Therapeutics Group Consultancy Share Option Plan (the "Consultants' Plan"); and
- the Ark Therapeutics Group 2005 Long Term Incentive Plan (the "LTIP").

No grants have been made in the period under the Old Executive Plan, the EMI Plans, the Scavidin® or the NED Plan, nor will there be any further grants under these plans in the future. Employees and Executive Directors are eligible to participate in the Approved Executive Plan and the Unapproved Executive Plan (together the "Executive Plans") and the LTIP, the terms of which comply with guidelines and best practice governing the grant of share-based incentives in a listed company, to the extent to which the Board considers such practice to be appropriate to the Group.

In the period under review, no share options were granted to NEDs under the NED Plan. The NEDs hold options granted prior to the Company's IPO or, in the case of Mr Prince, granted as part of his recruitment package. The Company no longer grants share options under the NED Plan.

NED options become exercisable to the extent vested, which is dependent only on the NED remaining with the Company, and will vest as to one third annually on the first, second and third anniversary of grant. The Board considers that the terms of the options do not in any way affect the independent judgment of Sir Mark Richmond, Dr Wolfgang Plischke, David Prince, Peter Keen or Andrew Christie. In accordance with the recommendations of the Combined Code, the NEDs have agreed that they will not dispose of shares arising from the exercise of options granted under the NED Plan since the Company's IPO for at least one year from the date their directorship terminates.

Professor Seppo Ylä-Herttuala, a Non-Executive Director, was awarded 60,000 options in the year under the Consultants' Plan in respect of his services to the Company as a consultant.

All outstanding options are over ordinary shares and any ordinary shares issued or transferred in satisfaction of any option shall rank *pari passu* with the then existing issued ordinary shares. Benefits under any of the share option plans or LTIP detailed below are not pensionable.

The vesting of share-based incentives under the Executive Plans, the Consultants' Plan and the LTIP is determined by assessing performance against a number of specific, externally verifiable corporate milestones, the achievement of which over a three-year period determines whether and to what extent options and LTIPs vest. The following milestones were identified for the 2008 grant of options:

1 January 2008 – 31 December 2010

1. Launch of Cerepro® in Europe	15%
2. Approval of Cerepro® in the USA	15%
3. Complete enrolment into Trinam® Phase III study	20%
4. Secure at least one further ACE stroke deal subject to minimum cash receipt in the period	20%
5. File IND for three pre-clinical programmes before 31 December 2009	20%
6. Achieve sustainable break-even point in wound care business	10%

The Remuneration Committee considers that the above milestones are expected to be the key events to drive enhanced shareholder value. Where an individual milestone is achieved before the end of the three year period, the percentage of the total award attributed to that particular milestone will vest as to performance but will not be exercisable until the third anniversary of grant. For future awards, the milestones will be set at the time of grant to reflect the key value drivers of the business at that time.

To the extent vested at the end of the three year period from the date of grant, options are exercisable for the rest of their ten-year life without further test.

Under the original performance criteria of the Executive Plans, options granted to executive management or senior corporate staff were subject to a combination of cash flow management requirements and the achievement of certain comparative levels of Total Shareholder Return ("TSR"). Under the Consultants' Plan, TSR was previously the sole performance criterion.

Prior to the Company's IPO (which occurred in March 2004), the Executive Directors were also granted options under the terms of the EMI Plans, the Old Executive Plan and the Unapproved Executive Plan. The exercise of these options is not dependent upon performance criteria. The exercise price of the options granted under the above schemes is equal to the market value of the Company's shares at the time when the options were granted.

Outstanding options may become exercisable before their normal exercise date in the event of a change of control of the Company, in accordance with the rules of the relevant plan.

Directors' remuneration report continued

LTIP

Under the LTIP, awards take the form of 'nil paid' options and are subject to the achievement of the same key milestones described above which, in the Board's judgement, will be the determinants and drivers of shareholder value and delivery of which is the primary goal of management. At the end of three years, commencing with the year in which the option was granted, the option is tested against the performance criteria.

The Company's policy is to consider the grant of awards annually to Executive Directors at the discretion of the Remuneration Committee taking into account individual performance up to a maximum of two times salary in any one year, inclusive of any LTIP awards. It is the Company's policy to phase the grant of awards rather than to grant a single large award to any individual. No awards have been made to Executive Directors since 3 January 2007.

In 2008, the Board resolved not to make LTIP awards to those who are eligible to benefit from funds made available to the Ark Therapeutics Group Family Benefit Trust (the "FBT"), as described below.

Ark Therapeutics Family Benefit Trust ("FBT")

In 2008 the Board resolved to make funds available to the trustee of the FBT, on the basis of the trustee's agreement to the Company's request that the trustee would subscribe for shares in the Company at market value, and transfer the shares to sub-funds. The transfers are to remain conditional for three years from the date of the transfer, and will then only become unconditional to the extent that the key milestones described in the "share options" section above are achieved. The Board also resolved to treat any shares issued to the trustee of the FBT as reducing the number of new shares that may be issued under the LTIP and share option plans.

Accordingly, on 4 January 2008, the trustee of the FBT subscribed for 1,355,000 ordinary shares of 1 pence each in the Company. Of these, 630,000 shares have been conditionally appointed to a sub-fund whose class of discretionary beneficiaries includes Dr Nigel Parker and 240,000 shares have been conditionally appointed to a sub-fund whose class of discretionary beneficiaries includes Martyn Williams. The balance of 485,000 shares have been appointed to sub-funds whose class of discretionary beneficiaries does not include Directors of the Company.

Whilst ordinary shares are held within the Trust, the voting rights in respect of those shares are exercisable by the trustees in accordance with their fiduciary duties.

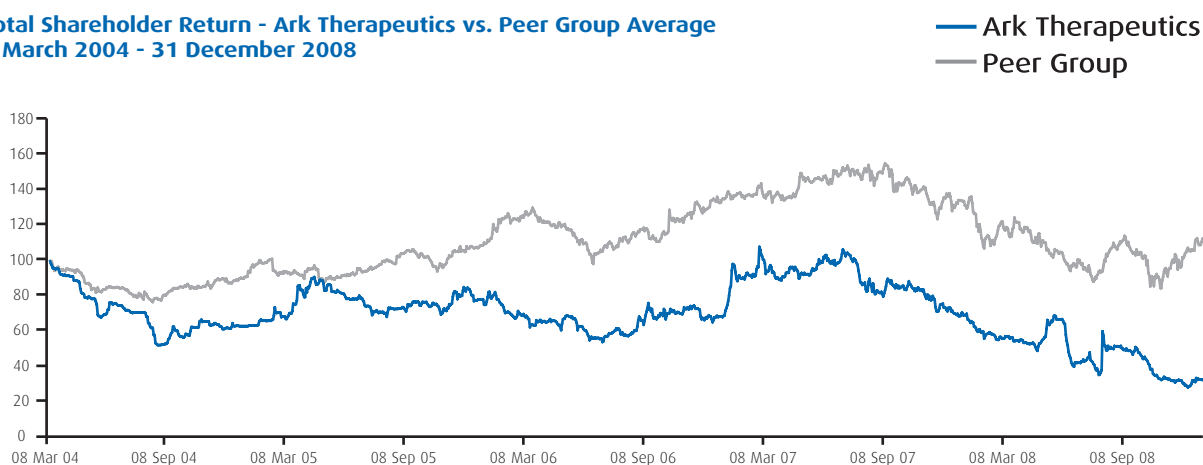
Pension arrangements

In the UK, all employees including Executive Directors are invited to participate in the Group Personal Pension Plan, which is money-purchase in nature. The only pensionable element of remuneration is basic salary. During the year, the Group contributed 15% of basic salary to a Self Invested Personal Pension scheme in the name of Martyn Williams and 17% of basic salary in respect of Nigel Parker to a retirement annuity contract in which he participated prior to joining the Group.

Performance graph

The following graph shows the Company's performance, measured by TSR, compared with the performance of the comparator group of companies in the sector also measured by TSR. This is relevant to the Group's original performance criteria for options and LTIP awards as set out above. The comparator group was selected for this comparison because it was the comparator group used by the Company to determine to what extent options issued to Executive Directors and senior managers will vest (under the previous performance criteria).

Total Shareholder Return - Ark Therapeutics vs. Peer Group Average
8 March 2004 - 31 December 2008



Source: Datastream

*Peer Group constituents: Alizyme, Antisoma, Axis-Shield, Goldshield Group, GW Pharmaceuticals, Oxford Biomedica, Phytopharm, Proteome Sciences, Shire Pharmaceuticals, Sinclair, SkyePharma, Vernalis

Directors' service contracts

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice. This applies to the contracts of Dr Parker and Mr Williams, which were effective 8 March 2004. Dr Parker is required to give twelve months' notice of termination and Mr Williams six months. The Company can make payment of basic salary in lieu of notice.

Non-Executive Directors

All NEDs have specific terms of engagement (the re-appointment being reviewed annually and being terminable on three months' notice by either party) and their remuneration is determined by the Chairman of the Board and the Executive Directors (save in the case of the Chairman of the Board, whose remuneration is determined by the Executive Directors) within the limits set by the Articles of Association and based on independent surveys of fees paid to NEDs of similar companies. The basic fee paid to the Chairman in the year was £60,000, and the basic fees paid to the other NEDs in the year were Dr Carter: £9,021; Mr Christie: £17,146; Mr Keen: £25,000; Dr Plischke: £25,000; Mr Prince: £25,000; Sir Mark Richmond: £25,000 and Professor Ylä-Herttuala: £2,000. The NEDs receive further fees

for attendance at each Board meeting and for additional work performed for the Company in respect of chairmanship or membership of the Remuneration Committee, Audit Committee and Nomination Committee. NEDs are not eligible to join the Group's pension scheme.

The details of the appointments of the NEDs who served as a Director in the year to 31 December 2008 are summarised in the table below:

Name of Director	Effective date of appointment
Dr B Carter	7 July 2005
A Christie	24 April 2008
P Keen	8 March 2004*
Dr W Plischke	8 March 2004**
D Prince	26 May 2004
Sir Mark Richmond	8 March 2004*
D Turner	8 March 2004*
Professor S Ylä-Herttuala	8 March 2004*

* Originally appointed a Director of Ark Therapeutics Limited (formerly known as Eurogene Limited), the previous parent company of the Group, as follows: P S Keen - June 1997; Sir Mark Richmond - June 1997; Professor S Ylä-Herttuala - January 2001; D Turner - September 1999.

** Originally appointed a Director in December 2003.

AUDITED INFORMATION

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2008 £'000	2007 £'000
Emoluments	1,032	1,004
Pension contributions	94	88
	1,126	1,092

Directors' emoluments

Name of Director	Fees/ Basic salary £'000	Benefits in kind £'000	Annual bonuses £'000	2008 total excluding pension £'000	2008 pension £'000	2007 total excluding pension £'000	2007 pension £'000
Executive							
Dr N Parker	360	18	60	438	61	487	57
M Williams	220	15	29	264	33	286	31
	580	33	89	702	94	773	88
Non-Executive							
Dr B Carter*	10	-	-	10	-	35	-
P S Keen	43	-	-	43	-	32	-
Dr W Plischke	32	-	-	32	-	29	-
D Prince	42	-	-	42	-	36	-
Sir Mark Richmond	38	-	-	38	-	34	-
D Turner	70	-	-	70	-	63	-
Professor S Ylä-Herttuala	2	-	-	2	-	2	-
A Christie**	24	-	-	24	-	-	-
	261	-	-	261	-	231	-
Aggregate emoluments	841	33	89	963	94	1,004	88

* To date of resignation, 24 April 2008.

** From date of appointment, 24 April 2008.

In addition to the amounts shown above Professor Ylä-Herttuala has earned consultancy fees of £75,000 (2007: £70,000) and Mr Keen, in 2008, £nil (2007: £5,000) which were not in respect of their qualifying services as a Director.

No Director waived emoluments in respect of the years ended 31 December 2008 or 2007.

Directors' remuneration report continued

Directors' interests

The interests of the Directors in office at the end of the year in the share capital of the Company at 31 December 2007, 31 December 2008 and at the date of this report were as follows:

	Number of ordinary shares of 1p each		
	31 December 2008	31 December 2007	Date of Report
D Turner	155,026	155,026	155,026
Dr N Parker	2,894,579	2,894,579	2,894,579
M Williams	551,310	551,310	551,310
Professor S Ylä-Herttua	3,152,358	3,152,358	3,152,358
P Keen	194,965	194,965	194,965
D Prince	16,486	16,486	16,486
Sir Mark Richmond	14,118	14,118	14,118
A Christie	12,658	-	12,658

All interests are beneficially held other than:

- Mr Keen's interest in 183,200 shares is as a joint trustee and sole member of a retirement benefit scheme which is the beneficial owner of the shares.
- Dr Parker and Mr Williams have a non-beneficial interest in 2,854,665 and 495,639 shares respectively which are held by the Trustees of the Ark Therapeutics Group Family Benefit Trust and have been allocated to sub-funds whose class of discretionary beneficiaries includes Dr Parker and Mr Williams and their respective families.
- 32,002 shares are held in trust for members of Dr Parker's immediate family in the name of Brecon Holdings Limited.

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors.

Details of options over ordinary shares for Directors who served during the year are as follows:

Name of Director	1 January 2008	Granted	Options exercised during the period	Options lapsed during the period	31 December 2008	Exercise price pence	Date from which exercisable	Expiry date
Dr B Carter	150,000	-	-	-	150,000	100.81	07/07/2006	**06/07/2015
P S Keen	150,000	-	-	-	150,000	60.50	28/01/2005	**27/01/2014
Dr N Parker	260,000	-	-	-	260,000	0.01	08/03/2004	24/04/2010
	1,008,808	-	-	-	1,008,808	50.00	08/03/2004	24/04/2010
	428,000	-	-	-	428,000	69.00	24/05/2002	*23/05/2011
	400,000	-	-	-	400,000	74.00	21/03/2003	*20/03/2012
	350,000	-	-	-	350,000	50.00	24/09/2004	*23/09/2013
	400,000	-	-	-	400,000	60.50	28/01/2005	*27/01/2014
	500,000	-	-	-	500,000	60.50	02/02/2005	*01/02/2014
	445,500	-	-	49,950	395,550	96.25	12/03/2008	***11/03/2015
	290,000	-	-	24,142	265,858	104.00	04/01/2009	***03/01/2016
	315,000	-	-	-	315,000	94.75	03/01/2010	***02/01/2017
Dr W Plischke	150,000	-	-	-	150,000	60.50	28/01/2005	**27/01/2014
D Prince	150,000	-	-	-	150,000	133.00	26/05/2005	**26/05/2014
Sir Mark Richmond	120,000	-	-	-	120,000	69.00	21/03/2002	23/05/2011
	150,000	-	-	-	150,000	60.50	28/01/2005	**27/01/2014
D Turner	400,000	-	-	-	400,000	50.00	27/04/2000	05/12/2009
	170,000	-	-	-	170,000	50.00	21/03/2002	24/04/2010
	120,000	-	-	-	120,000	69.00	21/03/2002	23/05/2011
	150,000	-	-	-	150,000	60.50	28/01/2005	**27/01/2014
M D Williams	300,000	-	-	-	300,000	30.00	08/03/2004	05/12/2009
	150,000	-	-	-	150,000	50.00	08/03/2004	24/04/2010
	150,000	-	-	-	150,000	50.00	25/04/2001	*24/04/2010
	200,000	-	-	-	200,000	69.00	24/05/2002	*23/05/2011
	54,542	-	-	-	54,542	74.00	04/04/2003	*03/04/2012
	145,458	-	-	-	145,458	74.00	21/03/2003	*20/03/2012
	180,000	-	-	-	180,000	50.00	24/09/2004	*23/09/2013
	180,000	-	-	-	180,000	60.50	28/01/2005	*27/01/2014
	90,000	-	-	-	90,000	60.50	02/02/2005	*01/02/2014
	178,200	-	-	19,980	158,220	96.25	12/03/2008	***11/03/2015
	112,500	-	-	9,365	103,135	104.00	04/01/2009	***03/01/2016
	120,000	-	-	-	120,000	94.75	03/01/2010	***02/01/2017

Name of Director	1 January 2008	Options Granted	Options exercised during the period	Options lapsed during the period	31 December 2008	Exercise price pence	Date from which exercisable	Expiry date
Professor S Ylä-Herttuala	70,000	-	-	-	70,000	50.00	25/04/2001	* 24/04/2010
	60,000	-	-	-	60,000	74.00	21/03/2003	* 20/03/2012
	50,000	-	-	-	50,000	50.00	24/09/2004	* 23/09/2013
	50,000	-	-	-	50,000	60.50	28/01/2005	* 27/01/2014
	99,999	-	-	-	99,999	60.00	28/09/2004	31/12/2014
	50,000	-	-	-	50,000	96.25	12/03/2008	*** 11/03/2015
	50,000	-	-	-	50,000	104.00	04/01/2009	*** 03/01/2016
	60,000	-	-	-	60,000	94.75	03/01/2010	**** 02/01/2017
	-	60,000	-	-	60,000	94.00	03/01/2011	**** 02/01/2018
	8,458,007	60,000	-	103,437	8,414,570			

* Exercisable over four years in equal instalments

*** Vest, subject to performance conditions, over four years in equal instalments: exercisable after three years

** Exercisable over three years in equal instalments

**** Vest, subject to performance conditions, over three years: exercisable after three years

Included in the preceding table are retained options held by Professor Ylä-Herttuala over shares in Ark Therapeutics Limited, but, under an agreement dated 12 July 2002 between Ark Therapeutics Limited, the Company and Professor Ylä-Herttuala, on any exercise of these options the Ark Therapeutics Limited shares subject to option shall be issued directly to the Company and the Company shall issue the equivalent number of its shares to Professor Ylä-Herttuala.

There have been no significant variations to the terms and conditions for share options (including under the LTIP) during the financial year. The market price of the ordinary shares at 31 December 2008 was 39.25 pence and the range during the year was 33 to 95 pence.

Directors' LTIP Awards

Details of awards made to Executive Directors under the Company's long-term incentive plan, the Ark Therapeutics Group 2005 Long-Term Incentive Plan (the "LTIP"), are as follows:

Name of Director	1 January 2008	Options Granted	Options lapsed during the period	31 December 2008	Exercise price pence	Date from which exercisable	Expiry date
Dr N Parker	290,000	-	145,000	145,000	-	04/01/2009	* 04/01/2016
	315,000	-	-	315,000	-	03/01/2010	* 03/01/2017
M Williams	112,500	-	56,250	56,250	-	04/01/2009	* 04/01/2016
	120,000	-	-	120,000	-	03/01/2010	* 03/01/2017
	837,500	-	201,250	636,250			

*Vest, subject to performance conditions, and exercisable after three years

Details of performance criteria (where appropriate) are given in the "LTIP" and "Share option" sections of this Directors' remuneration report.

Directors' FBT interests

Details of conditional transfers of shares made to sub-funds within the FBT of which Executive Directors are among the class of beneficiary, as described above, are as follows:

Name of Director	1 January 2008	Transferred to sub-fund	Lapsed during the period	31 December 2008	Price (pence) payable on vesting	Earliest vesting date
Dr N Parker	-	315,000	-	315,000	Nil	03/01/2011
	-	315,000	-	315,000	94.00	03/01/2011
M Williams	-	120,000	-	120,000	Nil	03/01/2011
	-	120,000	-	120,000	94.00	03/01/2011
	-	870,000	-	870,000		

Details of the conditions attaching to the conditional transfers are given in the "Family Benefit Trust" and "Share option" sections of this Directors' remuneration report.

Approval

This report was approved by the Board of Directors on 13 March 2009 and signed on its behalf by:



Peter Keen
Chairman of the Remuneration Committee
13 March 2009

Directors' report

The Directors present their annual report on the affairs of the Company and Group, together with the financial statements and Auditors' report for the year ended 31 December 2008.

Principal activities

The principal activity of the Group is the discovery, development and commercialisation of products in areas of specialist medicine, with particular focus on vascular disease and cancer.

The subsidiary undertakings principally affecting the profits or net assets of the Group in the year are listed in note 33 to the financial statements.

Business review

The Company is required to set out in this Directors' report a fair review of the business of the Group and a description of the principal risks and uncertainties facing the Group (known as a "Business Review"). The Business Review is required to set out a balanced and comprehensive analysis of the development and performance of the Group's business during the financial year ended 31 December 2008 and of the position of the Group at the end of that financial year. The information that fulfils the requirements of the Business Review can, in addition to that set out below, be found in the following sections: Chairman and Chief Executive's review on pages 5 to 9, Financial review on page 12 and Corporate governance section on pages 13 to 17 which are incorporated in this report by reference.

Principal risks and uncertainties

Industry risk

The nature of pharmaceutical development is such that drug candidates may not be successful due to an inability to demonstrate in a timely manner the necessary safety and efficacy in a clinical setting to the satisfaction of appropriate regulatory bodies, such as the European Medicines Agency ("EMA") in Europe and the Food and Drug Administration ("FDA") in the US. The Group may be unable to attract, by itself or from partners, the funding necessary to meet the high cost of developing its products through to successful commercialisation.

Clinical and regulatory risk

Biological drug substances may not be stable or economically reproducible. Unacceptable toxicities or insufficient efficacy in the chosen indication may cause the medicine to fail or limit its applicability. Lack of performance by third party Clinical Research Organisations or an inability to recruit patients may cause undue delays in clinical trials. Clinical and regulatory issues may arise or changes to the regulatory environment may occur that lead to delays, further costs, reduction in the commercial potential of a product in development or the cessation of programmes. Ethical, regulatory or marketing approvals may be delayed or withheld or, if awarded, may carry unacceptable conditions to further development or commercial success. The Group's manufacturing facilities and those of its third party manufacturers are subject to regulatory requirements and licensing and there can be no assurance that such facilities will continue to comply with such regulatory requirements. Given the cutting-edge nature of the technology, alternative manufacturing facilities may not be available. The Group's information technology systems must also comply with Good Manufacturing Practice (GMP) regulatory requirements (see page 28), and a failure to do so would impact on the Group's manufacturing capability.

Competition and intellectual property risk

Certain companies are developing medicines that may restrict the

potential commercial success of the Group's products or render them obsolete. Companies may have intellectual property that restricts the Group's freedom of use of certain intellectual property or imposes high additional costs to obtain licences. The Group's intellectual property may become invalid or expire before its products are successfully commercialised.

Economic risk

The successful development and commercialisation of novel medicines carry a high level of risk and the returns may be insufficient to cover the costs incurred. Restrictions on health budgets worldwide or on the prices that may be charged for new medicines through competitive or other pressures may limit a medicine's sales potential. The Group may not be able to attract partners on favourable terms or recruit the appropriate calibre of staff to help develop or commercialise its products. Any such partners may fail to perform or commit the resources necessary to commercialise the Group's products successfully.

Counterparty risk

The Group relies on third party organisations to conduct its clinical trials and to manufacture certain of its products. If the relationship with or performance of any of these partners is adversely affected, the Group's operations may be adversely impacted.

Financial risk

Sustainability is dependent upon generating cash flows from successful development and commercialisation of the Group's products. Until then, the Group will be dependent upon additional funding through completion of one or more licensing deals or through the injection of capital. There can be no assurances that such funding will be achieved on favourable terms, if at all. Failure to generate additional funding may lead to postponement or cancellation of programmes and/or a scale back or cessation of operations. The going concern assumption is discussed in more detail in the Corporate governance section on page 17.

Interest rate risk is applicable to the Finnish loans detailed in note 16. Four of the five loans incur interest at less than Bank of Finland base rate. The fifth loan is at Euribor plus 2.27%.

The Group's credit risk is primarily attributed to its money market investments and cash and cash equivalents. This risk is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. Deposits are made in accordance with the Investment Policy approved by the Board which contains strict criteria on minimum credit ratings and maximum deposit size.

The position regarding currency risk is regularly reviewed and currency hedging activity is initiated where appropriate. In 2008, a formal Currency Risk Management Policy was approved by the Board, the objective of which is to manage foreign currency exchange rate risk so that the Group does not suffer a material financial loss as a result of changes in exchange rates. Any transactions undertaken to mitigate such risks have to be matched to an underlying current or anticipated business requirement. During 2008, the Group has, through a mixture of foreign currency purchases, forward contracts and currency options, covered its Euro commitments for 2008 and the first six months of 2009, primarily to fund the cash requirements of the Finnish subsidiary, Ark Therapeutics Oy, including the capital expenditure for the new manufacturing facilities. In addition, a total of US\$4.65m was purchased during the year using forward contracts to meet the principal costs of the Trinam[®] Phase III study.

Risk management

The Group's risk management processes are detailed on page 15 of the Corporate governance report and note 17 to the financial statements.

Key performance indicators (“KPIs”)

The KPIs of the business are the progress of the research and development portfolio through clinical development, and the management of cash resources (both funding and cash outflows). While these KPIs demonstrate relevant factors by reference to which the development, performance and position of the Group’s business can be measured effectively, it is in the nature of the Group’s strategy, and the biopharmaceutical industry in general, that these KPIs are not readily or meaningfully comparable year on year simply as measures.

Research and development KPIs

As described in the “Principal risks and uncertainties” section of this report on page 24, delays can be experienced on progress through clinical development due to factors beyond the control of the Group. Consequently, it is not appropriate to set precise targets for the timings of future stages in clinical development. However, the research and development KPIs of the Group, being the progress of the portfolio in 2007 and 2008 through clinical development along with the next stages of development and expected timings are as follows:

CEREPRO®

2007

- Data Safety Monitoring Board (“DSMB”) recommended the Group continue with the Phase III study after reviewing safety data
- Phase III patient recruitment completed
- EMEA decision on MAA for early approval under exceptional circumstances confirmed Phase III data required

2008

- Positive opinion letter received from EMEA for Paediatric Investigation Plan
- Phase III trial results show significant clinical efficacy on primary endpoint
- MAA filed with EMEA

Looking Ahead - 2009

- MAA validated by EMEA and formal review begins early January
- First approval for Named Patient Supply given in France
- First annual update of Phase III results
- Decision by EMEA on MAA

TRINAM®

2007

- US Recombinant DNA Advisory Committee gave early clearance for Phase III study
- Special Protocol Assessment opened

2008

- Special Protocol Assessment approval for Phase III study received from FDA

Looking Ahead - 2009

- Potency test qualification completed, enabling Phase III trial to commence
- Patient recruitment into Phase III trial to begin
- File Fast Track application with FDA
- Secure rolling NDA

VITOR™

2007

- Special Protocol Assessment opened for Phase III with FDA
- Pilot Phase III study logistics commenced to finalise Special Protocol Assessment process

2008

- First national regulatory approvals received, allowing commencement of Pilot Phase III study
- Commencement of patient enrolment into Pilot Phase III study

Looking Ahead - 2009

- Complete recruitment into Pilot Phase III study
- Finalise partnering strategy
- Commence full Phase III study

PIPELINE PRODUCTS

2007

- EU grant awarded to Ark-led team for baculovirus development
- Encouraging pre-clinical proof-of-principle results for Trinam® variant in refractory angina
- Scavidin® shows therapeutic effect in third cancer model
- Out-licensed Ox-LDL diagnostic kit
- Eyecopharm agreement signed for the use of Ark intellectual property in combating eye disease

2008

- Acquisition of Lymphatix Oy brings gene rights and technology to catalyse Ark’s gene-based medicine programmes
- Pre-clinical results in EG013, Ark’s VEGF-based gene medicine to treat foetal growth retardation, demonstrate significantly increased blood flow to the placenta
- Progress with EG014, Ark’s small molecule anti-cancer programme centred around neuropilin-1 (“NP-1”) receptor, leads to discovery and understanding of precise NP-1 receptor
- EG011 in refractory angina demonstrates in a second pre-clinical therapeutic proof-of-principle study the ability to grow new blood vessels and restore heart function following a heart attack
- EMEA Gene Therapy Working Party gives positive feedback on pre-clinical toxicology and Phase 1 study for EG013

Looking Ahead - 2009

- VEGF-C and VEGF-D rights in lymphatic disease out-licensed to Oy Lx Therapies Ltd
- Patent filed for novel gene regulation technology as potential successor to RNA silencing
- Commence first clinical studies in EG011
- Achieve optimised molecule for EG014 and complete toxicology studies
- Complete biodistribution/toxicity work for EG013
- Commence clinical studies for Ark’s VEGF-based gene medicine in peripheral vascular disease and wound healing

Cash management KPIs

The management of cash KPIs of the Group, being the operational cash consumed in the business and funding received are as follows. “Operational cash consumed in the business” is defined by reference to the cash flow statement as being the addition of “net cash outflow from operations” and the purchase of tangible and intangible assets (net of grants received).

2007

- Operational cash consumed in the business £22.3m
- Proceeds on issue of shares £35.7m

2008

- Operational cash consumed in the business £29.2m

Directors' report continued

Results and dividends

The Group incurred a loss after taxation of £15.9m (2007: loss of £18.2m). The Directors are unable to recommend the payment of a dividend (2007: £nil).

Directors

The Directors of the Company who served during the year are as follows:

Dennis Turner	Non-Executive Chairman and member of the Nomination Committee. Resigned as a member of the Remuneration Committee on 24 April 2008
Dr Nigel Parker	Chief Executive Officer
Martyn Williams	Chief Financial Officer and appointed as Company Secretary on 28 March 2008
Sir Mark Richmond	Senior Non-Executive Director, Chairman of the Nomination Committee and member of the Remuneration Committee. Resigned as member of the Audit Committee on 24 April 2008
Dr Bruce Carter	Non-Executive Director (resigned 24 April 2008)
Andrew Christie	Non-Executive Director and member of the Remuneration Committee (appointed 24 April 2008)
Peter Keen	Non-Executive Director, Chairman of the Remuneration Committee and member of the Audit and Nomination Committees, having been appointed to the Nomination Committee on 24 April 2008
Dr Wolfgang Plischke	Non-Executive Director and member of the Audit Committee
David Prince	Non-Executive Director, Chairman of the Audit Committee and member of the Nomination Committee
Professor Seppo Ylä-Herttuala	Non-Executive Director

Short biographies of each Director are provided on page 10.

Directors are subject to election by shareholders at the first Annual General Meeting after their appointment and to re-election thereafter at intervals of no more than three years. Accordingly, Martyn Williams and Professor Seppo Ylä-Herttuala retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Code states that NEDs serving on the Board for longer than nine years should be subject to re-election each year. Sir Mark Richmond, Peter Keen and Dennis Turner have each served as a NED on the Board of the parent Company of the Group in excess of nine years and consequently all three are standing for re-election this year.

Policy and practice on payment of creditors

It is the Group's policy to agree payment terms with suppliers at the start of business relationships and to abide by those terms.

The typical terms are 45 days (2007: 45 days).

Charitable and political contributions

The Group made no charitable donations during the reporting period (2007: £nil). No political donations or contributions to any political organisations were made during the year (2007: £nil).

Directors' interests

Details of the Directors' service contracts, together with the Directors' interests in shares and share options, are given in the Directors' remuneration report on pages 18 to 23.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which remain in force at the date of this report.

Share capital

During the reporting period 146,375 ordinary shares were allotted following the exercise of options awarded under the Group's share option and LTIP schemes. As at 31 December 2008, the Company had 613 ordinary shareholders and 205,174,001 ordinary shares in issue.

Substantial shareholdings

At close of business on 24 February 2009 the following major holdings in the Company's share capital had been notified to the Company:

	Number of shares	Percentage
Aberforth Partners (including 3.53% held on behalf of The Wellcome Trust Limited as trustee of the Wellcome Trust)	32,055,199	15.48%
INVESCO Asset Management Ltd	20,838,839	10.06%
Standard Life Investments Ltd	20,506,775	9.90%
Lansdowne Partners Ltd	20,124,005	9.72%
J.O. Hambro Capital Management Ltd Legal & General Investment Management Ltd	11,689,011	5.64%
GAM London Ltd	9,501,250	4.59%
Canada Life Assurance Co. (London)	8,122,894	3.92%
Hansa Capital Partners LLP	7,743,800	3.74%
	6,406,146	3.09%

Where not provided elsewhere in this Directors' report, the following provides the additional information required for shareholders as a result of the implementation of the Takeovers Directive into English law.

The Company has one class of share capital, ordinary shares. All the ordinary shares rank *pari passu*. Details of the ordinary share capital can be found in note 21 to the financial statements. There are no restrictions on transfer of the ordinary shares in the Company other than: certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws); and pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Company require the approval of the Company to deal in the ordinary shares. On a show of hands at a general meeting of the Company, every holder of ordinary shares present in person and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The Notice of the Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the meeting. The rules governing the appointment and replacement of Board members and changes to the articles of association accord with usual English company law provisions.

Subject to the Company's memorandum of association, the articles of association, any statute or subordinate legislation for the time being in force concerning companies and affecting the Company, and directions given by special resolution, the business of the Company shall be managed by the Directors, who may exercise all the powers of the Company.

There are no significant agreements to which the Company is a party which take effect, alter or terminate in the event of a change of control of the Company. There are no agreements providing for compensation for the Directors or employees on a change of control.

Employees

Employee incentives

The Group recognises the contributions made by its employees to achieve corporate goals and objectives and is committed to operating in a way that rewards and recognises these contributions. Share options are awarded widely through the Company, encouraging employee participation in the development of the Company, and it is anticipated that this will continue, together with the long-term incentive plan for senior staff.

Disabled employees

Applications for employment by disabled persons are fully considered, bearing in mind the aptitudes of the applicant concerned. In the event that a member of staff becomes disabled every effort will be 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 to that of other employees.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep 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 regular email updates. Employee representation is encouraged, for example, through membership of Group committees, such as security and health and safety committees.

The Group currently operates in the UK and Finland and its employment policies are varied to meet local conditions and requirements. These are established in accordance with good practice in the country in which the individuals are employed.

Corporate social responsibility report

The Directors recognise the increasing importance of corporate social responsibility and endeavour to take into account the interests of the Group's stakeholders, including its investors, employees, customers, suppliers and business partners when operating its business. To help achieve this, the Group operates a Corporate Social Responsibility Policy ("CSR Policy") for the Group (a copy of which is available on the Company's website), which sets out the core principles of its business operations. The Group believes that having empowered and responsible employees who display sound judgment and awareness of the consequences of their decisions or actions, and who act in an ethical and responsible way, is key to the success of the business. The Company's wholly owned subsidiary Ark Therapeutics Oy ("ATO") is based in Kuopio, Finland, a region designated by the European Commission as an economic area requiring subsidy to assist economic development. Following the Company's continued investment ATO has become a local success story, growing rapidly, and is now a major employer in the Kuopio region. ATO is at the heart of the Group's continued success and during the period the Company announced completion of its 'state of the art' gene-medicine manufacturing facility in Kuopio.

Equal opportunities policy

The Group is committed to achieving equality of opportunity in all its employment practices, policies and procedures. Employees are highly valued and their rights and dignity are respected. The Group does not tolerate any harassment or discrimination. The Group practises equal treatment of all employees or potential employees irrespective of their race, creed, colour, sexual orientation, nationality, ethnic origin, religion, disability, age, gender or marital status. The equal opportunities section of the CSR Policy covers all permanent and temporary employees (including Non-Executive Directors), all job applicants, agency staff, associates, consultants and contractors. The Group also endeavours to be honest and fair in its relationships with customers and suppliers, and to be a good corporate citizen respecting the laws of countries in which it operates.

Family friendly employment policies and employee welfare

The maternity leave and maternity pay policy conforms with statutory requirements. Flexible approaches to return to work after maternity leave and part-time or non-standard hours and work patterns are adopted where viable. The Group also has a paternity leave policy.

Following recent studies into stress in the workplace, the Group also offers its employees free and confidential access to a counselling service. This service offers advice on both work and personal issues such as anxiety/depression, work-related stress, money management, bereavement, legal problems and domestic matters.

Martyn Williams is the Director with overall responsibility for employee matters.

Health & safety

The Group considers health and safety to be a priority in its workplaces and operates a formal health and safety policy. A health and safety committee reviews health and safety standards within the Group on an ongoing basis. The Group has a good safety record and there have been no incidents or accidents reported to the Health and Safety Executive in the UK or the relevant Finnish health and safety authority in 2008. The Health & Safety policy has been circulated to all Group personnel. Martyn Williams is the Director with overall responsibility for health and safety matters.

The Group is subject to strict regulation regarding the use of genetically modified organisms ("GMOs"). An occupational healthcare programme has been introduced in Ark's Finnish facility, particularly for its laboratory-based employees who handle, amongst other things, GMOs, to analyse and monitor employee health and suitability for the work performed, in order to identify and prevent any work-related disorders and injuries.

Environment

The Group is committed to complying with environmental legislation and minimising the impact of its activities on the environment and the Group operates an Environmental Policy (a copy of which is available on the Company's website). The Group considers that its activities have a low environmental impact. In the construction and fit-out of the new Finnish manufacturing facility the Group worked closely with the landlord and contractors to encourage full consideration of environmental issues and compliance with Finnish environmental regulations. In the UK the Group operates a "Bikes to Work" Scheme under which employees are encouraged, by taking advantage of tax benefits, to purchase bicycles for use in their journeys to work and thus contributing to a reduction in car use and in the consequent environmental impact of traffic congestion. The Company also encourages staff to use public transport through offering season ticket loans.

Waste management

The Group operates various waste management initiatives, including recycling of all paper waste, aluminium cans, printer toners/cartridges and redundant mobile telephone handsets. Computer and IT equipment are recycled where possible and redundant equipment is offered for sale to staff. The Group's employees are actively encouraged to reduce power usage in the office environment and automatic motion sensors have been installed throughout the offices in the new Kuopio manufacturing facility. Video-conferencing facilities are used wherever possible in order to reduce unnecessary air travel.

Quality assurance

Ark's products are developed in accordance with recognised quality guidelines and appropriate national and international legislation to ensure the efficacy of the product and the safety of the consumer. In order to achieve this, the Company must comply with the following guidelines:

Good Laboratory Practice ("GLP")

The Group requires that contractors involved in the conduct of key non-clinical studies and the analysis of such studies apply the appropriate level of GLP to their facilities and the conduct of studies therein. These requirements have been incorporated in the Company's quality system, and compliance is reviewed by routine monitoring visits and/or audit and training as necessary to ensure the level of compliance is acceptable.

Good Manufacturing Practice ("GMP")

The Group requires that all contractors directly managed by Ark and involved in the operational aspects of manufacture, analysis, packing, labelling, release, storage and distribution of its materials and products apply the appropriate level of GMP to their facilities, as defined in GMP regulation and guideline documents.

These practices are mandatory requirements for products designated for use in clinical trials conducted in accordance with competent authorities' regulatory requirements. Guidelines are detailed in UK, European, US and ICH publications and have been incorporated into the Company's quality system. Compliance is routinely monitored by audit, and training may be provided to ensure the level of compliance is acceptable.

Good Clinical Practice ("GCP")

GCP is an international ethical and scientific quality standard for designing, conducting, recording and reporting studies that involve the participation of human subjects. Studies conducted in Europe and North America must have ethical and regulatory approval prior to initiation and compliance with the stated protocol is independently monitored and further assessed by audit. These actions help to provide assurance that the rights, safety and wellbeing of study subjects are protected, consistent with the principles that have their origin in the Declaration of Helsinki, and that the clinical trial data is credible.

These practices have been incorporated into the Group's standard operating procedures, third party contracts and working documentation.

Risk management

The key elements of each of the Company's CSR, Environmental and Health and Safety Policies are reviewed as part of the Company's risk management review process detailed on page 15. No material deviations from these policies have been identified in this year's review.

A Group-wide business continuity plan has been implemented. This is designed to minimise the impact of a serious incident on the business activities of the Company and to aid recovery, whilst safeguarding employees.

Auditors and Annual General Meeting

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte LLP have expressed their willingness to continue in office as Auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting to be held at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA on Wednesday 22 April 2009 at 11.30 am. The notice of the meeting is set out at pages 62 to 65, with a summary of the business to be transacted.

By order of the Board

Martyn Williams
Company Secretary
13 March 2009

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report, Directors' remuneration report and the Group and the Company financial statements in accordance with applicable law and regulations.

The Directors are required by the IAS regulation to prepare the Group financial statements under International Financial Reporting Standards ("IFRSs") as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with IFRSs as adopted by the European Union. The Group and the Company financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and article 4 of the IAS regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the Company financial statements and the Directors' remuneration report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that the annual report includes a fair review of the information required by rule 4.1.12 of the Financial Services Authority's Disclosure and Transparency Rules, namely:

- (a) the financial statements have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- (b) the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Martyn Williams
Company Secretary
13 March 2009

Independent Auditors' report

to the members of Ark Therapeutics Group plc

We have audited the Group and parent Company financial statements (the "financial statements") of Ark Therapeutics Group plc for the year ended 31 December 2008 which comprise the consolidated and parent Company income statements, the consolidated and parent Company balance sheets, the consolidated and parent Company cash flow statements, the consolidated and parent Company statements of changes in equity and the related notes 1 to 39. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

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, the Directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant 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 and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Chairman and Chief Executive's review, the Financial review and Corporate governance section that is cross-referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, 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 review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the annual report.

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 and the part of the Directors' remuneration report to be audited. 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 Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited 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 and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and parent Company's affairs as at 31 December 2008 and of the Group's loss and the parent Company's profit for the year then ended;
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors
Cambridge
United Kingdom

13 March 2009

Consolidated income statement

for the year ended 31 December 2008

	Note	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Revenue	3,4	929	1,125
Cost of sales		(479)	(374)
Gross profit		450	751
Research and development expenses		(16,461)	(14,611)
Selling, marketing and distribution costs		(1,667)	(2,035)
Other administrative expenses		(5,275)	(5,809)
Share-based compensation	26	(980)	(1,006)
Administrative expenses		(6,255)	(6,815)
Other income and expenses		3,472	491
Operating loss		(20,461)	(22,219)
Investment income	3	2,896	2,226
Finance costs	5	(35)	(26)
Loss on ordinary activities before taxation	6	(17,600)	(20,019)
Taxation	8	1,715	1,838
Loss on ordinary activities after taxation, being retained loss for the year		(15,885)	(18,181)
Loss per share (basic and diluted)	9	8 pence	11 pence

All results relate wholly to continuing activities.

Consolidated balance sheet

as at 31 December 2008

	Note	31 December 2008 £'000	31 December 2007 £'000
Non-current assets			
Goodwill	10	2,622	1,306
Other intangible assets	11	1,812	742
Property, plant and equipment	12	15,120	5,327
		19,554	7,375
Current assets			
Inventories	13	479	381
Derivative financial instruments	17	610	-
Trade and other receivables	14	2,098	2,175
Research and development tax credit receivable	14	1,713	2,055
Current tax receivable	14	50	20
Money market deposits	14	33,509	46,000
Cash and cash equivalents	14	7,137	19,067
		45,596	69,698
TOTAL ASSETS		65,150	77,073
Non-current liabilities			
Deferred income	20	1,892	-
Obligations under finance leases	15	62	79
Loans	16	578	321
		2,532	400
Current liabilities			
Trade creditors and accruals	19	7,109	8,343
Deferred income	20	321	137
Obligations under finance leases	15	32	33
Loans	16	58	94
		7,520	8,607
TOTAL LIABILITIES		10,052	9,007
Equity			
Share capital	21	2,052	2,019
Share premium		117,899	116,571
Merger reserve		38,510	36,989
Foreign currency translation reserve		313	(31)
Share-based compensation		4,017	3,052
Reserve for own shares		(1,274)	-
Retained loss		(106,419)	(90,534)
TOTAL EQUITY		55,098	68,066
TOTAL LIABILITIES AND EQUITY		65,150	77,073

These financial statements were approved by the Board of Directors and were authorised for issue on 13 March 2009. They were signed on its behalf by



Dr N Parker
Director
13 March 2009



M Williams
Director

Consolidated statement of changes in equity

for the year ended 31 December 2008

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Share-based compensation £'000	Reserve for own shares £'000	Retained loss £'000	Total £'000
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	-	-	-	(9)	4	-	-	(5)
Share-based compensation	-	-	-	-	1,006	-	-	1,006
Loss for the year	-	-	-	-	-	-	(18,181)	(18,181)
Equity share options exercised	4	249	-	-	-	-	-	253
Share issue	356	37,062	-	-	-	-	-	37,418
Share issue expenses	-	(1,936)	-	-	-	-	-	(1,936)
Balance as at 31 December 2007	2,019	116,571	36,989	(31)	3,052	-	(90,534)	68,066
Exchange differences on translating foreign operations recognised directly in equity	-	-	-	344	(15)	-	-	329
Share-based compensation	-	-	-	-	980	-	-	980
Loss for the year	-	-	-	-	-	-	(15,885)	(15,885)
Equity share options exercised	2	67	-	-	-	-	-	69
Share issue	31	1,261	1,521	-	-	-	-	2,813
Purchase of own shares by Family Benefit Trust	-	-	-	-	-	(1,274)	-	(1,274)
Balance as at 31 December 2008	2,052	117,899	38,510	313	4,017	(1,274)	(106,419)	55,098

Consolidated cash flow statement

for the year ended 31 December 2008

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Operating loss	(20,461)	(22,219)
Adjustments for non-cash items		
Depreciation and amortisation	1,518	1,019
Fair value gain on cash flow hedge	(610)	-
Share-based compensation	980	1,006
EU and Government grants	(95)	(71)
Unrealised exchange gains	(2,450)	-
Changes in working capital		
Decrease/(increase) in receivables	331	(593)
(Increase)/decrease in inventories	(98)	89
(Decrease)/increase in payables	(1,595)	1,413
Net cash used in operations	(22,480)	(19,356)
Research and development tax credit received	2,058	1,300
Income taxes paid	(25)	(52)
Net cash used in operating activities	(20,447)	(18,108)
Investing activities		
Acquisition of Lymphatix Oy	22	34
Interest received		2,663
Net maturities/(purchases) of money market investments		12,491
Purchases of property, plant and equipment		(7,944)
Purchases of intangible assets		(957)
Net cash generated from/(used in) investing activities	6,287	(6,851)
Financing activities		
Repayments of borrowings		(166)
Proceeds from borrowings		58
Grants received		2,171
Proceeds on issue of shares		69
Finance costs		(17)
Net cash from financing activities	2,115	35,726
Net (decrease)/increase in cash and cash equivalents	(12,045)	10,767
Cash and cash equivalents at beginning of year	19,067	8,433
Effect of exchange rate changes	115	(133)
Cash and cash equivalents at end of year	7,137	19,067

Notes to the Group financial statements

1 Presentation of financial statements

Ark Therapeutics Group plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 66. The nature of the Group's operations and its principal activities are set out in the Chairman and Chief Executive's review on pages 5 to 9.

These financial statements are presented in sterling since that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not effective:

IFRS 1 (revised)	First Time Adoption of IFRS
Amendments to IFRS 2	Vesting conditions and cancellations
IFRS 3 (revised)	Business Combinations
IFRS 8	Operating segments
IFRIC 12	Service Concession Arrangements*
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers
IAS 1 (revised)	Presentation of Financial Instruments
IAS 23 (revised)	Borrowing Costs
Amendments to IAS 27	Consolidated and Separate Financial Statements
IAS 32 (amended)/IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to IAS 39	Financial Instruments: Recognition and Measurement: Eligible Hedged Items
Amendments to IAS 39	Reclassification of Financial Assets: Effective Date and Transition

* IFRIC 12 is not yet endorsed, and therefore cannot be effective.

The Directors anticipate the adoption of these standards will have no material impact on the financial statements of the Group except for the additional segment disclosure.

2 Summary of significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

Basis of consolidation

The Group financial statements include the financial statements of the Company and all the subsidiaries during the periods reported for the periods during which they were members of the Group.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Non-refundable licence fees are recognised over the term of the licence, except where the earnings process is considered to be complete, in which case the revenue is recognised in full at that time.

Notes to the Group financial statements continued

2 Summary of significant accounting policies (continued)

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset's net carrying amount.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the net fair value of the identifiable assets and liabilities of the subsidiary at the date of the acquisition.

Intangible fixed assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets (including intangible assets) of the acquired subsidiary at the acquisition date. Goodwill recognised under UK GAAP prior to the date of transition to IFRSs is stated at net book value at this date. Goodwill recognised subsequent to 1 January 2004 is carried at cost less accumulated impairment losses. Gains and losses on disposal of a subsidiary include the carrying amount of goodwill relating to the entity. Goodwill is not amortised but is reviewed for impairment annually as described below. Impairment losses on goodwill are not reversed.

Acquired licences

Acquired licences are recognised at their cost at the acquisition date and are amortised over their useful economic life.

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's development activities is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible assets can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Computer software

The Group writes off software costs as incurred, except for purchases from third parties in respect of major systems. In such cases these are capitalised and written off over a period of three years from the date of purchase.

Impairment of assets

Goodwill arising on acquisition is allocated to cash-generating units (equivalent to the reported primary business segments). The recoverable amount of the cash-generating unit to which goodwill has been allocated is tested for impairment annually or when events or changes in circumstance indicate that it might be impaired.

The carrying values of property, plant and equipment, and intangibles with finite lives are reviewed for impairment when events or changes in circumstance indicate the carrying value may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which it belongs.

Property, plant and equipment

Property, plant and equipment is stated at cost net of depreciation and provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, as reviewed at each balance sheet date, of each asset on a straight-line basis over its expected useful life as follows:

Leasehold improvements	lower of 5 years or the useful economic life of the lease
Laboratory equipment and plant and machinery	20% per annum
Office equipment	33.33% per annum

Assets in the course of construction are accounted for at cost less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

2 Summary of significant accounting policies (continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Foreign currencies

Transactions of Group companies denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Foreign exchange differences thereon are recognised in profit or loss in the period in which they arise.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of operations and on foreign currency borrowings are reported in the foreign currency translation reserve.

The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRSs as sterling denominated assets and liabilities. All other exchange differences are included in the income statement.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

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 by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary timing differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. Their carrying amount is reviewed at each balance sheet date on the same basis.

Deferred tax is measured on an undiscounted basis, and at the tax rates that are expected to apply in the period in which the asset or liability is settled. It is recognised in the income statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is based on estimated selling price less costs of disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Post-retirement benefits

The Group makes contributions to employees' personal pension plans which are defined contribution schemes. The amount charged to the income statement in respect of pension costs is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

Notes to the Group financial statements continued

2 Summary of significant accounting policies (continued)

Employee Benefit Trust

The Group operates an employee benefit trust (the Ark Therapeutics Family Benefit Trust ("FBT")) as part of its incentive plans for employees. All assets and liabilities within the Trust are recorded in the balance sheet as assets and liabilities of Ark Therapeutics Group plc until such time as the assets are awarded to the beneficiaries. All income and expenditure of the Trust is similarly brought into the results of the Group.

Government grants

Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned. Other grants are credited to the income statement as the related expenditure is incurred.

Derivatives and other financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Derivatives

The Group uses a limited number of derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates. The Group does not hold or issue derivative instruments for speculative purposes. The Group does not apply hedge accounting and changes in the value of derivative financial instruments are recognised in the income statement as they arise. Derivative financial instruments are recognised at fair value. The fair value of forward exchange contracts is their quoted market price at the balance sheet date.

Financial assets

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as receivables.

Trade receivables do not carry any interest and are stated at their normal value as reduced by appropriate allowances for estimated irrecoverable amounts. Allowances are recognised in the income statement when there is objective evidence that the asset is impaired.

Money market investments comprise short-term bank deposits with an original maturity of between 3 and 12 months and are valued at amortised cost.

Cash and cash equivalents comprise current accounts held by the Group with immediate access and short-term bank deposits with a maturity value of three months or less.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments throughout the expected life of the financial liability or where appropriate, a shorter period. Trade payables are not interest bearing and are stated at their nominal value. Loans are measured at amortised cost.

Share-based payments

The Group operates a number of executive and employee share schemes. For all grants of share options, LTIPs and shares allocated to the FBT, the fair value as at the date of grant is calculated using an option pricing model and the corresponding expense is recognised over the vesting period.

The Group has applied the requirements of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002.

Critical accounting judgments and key sources of estimation uncertainty

In the preparation of the financial statements, management is required to make estimates and assumptions, in accordance with IFRS, that affect the amounts reported as assets and liabilities, disclosure of contingent assets and liabilities as at the balance sheet date and the reported amounts of revenues and expenditure during the year. In the preparation of the consolidated financial statements, estimates and assumptions have been made by management concerning the fair value of share options, the estimated useful lives of fixed assets, accruals and provisions required, measurement and impairment of intangible assets (including goodwill), the recoverability of deferred tax assets and other similar evaluations. Actual amounts that result could differ from those estimates.

In making its judgment in the estimation of clinical study accruals, management considers data on the number of participant patients and the likely duration of costs. The carrying value of clinical study accruals at 31 December 2008 was £820,522.

Management determines whether goodwill is impaired on an annual basis and this requires the estimation of the value in use of the cash-generating units to which goodwill is allocated. The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate.

The judgment on the Group's ability to continue as a going concern is included on page 17 within the Corporate governance report.

3 Revenue

An analysis of the Group's revenue is as follows:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Continuing operations		
Sales of goods	929	573
Revenue from out-licensing deals	–	552
	929	1,125
Other operating income		
Investment income	2,896	2,226
	3,825	3,351

Investment income consists of interest on money-market investments and cash and cash equivalents. Investment income is earned on financial assets categorised under IFRS 7 as loans and receivables (including cash and cash equivalents).

4 Business and geographical segments

Business segments

For management purposes the Group is currently organised into one business segment, which is the discovery, development and commercialisation of products in areas of specialist medicine with particular focus on vascular disease and cancer. Since this is the only primary segment, information on geographical segments has been shown as the primary segment analysis.

Geographical segments

The Group's operations are located in the UK and Finland. Commercialisation activities are carried out in the UK, whilst discovery and development of products occurs in the UK and Finland.

The following table provides an analysis of the Group's revenue from sales of goods and out-licensing deals by geographical market, irrespective of the origin of the goods and services:

	Year ended 31 December 2008			
	UK	Finland	Inter- segment eliminations	Total
	£'000	£'000	£'000	£'000
Total revenue (external)	929	–	–	929
Inter-segment revenue	–	9,102	(9,102)	–
Total segment revenue	929	9,102	(9,102)	929
Segment result	(23,898)	(35)	–	(23,933)
Other income and expenses				3,472
Investment income				2,896
Finance costs				(35)
Loss on ordinary activities before taxes				(17,600)
Taxation				1,715
Loss on ordinary activities after taxation				(15,885)

Notes to the Group financial statements continued

4 Business and geographical segments (continued)

	Year ended 31 December 2008			Total £'000
	UK £'000	Finland £'000	Inter- segment eliminations £'000	
Assets and Liabilities				
Segment assets	46,861	19,323	(1,034)	65,150
Segment liabilities	4,235	17,941	(12,124)	10,052

Other information

Capital additions	964	8,840	-	9,804
Depreciation and amortisation	830	688	-	1,518

	Year ended 31 December 2007			Total £'000
	UK £'000	Finland £'000	Inter- segment eliminations £'000	
Total revenue (external)	1,125	-	-	1,125
Inter-segment revenue	-	6,463	(6,463)	-
Total segment revenue	1,125	6,463	(6,463)	1,125
Segment result	(22,538)	(172)	-	(22,710)
Other income and expenses				491
Investment income				2,226
Finance costs				(26)
Loss on ordinary activities before taxes				(20,019)
Taxation				1,838
Loss on ordinary activities after taxation				(18,181)

Assets and Liabilities

Segment assets	72,302	5,629	(858)	77,073
Segment liabilities	5,408	7,228	(3,629)	9,007

Other information

Capital additions	808	3,749	-	4,557
Depreciation and amortisation	457	562	-	1,019

5 Finance costs

Finance costs of £35,000 consist of interest payable on finance leases and the Finnish government loans as detailed in notes 15 and 16 respectively (2007: £26,000).

6 Loss on ordinary activities before taxation

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

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Staff costs (note 7)	7,585	7,545
Depreciation	646	665
Amortisation	805	248
Operating lease rentals		
Plant and machinery	135	95
Property	918	830
Motor vehicles	77	77
Net foreign exchange gains	(2,864)	(410)
Fair value gain on cashflow hedge (note 17)	(610)	-
Cost of foreign currency option contract	97	-
EU and Government grants	(95)	(71)

The analysis of Auditors' remuneration is as follows:

Fees payable to the Company's Auditors for the audit of the Company's annual accounts	15	15
Fees payable to the Company's Auditors and their associates for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	35	31
Total audit fees	50	46
Other services pursuant to legislation	23	15
Tax services	20	46
Total non-audit fees	43	61

Fees of £18,000 (2007: £nil), payable to the Company's Auditors, were included in the costs of acquiring Lymphatix Oy (see note 22).

Fees of £nil (2007: £82,000) were charged to the share premium account in relation to the reporting accountants' services, performed by the Company's Auditors.

7 Directors and employees

Directors' remuneration

The remuneration of the Executive Directors is decided by the Remuneration Committee. Full details of the Directors' remuneration and details of Directors' options are contained in the Directors' remuneration report on pages 21 to 23.

Employees

Average number of people (including Executive Directors) employed:

	2008 Number	2007 Number
Finance and administration	27	30
Development	9	11
Manufacturing	68	64
Research	38	34
Sales and marketing	13	13
	155	152

Notes to the Group financial statements continued

7 Directors and employees (continued)

The aggregate remuneration comprised:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Wages and salaries	6,291	6,233
Social security costs	513	647
Pension contributions (note 24)	781	665
	7,585	7,545

In addition to the wages and salaries analysis above are the effects of the share-based compensation charge during the year of £980,000 (2007: £1,006,000).

8 Taxation

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Current taxation:		
Domestic	(1,716)	(1,856)
Finnish	1	18
	(1,715)	(1,838)

The domestic taxation relates to the research and development tax relief calculated at 16% of qualifying expenditure.

Taxation for the Finnish subsidiaries is calculated at the prevailing rate of 26%.

The credit for the year can be reconciled to the loss per the income statement as follows:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Loss on ordinary activities before tax	(17,600)	(20,019)
Tax on Group loss on ordinary activities at UK corporate rate (2008: 28%; 2007: 30%)	(4,928)	(6,006)
Other permanent differences: expenses not deductible for tax purposes	374	382
UK tax losses carried forward	2,553	3,445
Differences in rate for research and development relief	286	439
Differences in rate for Finnish taxation	-	2
Differences in respect of prior years	-	(100)
	(1,715)	(1,838)

9 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 per share or increase net loss per share. Since the Group is loss making, there is no such dilutive impact.

The calculation of basic and diluted loss per ordinary share is based on the loss of £15,885,000 (2007: £18,181,000) and on 205,077,342 ordinary shares (2007: 169,202,455) being the weighted average number of ordinary shares in issue.

10 Goodwill

	£'000
Cost and Carrying amount	
At 1 January 2007 and 31 December 2007	1,306
Recognised on acquisition of Lymphatix Oy	996
Exchange differences	320
At 31 December 2008	2,622

No impairment losses have been recognised.

The goodwill arose on the acquisition of Ark Therapeutics Oy and Lymphatix Oy. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. At 31 December 2008 there was no accumulated impairment loss.

The recoverable amount of the cash-generating unit is determined from a value in use calculation. The key assumptions for the value in use calculations are those regarding the launch date of products, the growth rates, and expected changes to selling prices and direct costs during the period. Changes are based on expectations of future changes in the market. A discount rate range of 12.5-15% is used. The calculation has been based on the most recent cash flow forecasts for the next five years, which have been approved by management.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination. To date, all the carrying amount of goodwill as shown above has been allocated to the Group's only business segment.

11 Other intangible assets

	Acquired Licences £'000	Product Development £'000	Computer Software £'000	Total £'000
Cost				
At 1 January 2007	498	174	119	791
Exchange differences	-	-	3	3
Additions	632	28	38	698
At 31 December 2007	1,130	202	160	1,492
Accumulated depreciation				
At 1 January 2007	388	15	59	462
Exchange difference	-	-	2	2
Charge for the year	200	42	44	286
At 31 December 2007	588	57	105	750
Carrying amount				
At 31 December 2007	542	145	55	742
Cost				
At 1 January 2008	1,130	202	160	1,492
Exchange differences	237	-	17	254
Additions	1,597	-	97	1,694
At 31 December 2008	2,964	202	274	3,440
Accumulated depreciation				
At 1 January 2008	588	57	105	750
Exchange differences	-	-	10	10
Charge for the year	762	42	64	868
At 31 December 2008	1,350	99	179	1,628
Carrying amount				
At 31 December 2008	1,614	103	95	1,812

The amortisation period for product development costs is five years. Licences are amortised over their estimated useful lives, which are on average one year.

Notes to the Group financial statements continued

12 Property, plant and equipment

	Leasehold improvements £'000	Assets under construction £'000	Machines and laboratory equipment £'000	Office equipment £'000	Total £'000
Cost					
At 1 January 2007	1,256	-	1,644	638	3,538
Exchange difference	100	-	134	29	263
Additions	33	3,119	577	130	3,859
At 31 December 2007	1,389	3,119	2,355	797	7,660
Accumulated depreciation					
At 1 January 2007	412	-	705	387	1,504
Exchange difference	27	-	55	14	96
Charge for the year	197	-	384	152	733
At 31 December 2007	636	-	1,144	553	2,333
Carrying amount					
At 31 December 2007	753	3,119	1,211	244	5,327
Cost					
At 1 January 2008	1,389	3,119	2,355	797	7,660
Exchange difference	385	2,707	788	131	4,011
Additions	-	6,607	457	50	7,114
At 31 December 2008	1,774	12,433	3,600	978	18,785
Accumulated depreciation					
At 1 January 2008	636	-	1,144	553	2,333
Exchange difference	169	-	421	92	682
Charge for the year	100	-	437	113	650
At 31 December 2008	905	-	2,002	758	3,665
Carrying amount					
At 31 December 2008	869	12,433	1,598	220	15,120

The net book value of plant and machinery includes an amount of £81,000 (2007: £92,000) held under finance leases.

13 Inventories

	2008 £'000	2007 £'000
Raw materials	-	106
Finished goods	479	275
	479	381

There is no material difference between the balance sheet value of inventories and their replacement cost. Inventories with a value of £32,000 (2007: £nil) are carried at their net realisable value.

14 Other assets

Trade and other receivables

The average credit period taken on sales of goods is 30 days. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

	2008 £'000	2007 £'000
Amounts receivable from the sale of goods	208	160
Other debtors	296	499
Prepayments	604	758
Accrued income	990	758
	2,098	2,175
Research and development tax credit receivable	1,713	2,055
Current tax receivable	50	20

Money-market investments comprise short-term bank deposits with an original maturity of between 3 and 12 months.

Cash and cash equivalents comprise current accounts held by the Group with immediate access and short-term bank deposits with a maturity value of three months or less.

15 Obligations under finance leases

	Minimum lease payments	
	2008 £'000	2007 £'000
Amounts payable under finance leases:		
Within one year	32	33
In the second to fifth years inclusive	62	79
	94	112
Less: Amount due for settlement within 12 months (shown under current liabilities)	(32)	(33)
Amount due for settlement after 12 months	62	79

It is the Group's policy to lease certain of its office equipment under finance lease. The average lease term is 5 years. For the year ended 31 December 2008, the average effective borrowing rate was 7.85%.

Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangement has been entered into for any contingent rental payments.

Lease obligations are denominated in Sterling and Euros.

There is no material difference between the minimum lease payments and their present value.

The fair value of the Group's lease obligations approximates their carrying amount.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

Notes to the Group financial statements continued

16 Loans

	2008 €'000	2007 €'000
Total loans	636	415
Loans are repayable as follows:		
Within one year	58	94
In the second year	58	44
In the third to fifth years inclusive	88	88
After five years	432	189
	636	415
Amount due for settlement within 12 months (shown under current liabilities)	(58)	(94)
Amount due for settlement after 12 months	578	321

All loans are denominated in Euros and measured at amortised cost.

The weighted average interest rate paid on borrowings was 2.8% (2007: 3.7%). The Directors consider the carrying amount of borrowings to approximate their fair value.

The other principal features of the Group's loans are as follows:

In January 1998, the Company's wholly owned subsidiary, Ark Therapeutics Oy ("ATO"), entered into an eight year term loan with the Finnish Government agency TEKES. The loan is repayable in instalments due from January 2002 (or later if such payments would leave ATO with insufficient distributable funds) and has an interest rate of 1% below Bank of Finland base rate, with a minimum rate of 3%. In total, €74,447 was borrowed (out of an available facility of €134,550) and no repayments have been made.

In February 2000, ATO entered into a second eight year term loan with TEKES. The loan is repayable in instalments due from February 2004 (or later if such payments would leave ATO with insufficient distributable funds) and has an interest rate of 1% below Bank of Finland base rate, with a minimum of 3%. In total, €181,643 has been borrowed, being the total available facility and no repayments have been made.

In March 2002, ATO entered into a seven year term loan with the Finnish Government agency FINNVERA. The loan was repayable in instalments due from September 2003. The total amount borrowed of €370,013 has now been repaid, the last repayment being made in September 2008. The loan had an interest rate of Euribor plus 2.27%.

In December 2002, ATO entered into an eight year term loan with TEKES. The loan is repayable in instalments due from 2008 and has an interest rate of 3% below Bank of Finland base rate, with a minimum rate of 1%. In total, €238,780 was borrowed, being the total available facility and €59,695 has been repaid.

In January 2008, the Group became party to a loan with TEKES through the acquisition of Lymphatix Oy (see note 22). The loan was taken out for a 10 year period and is repayable in instalments beginning in August 2012. The applicable interest rate is 3% below the Bank of Finland base rate, with a minimum of 1%. In total, €157,160 was borrowed (out of an available facility of €378,500) and no repayments have been made.

In February 2008, ATO entered into a seven year term loan with TEKES. The loan is repayable in instalments due from February 2012 (or later if such payments would leave ATO with insufficient distributable funds) and has an interest rate of 3% below Bank of Finland base rate, with a minimum of 1%. In total, €60,000 has been borrowed (out of an available facility of €237,000) and no repayments have been made.

17 Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders. The capital structure of the Group consists of cash and cash equivalents, money market deposits (note 14), loans (note 16) and equity attributable to equity holders of the parent (comprising issued capital (note 21), reserves and retained earnings as detailed in the consolidated statement of changes in equity).

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements.

Financial risk management objectives

The Group's management of financial and market risk is disclosed on page 24 in the Directors' report.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters, and may utilise spot purchases of foreign currencies, options or forward contracts. The planning horizon for determining foreign currency exposures is 12 months.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities as at 31 December 2008 are as follows:

	Foreign currency monetary assets			Foreign currency monetary liabilities				Total £'000
	US Dollar £'000	Euro £'000	Total £'000	Sterling £'000	US Dollar £'000	Euro £'000	Swedish Krona £'000	
UK	350	11,154	11,504	-	(329)	(831)	-	(1,160)
Finland	-	-	-	(46)	-	-	(18)	(64)
	350	11,154	11,504	(46)	(329)	(831)	(18)	(1,224)

The exposures as at 31 December 2007 for comparison purposes were as follows:

	Foreign currency monetary assets			Foreign currency monetary liabilities		
	US Dollar £'000	Euro £'000	Total £'000	Sterling £'000	Euro £'000	Total £'000
UK	-	3,843	3,843	(473)	(101)	(574)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% increase and decrease in Sterling against the Euro and US Dollar. 10% represents management's assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated items at year end and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where sterling strengthens 10% against the relevant currency. For a 10% weakening of Sterling against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	2008 £'000	2007 £'000
Euro currency impact - (loss)	(934)	(476)
US Dollar currency impact - (loss)/gain	(2)	43

Profit or loss

The Group's sensitivity to foreign currency has increased during the current period mainly due to increased inter-company loans from the UK to Finland, to fund the ongoing manufacturing expansion.

Notes to the Group financial statements continued

17 Financial instruments (continued)

Spot purchases of Foreign exchange

In February 2008 the Group purchased €5.4m at a rate of €1.325 to £1.00, in order to hedge the operating and capital expenditure requirements of the Finnish Subsidiary, ATO. At 31 December 2008 none of that cash remained. The actual average rate for 2008 was €1.25 to £1.00.

Foreign currency option contract

In February 2008 the Group entered into an option contract in order to hedge the Euro operating and capital expenditure requirements of the Finnish subsidiary, ATO. The option had a total nominal value of €6.2m divided into monthly transactions from April to December 2008. This contract was not designated in a hedge accounting relationship.

Forward foreign exchange contracts

In July 2008 the Group purchased a number of forward contracts in order to hedge the costs of the US based Trinam PIII study against movements in the GBP: USD exchange rate. These forward contracts had an initial total nominal value of \$4.7m of which \$3.6m was outstanding at 31 December 2008. The outstanding contracts cover the period from January 2009 to December 2009.

In December 2008 the Group purchased a number of participating forward contracts to hedge the Euro operating and capital expenditure requirements of the Finnish Subsidiary, ATO. These participating forward contracts have a total nominal value of €6.0m and cover the period from January 2009 to June 2009.

These contracts are designated as cash flow hedges and are classified as fair value through profit or loss.

The following table details the hedging arrangements outstanding at the year end:

Outstanding contracts	Average exchange/strike rate (per GBP)		Foreign currency		Contract value		Fair value	
	2008	2007	2008 '000	2007 '000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Cash flow hedges								
Buy US dollars	1.94	-	3,600	-	2,486	-	610	-
Buy Euro	1.02	-	6,000	-	5,842	-	-	-

Interest rate risk management

The Group has minimal external borrowings at the Finnish subsidiary, ATO, and hence is not exposed to interest rate risk through borrowings. Loans and receivables (including cash and cash equivalents) earned £2.9m of investment income during 2008 (2007: £2.2m). If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2008 would increase/decrease by £0.3m (2007: £0.2m).

Credit risk management

The Group's credit risk is primarily attributed to its money market investments and cash and cash equivalents. This risk is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. At 31 December 2008, the Group had £33.5m of money market investments. In accordance with the Group's investment policy, money is only placed with institutions that hold at least "A+", "A1" or "A+" ratings with S&P, Moody's and Fitch. Further, the policy limits the maximum exposure of money market investments with any one institution to £10m.

Liquidity risk management

Responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The maturity profile of the Group's liabilities. The maturity profile of the Group's liabilities is shown in notes 15, 16, 19 and 20.

17 Financial instruments (continued)

Categories of financial instruments

Under IFRS 7, and for the purposes of risk management, the following classes of financial assets and their carrying values have been identified:

	2008 £'000	2007 £'000
Derivative financial instruments	610	–
Accrued income	990	758
Amounts receivable from the sale of goods	208	160
Money market investments	33,509	46,000
Cash and cash equivalents	7,137	19,067
Loans and receivables (including cash and cash equivalents)	42,454	65,985

Under IFRS 7, and for the purposes of risk management, the following classes of financial liabilities and their carrying value (at amortised cost) have been identified:

	2008 £'000	2007 £'000
Trade creditors and accruals	7,109	8,343
Deferred income	2,213	137
Loans	636	415
Obligations under finance leases	94	112
Amortised cost	10,052	9,007

18 Deferred tax

At 31 December 2008 the Group has no deferred tax liabilities.

The following are the deductible temporary differences for which the Group has not recognised deferred tax due to the unpredictability of future profit streams:

	2008 £'000	2007 £'000
Tax depreciation	1,496	957
Share-based payments	–	2,400
Tax losses	67,372	57,107
Other temporary differences	–	75
	68,868	60,539

19 Trade creditors and accruals

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit taken for trade purchases is 45 days. The Directors consider that the carrying amount of trade payables approximates to their fair value.

Notes to the Group financial statements continued

20 Deferred income

	2008 £'000	2007 £'000
At 1 January	137	53
Received during the year	2,171	155
Recognised as income during the year	(95)	(71)
At 31 December	2,213	137
Deferred income due for recognition within one year	321	137
Deferred income due for recognition after one year	1,892	-
	2,213	137

Deferred income comprises money received by way of EU and Finnish government grants.

21 Share capital

	2008 £'000	2007 £'000
Authorised		
250,000,000 (2007: 250,000,000) ordinary shares of 1 pence each	2,500	2,500
Issued and fully paid		
205,174,001 (2007: 201,938,969) ordinary shares of 1 pence each	2,052	2,019

Between 1 January 2007 and 31 December 2007, the Company issued 386,821 ordinary 1 pence shares on exercise of employee share options at an average exercise price of 65 pence per share.

On 30 November 2007, the Company issued 35,636,289 new ordinary 1 pence shares by way of an open offer and private placing at a price of 105 pence per share.

Between 1 January 2008 and 31 December 2008, the Company issued 146,375 ordinary 1 pence shares on exercise of employee share options at an average exercise price of 50 pence per share.

On 4 January 2008, the Company issued 1,355,000 new ordinary 1 pence shares to the FBT at a price of 94 pence per share.

On 11 January 2008, the Company issued 1,733,657 new ordinary 1 pence shares at a price of 88.75 pence per share in order to pay for the acquisition of Lymphatix Oy.

Share options

Details of share options in existence at 31 December 2008 are as follows:

	Number	Weighted average exercise price	Period in which exercisable in normal circumstances
EMI Schemes	679,502	£0.68	until 2014
Old Executive Plan	8,477,678	£0.54	until 2014
NED Plan	300,000	£1.17	until 2015
Scavidin® Stand-alone	99,999	£0.60	until 2014
Approved Executive Plan	858,133	£0.96	until 2018
Unapproved Executive Plan	3,584,204	£0.97	until 2018
Consultants' Plan	800,000	£0.98	until 2018
LTIP	1,210,250	-	until 2018
	16,009,766	£0.66	

22 Acquisition of Lymphatix Oy

On 8 January 2008, the Group acquired 100 per cent of the issued share capital of Lymphatix Oy financed by the issue of 1,733,657 ordinary shares in Ark Therapeutics Group plc. This purchase has been accounted for by the purchase method of accounting.

Net assets acquired

	Book and fair value	
	At acquisition	Final
	£'000	£'000
Other intangible assets (intellectual property)	737	737
Property, plant and equipment	5	5
Trade and other receivables	21	21
Cash and cash equivalents	96	96
Long term loans payable	(116)	(116)
Trade and other payables	(94)	(138)
	649	605
Goodwill	952	996
Total consideration	1,601	1,601
Satisfied by:		
1,733,657 ordinary shares issued in Ark Therapeutics Group plc at 88.75 pence per share		1,539
Directly attributable costs		62
		1,601
Net cash flow arising on acquisition:		
Directly attributable costs		(62)
Cash and cash equivalents acquired		96
		34

The goodwill arising on the acquisition is attributable to future product development synergies from the combination. The acquisition had no material impact on operations during the period. Lymphatix Oy did not earn any revenue during the period.

In accordance with IFRS 3 "Business Combinations", the fair values assigned to the identifiable assets, liabilities and contingent liabilities acquired on 8 January 2008 were determined provisionally on that date and disclosed in the Group's interim results for the six months ended 30 June 2008. These provisional fair values have now been finalised and are shown above. The change made to "Trade and other payables" arose from an increase in interest liabilities.

23 Non-cash transactions

The purchase of Lymphatix Oy (see note 22) was financed by the issue of 1,733,657 ordinary shares in the Company.

The FBT subscribed for 1,355,000 ordinary shares in the Company, funds for which were provided by the Company, £637,000 by way of a long-term loan and £637,000 by way of a contribution. These shares are classified as "Reserve for own shares" on the balance sheet.

24 Retirement benefit plans

The Group operates defined contribution retirement benefit plans for all qualifying employees. The total cost charged to income of £781,000 (2007: £665,000) represents contributions payable to these schemes by the Group. At 31 December 2008, £3,000 was due in respect of the current reporting period which had not been paid over to the schemes (2007: £nil).

Notes to the Group financial statements continued

25 Operating lease arrangements

At 31 December 2008 the Group was committed to making the following payments during the next year under non-cancellable operating leases, which fall due as follows:

	2008 £'000	2007 £'000
Within one year	1,209	883
In the second to fifth years inclusive	2,580	2,141
After five years	–	19
	3,789	3,043

Operating lease payments represent rentals payable by the Group for certain of its property and equipment. Leases on property are negotiated for an average period of five years during which rentals are fixed. Leases on equipment are negotiated for an average period of two years during which rentals are fixed.

26 Share-based payments - equity-settled share option schemes, LTIPs and shares held in the FBT

Equity-settled share option schemes and LTIPs

Options over ordinary shares have been granted to date under nine share option plans:

- the Ark Therapeutics Limited Enterprise Management Incentive Share Option Plan (the "2001 EMI Plan");
- the Ark Therapeutics Group Limited 2003 Enterprise Management Incentive Share Option Plan (the "2003 EMI Plan", together with the 2001 EMI Plan, the "EMI Plans");
- the Ark Therapeutics Limited Scavidin® Stand-alone Plan (the "Scavidin® Plan");
- the Ark Therapeutics Limited Share Option Plan (the "Old Executive Plan");
- the Ark Therapeutics Group Unapproved Share Option Plan (the "Unapproved Executive Plan");
- the Ark Therapeutics Group Approved Executive Plan (the "Approved Executive Plan");
- the Non-Executive Director Share Participation Plan (the "NED Plan");
- the Ark Therapeutics Group Consultancy Share Option Plan (the "Consultants' Plan");
- the Ark Therapeutics Group 2005 Long Term Incentive Plan ("LTIP").

No further grants will be made under the Old Executive Plan or the EMI Plans.

Grants under share options and LTIPs are normally exercisable between three and ten years from the date of grant. Options under the share option schemes are granted at the average market price for three days before the grant or on the closing day before the grant. LTIPs are granted at an exercise price of £nil.

During 2008, 919,000 share-scheme options were granted on 3 January 2008 and 125,000 were granted on 18 August 2008.

During 2007, 1,756,500 share-scheme options were granted on 3 January 2007.

During 2008, 119,500 LTIP options were granted on 3 January 2008 and 125,000 were granted on 18 August 2008.

During 2007, 926,000 LTIP options were granted on 3 January 2007.

Fair Value Calculations

For the purposes of valuing options to arrive at the share-based compensation charge, the Black-Scholes option pricing model has been used, except for options granted during 2005 which used a Monte-Carlo calculation.

The inputs into the Black-Scholes model are as follows:

	Share-Option Schemes		LTIPs	
	2008	2007	2008	2007
Weighted average share price	£0.91	£0.95	£0.80	£0.95
Weighted average exercise price	£0.91	£0.95	£0	£0
Expected volatility	60%	60%	60%	60%
Expected life (years)	5.5	5.5	5.5	5.5
Expected risk free rate	5.5%	5%	5.5%	5%
Expected dividends	–	–	–	–

26 Share-based payments - equity-settled share option schemes, LTIPs and shares held in the FBT (continued)

(1) Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years, considered alongside the volatility of similar companies. Expectation of the cancellation of options and also of non-satisfaction of non-TSR performance criteria have been considered in determining the fair value expenses charged to the income statement.

(2) The expected useful life used in the models is based on management's best estimate.

(3) The risk free rate of return is the UK Gilt Rate at the date of grant, commensurate with the expected term.

The charge is recognised over the expected vesting period, utilising the fair value from the two methods above, and after adjusting for estimated cancellations of options as employees leave.

The aggregate of the estimated fair value of the share-scheme options granted during 2008 is £439,000 (2007: £656,000). The aggregate of the estimated fair value of the LTIP options awarded during 2008 is £76,000 (2007: £368,000).

Options Outstanding

	Share-option Schemes			Number of options	LTIPs	
	Number of options	Weighted average exercise price	Weighted average fair value		Weighted average exercise price	Weighted average fair value
At 1/1/2004	1,375,000	£0.50	£0.29	-	£0.00	£0.00
Options granted	3,439,729	£0.65	£0.34	-	£0.00	£0.00
Options exercised	(2,750)	£0.50	£0.29	-	£0.00	£0.00
Options cancelled	(74,500)	£0.71	£0.43	-	£0.00	£0.00
At 31/12/2004	4,737,479	£0.61	£0.32	-	£0.00	£0.00
Options granted	2,537,000	£0.99	£0.48	-	£0.00	£0.00
Options exercised	(292,931)	£0.58	£0.24	-	£0.00	£0.00
Options cancelled	(277,290)	£0.84	£0.39	-	£0.00	£0.00
At 31/12/2005	6,704,258	£0.74	£0.38	-	£0.00	£0.00
Options granted	1,483,000	£1.03	£0.59	797,000	£0.00	£1.07
Options exercised	(77,400)	£0.53	£0.30	-	£0.00	£0.00
Options cancelled	(328,375)	£0.85	£0.43	-	£0.00	£0.00
At 31/12/2006	7,781,483	£0.79	£0.42	797,000	£0.00	£1.07
Options granted	1,756,500	£0.95	£0.55	926,000	£0.00	£0.95
Options exercised	(141,745)	£0.49	£0.32	-	£0.00	£0.00
Options cancelled	(465,535)	£0.94	£0.51	(82,500)	£0.00	£0.78
At 31/12/2007	8,930,703	£0.82	£0.44	1,640,500	£0.00	£1.02
Options granted	1,044,000	£0.91	£0.53	244,500	£0.00	£0.94
Options exercised	(97,250)	£0.57	£0.32	(24,125)	£0.00	£0.00
Options cancelled	(860,567)	£0.87	£0.45	(650,625)	£0.00	£1.05
At 31/12/2008	9,016,886	£0.82	£0.38	1,210,250	£0.00	£0.98
Range of exercisable prices		£0.50 - £1.33			£0.00	
Weighted average remaining contractual life		6.4 years			8.0 years	

Notes to the Group financial statements continued

26 Share-based payments - equity-settled share option schemes, LTIPs and shares held in the FBT (continued)

Options exercisable

	Share-option Schemes			Number of options	LTIPs Weighted average exercise price	Latest exercise date
	Number of options	Weighted average exercise price	Latest exercise date			
At 31/12/2007	6,056,789	£0.78	02/01/2017	-	-	-
At 31/12/2008	6,445,886	£0.80	02/01/2018	292,750	-	02/01/2018

The weighted average share price at the date of exercise for share options exercised during 2008 was £0.70.

Shares held in the FBT

The fair value of shares held in the FBT for the benefit of employees is determined using the Black-Scholes model which takes into account the terms and conditions upon which the shares were awarded. The model inputs, in respect of the fair value of the shares granted in 2008, were as follows:

Weighted average share price	£0.94
Weighted average exercise price	£0.47
Expected volatility	60%
Expected life (years)	5.5
Expected risk free rate	5.5%
Expected dividends	-

Number of shares held in the Trust conditionally appointed to employees' sub-funds:

As at 1 January 2008	-
Awarded in the period	1,355,000
Lapsed in the period	(150,000)
As at 31 December 2008	1,205,000

The aggregate fair value of the shares conditionally appointed to the employees' sub-funds is £648,000 (2007: £nil).

The Group recognised total expenses of £980,000 (2007:£1,006,000) related to equity-settled share-based payment transactions.

27 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The following transactions took place during the year at arm's length:

On 8 January 2008, Professor S Ylä-Herttuala received 132,477 ordinary shares at 88.75 pence per share in the Company as payment for his share in Lymphatix Oy (see note 22).

Details of consultancy fees earned by Directors during the year and fees paid to third parties for Directors' consultancy services are included within the Directors' remuneration report.

At 31 December 2008, £75,000 (2007: £70,000) in respect of consultancy fees was owed to Professor S Ylä-Herttuala and £nil (2007: £5,000) to P Keen.

Remuneration of key management personnel

The remuneration of the Directors and senior management, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' remuneration report on pages 21 to 23.

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Short-term employee benefits	1,938	2,158
Pension contributions	173	172
Share-based payment – options	51	342
Share-based payment – LTIP	337	277
Share-based payment - shares in FBT	216	–
	2,715	2,949

Company income statement

for the year ended 31 December 2008

	Note	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Other administrative expenses		(618)	(612)
Share-based compensation		(13)	(29)
Administrative expenses		(631)	(641)
Operating loss	29	(631)	(641)
Investment income	30	8,432	6,183
Profit on ordinary activities before taxation		7,801	5,542
Taxation	31	-	-
Profit on ordinary activities after taxation, being retained profit for the year		7,801	5,542

All results relate wholly to continuing activities.

Company balance sheet

as at 31 December 2008

	Note	31 December 2008 £'000	31 December 2007 £'000
Non-current assets			
Investments in subsidiaries	33	2,246	8
Amounts owed by subsidiary undertakings	34	98,684	66,221
		100,930	66,229
Current assets			
Trade and other receivables	34	994	758
Money market investments	34	33,509	46,000
Cash and cash equivalents	34	5,711	17,548
		40,214	64,306
TOTAL ASSETS		141,144	130,535
Current liabilities			
Trade and other payables	35	110	197
TOTAL LIABILITIES		110	197
Equity			
Share capital	36	2,052	2,019
Share premium		117,899	116,571
Merger reserve		1,521	-
Share-based compensation		351	338
Retained profit		19,211	11,410
TOTAL EQUITY		141,034	130,338
TOTAL LIABILITIES AND EQUITY		141,144	130,535

Company statement of changes in equity

for the year ended 31 December 2008

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share-based compensation £'000	Retained profit £'000	Total £'000
Balance as at 31 December 2006	1,659	81,196	-	309	5,868	89,032
Profit for the year	-	-	-	-	5,542	5,542
Share-based compensation	-	-	-	29	-	29
Equity share options exercised	4	249	-	-	-	253
Share issue	356	37,062	-	-	-	37,418
Share issue expenses	-	(1,936)	-	-	-	(1,936)
Balance as at 31 December 2007	2,019	116,571	-	338	11,410	130,338
Profit for the year	-	-	-	-	7,801	7,801
Share-based compensation	-	-	-	13	-	13
Equity share options exercised	2	67	-	-	-	69
Share issue	31	1,261	1,521	-	-	2,813
Balance as at 31 December 2008	2,052	117,899	1,521	351	19,211	141,034

Company cash flow statement

for the year ended 31 December 2008

	Note	Year ended 31 December 2008	Year ended 31 December 2007
Operating loss		(631)	(641)
Decrease/(increase) in receivables		2	(1)
Decrease in payables		(87)	(122)
Share-based compensation		13	29
Net cash used in operating activities		(703)	(735)
Investing activities			
Interest received		8,194	6,076
Net maturities/(purchases) of money market investments		12,491	(6,000)
Funding of subsidiary companies		(31,826)	(25,421)
Acquisition of Lymphatix Oy	22	(62)	-
Net cash used in investing activities		(11,203)	(25,345)
Financing activities			
Proceeds on issue of shares		69	35,735
Net cash generated from financing activities		69	35,735
Net (decrease)/increase in cash and cash equivalents		(11,837)	9,655
Cash and cash equivalents at beginning of year		17,548	7,893
Cash and cash equivalents at end of year		5,711	17,548

Notes to the Company financial statements

28 Significant accounting policies

The principal accounting policies, critical judgements and estimates as adopted are the same as those set out in note 2 to the Group financial statements. Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

29 Operating loss

The Auditors' remuneration for audit and other services is disclosed in note 6 to the consolidated financial statements.

30 Investment income

An analysis of the Company's investment income is as follows:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Investment income – third party	2,808	2,057
Investment income – inter-company	5,624	4,126
	8,432	6,183

Investment income consists of interest on money-market investments and cash and cash equivalents. Investment income is earned on financial assets as categorised under IFRS 7 as loans and receivables (including cash and cash equivalents).

31 Taxation

The Company is eligible for Group tax relief and therefore the tax charge for the year is £nil (2007: £nil)

The charge for the year can be reconciled to the profit per the income statement as follows:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Profit on ordinary activities before tax	7,801	5,542
Taxation at the current rate of 28% (2007: 30%)	2,184	1,663
Applied to Group relief	(2,184)	(1,663)
Tax expense	-	-

32 Employees

The average number of people employed by the Company in 2008 within finance and administration was 2 (2007: 3). The related staff costs are included within Ark Therapeutics Limited.

33 Subsidiaries

	2008 £'000	2007 £'000
Shares in Group undertakings at cost and net book value	2,246	8

33 Subsidiaries (continued)

	2008 £'000	2007 £'000
As at 1 January	8	8
Purchase of Lymphatix Oy (see note 22)	1,601	–
Capital contribution to FBT	637	–
As at 31 December	2,246	8

Principal Group investments

The parent Company and the Group have investments in the following subsidiary undertakings which principally affected the profits or net assets of the Group.

At 31 December 2008	Country of incorporation	Holding	%	Principal activity
Ark Therapeutics Limited*	England	Ordinary	100	Research and development of products in areas of specialist medicine
Patient Plus Limited*	England	Ordinary	100	Research, development and commercialisation of products in areas of specialist medicine
Ark Therapeutics Oy	Finland	Ordinary	100	Research and development of products in areas of specialist medicine
Lymphatix Oy*	Finland	Ordinary	100	Research and development of products in areas of specialist medicine

* Held directly by Ark Therapeutics Group plc

The Group controls the operations of the FBT and it has, therefore, been accounted for as if it were a wholly-owned subsidiary.

34 Other assets

Trade and other receivables

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

	2008 £'000	2007 £'000
Non-current		
Amounts due from Group undertaking – Ark Therapeutics Limited	98,684	66,221
Current		
Accrued income	989	751
Prepayments	5	7
	994	758
Total	99,678	66,979

Money-market investments comprise short-term bank deposits with an original maturity of between 3 and 12 months.

Cash and cash equivalents comprise current accounts held by the Group with immediate access and short-term bank deposits with a maturity value of three months or less.

Notes to the Company financial statements continued

35 Trade and other payables

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit taken for trade purchases is 45 days.

	2008 £'000	2007 £'000
Trade creditors and accruals	110	197

The Directors consider that the carrying amount of trade payables approximates their fair value.

36 Share capital

The movements on the share capital are disclosed in note 21 to the consolidated financial statements.

37 Contingent liabilities

The Company has guaranteed other borrowings of subsidiary undertakings amounting to £nil (2007: £50,000).

38 Related party transactions

During the year the Company provided working capital loans to subsidiary companies. Interest on these loans was charged at market related rates. Details of interest income for the year and outstanding balances at year-end are shown below:

	Interest income for the year		Amounts due from subsidiaries	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Ark Therapeutics Ltd	5,624	4,126	98,684	66,221

39 Financial instruments

Categories of financial instruments

Under IFRS7, and for the purposes of risk management, the following classes of financial assets and their carrying values have been identified:

	2008 £'000	2007 £'000
Accrued income	989	751
Amounts due from the Group undertakings	98,864	66,221
Money market investments	33,509	46,000
Cash and cash equivalents	5,711	17,548
Loans and receivables (including cash and cash equivalents)	139,073	130,520

39 Financial instruments (continued)

Under IFRS7, and for the purposes of risk management, the following classes of financial liabilities and their carrying value (at amortised cost) have been identified:

	2008 £'000	2007 £'000
Trade creditors and accruals	110	197
Amortised cost	110	197

Capital risk management

The Company manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders. The capital structure of the Company consists of cash and cash equivalents, money market deposits (note 34), and equity (comprising issued capital (note 36), reserves and retained earnings as disclosed in the Company statement of changes in equity).

Externally imposed capital requirement

The Company is not subject to externally imposed capital requirements.

Financial risk management objectives

The Company's management of financial and market risk is the same as that of the Group as disclosed on page 24 in the Directors' report.

Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters, and may utilise spot purchases of foreign currencies, options or forward contracts.

Interest rate risk management

The Company has no external borrowings. Intercompany receivables are charged at base rate plus a reasonable arm's length premium. Loans and receivables (including cash and cash equivalents) earned £8.43m of investment income during 2008 (2007: £6.18m). If interest rates had been 0.5% higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2008 would increase/decrease by £0.7m (2007: £0.5m).

Liquidity risk management

Responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Credit risk

The Company's credit risk is attributed to its cash and cash equivalents, money market investments, related party balances and related party guarantees. For cash and cash equivalents and money market investments the Company only transacts with counterparties with high credit ratings assigned by international credit rating agencies. At 31 December 2008, the Company had £33.5m of money market investments (31 December 2007 £46.0m). In accordance with the Group's Investment policy, money is only placed with institutions that hold at least "A+", "A1" or "A+" ratings with S&P, Moody's and Fitch. Further, the policy limits the maximum exposure of money market investments with any one institution to £10m. Receivables from related parties are repayable in line with agreed terms or on demand. There is not considered to be any risk of impairment of these receivables unless the financial assets of the entity holding the corresponding liability are impaired. As this was not the case in the current and preceding period, the receivables from related parties are considered to be fully recoverable.

Notice of Annual General Meeting

This document is important and requires your immediate attention

Ark Therapeutics Group plc

(incorporated and registered in England and Wales under number 04313987)

If you are in any doubt as to what action you should take, you should consult your stockbroker, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all your shares in Ark Therapeutics Group plc, please pass this document and the accompanying proxy form to the stockbroker or other agent through whom you made the sale or transfer, for transmission to the purchaser or transferee.

Notice is hereby given that the Annual General Meeting of Ark Therapeutics Group plc will be held at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA on Wednesday 22 April 2009 at 11.30 am, for the following purposes:

Ordinary business

- 1 To receive the accounts, including the Directors' remuneration report, for the financial year ended 31 December 2008, together with the reports of the Directors and Auditors thereon. **(Resolution 1)**
- 2 To approve the Directors' remuneration report for the financial year ended 31 December 2008. **(Resolution 2)**
- 3 To re-appoint Martyn Williams who is submitting himself for re-appointment as a Director. **(Resolution 3)**
- 4 To re-appoint Professor Seppo Ylä-Herttuala who is submitting himself for re-appointment as a Director. **(Resolution 4)**
- 5 To re-appoint Peter Keen who, having served on the Board of the parent company of the Group for more than nine years, is submitting himself for re-appointment as a Director. **(Resolution 5)**
- 6 To re-appoint Sir Mark Richmond, who having served on the Board of the parent company of the Group for more than nine years, is submitting himself for re-appointment as a Director. **(Resolution 6)**
- 7 To re-appoint Dennis Turner, who having served on the Board of the parent company of the Group for more than nine years, is submitting himself for re-appointment as a Director. **(Resolution 7)**
- 8 To re-appoint Deloitte LLP as Auditors of the Company to hold office until the end of the next meeting at which the financial statements are presented. **(Resolution 8)**
- 9 To authorise the Directors to set the remuneration of the Auditors. **(Resolution 9)**

Special business

To consider and, if thought fit, to pass the following resolutions, of which resolution 10 will be proposed as an ordinary resolution, and resolutions 11 and 12 will be proposed as special resolutions:

- 10 That the Directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of The Companies Act 1985 (the "Act"), to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £689,589 (being 33.3% of the Company's issued share capital as at 13 March 2009), this authority to expire at the conclusion of the Annual General Meeting of the Company in 2010 (save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired). **(Resolution 10)**
- 11 That the Directors be and are hereby empowered pursuant to section 95(1) of the Act, subject to the passing of resolution 10 above, to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority conferred by resolution 10 above as if section 89(1) of the Act did not apply to any such allotment provided that such power shall be limited to the allotment of equity securities: (a) in connection with or pursuant to a rights issue or other pre-emptive offer in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them for such allotment but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever; and (b) otherwise than pursuant to paragraph (a) of this resolution up to an aggregate nominal amount of £103,542 (being 5% of the Company's issued share capital as at 13 March 2009), and this power shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2010 (save that the Company may, at any time before the expiry of such power, make any offer or enter into any agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities in pursuance of any such offer or agreement as if such power conferred hereby had not expired). **(Resolution 11)**
- 12 That a general meeting of the Company (other than an annual general meeting) may be called on not less than 14 clear days' notice. **(Resolution 12)**

Your Board believes that the resolutions to be proposed as ordinary and special business at the Annual General Meeting are 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 resolutions, as they intend to do in respect of their own beneficial holdings of shares in the Company.

By order of the Board

Martyn Williams

Company Secretary
13 March 2009

Registered Office: 79 New Cavendish Street, London W1W 6XB
Registered in England and Wales No 04313987

Notice of Annual General Meeting - notes

Proxies

1.
 - (a) As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the Company. You can only appoint a proxy using the procedures set out in these notes.
 - (b) Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.
 - (c) A proxy does not need to be a member of the Company but must attend the meeting to represent you. To appoint as your proxy a person other than the Chairman of the meeting, insert their full name in the box on your proxy form. If you sign and return your proxy form with no name inserted in the box, the Chairman of the meeting will be deemed to be your proxy. Where you appoint as your proxy someone other than the Chairman, you are responsible for ensuring that they attend the meeting and are aware of your voting intentions. If you wish your proxy to make any comments on your behalf, you will need to appoint someone other than the Chairman and give them the relevant instructions directly.
 - (d) You may appoint more than one proxy provided each proxy is appointed to exercise the rights attached to a different share or shares held by you. You may not appoint more than one proxy to exercise rights attached to any one share.
 - (e) If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box provided the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account). In the event of a conflict between a blank proxy form and a proxy form which states the number of shares to which it applies, the specific proxy form shall be counted first, regardless of whether it was sent or received before or after the blank proxy form, and any remaining shares in respect of which you are the registered holder will be apportioned to the blank proxy form. If you submit more than one completed valid proxy, the proxy received last before the latest time for receipt of proxies will take precedence.
 - (f) To appoint more than one proxy, you may photocopy the proxy form. Please indicate in the box on the form the number of shares in relation to which they are authorised to act as your proxy. Please also indicate with an "X" in the place provided on the proxy form if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
 - (g) To direct your proxy how to vote on the resolutions mark the appropriate box on your proxy form with an 'X'. To abstain from voting on a resolution, select the relevant "Vote withheld" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If you mark with an "X" "discretion", or if no voting indication is given, your proxy will vote or abstain from voting as he or she sees fit.
 - (h) To appoint a proxy using this form, your proxy form must be:
 - completed and signed;
 - sent or delivered to Capita Registrars at Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; and
 - received by Capita Registrars no later than 11.30 am on 20 April 2009.

Completed proxy forms should not be sent to the Company's registered office.

- (i) In the case of a member which is a company, your proxy form must be executed under its common seal or signed on its behalf by a duly authorised officer of the company or an attorney for the company stating their capacity (eg director, secretary).
- (j) Any power of attorney or any other authority under which your proxy form is signed (or a duly certified copy of such power or authority) must be included with your proxy form.
- (k) CREST members who wish to appoint a proxy or proxies by using the CREST electronic appointment service may do so by using the procedures described in the CREST Manual. To be valid, the appropriate CREST message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instructions given to a previously appointed proxy, must be transmitted so as to be received by our agent Capita Registrars, whose CREST participant ID is RA10, by 11.30 am on 20 April 2009.
- (l) In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).
- (m) If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
- (n) Save through CREST, we do not have a facility to receive proxy forms electronically. Therefore, you may not use any electronic address referred to in the proxy form or any related document to submit your proxy form.
- (o) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members entered on the register of members of the Company at 6.00 pm on 20 April 2009 or, in the event that this meeting is adjourned, in the register of members as at 6.00 pm on the day two days before the date of any adjourned meeting shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their names at that time. Changes to the entries on the register of members after 6.00 pm on 20 April 2009, or in the event that this meeting is adjourned, in the register of members after 6.00 pm on the day two days before the date of the adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Documents on display

2. Copies of service agreements under which Directors of the Company are employed, and copies of the terms and conditions of appointment of Non-Executive Directors (including the terms of the qualifying third party indemnity provisions made by the Company for the benefit of its Directors) are available for inspection at the Company's registered office during normal business hours from the date of this notice until the date of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

Nominated persons

3. If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights (a “Nominated Person”):
- you may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (“Relevant Member”) to be appointed or to have someone else appointed as a proxy for the meeting;
 - if you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights;
 - your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you; and
 - the statement of the rights of shareholders in relation to the appointment of proxies in paragraph 1 above does not apply to Nominated Persons. The rights described in paragraph 1 can only be exercised by members of the Company.

Issued shares and total voting rights

4. As at 13 March 2009, being the last practicable day prior to the publication of the Notice, the Company’s issued share capital comprised 207,084,001 ordinary shares of 1 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 13 March 2009 is 207,084,001.

Corporate representatives

5. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the Chairman is being appointed as described in (i) above.

Website publication of audit concerns

6. Shareholders should note that it is possible that, pursuant to requests made by shareholders under section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to (i) the audit of the Company’s accounts (including the auditor’s report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid (in each case) that the members propose to raise at the Annual General Meeting. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company’s auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

Explanatory notes to the Resolutions

7. **Resolution 1.** The Directors are required by law to present to the meeting the accounts and the Directors’ and Auditors’ reports for the financial year ended 31 December 2008.
8. **Resolution 2.** In accordance with the Act, directors of listed companies are required to prepare a detailed Directors’ remuneration report which must be approved by the shareholders at the Annual General Meeting. The Directors’ remuneration report contains, inter alia, details of the members of the Remuneration Committee, the Company’s policy on Directors’ remuneration for 2008 and subsequent financial years, a performance graph showing the Company’s performance, measured by total shareholder return, compared with the performance of the comparator group of companies in the industry described in the Directors’ remuneration report, details of the Directors’ service contracts and specific disclosures relating to each Director’s remuneration. Resolution 2 proposes that the Directors’ remuneration report for the financial year ended 31 December 2008, as set out on pages 18 to 23 of the annual report, be approved.
9. **Resolutions 3 and 4.** One-third of the Board is required to retire by rotation each year. Martyn Williams and Professor Seppo Ylä-Herttuala are the two Directors who resign this year and who are consequently proposed for re-appointment. The performance of Mr Williams and Professor Ylä-Herttuala has been formally evaluated and it has been determined that they both continue to perform effectively. They are both fully committed to their roles on the Board.

Martyn Williams has been Chief Financial Officer of the Company since 1998. Prior to that he was the Chief Financial Officer of Walsh International Inc. In April 1996, he was a key member of the team responsible for the completion of the initial public offering of that company on NASDAQ. He has over 20 years’ experience in senior financial positions in international businesses.

Professor Seppo Ylä-Herttuala was one of Ark’s co-founders in 1997. Since 1995, he has developed the University of Kuopio’s Gene Therapy Unit into one of the most active centres in Europe, with experience in ten human gene therapy trials to date. As a world-renowned expert in gene expression technology, the pathogenesis of vascular diseases and malignant glioma, he brings invaluable knowledge to the Group. His experience includes pioneering work in vascular gene therapy, where he performed the first adenoviral gene transfers to human peripheral arteries.

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10. **Resolutions 5, 6 and 7.** These resolutions are to re-appoint Peter Keen, Sir Mark Richmond and Dennis Turner as Directors in accordance with provision A.7.2 of the Combined Code, which recommends that after nine years a director be subject to re-appointment on an annual basis. Both Mr Keen and Sir Mark have served as Non-Executive Directors of the parent company of the Group since 1997 and Mr Turner as Non-Executive Chairman since 1999. The Directors have evaluated Mr Keen's, Sir Mark's and Mr Turner's performance and have determined that, despite their length of tenure as Directors, all three Directors continue to provide valuable and in the case, of Mr Keen and Sir Mark, independent advice to the Company, and show a strong and effective commitment to their roles. The Board believes that it is appropriate to re-appoint Mr Keen, Sir Mark and Mr Turner as Directors for a further year.

Peter Keen is Chairman of the Remuneration Committee and is a member of the Audit and Nomination Committees. He is a Chartered Accountant with over 24 years' experience of financial management in biotechnology companies and is currently Corporate Development and Finance Director of the biotechnology company Serentis Ltd. In 1992 he was a co-founder of Chiroscience Group Plc and then helped establish Merlin Biosciences, which co-founded Ark in 1997. He has served on the board of a number of public and private biotechnology companies and is currently a non-executive director of Abcam plc and the Biotech Growth Trust plc.

Sir Mark Richmond is senior independent Director, Chair of the Nomination Committee and a member of the Remuneration Committee. Sir Mark was appointed as a Non-Executive Director of Ark in 1997. He was formerly Group Head of Research at GlaxoSmithKline plc. He also holds a non-executive board position at Cytos AG.

Dennis Turner joined Ark as Non-Executive Chairman in 1999. Most of his career has been spent creating, financing and building international companies in the medical and pharmaceutical services sectors. Most recently, he was Chairman and Chief Executive Officer of Pharmaceutical Marketing Services Inc. and Walsh International Inc. (both NASDAQ listed) and a Non-Executive Director of International Biotechnology Trust (LSE-listed). Mr Turner is a member of the Nomination Committee.

11. **Resolution 10.** Your Directors may only allot shares or grant rights over shares if authorised to do so by shareholders. The authority granted on 24 April 2008 is due to expire at the Company's Annual General Meeting in 2009 and therefore requires renewal. This resolution, if passed, will continue to give the Directors flexibility to act in the best interests of shareholders, when the opportunity arises, by issuing new shares. Accordingly, resolution 10 will be proposed as an ordinary resolution to grant a new authority to allot unissued share capital up to an aggregate nominal value of £689,589, representing approximately 33.3% of the total issued ordinary share capital as at 13 March 2009. If given, this authority will expire at the Annual General Meeting in 2010. Other than in respect of the Company's obligations under its share option schemes, the Directors have no present intention of issuing any of the authorised but unissued share capital of the Company.
12. **Resolution 11.** Your Directors also require additional authority from shareholders to allot shares or grant rights over shares where they propose to do so for cash and otherwise than to existing shareholders pro rata to their holdings. The authority granted on 24 April 2008 is due to expire at the conclusion of the Annual General Meeting in 2009 and therefore requires renewal. Accordingly, resolution 11 will be proposed as a special resolution to grant such authority. The authority will be limited to the allotment of equity securities pursuant to a rights or similar issue or, in other circumstances, is limited to a maximum aggregate nominal value of £103,542 (being 5% of the issued ordinary share capital on 13 March 2009). If given, this authority will expire at the conclusion of the Annual General Meeting in 2009.
13. **Resolution 12.** Your Directors propose resolution 12 as a special resolution in contemplation of the EU Shareholder Rights Directive being implemented in the UK. Even though the implementing legislation will only take effect on 3 August 2009, if the Company does not pass this resolution at this Annual General Meeting, then between 3 August 2009 and the next Annual General Meeting of the Company (or a general meeting if there is one) (being the first opportunities at which it could pass the necessary resolution), it will have to call general meetings on 21 days' notice.

Cautionary note regarding forward-looking statements:

These results include statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “plans”, “goal”, “target”, “aim”, “may”, “will”, “would”, “could” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout these results and the information incorporated by reference into these results and include statements regarding the intentions, beliefs or current expectations of the Directors, Ark Therapeutics Group plc or the Group concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy of Ark Therapeutics Group plc and the industry in which it operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond Ark Therapeutics Group plc’s ability to control or predict. Forward-looking statements are not guarantees of future performance. The Group’s actual results of operations, financial condition, liquidity, dividend policy and the development of the industry in which it operates may differ materially from the impression created by the forward-looking statements contained in these results and/or the information incorporated by reference into these results. In addition, even if the results of operations, financial condition, liquidity and dividend policy of Ark Therapeutics Group plc and the development of the industry in which it operates, are consistent with the forward-looking statements contained in these results and/or the information incorporated by reference into these results, those results or developments may not be indicative of results or developments in subsequent periods.

Other than in accordance with its legal or regulatory obligations (including under the Listing Rules, the Disclosure and Transparency Rules and the Prospectus Rules), Ark Therapeutics Group plc does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

Shareholder Information

Registered Office

79 New Cavendish Street
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W1W 6XB

Directors

D M J Turner
Dr N R Parker
M Williams
A Christie
P Keen
Dr W Plischke
D Prince
Sir Mark Richmond
Professor S Ylä-Herttua

Company Secretary

Martyn Williams

Company Registration Number

4313987

Advisers

Auditors

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Registrars

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Glossary

Technical terms which have been used in the annual report have the following meaning:

Access graft	the joining of a length of synthetic material (the graft) between an artery and a vein
Adenoviral	pertaining to, or caused by, an adenovirus
Adenovirus	a common virus that infects humans. More than 40 types are known to infect man causing upper respiratory symptoms, acute respiratory disease, conjunctivitis and gastroenteritis
Agonist	a substance which stimulates or turns on biological activity, usually by acting at a receptor site
AIDS	Acquired Immune Deficiency Syndrome
Angina	chest pain caused by reduced flow of blood to the heart muscle
Angiogenic	the formation and development of blood vessels
Antagonist	a substance which competes with the agonist at the receptor site and inhibits biological activity
Antimicrobial	a drug for killing micro-organisms or suppressing their multiplication or growth
Autonomic neuropathy	a disturbance or disease of the part of the nervous system that is concerned with the control of involuntary bodily function. Often found as a symptom of poorly managed diabetes, in which nerve damage occurs as a result of high blood glucose levels over an extended period
Baculovirus	a member of a family of viruses that normally infect insect cells
Cachexia	a general weight loss and wasting occurring in the course of a chronic disease such as cancer
Cardiovascular	pertaining to the heart and blood vessels
CE Marking	products that come under a European Directive and are to be placed on the market in the EU, must bear CE Marking. CE Marking is the manufacturer's claim that the product meets the essential requirements of all relevant EU Directives, eg safety and quality
cGMP	Current Good Manufacturing Practice, formal standards of facilities cleanliness, process, quality controls and documentation set out and periodically monitored by the main medicines control agencies to which a company has to conform in order to manufacture a medicinal product for human use
Cirrhosis	chronic inflammation and fibrosis of an organ, normally used in conjunction with destructive disease of the liver caused by excessive alcohol consumption
Clinical	relating to the treatment and care of a patient. Denoting the symptoms and course of a disease, as distinguished from the laboratory findings or anatomical changes
Cytotoxic	an agent which possesses a specific destructive action on certain cells
de novo stenosis	a new stricture or blockage which arises in blood vessels
Delivery device	a mechanical structure which contains a medicine and which allows it to be given to a specific site in the body
DNA	(deoxyribonucleic acid) the molecule that encodes the genetic information. DNA is a double-stranded molecule held together by weak bonds between base pairs of nucleotides to form a double helix
DSMB	Data Safety Monitoring Board. Responsible for examining the safety aspects of a medicine under development
Efficacy	produces a positive effect. Treats a disease successfully
EMA	the European Agency for the Evaluation of Medicinal Products

Glossary continued

Exceptional circumstances	a term used in relation to medicine approval by a Government Regulatory Agency. For diseases where there are no treatments the medicine may be granted approval with limited clinical data. This enables the medicine to be made available for patients
Expression	the translation of the information encoded in the gene into a protein
Fast Track	the Fast Track programme of the FDA, designed to facilitate the development and expedite the review of new drugs that are intended to treat serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs. Such designation is granted, if judged appropriate, by the FDA after review of a Fast Track Designation Submission for the specific drug from a company
FDA	Food & Drug Administration, the consumer protection agency responsible for public health in the USA, which ensures that safe and effective products reach the market in a timely manner
Foetal growth restriction	also known as intra-uterine growth retardation, a disorder associated with insufficient blood supply to the placenta, resulting in a slowdown and cessation of foetal growth in the uterus
Gene silencing	a mechanism by which cells shut down sections of chromosomal DNA, an important process involved in the growth, development and specialisation of cells or a therapeutic intervention to achieve specific treatments
Glioma	a malignant tumour of the central nervous system, arising from the glial cells, usually in the brain
GCP	Good Clinical Practice, a set of internationally recognised ethical and scientific quality requirements which must be observed for designing, conducting and reporting clinical trials that involve the participation of human subjects
GMP	Good Manufacturing Practice, formal standards of facilities cleanliness, process, quality controls and documentation set out and periodically monitored by the main medicines control agencies to which a company has to conform in order to manufacture a medicinal product for human use
Haemodialysis graft	see 'Access Graft' used in the treatment of patients with kidney failure
IAS	International Accounting Standards
ICH	the International Conference on Harmonisation, an international organization that attempts to standardizes globally the regulatory and scientific aspects of clinical research, drug development, and pharmaceutical product registration.
Ischaemia	a lack of blood supply leading to hypoxia (abnormally low concentration of oxygen) and accumulation of waste products, usually due to obstruction of the arterial blood supply or inadequate blood pressure
IFRSs	International Financial Reporting Standards
IND	Investigational New Drug - an application in the USA to the FDA to permit a new drug to be used in clinical trials
Interstitial fluid	the fluid within the tissues
Intimal hyperplasia	excessive growth of cells within a blood vessel wall
IPO	Initial Public Offering
Late stage	Phase IIb, Phase II/III and Phase III
Lymphangiogenic	the formation and development of vessels of the lymphatic system, the system of vessels in the human body that conveys lymph (the fluid that bathes body tissues) to the bloodstream
Lymphoedema	the result of excess accumulation of lymph fluid in the tissue spaces causing swelling. It arises from congenital malformation of the lymphatic system or from damage to, or surgical removal of, the lymphatic vessels and/or lymph nodes

MAA	Marketing Authorisation Application, the complete set of information for a product on which it was granted a licence to permit its sale to doctors
MRSA	methicillin-resistant Staphylococcus aureus
Myocardium	the heart muscle
Nucleotide	the basic molecular unit of DNA, composed of a phosphate backbone, a sugar molecule and a purine or pyrimidine base
Orphan Medicinal Product/Drug/Status	a term which describes a drug with Orphan Drug Status granted by the FDA and/or the EMEA. Such status confers certain development, registration and marketing advantages for new treatments to be used in rare diseases or conditions, eg permitting marketing approval applications based on predicted clinical benefit; tax credits; improved exclusivity periods
Ox-LDL	Oxidised Low Density Lipoprotein
p	p is the symbol indicating probability and the figure is used in statistical analysis in order to indicate the significance of a difference observed between two data sets. The occurrence of a difference with a probability of less than one in 20 (ie p=less than 0.05) is generally considered to be statistically significant
Pathogenesis	the origination and development of a disease
pari passu	of equal ranking
Peripheral vascular disease	is a narrowing of blood vessels that restricts blood flow mostly occurring in blood vessels in the legs
Pharmacodynamic	is the study of a drug's actions in the body over time, this includes absorption, distribution, localisation, biotransformation, and excretion (in simple terms what the drug does to the body)
Pharmacokinetic	looks at absorption, distribution, metabolism, and excretion of drugs (what the body does to the drug)
Phase I	where the drug is tested for safety in healthy individuals. This is normally the first time the drug is given to humans. In one or more clinical trials, safety, tolerability, dose range, pharmacodynamic profile and pharmacokinetic profile are explored
Phase II	where the drug is given to patients with the disease for which it is believed the drug may have some therapeutic effect. Positive efficacy is often referred to as clinical 'proof-of-concept'. This Phase should conclude with evidence of whether the drug works, which patient population to target, and what is the optimal dose between beneficial effect and side effect
Phase IIa	where the potential treatment is for a severe disease and is so potent that it is unjustifiable to ever try the drug in healthy people, as this would put them at unreasonable risk. In this case, Phase I trials are not executed. In its place, a 'Phase I-like' study is carried out on patients with the disease in question, referred to as a 'Phase IIa'. Whilst the main objective of a Phase IIa is to determine safety, since the trial(s) is executed in sick individuals, the company will necessarily also collect anecdotal data on efficacy and dosing, and this may be sufficient to jump straight to a Phase III (or a Phase II/III) trial
Phase IIb	following a Phase IIa trial, it is normally still necessary to carry out 'Phase II-like' clinical trials to fully evaluate therapeutic dosing range, this is referred to as Phase IIb. Since the drug will have already been in sick individuals (from the Phase IIa), the degree of exploration and data acquisition required to carry out this kind of Phase II trial to statistically significant levels should be somewhat less than a 'full' Phase II
Phase II/III	where it is expected that a Phase II-like trial will be sufficient to produce statistically sufficient data for approval, removing the need for a Phase III trial. The expectation that these trials will be sufficient for approval may once the trials have begun be shown to be unfounded, and as such the trials are designed so that they can be easily expanded into full Phase III trials without the need to repeat from scratch. Phase II/III trials are usually entered into when <ul style="list-style-type: none"> (i) a drug candidate has an unusually high efficacy and hence produces statistically significant results with only a small trial (ii) a drug candidate is in an orphan indication with high unmet clinical need, and hence the regulator requires a lower statistical threshold for results and hence requires only a small trial

Glossary continued

Phase III	where the drug undergoes a 'dry run' of its ultimate proposed use on the market. The trials in this Phase need to prove to a strong degree of statistical significance that the drug presented at a particular dose, to a particular population and in a particular formulation has sufficient effect along with appropriately low side effects. The 'pivotal Phase III trial' is that which ultimately provides statistically sound evidence of effect and safety
Pre-clinical	the Phase of drug discovery and development which precedes testing of the drug in humans. Many studies carried out in this Phase are required by regulatory agencies before they will allow testing in man
Proof-of-principle	evidence that a medicine might be useful to treat a particular disease
Protein	a general term describing types of large biological molecules consisting of combinations of amino acids linked by peptide bonds (carboxyl group from an amino acid linked to amino group of another). The term protein is generally reserved for molecules counting 70 or more amino acids
RAC	US Recombinant DNA Advisory Committee. A subcommittee of the National Institutes of Health in the US, concerned with the regulation of studies involving gene medicines
Radiotherapy	the medical specialty concerned with the use of electromagnetic or particulate radiation in the treatment of disease, in particular cancer
Receptor	a molecule located within a cell or on the surface of a cell, to which an agonist or antagonist will bind; as a result of that binding, a biological response is produced or blocked
Refractory angina	angina that does not respond to standard methods of treatment
RNA	ribonucleic acid, a nucleic acid molecule similar to DNA involved in gene expression, protein synthesis and other cell activities
siRNA	small inhibitory RNA, a short sequence of RNA which can be used to silence gene expression
Special Protocol Assessment or SPA	an FDA process to evaluate a clinical trial protocol and other trial documents
Stroke	a sudden impairment of brain function due to haemorrhage from, or destruction of, one or more cerebral blood vessels
Ulcer	a lesion on the surface of the skin or on a mucous surface, caused by superficial loss of tissue, usually with inflammation
Validation	an action proving, in accordance with the principles of Good Manufacturing Practice (GMP), that any procedure, process, equipment, material, activity or system actually leads to the expected results
Vector	a chemical or molecular structure used to facilitate DNA gene delivery into cells
VEGF	Vascular Endothelial Growth Factor: is part of a family of growth factors, designated VEGF-A, VEGF-B, etc that stimulate the growth of endothelial cells





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