

CYPROTEX PLC

Report and Accounts

For the fourteen months ended 31 December 2002

Cyprotex PLC

Registered No. 4311107

DIRECTORS

Dr Colin Picton (Non-executive Chairman)
Dr Mark Egerton (Chief Executive Officer)
Dr David Leahy (Chief Scientific Officer)
Mr John Nicholson (Chief Operating Officer)
Dr Rosemary Drake (Non-executive Director)

SECRETARY

G E Ritchie

AUDITORS

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CHAIRMAN'S STATEMENT

I am pleased to report on significant progress in the development of Cyprotex as a drug discovery technology and information company. There have been considerable achievements in the continuing high throughput screening business and in preparing new information products for launch as commercial products. The Group has moved into a redesigned and customised facility and has attracted key business development and scientific staff to the team.

Jeremy Scudamore and Dr Mark Egerton, former Chairman and Chief Executive respectively, decided early in 2003 to leave the Company to pursue other interests. We thank them both for their valuable contributions to Cyprotex in its first year as a public company and wish them both future success.

During the period the Group gained important new contracts with both established pharmaceutical companies and growing biotechnology companies. The loss for the period of £3,357,182 reflected investments in people, expertise and equipment, made to develop the business. During the period significant investment was made in product development, particularly for our *in silico*, predictive software product, Cloe PK™.

Discussions have been held with a number of customers and significant new contracts have been signed with Astex Technology, Roche and AstraZeneca amongst others. This would indicate that our technology has been well received by the pharmaceutical and drug discovery community and we have demonstrated our ability to deliver on contracts.

No company can make progress without its people. The key strengths of our employees are their expertise, enthusiasm, resilience and desire to succeed. I would like to take this opportunity to thank all Cyprotex employees for their commitment and effective contribution throughout the period.

Colin Picton
Chairman
1 April 2003

CHIEF OPERATING OFFICER'S – EXECUTIVE REVIEW

Cyprotex floated on AIM in February 2002 in order to raise funds to further develop and commercialise its science and technology platform and to build a team to access the drug discovery market.

Following a change in the Company's financial year end to 31 December this first annual report for Cyprotex covers the 14 month period ended 31 December 2002 against the seven month period to 31 October 2001.

- Revenue for the period to 31 December 2002 was £647,770 against £98,614 in the seven month period to 31 October 2001. For the calendar year 2002 the unaudited business turnover was £595,247.
- Losses for the 14 months to 31 December 2002 were £3,357,182 against £386,752 for the seven months to 31 October 2001. The 2002 calendar year unaudited loss was £3,110,824.

During the period we have:

- established a high quality and high capacity screening facility capable of handling at least 80,000 compounds per year through major ADME assays, which enables us to offer customers both focused 'ad hoc' screening as well as Cloe Screen™ high throughput packages.
- developed the *in silico* predictive software into a commercial product, Cloe PK™, now undergoing trials with major pharmaceutical and biotech companies.
- recruited an experienced business development team who have established significant business contacts with commercial opportunities in both Europe and the US.
- 12 deals signed including contracts with Roche and Astex Technology and development deals with other partners, whilst in the first quarter of 2003 AstraZeneca have become a valued customer.
- built a highly qualified and motivated team of 33 people, including 17 PhD qualified scientists, with the experimental science, modelling and software teams all focussed on delivering the strategy.
- moved to a customised laboratory and office facility in the UK delivering high throughput automated screening and *in silico* technology.

MARKET OPPORTUNITY

Cyprotex is a specialist provider of technology and information products, which enable rapid and effective evaluation and optimisation of the key properties of potential drugs that determine how well they will be absorbed, distributed, metabolised and excreted (ADME) by the body. This provides our partners in pharmaceutical and biotechnology companies with a sound basis for decision-making regarding compound selection and design that takes into account how the compound will behave in the body. It enables them to focus on those new chemical entities, which have the greatest chance of success.

Cyprotex differentiates itself by offering both a "virtual human" software product Cloe PK™ which predicts the likely pharmacokinetic outcome of administering a candidate drug to humans, and a highly cost effective industrialised ADME screening product, Cloe Screen™, capable of handling a significant proportion of the synthetic chemistry output of multiple pharmaceutical and biotechnology companies. This combination of technologies is aimed at improving pharmaceutical productivity by enhancing at the earliest stage the quality of compounds and drug candidates progressing through the drug discovery and development pipeline.

CHIEF OPERATING OFFICER'S – EXECUTIVE REVIEW

STRATEGY

With a professional team established and product development well advanced the Group is now targeted at:

- launching the Cloe PK™ prediction product commercially in June 2003, following completion of numerous validation studies with global pharmaceutical companies and major and medium-sized biotech companies.
- promoting the Cloe Screen™ advantages of high throughput, low cost and higher levels of efficiency to critical decision makers in large pharmaceutical companies.
- delivering an increasing income stream from “ad hoc” screening deals which to date have been the backbone of the Cyprotex revenue stream.
- continuing to keep tight control on costs and cash burn. The Group has already developed contingent strategies for further control of costs should there be delays in the development of the revenue line and the customer base.

BUSINESS & OPERATIONAL PERFORMANCE

The business development team has established an encouraging deal pipeline together with clear principles of revenue recognition. It has delivered 12 deals in the period and has successfully built on the Roche and Astex deals announced in the interim results. In addition, a significant deal has been signed with AstraZeneca together with several smaller deals.

Cyprotex has created two new products for the international pharmaceutical and biotech markets:

- Cloe PK™, the predictive software product, has multiple validation studies in progress with major companies.
- Cloe Screen™, the high throughput, low cost ADME assay product is competitively priced to attract the attention of large pharmaceutical companies.

The Group is sensitive to the importance of the forward sales revenue assumptions derived from these products and whilst it believes these assumptions to be prudent it has developed contingent cost saving plans aimed at protecting the Group's cash position should there be any delay in the delivery of the business plan. However, the initial positive reaction of several major pharmaceutical and biotech companies to the Cloe PK™ prototype make the Cyprotex Board positive about the forward prospects for this flagship product targeted at speeding up drug discovery.

At the same time the conversion of ADME assays to our high capacity robotic platform is progressing well and in-line with our strategic plan. The Microsomal Stability assay is already operational at levels in excess of 80,000 compounds per annum. Four other major ADME assays are targeted to operate on a similar basis from the end of the first half of 2003 and we are achieving transition targets in a timely fashion. During 2002, the experimental science team grew from four people to ten with a further team of two charged with the logistical transition of assays to automated “industrial” high throughput mode with the support of the software development team. The Board believes that the integration of robotics, science and software is a strength of the Group and provides a barrier for other entrants to this market.

In February 2002 Cyprotex incorporated a subsidiary in the United States and established a small laboratory in Research Triangle Park, North Carolina. However, it was decided in October 2002 to close this facility as a means of containing costs without the loss of any market position in the US. The business development team and Directors based in the UK have continued to develop real opportunities in the US since the closure.

CHIEF OPERATING OFFICER'S – EXECUTIVE REVIEW

Shareholders may be aware of the adverse publicity which followed the Company's AIM flotation relating to a spread bet. The Board believes that the existence of the bet has restricted its ability to attract further institutional investment and continues to attract adverse publicity. The Board is actively seeking a resolution to this situation and believes that achieving this will enhance the Group's prospects going forward.

LITIGATION WITH THE UNIVERSITY OF SHEFFIELD

Prior to Cyprotex becoming a public company, Cyprotex worked with The University of Sheffield to develop the "Simcyp" predictive software through a research agreement; the copyright of this software became a matter for dispute at the end of 2001 and the outcome of the case in February 2003 was a judgement awarding copyright to The University of Sheffield. On the basis of legal advice the Group will appeal against the judgement, and contest the costs awarded against Cyprotex.

The Group has ensured that no part of its business activities or plans is dependent upon ownership of the copyright. The Group has taken professional advice and provided appropriately in the 2002 accounts for the costs of the case, and has also allocated funds in its 2003 cashflow projections for the costs of the appeal.

OUTLOOK

In common with other companies providing products to the life sciences sector, Cyprotex has faced a tough and challenging environment in its first trading period as a public company. However, the Group has continued to focus on the development and effective delivery of its core technologies whilst highlighting to the market the technical and cost benefits of Cyprotex's products. This has been achieved with a high quality team of people who have concentrated on the business and focused on the customer. The Board appreciate the high level of professionalism they have demonstrated in working together as an integrated team and in delivering objectives.

The Board believes that Cyprotex's products will now provide a real opportunity for the pharmaceutical and biotech companies to improve the efficiency of their drug discovery process by working with Cyprotex. The Board is encouraged by the level of interest in its products from major companies. At this stage focus will remain on the Cloe PK™, Cloe Screen™ and 'ad hoc' screening businesses. The Group will remain vigilant on cost control whilst continuing to increase the sales of our core product offering.

J A Nicholson
Chief Operating Officer
1 April 2003

BOARD OF DIRECTORS

Dr Colin Picton (Age 52)

Non-executive Chairman

Colin Picton has over 17 years of drug discovery experience in the pharmaceutical industry in the UK and Japan. He is a founder and director of Picton Discovery Consulting, a consultancy which specialises in the drug discovery process, discovery portfolio management and advising on novel discovery technologies. He was also formerly a research director with Glaxo Research Laboratories in Japan.

Dr Mark Egerton (Age 39)

Chief Executive Officer

Mark Egerton has a PhD in Molecular Genetics from the University of Edinburgh, and an EMBO long term post-doctoral fellowship in the Biozentrum, Basel, Switzerland. He transitioned into pharmaceutical drug discovery in 1990 with Sandoz Pharmaceuticals in Basel, Switzerland. In 1992 Mark joined Zeneca Pharmaceuticals where he held a number of positions within the Research function. From 1996 Mark was responsible for all exploratory work with the Infectious Disease therapeutic area. In 1998 he joined Incyte Genomics based in Palo Alto, California as a Vice President in Research and Development where he focused on the development and commercialisation of gene expression technologies and information databases; from 2000, as Vice President European Business Operations he lead Incyte's European business. Mark left Incyte in Q1 2002 to take up the role of CEO with Cyprotex PLC; early in 2003 Mark decided to leave the Company to pursue other interests.

Dr David Leahy (Age 48)

Chief Scientific Officer & Founder

David Leahy obtained his PhD from the University of East Anglia (including 2 years at the University of Florida in Gainesville), in physical organic chemistry following a first degree at Cambridge University and 2 years of voluntary teaching work in South East Asia. He joined ICI Pharmaceuticals in 1983 to work on computer models of drug action with a particular interest in absorption and other pharmacokinetic properties. He was heavily involved in the implementation of data mining approaches as well as 'virtual human' simulation models for the prediction of drug action in the whole animal. As Head of Physical Sciences he was responsible for establishing higher throughput pharmacokinetic screening and prediction approaches and led international multi-disciplinary teams developing strategies for the improvement of R&D productivity through technology innovation and process improvements. During his 15 years at ICI and Zeneca, David gained detailed understanding of the drug discovery process. He is a champion of the value of novel technologies in improving R&D productivity and a recognised international expert in predictive methods for pharmacokinetics.

David founded Cyprotex as an operating division of Medeval in early 1999, then achieved funding for a management buyout from Medeval in 2001 and the flotation of the company on the AIM market in early 2002. As Chief Scientific Officer, David is responsible for the science & technology strategy for the company.

John Nicholson (Age 53)

Chief Operating Officer

John Nicholson has over 20 years' experience in the chemical and pharmaceutical industries, including international general management roles with ICI Chemicals & Polymers involving global asset, business and sales responsibility for £250m; he was involved in a successful transatlantic divestment and the development of five new chemical business opportunities in Europe, USA and Asia Pacific. John also worked in Japan and Asia Pacific evaluating investment opportunities and developing businesses. In the UK he managed £350m turnover with a substantial sales team. He subsequently worked as Managing Director of Akcros' Flexible Stabilisers business where he delivered fundamental change management initiatives, major international acquisition opportunities, business restructuring and downsizing of sites, and organisations, business development and significant working capital improvement. John joined

BOARD OF DIRECTORS

Cyprotex in Q4, 2001 working on the AIM flotation and the establishment and implementation of the Companies operational strategy.

Dr Rosemary Drake (Age 48)

Non-executive Director

Rosemary Drake is currently Director of Business Development for The Automation Partnership. Rosemary is involved in developing major new high value capital equipment systems for the drug discovery markets, including ultra HTS systems. Rosemary has also performed a variety of other roles with The Technology Partnership, PA Technology and Unilever Research.

PLACING OF SHARES

On 15 February 2002, the Company raised £6,500,000 (£5,802,201 net of expenses) as a result of the placing of 22,413,793 ordinary shares of 0.1p each at 29p per ordinary share, on the Alternative Investment Market (AIM) of the London Stock Exchange. The funds raised from the placing have provided working capital to enable the Group to purchase HTS (high-throughput screening) equipment, implement the integration of the Group's software platform and expand the Group's sales and marketing capability.

CAPITAL STRUCTURE

As at 31 December 2002, shareholders' funds were £2,261,235 and cash amounted to £2,263,176. Total net debt amounted to £663,911 consisting of obligations under finance leases and bank loans. Shareholders' funds were after charging £697,799 for expenses paid to advisers and other costs in connection with the placing.

Full details of the changes in the share structure of the Company can be found in note 19 on pages 38 and 39.

TURNOVER AND PRE TAX LOSS

The Group achieved turnover in the 14-month period of £647,770 an increase of £549,156 over the 7 month period ended 31 October 2001.

Exceptional items charged in the period amounting to £425,712 (2001 – £nil) and arose following the closure of the facility in the United States and the unfavourable judgement of Cyprotex Discovery Limited's litigation with The University of Sheffield. The Board's decision to restructure the Group by closing the laboratory facility in Research Triangle Park, North Carolina was taken after assessing the value of retaining a local presence versus the substantial cost savings gained as a result. The provision of £225,712 takes into account the costs of closure, onerous leases and the sale of fixed assets. Following the judgment on 6 March 2003, Cyprotex Discovery Limited took professional advice and made a provision of £200,000 to cover costs.

The operating loss for the period was £3,564,207 (2001 £382,428 loss). Following the placing, the Group has seen increased expenditure reflecting the investment made in assets and the recruitment of people in order to develop the business.

The Group made a loss before tax of £3,510,527 in the financial year 2002 (2001 £386,752 loss), but with the R&D tax credit of £153,345 in the period the loss after tax was £3,357,182 (2001 £386,752 loss).

The loss per share was 3.96p.

TREASURY POLICIES AND FINANCIAL RISK

Surplus funds are intended to support the Group's short-term working capital requirements. These funds are invested through the use of short-term deposits and the policy is to maximise fixed interest returns as well as provide the flexibility required to fund on-going operations. It is not the Group's policy to invest in financial derivatives.

Although the financial risks are considered to be minimal at present, future interest rate, liquidity and foreign currency risk could arise and the Board will review its existing policies in the coming period.

Interest rate risk

Apart from using short-term deposits, interest rate risks are limited to the fixed element of finance leases, hire purchase agreements and a chattel mortgage. The Group uses leasing, hire purchase or chattel mortgages at fixed periods of up to 5 years to finance purchases of some of its assets where it is considered to be a more effective use of funds.

FINANCIAL REVIEW

Liquidity risk

Surplus funds are invested on a short-term basis at money market rates and therefore such funds are available at short notice.

Foreign currency risk

The presence of an international subsidiary gives rise to transactional exchange rate risk and translation exposure when the results and net assets are translated into sterling. The Group also has minor trade related debtors and creditors, against which any currency rate movement have no material impact.

John A Nicholson

Chief Operating Officer

1 April 2003

REPORT OF THE DIRECTORS

The directors of Cyprotex PLC present their report to the shareholders, together with the audited financial statements, for the 14 months ended 31 December 2002.

INCORPORATION AND CHANGE OF NAME AND CHANGE OF REFERENCE DATE

The Company was incorporated on 25 October 2001 under the name Inhoco 2437 Limited. The name of the Company was changed to Cyprotex Services Limited on 4 December 2001. On 7 January 2002 the Company changed its name to Cyprotex Limited. Also on 7 January 2002 the Company re-registered as a public limited company.

On 7 May 2002, the Company changed its accounting reference date to 31 December.

GROUP RECONSTRUCTION

Under a group reconstruction on 4 January 2002, the Company acquired the whole of the issued ordinary share capital of Cyprotex Discovery Limited, satisfied by the issue or transfer of 68,000,000 ordinary shares of 0.1p each in the Company.

The reconstruction has been accounted for in accordance with the principles of merger accounting set out in Financial Reporting Standard No. 6 (FRS 6) and in accordance with Schedule 4A of the Companies Act 1985. The financial statements are therefore presented as if Cyprotex Discovery Limited had been owned and controlled by the Company throughout the periods ended 31 October 2001 and 31 December 2002.

PRINCIPAL ACTIVITIES AND TRADING REVIEW

Cyprotex PLC is a holding company and its primary subsidiary is Cyprotex Discovery Limited. The principal activities of the Group are that of providing *in vitro* and *in silico* ADME/PK (Absorption, Distribution, Metabolism, Excretion / Pharmacokinetic) information to the pharmaceutical industry.

A review of the Group's business and activities and its future prospects is contained in the reports of the Chairman and the Chief Operating Officer set out on page 3 and pages 4 to 6 respectively.

RESULTS AND DIVIDENDS

The loss for the period, after taxation, was £3,357,182 (7 months ended 31 October 2001 £386,752 loss) and an equivalent amount has been transferred from reserves. The directors do not propose the payment of any ordinary dividend.

The accumulated deficit carried forward is £3,737,036.

A financial review of the results is included on pages 9 and 10.

POST BALANCE SHEET EVENT

On 6 March 2003 the Group learnt that in its litigation with The University of Sheffield over disputed software, the Court declared that the copyright in the software belongs to The University of Sheffield and that Cyprotex is entitled to a wide-ranging licence to use the program for its own research purposes. The Group has made a provision of £200,000 in these accounts to cover costs.

REPORT OF THE DIRECTORS

DIRECTORS

Following the incorporation of the Company, the initial directors of the Company, Inhoco Formations Limited, resigned on 4 December 2001.

The directors at 31 December 2002 of the Company were as follows:

Mr J P Scudamore	appointed 4 December 2001
Mr J A Nicholson	appointed 4 December 2001
Dr D E Leahy	appointed 4 December 2001
Dr R A L Drake	appointed 4 December 2001
Dr C Picton	appointed 4 December 2001
Dr M Egerton	appointed 4 December 2001
Mr M Fairhurst	appointed 4 December 2001, resigned 11 December 2001
Mr R W Long	appointed 4 December 2001, resigned 11 April 2002

On 17 February 2003 Mr J P Scudamore resigned as a director. In accordance with the Company's articles of association, Mr J A Nicholson, Dr D E Leahy, Dr R A L Drake, Dr C Picton and Dr M Egerton now retire as directors and, being eligible, offer themselves for election at the annual general meeting.

All directors are subject to re-election at intervals of no more than three years.

Further details of the directors, their service agreements and their interests in the Company's shares are set out on pages 16 to 18.

CORPORATE GOVERNANCE

The directors are committed to high standards of corporate governance. The Board is accountable to its shareholders for good corporate governance and is adopting the necessary structures and procedures, where possible and having regard to the size of the Group, to comply with the Combined Code published in June 1998.

The Board considers that both the non-executive directors are independent.

The directors believe that the Group currently complies with most of the Combined Code apart from the requirement to have a formally constituted Nominations Committee and to have three Non-executives on the Audit Committee. The directors believe that, because of the size of the Board, a Nominations Committee is not required as a recommendation for a new Board appointment will be considered by the whole Board and two independent Non-executive directors are considered sufficient as members of the Audit Committee.

The directors have not fully complied with the Code's provisions on internal control as provided by the publication "Internal Control: Guidance for the Directors on the Combined Code" (the Turnbull Report). Whilst the directors fully accept their responsibility to shareholders for the maintenance of the Group's internal control systems, given the early stage of development of the Group, the directors concluded that it was not in the interests of shareholders to divert resources to ensure full compliance with the Turnbull guidance for the 14 months ended 31 December 2002. However the directors will continue to ensure that adequate controls are in place as the Group goes forward, and will review the position regarding compliance with the Turnbull guidance on a regular basis.

REPORT OF THE DIRECTORS

THE BOARD

The Board comprises three executive directors and two non-executive directors, including the Chairman, with a clear division of duties. The Board meets regularly throughout the year to direct and control the strategy and operating performance of the Group.

The following Committees deal with specific aspects of the Group's affairs:

- Audit Committee – comprises the two non-executive directors with Dr C Picton as Chairman. The Chief Executive and the Auditors attend the meetings and report as appropriate. The Committee reviews the Group's accounting policies, financial reporting, internal control and risk management processes. It also considers the appointment and fees of the External Auditor.
- Remuneration Committee – comprises the two non-executive directors with Dr C Picton as Chairman. It recommends to the Board the policy for executive remuneration and it determines on behalf of the Board, the terms and conditions of service of each executive director. The Report on Directors' Remuneration is set out on pages 16 to 18.

INTERNAL CONTROL

The Board is responsible for establishing and maintaining the Group's system of internal control, which is designed to meet the particular needs of the Group and the risks to which it is exposed. Such a system is designed to manage these risks, to provide reasonable but not absolute assurance against material misstatement or loss and to maintain proper accounting records to ensure the integrity of financial information used within the business and for external publication.

The Board have reviewed the effectiveness of its system of internal controls as it operated during the period. The Board has considered whether the Group's internal control processes would be significantly enhanced by an Internal Audit Function and has taken the view that at the Group's current stage of development, this is not required. The Board will review this matter each year. The key procedures that the Board has established include the following:

- clearly defined authorisation limits and procedures.
- budgets are reviewed and approved by the Board, and regularly monitored against monthly performance and forecasts.
- the Group's financial and operating performance is closely monitored at regular Board meetings with formal Board reports from each executive director covering their areas of business responsibility.

The Directors intend to conduct ongoing reviews of the internal control systems and the newly established business processes to ensure that they remain appropriate to the needs of the Group.

RELATIONS WITH SHAREHOLDERS

The Board recognises the importance of continual communications with shareholders and will maintain a programme of institutional dialogue, including presentations following the Company's announcements of its preliminary full year figures and of the half-year results.

There is also an opportunity, at the Company's Annual General Meeting, for individual shareholders to raise general business matters with the full Board and notice of the Company's Annual General Meeting is circulated to all shareholders at least twenty-one working days before such meeting.

The annual report is to be published on the Company's website, www.cyprotex.com, which also includes press releases and other announcements during the year.

REPORT OF THE DIRECTORS

POLICY IN RESPECT OF SUPPLIER PAYMENTS

The Company and its principal subsidiary undertakings agree terms and conditions for transactions with suppliers and pay suppliers within the agreed terms, provided that suppliers comply with those terms and conditions. At 31 December 2002, the Company had an average of 41 days purchases outstanding in trade creditors.

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the period the Group made no political or charitable contributions.

EMPLOYEE INVOLVEMENT

The Group recognises and seeks to encourage the involvement of its employees, with the aim being the recruitment, motivation and retention of quality employees throughout the Group. An unapproved share option scheme is in place operated within the Enterprise Management Incentive Scheme.

The Group's employment policies, including the commitment to equal opportunity, are designed to attract, retain and motivate employees regardless of sex, race, religion or disability.

The Group is committed to ensuring and communicating the requirements for a safe and healthy working environment for all employees, consistent with health and safety legislation and, wherever practicable, gives full consideration to applications for employment from disabled persons.

EMPLOYEE SHARE SCHEMES

Employee involvement in financial performance is encouraged through participation in the Company's share option schemes. At 31 December 2002, 22 employees, including directors, held options over 20,740,082 ordinary shares in the Company under the unapproved share option scheme. Further information on share options is shown in note 19 on pages 38 and 39.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held (care of Addleshaw Booth & Co) at 8th Floor, 100 Barbirolli Square, Manchester, M2 3AB on Thursday 24 April 2003 at 10 a.m. The notice of the annual general meeting, together with notes on the resolutions, is on pages 45 and 46.

At the annual general meeting resolutions 8 and 9 will be special business. The special business covers directors' authority to allot shares and the directors' authority to issue shares for cash other than to existing shareholders. The resolutions are set out in the notice to the annual general meeting on pages 45 and 46. In the opinion of the directors, the passing of the resolutions is in the best interest of the shareholders.

MAJOR INTERESTS IN SHARES

At 31 December 2002, the following persons held interests in excess of 3% of the ordinary share capital of the Company:

	<i>Percentage holding</i>	<i>Number of ordinary shares</i>
P Davidson	35.12%	31,750,000
Dresdner Kleinwort Wasserstein Securities Limited	19.70%	17,809,465
R W Long	7.61%	6,884,914
A Monro	7.58%	6,850,000
M Varley	7.58%	6,850,000
S Toon	3.82%	3,454,629

REPORT OF THE DIRECTORS

No other person has notified an interest in the ordinary shares of the Company required to be disclosed to the company in accordance with sections 198 to 208 of the Companies Act 1985.

AUDITORS

Ernst & Young LLP were appointed auditors on 14 January 2002. They have expressed their willingness to continue in office and a resolution to reappoint them as auditors and to authorise the directors to determine their remuneration will be proposed at the annual general meeting.

By order of the Board

G E Ritchie
Company Secretary
1 April 2003

REPORT ON DIRECTORS' REMUNERATION

REMUNERATION COMMITTEE

The Remuneration Committee comprises the two non-executive directors with Dr C Picton as Chairman. The Committee provides advice and recommendations to the Board regarding the framework for executive remuneration and the individual remuneration package for each executive director.

REMUNERATION POLICY

The remuneration policy for executive directors is to provide competitive remuneration packages to attract, retain, and motivate high quality people in competition with comparable companies.

The main components of the remuneration of executive directors comprise:

- **Service contracts** – the Executive Directors each have service contracts with a notice period between six and twelve months, to be given by either the Director or the Company. There are no special provisions for compensation in the event of loss of office. The Remuneration Committee considers the circumstances of individual cases of early termination and determines compensation payments accordingly. Non-executive Directors do not have service contracts but do have agreements that are terminable upon a six months notice period by either themselves or by the Company. The Executive Directors determine the remuneration of the Non-executive Directors without reference to the Remuneration committee. The Non-executive Directors only receive fees for their services and do not participate in any of the incentive or benefit schemes of the Company.
- **Basic salary and benefits** – basic salaries of Directors are determined annually after a review of the performance of each individual. Benefits in kind principally comprise provision of car or car allowances with appropriate business related fuel rates and private healthcare, death and disability in service cover.
- **Bonuses** – the Executive Directors are eligible for bonus payments at the discretion of the Remuneration Committee and such discretion will be exercised based upon the performance of the Group. The Remuneration Committee awarded D E Leahy a bonus for his contribution to the Company's listing on the Alternative Investment Market. No other bonuses were awarded for the year ended 31 December 2002.
- **Share options** – the Company has an unapproved share option scheme whereby options to acquire ordinary shares may be granted at the discretion of the Board, with the approval of the Remuneration Committee to Directors and employees of the Company. Further details of the awards to Directors, are set out on page 17.
- **Pensions** – during the period, D E Leahy, M Egerton and M Fairhurst have been beneficiaries of a defined contribution personal pension scheme, the Company's contributions are 10% of total pensionable earnings.

It is the intention of the Remuneration Committee to review the remuneration packages of the Executive Directors during the forthcoming financial year and to make recommendations to the Board of Directors for the introduction of an appropriate bonus incentive scheme, linked to personal and Group targets for both Directors and staff.

REPORT ON DIRECTORS' REMUNERATION

DIRECTORS' REMUNERATION

				14 months ended 31 December 2002	7 months ended 31 October 2001	14 months ended 31 December 2002	7 months ended 31 October 2001
	Basic salary, & fees £	Bonus £	Benefits £	Total £	Total £	Pension £	Pension £
<i>Executive directors</i>							
M Egerton	74,765	-	8,262	83,027	-	6,667	-
J A Nicholson	117,339	-	10,916	128,255	-	-	-
D E Leahy	113,800	8,335	1,717	123,852	-	10,083	-
M Fairhurst	1,011	-	26	1,037	-	91	-
<i>Non-executive directors</i>							
J P Scudamore	13,430	-	-	13,430	-	-	-
C Picton	13,430	-	-	13,430	-	-	-
R A L Drake	8,000	-	-	8,000	-	-	-
Total	341,775	8,335	20,921	371,031	-	16,841	-

The Director's remuneration is from the dates of appointment listed on page 12.

DIRECTORS' SHARE INTERESTS

As at 31 December 2002, the directors had the following beneficial interests in shares and share options:

	31 December 2002 No	Ordinary shares of 0.1p each 31 October 2001* No	31 December 2002 No	Share options 31 October 2001* No
D E Leahy	17,500	-	10,401,600	-
J A Nicholson	17,500	-	2,048,276	-
M Egerton	17,500	-	4,870,690	-
J P Scudamore	17,500	-	1,024,138	-
C Picton	35,000	-	-	-
R A L Drake	35,000	-	-	-

* date of appointment if later

- (i.) On 7 December 2001, Dr David Leahy had an EMI Option granted to him by Cyprotex Discovery Limited under the Cyprotex Discovery Limited EMI Plan to subscribe for 10,401,600 Ordinary Shares at a price of 0.175p per ordinary share; this option was subsequently replaced on 4 February 2002 in the name of Cyprotex PLC at the same price of 0.175p per ordinary share.

REPORT ON DIRECTORS' REMUNERATION

(ii.) On 7 February 2002, Jeremy Scudamore, Mark Egerton and John Nicholson were granted options to subscribe for 1,024,138, 5,120,690 and 2,048,276 ordinary shares respectively at the placing price of 29p. The right to exercise these options was conditional upon admission to trading on the Alternative Investment Market ("Admission") and upon the achievement of performance conditions relating to the growth in total shareholder return ("TSR") of an ordinary share over the placing price for a period no shorter than the period commencing on the date of Admission and ending with the announcement of the Company's interim results for the six months ending 31 December 2003 ("initial period"). TSR growth below a compound annual rate of 15% will result in the options not being exercisable. Achievement of a compound annual rate of growth of 15% will permit the options to be exercised for 50% of the ordinary shares comprised in it and growth at or above a compound annual rate of 30% will permit the options to be exercised in full. The options may be exercised for a corresponding percentage between 50% and 100% where growth is at a rate falling between 15% and 30% a year compound. If targets are not achieved in full over the initial period, the options will remain potentially exercisable depending on achievement against the same compound annual rates of TSR growth measured over extended periods commencing with the date of Admission and ending with the interim announcements for the half years ending 31 December 2004, 2005 or 2006. These options will normally be exercisable from the date on which the conditions are fully satisfied until 7 February 2012.

On 9 December 2002 Mark Egerton irrevocably waived the rights to 250,000 ordinary shares held under option; the balance of the options at 31 December 2002 was 4,870,690 ordinary shares. All options are conditional on the option holder remaining a Director of the Company at the date of exercise of any option.

Jeremy Scudamore had no interest in share options following his resignation on 17 February 2003.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company Law requires the directors to prepare accounts for each financial year, which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

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

GOING CONCERN

As discussed in Note 1, the Directors have reviewed the budget, cash flow and other relevant information and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis for the preparation of the accounts.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CYPROTEX PLC

We have audited the Group's financial statements for the 14 months ended 31 December 2002 which comprise Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows, Group Statement of Total Recognised Gains and Losses, and the related notes 1 to 24. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement, Report of the Directors, Chief Operating Officer's – Executive Review, Financial Review and Report on Directors' Remuneration. 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 other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group'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 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.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of their preparation. The financial statements have been prepared on the going concern basis and the validity of this depends on the Group generating projected revenue levels and operating within its existing liquid cash resources. The financial statements do not include any adjustments that would result from a failure to secure sufficient new revenue. Details of the circumstances relating to this fundamental uncertainty are described in Note 1.

Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
Manchester
1 April 2003

Cyprotex PLC

GROUP PROFIT AND LOSS ACCOUNT for the 14 months ended 31 December 2002

		<i>14 months ended 31 December 2002</i>	<i>7 months ended 31 October 2001</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
TURNOVER	2	647,770	98,614
Cost of sales		(62,836)	(4,029)
GROSS PROFIT		<u>584,934</u>	<u>94,585</u>
Administrative expenses excluding exceptional items		(3,723,429)	(477,013)
Exceptional items	4	(425,712)	-
Administrative expenses including exceptional items		<u>(4,149,141)</u>	<u>(477,013)</u>
OPERATING LOSS	3	(3,564,207)	(382,428)
Interest receivable	6	111,522	146
Interest payable	6	(57,842)	(4,470)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(3,510,527)</u>	<u>(386,752)</u>
Taxation	7	153,345	-
LOSS FOR THE PERIOD		<u>(3,357,182)</u>	<u>(386,752)</u>
Loss per share			
- basic	9	(3.96)p	(0.83)p
- diluted	9	(3.96)p	(0.83)p

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the 14 months ended 31 December 2002

		<i>14 months ended 31 December 2002</i>	<i>7 months ended 31 October 2001</i>
		<i>£</i>	<i>£</i>
Loss for the financial period		(3,357,182)	(386,752)
Exchange difference on the re-translation of net assets of subsidiary undertaking		6,898	-
Total recognised gains and losses relating to the period		<u>(3,350,284)</u>	<u>(386,752)</u>

Cyprotex PLC

BALANCE SHEET at 31 December 2002

		<i>Group</i> <i>31 December</i>	<i>Group</i> <i>31 October</i>	<i>Company</i> <i>31 December</i>
	<i>Notes</i>	<i>2002</i>	<i>2001</i>	<i>2002</i>
		£	£	£
FIXED ASSETS				
Tangible assets	10	1,099,591	326,889	-
Investments	11	-	-	68,063
		<u>1,099,591</u>	<u>326,889</u>	<u>68,063</u>
CURRENT ASSETS				
Stocks	12	50,783	21,250	-
Debtors	13	403,949	91,089	2,193,172
Cash at bank and in hand		2,263,176	-	-
		<u>2,717,908</u>	<u>112,339</u>	<u>2,193,172</u>
CREDITORS: amounts falling due within one year	14	(964,219)	(542,956)	-
NET CURRENT ASSETS/(LIABILITIES)		<u>1,753,689</u>	<u>(430,617)</u>	<u>2,193,172</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,853,280</u>	<u>(103,728)</u>	<u>2,261,235</u>
CREDITORS: amounts falling due after more than one year	15	(392,045)	(86,954)	-
PROVISION FOR LIABILITIES AND CHARGES	18	(200,000)	-	-
NET ASSETS/(LIABILITIES)		<u>2,261,235</u>	<u>(190,682)</u>	<u>2,261,235</u>
CAPITAL AND RESERVES				
Called up share capital	19,20	90,414	68,000	90,414
Share premium account	20	5,779,787	-	5,779,787
Merger reserve	20	128,070	128,070	-
Profit and loss account	20	(3,737,036)	(386,752)	(3,608,966)
EQUITY SHAREHOLDERS' FUNDS		<u>2,261,235</u>	<u>(190,682)</u>	<u>2,261,235</u>

Approved by the Board on 1 April 2003

John Nicholson
Chief Operating Officer

Cyprotex PLC

GROUP STATEMENT OF CASH FLOWS for the 14 months ended 31 December 2002

	<i>14 months ended 31 December Notes 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	21(a) (2,763,144)	(124,752)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE		
Interest received	111,522	146
Interest paid	(5,508)	-
Interest element of finance leases and hire purchase contracts	(52,334)	(4,470)
	<u>53,680</u>	<u>(4,324)</u>
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Payments to acquire tangible fixed assets	(1,035,188)	(12,087)
ACQUISITIONS AND DISPOSALS		
Purchase of Cyprotex Division	-	(21,250)
NET CASH OUTFLOW BEFORE FINANCING	<u>(3,744,652)</u>	<u>(162,413)</u>
MANAGEMENT OF LIQUID RESOURCES	<u>(330,000)</u>	<u>-</u>
FINANCING		
Issue of ordinary share capital	5,802,203	70
Net movement in short term borrowings	16,285	150,030
Net movement in long term borrowings	383,685	-
Repayment of capital leases and hire purchase contracts	(162,358)	(19,674)
	<u>6,039,815</u>	<u>130,426</u>
INCREASE/(DECREASE) IN CASH	21(b) <u>1,965,163</u>	<u>(31,987)</u>

Cyprotex PLC

GROUP STATEMENT OF CASH FLOWS for the 14 months ended 31 December 2002

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
Increase/(decrease) in cash during the period	1,965,163	(31,987)
Cash outflow to short term deposits	330,000	-
Cash inflow from increase in short term loans	(16,285)	(150,030)
Cash inflow from increase in long term loans	(383,685)	-
Repayment of capital leases and hire purchase contracts	162,358	19,674
	<hr/>	<hr/>
Movement in net funds/(debt) resulting from cashflows	2,057,551	(162,343)
New finance leases	(145,004)	-
Other non-cash movements	-	(150,939)
	<hr/>	<hr/>
Movement in net funds/(debt) during the period	1,912,547	(313,282)
Net debt at start of the period	(313,282)	-
	<hr/>	<hr/>
Net funds/(debt) at period end	1,599,265	(313,282)
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE ACCOUNTS

at 31 December 2002

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

In preparing the financial statements for the current period, the Group has adopted FRS 18 "Accounting Policies" and FRS 19 "Deferred Tax". Adoption of FRS 18 and FRS 19 has not required any revisions to the financial statements in either the current or prior periods.

The accounts are prepared on a going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future.

The Group's ability to meet its future working capital requirements and therefore continue as a going concern is dependant on it being able to generate significant revenues and free cash flow. In common with many early stage businesses in the life sciences sector and given the current economic climate, it is very difficult to predict the timing and extent of future revenues. However, the directors have prepared projections which they consider to be prudent and which demonstrate that the business can operate within its existing cash resources, and have identified a series of realistically achievable actions that they are committed to taking to mitigate the rate of cash outflow should revenues not be secured as predicted.

The directors have also taken legal advice in relation to the recent adverse outcome of litigation regarding disputed ownership of software, and are confident that the decision will not have a significant detrimental impact on the business going forward. They intend to appeal against the decision. The directors are also of the opinion that recent Board resignations will not significantly prejudice the ability of the Group to generate new revenues.

Whilst there is fundamental uncertainty in relation to the above matters, the directors consider that it is appropriate for the accounts to be prepared on a going concern basis. The accounts therefore do not include any adjustments that would result from the Group being unable to continue as a going concern.

Basis of consolidation and presentation of financial statements

The Group accounts comprise the accounts of Cyprotex PLC and all its subsidiary undertakings up to 31 December 2002. No profit and loss account is presented for Cyprotex PLC as permitted by section 230 of the Companies Act 1985.

The Company was incorporated on 25 October 2001 under the name of Inhoco 2437 Limited. The name of the Company was changed to Cyprotex Services Limited on 4 December 2001. On 7 January 2002 the Company changed its name to Cyprotex Limited. Also on 7 January 2002 the Company re-registered as a public limited company.

Under a group reconstruction, on 4 January 2002, the Company acquired the whole of the issued ordinary share capital of Cyprotex Discovery Limited in exchange for shares.

The reconstruction has been accounted for in accordance with the principles of merger accounting, as set out in Financial Reporting Standard No. 6 (FRS 6) and in accordance with Schedule 4A of the Companies Act 1985. The Group accounts have therefore been presented as if Cyprotex Discovery Limited had been owned and controlled by the Company throughout the 14 months ended 31 December 2002. The Company was incorporated on 25 October 2001 and therefore the accounts for the 7 months ended 31 October 2001 do not represent the statutory comparatives of the Group.

NOTES TO THE ACCOUNTS

at 31 December 2002

1. ACCOUNTING POLICIES (continued)

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value by equal instalments over their estimated useful economic lives as follows:

Laboratory equipment	-	over 5 years
Office equipment	-	over 10 years
Computers	-	over 3 years
Motor vehicles	-	over 4 years

The carrying values of fixed assets are revised for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Turnover and revenue recognition

Turnover on the outright sale of services and software, where no significant supplier obligations exist, is recognised on delivery to the customer and profit is taken at that time. Turnover on fixed contracts is invoiced in accordance with the terms of the agreement with the customer. Profit is attributed to each contract, while the contract is in progress, having regard to the proportion of the total contract that has been completed at the balance sheet date and after making provision for all foreseeable future costs or losses. Licence fees are invoiced to the customer at the beginning of each licence, but revenue arising from licences granted for the use of Company or third party software, is credited to the profit and loss account over the period of the licence.

Stock

Stocks are stated at the lower of cost and net realisable value.

Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pensions

The Group operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

NOTES TO THE ACCOUNTS

at 31 December 2002

1. ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

The financial statements of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account.

Deferred Tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposals of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Capital Instruments

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

NOTES TO THE ACCOUNTS
at 31 December 2002

2. **TURNOVER AND SEGMENTAL ANALYSIS**

Turnover represents the amounts derived from the provision of goods and services which fall within the Group's ordinary activities and is stated net of value added tax and trade discounts.

The Group operates in one principal area of activity, that of providing *in vitro* and *in silico* ADME/PK (Absorption, Distribution, Metabolism, Excretion/Pharmacokinetic) information to the pharmaceutical industry. The turnover and operating result for the periods are derived from the Group's principal activity.

The geographical analysis of turnover by destination is as follows:

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
United Kingdom	372,157	94,058
Rest of Europe	64,681	4,556
USA	210,932	-
	<u>647,770</u>	<u>98,614</u>

The geographical analysis of turnover by source and the geographical analysis of operating loss is as follows:

	<i>United Kingdom £</i>	<i>USA £</i>	<i>Total £</i>
Turnover	638,292	9,478	647,770
Segmental loss	<u>(2,955,774)</u>	<u>(490,361)</u>	(3,446,135)
Common costs			(118,072)
Net interest receivable			53,680
Loss on ordinary activities before taxation			<u>(3,510,527)</u>

In the 7 months ended 31 October 2001 all operating losses and net liabilities were attributable to United Kingdom activities.

Cyprotex PLC

NOTES TO THE ACCOUNTS

at 31 December 2002

2. TURNOVER AND SEGMENTAL ANALYSIS (continued)

The geographical analysis of net assets and liabilities is as follows:

	<i>United Kingdom</i>	<i>USA</i>	<i>Total</i>
	£	£	£
Net assets/(liabilities)	568,787	(60,162)	508,625

The net liabilities are reconciled to shareholders' funds as follows:

Cash at bank and in hand	2,263,176
Corporation tax recoverable	153,345
Obligations due under bank loan	(550,000)
Obligations due under leases and hire purchase contracts	(113,911)
	<u>2,261,235</u>

3. OPERATING LOSS

This is stated after charging:

	<i>14 months ended 31 December 2002</i>	<i>7 months ended 31 October 2001</i>
	£	£
Auditors' remuneration		
- audit services	19,000	3,000
- non audit services	51,325	-
Depreciation of owned assets	398,331	18,073
Depreciation of asset under finance lease and hire purchase contracts	15,333	14,057
Loss on disposal of tangible fixed assets	7,989	-
Research and development	740,104	79,290

Costs associated with flotation include £117,500 remuneration paid to the auditors by way of non-audit services.

£9,500 of audit fees and £51,325 of non audit fees relates to the Company.

4. EXCEPTIONAL ITEMS

	<i>14 months ended 31 December 2002</i>	<i>7 months ended 31 October 2001</i>
	£	£
Restructuring costs relating to the closure of Cyprotex North America Inc	225,712	-
Provision for legal costs	200,000	-
	<u>425,712</u>	<u>-</u>

Cyprotex PLC

NOTES TO THE ACCOUNTS at 31 December 2002

5. STAFF COSTS

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
Wages and salaries	974,581	128,172
Social security costs	93,702	15,226
Other pension costs	86,568	15,877
	<u>1,154,851</u>	<u>159,275</u>

The average monthly number of employees during the period was made up as follows:

	<i>14 months ended 31 December 2002 No.</i>	<i>7 months ended 31 October 2001 No.</i>
Operations technical	4	2
Development technical	20	8
Administration	3	2
	<u>27</u>	<u>12</u>

Directors' remuneration and interest in shares and share options are set out on pages 16 to 18.

6. INTEREST INCOME AND INTEREST PAYABLE

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
Interest receivable:		
Income from money market	111,522	-
Bank interest receivable	-	146
	<u>111,522</u>	<u>146</u>
Interest payable:		
Bank overdraft	5,508	-
Interest element of finance leases and hire purchase contracts	52,334	4,470
	<u>57,842</u>	<u>4,470</u>

NOTES TO THE ACCOUNTS
at 31 December 2002

7. TAXATION ON LOSS ON ORDINARY ACTIVITIES

(a) Tax on loss on ordinary activities

The tax credit is made up as follows:

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
Current tax:		
Tax credit in relation to R & D claim	(153,345)	-
Tax on loss on ordinary activities	<u>(153,345)</u>	<u>-</u>

(b) Factors affecting current tax charge

The current tax charged for the period is lower than the standard rate of corporation tax at 30% due to the differences explained below:

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
Loss on ordinary activities before tax	<u>(3,510,527)</u>	<u>(386,752)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001:30%)	<u>(1,053,158)</u>	<u>(116,026)</u>
Effects of:		
Expenses not allowable for tax purposes	205,377	6,927
Capital allowances in excess of depreciation	76,965	9,639
Short term timing differences	52,200	14,016
Tax losses current period	431,094	85,444
Difference in tax rates on losses surrendered for research & development tax credit	134,177	-
Current tax credit for the period	<u>(153,345)</u>	<u>-</u>

(c) Factors that may affect current and future tax charges

The Group has tax losses arising of £1,700,000 (2001: £250,000) that are available indefinitely for offset against future taxable profits. No provision has been made for deferred tax on losses carried forward in the subsidiary. These losses will only be available for offset when the subsidiary makes taxable profits. As the timing of these profits is not certain it has been assumed the losses will not be recoverable in the foreseeable future.

NOTES TO THE ACCOUNTS

at 31 December 2002

7. TAXATION ON LOSS ON ORDINARY ACTIVITIES (continued)
(d) Deferred taxation

The unprovided deferred tax comprises the following amounts:

	<i>31 December</i>	<i>31 October</i>
	<i>2002</i>	<i>2001</i>
	<i>£</i>	<i>£</i>
Decelerated capital allowances	(91,620)	(9,900)
Other timing differences	(61,200)	-
Tax losses	(516,537)	(75,000)
	<u>(669,357)</u>	<u>(84,900)</u>
	<u><u>(669,357)</u></u>	<u><u>(84,900)</u></u>

All amounts are calculated at 30% (2001 30%) using the liability method.

8. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss dealt with in the accounts of the parent company was £3,608,966.

9. LOSS PER ORDINARY SHARE

Basic loss per ordinary share is calculated based on the loss for the period of £3,357,182 (2001 £386,752 loss) and on 84,836,652 (2001 – 46,496,000 ordinary shares as adjusted for the group reorganisation described in note 1) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

The loss for the period and the weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share are the same as for the basic earnings per share calculation. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and would therefore not be dilutive under the terms of Financial Reporting Standard No. 14 (FRS 14).

Cyprotex PLC

NOTES TO THE ACCOUNTS at 31 December 2002

10. TANGIBLE FIXED ASSETS

<i>Group</i>	<i>Motor vehicles</i>	<i>Office equipment</i>	<i>Computer equipment</i>	<i>Laboratory equipment</i>	<i>Total</i>
	£	£	£	£	£
Cost:					
At 1 November 2001	-	18,576	79,793	260,648	359,017
Additions	30,000	21,389	183,828	944,975	1,180,192
Disposals	-	-	(14,690)	-	(14,690)
Exchange rate difference	-	-	-	15,661	15,661
At 31 December 2002	30,000	39,965	248,931	1,221,284	1,540,180
Depreciation:					
At 1 November 2001	-	775	10,308	21,045	32,128
Provided during this period	5,833	5,257	99,115	303,459	413,664
Disposals	-	-	(6,701)	-	(6,701)
Exchange rate difference	-	-	-	1,498	1,498
At 31 December 2002	5,833	6,032	102,722	326,002	440,589
Net book value:					
At 31 December 2002	24,167	33,933	146,209	895,282	1,099,591
At 1 November 2001	-	17,801	69,485	239,603	326,889

Included in motor vehicles above are amounts relating to leased assets and assets under hire purchase contracts. The net book value of such assets was £24,167 (31 October 2001 - £nil). Included in laboratory equipment above are amounts relating to leased assets and assets under hire purchase contracts. The net book value of such assets was £102,241 (31 October 2001 - £149,000). The net book value of the laboratory equipment includes £539,884 (31 October 2001 - £nil) in respect of assets that have been mortgaged and charged with full title guarantee under a chattel mortgage.

11. INVESTMENTS

<i>Company</i>	£
Additions	68,063
At 31 December 2002	68,063

On the 4 January 2002 the Company entered into an agreement to acquire the entire share capital of Cyprotex Discovery Limited, satisfied by the issue of 67,998,000 ordinary shares of 0.1p each credited as fully paid together with the 2,000 issued ordinary shares of 0.1p each.

Cyprotex North America Inc was incorporated on 17 February 2002.

Cyprotex PLC

NOTES TO THE ACCOUNTS at 31 December 2002

11. INVESTMENTS

The following companies are wholly owned subsidiaries of Cyprotex PLC:

<i>Subsidiary undertakings</i>	<i>Country of Registration</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
Cyprotex Discovery Ltd	England and Wales	Ordinary shares	100%	Provision of <i>in vitro</i> and <i>in silico</i> ADME information
Cyprotex North America Inc	United States	Ordinary shares	100%	Provision of in-vitro ADME information

12. STOCKS

	<i>2002</i>	<i>Group 2001</i>	<i>Company 2002</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Raw materials & consumables	50,783	21,250	-

The difference between the replacement cost and the book value of stocks is not material.

13. DEBTORS

	<i>2002</i>	<i>Group 2001</i>	<i>Company 2002</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Trade debtors	65,866	73,966	-
Amounts owed by group undertakings	-	-	2,193,172
Amounts owed by former director of Cyprotex Discovery Limited (see note 23)	3,852	-	-
Other debtors	77,210	991	-
Tax receivable	153,345	-	-
Prepayments and accrued income	103,676	16,132	-
	<u>403,949</u>	<u>91,089</u>	<u>2,193,172</u>

Cyprotex PLC

NOTES TO THE ACCOUNTS at 31 December 2002

14. CREDITORS: amounts falling due within one year

	2002	<i>Group</i> 2001	<i>Company</i> 2002
	£	£	£
Bank overdraft	-	31,987	-
Obligations under finance leases and hire purchase contracts	105,551	44,311	-
Bank loans (see note 16)	166,315	-	-
Amounts due to former director of Cyprotex Discovery Limited (see note 23)	-	100,030	-
Trade creditors	325,893	69,021	-
Amounts owed to related parties (see note 24)	4,364	77,032	-
Other taxes and social security costs	44,067	65,858	-
Other creditors	10,484	937	-
Accruals and deferred income	307,545	153,780	-
	<u>964,219</u>	<u>542,956</u>	<u>-</u>

The bank overdraft at 31 October 2001 was secured by a floating charge over certain of the Group's assets.

15. CREDITORS: amounts falling due after more than one year

	2002	<i>Group</i> 2001	<i>Company</i> 2002
	£	£	£
Bank loan (see note 16)	383,685	-	-
Obligations under finance leases and hire purchase contracts	8,360	86,954	-
	<u>392,045</u>	<u>86,954</u>	<u>-</u>

16. LOANS

	2002	<i>Group</i> 2001	<i>Company</i> 2002
	£	£	£
Wholly repayable within five years:			
Bank loan	550,000	-	-
Less: included in creditors: amounts falling due within one year		(166,315)	-
	<u>383,685</u>	<u>-</u>	<u>-</u>

Cyprotex PLC

NOTES TO THE ACCOUNTS at 31 December 2002

16. LOANS (continued)

	2002	<i>Group</i> 2001	<i>Company</i> 2002
	£	£	£
Amounts repayable:			
In one year or less or on demand	166,315	-	-
In more than one year but not more than two years	183,333	-	-
In more than two years but not more than five years	200,352	-	-
In more than five years	-	-	-
	<u>550,000</u>	<u>-</u>	<u>-</u>

The bank loan is secured by a chattel mortgage over certain of the Group's laboratory equipment and a sterling bank deposit of £330,000 which reduces over the term of the loan.

17. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Amounts due under finance leases and hire purchase contracts:

<i>Group</i>	2002	2001
	£	£
Amounts payable:		
Within one year	125,750	57,298
In two to five years	9,281	105,046
	<u>135,031</u>	<u>162,344</u>
Less: finance charges allocated to future periods	(21,120)	(31,079)
	<u>113,911</u>	<u>131,265</u>

Annual commitments under non-cancellable operating leases are as follows:

<i>Group</i>	2002	2001
	£	£
Operating leases which expire:		
Within one year	130,549	-
In two to five years	-	2,000
In over five years	-	-
	<u>130,549</u>	<u>2,000</u>

<i>Company</i>	2002	2001
	£	£
Operating leases which expire:		
Within one year	95,000	-
In two to five years	-	-
In over five years	-	-
	<u>95,000</u>	<u>-</u>

NOTES TO THE ACCOUNTS
at 31 December 2002

18. PROVISIONS FOR LIABILITIES AND CHARGES

<i>Group</i>	<i>Provision for legal costs £</i>	<i>Deferred taxation £</i>	<i>Total £</i>
At 1 November 2001	-	-	-
Provided during the period	200,000	-	200,000
At 31 December 2002	200,000	-	200,000

On the basis of the information available a provision for legal costs has been made following the judgement given in respect of the litigation with The University of Sheffield. The directors believe that the provision made represents their best estimate of the outcome of the judgement and associated costs.

19. CALLED UP SHARE CAPITAL

	<i>No</i>	<i>2002 £</i>
<i>Authorised:</i>		
Ordinary shares of 0.1p each	160,000,000	160,000
<i>Allotted, called up and fully paid:</i>		
Issued subscriber shares	2	2
Subdivision of ordinary shares	1,998	-
Issued to former shareholders of Cyprotex Discovery Limited	67,998,000	67,998
Issued on Admission to Alternative Investment Market	22,413,793	22,414
At 31 December 2002	90,413,793	90,414

- (a) On incorporation the Company had an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1 each of which one was issued fully paid.
- (b) On 4 December 2001, one ordinary share of £1 was issued at par fully paid.
- (c) On 4 January 2002 each of the two issued ordinary shares of £1 each and the 998 authorised but unissued ordinary shares of £1 each was sub-divided into 1,000 ordinary shares of 0.1 pence each.
- (d) On 4 January 2002 the authorised share capital was increased from £1,000 to £160,000 by the creation of 159,000,000 ordinary shares of 0.1 pence each to rank *pari passu* in all respects with the existing ordinary shares of 0.1 pence each.
- (e) Also on 4 January 2002, 67,998,000 ordinary shares of 0.1 pence each were issued, in each case at par fully paid, which together with the existing 2,000 ordinary shares of 0.1 pence each, comprised the consideration for the acquisition of the whole of the issued share capital of Cyprotex Discovery Limited.

NOTES TO THE ACCOUNTS

at 31 December 2002

19. CALLED UP SHARE CAPITAL (continued)

- (f) On 15 February 2002, the Company raised £6,500,000 (£5,802,201 net of expenses) as a result of the placing of 22,413,793 ordinary shares of 0.1p each at 29p per ordinary share, on the Alternative Investment Market (AIM) of the London Stock Exchange. The funds raised from the placing have provided working capital to enable the Group to purchase HTS (high-throughput screening) equipment, implement the integration of the Group's software platform and execute the Group's sales and marketing strategy.
- (g) At 31 December 2002, options over 20,740,082 ordinary shares were outstanding:
- i.) 10,401,600 options were granted to a director of the Company on 7 December 2001. Each of the options may be exercised on the 17 February 2003 at 0.175p per share. The option is conditional on the optionholder remaining a director of the Company at the relevant date of exercise of the option.
 - ii.) 1,317,600 options were granted to a number of employees of the Company on 7 December 2001. Each of the options may be exercised on the second anniversary of the date of grant at 0.175p per share. The option is conditional on the optionholder remaining an employee of the company at the relevant date of exercise of the option.
 - iii.) Options totalling 7,943,104 were granted to other directors on 7 February 2002. The right to exercise these options was conditional upon Admission to AIM and upon the achievement of performance conditions relating to the growth in total shareholder return ("TSR") of an Ordinary Share over the placing price for a period no shorter than the period commencing on the date of Admission and ending with the announcement of the Company's interim results for the six months ending 31 December 2003 ("initial period") at the placing price of 29p. TSR growth below a compound annual rate of 15% will result in the options not being exercisable. Achievement of a compound annual rate of growth of 15% will permit the options to be exercised for 50% of the Ordinary Shares comprised in it and growth at or above a compound annual rate of 30% will permit the options to be exercised in full. The options may be exercised for a corresponding percentage between 50% and 100% where growth is at a rate falling between 15% and 30% a year compound. If targets are not achieved in full over the initial period, the options will remain potentially exercisable depending on achievement against the same compound annual rates of TSR growth measured over extended periods commencing with the date of Admission and ending with the interim announcements for the half years ending 31 December 2004, 2005 or 2006. These options will normally be exercisable from the date on which the conditions are fully satisfied until 7 February 2012. All options are conditional on the option holder remaining a Director of the Company at the date of exercise of any option.
 - iv.) Options totalling 627,778 were granted to a number of employees of the company on 21 August 2002. Each of the options may be exercised; 50% on the second anniversary of the date of grant; 2.085% each month thereafter for 22 months and a final tranche for the balance at 18p per share. The option is conditional on the optionholder remaining an employee of the company at the relevant date(s) of the exercise of the option.
 - v.) The remaining options, totalling 450,000 were granted to other employees on 9 December 2002. Each of the options may be exercised; 50% on the second anniversary of the date of grant; 2.085% each month thereafter for 22 months and a final tranche for the balance at 18.5p per share. The option is conditional on the optionholder remaining an employee of the company at the relevant date(s) of the exercise of the option.

Cyprotex PLC

NOTES TO THE ACCOUNTS at 31 December 2002

20. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

Group

	<i>Share capital</i>	<i>Share premium</i>	<i>Merger reserve</i>	<i>Profit and loss account</i>	<i>Total</i>
	£	£	£	£	£
As previously reported					
Cyprotex Discovery Limited	85	195,985	-	-	196,070
Loss for the period	-	-	-	(386,752)	(386,752)
Merger adjustment	67,915	(195,985)	128,070	-	-
	<u>68,000</u>	<u>-</u>	<u>128,070</u>	<u>(386,752)</u>	<u>(190,682)</u>
At 1 November 2001 restated					
Issue of shares	22,414	6,477,586	-	-	6,500,000
Issue costs	-	(697,799)	-	-	(697,799)
Loss for the period	-	-	-	(3,357,182)	(3,357,182)
Exchange difference on retranslation of net assets	-	-	-	6,898	6,898
	<u>90,414</u>	<u>5,779,787</u>	<u>128,070</u>	<u>(3,737,036)</u>	<u>2,261,235</u>

Company

	<i>Share capital</i>	<i>Share Premium</i>	<i>Profit and loss account</i>	<i>Total</i>	£
Issued subscriber shares	2	-	-	2	
Shares issued to former shareholders of Cyprotex Discovery Limited	67,998	-	-	67,998	
Issue of shares	22,414	6,477,586	-	6,500,000	
Issue costs	-	(697,799)	-	(697,799)	
Loss for the year	-	-	(3,608,966)	(3,608,966)	
	<u>90,414</u>	<u>5,779,787</u>	<u>(3,608,966)</u>	<u>2,261,235</u>	

As discussed in more detail in Note 1, the Group reconstruction has been accounted for in accordance with the principles of merger accounting. For this reason the Group balance sheet has been restated to reflect the effect of the merger, which resulted in Cyprotex PLC acquiring the entire share capital of Cyprotex Discovery Limited, satisfied by the issue of 67,998,000 ordinary shares of 0.1p each credited as fully paid together with the 2,000 issued ordinary shares of 0.1p each.

NOTES TO THE ACCOUNTS
at 31 December 2002

21. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating loss to net cash flow from operating activities

	<i>14 months ended 31 December 2002 £</i>	<i>7 months ended 31 October 2001 £</i>
Operating loss	(3,564,207)	(382,428)
Depreciation of tangible fixed assets	413,664	32,130
Loss on sale of tangible fixed assets	7,989	-
Increase in stocks and work in progress	(29,533)	-
Increase in operating debtors and prepayments	(159,517)	(91,082)
Increase in operating creditors and accruals	375,725	316,628
Provision for legal costs (note 18)	200,000	-
Exchange rate differences	(7,265)	-
	<u>(2,763,144)</u>	<u>(124,752)</u>

(b) Analysis of movement in net funds

	<i>At 1 October 2001 £</i>	<i>Cash flow £</i>	<i>Non cash movements £</i>	<i>31 December 2002 £</i>
Cash at bank and in hand	-	1,933,176	-	1,933,176
Bank overdraft	(31,987)	31,987	-	-
	<u>(31,987)</u>	<u>1,965,163</u>	<u>-</u>	<u>1,933,176</u>
Short term deposits	-	330,000	-	330,000
Due within one year	(150,030)	150,030	(166,315)	(166,315)
Due after more than one year	-	(550,000)	166,315	(383,685)
Finance leases	(131,265)	162,358	(145,004)	(113,911)
	<u>(313,282)</u>	<u>2,057,551</u>	<u>(145,004)</u>	<u>1,599,265</u>

Short term deposits are included with cash at bank and in hand in the balance sheet.

22. FINANCIAL INSTRUMENTS

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments in creating and changing the risks of the Group in its activities can be found on pages 9 and 10.

The Group's financial instruments include cash and short-term deposits and these financial instruments are used for the purpose of funding the Group's operations. The Group's policy is not to enter into derivative transactions.

As permitted by Financial Reporting Standard No. 13 (FRS 13), the disclosures set out below exclude short-term debtors and creditors.

NOTES TO THE ACCOUNTS
at 31 December 2002

22. FINANCIAL INSTRUMENTS (continued)

Interest rate risk profile of financial assets

The interest rate risk profile of financial assets was confined to floating rate sterling assets.

	<i>Fixed rate financial assets</i>	<i>Floating rate financial assets</i>	<i>Financial assets on which no interest is earned</i>	<i>Total</i>
	£	£	£	£
Sterling At 31 December 2002	-	2,258,430	4,746	2,263,176
Sterling At 1 November 2001	-	-	-	-

Floating rate financial assets comprise cash deposits on money market deposit at call.

Interest rate risk profile of financial liabilities

The interest rate profile of financial liabilities of the Group as at 31 December 2002 is as follows:.

	<i>Fixed rate financial liabilities</i>	<i>Floating rate financial liabilities</i>	<i>Financial liabilities on which no interest is paid</i>	<i>Total</i>
	£	£	£	£
Sterling At 31 December 2002	663,911	-	-	663,911
Sterling At 1 November 2001	131,265	31,987	150,030	313,282

Maturity profile of financial liabilities

The maturity profile of the Groups financial liabilities is as follows:

	2002	2001
	£	£
In one year or on demand	271,866	226,328
In one to two year	191,693	46,034
In two to five years	200,352	40,920
In more than five years	-	-
	663,911	313,282

Cyprotex PLC

NOTES TO THE ACCOUNTS at 31 December 2002

22. FINANCIAL INSTRUMENTS (continued)

Weighted average interest rate

	<i>Weighted average Interest rate %</i>	<i>Fixed rate financial liabilities Weighted average period for which rate is fixed Years</i>
31 December 2002		
Sterling	8.3	2.9
US Dollar	8.2	0.5
	=====	=====
31 October 2001		
Sterling	4	2.8
	=====	=====

Fixed rate financial liabilities consist of finance leases and bank loan.

Floating rate financial liabilities at 31 October 2001 comprised a sterling denominated bank overdraft that bears interest at a rate based on LIBOR.

Borrowing facilities

As at 31 December 2002 the Group had no bank overdraft facility. The undrawn committed facilities available at 31 October 2001 in respect of which all conditions precedent had been met at that date are as follows:

	£
Expiring in one year or less	268,013
	=====

Fair values of financial assets and financial liabilities

The fair value, based upon the market value or discounted cash flows, of the financial instruments detailed above was not materially different from the book values.

23. TRANSACTIONS WITH FORMER DIRECTORS

Included within creditors at 31 October 2001 is a loan to the Group from P Davidson, a former director of Cyprotex Discovery Limited, amounting to £100,030. The loan was interest free with no specific repayment terms. During the 14 months ended 31 December 2002 the loan was repaid in full.

P Davidson resigned as a director of Cyprotex Discovery Limited on 8 November 2001.

At 31 December 2002 P Davidson owned 35.12% of the ordinary shares in Cyprotex PLC.

During the 14 months ended 31 December 2002 the Group purchased services in the ordinary course of business from P Davidson amounting to £85,029. The transactions represented rent and other related items. During the 14 months ended 31 December 2002 the Group charged costs in the ordinary course of business to P Davidson amounting to £3,852. The transactions represented recharged refurbishment costs and other related items. At 31 December 2002 the amounts due to the Group were £3,852.

Cyprotex PLC

NOTES TO THE ACCOUNTS

at 31 December 2002

24. RELATED PARTY TRANSACTIONS

During the 14 months ended 31 December 2002, the Group entered into the following transactions, in the ordinary course of business, with the following parties:

	<i>Sales to related party</i>	<i>Purchases from related party</i>	<i>Amounts owed to related party</i>	<i>Amounts owed from related party</i>
<i>Related party</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Medeval Limited				
31 December 2002	(13,517)	37,962	-	-
31 October 2001	27,034	92,771	13,813	-
Sense-Sonic Limited				
31 December 2002	203	4,412	-	-
31 October 2001	-	-	50,000	-
Oystertec PLC				
31 December 2002	-	82,139	2,139	-
31 October 2001	-	13,219	13,219	-
Galileo Innovation Public Limited Company				
31 December 2002	-	305,500	-	-
31 October 2001	-	-	-	-
PD Property Developments Limited				
31 December 2002	-	28,000	2,225	-
31 October 2001	-	-	-	-
Bradley Martin Specialist Cars Limited				
31 December 2002	-	30,000	-	-
31 October 2001	-	-	-	-

Medeval Limited

Medeval owned 17.6% of the ordinary shares in Cyprotex Discovery Limited. The transactions represent rent, rates, services and other related items recharged between the parties.

Sense-Sonic Limited

R W Long and P Davidson were directors of Sense-Sonic Limited during the five months ended 31 October 2001. The amounts owed to Sense-Sonic Limited relate to short term funding made during the five months ended 31 October 2001. The loan was repaid during the 14 months ended 31 December 2002.

Oystertec PLC

R W Long and P Davidson were directors of Oystertec PLC during the 14 months ended 31 December 2002. The transactions represent services and computer equipment recharged between the parties in the ordinary course of business.

Galileo Innovation Public Limited Company

R W Long and P Davidson were directors of Galileo Innovation Public Limited Company during the 14 months ended 31 December 2002. The transactions represent management services recharged between the parties in the ordinary course of business.

PD Property Developments Limited

P Davidson was a director of PD Property Developments Limited during the 14 months ended 31 December 2002. The transactions represent rent, other related services and office equipment recharged between the parties in the ordinary course of business.

Bradley Martin Specialist Cars Limited

P Davidson was a director of Bradley Martin Limited during the 14 months ended 31 December 2002. The amount represents the purchase of a motor vehicle in the ordinary course of business.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the first Annual General Meeting of Cyprotex PLC will be held at 100 Barbirolli Square, Manchester, M2 3AB on 24 April 2003 at 10 a.m. for the following purposes:

- 1 To receive the audited financial statements for the 14 month period ended 31 December 2002 and the Directors' and Auditors' reports thereon.
- 2 To re-elect Dr C Picton, a Director retiring by virtue of the requirement in article 87 of the articles of association of the Company.
- 3 To re-elect Dr R Drake, a Director retiring by virtue of the requirement in article 87 of the articles of association of the Company.
- 4 To re-elect Dr M Egerton, a Director retiring by virtue of the requirement in article 87 of the articles of association of the Company.
- 5 To re-elect Dr D Leahy, a Director retiring by virtue of the requirement in article 87 of the articles of association of the Company.
- 6 To re-elect Mr J Nicholson, a Director retiring by virtue of the requirement in article 87 of the articles of association of the Company.
- 7 To re-appoint Ernst & Young LLP as Auditors and to authorise the Directors to determine the remuneration of the Auditors.

Special Business

To consider and, if thought fit, pass the following resolutions which will be proposed as an ordinary and a special resolution as indicated below:

- 8 As an ordinary resolution:

That the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 ("**the Act**") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) of the Company to such persons, at such times and on and subject to such terms and conditions as the Directors may determine in substitution for any existing power to allot relevant securities to the extent unused. The maximum aggregate nominal amount of relevant securities which may be allotted pursuant to this authority shall be £36,659.51. This authority shall expire on the earlier of 24 July 2004 and the conclusion of the Annual General Meeting of the Company to be held in 2004, 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 pursuant of such an offer or agreement as if the authority conferred hereby had not expired.

- 9 As a special resolution:

That the Directors be and they are hereby empowered pursuant to Section 95(1) of the Companies Act 1985 ("**the Act**") to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the general authority conferred by resolution 8 in the Notice of Annual General Meeting forming part of the circular to the shareholders of the Company dated 1 April 2003 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:

- (a) to the allotment of equity securities in connection with a rights issue or other issue in favour of holders of ordinary shares where the equity securities respectively attributable

NOTICE OF ANNUAL GENERAL MEETING

to the interests of all holders of ordinary shares are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held or deemed to be held by them, subject only to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory, or by virtue of shares being represented by depositary receipts, the requirements of any regulatory body or stock exchange, or any other matter; and

- (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities for cash up to an aggregate nominal value of £4,520.68;

and this power shall, unless renewed, varied or revoked, expire on the earlier of 24 July 2004 or the conclusion of the Annual General Meeting of the Company to be held in 2004, save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power hereby conferred had not expired.

By order of the Board

Registered Office:
100 Barbirolli Square
Manchester
M2 3AB

G E Ritchie
Company Secretary
Date: 1st April 2003

Important notes for shareholders

- 1 A Form of Proxy is enclosed. You may appoint one or more persons of your choice to act as your proxy. A proxy may attend the meeting and, on a poll, vote in respect of the shares you hold. A proxy need not be a shareholder of the Company. You may use the enclosed Form of Proxy to nominate your proxy. **To be valid, Forms of Proxy must reach the Company's registrars, Northern Registrars at Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA no later than 10 a.m. on 22 April 2003.** Completing and returning a Form of Proxy to the Registrar will not preclude you from attending and voting at the meeting in person.
- 2 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the Company's register of members at 10 a.m. on 22 April 2003 shall be entitled to attend or vote at this Annual General Meeting in respect of the number of shares registered in their names at that time. Changes to entries on the register after 10 a.m. on 22 April 2003 will be disregarded in determining the rights of any person to attend or vote at the meeting.
- 3 Copies of the Memorandum and Articles of Association of the Company will be available at the registered office of the Company during normal business hours on each business day from the date of this document until the date of the Annual General Meeting, and, together with each Director's service contract and the register of Directors' interests, will be available for inspection at the place of the Annual General Meeting from 15 minutes prior to its commencement until its conclusion.

SHAREHOLDER INFORMATION

FINANCIAL INFORMATION

The trading results of the Group are normally published at the following times:

- Interim results for the six months to 30 June in September
- Final results for the year to 31 December in March

ANNUAL GENERAL MEETING

The annual general meeting will be held (c/o Addleshaw Booth & Co) at 8th Floor, 100 Barbirolli Square, Manchester M2 3AB on 24 April 2003 at 10 a.m.

The notice of the meeting is set out on pages 45 and 46 and an explanation of the special business to be transacted is given on page 14 of the Report of the Directors.

SHARE PRICE INFORMATION

The Company's share price is available from the web site of London Stock Exchange under CRX.

COMPANY WEB SITE – www.cyprotex.com

The Company's web site provides information on products, activities and financial information. It includes latest financial information and press releases and any other information that is relevant to the Company.

SHAREHOLDER ENQUIRIES

Any queries regarding individual shareholdings, transfers etc. should be directed to Northern Registrars Limited.

Shareholders wishing to consolidate two or more individual certificates may do so by writing to Northern Registrars Limited at the address given on page 1, enclosing the certificates to be consolidated.

Where shareholders are receiving duplicate sets of accounts or mailings, as a result of inconsistencies in name or address details, they should advise the registrars so that this can be corrected.

Other enquiries regarding the Group should be directed to the Company Secretary,