

CYPROTEX PLC

Interim Report and Accounts for the six months ended 30 June 2003

Chairman and Chief Executive's Statement

Cyprotex has continued to make significant progress in its development as an ADME focused drug discovery and information company, and has achieved its key strategic milestones for the financial period ending 30 June 2003:

- Revenue for the 6 months ending 30 June 2003 was £368,804 against £329,085 for the same period ending 30 June 2002. Revenue for the 8 month period ending 30 June 2002 was £381,608.
- The operating loss for the 6 months period ending 30 June 2003 was £1,077,112 against a loss of £1,464,825 for the 6 month period ending 30 June 2002 and a loss of £1,719,305 for the 8 month period ending 30 June 2002.

During the first half of 2003, the Group focused on the development of its customer portfolio and its technology. Important achievements included:

- The delivery of 13 revenue contracts including Roche, Astra Zeneca, and Avidex.
- The launch of Cloe Screen™, involving the development of 13 commonly used ADME assays on high throughput robotic screening equipment, delivers to Cyprotex the capability of handling 100,000 plus compounds per annum, giving the company a strong competitive advantage.
- The launch in June 2003 of Cloe PK™, the “virtual human” predictive software product which forecasts the pharmacokinetics of drug candidates, which has been positively received by those currently trialling the technology, including 8 of the top 10 global pharmaceutical companies.
- Contact with numerous companies has led to serious business discussions with 8 potential Cloe Screen™ customers and 19 potential Cloe PK™ customers. The technical evaluations of both products are progressing well and customer trial responses have been encouraging; responses on Cloe PK have allowed us to improve further the quality of the predictions which lead to optimism opposite meeting customer expectations.
- Confirmed the effectiveness of the technology and demonstrated operationally that Cyprotex can deliver both products effectively to customers, whilst at the same time controlling costs within budget.

In terms of new business the Group is well advanced in contractual discussions with several blue-chip pharmaceutical and biotechnology companies.

At the same time as developing and delivering its technology and acquiring new customers, the Company is delighted that Nordan Holdings Limited has acquired 29.9% of the company's stock. The Board is continuing to review the Group's cash position assiduously and has fund raising and cost saving strategies in place to meet business needs; debtor issues are being managed effectively including the submission to the Inland Revenue of the 2003 R+D Tax Credit claim.

On the basis of legal advice, the Group is appealing against the judgement and the costs awarded to the University of Sheffield over the now historic litigation concerning the development of the “Simcyp” software. The appeal will be heard in November 2003; the appeal and other associated costs of the case have been provided for in the first half accounts and cash flow projections. None of the Group's existing or planned products and services has any dependence on the Simcyp software.

The business has progressed positively in the first half of 2003 and we look forward to building on the technology we have developed and delivering growth in the coming months.

Robert Morrisson Atwater
Chairman and Chief Executive Officer
30 September 2003

SUMMARISED GROUP PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2003

	<i>Unaudited 6 months ended 30 June 2003 £</i>	<i>Unaudited 8 months ended 30 June 2002 £</i>	<i>Audited 14 months ended 31 December 2002 £</i>
TURNOVER	368,804	381,608	647,770
Cost of sales	(111,606)	(19,789)	(62,836)
GROSS PROFIT	257,198	361,819	584,934
Administrative expenses excluding exceptional items	(1,334,310)	(2,081,124)	(3,723,429)
Exceptional items	-	-	(425,712)
Administrative expenses including exceptional items	(1,334,310)	(2,081,124)	(4,149,141)
OPERATING LOSS	(1,077,112)	(1,719,305)	(3,564,207)
Interest receivable	29,518	62,595	111,522
Interest payable	(24,214)	(38,103)	(57,842)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(1,071,808)	(1,694,813)	(3,510,527)
Taxation	104,048	22,363	153,345
LOSS FOR THE PERIOD	(967,760)	(1,672,450)	(3,357,182)
Loss per ordinary share			
- basic	(1.07)p	(2.08)p	(3.96)p
- diluted	(1.07)p	(2.08)p	(3.96)p

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the 6 months ended 30 June 2003

	<i>Unaudited 6 months ended 30 June 2003 £</i>	<i>Unaudited 8 months ended 30 June 2002 £</i>	<i>Audited 14 months ended 31 December 2002 £</i>
Loss for the financial period	(967,760)	(1,672,450)	(3,357,182)
Exchange difference on the re-translation of net assets of subsidiary undertaking	18,515	-	6,898
Total recognised gains and losses relating to the period	(949,245)	(1,672,450)	(3,350,284)

SUMMARISED GROUP BALANCE SHEET

At 30 June 2003

	<i>Unaudited</i> <i>At</i> <i>30 June</i> <i>2003</i> <i>£</i>	<i>Unaudited</i> <i>At</i> <i>30 June</i> <i>2002</i> <i>£</i>	<i>Audited</i> <i>At</i> <i>31 December</i> <i>2002</i> <i>£</i>
FIXED ASSETS			
Tangible assets	808,352	1,283,026	1,099,591
Intangible assets	-	7	-
	<hr/> 808,352	<hr/> 1,283,033	<hr/> 1,099,591
CURRENT ASSETS			
Stock	68,105	28,412	50,783
Debtors	672,176	420,421	403,949
Cash at bank and in hand	868,385	3,153,901	2,263,176
	<hr/> 1,608,666	<hr/> 3,602,734	<hr/> 2,717,908
CREDITORS: due within one year	(530,365)	(932,801)	(964,219)
NET CURRENT ASSETS	<hr/> 1,078,301	<hr/> 2,669,933	<hr/> 1,753,689
TOTAL ASSETS LESS CURRENT LIABILITIES	<hr/> 1,886,653	<hr/> 3,952,966	<hr/> 2,853,280
CREDITORS: due after more than one year	(354,663)	(13,897)	(392,045)
PROVISION FOR LIABILITIES AND CHARGES	(220,000)	-	(200,000)
NET ASSETS	<hr/> 1,311,990	<hr/> 3,939,069	<hr/> 2,261,235
CAPITAL AND RESERVES			
Called up share capital	90,414	90,414	90,414
Share premium account	5,779,787	5,779,787	5,779,787
Merger reserve	128,070	128,070	128,070
Profit and loss account	(4,686,281)	(2,059,202)	(3,737,036)
EQUITY SHAREHOLDERS' FUNDS	<hr/> 1,311,990	<hr/> 3,939,069	<hr/> 2,261,235

SUMMARISED GROUP STATEMENT OF CASHFLOWS

For the six months ended 30 June 2003

	<i>Unaudited 6 months ended 30 June 2003 £</i>	<i>Unaudited 8 months ended 30 June 2002 £</i>	<i>Audited 12 months ended 31 December 2002 £</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	6 (1,322,626)	(1,270,669)	(2,763,144)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received	29,518	62,595	111,522
Interest paid	-	(5,508)	(5,508)
Interest element of finance lease and hire purchase payments	(24,214)	(32,595)	(52,334)
	5,304	24,492	53,680
TAXATION			
Corporation tax payable	-	-	-
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets	(50)	(1,088,841)	(1,035,188)
Receipts from sales of tangible fixed assets	48,644	-	-
	48,594	(1,088,841)	(1,035,188)
NET CASH OUTFLOW BEFORE FINANCING	(1,268,728)	(2,335,018)	(3,744,652)
MANAGEMENT OF LIQUID RESOURCES	50,000	-	(330,000)
FINANCING			
Issue of ordinary share capital	-	5,802,201	5,802,203
Net movement in short term borrowings	(81,031)	(150,030)	16,285
Net movement in long term borrowings	-	-	383,685
Repayment of capital lease and hire purchase contracts	(45,032)	(131,265)	(162,358)
	(126,063)	5,520,906	6,039,815
(DECREASE)/INCREASE IN CASH	7 (1,344,791)	3,185,888	1,965,163

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

	<i>Unaudited</i> 6 months <i>ended</i> 30 June 2003 £	<i>Unaudited</i> 8 months <i>ended</i> 30 June 2002 £	<i>Audited</i> 12 months <i>ended</i> 31 December 2002 £
(Decrease)/increase in cash during the period	(1,344,791)	3,185,888	1,965,163
Cash (inflow)/outflow from/to short term deposits	(50,000)	-	330,000
Cash outflow/(inflow) from increase in short term loans	81,031	150,030	(16,285)
Cash inflow from increase in long term loans	-	-	(383,685)
Repayment of capital element of finance lease and hire purchase contracts	45,032	131,265	162,358
Movement in net (debt)/funds resulting from cashflows	(1,268,728)	3,467,183	2,057,551
New finance leases	-	-	(145,004)
Movement in net (debt)/funds during the period	(1,268,728)	3,467,183	1,912,547
Net funds/(debt) at start of the period	1,599,265	(313,282)	(313,282)
Net funds at period end	330,537	3,153,901	1,599,265

NOTES TO THE UNAUDITED INTERIM RESULTS

1. BASIS OF CONSOLIDATION

The Group interim results consolidate the results of the company and its subsidiaries made up to 30 June 2003. Cyprotex PLC was incorporated as a private company on 4 December 2001 and it was re-registered as a public company on 7 January 2002 prior to it being admitted to trading on the Alternative Investment Market of the London Stock Exchange plc on 15 February 2002.

Under a Group reconstruction, the company acquired the whole of the issued share capital of Cyprotex Discovery Limited in exchange for shares. The reconstruction has been accounted for in accordance with the principals of merger accounting as set out in the Financial Reporting Standard No. 6 (FRS 6) and in accordance with Schedule 4A of the Companies Act 1985. The interim results have been presented as if Cyprotex PLC and its subsidiaries had been owned and controlled by the company throughout the periods ended 30 June 2003, 30 June 2002 and 31 December 2002.

2. BASIS OF PREPARATION OF INTERIM FINANCIAL INFORMATION

The financial information contained in this statement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The accounts have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

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. The directors have prepared projections of the trading results for the foreseeable future which they consider to be prudent. If the future trading results do not meet expectations there will be a need to raise further financing. The directors are in negotiations with potential financiers to raise additional funds and are confident that they will have a positive outcome. However there is uncertainty as to whether the necessary funds will be raised.

The directors have taken legal advice in relation to the 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 and have started the process of appeal against the decision with the hearing scheduled for 12 November 2003.

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.

3. TAXATION

The tax credit represents a claim for payable R&D tax credit.

4. SEGMENTAL ANALYSIS

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>Unaudited</i> 6 months <i>ended</i> 30 June 2003 £	<i>Unaudited</i> 8 months <i>ended</i> 30 June 2002 £	<i>Audited</i> 14 months <i>ended</i> 31 December 2002 £
United Kingdom	197,916	184,200	372,157
Rest of Europe	155,329	-	64,681
USA	15,559	197,408	210,932
	368,804	381,608	647,770

5. LOSS PER SHARE

The loss per share is calculated by reference to the weighted average of 90,413,793 ordinary shares for the 6 months to 30 June 2003, 80,596,181 ordinary shares for the 8 months to 30 June 2002, and 84,836,652 for the 14 months to 31 December 2002.

	<i>Unaudited</i> 6 months <i>ended</i> 30 June 2003	<i>Unaudited</i> 8 months <i>ended</i> 30 June 2002	<i>Audited</i> 14 months <i>ended</i> 31 December 2002
Attributable loss (£)	(967,760)	(1,672,450)	(3,357,182)
Average number of ordinary shares in issue for basic and diluted earnings per share	90,413,793	80,596,181	84,836,652
Basic earnings per share (pence)	(1.07)p	(2.08)p	(3.96)p

Basic and diluted earnings per ordinary share have been calculated based upon the result after tax attributable to ordinary shareholders. The weighted average number of ordinary shares in issue reflects the effect of the Group reconstruction on 4 January 2002, which resulted in the issue of one Cyprotex PLC share for every one Cyprotex Discovery Limited share in issue.

The loss for the period and the weighted average number of ordinary shares for calculating the diluted earnings per share for the period to 30 June 2003, 30 June 2002 and 31 December 2002 are identical to those used for the basic earnings per share. 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).

6. RECONCILIATION OF OPERATING LOSS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	<i>Unaudited</i> 6 months <i>ended</i> 30 June 2003 £	<i>Unaudited</i> 8 months <i>ended</i> 30 June 2002 £	<i>Audited</i> 14 months <i>ended</i> 31 December 2002 £
Operating loss	(1,077,112)	(1,719,305)	(3,564,207)
Depreciation of tangible fixed assets	212,538	132,704	413,664
Loss on sale of tangible fixed assets	30,107	-	7,989
Increase in stocks and work in progress	(17,322)	(7,162)	(29,533)
Increase in operating debtors and prepayments	(164,180)	(284,613)	(159,517)
Increase in operating creditors and accruals	(345,172)	607,707	375,725
Provision for legal costs	20,000	-	200,000
Exchange rate differences	18,515	-	(7,265)
	(1,322,626)	(1,270,669)	(2,763,144)

7. ANALYSIS OF MOVEMENT IN NET FUNDS

	<i>At 1 January</i> 2003 £	<i>Cash flow</i> £	<i>Non</i> <i>cash</i> <i>movements</i> £	30 June 2003 £
Cash at bank and in hand	1,933,176	(1,344,791)	-	588,385
Short term deposits	330,000	(50,000)	-	280,000
Due within one year	(166,315)	81,031	(89,541)	(174,825)
Due after more than one year	(383,685)	-	89,541	(294,144)
Finance leases	(113,911)	45,032	-	(68,879)
	1,599,265	(1,268,728)	-	330,537

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

8. ANALYSIS OF THE PERIOD

	<i>6 months ended 30 June 2003 £</i>	<i>6 months ended 30 June 2002 £</i>	<i>2 months ended 31 December 2002 £</i>	<i>8 months ended 30 June 2002 £</i>
TURNOVER	368,804	329,085	52,523	381,608
Cost of sales	(111,606)	(18,742)	(1,047)	(19,789)
GROSS PROFIT	257,198	310,343	51,476	361,819
Administrative expenses	(1,334,310)	(1,775,168)	(305,956)	(2,081,124)
OPERATING LOSS	(1,077,112)	(1,464,825)	(254,480)	(1,719,305)
Interest receivable	29,518	62,595	-	62,595
Interest payable	(24,214)	(34,845)	(3,258)	(38,103)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(1,071,808)	(1,437,075)	(257,738)	(1,694,813)
Taxation	104,048	10,983	11,380	22,363
LOSS FOR THE PERIOD	(967,760)	(1,426,092)	(246,358)	(1,672,450)
Loss per ordinary share				
- basic	(1.07)p	(1.72)p	(0.36)p	(2.08)p
- diluted	(1.07)p	(1.72)p	(0.36)p	(2.08)p

The loss per share is calculated by reference to the weighted average of 90,413,793 ordinary shares for the 6 months to 30 June 2003, 83,150,000 for the 6 months to 30 June 2002, 68,000,000 for the 2 months to 31 December 2002, and 84,836,652 for the 14 months to 31 December 2002.

9. CONTINGENT LIABILITIES

Prior to Cyprotex becoming a public company, Cyprotex worked with The University of Sheffield ("the University") 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 a court case in February 2003 was a judgement awarding copyright to the University. On the basis of legal advice the Group is appealing against the judgement and the court hearing has been set for 12 November 2003; the process for contesting the costs awarded against Cyprotex is currently underway.

The Group has ensured that no part of its business activities or plans is dependant upon ownership of the copyright. The Group has allocated funds in its 2003 cashflow projections for the costs of the appeal.

10. Copies will be available on request from the Company Secretary, Cyprotex PLC, 15 Beech Lane, Macclesfield, Cheshire, SK10 2DR.
11. The interim report was approved by the board of directors on 29 September 2003.

INDEPENDENT REVIEW REPORT TO CYPROTEX PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2003 which comprises the Summarised Group Profit and Loss Account, Summarised Group Balance Sheet, Summarised Group Cash Flow Statement, Group Statement of Total Recognized Gains and Losses, and the related notes 1 to 11. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company having regard to guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report as required by the AIM Rules issued by the London Stock Exchange.

Review work performed

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

Fundamental uncertainty

In reaching our conclusion we have considered the adequacy of the disclosures made in the interim report and accounts concerning the basis of their preparation. The interim report and accounts have been prepared on the going concern basis, the validity of which depends on the group generating projected revenue and raising further funds. The accounts do not include any adjustment that would result from its failure to achieve this. Details relating to the fundamental uncertainty are described in note 2.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2003.

Ernst & Young LLP
Manchester
29 September 2003