



Partnering Pharmacokinetic Technology



Cyprotex PLC

Annual Report & Accounts
for the year ended 31 December 2007

Stock Code: CRX

Our Vision

To provide invaluable support to the global drug development industry. If technology and innovation are key drivers of the pre-clinical world, then a significant investment and long-term commitment in our competency will combine to create something unique.

Cyprotex — Our Ambition

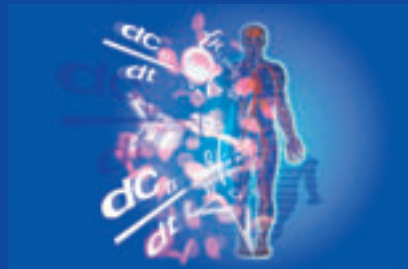
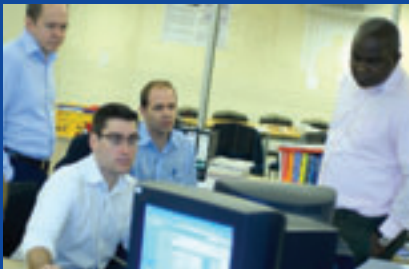
- To maintain our position as a leading ADME provider, recognising the market opportunity for outsourcing sophisticated services to the global pharmaceutical industry.
- To continue to offer exceptional quality and turnaround.
- To be at the forefront of innovation in assay development and its application to pharmacokinetic prediction.
- To use sophisticated and novel automated approaches to enhance processes and improve efficiency.
- To improve recognition of Cyprotex externally and expand our global customer base.

Background

Cyprotex was founded in April 1999 and is situated in Macclesfield, Cheshire (UK). The Company achieved listing on the Alternative Investment Market of the London Stock Exchange in 2002.

Originally founded by Dr David Leahy, the objective was to create a company that would transform ADME screening and pharmacokinetic prediction. Cyprotex has, over the last eight years, achieved this aim by combining both a wealth of knowledge and the scientific expertise of our staff with state-of-the-art equipment and automation.

Cyprotex boasts an established reputation as an ADME service provider, offering an exceptional service to both pharmaceutical and biotechnology companies worldwide. Cyprotex continues to prove that quality of service and integrity of data can be achieved cost-effectively.

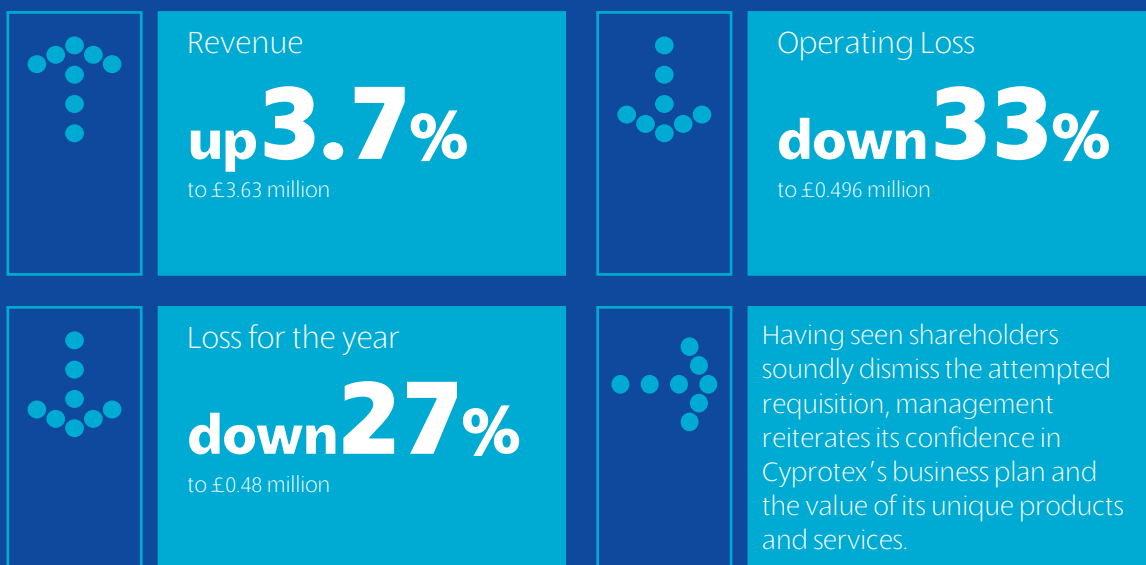


Cyprotex specialises in ADMET and pharmacokinetic screening and prediction.

Our Vision	IFC	Report of the Directors	18
Financial Highlights	01	Report on Directors' Remuneration	22
About Pharmacokinetics and Toxicity	02	Statement of Directors' Responsibilities	24
Our Market	03	Report of the Independent Auditor	25
Review of Operations	04	Financial Statements	27
Chairman's Statement	10	Notice of Annual General Meeting	54
Financial Review	13	Shareholder Information	56
Board of Directors	17	Directors and Advisors	IBC



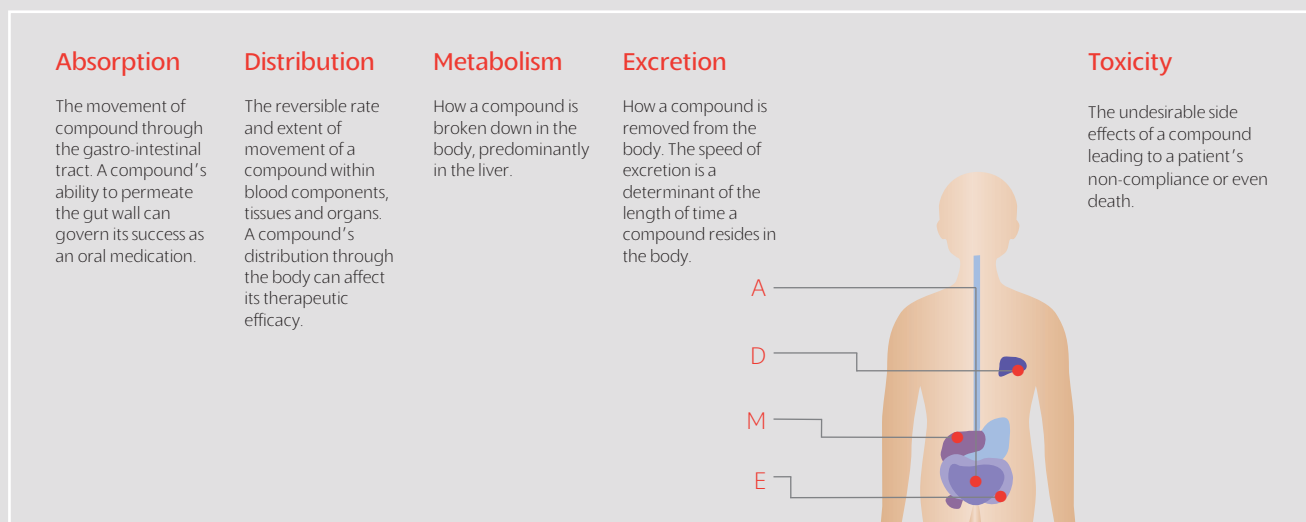
- ... Revenues for the year ended 31 December 2007 increased by 3.7% to £3.63 million, against £3.50 million for the comparable period in 2006.
- ... Gross profits for the year rose marginally to £3.00 million from £2.97 million in 2006.
- ... Operating losses for the year were cut by 33% to £496,000, from £741,000 in 2006.
- ... Non-recurring costs, of around £80,000, used in defending the Group from the attempted requisition, sapped the Group's cash resources during the first half year.
- ... Despite continued investment, cash-in-hand improved slightly from the low point recorded at the half year to 30 June 2007 of £267,000, to just over £300,000 at the year end.



About Pharmacokinetics and Toxicity

Pharmacokinetics

Pharmacokinetics studies the concentration of a compound in the body over time, including the processes of absorption, distribution, metabolism and excretion (ADME). ADME is often investigated alongside toxicity and the combined term for these studies is ADMET. The pharmaceutical and biotechnology industries have recognised that successful compounds show favourable ADMET properties and the need for investigation at an early stage of drug discovery is crucial. This has led to an urgent need for more rapid, cost-effective *in vitro* ADMET capabilities, which can be used to screen large numbers of compounds, as well as robust *in silico* methods.



Key ADMET properties used for decision making in drug discovery

Solubility — Poor solubility can limit the absorption of compounds from the gastrointestinal tract which reduces oral bioavailability.

Caco-2 Permeability — Caco-2 cells are a human colorectal carcinoma-derived cell line widely used as an *in vitro* model for predicting human intestinal absorption.

MDR1-MDCK Permeability — Madin Darby canine kidney cells transfected with the human *MDR1* gene (MDR1-MDCK) are used to identify and quantify the extent of drug efflux. It is a valuable *in vitro* model of human intestinal absorption and blood brain barrier permeability.

Microsomal Stability — Liver microsomes are subcellular fractions which can be used to investigate the rate at which a drug is metabolised. Microsomes are a useful *in vitro* model for predicting *in vivo* hepatic clearance.

Cytochrome P450 Inhibition — Cytochrome P450s are a family of enzymes which are important for drug metabolism. Inhibition of these enzymes can result in drug-drug interactions *in vivo*.

Plasma Protein Binding — The extent of binding to plasma influences the way in which a drug distributes into the tissues in the body. This may impact on the therapeutic effects and pharmacokinetics of the compound.

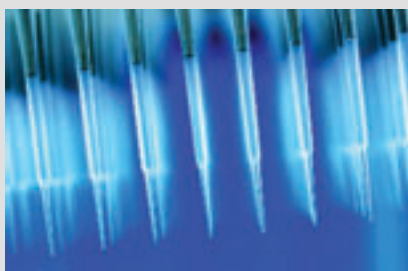
hERG — Inhibition of the hERG current can affect cardiac repolarisation and lead to cardiotoxicity. A number of drugs have been withdrawn from late stage clinical trials due to these cardiotoxic effects, consequently increasing the importance to identify inhibitors early in drug discovery.

The Market

The current global pharmaceutical market is facing ever increasing financial pressures over research and development productivity. The costs of drug discovery and development increases while the rate of new drug approval declines. Currently it is anticipated that only 15% of new drugs developed will ever reach the market; in some part a result of poor pharmacokinetics and unacceptable toxicity effects. This is in comparison to an estimated \$800 million cost for bringing a new drug into the marketplace.

Start-up and leading pharmaceutical and biotechnology companies alike are looking for novel ways to maximise their research productivity. Many work in collaboration with partner services in order to achieve this goal and the trend for outsourcing is becoming increasingly accepted as an industry norm.

The current drug discovery outsourcing market is experiencing rapid growth with a predicted increase to \$7.2 billion by 2009. The European market itself is forecasted to expand from \$3.2 billion in 2004 to \$5.1 billion by 2011. It is estimated that approximately 40% of all research and development work will be outsourced by 2010. The inevitable result will be the emergence of outsourcing companies as industry leaders. Specialist contract research organisations (CROs) are able to provide access to a collection of expertise, improved testing capabilities and turnaround times supplementing in-house research efforts. Cyprotex is ideally placed to take full advantage of the growth in CRO usage successfully attracting new clients while retaining our existing client base.



Cyprotex — the Preferred Partner

Cyprotex understands that sustainable growth is dependent on the in-house expertise and knowledge of our entire staff combined with an understanding of our clients' ever changing needs. Cyprotex is committed to continued development of our ADMET/PK capabilities without losing the uniqueness of the services we offer.

At Cyprotex, we believe that sharing our knowledge and expertise with our clients better enables them to make informed decisions in selecting potential drug candidates. Every client is assigned a Project Manager who is highly experienced in the field of ADMET and pharmacokinetics. Our Project Managers are able to offer expert consultation and advice on project specific issues, assisting in strategic decisions.

Continued investment in our staff and highly automated systems has allowed Cyprotex to provide reproducible quality data and meet the tight deadlines imposed by our clients to fit in with their make — test cycles. We offer a comprehensive suite of screening assays which meets the demand of our clients and regulatory guidelines.

Products and Technology

Cloe[®] is an acronym for Cyprotex Lead Optimisation Engine.

Cyprotex combines *in vitro* ADME screening (Cloe[®] Screen) with unique pharmacokinetics prediction systems (Cloe[®] Predict) to offer an integrated suite of ADME services to pharmaceutical and biotechnology companies worldwide. In 2008, Cyprotex will be launching a new Cloe[®] product, Cloe[®] Select. Cloe[®] Select will focus on studies typically performed either at a later stage of drug discovery or during the preclinical development process.

Cyprotex is contracted to work for six of the world's top ten global Pharmaceutical companies.



Screen

 Cloe® Screen
 Cloe® Select
 Cloe® Predict

Cloe[®] Screen

By industrialising traditional high quality methods, Cyprotex have developed a superior yet cost-effective panel of screening methods which offers rapid turnaround, Cloe[®] Screen. This is achieved by the use of liquid handling robots, automated LC-MS/MS analysis and a tailored laboratory-information management system. Many of the advances in throughput and consistency have only been possible through major investment in software systems for managing materials and data flows. It has been essential that our information systems have been able to automate the human decision making involved in assessing the quality of the data and deriving results. This extremely powerful system seamlessly manages all aspects of sample tracking, laboratory automation and results generation. Utilising this system is instrumental to high throughput technology as well as increasing the speed of screening, thus providing reassurance that the automation and data are being effectively controlled.

Cyprotex launched a number of new Cloe[®] Screen assays during 2007. In March 2007, we finalised our panel of assays for investigating mechanism based inhibition, an important screen for understanding the potential for drug-drug interactions. Cloe[®] Screen Microsomal Binding, an *in vitro* assay which assesses the extent to which a compound binds to liver microsomes, was also launched in 2007. Furthermore, we complemented our range of physicochemical assays by introducing Cloe[®] Screen Thermodynamic Solubility.

- **Highly reproducible, accurate data** — our assays have been trialled by many pharmaceutical and biotech companies. Based on the success of these trials, these clients now routinely use these assays, and regard the data as exceptionally high quality.
- **Rapid data delivery** — return of data to our clients meets the fast turnaround times demanded by them, and fits with the make-test cycles in drug discovery.
- **Highly cost-effective** — achieved by investing in automated systems.
- **Consultancy** — we employ highly trained Project Managers who are experts in the field of ADME and pharmacokinetics.
- **Integration with predictive methods** — Cloe[®] PK or other predictive methods can be used to integrate and interpret the experimental ADME data.



Number of customers

up **45%****Rapid**, high quality data delivery



Select

 Cloe® Screen
 Cloe® Select
 Cloe® Predict

Cloe® Select



In 2008, a new Cloe® product will be launched. Cloe® Select provides a portfolio of bespoke ADME services which can be customised to the individual clients' drug discovery and development requirements. Additional experimental information, which enhances the tailored package, is on hand from the experimental assays available within our Cloe® Select family range. Cloe® Select currently encompasses our cytochrome P450 induction studies using fresh hepatocytes, P-glycoprotein inhibition and our metabolic profiling and identification package. During 2008, we will be expanding our capabilities in this area.

- **Consultancy** — highly trained Project Managers who are experts in the field of ADME and pharmacokinetics to oversee, support and guide a project from start to completion.
- **Flexibility** — customise and adapt experimental ADME and pharmacokinetic experiments based on our clients' specific project needs.
- **Additional knowledge** — by extending our experimental assays within the Cloe® Select suite, we are able to provide additional information on a compound's physiochemical properties, its potential for drug-drug interactions and its metabolite profiling and characterisation.
- **Regulations** — our bespoke service always maintains and complies with FDA regulations, providing constant confidence in the data received.
- **Results** — clients have a number of different reporting options from summary data to a full written report.



Number of customers

up **45%****Collaborations**

Cyprotex are currently providing *in silico* support to a number of EU funded consortiums, including OSIRIS and EUMAPP. For the OSIRIS project, the overall goal of the consortium is to develop software which identifies whether *in vivo* toxicity for a compound is to be triggered or waived based on its predicted toxicity and exposure *in vivo*. Our input to the project is to work on building PK predictions (both generic and local models) for environmental compounds. The goal of the EUMAPP project is to investigate how to accelerate from lab to clinic using a combination of human microdosing, improved analytical capabilities, and *in silico* approaches. Cyprotex are providing the *in silico* support for this project. In addition, we are also currently partnering with an external company to investigate the impact of drug transporters on pharmacokinetic prediction. In 2008, we will be actively pursuing additional funding for other planned research activities.

A portfolio of **Bespoke** ADME services



Predict

 Cloe® Screen
 Cloe® Select
 Cloe® Predict

Cloe® Predict



Cloe® Predict covers a suite of predictive technologies and expertise available at Cyprotex. We have a team of PBPK modellers and software engineers who are building novel models for improving the prediction of pharmacokinetics and developing new systems for rapid and innovative auto-QSAR techniques. Our Company's ability to provide this integrated and effective approach to drug discovery is a compelling and attractive proposal to our clients.

Cloe® PK and Cloe® Predict Human Intestinal Absorption Model

Cloe® PK combines the generation of *in vitro* ADME data with the ability to predict *in vivo* pharmacokinetics using our expertise in PB-PK (physiologically based-pharmacokinetic) modelling.

Cyprotex are also developing models to predict specific *in vivo* processes. The first one of these models (Cloe® Predict Human Intestinal Absorption) integrates *in vitro* Caco-2 permeability data with *in vitro* aqueous solubility to predict intestinal absorption.

- **Innovative software** — Cloe® PK assists drug discovery scientists to predict the level and duration of a drug in the body.
- **Cost-effective and efficient** — by utilising routinely generated ADME data as inputs we can identify issues early in analysis, prioritising compounds for further development.
- **Addresses issues** — Cloe® Predict Human Intestinal Absorption enables problems such as dose-dependent absorption to be identified.
- **Integration of ADME experimental data** — Cloe® PK and Cloe® Predict Human Intestinal Absorption enables better informed decision-making than individual data alone.
- **Rapid evaluation of data** — provides an understanding of specific *in vivo* processes at an early stage of drug discovery.
- **Custom support** — our in-house expertise in PB-PK and QSAR modelling allow bespoke model service capabilities for our clients' specific chemistry.

The Cyprotex Discovery Bus

Cyprotex is proud to announce the release of the newest addition to our Cloe® Predict family suite. The Cyprotex Discovery Bus is a novel and powerful software platform designed to enhance efficiency in drug discovery by automating human processes using intelligent workflow. Cyprotex's team of software and systems engineers have worked closely with our scientific team to develop an integrated IT solution for the drug discovery industry. By automating decision making and information processing the applications for the Cyprotex Discovery Bus are numerous and can extend to many industries outside of pharmaceuticals. Two main applications applicable to the Drug Discovery industry include auto-QSAR and laboratory workflow processes which streamline the flow of compounds into assays and, subsequently, the capture and interpretation of instrument data.

- **Cost-effective and efficient** — dramatically reduces operating costs by enhancing productivity of resource intensive processes, thereby releasing internal resources.
- **Knowledge** — a constantly evolving system which captures knowledge from individuals and distributes accordingly. The system learns from its experiences and constantly updates.
- **Reliability** — a higher degree of security and stability results from less dependency on internal resources. Highly consistent analysis by the removal of human bias.
- **Exhaustive** — by exploring all possible combinations, the result is all possible solutions.
- **Change** — reactive to both structural (methods and strategies) and dynamic (structures and data) changes.



Number of customers

up **45%**



Improving efficiency in the Drug Discovery process



Proving the Business Plan

2008 should be an excellent year in which to prove Cyprotex's business plan.

During this period, our international customer base, the global drug discovery industry, will confront caution on two fronts: a slowing Western economy, whilst being expected to respond to urgent calls for raised efficiencies and heightened output. Just at a time when the science of getting a drug to market has become altogether harder, the regulatory screw has been tightened. In order to ensure the industry's enviable record of producing truly exceptional long-term returns is not to be broken, a change of culture is now being called for. Cyprotex's value-added services are designed to be part of the 'tool kit' that helps the pharmaceutical companies meet such a challenge.

Cyprotex occupies a small, but highly significant and rapidly growing, corner of the 'pre-clinical' world. But it is at this stage that key 'go' or 'no-go' decisions for a therapeutic molecule, that possibly commit it to seven or more years of costly development, are taken. By treating *in vitro* screening as a core competence, Cyprotex's long-term investment has resulted in a truly unique, wholly and highly automated facility, enabling it to offer unrivalled capacity, turnaround, pricing and robustness.

In choosing to outsource to Cyprotex, a customer is externalising an otherwise costly and labour-intensive, generic service. Past reluctance to follow this route may be put down to bureaucratic complications, internal prestige or perhaps, more simply, that there were very few independent bodies able to meet the exacting and scientific demands of today's drug discovery players. Presently, with something in excess of 90% of global *in vitro* screening being carried out in-house, the market opportunity is clear. The fact that Cyprotex boasts over 150 clients, including over half of the world's top ten pharmaceutical giants, demonstrates that it is able to satisfy their technological requirements. The change now anticipated, however, is a move away from simple 'overflow' or one-off 'fee-for-service' work, toward much longer-term and collaborative arrangements. With this comes greater forward visibility and interdependence, allowing Cyprotex to become part of integral drug discovery partnerships.

Cyprotex's automated facility operated at just over half of its theoretical capacity during 2007. With gross margins expected to remain flat and no hike in operational costs foreseen, increased activity could be largely expected to drop to the bottom line.

Cyprotex looks forward to demonstrating its exceptional operational gearing in the current year.

Financial Highlights

- Despite the disruptive effects of two major and exceptional events, Cyprotex reports a year-on-year revenue improvement while having continued the significant expansion of its customer base.
- Revenue for the period increased by 3.7% to £3.63 million (2006: £3.50 million).
- Operating losses fell by 33% to £495,627.
- Cash-in-hand increased slightly from the half-year position to just over £300,000, despite the heavy direct costs of defending your Group from the attempted requisition.

2007 — A Challenging Year

Cyprotex has rebuilt confidence and regained momentum. It is also clear that despite the trials of 2007, the Group's reputation within an industry of 'exceptionally hard taskmasters' did not slip. Indeed, the expansion of its customer base continues at a good pace, while further refinement of its *in vitro* facilities continued to justify its claim of setting international standards in high quality ADMET (Absorption, Distribution, Metabolism, Excretion and Toxicity) screening.

Early in 2007, two separate and unconnected events were seen to temporarily 'unhinge' Cyprotex. The first was the unexpected loss of an important client. This happened to be the Group's single largest revenue generator during the comparable period and was solely the result of its surprise withdrawal from small molecule research that, for a major pharmaceutical Group, is a highly unusual event. Cyprotex does not expect to witness a similar event in the future and notes that, but for the loss of this business, its full year performance would have remained in line with management expectations. The loss was subsequently replaced by other major customers, whose relationships with Cyprotex are now expected to deepen still further.

The second event, as was explained in detail at both an Extraordinary General Meeting (EGM) and at the Annual General Meeting (AGM), was due to a group of 'Requisitionists' intent on unseating the present management. The result was a highly unnecessary and costly diversion for your Group. Total direct costs amounted to almost £80,000. Indirect costs were much higher.





Nikolas Sofronis
Non-Executive Chairman

Recognising that Cyprotex's relationship with its international clients is necessarily based on high levels of trust and confidentiality between the two parties, it came as no surprise that contract work was either lost or deferred while the attempted 'take-over' was being dismissed. In that respect, the actions of the Requisitionists can only be considered to have comprised a genuine disservice to shareholders.

The New Year has started on an upbeat note. Management priority remains on cementing deeper working relationships with its core customers. Success in securing increasing proportions of their screening requirements will prove Cyprotex's business plan. The current dearth of new drug approvals heralds the need for ever-larger pre-clinical volumes. It also requires exceptional capacity and robustness, rapid turnaround and excellent pricing. Cyprotex's automated facilities were created on this premise, the benefits of which I hope will be demonstrated during the current year.

Shareholders will already be aware that the legal and advisory fees involved in defending the Group against the Requisitionists were significant. Nevertheless, improved second half activity, and its policy of extremely tight cash management, meant that cash-in hand at the year end was modestly above that seen at the interim stage. Cyprotex also retains a wholly unused banking facility plus other opportunities for collateralised fund-raising.

Customer Development

Exceptional client retention and repeat business are seen to be the hallmarks of Cyprotex's success. Customer numbers continue to grow each month and 'Master Services Agreements' are now in place with over 150 global drug discovery entities, ranging from the world's largest pharmaceutical giants to small independent laboratories. For each of these, Cyprotex adds something unique.

The global market comprises over 20,000 companies to which Cyprotex could potentially provide value-added ADMET services. Underlying growth is difficult to assess, although a market research firm, Business Insights, recently noted that the role of the independent CRO (Contract Research Organisation) is presently expanding fast and is now expected to grow at an 'annual rate of 14 to 16 per cent'. So the message appears to have changed; to trusted partners, who can apply value-added technology to the process of drug discovery, there is now an increasing willingness to outsource.

2008 will see Cyprotex continue to build its customer numbers, with a view to insulating itself from cyclical demand swings of individual

players. It will also tailor its services to attract a closer relationship with our customers whose priorities are now to simplify their infrastructure and eliminate the more generic parts of their operations. Such high integrity collaborations could see Cyprotex assume responsibility for a significant proportion of their *in vitro* requirement that, historically, has been carried out internally.

Product Development

Cyprotex's range of services are offered under the Cloe® ('Cyprotex-Lead-Optimisation-Engine') title and include Cloe® Screen, Cloe® Predict and the recent addition of Cloe® Select.

The marriage of 'leading-edge' laboratory technologies, a proprietary operating system, an automated decision making and processing package (*the Cyprotex Discovery Bus*), pharmacokinetic prediction software (Cloe® PK), combined with a highly automated screening facility (Cloe® Screen) and an ability to perform bespoke project work (Cloe® Select), offers something unique to the international drug development world.

During 2007, our Experimental Science division expanded its *in vitro* capabilities. Certain projects were customer-led, while others were completed in response to draft FDA guidelines; new offerings now include thermodynamic solubility and P-gp inhibition. Elsewhere, a focus was seen on increased automation and customisation of several high-throughput assays, such as P450 inhibition and permeability screening, with a view to broadening the service and enhancing capacity without degradation of scientific standards or turnaround times. Benefits of these advances will be seen in the current year.

Three major themes dominated the Information Systems division over the past 12 months. These were (i) improved flexibility of scientific protocols, (ii) improving resilience against hardware failure and (iii) further development of the Cyprotex Discovery Bus infrastructure. Much of this was designed to consolidate existing services or support customer formats, including restyled chromatograph reporting.

2008 will see deployment of new software in support of greater protocol flexibility and more complete life-cycle support, while seeking to establish the frameworks underpinning both the experimental and predictive sciences. A unique solution for this includes a novel approach to auto-QSAR (automated Quantitative Structure-Activity Relationships) technology, which uses competitive workflow for predicting properties from chemical structure. This technology has potentially wide ranging applications within drug discovery.

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The Scientific Computing division continued to enhance its pharmacokinetic prediction capabilities, both by elaboration of *in silico* prediction models and by increasing reliability of *in vitro* — *in vivo* extrapolations. The Group's reputation in the scientific community has expanded due to its participation in several EU-funded projects such as EUMAPP (seeking an acceleration from 'lab to clinic' using human microdosing, improved analytical capabilities and *in silico* approaches), and OSIRIS to address REACH (Registration, Evaluation and Authorisation of Chemicals) legislation.

Research will continue this year, feeding results back into the Cloe® line of assays and predictive methods. Models for prediction of efficacy and toxicity in pharmaceuticals will also be investigated, with a view to evaluating Cyprotex's capabilities in integrated lead optimisation.

The 'Requisition'

On 12 February 2007, Cyprotex received a requisition from founder, Prof. David Leahy, and Robert Long ('the Requisitionists'). Being shareholders of your Company holding at least 10% of its paid up share capital they possess the right, pursuant to section 368 of the Companies Act 1985, to call an Extraordinary General Meeting. The purpose of this meeting was to propose the removal of each of Cyprotex's existing Executive and Non-Executive Directors and then, by separate resolution to appoint themselves along with a Michael McGoun and Dr David Cavella as Directors with immediate effect.

In the event, on 6 March 2007, 76.48% of votes cast opposed the Resolutions.

Accordingly, a large majority rejected the Resolutions and no changes to the Board were made.

Governance

On 1 April 2008, I was appointed as Cyprotex's Non-Executive Chairman. The role of Executive Chairman was previously held by Robert Morrisson Atwater, who at the same time carried out the role of Chief Executive Officer. Robert Morrisson Atwater now continues with the single role of Chief Executive Officer.

Nikolas Sofronis

Non-Executive Chairman

24 April 2008



Capital structure

As at 31 December 2007, Group Shareholders' equity was £1,268,154 (2006: £1,682,553) and cash amounted to £300,854 (2006: £455,279). Total net debt at 31 December 2007 was £798,955 (2006: £750,984). The Company has a bank overdraft facility of £250,000. There was one additional lease facility entered into during the year for £174,522. Full details of the changes in the share structure of the Company can be found in note 23 on pages 42 to 43.

Turnover and pre-tax loss

The Group achieved turnover in the year of £3.63 million, an increase of 3.7% from the year ended 31 December 2006. It was pleasing to note the increased penetration of US markets with sales in the USA up by 27% to £1,730,468. The share based payment charge for the year, which has no net cash effect, was £63,489 (2006: £136,666).

The operating loss for the year, including share based payment charges, was £495,627 (2006: £740,754). The Group continues to invest in products, facilities and people. Emphasis was placed on developing the Group's science whilst building its international standing.

The Group made a loss before tax of £543,102 in the financial year (2006: £760,811); however, with the Research and Development tax credit of £64,367 for the period, the loss after tax was £478,735 (2006: £660,170). The loss per share, basic and diluted was 0.35p (2006: 0.48p), a reduction of over 37%.

Outlook

Strategy and future developments for the business

Cyprotex's principal aim is to be recognised as a company that sets international standards for pharmacokinetic screening. The global market that Cyprotex addresses for *in vitro* evaluation of compounds during pre-clinical drug discovery and development continues to grow rapidly and is now estimated to be worth well in excess of US\$2 billion. Its gradual evolution, from that of a largely 'internal' operation to one that is outsourced to trusted external agents, is the basis of the Group's business plan.

In order to sell services to an exceptionally demanding client base, Cyprotex has invested heavily in proprietary technologies that provide exceptional levels of laboratory automation, data

manipulation and simulation software. The Group claims its offering is unmatched in terms of price, turnaround, capacity and reproducibility.

Having proven the technology and equipped its facility, Cyprotex's initial investment phase is now largely complete, leaving the Company to concentrate on capturing an expanding sales opportunity. Competition tends to be highly fragmented, with no other facility known to be singularly focusing on such high automated screening as a core competence. Given the exceptional cost involved in taking a development compound through to Federal Drug Administration (FDA) approval, decision making at the early screening stage is critical. Against this, Cyprotex's potential universe of customers is huge. With well over 100 customers already, it is aware that its operations are both trusted and add significant value. Strategy now concentrates on building such relationships into true collaborations whilst continuing to expanding its product and services offering in line with customer requirements.

Principal risks/uncertainties

Management has attempted to minimise its exposure to identified external and internal variables that may have an effect on the operations of the Group. Where possible, measures to monitor and mitigate such risks have been enacted and processes adopted to formally identify and examine such situations.

Despite this planning, the nature of Cyprotex's operations nevertheless requires investors to appraise themselves of the principal risks facing its operations.

Business evolution

Activity is dependent on continuing global investment in new drug discovery and development. Adoption of new practices for such development or significant regulatory change by authorities such as the FDA, or the supplanting of molecular compounds by means of electronic simulation or software emulation or prediction, would have a direct impact on likely revenues achieved by the Group.

Economic downturn

As a routine, senior management aim to remain familiar with global economic conditions. Not being dominated by customers from one specific region provides a certain amount of insulation from local

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variations. In the case of a severe worldwide economic downturn, however, marketing and pricing strategies would need to be modified to reflect the new conditions.

Investment for the benefit of personal health and longevity has historically followed longer-term patterns, such as infrastructural spending, whose patterns are set more by government and global industrialisation. As such, the business is only modestly reliant on shorter-term fluctuations in consumer confidence.

Fixed overheads

A large proportion of the Group's overheads are fixed. There is a significant risk that revenue growth slows to the extent that these costs will not be covered. Similarly, given a relatively low level of consumable costs, the Group is seen to enjoy a high level of operational gearing.

Management closely monitors fixed overheads and cost savings would be implemented should part of the Group's operations be considered unable to produce a reasonable return in the future. The operating cost of the core operation, however, provides only limited scope to reduce costs without detriment to quality of service.

Seasonality

Variations during the calendar year are impacted by the budgetary position and vacation trends of the Group's customer base. In this respect, the strongest period is usually seen during the final quarter as annual projects move toward completion; the weaker period

coincides with summer holidays in the third quarter and, to a lesser extent, immediately after the New Year celebrations. During these times, the Group normally allocates surplus resources to internal research and product development.

Competition

The market in which the Group operates is competitive. This competition is also highly fragmented. By technological innovation and investment, it endeavours to offer its global customer base a quality of service unmatched by its competitors. These same qualities are used to draw work away from facilities otherwise internal to its customer base.

Product obsolescence

The Group offers highly technological products and services. Having internally developed such proprietary offerings and by continuing to invest in their evolution, management remains confident of their ability to remain competitive. This does imply an ongoing cost, for which management does allocate and release resources in accordance with internal and market demands.

Management is committed to retaining a technological leadership in its specific sector and will, for reasons of economy, timeliness or for market advantage, consider buying, franchising or co-developing products with external parties. Management significantly values the intellectual properties gained from years of research and development investment and would be prepared to protect its rights to the same if challenged.

Group performance

	2007	2006	2005*	2004*	2003*
	£000	£000	£000	£000	£000
Revenue	3,626	3,505	2,701	2,117	1,053
Gross profit	3,004	2,972	2,295	1,685	803
Gross profit percentage	83%	85%	85%	80%	76%
Operating costs	(3,500)	(3,712)	(3,463)	(3,311)	(2,838)
Net finance cost	(47)	(20)	13	106	(14)
Taxation	64	100	148	165	189
Loss for the year	(479)	(660)	(1,007)	(1,355)	(1,860)

* Restated under IFRS.



Fluctuations in commodity prices

The completion of our services relies on chemicals and solutions that are both of a specific and specialist nature. The prices of such products are susceptible to fluctuations dependent upon market conditions at the date of purchase.

In order to mitigate the impact of such price movements, management has established a number of regular supply arrangements that provide a limited amount of forward visibility. Should the purchase price of these products move significantly for an extended period, management is confident that its end customers would accept this additional weighting being factored into the prices of their delivered services.

Fluctuations in currency exchange rates

Approximately 61% of our turnover (2006: 49%) was derived in international currencies, principally US dollars and euros. As a Group, we are therefore exposed to foreign currency fluctuations.

The Group currently manages its foreign exchange exposure on a net basis.

Regulatory changes affecting the business

The industry in which the Group operates is strictly regulated. Future changes in such regulation may impact the Group's ability to generate income, either through decreased revenues, increased expenditure, or a combination of both.

Management aims to mitigate such risks by ensuring that the

customer base is adequately informed of the impact of changing legislation and does have regular exchanges with its suppliers and end customers with regard to the same. At this time, management foresees no such legislative change likely to negatively affect its operations; by contrast, management anticipates regulatory guidance toward independently verification to work in its favour.

People

The success of the Group is largely dependent upon the recruitment and retention of the correctly qualified and skilled staff. There are remuneration schemes in place designed to mitigate the risk of losing key individuals and the absence of suitable resources.

Pension funding

The Company does not have a defined benefit pension scheme for any of its employees.

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 and period deposits, with a policy of maximising fixed interest returns as well as providing the flexibility required for funding ongoing operations. It is not Group policy to routinely use financial derivatives to manage exposure and other financial assets and liabilities. Although the financial risks are considered to be minimal at present, future interest rates, liquidity and foreign currency risk could arise and the Board will review its existing policies in the coming period.

Revenue: Percentage by geographic region

	2007 %	2006 %	2005 %	2004 %	2003 %
UK	20.8	13.7	10.6	38.2	44.0
RoE	29.6	46.9	60.9	55.9	52.6
USA	47.7	38.7	27.7	5.9	3.4
RoW	1.9	0.7	0.8	—	—
	100.0	100.0	100.0	100.0	100.0

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Operating costs (excluding share based payments)

	Staff £000	Depreciation £000	Other £000	Total £000
2003	1,275	264	1,299	2,838
2004	1,906	273	1,076	3,255
2005	1,967	346	1,042	3,355
2006	2,073	352	1,150	3,575
2007	2,190	264	983	3,437

Revenue: Value by geographic region

	2007 £000	2006 £000	2005 £000	2004 £000	2003 £000
UK	753	482	287	809	463
C. Europe	1,073	1,643	1,644	1,183	554
USA	1,730	1,355	747	125	36
RoW	70	25	23	—	—
	3,626	3,505	2,701	2,117	1,053
Year-on-year increase. (total sales)	3.5%	29.8%	27.6%	101.0%	

Interest rate risk

On 17 January 2005, Cyprotex entered a 20-year mortgage facility of £704,000 with Bank of Scotland to substantially fund the acquisition of a long-leasehold interest in its operational premises. Interest payable on this bank loan is 1.75% over the bank's base rate.

Apart from using short-term and period deposits, interest rate risks are limited to the fixed element of finance lease/hire purchase agreements that the Group has occasionally used and base rate risk on bank loans.

Typically, the Group arranges lease finance and hire purchase for fixed periods ranging from 3 to 5 years, to enable purchase of assets where it is considered to be an effective use of funds.

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

In anticipation of any further expansion of North American and European sales, which are mainly denominated in US dollars and euros, the associated currency risk (whilst partly offset by overseas expenditure), is regularly reviewed by the Board. The Group has minor trade related debtors and creditors, against which any currency rate movement has no material impact.

R.B. Gibbs

Chief Financial Officer
24 April 2008

**1 Nikolas Sofronis** (Age 43)**Non-Executive Chairman**

Nikolas Sofronis, having graduated from the Athens Bar, is a lawyer by training. For the past 16 years, he has worked for numerous high profile asset management organisations. He focuses primarily in the biopharmaceuticals area whilst working for HSBC, Credit Lyonnais, Republic Bank of New York, and others.

2 Robert Morrisson Atwater (Age 45)**Chief Executive Officer**

Robert Morrisson Atwater's career to date has spanned many years working in the bio-pharmaceutical industry, as well as financial services. Robert joined Cyprotex from San Francisco-based Thalassa Capital Management LLC, an asset management firm which he co-founded, which concentrates on bio-pharmaceutical opportunities worldwide. Prior to Thalassa, Robert worked in business development Europe and Asia for BioChem Pharma Inc., a Canadian bio-pharmaceutical Company, which was subsequently acquired by Shire Pharmaceuticals Group plc. Robert has also worked for a number of prominent financial services companies. He studied at L'Universite de Neuchatel in Switzerland and is a graduate of the University of Massachusetts at Amherst.

3 Russell Gibbs (Age 48)**Chief Financial Officer**

Russell Gibbs has over 20 years' experience in the international capital markets, having worked for a number of major investment banks over this period, including UBS, Paribas SA and NatWest. A wide range of roles, including many customer facing activities, have seen Russell advising on initial public offerings, merger and acquisitions and new fund raising in both the quoted equity and bond markets.

4 Minhaz Manji (Age 46)**Non-Executive Director**

Minhaz Manji is the Managing Director of Montecute House Limited which builds limited service hotels under the name of Express by Holiday Inn (a franchise) of InterContinental Hotels Group. The Company has a development agreement to build 15 hotels. Minhaz currently serves as the elected Chairman of Express Owners in the UK, currently numbering 100 hotels — an investment of over £1 billion. He also serves as a director on the advisory board of the newly formed InterContinental Group.

5 Dr Martial Lacroix (Age 57)**Non-Executive Director**

Martial Lacroix is the Vice-President of GeneChem, a Montreal-based venture capital group with close to Canadian \$250 million

under management and investments in 31 companies located in Canada, the USA and the UK. Dr Lacroix was a co-founder of BioChem Pharma Inc. and previously held a number of positions with BioChem ImmunoSystems Inc., including Director, Research and Development and Director, Quality Control. Between 1981 and 1986, Dr Lacroix was a Professor in the Department of Virology at Institut Armand-Frappier. Dr Lacroix received a BSc and a MSc in biochemistry from University of Montreal and a PhD from the University of Toronto. He has authored 33 scientific publications and holds eight issued patents. Currently Dr Lacroix is a director on the board of five privately held companies.

6 David Evans (Age 41)**Non-Executive Director**

David is a member of the intellectual property group at Genentech, Inc., one of the world's leading biotherapeutics companies. David has worked with cutting-edge biopharmaceutical companies for the past 15 years, including BioChem Pharma, Allelix Biopharmaceuticals which was acquired by NPS Pharmaceuticals, and currently Genentech, Inc. of South San Francisco. David holds a Bachelor of Science degree from the University of Toronto in chemistry and biology and began his career in intellectual property at the Canadian Patent Office in 1991.



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The Directors of Cyprotex PLC present their report to the shareholders, together with the audited financial statements, for the year ended 31 December 2007.

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* ADMET/PK (Absorption, Distribution, Metabolism, Excretion, Toxicity/Pharmacokinetic) information to the pharmaceutical industry.

Details of the Group's performance during the year, expected future developments and the principal risks and uncertainties facing the Group are contained in the Chairman's Statement set out on pages 10 to 12 and the Financial Review set out on pages 13 to 16.

Accounting standards and IFRS

For consolidated reporting the Company has adopted International Financial Reporting Standards ('IFRS') for the first time this year. Comparative information has been restated as appropriate. The parent Company accounts continue to be reported under United Kingdom generally accepted accounting practice ('UK GAAP').

Results and dividends

The loss for the year, after taxation, was £478,735 (2006: loss £660,170) and an equivalent amount has been transferred from reserves.

The Directors do not propose the payment of a dividend.

A financial review of the results is included on pages 13 to 16.

Going concern

The Group recorded a loss after taxation of £478,735 in the year ended 31 December 2007 and cash and deposits fell by £154,425 to £300,854 in the year then ended (2006: fall of £234,823 to £455,279). However, the Directors have reviewed the budget, financial forecasts including cash flow forecasts and other relevant information and believe that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, the financial statements are prepared on a going concern basis. This assumption is further underpinned by the readiness of key shareholders to support the Group. The Directors having reviewed operational requirements and forecasts for this year and beyond consider that Cyprotex PLC will have sufficient cash resources to continue to operate. In the event of unforeseen circumstances, including any major failure by the Group to meet performance expectations, management understands that such resources could rapidly deplete, thereby requiring some external means of fund-raising in order to remain a going concern. Being a publicly quoted Company, Cyprotex PLC has the option of approaching shareholders with a view to offering a pre-emptive rights issue, an open offer or a restricted offer of new shares. Other options for short-term fund-raising include a sale and leaseback of its Macclesfield head office. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

Directors

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

Mr R. Morrisson Atwater
Mr R.B. Gibbs
Mr N. Sofronis
Mr M. Manji
Dr M. Lacroix
Mr D.W. Evans

In accordance with the Company's articles of association Mr Russell Barry Gibbs and Mr Nikolas Sofronis retire as Directors and, being eligible, offer themselves for re-election at the Annual General Meeting.

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

Further details of the Directors, their service agreements, remuneration and fees, are set out on pages 22 and 23.

The Board

The Board comprises two Executive Directors, the Chairman, and three other Non-Executive Directors, 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 one Executive Director and one Non-Executive Director, Mr N. Sofronis, as Chairman. 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 auditors and ensures that auditor objectivity and independence have not been compromised and meets at least twice during the year.
- **Remuneration Committee** — comprises two Non-Executive Directors, Mr N. Sofronis and Mr D.W. Evans, with Mr N. Sofronis 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 the Executive Directors. The Report on Directors' Remuneration is set out on pages 22 and 23.

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 has reviewed the effectiveness of its system of internal control 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 Board conducts ongoing reviews of the internal control systems and 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.

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There is also an opportunity, at the Company's Annual General Meeting, for individual shareholders to raise general business matters with the 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.

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 2007, the Group had an average of 37 days purchases (2006: 27 days) outstanding in trade creditors. The Company had an average of nil days (2006: nil days) purchases outstanding in trade creditors.

Charitable and political contributions

Charitable contributions amounted to £85 (2006: £55). The Group made no political contributions (2006: £nil).

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 where applicable.

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 2007, 22 employees, including Directors and one consultant to the Company, held options over 20,401,813 ordinary shares in the Company under the unapproved share option scheme (2006: 27 employees and one consultant: 22,726,785 ordinary shares). Further information on share options is shown in note 24 on pages 43 to 44.

Annual General Meeting

The Annual General Meeting of the Company will be held at the National Liberal Club, Whitehall Place, London SW1A 2HE on 14 July 2008 at 10.00 a.m. The notice of the Annual General Meeting will be forwarded to shareholders as a separate document along with the Annual Report & Accounts.

Major interests in shares

At 14 April 2008, the following persons held interests in excess of 3% of the ordinary share capital of the Company:

	Percentage holding	Number of ordinary shares
Bank of Scotland	19.56%	27,115,098
Intercapital Private Group Ltd	15.16%	21,024,465
Prof D.E. Leahy	7.50%	10,401,600
R. Long	5.19%	7,200,000
BNP Paribas	3.77%	5,227,500
Banque Privee Edmond de Rothschild	3.25%	4,500,000
Squaregain	3.05%	4,231,869
Artemis Fund Managers	3.04%	4,220,000

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

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985. 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

Mark C. Warburton

Company Secretary

24 April 2008



Remuneration committee

The Remuneration Committee comprises two Non-Executive Directors, N. Sofronis and D.W. Evans, with N. Sofronis 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 have service contracts with a notice period of between six and twelve months to be given by either the Director or the Company. The service contract of R. Morrisson Atwater provides that in the event of a change of control in the ownership of the Company the notice period increases to twenty-four months. 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 three month notice period by either themselves or by the Company. These agreements provide for the attendance at Board meetings, an undertaking to advise the Company with respect to the management and conduct of business and the attendance at meetings of the Audit and Remuneration Committees of the Board as required. The Executive Directors determine the remuneration of the Non-Executive Directors without reference to the Remuneration Committee.
- Basic salary and benefits — basic salaries of Executive Directors are determined annually after a review of the performance of each individual. Benefits in kind principally comprise 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. No bonuses were awarded for the year ended 31 December 2007 (2006: Nil).
- 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 pages 42 and 43.
- Pensions — during the period, R.B. Gibbs and R. Morrisson Atwater 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 Executive Directors and staff.

Directors' remuneration

	Salary/fee £	Benefits £	2007 Total £	2006 Total £	2007 Pension £	2006 Pension £
Executive Directors						
R. Morrisson Atwater	145,000	1,090	146,090	145,826	14,500	14,500
R.B. Gibbs	100,000	510	100,510	68,998	10,000	4,167
Non-Executive Directors						
N. Sofronis	10,097	—	10,097	5,100	—	—
M. Manji	10,000	—	10,000	25,592	—	—
M. Lacroix	4,996	—	4,996	5,100	—	—
D.W. Evans	4,915	—	4,915	5,100	—	—
Total	275,008	1,600	276,608	255,716	24,500	18,667

Remuneration is from the date of appointment to the date of resignation.

Share prices

During 2007 the high and low share prices were 8.00p and 2.75p (2006:10.25p and 4.7p). The share price at 31 December 2007 was 3.50p (2006: 5.6p).

By order of the Board

Mark C. Warburton

Company Secretary

24 April 2008

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Statement of Directors' Responsibilities



The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRS') and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice or 'UK GAAP'), as appropriate to Group and Company.

United Kingdom 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with 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 1985. 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

The work carried out by the Auditor does not involve consideration of these matters and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the information contained in the financial statements since they were presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors information

In so far as the Directors are aware:

- There is no relevant audit information of which the Company's Auditor is unaware; and
- The Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information.



We have audited the Group and Parent Company financial statements (the "financial statements") of Cyprotex PLC for the year ended 31 December 2007 which comprise the principal accounting policies, the Group income statement, the Group and Parent Company balance sheets, the Group cash flow statement, the Group statement of changes in shareholders' equity and notes 1 to 39. These Group financial statements have been prepared under 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 auditor's 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 Auditor

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the Parent Company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice), are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes

that specific information presented in the Financial Review and Chairman's Statement that is cross-referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Directors' Remuneration Report, the Chairman's Statement, and Financial Review. 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 and Company's circumstances, consistently applied and adequately disclosed.

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



Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985;
- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2007; and
- the information given in the Directors' Report is consistent with the financial statements.

Separate opinion in relation to IFRSs

As explained in Note 2 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended.

Grant Thornton UK LLP

Registered Auditors
Chartered Accountants
Manchester
24 April 2008

Consolidated income statement	28
Consolidated balance sheet	29
Consolidated statement of changes in shareholders' equity	30
Consolidated statement of cash flows	31
Notes to the consolidated accounts	32
Parent Company balance sheet	49
Notes to the Parent Company accounts	50
Notice of Annual General Meeting	54
Shareholder Information	56
Directors and advisors	IBC



Consolidated income statement for the year ended 31 December 2007

		2007	2006
	Notes	£	£
Continuing operations			
Revenue	5	3,626,118	3,504,830
Cost of sales		(621,717)	(533,171)
Gross profit		3,004,401	2,971,659
Administrative expenses		(3,500,028)	(3,712,413)
Operating loss	6	(495,627)	(740,754)
Finance income	8	8,591	27,573
Finance costs	9	(56,066)	(47,630)
Loss before taxation		(543,102)	(760,811)
Income tax	10	64,367	100,641
Loss for the year		(478,735)	(660,170)
Loss per share from continuing operations			
— basic	11	(0.35)p	(0.48)p
— diluted	11	(0.35)p	(0.48)p



Consolidated balance sheet
 at 31 December 2007

	Notes	2007 £	2006 £
ASSETS			
Non current assets			
Property, plant and equipment	12	1,365,661	1,422,026
		1,365,661	1,422,026
Current assets			
Inventories	13	113,694	85,636
Trade receivables	14	467,105	561,879
Other receivables	15	192,911	196,545
Current tax assets		68,986	100,067
Cash and cash equivalents		300,854	455,279
		1,143,550	1,399,406
Total assets		2,509,211	2,821,432
LIABILITIES			
Non current liabilities			
Long term borrowings		611,500	635,800
Obligations under finance leases		72,399	35,807
	16	683,899	671,607
Current liabilities			
Trade payables	18	166,334	128,969
Current portion of long term borrowings	17	22,500	22,500
Other payables	20	275,768	258,926
Obligations under finance leases	17	92,556	56,877
		557,158	467,272
Total liabilities		1,241,057	1,138,879
EQUITY			
Share capital	22,23	138,648	138,573
Share premium account		9,663,685	9,662,913
Other reserve		128,070	128,070
Share based payment reserve		363,473	299,984
Retained losses		(9,025,722)	(8,546,987)
Shareholders' equity		1,268,154	1,682,553
Total equity and liabilities		2,509,211	2,821,432

The accounts on pages 28 to 53 were approved by the Board of Directors and authorised for issue on 24 April 2008.

They were signed on its behalf by:

R.B. Gibbs

Chief Financial Officer



Consolidated statement of changes in shareholders' equity

for the year ended 31 December 2007

	Share capital	Share premium account	Other reserve	Share based payment reserve	Retained losses	Total equity
	£	£	£	£	£	£
Balance at 31 December 2005	138,325	9,660,362	128,070	163,318	(7,886,817)	2,203,258
Changes in equity for 2006						
Loss for the year	—	—	—	—	(660,170)	(660,170)
Total recognised income and expense for the period	—	—	—	—	(660,170)	(660,170)
Issue of share capital	248	2,551	—	—	—	2,799
Share based payment charge	—	—	—	136,666	—	136,666
Balance at 31 December 2006	138,573	9,662,913	128,070	299,984	(8,546,987)	1,682,553
Changes in equity for 2007						
Loss for the year	—	—	—	—	(478,735)	(478,735)
Total recognised income and expense for the period	—	—	—	—	(478,735)	(478,735)
Issue of share capital	75	772	—	—	—	847
Share based payment charge	—	—	—	63,489	—	63,489
Balance at 31 December 2007	138,648	9,663,685	128,070	363,473	(9,025,722)	1,268,154

The other reserve arose on the acquisition of Cyprotex Discovery Limited by the Company on 4 January 2002, which was accounted for as a merger.



Consolidated statement of cash flows
 for the year ended 31 December 2007

	2007	2006
	£	£
Cash flows from operating activities		
Loss after taxation	(478,735)	(660,170)
Adjustments for:		
Depreciation	264,225	351,529
Share based payment charge	63,489	136,666
Investment income	(8,591)	(27,573)
Interest expense	56,066	47,630
Taxation income recognised in income statement	(64,367)	(100,641)
Decrease/(increase) In trade and other receivables	98,408	(46,836)
(Increase)/decrease in inventories	(28,058)	5,591
Increase in trade and other payables	54,207	85,485
Cash outflow from operations	(43,356)	(208,319)
Interest paid	(56,066)	(47,630)
Income tax received	95,448	146,812
Net cash outflow from operating activities	(3,974)	(109,137)
Cash flows from investing activities		
Purchase of property, plant and equipment	(33,338)	(77,602)
Interest received	8,591	27,573
Net cash used in investing activities	(24,747)	(50,029)
Cash flows from financing activities		
Proceeds from issue of share capital	847	2,799
Repayment of long-term borrowings	(24,300)	(25,700)
Payment of finance lease liabilities	(102,251)	(52,756)
Net cash used in financing activities	(125,704)	(75,657)
Net decrease In cash and cash equivalents	(154,425)	(234,823)
Cash and cash equivalents at beginning of period	455,279	690,102
Cash and cash equivalents at end of period	300,854	455,279



Notes to the consolidated accounts

for the year ended 31 December 2007

1. Nature of operations and general information

Cyprotex PLC and its subsidiaries ('the Group') principal activity is the provision of *in vitro* and *in silico* ADMET/PK (Absorption, Distribution, Metabolism, Excretion, Toxicity/Pharmacokinetic) information to the pharmaceutical industry.

Cyprotex PLC is the Group's ultimate Parent Company. It is incorporated and domiciled in England and Wales. The address of the registered office of Cyprotex PLC is 100 Barbirolli Square, Manchester, M2 3AB. It trades through a wholly owned subsidiary, Cyprotex Discovery Limited whose place of business is 15 Beech Lane, Macclesfield, Cheshire, SK10 2DR. Cyprotex PLC's shares are listed on the Alternative Investment Market of the London Stock Exchange.

The consolidated statements of Cyprotex PLC are presented in Pounds Sterling (£), which is also functional currency of the parent.

2. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Practice is continuing to evolve on the application and interpretations of IFRS. Further standards may be issued by the International Accounting Standards Board (IASB) and standards currently in issue and endorsed by the EU may be subject to interpretations issued by IFRIC.

IFRS, as adopted by the EU, differs in certain respects from IFRS as issued by the IASB. However, the consolidated financial statements for the period presented would be no different had the Group applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

The preparation of financial statements, in conformity with generally accepted accounting principles under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

The financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the detailed accounting policies below.

The policies have changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Principles (UK GAAP). The comparative information has been restated in accordance with IFRS. The changes to accounting policies are explained in note 3, together with the reconciliation of opening balances. The date of transition to IFRS was 1 January 2006 (transition date).

The Group has taken advantage of certain exemptions available under IFRS 1 'First-time adoption of International Financial Reporting Standards'. The exemptions used are explained in note 3.

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2007.

The Group recorded a loss after taxation of £478,735 in the year ended 31 December 2007 and cash and deposits fell by £154,425 to £300,854. However, the Directors have reviewed the budget, financial forecast including cash flow forecasts and other relevant information and believe that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, the accounts are prepared on a going concern basis. This assumption is underpinned by the readiness of key shareholders to support the Group. The Directors, having reviewed operational requirements and forecasts for this year and beyond, consider that Cyprotex PLC will have sufficient cash resources to continue to operate. In the event of unforeseen circumstances, including any major failure by the Group to meet performance expectations, management understands that such resources could rapidly deplete, thereby requiring some external means of fund-raising in order to remain a going concern. Being a publicly quoted company, Cyprotex has the option of appealing to shareholders with a view to offering a pre-emptive rights issue, by an open offer or a restricted offer of new shares. Other options for short-term fund-raising include a sale-and-leaseback of its Macclesfield head office. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

3. Explanation of transition to IFRS

As stated in the Basis of Preparation, these are the Group's annual consolidated financial statements prepared in accordance with IFRS.

An explanation of how the transition from UK GAAP to IFRS has effected the Group's financial position, financial performance and cash flows is set out below.

IFRS 1 permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. These financial statements have been prepared on the basis of taking the following exemptions:

— Cumulative translation differences on foreign operations are deemed to be nil at 1 January 2006. Any gains or losses recognised in the consolidated income statement on subsequent disposal of foreign operations will exclude translation differences arising prior to the transition date.

— Only share based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

— Business combinations prior to 1 January 2006, the Group's date of transition to IFRS have not been restated to comply with IFRS 3 "Business Combinations".

Accordingly, there has been no adjustment to the accounting treatment adopted by the Group on the acquisition of Cyprotex Discovery Limited by Cyprotex PLC on 4 January 2002 which was accounted for at that date as a merger under UK GAAP.



Notes to the consolidated accounts

for the year ended 31 December 2007



3. Explanation of transition to IFRS (continued)

Explanation of material adjustments to the cash flow statement

Application of IFRS has resulted in reclassification of certain items in the cash flow statement as follows:

- 1) Under UK GAAP, payments to acquire property, plant and equipment were classified as part of 'Capital expenditure and financial investment'. Under IFRS, payments to acquire property, plant and equipment have been classified as part of 'Investing activities'.
- 2) Income taxes received by the Group in respect of Research and Development tax credits are now classified as an operating cash flow under IFRS; however, these were included in a separate category of tax cash flows under UK GAAP.

Explanation of reconciliation from UK GAAP to IFRS for the balance sheet and income statement

The adoption of IFRS by the Group has resulted in some reordering of the presentation of certain balances within both the income statement and balance sheet. However, there has been no impact on previously reported equity, liabilities or assets at 31 December 2006, or comparative amounts disclosed in the income statement for the year ended 31 December 2006.

4. Summary of significant accounting policies

Basis of consolidation

The Group financial statements consolidate those of the company and its subsidiary undertakings drawn up to the balance sheet date. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Property, plant and equipment

Property (including property subject to lease terms in excess of 800 years), plant and equipment is stated at cost, net of depreciation and any provision for impairment. No depreciation is charged during the period of construction or commissioning.

Depreciation

Depreciation is calculated to write down the cost, less any estimated residual value, of all property plant and equipment by equal annual instalments over the estimated useful economic lives as follows:

Long leasehold land and buildings	Over 50 years
Office equipment	Over 10 years
Computer equipment	Over 3 years
Laboratory equipment	Over 5 years

Material residual value estimates are updated at least annually.

Impairment testing of property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement.



Notes to the consolidated accounts

for the year ended 31 December 2007

4. Summary of significant accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is reduced for any rebates and other similar allowances.

Revenue on the outright sale of services and software, where no supplier obligations remain, is recognised on delivery to the customer.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rates applicable.

Inventories

Inventories are stated at the lower of cost and net realisable value on a first-in-first out basis, after making allowance for obsolete and slow moving items. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion.

Research and development

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

Development costs incurred are capitalised during the development phase when all the following conditions are satisfied:

- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Amortisation commences upon completion of the asset and is in line with expected future related sales.

Careful judgement by the Directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date. In addition, all internal activities related to the research and development of new software products are continuously monitored by the Directors.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposit, together with other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Leased assets

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

The interest element of leasing payments is charged to the income statement in constant proportion to the capital balance outstanding over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

Pensions

The Group operates a defined contribution scheme. Pension costs charged against profits are the contributions payable to the scheme in respect of the accounting period.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.



Notes to the consolidated accounts

for the year ended 31 December 2007



4. Summary of significant accounting policies (continued)

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the income statement in the period in which they arise. Exchange differences on non-monetary items are recognised in the statement of recognised income and expenses to the extent that they relate to a gain or loss on that non-monetary item taken to the statement of recognised income and expenses, otherwise such gains and losses are recognised in the income statement.

The assets and liabilities in the financial statements of foreign subsidiaries and related goodwill are translated at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at the actual rate. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to the "Foreign currency reserve" in equity. On disposal of a foreign operation the cumulative translation differences (including, if applicable, gains and losses on related hedges) are transferred to the income statement as part of the gain or loss on disposal.

The Group has taken advantage of the exemption in IFRS 1 and has deemed cumulative translation differences for all foreign operations to be nil at the date of transition to IFRS. The gain or loss on disposal of these operations excludes translation differences that arose before the date of transition to IFRS and includes later translation differences.

Taxation and deferred tax

Current tax is the tax currently payable or receivable based on taxable profit or loss for the period.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

Government and other grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the income statement by equal annual instalments over the expected useful lives of the relevant assets.

Government grants of a revenue nature are credited to the income statement in the same period as the related expenditure.

Share based payments

In accordance with IFRS 2 the fair value of equity-settled share based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Group's estimate of when share options will eventually vest. In the case of options granted, fair value is measured by a Black-Scholes pricing model.

All share based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements in accordance with IFRS 1.

All equity-settled share based payments are ultimately recognised as an expense in the income statement with a corresponding credit to the share based payment reserve.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate or the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

Upon exercise of share options, the proceeds received net of attributable transaction cost are credited to share capital, and where appropriate share premium.

Financial assets

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised as at fair value through profit or loss are recognised at fair value plus transaction costs. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through the income statement.



Notes to the consolidated accounts

for the year ended 31 December 2007

4. Summary of significant accounting policies (continued)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed date of maturity where it is the intention of the directors to hold them until maturity. Held-to-maturity investments are measured subsequent to initial recognition at amortised cost using the effective interest method. If there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in the income statement.

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the entity as at fair value through profit or loss upon initial recognition. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the income statement. Financial assets originally designated, as financial assets at fair value through profit or loss may not be reclassified subsequently.

Financial assets are designated as at fair value through profit or loss where they eliminate or significantly reduce a measurement (or recognition) mismatch.

Loans receivable are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

An assessment for impairment is undertaken on each financial asset at least at each balance sheet date

Regular purchases and sales are accounted for on trade date. Where an entity uses settlement date accounting for an asset that is subsequently measured at cost or amortised cost, the asset is recognised initially at its fair value on the trade date.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

Financial liabilities

Financial liabilities categorised as at fair value through profit or loss are remeasured at each reporting date at fair value, with changes in fair value being recognised in the income statement. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial liabilities are categorised as at fair value through profit or loss where they are classified as held-for-trading or designated as at fair value through profit or loss on initial recognition.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

Equity

Equity comprises the following:

- "Share Capital" represents the nominal value of equity shares.
- "Share Premium" represents the excess over nominal value of the fair value of consideration received for equity shares net of expenses of the share issue.
- "Other Reserve" represents the balance arising on merger when Cyprotex Discovery Limited was acquired by the Company on 4 January 2002, as previously reported under UK GAAP.
- "Share based payment reserve" represents equity settled share-based employee remuneration until such share options are exercised.
- "Retained earnings/(losses)" represents retained profits and losses.

Critical accounting and judgements and key sources of estimation uncertainty

Estimates and accounting judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The preparation of financial statements under IFRS requires management to make assumptions and estimates about future events. The resulting accounting estimates will, by definition, differ from actual results. The assumptions and estimates that have a significant risk of causing a material adjustment within the next financial year are:

Share option charges

Expected life of share options, volatility of shares, risk free yield rate to maturity and expected dividend yield.

Recognition of revenue and profit on contracts to provide services

Revenue and profit are recognised by reference to the estimated stage of completion of the contract to the extent of contract costs incurred that it is probable will be recoverable.



Notes to the consolidated accounts
 for the year ended 31 December 2007



4. Summary of significant accounting policies (continued)

Research and development

Careful judgement is applied when deciding whether the recognition requirements, set out in full above, for development costs have been met.

Adoption of new and revised standards

Standards and Interpretations in issue not yet adopted

At the date of the authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective. The Directors anticipate the adoption of these standards and interpretations will have no material impact on the Group's financial statements, with the exception of IAS 1, which will effect the presentation of changes in equity and introduces a statement of comprehensive income. This amendment will not affect the financial position or results of the Group but will give rise to additional or changed disclosure. The Directors anticipate that the Group will adopt these standards and interpretations on their effective dates.

- IAS 1 Presentation of financial statements (revised 2007) (effective 1 January 2009);
- IAS 23 Borrowing costs (revised 2007) (effective 1 January 2009);
- IAS 27 Consolidation and separate Financial Statements (revised 2008) (effective 1 July 2009);
- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009);
- IFRS 2 Amendment to IFRS Share-based payment. Vesting Conditions and Cancellations (effective 1 January 2009);
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009);
- IFRS 8 Operating segments (effective 1 January 2009);
- IFRIC 11 IFRS 2 Group and treasury share transaction (effective 1 March 2007);
- IFRIC 12 Service concession arrangements (effective 1 July 2008);
- IFRIC 13 Customer loyalty programmes (effective 1 July 2008); and
- IFRIC 14 and IAS 19 The limit on defined benefit asset, minimum funding requirements and their interaction (effective 1 January 2008).

5. Revenue and segmental analysis

Revenue 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 ADMET/PK (Absorption, Distribution, Metabolism, Excretion, Toxicity/Pharmacokinetic) information to the pharmaceutical industry. The revenue and operating loss for the years are derived from the Group's principal activity.

The geographical analysis of revenue by destination is as follows:

	2007	2006
	£	£
United Kingdom	753,468	481,656
Rest of Europe	1,072,586	1,642,940
USA	1,730,468	1,354,998
Rest of World	69,596	25,236
	3,626,118	3,504,830

6 Operating loss

This is stated after charging:

	2007	2006
	£	£
Auditor's remuneration		
— fees payable to the Company Auditor for the audit of the Parent Company and Group financial statements	12,500	11,500
— statutory audit fees for subsidiaries	10,000	9,000
— other services	2,350	—
— tax services	9,200	8,000
Depreciation of owned assets	204,842	318,324
Depreciation of assets under finance leases and hire purchase contracts	59,383	33,205
Research and development — including staff costs	364,782	505,264
Loss on foreign currency translation	12,098	33,003
Share based payment charge (see note 25)	63,489	136,666



Notes to the consolidated accounts for the year ended 31 December 2007

7. Staff costs

	2007	2006
	£	£
Wages and salaries	1,852,389	1,772,408
Social security costs	180,081	170,166
Other pension costs	158,379	130,269
	2,190,849	2,072,843

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

	2007	2006
	No.	No.
Operations technical	11	8
Development technical	27	24
Administration	4	4
Selling and Distribution	4	5
	46	41

Directors' remuneration

	Salary/fee	Benefits	2007 Total	2006 Total	2007 Pension	2006 Pension
	£	£	£	£	£	£
Executive Directors						
R. Morrison Atwater	145,000	1,090	146,090	145,826	14,500	14,500
R.B. Gibbs	100,000	510	100,510	68,998	10,000	4,167
Non-Executive Directors						
N. Sofronis	10,097	—	10,097	5,100	—	—
M. Manji	10,000	—	10,000	25,592	—	—
M. Lacroix	4,996	—	4,996	5,100	—	—
D.W. Evans	4,915	—	4,915	5,100	—	—
Total	275,008	1,600	276,608	255,716	24,500	18,667

Remuneration is from the date of appointment to the date of resignation.

During the year two Directors (2006: two Directors) participated in defined contribution pension schemes.

8. Finance income

	2007	2006
	£	£
Finance income:		
Income from deposits	8,591	27,573

9. Finance costs

	2007	2006
	£	£
Interest payable:		
Bank overdraft	35	—
Interest element of finance leases and hire purchase contracts	13,881	9,397
Bank loans	42,150	38,233
	56,066	47,630



Notes to the consolidated accounts

for the year ended 31 December 2007

10. Income tax

(a) Tax on loss on ordinary activities

The tax credit is made up as follows:

	2007	2006
	£	£
Current tax:		
Corporation tax at 30%	68,986	100,067
Adjustment in respect of prior year	(4,619)	574
Tax on loss on ordinary activities	64,367	100,641

(b) Factors affecting current tax charge

The current tax credited for the year is lower than the standard rate of corporation tax at 30% (2006: 30%) due to the differences explained below:

	2007	2006
	£	£
Loss on ordinary activities before taxation	(543,102)	(760,811)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006: 30%)	162,931	228,243
Effects of:		
Expenses not deductible for tax purposes	(26,814)	(49,846)
Losses surrendered for R&D tax credit	(17,246)	(25,017)
Movement in unprovided deferred tax asset	72,046	(53,313)
Change in rate of deferred tax	(121,931)	—
Adjustment to charge in respect of prior periods	(4,619)	574
Current tax credit for the period	64,367	100,641

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

The Group has tax losses of £6,134,333 (2006: £6,044,908) that are available for offset against future profits arising from the same trade. No provision has been made for deferred tax on losses carried forward in the Group. A deferred tax asset will only be recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits of the Group will be available, against which the unused tax losses and unused credits can be utilised. Given the current existence of tax losses and absence of other reversing temporary differences, there is insufficient evidence that a deferred tax asset should be recognised in respect of these losses.

(d) Deferred taxation

No provision has been made for deferred tax on losses carried forward as they will only be available for offset when the Company makes taxable profits. As the timing of these profits is not certain, it has been assumed that the losses will not be recoverable in the foreseeable future.

The unprovided deferred tax asset comprises the following amounts:

	2007	2006
	£	£
Capital allowances	29,618	4,818
Other temporary differences	3,914	4,901
Tax losses	1,717,613	1,813,472
Total	1,751,145	1,823,191

All amounts are calculated at 28% (2006: 30%) using the liability method.

11. Loss per ordinary share

Basic loss per ordinary share is calculated based on the loss for the year attributable to ordinary share holders divided by the weighted average number of ordinary shares in issue during the year.

The loss for the year 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.

	2007	2006
Attributable loss (£)	(478,735)	(660,170)
Average number of ordinary shares in issue for basic and diluted earnings per share (number)	138,604,307	138,420,822
Basic and diluted loss per share (pence)	(0.35)p	(0.48)p



12. Property, plant and equipment

	Long leasehold and buildings	Office equipment	Computer equipment	Laboratory equipment	Total
	£	£	£	£	£
Carrying amount at 1 January 2006	844,754	26,685	35,514	788,999	1,695,952
Additions	7,498	1,717	59,206	9,182	77,603
Depreciation	(17,261)	(4,374)	(27,501)	(302,393)	(351,529)
Carrying amount at 31 December 2006	834,991	24,028	67,219	495,788	1,422,026
	£	£	£	£	£
Carrying amount at 1 January 2007	834,991	24,028	67,219	495,788	1,422,026
Additions	—	1,945	19,876	186,039	207,860
Depreciation	(17,385)	(4,630)	(34,603)	(207,607)	(264,225)
Carrying amount at 31 December 2007	817,606	21,343	52,492	474,220	1,365,661
At 31 December 2006	£	£	£	£	£
Cost or valuation	869,309	44,740	334,267	1,673,426	2,921,742
Accumulated depreciation	(34,318)	(20,712)	(267,048)	(1,177,638)	(1,499,716)
Net book value	834,991	24,028	67,219	495,788	1,422,026
At 31 December 2007	£	£	£	£	£
Cost or valuation	869,309	46,685	354,143	1,859,465	3,129,602
Accumulated depreciation	(51,703)	(25,342)	(301,651)	(1,385,245)	(1,763,941)
Net book value	817,606	21,343	52,492	474,220	1,365,661

Included in laboratory equipment above were amounts under finance lease and hire purchase contracts. The net book value of such assets was £236,889 (2006: £121,750) and the depreciation charged in the year was £59,383 (2006: £33,205).

13. Inventories

	2007	2006
	£	£
Raw materials and consumables	113,694	85,636

Inventory expensed during the year amounted to £443,844 (2006: £432,827).

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

14. Trade receivables

	2007	2006
	£	£
Trade receivables	467,105	561,879

There were no amounts past due at either 31 December 2007 or 31 December 2006.

The average credit period taken on trade receivables excluding deferred income is 45 days (2006: 52 days). Trade receivables do not carry interest. No provision (2006: £nil) has been made for receivables and all amounts are considered recoverable.



Notes to the consolidated accounts
for the year ended 31 December 2007



15. Other receivables

	2007	2006
	£	£
Other receivables	57,579	45,471
VAT receivable	—	26,104
Prepayments and accrued income	135,332	124,970
	192,911	196,545

16. Non-current liabilities

	2007	2006
	£	£
Bank loans	611,500	635,800
Obligations under finance leases and hire purchase contracts	72,399	35,807
	683,899	671,607

17. Maturity profiles

	2007			2006		
	Bank loans	Obligations under finance leases and hire purchase contracts	Total	Bank loans	Obligations under finance leases and hire purchase contracts	Total
	£	£	£	£	£	£
In one year or on demand	22,500	92,556	115,056	22,500	56,877	79,377
In one or two years	22,500	61,670	84,170	22,500	35,807	58,307
In two to five years	67,500	10,729	78,229	67,500	—	67,500
Over five years	521,500	—	521,500	545,800	—	545,800
	634,000	164,955	798,955	658,300	92,684	750,984

A bank loan of £704,000 was advanced by Bank of Scotland on 17 January 2005 to assist with the purchase of the Company's operating premises in Macclesfield. The loan is repayable in equal monthly instalments over 20 years. The bank loan carries an interest rate of 1.75% above base rate. The bank loan is secured by a fixed and floating charge over all other assets of the Group. Amounts due under finance lease and hire purchase contracts are secured on the assets to which they relate.

18. Trade payables

	2007	2006
	£	£
Trade payables	166,334	128,969

The average credit period taken for trade purchase is 37 days (2006: 27 days). No interest is charged on trade payables. The Directors consider the carrying amount of trade payables approximate to their fair value.



Notes to the consolidated accounts
for the year ended 31 December 2007

23. Share issues (continued)

Shares issued during the year are detailed below:

Date	Number issued	Option price	No. of employees exercising options	Share capital £	Share premium £
19 June 2007	45,828	1.13p	two	45.83	472.03
15 August 2007	10,398	1.13p	one	10.40	107.10
9 November 2007	18,746	1.13p	one	18.75	193.08
	74,972			74.98	772.21

Date	Number issued	Option price	No. of employees exercising options	Share capital £	Share premium £
11 April 2006	97,669	1.13p	four	97.67	1,005.99
9 October 2006	25,032	1.13p	two	25.03	257.84
7 November 2006	125,000	1.13p	one	125.00	1,287.50
	247,701			247.70	2,551.33

24. Share options

At 31 December 2007, options over 20,401,813 (2006: 22,726,785) ordinary shares were outstanding as shown below:

	Notes	At 1 January 2007 Number	Options exercised Number	Options lapsed Number	At 31 December 2007 Number	Date granted	Exercise price	Earliest date of exercise	Date of expiry
i	b	259,200	—	—	259,200	07-12-01	0.175p	07-12-03	07-12-11
ii	a, b	590,585	(74,972)	—	515,613	13-05-03	1.13p	13-05-05	31-05-13
iii	a, b	175,000	—	—	175,000	15-05-03	1.13p	21-08-04	21-08-12
		25,000	—	(25,000)	—	15-05-03	1.13p	09-12-04	09-12-12
iv	b	999,999	—	—	999,999	16-01-04	10.0p	16-01-04	12-12-13
iv	a	6,000,001	—	—	6,000,001	16-01-04	10.0p	16-01-04	12-12-13
v	a, b	2,352,000	—	(450,000)	1,902,000	04-06-04	11.0p	04-06-06	30-06-14
vi	b	450,000	—	—	450,000	8&9-09-04	11.0p	8&9-09-06	7&8-09-14
vii		500,000	—	(500,000)	—	03-11-04	11.0p	03-11-06	30-11-14
vii	a, b	125,000	—	—	125,000	03-11-04	11.0p	03-11-06	30-11-14
viii		4,000,000	—	—	4,000,000	20-05-05	10.0p	30-06-05	20-05-15
ix	a, b	1,212,109	—	—	1,212,109	25-05-06	8.25p	10-11-07	25-05-16
ix	a	2,287,891	—	—	2,287,891	25-05-06	8.25p	10-11-07	25-05-16
x	a, b	1,845,442	—	(75,000)	1,770,442	25-05-06	8.25p	25-05-08	25-05-16
		450,000	—	(450,000)	—	25-05-06	8.25p	25-06-06	25-05-16
xi	a	1,204,558	—	(750,000)	454,558	25-05-06	8.25p	25-06-08	25-05-16
xii	a	250,000	—	—	250,000	01-08-06	8.25p	01-08-08	01-08-16
		22,726,785	(74,972)	(2,250,000)	20,401,813				

Notes

- a exercisable as follows:
— 50% on second anniversary
— 2.085% each subsequent month for 22 months
— remainder one month later
- b 'EMI' — Enterprise Management Incentives

The share price at 31 December 2007 was 3.50p (2006: 5.6p). During the year the high and low prices were 8.00p and 2.75p (2006: 10.25p and 4.7p).



Notes to the consolidated accounts

for the year ended 31 December 2007

24. Share options (continued)

- i) 259,200 options remain of 1,101,600 which were granted to a number of employees of the Company on 7 December 2001. Each of the options may be exercised on or after the second anniversary of the date of grant at 0.175p per share. The options are conditional on the option holder remaining an employee of the Company at the relevant date of exercise of the options.
- ii) 515,613 options remain of 1,000,000 which were granted to a number of employees of the Company on 13 May 2003. Each of the options may be exercised: 50% on or after the second anniversary of the date of grant; 2.085% each month thereafter for 22 months; and a final tranche for the balance at 1.13p per share. The options are conditional on the option holder remaining an employee of the Company at the relevant date(s) of the exercise of the options.
- iii) 175,000 options remain of 452,778 which were granted to a number of employees of the Company on 21 August 2002. Each of the options may be exercised: 50% on or after 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 options are conditional on the option holder remaining an employee of the Company at the relevant date(s) of the exercise of the options. On 15 May 2003, these options were surrendered and reissued at a price of 1.13p per share.
- iv) Following the approval of shareholders in General meeting 7,000,000 options were granted to a Director of the Company on 16 January 2004. Each of the options may be exercised on or after 16 January 2004 at 10p per share. The options are conditional on the option holder remaining a Director of the Company at the relevant date of exercise of the options.
- v) 1,902,000 options remain of 3,925,622 which were granted to a number of employees of the Company on 4 June 2004. Each of the options may be exercised: 50% on or after the second anniversary of the date of grant; 2.085% each month thereafter for 22 months; and a final tranche for the balance at 11.0p per share. The options are conditional on the option holder remaining an employee of the Company at the relevant date(s) of the exercise of the options.
- vi) Options totalling 450,000 were granted to Directors on 8 and 9 September 2004. Each of the options may be exercised on or after the second anniversary of the date of grant at 11.0p per share. The options are conditional on the option holder remaining a Director of the Company at the relevant date of exercise of the options.
- vii) 125,000 options remain of 725,000 which were granted to a number of employees of the Company on 3 November 2004. Each of the options may be exercised: 50% on or after the second anniversary of the date of grant; 2.085% each month thereafter for 22 months; and a final tranche for the balance at 11.0p per share. The options are conditional on the option holder remaining an employee of the Company at the relevant date(s) of the exercise of the options.
- viii) Options totalling 4,000,000 were granted to a Director of the Company on 20 May 2006. Each of the options may be exercised on or after 31 December 2006 at 10.0p per share. The options are conditional on the option holder remaining a Director of the Company at the relevant date of exercise of the options.
- ix) Options totalling 3,500,000 were granted to a Director of the Company on 25 May 2006. Each of the options may be exercised on or after 10 November 2008 at 8.25p per share. The options are conditional on the option holder remaining a Director of the Company at the relevant date of exercise of the options.
- x) 1,770,442 options remain of 1,845,442 which were granted to a number of employees of the Company on 25 May 2006. Each of the options may be exercised: 50% on or after the second anniversary of the date of grant; 2.085% each month thereafter for 22 months; and a final tranche for the balance at 8.25p per share. The options are conditional upon the option holder remaining an employee of the Company at the relevant date(s) of the exercise of the options.
- xi) 454,558 options remain of 1,204,558 which were granted to a number of employees of the Company on 25 May 2006. Each of the options may be exercised: 50% on or after the second anniversary of the date of grant; 2.085% each month thereafter for 22 months; and a final tranche for the balance at 8.25p per share. The options are conditional upon the option holder remaining an employee of the Company at the relevant date(s) of the exercise of the options.
- xii) Options totalling 250,000 were granted to a US-based consultant of the Company on 25 May 2006. Each of the options may be exercised: 50% on or after the second anniversary of the date of grant; 2.085% each month thereafter for 22 months; and a final tranche for the balance at 8.25p.



Notes to the consolidated accounts
for the year ended 31 December 2007

25. Share based payments

The Company has a share option scheme for all employees of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. Vesting periods vary with each grant and details are given in the tables below. If the option remains unexercised after a period of ten years from the date of grant the option expires. Options are forfeited if an employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	2007		2006	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at beginning of year	22,726,785	9.17p	16,843,648	9.48p
Granted during the year	—	—	7,250,000	8.25p
Forfeited during the year	(2,250,000)	9.33p	(1,119,162)	9.67p
Exercised during the year	(74,972)	1.13p	(247,701)	1.13p
Expired during the year	—	—	—	—
Outstanding at the end of the year	20,401,813	9.18p	22,726,785	9.17p
Exercisable at the end of the year	17,644,096	9.29p	14,469,611	9.51p

The weighted average share price at the date of exercise for share options exercised during the period was 5.17p (2006: 6.79p).

The options outstanding at 31 December 2007 and vested had a weighted average exercise price of 9.29p (2006: 9.04p) and weighted average remaining contractual life of 6.69 years (2006: 7.98 years).

In 2006, 7,000,000 options were granted on 25 May and 250,000 on 1 August.

The aggregated estimated fair value of the options granted on those dates is £205,172.

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

	2007	2006
Weighted average share price	6.97p	6.97p
Weighted average exercise price	4.24p	4.24p
Expected volatility	59%	59%
Expected life	4 yrs	4 yrs
Risk-free rate	5.25%	5.25%
Expected dividends	nil	nil

As a relatively young listed Company, management did not consider information regarding the historic volatility of the Cyprotex share price either sufficiently reliable or a realistic indicator on which to base a valid estimate of future performance. Accordingly, the Black-Scholes financial model used price volatility from an appropriate basket of peer group companies in order to calculate the valuations.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of £63,489 and £136,666 related to equity-settled share based payment transactions in 2007 and 2006 respectively.

26. Capital commitments

At 31 December 2007 the Group had outstanding capital commitments of £nil (2006: £174,522).



27. Financial instruments

Functional currency

The functional currency of the parent and trading subsidiary is pounds sterling (£).

Capital risk management

The Group manages capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the parent.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 4 to the financial statements.

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 and period deposits, with a policy of maximising fixed interest returns as well as providing the flexibility required for funding ongoing operations. It is not Group policy to routinely use financial derivatives to manage exposure and other financial assets and liabilities. Although the financial risks are considered to be minimal at present, future interest rates, liquidity and foreign currency risk could arise and the Board will review its existing policies in the coming period.

Categories of financial instruments

	2007	2006
	£	£
Financial assets		
Loans and receivables	825,538	1,062,629
Financial liabilities		
Other financial liabilities	1,185,202	1,083,914

Interest rate risk management

Apart from using short-term and period deposits, interest rate risks are limited to the fixed element of finance lease/hire purchase agreements that the Group has occasionally used and base rate risk on bank loans.

Typically, the Group arranges lease finance and hire purchase for fixed periods ranging from 3 to 5 years, to enable purchase of assets where it is considered to be an effective use of funds.

Interest rate risk profile of financial assets

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

	Floating rate financial assets	Financial assets on which no interest is earned	Total
	£	£	£
31 December 2007			
US dollar	106,349	—	106,349
Euro	477	—	477
Sterling	193,628	400	194,028
	300,454	400	300,854
31 December 2006			
US dollar	114,916	—	114,916
Euro	97,291	—	97,291
Sterling	242,672	400	243,072
	454,879	400	455,279

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



Notes to the consolidated accounts
for the year ended 31 December 2007



27. Financial instruments (continued)

The floating rate short-term deposits are placed with banks for a period up to one month maturity and during the year earned interest between the following rates.

	Maximum %	Minimum %
US dollar	5.59	4.64
Euro	4.70	3.60
Sterling	6.40	5.23

Interest rate sensitivity analysis

The following table illustrates the sensitivity of the net results for the year and equity to a reasonably possible change in interest rates of + 1.5% and – 0.75%, with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group financial instruments (both assets and liabilities) held at the balance sheet date. All other variables are assumed to be constant.

	2007 1.5%	(0.75)%
	£	£
Net result for the year (decrease)/increase	(5,000)	2,500
Equity (decrease)/increase	(5,000)	2,500

Interest rate risk profile on financial liabilities

The interest rate risk profile of financial liabilities is as follows:

	Fixed rate financial liabilities £	Floating rate financial liabilities £	Total £
31 December 2007			
Bank loan	—	634,000	634,000
Obligations under finance leases	164,955	—	164,955
	164,955	634,000	798,955
31 December 2006			
Bank loan	—	658,300	658,300
Obligations under finance leases	92,684	—	92,684
	92,684	658,300	750,984

Weighted average interest rate of fixed rate financial liabilities

	Weighted average Interest rate %	Fixed rate financial liabilities Weighted average period for which rate is fixed Years
31 December 2007		
Sterling	8.3	2
31 December 2006		
Sterling	8.5	1

Fixed rate financial liabilities consist of finance leases.

Credit risk management

Credit risk refers to the credit risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The principal credit risk arises from the Group's trade receivables. The trade receivable balance of £467,105 (2006: £561,879) includes five (2006: six) customers who represent more than 5% of the total balance. At 31 December 2007, 46% (2006: 61%) of the trade receivables balance related to these customers. In order to manage credit risk, the Directors set limits for customers based on a combination of payment history, third party credit references and an independent rating agency. The Group's exposure and the credit rating of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed bi-annually.

Ongoing credit evaluation is performed on the financial condition of accounts receivable.

Liquidity risk management

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



Notes to the consolidated accounts

for the year ended 31 December 2007

27. Financial instruments (continued)

Foreign currency risk management

In anticipation of any further expansion of North American and European sales, which are mainly denominated in US Dollars and Euros, the associated currency risk (whilst partly offset by overseas expenditure), is regularly reviewed by the Board.

Currency risk profile

The Group's functional currency is sterling and the majority of its transactions are denominated in that currency. At 31 December 2007, the Group had the following foreign currency assets and liabilities denominated in euros and US dollars:

	2007	2006
	£	£
Trade receivables	352,734	176,338
Trade payables	26,888	5,197

Borrowing facilities

On 17 January 2005, Cyprotex entered a 20-year mortgage facility of £704,000 with Bank of Scotland to substantially fund the acquisition of a long-leasehold interest in its operational premises. Interest payable on this bank loan is 1.75% over the bank's base rate.

As at 31 December 2007, the Group had a bank overdraft facility of £250,000 (2006 : £Nil).

Fair value 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.

28. Related party transactions

Transactions with related parties comprised payments made to Prof. David Leahy (who owns 7.50% of the issued Share Capital of the Company) in respect of consultancy services provided to the Group of £36,275 (2006: £144,497). There were no other transactions with related parties during the years ended 31 December 2007 and 31 December 2006. There were no amounts owed to a related party at 31 December 2007 or 31 December 2006. Prof. David Leahy owed the Company £nil in respect of advanced funding at 31 December 2007 (2006: £10,000).

Prof. David Leahy has been assisting the Company with research generally and specifically in the field of Automated Medicinal Chemistry.

29. Key management compensation

The remuneration of the Directors of the Company and the Directors of the Company's subsidiary undertakings, who are considered to be key management personnel of the Group, are as follows:

	2007	2006
	£	£
Short-term employee benefits	276,608	255,716
Post-retirement benefits	14,500	18,667
	291,108	274,383
Share based payment charge	52,674	44,584
	343,782	318,967

30. Pension commitments

The Group's principal subsidiary Cyprotex Discovery Limited operates a defined contribution scheme, The Cyprotex Group Stakeholder Pension Scheme, for its Directors and employees. The assets of the scheme are held separately from those of the Group in an independently administered scheme. The unpaid contributions at 31 December 2007 were £12,657 (2006: £12,733).



Parent Company Balance Sheet
 at 31 December 2007

	Notes	2007 £	2006 £
Fixed assets			
Investments	33	1	1
		1	1
Current assets			
Debtors	34	1,254,887	1,558,155
Cash at bank and in hand		13,266	124,397
Net current assets		1,268,153	1,682,552
Net assets		1,268,154	1,682,553
Capital and reserves			
Called up share capital	35,36	138,648	138,573
Share premium account	37	9,663,685	9,662,913
Other reserve	37	363,473	299,984
Profit and loss account	37	(8,897,652)	(8,418,917)
Shareholders' funds	37	1,268,154	1,682,553

The accompanying notes are an integral part of this balance sheet.

Approved by the Board on 24 April 2008.

R. B. Gibbs
 Chief Financial Officer



Notes to the Parent Company accounts

for the year ended 31 December 2007

31. Accounting policies

Basis of preparation

The Parent Company accounts of Cyprotex PLC have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. These Company only accounts have been prepared under UK GAAP.

Investments

Investments are included at cost less provision for impairment.

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.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be recovered (or paid) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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 substantially enacted at the balance sheet date.

Liquid resources

Liquid resources at 31 December 2007 and 31 December 2006 consisted of short-term bank deposits. For the purpose of the cash flow statement, liquid resources are defined as short-term money market deposits and notice accounts.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions.

Finance costs and gains and losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.



Notes to the Parent Company accounts

for the year ended 31 December 2007



32. Staff costs

	2007	2006
	£	£
Wages and salaries	30,008	38,892
Social security costs	1,280	3,276
	31,288	42,168

The average number of employees was four (2006: four). Staff costs comprised amounts paid for the services of the four Non-Executive Directors of the Group.

33. Investments

Company	£
Cost:	
At 1 January 2007	368,048
Additions	63,489
At 31 December 2007	431,537
Provision for impairment	
At 1 January 2007	368,047
Provision in year	63,489
At 31 December 2007	431,536
Carrying value of investments:	
At 31 December 2007	1
At 31 December 2006	1

The following companies are wholly owned subsidiaries of Cyprotex PLC:

Subsidiary undertakings	Country of Registration	Holding	Proportion held by Company and Group	Nature of business
Cyprotex Discovery Ltd	England and Wales	Ordinary shares	100%	Provision of <i>in vitro</i> and <i>in silico</i> ADMET information
Cyprotex Research Ltd	England and Wales	Ordinary shares	100%	Dormant
Cyprotex North America, Inc	United States	Ordinary shares	100%	Non-trading

Additions in the year relate to share options in the parent granted to employees of subsidiary undertakings.

Full provision has been made against the investments in Cyprotex Discovery Limited and Cyprotex North America, Inc.

34. Debtors

	2007	2006
	£	£
Amounts owed by Group undertakings	1,248,306	1,546,571
Other debtors	6,581	11,375
Prepayments and accrued income	—	209
	1,254,887	1,558,155



Notes to the Parent Company accounts
for the year ended 31 December 2007

35. Called up share capital

	2007		2006	
	No.	£	No.	£
Authorised:				
Ordinary shares of 0.1p each	200,000,000	200,000	200,000,000	200,000

	2007		2006	
	No.	£	No.	£
Allotted, called up and fully paid:				
Ordinary shares of 0.1p each	138,647,988	138,648	138,573,016	138,573

36. Share issues

During the year ended 31 December 2007, 74,972 shares (2006: 247,701) were issued to satisfy share options previously granted under Cyprotex PLC's employee share option scheme. Shares issued for the year may be summarised as follows:

	Number	£
Year to 31 December 2006		
At 1 January 2006	138,325,315	138,325
Issue of shares	247,701	248
At 31 December 2006	138,573,016	138,573
Year to 31 December 2007		
At 1 January 2007	138,573,016	138,573
Issue of shares	74,972	75
At 31 December 2007	138,647,988	138,648



Notes to the Parent Company accounts

for the year ended 31 December 2007



37. Reconciliation of shareholders' funds and movements on reserves

	Share capital	Share premium	Other reserve	Profit and loss account	2007 Total	2006 Total
	£	£	£	£	£	£
At 1 January 2007	138,573	9,662,913	299,984	(8,418,917)	1,682,553	2,206,275
Share based payment	—	—	63,489	—	63,489	136,666
Issue of shares	75	772	—	—	847	2,799
Loss for the year	—	—	—	(478,735)	(478,735)	(663,187)
At 31 December 2007	138,648	9,663,685	363,473	(8,897,652)	1,268,154	1,682,553

38. Operating lease commitments

Annual commitments under non-cancellable operating leases are £nil (2006: £nil).

39. Capital commitments

At 31 December 2007 the Company had outstanding capital commitments of £nil (2006: £nil).

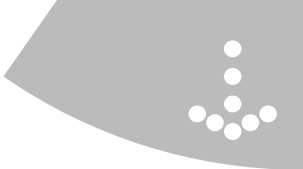
Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Cyprotex PLC (the "Company") will be held at the National Liberal Club, Whitehall Place, London SW1A 2HE on 14 July 2008 at 10.00 a.m. Full details of resolutions are set out in a separate document which accompanies this Annual Report & Accounts.



Shareholder Notes

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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 August
- Final results for the year to 31 December in March/April

Annual General Meeting

The Annual General Meeting will be held at the National Liberal Club, Whitehall Place, London SW1A 2HE on 14 July 2008 at 10.00 a.m.

Share price information

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

Company website — www.cyprotex.com

The Company's website 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 Capita Registrars.

Shareholders wishing to consolidate two or more individual certificates may do so by writing to Capita Registrars at the address given below, 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.

Capita Share Dealing Facility for existing shareholders

Capita takes care of the share register for Cyprotex PLC. If you want to sell your shares in the Company or purchase more, Capita provides this service. This low cost dealing service is available both online and by telephone via www.capitadeal.com or tel:0871 664 0455 (calls cost 10p per minute plus network charges).

Directors and Advisors

Directors

Robert Morrison Atwater (Chief Executive Officer)
Russell Barry Gibbs (Chief Financial Officer)
Nikolas Sofronis (Non-Executive Director and Chairman)
Minhaz Manji (Non-Executive Director)
Dr Martial Lacroix (Non-Executive Director)
David Evans (Non-Executive Director)

Secretary

Mark C. Warburton

Auditors

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester, M3 3EB

Nominated Advisors

Normura Code Securities Limited
1 Carey Lane
London EC2V 8AE

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield, HD8 0LA

Registered Office

100 Barbirolli Square
Manchester, M2 3AB

Partnering Pharmacokinetic Technology



Cyprotex UK

15 Beech Lane, Macclesfield, Cheshire, United Kingdom, SK10 2DR

Tel: +44 (0) 1625 505100 Fax: +44 (0) 1625 505199

info@cyprotex.com www.cyprotex.com