



Press Release

24 April 2008

Cyprotex PLC (“Cyprotex” or “the Company” or “the Group”)

Preliminary results for the year ended 31 December 2007

Cyprotex PLC (LSE:CRX), the drug discovery technology and information company, today reports its preliminary results for the year ended 31 December 2007.

HIGHLIGHTS

- 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.

Commenting on the results, Nikolas Sofronis, Chairman of Cyprotex PLC, said:

“2008 should be the year in which to prove Cyprotex’s business plan. The value of the Group’s unique technology is clearly recognised through its expanding international customer base. This should bear fruit in the coming months.”



For further information:

Cyprotex PLC

Robert Morrisson Atwater,
Chief Executive Officer
Russell Gibbs
Chief Financial Officer

ir@cyprotex.com

Tel: +44 (0) 1625 505 100

www.cyprotex.com

Nomura Code Securities Limited

Charles Walker

cew@nomuracode.com

Tel: +44 (0) 20 7776 1200

www.nomuracode.com

Media enquiries:

WMC Communications Limited

Simon Miller

simon.miller@wmccommunications.com

Tel: +44 (0) 20 7930 9030

www.wmccommunications.com



CHAIRMAN'S STATEMENT

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 generators 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. 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 Quantative Structure-Activity Relationships) technology, which uses competitive workflow for predicting properties from chemical structure. This technology has potentially wide ranging applications within drug discovery.

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 elevating Cyprotex capabilities in integrated lead optimisation.

The 'Requisition'

On 12 February 2007, Cyprotex received a requisition from founder, Dr. 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

Consolidated income statement
for the year ended 31 December 2007

	Note	2007	2006
		£	£
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 costs		(3,500,028)	(3,712,413)
Operating loss		(495,627)	(740,754)
Finance income		8,591	27,573
Finance cost		(56,066)	(47,630)
Loss before tax		(543,102)	(760,811)
Income tax		64,367	100,641
Loss for the year		(478,735)	(660,170)
Loss per share from continuing operations			
Basic and diluted loss per share	6	(0.35)p	(0.48)p

Consolidated balance sheet at 31 December 2007

		2007	2006
		£	£
ASSETS	Note		
Non current assets			
Property, plant and equipment	8	1,365,661	1,422,026
		1,365,661	1,422,026
Current assets			
Inventories		113,694	85,636
Trade receivables		467,105	561,879
Other receivables		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
		683,899	671,607
Current liabilities			
Trade payables		166,334	128,969
Current portion of long term borrowings		22,500	22,500
Other payables		275,768	258,926
Obligations under finance leases		92,556	56,877
		557,158	467,272
Total liabilities		1,241,057	1,138,879
EQUITY			
Share capital	7	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

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
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 from 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 paid	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 consumed by 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 Preliminary Results 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 financial information of Cyprotex PLC set out in this announcement are presented in Pounds Sterling (£), which is also functional currency of the parent. The consolidated financial information has been approved for issue by the Board of Directors on 24 April 2008.

The financial information set out in the preliminary report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985 of the group for the year ended 31 December 2007. The auditors' report on those financial statements was unqualified and did not contain a statement under Section 237(2) of the Companies Act 1985. The statutory accounts for the year ended 31 December 2007 will be delivered to the registrar of Companies following the Company's Annual General Meeting.

The Group's statutory financial statements for the year ended 31 December 2006, prepared under UK GAAP, have been filed with the Registrar of Companies.

Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRS), this announcement in itself does not contain sufficient information to comply with IFRS.

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 financial information is 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 registered shareholders or external investors by the offering of a pre-emptive rights issue, or an open 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 information does not include any adjustments that would result if the group were unable to continue as a going concern.

2. Basis of preparation

The consolidated financial information is for the year ended 31 December 2007 and extracted from the Group's Annual Report & Accounts for that year. They have been prepared in accordance with the requirements of IFRS 1 "First-time Adoption of International Financial Reporting Standards" relevant to preliminary reports, because it is part of the period covered by the Group's first IFRS financial statements.

The consolidated financial information have been prepared in accordance with the accounting policies set out below which are based on the recognition and measurement principles of IFRS in issue as adopted by the European union (EU) and effective at 31 December 2007 our first annual reporting date at which we were required to uses IFRS Accounting Standards adopted by the EU.

Cyprotex PLC's consolidated financial statements were prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) until 31 December 2006. The date of transition to IFRS was 1 January 2006. The comparative figures in respect of 2006 have been restated to reflect changes in accounting policies as a result of adoption of IFRS. The Group has taken advantage of exemptions under IFRS and no restatement has been made to the accounting

Notes to the Preliminary Results

for the year ended 31 December 2007

treatment of previous business combinations, including the acquisition of Cyprotex Discovery Limited by Cyprotex PLC on 4 January 2002.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of this consolidated financial information.

3. Explanation of transition to IFRS

As stated in the Basis of Preparation, this financial information is extracted from 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 2007, 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 that was accounted for at that date as a merger under UK GAAP.

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.

Notes to the Preliminary Results

for the year ended 31 December 2007

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 are 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.

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.

Notes to the Preliminary Results

for the year ended 31 December 2007

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. Amongst 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 deposits, 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.

Notes to the Preliminary Results

for the year ended 31 December 2007

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.

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.

Notes to the Preliminary Results for the year ended 31 December 2007

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.

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.

Notes to the Preliminary Results

for the year ended 31 December 2007

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.

Research and development

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

Notes to the Preliminary Results for the year ended 31 December 2007

Adoption of new and revised standards

Standards and Interpretations in issue not yet adopted

At the date of the authorisation of this financial information, the following standards and interpretations, which have not been applied in this financial information, 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 if 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 Amendments 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 transactions (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 IAS19 The limit on defined benefit asset, minimum funding requirements and their interaction (effective 1 January 2008).

5. Revenue and segmental analysis

The Group's principal activity (and its primary business segment) is the provision of *in vitro* and *in silico* ADMET/PK (Absorption, Distribution, Metabolism, Excretion, Toxicity/ Pharmacokinetic) information to the pharmaceutical industry. As such its primary segmental information is the income statement.

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

Notes to the Preliminary Results for the year ended 31 December 2007

6. Loss per share

The calculation of the basic loss per share is based on the loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The share options in issue are anti-dilutive in respect of the basic loss per share calculation and have therefore not been included.

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

7. Share issues

During the year ended 31 December 2007, 74,972 shares were issued to satisfy share options previously granted under Cyprotex PLC's employee share option scheme. Shares issued for the year ended 31 December 2007 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	<u>138,573,016</u>	<u>138,573</u>
Year to 31 December 2007		
At 1 January 2007	138,573,016	138,573
Issue of shares	74,972	75
At 31 December 2007	<u>138,647,988</u>	<u>138,648</u>

The shares issued in the year ended 31 December 2007 yielded £847 (2006: £2,799) in cash and increased equity by £847 (2006: £2,799).

The weighted average share price at the date of exercise in the year ended 31 December 2007 was 5.17 pence (2006: 6.63 pence).

Notes to the Preliminary Results for the year ended 31 December 2007

8. Additions and disposals of 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 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)
Carrying amount at 31 December 2007	817,606	21,343	52,492	474,220	1,365,661

9. Taxation

Income tax represents amounts recoverable in respect of Research and Development tax credits.

At 31 December 2007, the group has tax losses of approximately £6.1 million (2006: £6.0 million) 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. These losses will only be available for offset when the Group makes taxable profits.

10. The Annual Report

The 2007 Annual Report & Accounts of the Group will be posted to shareholders on the 9 June 2008. Further copies will be available on request from the Company Secretary, Cyprotex PLC, 15 Beech Lane, Macclesfield, Cheshire, SK10 2DR.

11. Annual General Meeting

The Annual General meeting will be held at 10:00am on Monday, 14 July 2008 at the National Liberal Club, Whitehall Place, London SW1A 2HE.