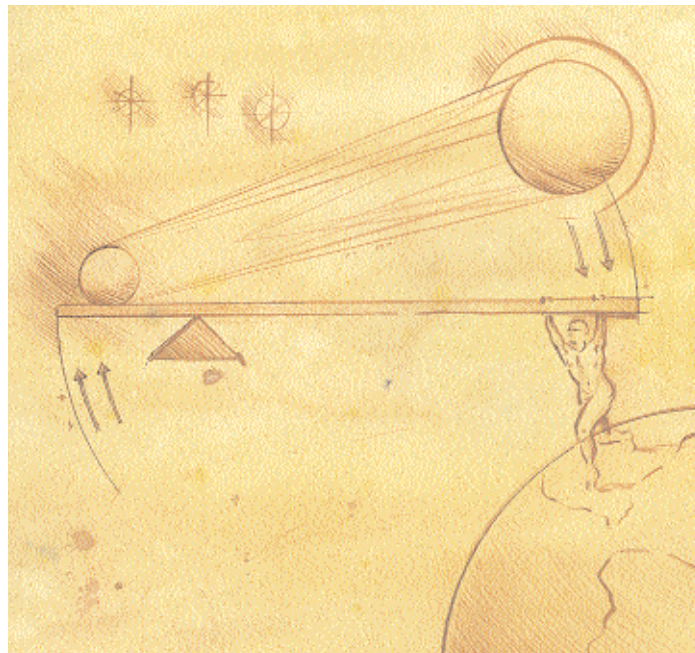


Fulcrum Pharma PLC
Report and Accounts
Year ended 31 August 2001



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Directors and Advisers

Directors

Professor Sir C F George
Dr J P Court
Dr J A Devlin
Dr R M Miller
Mr N G Oughton
Mr C G G Smith
Dr G E Walters
Dr D P Clough

Secretary

Mr N G Oughton

Registered office

Hamilton House
111 Marlowes
Hemel Hempstead
Hertfordshire
HP1 1BB

Auditors

Ernst & Young LLP
Compass House
80 Newmarket Road
Cambridge
CB5 8DZ

Solicitors

Pinsent Curtis Biddle
Dashwood House
69 Old Broad Street
London
EC2M 1NR

Nominated adviser and nominated broker

Seymour Pierce Limited
29/30 Cornhill
London
EC3V 3NF

Registrars

Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

Highlights

- ▲ Turnover increased 234% to £6.0 million (2000: £1.8 million)
- ▲ Profit before tax and exceptional items improved to £546,000 (2000: £24,000)
- ▲ Fulcrum Japan enters profit for first time – providing 25% of internal contribution
- ▲ Adjusted basic EPS of 0.70p a ten fold increase on the figure of 0.07p for last year (adjusted diluted EPS of 0.42p)
- ▲ Net cash balance of £2.0 million (2000: £0.7 million)
- ▲ European, US and Japanese client base expanded – now includes: Shire, Xenova and Pharmagene as well as blue chip global Pharma and premier Japanese Pharma companies
- ▲ Drug Development Services continue to be applied to a wide range of therapeutic areas

Chairman and CEO's Report

Overview

Fulcrum Pharma PLC ("Fulcrum") has established itself during the year as a leading provider of Virtual Drug Development Services to clients in all sectors of the industry across the globe. Fulcrum's clients include blue chip global Pharma, premier Japanese companies plus companies emerging as rising stars. The Company's specialism in Japan has enabled significant growth of the business and Fulcrum has worked, or is working, for five of the top twenty Japanese Pharma companies. Further Fulcrum is now supporting a major UK company to achieve its business goals in Japan. Revenues from Fulcrum's Drug Development Services business have increased significantly during the last year from £1.8 to £6.0 million.

Results before exceptional items

Fulcrum is pleased to report a Profit Before Tax and exceptional items of £546,000 for the year ended 31 August 2001, achieved on turnover of £6,026,000 (2000: Profit Before Tax £24,000, turnover £1,804,000). Earnings per share on this basis were 0.70p, a tenfold increase on the figure of 0.07p last year. The adjusted diluted earnings per share after the expected deferred consideration (see section below) are 0.42p.

It is our intention to pay a dividend after the interim results in 2002.

Exceptional items

Deferred consideration

Fulcrum acquired the share capital of Fulcrum Pharma Developments Ltd ("FPD Ltd") in March 2000 by means of a share for share exchange. Due to uncertainties regarding the valuation of FPD Ltd, it was agreed between the Company and the vendors that additional shares would be issued by the Company, by way of deferred consideration, the number of such shares depending on the profits of the Company in the year ending 31 August 2001. Although the directors believe that the substance of this arrangement is deferred consideration they have received advice that the appropriate accounting treatment is to charge the profit and loss account with the fair value of the additional shares to be issued (£950,000). This accounting entry does not reduce the Group's net assets and is a non-cash transaction. In the view of the directors, this amount should be disregarded for the purposes of reviewing the underlying performance of the Company.

Fulcrum has taken the decision to propose amendments to the share exchange agreement in order to eliminate interpretation issues and clarify the basis of the treatment of the deferred consideration, which has been applied in these accounts. Such amendments will include an alteration to the definition of "Profit Before Tax" contained in the share exchange agreement under which the amount of deferred consideration is calculated. The Non-executive directors have consulted with the Company's Nominated Adviser, Seymour Pierce, to ensure that this course of action is fair and reasonable as far as the shareholders are concerned. The agreed changes to the share exchange agreement do not affect the outcome and original intent of the share exchange agreement, which was to provide deferred consideration to certain of the vendors of FPD Ltd, as summarised in the prospectus dated March 2000 which was prepared in connection with the Company's admission to the Alternative Investment Market. As a result of the proposed amendments to the share exchange agreement, the deferred shares will be issued based on the profit before tax and exceptional items set out in this report. Accordingly following completion of the changes to the share exchange agreement the directors expect to issue 31,666,667 new ordinary shares to certain of the vendors of FPD Ltd.

Operating review

Client update

Fulcrum's active and continued business development activities have resulted in initial and successful penetration of the key sectors of the pharmaceutical outsourcing market. Clients were dispersed through the major Pharma markets where R&D spend and outsourcing of drug development services are concentrated. Statistics show that the industry spent \$45 billion on R&D in 2000 when expenditure was split as follows: US (36%), EU (37%) and Japan (19%). For reasons of client confidentiality it is not possible to name the majority of Fulcrum's clients. However, in the past year revenues were distributed evenly between 3 client sectors: emerging / biotech companies, blue chip large and mid size pharmaceutical and biotechnology companies and Japanese Pharma.

Chairman and CEO's Report

continued

Over the past year there has been a significant expansion of Fulcrum's client base in Europe, US and Japan, with the Group having provided drug development services to over 20 companies in these areas. Significantly, Fulcrum has worked for five of the top twenty Japanese Pharma companies over the past year. In addition, the Group received significant repeat business.

In Fulcrum's local market repeat business was won with Xenova and new contracts established with Shire and Pharmagene.

Drug development services

Fulcrum's Drug Development Services have been widely applied over the past 12 months. The reasons that a company in the healthcare arena would use Fulcrum's services are most commonly to take advantage of the speed with which a tailor-made, dedicated Fulcrum team can progress a drug through the complex development and regulatory approval process. Fulcrum enables faster and more cost effective drug development than industry standards. This is at a time when the Pharma industry as a whole has not improved productivity (number of new drugs produced per year) or development timelines over the past decade (source: 12th Annual FT World Pharmaceutical Conference, November 2001). The breadth of therapeutic areas to which Fulcrum's drug development services have been applied on behalf of clients has demonstrated the flexibility of Fulcrum's virtual drug development business model. These have included the development of anti-cancer, anti-infective, anti-inflammatory, central nervous system and metabolic disease therapeutics.

Projects that have been implemented for clients, based on Fulcrum's key services, include:

- Design and planning of drug development programmes and plans;
- Implementation and management of programmes and plans through tailor-made teams; and
- Assembly and assessment of product information and knowledge for regulatory submission.

Projects have included entire drug development programmes encompassing preclinical, clinical, manufacturing, regulatory science and Quality Assurance; partial programmes (e.g. clinical trials only); integration of Japanese designs into Western drug development programmes; working with and appointing Scientific Advisory Boards as well as advising on regulatory strategies.

Japan office

Last year Fulcrum established a foothold in the Japanese Pharma market resulting in significant business and client opportunities for the Group. The Fulcrum Pharma Japan office is located in the centre of the "Pharma district" in Tokyo. This enables the necessary level of client contact in a market where it is essential to understand the culture in addition to the business drivers. The Japanese office is also convenient for Osaka where there is another concentration of potential clients. During the past year Fulcrum Japan and the Group have provided services to five of the top twenty Japanese Pharma companies plus non-Japanese Pharmas who have declared an intent to become top ten players in this market by the year 2010.

The staff in the Tokyo office are Japanese nationals who combine extensive global drug development expertise with local knowledge to provide high quality local drug development services to Japanese and European clients plus business development for the UK office.

Financial review

Profit before tax and exceptional items has improved to £546,000 compared to £24,000 in the previous financial period. Our Japanese operation which commenced trading during the year has provided 25% of the Group's internal contribution.

In January 2001 Fulcrum raised £1,250,000 through a placing of 12.5 million shares for the purposes of strategic expansion. These funds have enabled the Company to pursue expansion opportunities, which remain on target for implementation before the end of the next financial year.

Chairman and CEO's Report

continued

The Company has established a healthy cash position with a net balance of £2.0 million to support its strategy for future growth. Further highly qualified employees have been added to the Operations Group to deepen drug development experience and complement existing capabilities. Active recruitment is continuing.

To drive recruitment and incentivise existing employees, management has introduced a bonus scheme related to the Company's financial performance. This is in addition to the existing share option schemes.

Future strategy

Fulcrum has drawn up a strategy for future growth and expansion. The Group's key focus area will be on growing the number and duration of contracts by continuing its high quality service to existing customers as well as spending management time and resource on winning new clients through targeted business development. In 2002 it is also Fulcrum's aim to utilise its funds for strategic expansion to access portfolios of contracts from the industry and to accelerate penetration of the world's largest healthcare market, the US, and it is likely that this will be achieved through the Group opening a US office during 2002 (although the Group is not able to discuss exact plans at this stage). The Board of Fulcrum also fully intends to increase its capabilities in the fast-growing Japanese outsourcing market – the last year has seen the Group expand in this area ahead of expectations and the Board sees no reason why this trend should not continue in the future.

Prospects

With the advent of contracts of higher value and increasing duration Fulcrum is building revenue streams that enable the Board to view the future with confidence. Strategies are in place to penetrate the US market, further expand our client base in Europe and Japan and grow the number and duration of contracts. The Board anticipates another successful year of contract wins and international expansion and looks forward to reporting on further developments during the course of 2002.

Professor Sir C F George
Chairman
14 November 2001

Dr J P Court
Chief Executive Officer
14 November 2001

Directors' Report

The Directors present their report and accounts for the year ended 31 August 2001. The comparative figures cover the 28 week period from incorporation to 31 August 2000. The Group accounts consolidate the results of Fulcrum Pharma PLC (the "Company") and its subsidiaries Fulcrum Pharma Developments Limited ("FPDL") and Fulcrum Pharma Developments International Limited ("FPDIL") (together the "Group") drawn up to 31 August 2001.

Results and dividends

The retained loss for the year after taxation amounted to £567,000 (2000: profit of £17,000).

The Directors do not recommend the payment of a dividend.

Review of the business, future developments and principal activities

The Company's principal activity is to offer global virtual drug development and strategic outsourcing services to the pharmaceutical industry. A review of the business during the year ended 31 August 2001 and future developments are set out in the Chairman and CEO's Report on pages 2 to 4.

Directors, Officers and Directors' interests

The Directors, who served during the period, are as set out below:

Professor Sir C F George
 Dr J P Court
 Dr J A Devlin
 Dr R M Miller
 Mr N G Oughton
 Dr G E Walters
 Dr D P Clough

In addition, Mr C G G Smith was appointed a director on 7 November 2001.

Biographies of the directors are set out on pages 25 to 27.

The Company Secretary during the year was Mr N G Oughton.

The interests of the Directors in the Company's ordinary shares of 1p each, including those shares which may be allotted to directors by reference to profits of the Group (see note 5), are set out below:

	As at 31 August 2000 and 2001	Additional allotment re share exchange agreement
Share capital		
Dr J P Court	2,633,333*	5,234,500
Dr J A Devlin	2,133,333	5,234,500
Dr R M Miller	2,133,333	5,234,500
Mr N G Oughton	2,133,333	5,234,500
Dr G E Walters	2,133,333	5,234,500
Professor Sir C F George	250,000	-
Dr D P Clough	166,667	-

* Includes 500,000 shares held by Dr Court's wife.

The interests of the Directors in options to purchase shares in the Company are shown in note 14. As at 31 August 2001, the Directors held in aggregate 11,583,332 shares (2000: 11,583,332 shares), representing 18.8% (2000: 24.8%) of the current issued ordinary capital.

None of the Directors had an interest in a contract of significance to which the Company was party during the period ended 31 August 2001, except for the Share Exchange Agreement (note 5).

Directors' Report

continued

Political and charitable contributions

The Company made no political or charitable contributions during the period.

Employees

The Company involves all its employees in its corporate objectives, plans, performance and on other relevant matters of interest to employees through various communication methods and regular Company meetings. The Company is an equal opportunity employer and does not discriminate in the recruitment and promotion of staff. All employees are included in the Company's bonus incentive plan and also, if qualified, are entitled to receive share options within the Company's share option scheme.

Substantial shareholdings

The Company had the following shareholdings amounting to 3% or more of the ordinary share capital of the Company as at 31 August 2001.

	2001 Number of shares held	2001 %	2000 Number of shares held	2000 %
World Life Sciences Plc	5,000,000	8.1%	–	–
Sharelink Nominees Ltd	3,712,623	6.0%	–	–
Dr J P Court	2,633,333*	4.3%	2,633,333*	5.6%
Td Waterhouse Nominees	2,501,016	4.1%	–	–
Pershing Keen Nominees	2,361,833	3.8%	–	–
Dr J A Devlin	2,133,333	3.5%	2,133,333	4.6%
Dr R M Miller	2,133,333	3.5%	2,133,333	4.6%
Mr N G Oughton	2,133,333	3.5%	2,133,333	4.6%
Dr G E Walters	2,133,333	3.5%	2,133,333	4.6%

*Includes 500,000 shares held by Dr J P Court's wife.

The substantial shareholdings were unchanged as at 13 November 2001, except Pershing Keen Nominees no longer have a notifiable shareholding.

Safety, health and environment

The Company is committed to maintaining high standards of safety, health and environment protection by conducting itself in a responsible manner to protect people and the environment. In pursuit of this, the Company has established Health and Safety procedures and policies under the control of a manager responsible. Consultants have been appointed to help monitor and train the staff of the Company.

Treasury policy

The Company's treasury policy is one of conservatism approved by the Board. Cash balances are managed as described in note 17. As a matter of policy, the Company does not undertake speculative transactions, which would increase its currency or interest rate exposure.

Auditors

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the Board:
N G Oughton
Company Secretary
 19 November 2001

Corporate Governance

The Board aims to achieve the highest possible standards in corporate governance but the directors are of the view that compliance with the revised Combined Code and recommendations of Turnbull would be too onerous for a company of this size. As a member of AIM the Company does not have to comply with the Combined Code. However, the Board of Directors believes in providing a framework for establishing good corporate governance and accountability. Therefore, the Board has set out below certain of the Company's procedures, which provide its framework for Corporate Governance.

The Board

The Board currently comprises the Executive and Non-executive Directors. Given the current small size of the Company it is not felt appropriate to appoint more than two Non-executive Directors; namely Professor Sir Charles George and Dr David Clough. A minimum of six board meetings are held annually. The Board is responsible for overall strategy, major finance matters and internal financial control. It also monitors executive management in the business through its review of financial, strategic and operational matters. All Directors are subject to retirement by rotation.

Board committees

The Board has established both Audit and Compensation Committees each with defined terms of reference.

An Audit Committee has been established which consists of the Non-executive Directors and Neil Oughton. It meets at least twice each year and is responsible for ensuring the financial performance of the Group is properly reported on and monitored, for meeting the auditors and reviewing the reports from the auditors relating to accounts and internal financial control systems.

A Compensation Committee has been established which consists of the Non-executive Directors and Alastair Devlin. It meets at least twice each year and reviews the performance of Executive Directors and sets the scale and structure of their remuneration having due regard to the interests of the shareholders. The Committee also administers the Share Option Scheme.

Internal financial control

The Directors are responsible for ensuring that the Group maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that the assets are safeguarded. There are inherent limitations in any system of internal financial control and accordingly even the most effective system can provide only reasonable, but not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The Group, in administering its business, has put in place strict authorisation, approval and control levels within which senior management operates. These controls reflect the Group's organisational structure and business objectives. This control system includes clear lines of accountability to cover all areas of the organisation. The Board has established key procedures which include an appropriate control environment through the definition of the above organisation structure and authority levels, the identification of the major business risks facing the Group and the development of appropriate procedures and controls to manage those risks and a budgeting and reporting system with results compared with budget and variance analysis and re-forecasting of projected results.

Going concern

The Directors have reviewed the Group's budgets and forecasts with respect to its financial position as at 31 August 2001. After taking into consideration the cash flow implications of these plans, the Directors are satisfied that it is appropriate to produce the Group accounts on a going concern basis.

Statement of Directors' Responsibilities

in respect of the accounts

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 Company 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors

to the members of Fulcrum Pharma PLC

We have audited the accounts on pages 10 to 24, which have been prepared under the historical cost convention and the accounting policies set out on pages 14 and 15.

Respective responsibilities of Directors and Auditors

As described on page 8 the Directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Group and of the Company, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the affairs of the Group and of the Company as at 31 August 2001 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
Cambridge
19 November 2001

Consolidated Profit and Loss Account

for the year ended 31 August 2001

	Notes	Year ended 31 August 2001			28 weeks to
		Before exceptional items £'000	Exceptional item (5) £'000	Total £'000	31 August 2000 Total £'000
Turnover	2	6,026	–	6,026	1,804
Cost of Sales		(4,642)	(554)	(5,196)	(987)
Gross profit		1,384	(554)	830	817
Selling expenses		(201)	(185)	(386)	(86)
Administrative expenses		(686)	(211)	(897)	(720)
Operating profit/(loss)	3, 5	497	(950)	(453)	11
Interest receivable and similar income	6	49	–	49	13
Profit on ordinary activities before taxation		546	(950)	(404)	24
Tax on profit/(loss) on ordinary activities	7	(163)	–	(163)	(7)
Retained profit/(loss) for the period	15	383	(950)	(567)	17
Earnings per share (pence):					
Adjusted basic	8	0.70p			0.07p
Adjusted diluted	8	0.42p			0.07p
Basic and diluted	8			(1.04p)	0.07p

Adjusted earnings per share excludes the effect of the exceptional items.

Statement of Total Recognised Gains and Losses

There were no recognised gains and losses other than the loss for the year ended 31 August 2001 of £567,000 (2000: profit of £17,000).

Consolidated Balance Sheet

at 31 August 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Tangible assets	9	42	13
Current assets			
Debtors	11	985	892
Cash at bank and in hand		1,980	716
		2,965	1,608
Creditors: amounts falling due within one year	12	(572)	(849)
Net current assets		2,393	759
Total assets less current liabilities		2,435	772
Provisions for liabilities and charges	13	(10)	–
		2,425	772
Capital and reserves			
Called up share capital	14, 15	615	467
Share premium	15	1,543	421
Merger reserve	15	(133)	(133)
Profit and loss account	15	400	17
Equity shareholders' funds		2,425	772

Dr J P Court
 N G Oughton
Directors

19 November 2001

Company Balance Sheet

at 31 August 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Investment in subsidiaries	10	133	133
Current assets			
Debtors – due within one year	11	24	28
– due after more than one year	11	1,977	685
Cash at bank and in hand		58	18
		2,059	731
Creditors: amounts falling due within one year	12	(23)	(10)
Net current assets		2,036	721
Total assets less current liabilities		2,169	854
Capital and reserves			
Called up share capital	14, 15	615	467
Share premium	15	1,543	421
Profit and loss account	15	11	(34)
Equity shareholders' funds		2,169	854

Dr J P Court
 N G Oughton
Directors

19 November 2001

Consolidated Statement of Cash Flows

for the year ended 31 August 2001

	Notes	Year ended 31 August 2001 £'000	28 weeks to 31 August 2000 £'000
Net cash inflow/(outflow) from operating activities	16(a)	15	(29)
Returns on investments and servicing of finance			
Interest received		49	13
Taxation paid		(7)	–
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(63)	(23)
Net cash outflow before management of liquid resources and financing		(6)	(39)
Financing			
Issue of ordinary share capital		1,320	1,000
Share issue costs		(50)	(245)
		1,270	755
Increase in cash		1,264	716

Reconciliation of Net Cash Flow to Movement in Net Funds

	Notes	52 weeks to 31 August 2001 £'000	28 weeks to 31 August 2000 £'000
Increase in cash		1,264	716
Net funds at start of year		716	–
Net funds at end of year	16(b)	1,980	716

Notes to the Accounts

at 31 August 2001

1. ACCOUNTING POLICIES

(a) Basis of preparation

The Group accounts consolidate the results of Fulcrum Pharma PLC and its subsidiaries Fulcrum Pharma Developments Limited and Fulcrum Pharma Developments International Limited drawn up to 31 August 2001. No profit and loss account is presented for Fulcrum Pharma PLC, as permitted by section 230 of the Companies Act 1985.

The result of Fulcrum Pharma PLC Company only for the year ended 31 August 2001 amounted to a loss of £905,000 (2000: loss of £34,000).

(b) Investments

Fixed asset investments are shown at cost less provision for impairment.

(c) Tangible fixed assets

All fixed assets are initially recorded at cost. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows:

Fixtures and Fittings	–	over 5 years
Computer Equipment	–	over 3 years

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

(d) Leasing commitments

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

(e) Pensions

The Group makes contributions to individual Personal Pension Plans. The contributions are charged to the profit and loss account as they become payable.

(f) Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

(g) Long-term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, on a contract by contract basis by recording turnover and related costs as contract activity progresses. Revenue derived from variations on contracts is recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Milestone payments due under contractual relationships are recorded to revenue when all work related to the milestone is completed.

Notes to the Accounts

continued

1. ACCOUNTING POLICIES continued

(h) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

(i) Employee share options

The Company may from time to time grant shares or share options to employees and, in accordance with Urgent Issues Task Force Pronouncement Number 17 ('UITF17'), records a non-cash charge to the profit and loss account for the difference between the amount payable by the employee and fair value of the underlying shares on the date of grant. The profit and loss charge is recognised over the period during which the incentive benefits of the option relate.

2. TURNOVER AND SEGMENTAL ANALYSIS

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties, except in respect of long-term contracts where turnover represents the sales value of work done in the year, including estimates in respect of amounts not invoiced. Turnover in respect of long-term contracts is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract.

All turnover relates to a single activity, that of offering global virtual drug development and strategic outsourcing services to the pharmaceutical industry.

Analysis of turnover by geographical market by destination is given below:

	Year ended 31 August 2001 £'000	28 weeks to 31 August 2000 £'000
United Kingdom	3,519	312
Rest of Europe	148	367
United States of America	1,527	824
Japan	832	301
	6,026	1,804

Analysis of turnover, profit before tax and net assets by geographical market by origin is given below:

	52 weeks to 31 August 2001			28 weeks to 31 August 2000		
	UK £'000	Japan £'000	Total £'000	UK £'000	Japan £'000	Total £'000
Turnover	5,505	521	6,026	1,804	-	1,804
Profit/(loss) before tax	(416)	12	(404)	24	-	24
Net assets	2,421	4	2,425	772	-	772

3. OPERATING PROFIT/LOSS

This is stated after charging:

	52 weeks to 31 August 2001 £'000	28 weeks to 31 August 2000 £'000
Auditors' remuneration – audit services	14	12
– non audit services	-	39
Depreciation of tangible assets	34	10
Operating lease rentals – land and buildings	67	20
– fixtures and computer equipment	10	-

Notes to the Accounts

continued

4. STAFF COSTS AND DIRECTORS' EMOLUMENTS

(a) Staff costs (including Executive Directors):

	52 weeks to 31 August 2001 £'000	28 weeks to 31 August 2000 £'000
Wages and salaries	1,760	440
Social security costs	73	40
Pension costs	41	18
Exceptional (see note 5)	950	–
Non-exceptional	924	498
	1,874	498

(b) The average monthly number of employees during the period ended 31 August was:

	52 weeks to 31 August 2001 £'000	28 weeks to 31 August 2000 £'000
Project management	7	3
Sales and administration	7	4
	14	7

(c) Directors' emoluments

The total emoluments of the Directors for the period ended 31 August 2001 was £445,000 (2000: £287,000) comprising of Company salaries, pension contributions and Non-executive directors fees. The emoluments of each Director during the period was as follows:

	52 weeks to 31 August 2001			28 weeks to 31 August 2000		
	Basic Salary and fees £'000	Pension contributions £'000	Total £'000	Basic Salary and fees £'000	Pension contributions £'000	Total £'000
Executive						
Dr J P Court	80	4	84	53	2	55
Dr J A Devlin	80	4	84	53	2	55
Dr R M Miller	80	4	84	53	2	55
Mr N G Oughton	80	4	84	53	2	55
Dr G E Walters	80	4	84	53	2	55
	400	20	420	265	10	275
Non-executive						
Professor Sir C F George	15	–	15	7	–	7
Dr D P Clough	10	–	10	5	–	5
	25	–	25	12	–	12
	445	20	445	277	10	287

Notes to the Accounts

continued

5. EXCEPTIONAL ITEMS

As set out in the paragraph below, the Company has recorded an exceptional charge of £950,000 in the profit and loss account to reflect the difference between the fair value of the shares at the date of the agreement and the amount of consideration, if any, that employee shareholders may be required to pay for the additional shares. This charge has been allocated across the relevant cost centres to which the individuals provide their services as follows:

	£'000
Cost of sales	554
Selling expenses	185
Administrative expenses	211
	950

The Group has produced an operating profit before tax and exceptional items of £497,000. As disclosed in the listing document dated 8 March 2000, produced by the Company in connection with its admission to the Alternative Investment Market ("AIM") and in the Company's annual accounts for the year ended 31 August 2000, certain employee shareholders, including directors, of the Company are entitled under a share exchange agreement dated 7 March 2000 to be allotted up to a maximum of 56,666,666 additional 1p ordinary shares in the Company by reference to the consolidated profits before tax of the Group for the twelve months ended 31 August 2001. Based on the profit before tax and exceptional items of £546,000, the Company will issue 31,666,667 additional ordinary shares for no cash consideration.

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks to 31 August 2001 £'000	28 weeks to 31 August 2000 £'000
Bank interest receivable	49	13

7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	52 weeks to 31 August 2001 £'000	28 weeks to 31 August 2000 £'000
UK Corporation tax at 30%	153	7
Deferred taxation (note 13)	10	-
	163	7

Notes to the Accounts

continued

8. EARNINGS PER SHARE

The basic earnings per ordinary share is based on the Group's loss for the year of £567,000 (2000: profit of £17,000) divided by the weighted average number of ordinary shares in issue, calculated using merger accounting principles, of 54,547,619 (2000: 24,423,559). The number of shares used in the calculation of diluted earnings per share is the same as used in the calculation of basic earnings per share as the effect of options and shares to be issued is anti-dilutive.

Adjusted basic earnings per ordinary share is based on the Group's profit before exceptional items of £383,000 (2000: £17,000), divided by the weighted average number of ordinary shares in issue, calculated using merger accounting principles, of 54,547,619 (2000: 24,423,559).

The adjusted diluted earnings per share is based on the Group's profit for the year before exceptional items of £383,000 (2000: £17,000), and on 90,672,905 (2000: 24,423,559) ordinary shares calculated as follows:

	2001
Basic weighted average number of shares	54,547,619
Dilutive potential ordinary shares – employee share options	2,613,023
– warrants (exercised during year)	1,845,596
– shares to be issued under shares exchange agreement	31,666,667
	90,672,905

9. TANGIBLE FIXED ASSETS

	Computers and office Fixtures and Fittings £'000
Group	
Cost:	
At 1 September 2000	23
Additions	63
	86
At 31 August 2001	86
Depreciation:	
At 1 September 2000	10
Provided	34
	44
At 31 August 2001	44
Net book value:	
At 31 August 2001	42
	13
At 1 September 2000	13

Notes to the Accounts

continued

10. INVESTMENTS

	2000 £'000
Company	
Cost:	
At 1 September 2000	133
Additions	–
At 31 August 2001	133

The Company holds the entire issued share capital of Fulcrum Pharma Developments Limited, a company incorporated in the UK. The Company's principal activity is to offer global virtual drug development and strategic outsourcing services to the pharmaceutical industry.

The Company also holds the entire issued share capital of Fulcrum Pharma Developments International Ltd, a company incorporated in the UK. The Company commenced trading during September 2000 and its principal activity is to operate the branch office in Japan.

11. DEBTORS

	Group 2001 £'000	Company 2001 £'000	Group 2000 £'000	Company 2000 £'000
Trade debtors	445	–	845	–
Amounts owed by subsidiary undertaking	–	1,998	–	705
Other debtors	21	–	41	8
VAT receivable	–	–	6	–
Prepayments and accrued income	519	3	–	–
	985	2,001	892	713

Included in Company only debtors is an amount of £1,977,000 (2000: £685,000) due after more than one year.

12. CREDITORS: amounts falling due within one year

	Group 2001 £'000	Company 2001 £'000	Group 2000 £'000	Company 2000 £'000
Trade creditors	111	–	110	–
Corporation Tax	153	11	7	–
Other taxes and social security costs	115	–	59	–
Other creditors	3	–	31	–
Accruals and deferred income	190	12	642	10
	572	23	849	10

Notes to the Accounts

continued

13. PROVISIONS FOR LIABILITIES AND CHARGES

Group

The movements in deferred taxation during the current and previous years are as follows:

	2001 £'000	2000 £'000
At 1 September	–	–
Charge for the year (note 7)	10	–
At 31 August	10	–

Deferred taxation provided in the accounts and the amounts not provided are as follows:

	Provided		Not provided	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Capital allowances in advance of depreciation	10	–	–	–
Other timing differences	–	–	–	–
	10	–	–	–

14. SHARE CAPITAL

	2001 No.	2001 £'000	2000 No.	Authorised 2000 £'000
Ordinary shares of 1p each	150,000,000	1,500	150,000,000	1,500

	Allotted, called up and fully paid	
	No.	£'000
Ordinary shares of 1p each:		
At 1 September 2000	46,666,667	467
Issue during year	14,833,333	148
At 31 August 2001	61,500,000	615

Movements during the year

In January 2001 the Company issued 12,500,000 new ordinary shares of 1p each for cash of £1,250,000 at 10p per ordinary share.

In August 2001 the Company issued 2,333,333 new ordinary shares of 1p each were issued for cash of £70,000 on the exercise of warrants at the subscription price of 3p per ordinary share.

Contingent allotment of shares

As disclosed in the document dated 8 March 2000, produced by the Company in connection with its admission to the Alternative Investment Market (“AIM”) and in the Company’s annual accounts for the year ended 31 August 2000, certain employee shareholders, including directors, of the Company are entitled under a share exchange agreement dated 7 March 2000 to be allotted up to a maximum of 56,666,667 additional 1p ordinary shares in the Company by reference to the consolidated profits before tax of the Group for the twelve months ended 31 August 2001. Based on the profit before tax of £546,000, the Company will issue 31,666,667 additional ordinary shares for no cash consideration (see note 5).

The Company has recorded an exceptional charge of £950,000 in the profit and loss account to reflect the difference between the fair value of the shares at the date of the agreement and the amount of consideration, if any, that shareholders may be required to pay for the additional shares.

Notes to the Accounts

continued

14. SHARE CAPITAL continued

Warrants

During the year the Company issued 2,333,333 new Ordinary Shares in the Company on the exercise of warrants by the warrant holders. No warrants to purchase ordinary shares remain outstanding.

Share options

Directors, employees and consultants

Options over ordinary shares of 1p each have been granted to directors, employees and consultants under an unapproved share option scheme. The Company has issued options as follows:

	Held at 1 September 2000 No.	Granted No.	Lapsed No.	Exercised No.	Held at 31 August 2001 No.
Professor Sir C F George ⁽¹⁾	100,000	–	–	–	100,000
Dr D P Clough ⁽²⁾	100,000	–	–	–	100,000
C G G Smith ⁽³⁾	300,000	100,000	–	–	400,000
Employees ⁽⁴⁾					
– Approved scheme	444,444	–	–	–	444,444
– Unapproved scheme	3,414,816	–	–	–	3,414,816
	<u>4,359,260</u>	<u>100,000</u>	<u>–</u>	<u>–</u>	<u>4,459,260</u>

The conditions associated with the above options are as follows:

	Weighted average exercise price	Earliest and latest date of exercise
⁽¹⁾ Professor Sir C F George	3.00p	7/3/03-7/3/10
⁽²⁾ Dr D P Clough	3.00p	7/3/03-7/3/10
⁽³⁾ C G G Smith	5.44p	31/8/01-7/3/10
⁽⁴⁾ Employees		
– Approved scheme	6.75p	4/7/03-4/7/10
– Unapproved scheme	6.75p	4/7/03-4/7/10

Notes to the Accounts

continued

15. RECONCILIATION OF MOVEMENTS ON RESERVES AND SHAREHOLDERS' FUNDS

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
Group					
At incorporation	-	-	-	-	-
Issue of share capital	467	666	-	-	1,133
Admission costs	-	(245)	-	-	(245)
Profit for the period	-	-	-	17	17
Equity elimination upon consolidation	-	-	(133)	-	(133)
At 1 September 2000	467	421	(133)	17	772
Issue of share capital	148	1,172	-	-	1,320
Issue costs	-	(50)	-	-	(50)
Loss for the year	-	-	-	(567)	(567)
Discount on shares and share options	-	-	-	950	950
At 31 August 2001	615	1,543	(133)	400	2,425

	Called up share capital £'000	Share premium account £'000	Profit & loss account £'000	Total £'000
Company				
At incorporation	-	-	-	-
Issue of share capital	467	666	-	1,133
Admission costs	-	(245)	-	(245)
Loss for the period	-	-	(34)	(34)
At 1 September 2000	467	421	(34)	854
Issue of share capital	148	1,172	-	1,320
Issue costs	-	(50)	-	(50)
Loss for the year	-	-	(905)	(905)
Discount on shares and share options	-	-	950	950
At 31 August 2001	615	1,543	11	2,169

The Group has to account for employee share options under UK GAAP. This requires the discount between market value and exercise price on the granting of share options or shares to Directors and employees to be charged through the Profit and Loss Account. The effect of this is to decrease the results for the period by £950,000; however, this amount is credited to the Profit and Loss Account Reserve, producing a net movement equivalent to the pre-UITF17 profit.

Notes to the Accounts

continued

16. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of the operating (loss)/profit to net cash outflow from operating activities

	2001 £'000	2000 £'000
Operating loss/profit	(453)	11
Depreciation	34	10
Non cash exceptional item	950	–
(Increase) in debtors	(93)	(892)
(Decrease)/increase in creditors	(423)	842
Net cash inflow/(outflow) from operating activities	15	(29)

(b) Analysis of net funds

	At 1 September 2000 £'000	Cashflow £'000	At 31 August 2001 £'000
Cash at bank and in hand	716	1,264	1,980

17. FINANCIAL INSTRUMENTS

The disclosure below excludes short term debtors and creditors, except for the disclosures re currency exposure.

Surplus funds are placed on deposit for either short term or on longer terms depending on the forecast utilisation. The Group has not used any financial derivatives.

Interest rate risk profile

The Group had no financial liabilities at 31 August 2001 or 31 August 2000. The interest rate profile of the financial assets of the Group as at 31 August was as follows:

	Total £'000	Fixed rate financial assets £'000	Floating rate financial assets £'000
2001			
Sterling	1,102	850	252
US dollar	592	512	80
Yen	269	–	269
Euro	17	–	17
Total	1,980	1,362	618
2000			
Sterling	290	–	290
US dollar	426	–	426
Total	716	–	716

Floating rate financial assets comprise cash deposits on money market deposit at call, 7 day and monthly rates based on LIBOR. The interest on the fixed rate sterling asset was 4.5% which was fixed until maturity on 25 September 2001. The interest on the fixed rate US dollar financial asset was 2.85% which was fixed until maturity on 26 September 2001.

Notes to the Accounts

continued

17. FINANCIAL INSTRUMENTS continued

Currency exposures

The table below shows the Group's currency exposures; in other words, those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or "functional") currency of the operating unit involved.

As at 31 August, these currency exposures were as follows:

Functional currency of Group operations	Net foreign currency monetary assets/(liabilities)			
	US dollar £'000	Yen £'000	Euro £'000	Total £'000
2001				
Sterling	799	373	34	1,206
2000				
Sterling	446	–	–	446

Fair values of financial assets and liabilities

	Book value	Fair value	Book value	Fair value
	2001 £'000	2001 £'000	2000 £'000	2000 £'000
Current assets				
Cash at bank	1,980	1,980	716	716

18. OPERATING LEASES

At 31 August 2001 the Group had annual commitments under operating leases, as set out below:

	Land and buildings	
	2001 £'000	2000 £'000
More than five years	40	40

19. PENSIONS

The Company makes contributions to individual personal pension plans. There are no unpaid contributions outstanding at the year end (2000: £nil).

Biographies of Directors

Executive Directors

Chief Executive Officer

Dr Jon Court, age 48

Dr Court is a founder of Fulcrum and has been CEO since the Company was established. As CEO, he is responsible for driving the strategic direction of the Group and ensuring high standards of management to maximise benefits to customers, shareholders and employees

Prior to establishing Fulcrum, Dr Court was managing director and a board member of Protodigm Ltd, a wholly owned subsidiary of the large pharmaceutical company Roche. He was responsible for establishing the company and assembling the management team. In the three years of operating Protodigm as a virtual drug development company, Dr Court and the management team developed the supplier contacts, skills and processes necessary to develop drugs in a virtual environment with significant speed and cost savings against industry benchmarks.

Previously, Dr Court was head of Project Management for Roche in the UK having led the development of Invirase®, from discovery through to global registration in less than 5 years, which was recognised by the 1995 UK Prix Galien for Research and in 1999 by the International Prix Galien. Prior to Roche, Dr Court held scientific and management positions at Wellcome Plc. Dr Court holds a PhD in Parasitology and Immunology from Salford University.

Chief Operating Officer and Technical Director

Dr Alastair Devlin, age 45

In addition to being Chief Operating Officer, Dr Devlin leads technical development for Fulcrum. As COO, Dr Devlin is responsible for managing the operational activities to maximise the effectiveness of the Group's drug development services. As Technical Director, he is responsible for managing the activities of drug manufacture and formulation development, including clinical trial supply and establishment of commercial manufacturing for projects managed by Fulcrum.

Prior to Fulcrum, Dr Devlin was a founder member of Protodigm Ltd, where he was Director of Technical Development. In addition to being responsible for all technical and manufacturing matters for Protodigm projects, Dr Devlin also assembled and led a virtual development team responsible for taking an oncology product from pre-clinical development to the end of phase II.

In 13 years in the healthcare industry prior to joining Protodigm, Dr Devlin held positions in quality assurance and process development in line and corporate management at director and vice president level in the UK, Switzerland, Italy and the USA. In these roles he was closely involved in the filing and subsequent approval of a number of recombinant and traditional drugs. Dr Devlin has a BSc (Hons) and PhD degrees from the University of Glasgow.

Medical Director

Dr Robert Miller, age 49

Dr Miller is responsible for the medical and clinical aspects of the Group's business. As Medical Director in Fulcrum, he provides the clinical oversight for clinical development proposals and plans. In addition, Dr Miller has continued to lead projects and has run many Advisory Boards in different therapeutic areas.

Prior to Fulcrum Dr Miller joined Protodigm at the outset as a founder member with the role of Director of Clinical Development. As the leader for one of Protodigm's projects, he was responsible for the entire drug development process. He also led a specific phase III project aimed at providing pivotal regulatory safety data.

Prior to Protodigm, Dr Miller worked at Zeneca Plc, where he gained UK and international experience in various positions, including the world-wide clinical development and medical marketing of two cardiovascular products and in intensive care unit sedation. In addition, Dr Miller had a leading role in the gynaecology area for commercialisation, registration and the development of new indications as well as new formulations for two existing chemical entities. Dr Miller's qualifications are FRCS, MBBS, LRCP, MRCS, Dip Pharm Med and MFPM.

Biographies of Directors *continued*

Business Development Director and Company Secretary

Mr Neil Oughton, age 44

Mr Oughton is a founder member of Fulcrum and is responsible for the business development (including sales and marketing) activities of the Group. Additionally he is responsible for the business input into the product development strategy, the assessment of new product opportunities and the commercial relationships with suppliers of non-development services.

Prior to Fulcrum, Mr Oughton held a senior management position in Protodigm Ltd, where he was Director of Business Development. Prior to Protodigm Ltd, Mr Oughton held various senior roles in Roche in strategic planning and business development. He previously held positions in pharmaceutical sales and marketing at Upjohn and Napp Laboratories. Mr Oughton has worked in the UK, Switzerland and Japan. Mr Oughton gained a BSc in Pharmacology at the University of London.

Regulatory Affairs and Knowledge Management Director

Dr Gareth Walters, age 42

Dr Walters is a founder member of Fulcrum and is responsible for the global regulatory strategy for Fulcrum projects. In addition, he manages the development and application of state-of-the-art knowledge management systems to maximise the efficiency of virtual teams and, in particular, to ensure high quality interactions with Health Authorities and customers.

Prior to Fulcrum, Dr Walters was a founder member of the virtual drug development company, Protodigm Ltd, where he was responsible for regulatory affairs and communication. In this role, he was responsible for setting and implementing the global regulatory strategy for all Protodigm projects. Dr Walters managed teams of regulatory professionals as part of the virtual teams, and sponsored team-based writing and communication processes supported by state-of-the-art document management and dossier submission systems.

Prior to joining Protodigm Ltd, Dr Walters worked for Roche for 10 years in the UK and at corporate headquarters in Switzerland, in Regulatory Affairs, Product Management, Clinical Documentation and Clinical Pharmacology. Dr Walters has a BSc (Hons) and PhD in Physiology from the University of Leeds.

Finance Director

Mr Geoffrey Smith, age 47

Mr Smith is responsible for the financial matters associated both with running the Company and projects. Mr Smith qualified as a Chartered Accountant with KPMG Peat Marwick in Leeds in 1979 and then specialised in corporate tax with Robson Rhodes. He was Finance Director of Spong Holdings plc before establishing his own specialist tax consultancy in 1987, which he continues to date.

Biographies of Directors *continued*

Non-executive Directors

Non-executive Chairman

Professor Sir Charles George, age 60

Professor Sir Charles George is Medical Director of the British Heart Foundation and was Chairman of the Joint Formulary Committee, responsible for overseeing the production of the British National Formulary. He is Emeritus Professor of Clinical Pharmacology at the University of Southampton where he has also served as Dean since 1990. He has been a director of Southampton Innovations Ltd, the company responsible for capitalising on the intellectual property rights of innovations arising from within Southampton University.

Sir Charles has served on numerous Department of Health committees and the Committee on Review of Medicines. He has been a consultant to several major pharmaceutical companies. His distinguished career in medicine was recognised with a Knighthood in 1998. His other honours include FFPM, FRSA and FmedSci.

Non-executive Director

Dr David Clough, age 54

Dr Clough was research director of Roche in the UK between 1986 and 1999, where he was responsible for over 300 staff with departments covering biology, chemistry and preclinical development. During this period two products discovered by staff in the research group under Dr Clough progressed through to the marketplace, namely Inhibace®, and Invirase®. Dr Clough has received several national and international awards for his role in the development of Invirase®, including the International Prix Galien, PhRMA discoverers Award and the Millennium Product Award in 1999.

Dr Clough has served on the Board of Association of the British Pharmaceutical Industry R&D committee and is a member of the scientific advisory board for Cambridge Antibody Group plc. Dr Clough holds a PhD from the University of Glasgow.

Notice of Annual General Meeting

Notice is hereby given that the second Annual General Meeting of the Company will be held at the offices of Buchanans at 107 Cheapside, London EC2V 6DN at 10.00am on Monday 17 December 2001 for the following purposes:

Ordinary business

1. To receive the Company's annual accounts for the period ended 31 August 2001, the Directors' report and the Auditors' report on those accounts.
2. To re-appoint Ernst & Young LLP as Auditors and to authorise the Directors to fix their remuneration.
3. To re-elect as a Director Dr Jonathan Peter Court who is retiring by rotation.
4. To re-elect as a Director Dr James Alastair Devlin who is retiring by rotation.
5. To re-elect as a Director Dr Robert Matthew Miller who is retiring by rotation.
6. To elect as a Director Charles Geoffrey Gregory Smith who was appointed during the period since the last Annual General Meeting and is retiring in accordance with the Company's Articles of Association and, being eligible, is offering himself for election.
7. To consider the following resolution which will be proposed as an ordinary resolution:
"THAT in substitution for all existing authorities the Directors be generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise all powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £566,259.27 for a period expiring unless previously renewed, varied or revoked by the Company in general meeting) 15 months from the passing of this resolution or at the conclusion of the next annual general meeting following the passing of this resolution, whichever first occurs, save that the board may before the expiry of the authority granted by this resolution make a further offer or agreement which would or might require relevant securities to be allotted after such expiry and the board may allot relevant securities in pursuance of that offer or agreement."

Special business

8. To consider the following resolution which will be proposed as a special resolution:
"THAT in substitution for all existing authorities and subject to the passing of resolution 7, the Directors be generally empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) pursuant to the authority conferred by resolution 7 as if section 89(1) of the Act did not apply to the allotment. This power:
(A) expires 15 months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever first occurs, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the Directors may allot equity securities in pursuance of that offer or agreement; and
(B) is limited to:
(i) allotments of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company, made in proportion (as nearly as may be) to their existing holdings of ordinary shares but subject to the directors having a right to make such exclusions or other arrangements in connection with the offering as they deem necessary or expedient:
(a) to deal with equity securities representing fractional entitlements; and
(b) to deal with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory,
(ii) allotments of equity securities for cash (otherwise than pursuant to paragraph (i)) up to an aggregate nominal amount of £392,009.27."

By order of the Board:

Mr N G Oughton Secretary

Registered office: Hamilton House, 111 Marlowes, Hemel Hempstead, Hertfordshire HP1 1BB
19 November 2001

Notice of Annual General Meeting continued

Notes

1. This notice is the formal notification to shareholders of the Company's annual general meeting, its date, time and place and the matters to be considered. If you are in doubt as to what action to take you should consult an independent adviser.
2. Pursuant to regulation 34 of the Uncertified Securities Regulations 1995 only those shareholders registered in the register of members of the Company as at 2.00pm on 15 December 2001 as holders of ordinary shares of 1 pence each in the capital of the Company shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 2.01pm on 15 December 2001 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
3. A member of the Company entitled to attend and vote is entitled to appoint a proxy to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company. Proxy forms must be in the hands of the registrars at least forty eight hours before the meeting.
4. Any change of address should be notified promptly to the registrars.
5. The following documents will be available at the registered office of the Company during usual business hours on each weekday (Saturdays and public holidays excepted), from the date of this notice until the date of the meeting and for at least fifteen minutes prior to the meeting and during the meeting:
 - (i) the register of Directors' interests; and
 - (ii) copies of Directors' service contracts with the Company and with any of its subsidiary undertakings.

Explanations of resolutions

Resolution number 1 – Accounts

The Directors of the Company are obliged to present to shareholders the report of the Directors and the audited financial statements for the Company for the year ended 31 August 2001. That report and those accounts, and the report of the Company's auditors on those accounts, are set out on pages 5 to 24 of this document.

Resolution 2 – Reappointment of auditors

The Company is required to appoint auditors at each general meeting at which accounts are laid, to hold office until the next general meeting.

The present auditors, Ernst & Young LLP are willing to continue in office for a further year and this resolution proposes their reappointment and, in accordance with standard practice, authorises the Directors to determine the level of the auditors' remuneration

Resolution numbers 3, 4, 5 – Re-election of directors

After the first annual general meeting at which all of the Directors retired from office, at every subsequent general meeting one third of the Directors for the time being (other than those appointed since the last annual general meeting) are required to retire. If the number of relevant directors is not a multiple of three, the number nearest to but not greater than one third of the directors should be obliged to retire. Directors due to retire by rotation are those who have been longest in office since their last re-election and as between persons who become or were last re-elected on the same day those due to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring director is eligible for re-election. Dr Jonathan Peter Court, Dr James Alistair Devlin and Dr Robert Matthew Miller, retire by rotation and are offering themselves for re-election.

Resolution 6 – Re-election of a director

A director appointed by the Board as an additional director holds office only until the next annual general meeting, when he must be re-appointed in order to remain in office. Charles Geoffrey Gregory Smith is retiring in accordance with the Company's Articles of Association and, being eligible is offering himself for election.

Resolution number 7 – Authority to allot shares

The resolution grants the Directors authority to allot relevant securities up to an aggregate nominal amount of £566,259.27 being the sum of one-third of the issued share Capital of the Company, the amount of deferred consideration shares pursuant to a share exchange agreement and the amount of shares under the share option schemes at 31 August 2001. It is not the Directors current intention to allot relevant securities pursuant to this resolution except for the deferred consideration shares, details of which are set out in note 5 in the Notes to the Accounts. This authority replaces the existing authority to allot relevant securities but does not affect the ability to allot shares under the share option schemes.

Resolution number 8 – Disapplication of statutory pre-emption rights

This resolution disapplies the statutory pre-emption rights which would otherwise apply on an issue of shares for cash pursuant to a rights issue where the securities attributable to the interests of all shareholders are proportionate (as nearly as may be) to the number of shares held and generally up to £392,009.27, being the sum of 5% of the issued share capital of the Company, the amount of deferred consideration shares pursuant to a share exchange agreement and the amount of shares under the share option schemes at 31 August 2001. This replaces the existing authority to disapply pre-emption rights and expires at the conclusion of the next annual general meeting of the Company or 15 months from the date of passing of the resolution, whichever is the earlier.