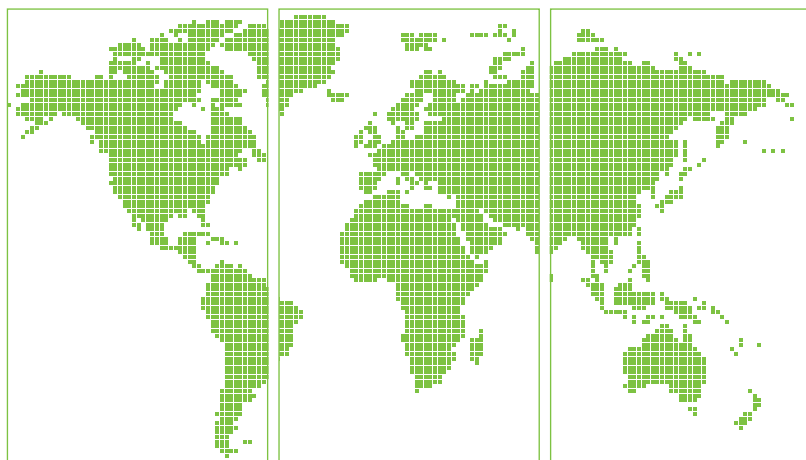


Fulcrum Pharma plc offers virtual drug development and strategic outsourcing services to the pharmaceutical and biotechnology industries through operating companies in Europe, the USA and Japan. We offer global drug development through our offices.

Fulcrum has expertise in the planning, design, execution and delivery of drug development programmes and relies on state-of-the-art information technology and infrastructure in the delivery of our services.

> Our global reach

- > Frequent collaboration and sharing of skillsets amongst Fulcrum's US, European and Japanese operations further expands the scientific and clinical expertise, geographic reach and regulatory capabilities available to Fulcrum's clients.



USA

Fulcrum operates in the USA through Fulcrum Pharma Developments Inc, which has its headquarters in Morrisville, North Carolina, adjacent to the Research Triangle Park. The US staff is composed of experienced individuals representing scientific disciplines and areas of therapeutic expertise. Within the US company there is a focus on early stage drug development to support the large number of small to mid-sized pharma and biotech companies.

Europe

Fulcrum's European headquarters is located in the UK in Hemel Hempstead, Hertfordshire with additional personnel located in Strasbourg. From our European office we develop and deliver development programmes for our European clients. We also manage European based programmes for clients based in the USA and Japan who require European drug development and strategic outsourcing services.

Japan

Fulcrum has an established presence in the Japanese pharmaceutical community, with Fulcrum Pharma KK and Niphix KK, our specialist clinical research organisation.

The team members are native Japanese who possess first hand knowledge of Japanese language, culture and industry practices. Being located in Japan the team is able to rapidly respond to client requirements both locally and internationally.

Our services

How Fulcrum can help

- > Fulcrum's in-house experts can guide the development of a product including:
 - > Chemistry, manufacturing and controls
 - > Pre-clinical assessment
 - > Clinical development
 - > Regulatory support
 - > Fulcrum draws from our experienced and diverse staff to complement client resources, resulting in a high-performance team

How our clients benefit

- > Strategic programme and study design shorten drug development time and increase probability of achieving key milestones
- > Selection and management of prequalified suppliers tailored to the product maximise programme efficiency
- > Customised solutions reduce risks and costs of drug development programmes
- > Fulcrum provides our clients with confidence in an experienced partner

IFC Our global reach

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> Corporate statement and highlights

Fulcrum offers a unique strategic drug development service to the pharmaceutical and biotechnology industries. We provide customised development programmes that lead to early Proof of Concept, efficient registration and ideal positioning for rapid market uptake. Our service is professional and cost-effective.

- > Turnover increased 42% to £11.1m (2003: £7.8m)
- > Loss before tax is £1.21m (2003: £947,000) including exceptional costs of £348,000 (2003: £383,000)
- > US subsidiary performed ahead of target
- > Cross sales from Japan have grown to 13% of Group fee income
- > Ratio of overheads to turnover has improved to 35% (2003: 43%)
- > Net cash remains strong at £2.2m
- > Preferred supplier arrangement signed with BTG
- > Partnership arrangement announced with Addex Pharmaceuticals and Biofocus



> Chairman's statement



Summary of the Chairman's statement

Fulcrum has had a frustrating year. However our strategy has evolved and I believe the business is now well placed for the future. We intend to use our assets and knowledge, together with our global and local reach, to develop the business in the world's strongest pharmaceutical markets.

Business review

We stated in our trading update in August 2004 that Fulcrum was operating under challenging market conditions, particularly in Europe, and that the Group's future growth strategy would be adjusted in order to take advantage of the stronger market in the US.

Fulcrum's turnover for the year was £11.1m (2003: £7.81m) and the loss before tax was £1.21m (2003: £947,000).

The funding climate in Europe, which has caused biotech companies to conserve their cash, and pricing pressure, related to the weak US dollar, which have caused large pharmaceutical companies to reduce or delay decision making on outsourcing and spending, have created challenging market conditions for Fulcrum.

Meanwhile other areas of Fulcrum's business are performing well and we are pleased to say that the growth strategy for the future has now been implemented. Positive steps have been taken to drive the core service business forward. These have included reorganisation of the European group which has allowed tailoring of our business development effort on a regional basis. Investment has been concentrated in the US, where growth is fastest. In addition there is continued effort to drive cross sales out of Japan to the US and Europe. The Group is actively addressing operational efficiencies in order to improve the gross profit margin and the ratio of overheads to turnover.

In line with the new strategy, the US subsidiary continues to grow ahead of expectations and the

Japanese subsidiary signed a major new contract in March 2004. Cross sales from Japan to the US and Europe have increased and the Company's partnership strategy has been successful. The business is now in a good position to build on its knowledge and leverage its assets.

Board changes

As announced in September, Sales & Marketing was reorganised on a regional basis. The cost of the reorganisation has been included in the results for the year ended 31 August 2004. As a consequence, there was no longer a need for a global Commercial Director. Neil Oughton, who filled this role as well as the role of Company Secretary since Fulcrum floated on AIM in 2000, left the Company at the end of September and resigned from the Board. Lesley Wotherspoon, Financial Controller, has taken over as Company Secretary.

In conclusion

Fulcrum has had a frustrating year. However our strategy has evolved and I believe the business is now well placed for the future. We intend to use our assets and knowledge, together with our global and local reach, to develop the business in the world's strongest pharmaceutical markets. We have a group of experienced scientists representing multiple disciplines and therapeutic areas who can optimise strategic drug development.

Professor Sir Charles F George
Chairman
17 November 2004

CASE STUDY

CLIENT: MMV

Fulcrum has applied its processes and expertise to support Medicines for Malaria Venture (MMV) in its quest for cost effective therapies to combat malaria. The outcome has been published in the prestigious scientific journal Nature ("Identification of an antimalarial synthetic trioxolane drug development candidate", Vol 430,

19 August 2004, pages 900-904). This novel compound has now moved into phase I development with phase II efficacy studies in malaria patients commencing towards the end of the year.



> Chief executive's review



Operating review

During the past year Fulcrum has continued to execute its strategy to build a scalable outsourcing Pharma business providing drug development services with global reach. Fulcrum has grown its turnover by 42% compared with the last year. Fee income growth has been achieved in all three regions with overall growth driven by the rapid establishment of the US subsidiary, where fee income grew by 148%, and by increased cross sales from our Japan office into the US and Europe.

Drug development services and client update

Fulcrum has attracted clients from the key sectors i.e. biotech, regional and large pharma. There has also been an innovative approach to "partnerships" with clients to deepen relationships and enable the creation of long-term strategies for outsourcing.

European office

In the first half of the year, fee income doubled compared to the previous year. However this growth was not sustained in the second half and over the year fees increased by 38%. To improve future performance, management is focussed on winning new business, developing existing client accounts and improving operational efficiency. An important tactic in Europe is to develop further partnerships where sales are more visible, are long-term and enable fee income from a broad range of services to be generated. Over the past twelve months we have announced agreements with Addex, BTG and Biofocus.

Summary of the Chief Executive's Review

The cornerstones of the Group's strategy are:

- 1 Grow the core service business in all three regions and in particular the US where fees are anticipated to reach 50% of Group fee income.
- 2 Underpin Group performance by driving cross sales from Japan.
- 3 Further develop risk-sharing and partnership strategies in Europe, Japan and the US.

US office

The Biotech industry in the US is very healthy and by September has already attracted US \$13 billion in new investment in 2004 (2003: US \$14.4 billion). Our US subsidiary is benefiting from these market conditions. In only its second year the US team has established its credibility with over 20 clients and sales have grown by 148%. It provides a good diversity of services including manufacturing, (US and Japanese clients), clinical and preclinical. Repeat business has increased to more than 50% of contract wins. Recognising this success the Group plans to grow the US team to deliver over 50% of Group sales.

Japan office

Japan experienced flat fee income during the first half of the year. However Japanese fee income and cross sales into US and Europe contribute a third of Group fee income. Cross sales from Japan are sales to Japanese companies which are delivered by the US and European subsidiaries. Initially cross sales focussed on contracts to manage technology transfer from Japan to the US. These are now beginning to expand into the clinical oncology arena.

CASE STUDY

CLIENT: EARLY PHASE

During 2004, four projects proceeded through powder to man development phases: CMC, pre-clinical, regulatory IND (US or Europe) approval into phase I trials in man. Successful application of Fulcrum processes, targeted and focussed planning and delivery, proactive and experienced project

management and committed team management resulted in the achievement of stretched goals in terms of time and cost.



> Chief executive's review (continued)

Partnerships' strategy

The Company recognises that it needs to be innovative in the way it establishes business relationships with clients. In the past twelve months Fulcrum has invested significant resources into establishing partnerships and preferred supplier arrangements. As part of the Fulcrum Ventures initiative, the Company has been evaluating anti-cancer drugs under development by US and European Biotech companies for registration in the Japanese market. This attractive niche area is characterised by faster development timelines and earlier returns. Whilst funding of the Fulcrum Ventures vehicle was not achieved, the Company is now using the know-how developed to negotiate risk-sharing partnerships in US, Europe and Japan, involving geographic arbitrage and ownership opportunities for niche products.

Our people

Across Europe, US and Japan we have established a unique group of highly experienced scientists representing multiple disciplines and therapeutic areas who can optimise the development of our clients' products. Our staff are key to our success and their retention is important for the long-term health of the Company. We have therefore taken steps to demonstrate to our employees how much they are valued by re-pricing share options.

Future strategy

Fulcrum continues to provide a tailored and integrated drug development offering to clients via a team of specialists and seeks to enable its partners and clients to reach their goals more efficiently.

The cornerstones of the Group's strategy are:

1. Grow the core service business in all three regions and in particular the US where fees are anticipated to reach 50% of Group fee income.
2. Underpin Group performance by driving cross sales from Japan.
3. Further develop risk-sharing and partnership strategies in Europe, Japan and the US.

Outlook

The weakness of the US dollar and the cash constraints faced by the European Biotech sector will restrict order intake in the first half of the current year. However, there are indications that our strategy will result in orders picking up in the second half of the year and beyond.

Jon Court

Chief Executive

17 November 2004

CASE STUDY

CLIENT: ADDEX PARTNERSHIP

Fulcrum Pharma has signed a preferred supplier arrangement with Addex Pharmaceuticals SA of Switzerland. The three year agreement is focused on central nervous system disorders, providing drug development services for the Addex portfolio of novel compounds.

Under the terms of this agreement Fulcrum is responsible for the provision of drug development resource and expertise to support Addex in the development of its product portfolio.

The partnership is already accelerating Addex's products towards the clinic.



> Financial review



Summary of the Finance Director's review

Turnover increased by 42% to £11.1 million from £7.8 million in 2003. Operating loss before exceptional costs was £862,000 compared to £564,000 in 2003. The Group is expected to maintain its financial position with strong cash balances.

Turnover

Total turnover increased by 42% to £11.1 million from £7.8 million in 2003. Sales growth was achieved in each of the operating subsidiaries, Europe, US and Japan.

The geographic analysis of fee income demonstrates the increasing importance of the contribution from the overseas subsidiaries. Fee income in Europe was 58% of total fee income (2003: 63%) whilst fee income in North America increased to 22% (2003: 13%) and Japan fee income was to 20% (2003: 24%).

Operating loss

Operating loss before exceptional costs was £862,000 compared to £564,000 in 2003 and includes £114,000 loss on exchange (2003: £24,000) and £83,000 (2003: £nil) of non-recurring expenditure incurred related to the reorganisation of the Group sales and marketing function in the latter part of the year.

Exceptional costs

The exceptional costs of £348,000 (2003: £383,000) related to the costs of Fulcrum Ventures Limited, the Group's product development subsidiary, which was set up to in-licence rights to mid-to-late clinical oncology products and develop them.

Earnings per share

There was a loss per share of 0.93 pence (2003: 0.62 pence).

Dividends

An interim dividend of 0.2 pence per share was paid in June 2004 (2003: 0.2 pence per share). The dividend was paid from distributable reserves of Fulcrum Pharma plc. No second half dividend is proposed.

Foreign exchange

The Group suffered from the weakness of the dollar during the year. During the year, the Group entered into a forward foreign currency contract to hedge this risk.

Taxation

The Group benefited from tax credits for research and development and is not expected to pay any material amount of tax in respect of 2004. In addition, due to the loss all provisions for deferred taxation have been released and there are tax losses to carry forward of £1.2 million.

Outlook for 2005

The Group is expected to maintain its financial position with strong cash balances.

Geoffrey Smith

Finance Director
17 November 2004

> Non-executive directors

**Professor Sir Charles George,
aged 63**
Chairman of the Board and
Non-executive director

Professor Sir Charles George was appointed President of the British Medical Association on 30 June 2004 and is the retiring Medical Director of the British Heart Foundation. He is the former Chairman of the Joint Formulatory 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 served as Dean from 1993 to 1998. He has also been a Director of Southampton Innovations Limited, 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 FPPM, FRSA and FmedSci.

**Dr David Clough,
aged 57**
Non-executive director

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.

**Dr Michael Carter,
aged 66**
Non-executive director

Dr Carter is a Venture Partner at Schroder Ventures Life Sciences Limited, and also holds additional non-executive directorships at Galen Holdings plc, KuDOS Limited, Provensis Limited, Micromet GmbH and Cancervax Inc.

Dr Carter's previous roles include; Medicines Commission Member, Pharmaceutical Board member at Zeneca, and experience in marketing and clinical development, both at Zeneca and Roche Products Limited. Dr Carter holds an MB, ChB from Nottingham University and is a Fellow of Royal College of Physicians of Edinburgh.

> Executive directors

Dr Jon Court,
aged 51
Chief Executive Officer

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 Limited, 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 five 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.

Dr Alastair Devlin,
aged 48
Japan Operations Director

Since September 2002 Dr Devlin has taken responsibility for managing the expansion of Fulcrum's activities in Japan through the newly established Fulcrum Pharma KK and Niphix KK companies registered in Japan. Before taking this role Dr Devlin held the positions of Chief Operating Officer and Technical Director for Fulcrum Pharma Developments Limited.

Prior to Fulcrum, Dr Devlin was a founder member of Protodigm Limited, where he was Director of Technical Development. In addition to being responsible for all technical and manufacturing matters for Protodigm projects, Dr Devlin 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 B.Sc. (Hons) and PhD degrees from the University of Glasgow.

Mr Geoffrey Smith,
aged 50
Finance Director

Mr Smith is responsible for the financial matters associated both with running the Company and specific 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.

> Senior management

Mr Teruyoshi Okuda,
aged 47
President Fulcrum Pharma KK

Mr Okuda joined Fulcrum in January 2000. As General Manager of Fulcrum's Japanese branch he was responsible for the business development (including marketing) activities of Fulcrum in Japan. In addition he provided specific Japanese development input into Fulcrum's global drug development plans and management of Japanese development activities. He now continues these roles as President of Fulcrum Pharma KK.

Prior to joining Fulcrum, Mr Okuda held senior positions in drug development, medical affairs and clinical research in Japanese affiliates of Roche and Rhone-Poulenc Rorer (now Aventis). Most recently, he was project leader for the Japanese development of two novel oncology agents (Xeloda® and Herceptin®), which took advantage of the changing regulatory environment in Japan to accelerate their development. He also managed the development and pre-marketing activities for another oncology agent in Japan, Taxotere®, as well as having responsibility for development of clinical support for agents in other therapeutic areas (malaria, haematology, antibiotics and asthma).

Mr Okuda has a degree and MSc in pharmaceutical Sciences from the Science University of Tokyo.

Dr Bruce J McCreedy,
aged 45
Chief Executive Officer
Fulcrum Pharma Developments Inc

Dr McCreedy joined Fulcrum Pharma Developments Inc. in June 2002. He is responsible for managing the Group's US activities, which includes business development and operations. Before joining Fulcrum Pharma, Dr McCreedy was co-founder, CEO and president of TherapyEdge Inc, where he secured investment and was responsible for operations, strategic alliances and partnerships, and investor relations for a company of 30 employees consisting of physicians, scientists, software engineers, legal, regulatory, sales and marketing professionals. Prior to TherapyEdge, Dr McCreedy was Vice President of Clinical Virology and Diagnostics for Triangle Pharmaceuticals. Prior to Triangle Pharmaceuticals, Dr McCreedy worked for Laboratory Corporation of America and Organon Teknika. Dr McCreedy has 16 years' clinical laboratory operations, drug development and project management experience.

Dr McCreedy has a PhD in microbiology and immunology from Wake University Forest School of Medicine.

Kiyoshi Fujimaru,
aged 47
President Niphix KK

Mr Fujimaru joined the Fulcrum Group at the beginning of 2003 as President of Niphix KK, Fulcrum's specialist data management and clinical monitoring CRO in Japan. Before joining Niphix, Mr Fujimaru was a Board Director of EPS Co Ltd, a leading Japanese CRO, where he also held senior management positions in clinical development and biometrics. Prior to entering the CRO business Mr Fujimaru managed data management and biostatistics groups in Grelan Pharmaceutical, Nihon Servier and Nippon Roche.

Mr Fujimaru has a degree in Mathematics from the Science University of Tokyo, and conducted research in biostatistics and epidemiology in the Faculty of Medicine, University of Tokyo.

> Directors' report

for the year ended 31 August 2004

The Directors present their report and the audited financial statements for the year ended 31 August 2004. The Group financial statements consolidate the results of Fulcrum Pharma plc (the "Company") and its subsidiaries, together the "Group", drawn up to 31 August 2004.

Results and dividends

The retained loss for the year after taxation and dividends was £1,366,000 (2003: £996,000). An interim dividend of £244,000 (2003: £244,000) was paid in June 2004. The Directors do not propose a final dividend.

Review of the business, future developments and principal activities

The Group'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 2004 and future developments are set out in the Chairman's Statement, the Chief Executive Officer's Review and the Finance Review on pages 2 to 5.

Directors, officers and Directors' interests

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

Professor Sir Charles F George
 Dr J P Court
 Dr J A Devlin
 Dr R M Miller (resigned 17 December 2003)
 Mr N G Oughton (resigned 27 September 2004)
 Mr C G G Smith
 Dr G E Walters (resigned 17 December 2003)
 Dr D P Clough
 Dr M G Carter

Biographies of the Directors and senior management are set out on pages 6 to 8.

The Company Secretary during the year was Mr N G Oughton who resigned on 27 September 2004 and was replaced by Mrs L Wotherspoon.

The interests of the Directors in the Company's ordinary shares of 1p each are set out below:

	As at 31 August 2004	As at 31 August 2003 or date of appointment if later
Share capital		
Prof Sir C F George	340,000	340,000
Dr J P Court	7,149,328*	7,476,328*
Dr J A Devlin	6,976,328	6,976,328
Dr R M Miller	—	6,976,328
Dr G E Walters	—	6,976,328
Mr N G Oughton	6,976,328	6,976,328
Mr C G G Smith	653,333	353,333
Dr D P Clough	203,667	203,667
Dr M G Carter	—	—

* Includes 173,000 shares (2003: 500,000 shares) held by Dr J P Court's wife.

The beneficial interests of the Directors in options to purchase shares in the Company are shown in Note 20. As at 31 August 2004, the Directors held in aggregate 22,298,984 shares (2003: 36,278,640 shares), representing 18.3% (2003: 29.8%) of the current issued ordinary capital.

None of the Directors had an interest in any contract of significance to which the Group was party during the year ended 31 August 2004.

Political and charitable contributions

The Group made charitable contributions to The Motor Neurone Disease Association and to The Free Spirits Trust of £375 each during the year. The Group made no political contributions during the year.

> Directors' report

for the year ended 31 August 2004

Employees

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

Creditor payment policy

The Group's policy is to pay suppliers within the terms of the invoice. This policy and any specific terms agreed with suppliers are made known to the appropriate staff and to suppliers on request. The Group's average creditor payment period at 31 August 2004 was 30 days (2003: 30 days) and for the Company was 30 days (2003: 30 days).

Substantial shareholdings

The Company had the following shareholdings amounting to 3% or more of the ordinary share capital of the Company.

	As at 12 November 2004		As at 31 August 2004	
	No. of shares held	%	No. of shares held	%
Chase Nominees Limited	12,115,810	9.94%	12,115,810	9.94%
Dr J P Court	7,149,328*	5.86%	7,149,328*	5.86%
Dr J A Devlin	6,976,328	5.72%	6,976,328	5.72%
Mr N G Oughton	6,976,328	5.72%	6,976,328	5.72%
Dr G E Walters	6,976,328	5.72%	6,976,328	5.72%
Dr R M Miller	6,476,328	5.31%	6,476,328	5.31%
Barclayshare Nominees	5,868,609	4.82%	5,760,375	4.73%
TD Waterhouse Nominees (Europe)	4,410,710	3.62%	4,669,982	3.83%

* Includes 173,000 shares held by Dr J Court's wife.

Safety, health and environment

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

Treasury policy

The Group treasury policy is one of conservatism approved by the Board. Cash balances are managed as described in Note 23. As a matter of policy, Fulcrum does not undertake speculative transactions, which would increase its currency or interest rate exposure. However, due to the weakness of the US dollar, the Group has entered into a forward foreign currency contract to reduce foreign currency exposure.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board

L Wotherspoon
Company Secretary
17 November 2004

> Corporate governance statement

for the year ended 31 August 2004

The Company's shares are traded on the Alternative Investment Market ("AIM") of the London Stock Exchange. The Group is therefore subject to the AIM Admission Rules of the London Stock Exchange and is consequently not required to comply with the best practice corporate governance provisions contained within the Combined Code appended to the Listing Rules of the Financial Services Authority.

The Board

The Board currently comprises the executive and non-executive directors. Given the current size of the Company, the Directors do not feel that it is appropriate to appoint more than three non-executive directors, namely Professor Sir Charles George, Dr David Clough and Dr Michael Carter. 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 Remuneration Committees, each with defined terms of reference.

The Audit Committee comprises the non-executive directors and Dr G Walters who acts as the employees' representative. They meet at least twice each year and are responsible for ensuring that 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 the financial statements.

A Remuneration Committee has been established, with the non-executive directors and Dr R M Miller who acts as the employees' representative as members. It meets at least twice each year and reviews the performance of the Executive directors and sets the scale and structure of their remuneration having due regard to the interests of the shareholders. The Committee also manages the share option schemes.

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 operates 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, 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 2004. After taking into consideration the cash flow implications of these plans, the Directors are satisfied that it is appropriate to produce the Group financial statements on a going concern basis.

> Corporate governance statement

for the year ended 31 August 2004

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of a new accounting standard in the year as explained on page 18 under note 1 Accounting Policies. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 August 2004 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Fulcrum Pharma plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Professor Sir Charles F George

Non-executive Chairman

17 November 2004

> Independent auditors' report

to the members of Fulcrum Pharma plc

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated and Company balance sheets, the consolidated cash flow statement, the Statement of total Group recognised gains and losses and the related notes.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the highlights, the reports of the Chairman and Chief Executive Officer, the Directors' report and the corporate governance statement.

Basis of audit 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 August 2004 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Cambridge

19 November 2004

> Consolidated profit and loss account

for the year ended 31 August 2004

	Note	Year ended 31 August 2004 £'000	Year ended 31 August 2003 £'000
Turnover	2	11,085	7,809
Cost of sales		(8,434)	(5,554)
Gross profit		2,651	2,255
Selling expenses		(810)	(513)
Administrative expenses		(2,752)	(2,424)
Exceptional administrative expenses	5	(348)	(383)
Total administrative expenses		(3,100)	(2,807)
Operating loss	3	(1,259)	(1,065)
Interest receivable and similar income	6	58	120
Interest payable and similar charges	7	(9)	(2)
Loss on ordinary activities before taxation		(1,210)	(947)
Tax on loss on ordinary activities	8	88	195
Loss on ordinary activities after taxation		(1,122)	(752)
Dividends	9	(244)	(244)
Loss for the year transferred to reserves	21	(1,366)	(996)
Loss per share (pence)	10		
Basic and diluted		(0.93)	(0.62p)
Adjusted basic and diluted		(0.69)	(0.30p)

Adjusted loss per share excludes the effect of the exceptional item.

> Statement of total group recognised gains and losses

for the year ended 31 August 2004

	Note	2004 £'000	2003 £'000
Loss on ordinary activities after taxation		(1,122)	(752)
Exchange adjustments offset in reserves	21	(82)	5
Total recognised gains and losses since last Annual Report		(1,204)	(747)

> Consolidated balance sheet

as at 31 August 2004

	Note	2004 £'000	2003 As restated (see note 1) £'000
Fixed assets			
Tangible assets	11	584	541
Investments	12	85	—
		669	541
Current assets			
Debtors	13	3,351	2,930
Short term investments	14	1,423	2,825
Cash at bank and in hand		1,045	771
		5,819	6,526
Creditors: amounts falling due within one year	15	(2,831)	(2,075)
Net current assets		2,988	4,451
Total assets less current liabilities		3,657	4,992
Creditors: amounts falling due after more than one year	17	(226)	(86)
Provisions for liabilities and charges	19	—	(43)
Net assets		3,431	4,863
Capital and reserves			
Called up share capital	20	1,219	1,219
Share premium account	21	4,370	4,370
Merger reserve	21	(454)	(454)
Profit and loss account	21	(1,704)	(272)
Equity shareholders' funds	21	3,431	4,863

The financial statements on pages 14 to 30 were approved by the Board of Directors on 17 November 2004 and were signed on its behalf by:

Jon Court
Director

Geoffrey Smith
Director

> Company balance sheet

as at 31 August 2004

	Note	2004 £'000	2003 As restated £'000
Fixed assets			
Shares in subsidiary companies – at cost	12	454	454
Current assets			
Debtors: amounts falling due within one year	13	1,986	898
Debtors: amounts falling due after more than one year	13	2,500	2,500
Short term investments	14	432	1,755
Cash at bank and in hand		328	20
		5,246	5,173
Creditors: amounts falling due within one year	15	(49)	(36)
Net current assets		5,197	5,137
Total assets less current liabilities		5,651	5,591
Capital and reserves			
Called up share capital	20	1,219	1,219
Share premium	21	4,370	4,370
Profit and loss account	21	62	2
Equity shareholders' funds	21	5,651	5,591

The financial statements on pages 14 to 30 were approved by the Board of Directors on 17 November 2004 and were signed on its behalf by:

Jon Court
Director

Geoffrey Smith
Director

> Consolidated cash flow statement

for the year ended 31 August 2004

	Note	2004 £'000	2003 £'000
Net cash outflow from operating activities	22	(843)	(691)
Returns on investment and servicing of finance			
Interest received		58	120
Interest paid		(9)	(2)
Net cash outflow from returns on investments and servicing of finance		49	118
Taxation			
Corporation tax		176	(209)
Capital expenditure and financial investment			
Purchase of own shares for employee share options and awards		(43)	—
Purchase of equity investments		(85)	—
Purchase of tangible fixed assets		(293)	(614)
Net cash outflow from capital expenditure and financial investment		(421)	(614)
Dividends			
Equity dividends paid to shareholders	9	(244)	(244)
Net cash outflow before management of liquid resources and financing		(1,283)	(1,640)
Management of liquid resources			
Decrease in short term investments		1,402	1,695
Financing			
New finance leases		58	75
Bank loan received		152	75
Capital element of finance lease payments		(32)	(8)
Bank loan repayments		(23)	(8)
Net cash inflow from financing		155	134
Increase in cash	22	274	189

> Reconciliation of net cash flow to movement in net funds

	Note	2004 £'000	2003 £'000
Increase in cash		274	189
Increase in bank loans		(129)	(67)
Cash flow from decrease in short term investments		(1,402)	(1,695)
Increase in finance leases		(26)	(67)
Change in net funds from cash flows		(1,283)	(1,640)
Net funds at 1 September		3,462	5,102
Net funds at 31 August	22	2,179	3,462

> Notes to the financial statements

for the year ended 31 August 2004

1 Accounting policies

Accounting convention

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and the historical cost convention. A summary of the more important accounting policies, which have been reviewed by the Board of Directors in accordance with Financial Reporting Standard ("FRS") 18 "Accounting policies" and have been applied consistently, is set out below.

Change in accounting policy

In accordance with Urgent Issues Task Force ("UITF") 38 "Accounting for ESOP trusts" the balance sheet has been restated to disclose the Employee Share Option Trust (the "ESOT") as a deduction from Capital and Reserves. It was previously accounted for as a fixed asset investment. Comparative figures have been restated accordingly (see note 21).

The Company's ESOT is a separately administered trust, which is funded by a loan from the Company, and the assets of which comprise shares in the Company. Shares in the Company held by the ESOT are shown at cost less any provision for permanent diminution in value.

Basis of consolidation

The Group financial statements consolidate the results of Fulcrum Pharma plc and its subsidiaries drawn up to 31 August 2004. The results of all the subsidiaries with the exception of Fulcrum Pharma Developments Limited have been consolidated using the principles of acquisition accounting. Fulcrum Pharma Developments Limited, which was acquired in March 2000 has been consolidated using the principles of merger accounting.

Inter-Group transactions, profits and balances are eliminated in full on consolidation.

The Company has not presented its own profit and loss account as permitted by Section 230(3) of the Companies Act 1985.

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, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life, as follows:

Leasehold Improvements	– over the lease term
Fixtures and fittings	– 5 years
Computer equipment	– 2–5 years

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

Investments

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

Short term investments

Deposits which are not repayable on demand are treated as short term deposits.

Finance and operating leases

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

Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit on a straight line basis. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

1 Accounting policies (continued)

Pensions

The Group makes contributions to individual personal pension plans. The contributions are charged to the profit and loss account as they are incurred.

Deferred taxation

Provision is made for deferred taxation in accordance with FRS 19, "Deferred taxation" on all material timing differences. Deferred tax assets are recognised to the extent that they are regarded as recoverable. Deferred tax assets and liabilities are not discounted.

Turnover and long-term contracts

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties including passthrough costs from suppliers, 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.

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 agreed with 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.

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.

Assets and liabilities of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of foreign subsidiaries are translated at the average rate of exchange for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary, and from the translation of the results of those undertakings at the average rate, are taken to reserves and are reported in the statement of total Group recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise and are included in operating profit.

Employee share schemes

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 ("UITF 17"), 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 charge is then credited back to reserves. When a compensation charge is recognised on options to incentivise future performance, the charge is recognised over the performance period.

Financial instruments

The Group's policies in relation to financial instruments are set out in Note 23. The Group has taken the exemption allowed under FRS 13 "Derivatives and Financial Instruments", and excluded short term debtors and creditors from its disclosures under financial instruments (see Note 23).

> Notes to the financial statements

for the year ended 31 August 2004

2 Turnover**Geographical analysis by customer location**

	2004 £'000	2003 £'000
United Kingdom	4,218	3,935
Rest of Europe	1,448	655
United States of America and Canada	2,904	1,845
Japan	2,515	1,374
	11,085	7,809

In the opinion of the Directors, the disclosure of the profit before taxation and net assets by geographical segment and turnover, profit before taxation and net assets by class of business would be prejudicial to the interests of the Group, and this information has not been disclosed.

Geographical analysis by region

	2004 £'000	2003 £'000
Europe	3,414	2,447
USA	1,305	526
Japan	1,192	928
Total fee income	5,911	3,901
Pass through costs	5,174	3,908
	11,085	7,809

3 Operating loss

This is stated after charging:

	2004 £'000	2003 £'000
Auditors' remuneration:		
– audit services (Company: 2004: £19,000; 2003: £7,000)	33	22
Depreciation of tangible fixed assets – owned	214	90
Depreciation of tangible fixed assets – leased	24	7
Operating lease rentals:		
– land and buildings	429	286
– fixtures and computer equipment	2	6

4 Staff costs and Directors' emoluments**Staff costs (including Executive directors)**

	2004 £'000	2003 £'000
Wages and salaries	3,639	2,307
Social security costs	386	224
Pension costs	145	79
	4,170	2,610

The average monthly number of employees during the year was:

	2004 Number	2003 Number
Project management	34	20
Sales and administration	10	8
	44	28

4 Staff costs and Directors' emoluments (continued)

Directors' emoluments

The total emoluments of the Directors for the year ended 31 August 2004 was £599,000 (2003: £621,000) comprising Company salaries, pension contributions and non-executive directors' fees. The emoluments of each Director during the period were as follows:

	2004				2003		
	Basic salary and fees £'000	Pension contributions £'000	Compensation for loss of office £'000	Total £'000	Basic salary and fees £'000	Pension contributions £'000	Total £'000
Executive:							
Dr J P Court	106	5	—	111	97	5	102
Dr J A Devlin	101	5	—	106	97	5	102
Mr C G G Smith*	91	—	—	91	70	—	70
Mr N G Oughton	101	5	74	180	97	5	102
Dr R M Miller	29	2	—	31	97	5	102
Dr G Walters	29	2	—	31	97	5	102
	457	19	74	550	555	25	580
Non-executive:							
Professor Sir C F George	20	—	—	20	20	—	20
Dr Michael Carter	15	—	—	15	7	—	7
Dr D P Clough	14	—	—	14	14	—	14
	49	—	—	49	41	—	41
	506	19	74	599	596	25	621

* This amount was paid to a third party for the services of Mr C G G Smith.

	2004 Number	2003 Number
Members of money purchase pension schemes	5	5

5 Exceptional items

The Group has reported a loss before tax and exceptional items of £862,000 (2003: loss of £564,000).

The Group has recorded an exceptional charge to administrative expenses of £348,000 (2003: £383,000). The charges represent the costs of the subsidiary company, Fulcrum Ventures Limited (formerly JRiCo Ventures Limited), which was set up to in-licence rights to mid-to-late clinical oncology products and develop them. This expenditure ceased on 30 April 2004.

	2004 £'000	2003 £'000
Loss on ordinary activities before tax	(1,210)	(947)
Exceptional administrative expenses	348	383
Loss on ordinary activities before taxation and exceptional items	(862)	(564)

6 Interest receivable and similar income

	2004 £'000	2003 £'000
Bank interest	54	120
Other interest receivable	4	—
	58	120

7 Interest payable and similar charges

	2004 £'000	2003 £'000
On bank loans and overdrafts	5	—
In respect of finance leases	4	2
	9	2

> Notes to the financial statements

for the year ended 31 August 2004

8 Tax on loss on ordinary activities

	2004 £'000	2003 £'000
Current taxation		
UK corporation tax at 30%	(63)	(190)
Adjustment in respect of prior period UK corporation tax	18	(43)
	(45)	(233)
Deferred taxation		
UK deferred tax – Origination and reversal of timing differences (Note 19)	(43)	38
	(88)	(195)

The repayable tax credit includes a research and development tax credit of £63,000 (2003: £Nil) which relates to the exceptional costs.

Current taxation

The tax charge for the year differs from the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below:

	2004 £'000	2003 £'000
Loss on ordinary activities before tax	(1,210)	(947)
Loss on ordinary activities before tax and exceptional items multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	(363)	(284)
Effects of:		
Capital allowances in excess of depreciation	17	(65)
Expenses not deductible for tax purposes	22	–
Tax losses for the period not relieved	377	155
Adjustment in respect of prior period	18	(43)
Adjustment in respect of foreign tax rates	–	4
Research & development tax credits	(116)	–
Current tax credit for year	(45)	(233)

9 Dividends

An interim dividend of £244,000 (2003: £244,000), representing 0.2 pence per share (2003: 0.2 pence per share), was declared and paid during the year. The dividend was paid from the distributable reserves of Fulcrum Pharma plc. No final dividend has been proposed (2003: £Nil).

10 Loss per share

	2004	2003
Basic loss per share	(0.93)p	(0.62)p
Adjustment for exceptional costs	0.24p	0.32p
Adjusted loss per share	(0.69)p	(0.30)p

The basic loss per ordinary share is based on the Group's loss for the year of £1,122,000 (2003: £752,000) divided by the weighted average number of ordinary shares in issue, excluding those shares held by the Employee Share Ownership Trust ("ESOT").

In 2004 and in 2003, the number of shares used in the calculation of diluted loss per share was the same as that used in the calculation of basic loss per share as the Group incurred a loss.

Exceptional costs charged against operating loss and exceptional tax credits do not relate to the profitability of the Group on an ongoing basis. Therefore an adjusted basic loss per ordinary share is presented based on the Group's loss before exceptional items of £837,000 (2003: £369,000), divided by the weighted average number of ordinary shares in issue, excluding those shares held by the ESOT.

	2004 Number	2003 Number
Weighted average number of shares for basic and fully diluted EPS	121,151,541	121,401,451

11 Tangible fixed assets**Group**

	Leasehold improvements £'000	Computers and office fixtures and fittings £'000	Total £'000
Cost			
At 1 September 2003	263	460	723
Exchange adjustments	(6)	(6)	(12)
Additions	19	274	293
Disposals	—	(6)	(6)
At 31 August 2004	276	722	998
Depreciation			
At 1 September 2003	21	161	182
Exchange adjustments	(1)	(5)	(6)
Charge for the year	51	187	238
At 31 August 2004	71	343	414
Net Book Value At 31 August 2004	205	379	584
Net Book Value at 31 August 2003	242	299	541

The net book value of leasehold improvements held under finance leases is £52,000 (2003: £68,000). The net book value of computers and office fixtures and fittings is £49,000 (2003: £nil).

12 Investments**Group**

	£'000
Cost	
At 1 September 2003	—
Additions	85
At 31 August 2004	85

The acquisition in the year represents equity shares in a trade investment at cost in Addex Pharmaceuticals SA. The Directors are satisfied that the investment is not impaired.

Company

The Group owns the following subsidiaries:

Company	Country of incorporation	Class of share	Proportion held (%)
Fulcrum Pharma Developments Limited	United Kingdom	Ordinary	100
Fulcrum Pharma Developments International Limited	United Kingdom	Ordinary	100
Fulcrum Ventures Limited	United Kingdom	Ordinary	100
Fulcrum Pharma Developments Inc	USA	Ordinary	100
GPB KK	Japan	Ordinary	100
Fulcrum Pharma KK	Japan	Ordinary	100
Niphix KK	Japan	Ordinary	100

The principal activities of all the companies in the Group, with the exception of Fulcrum Pharma Developments International Limited and Fulcrum Ventures Limited, are to offer virtual drug development and strategic outsourcing services to the pharmaceutical industry. The principal activity of Fulcrum Pharma Developments International Limited is to operate a branch in Japan. The principal activity of JRiCo Ventures Limited is to obtain development and marketing rights in Japan for oncology products.

Fulcrum Pharma Developments International Limited owns 100% of the share capital of Fulcrum Pharma Developments Inc. and GPB KK, and GPB KK owns 100% of the share capital of Fulcrum Pharma KK and Niphix KK.

> Notes to the financial statements

for the year ended 31 August 2004

13 Debtors

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Trade debtors	1,968	—	1,467	—
Amounts owed by subsidiary undertaking	—	4,469	—	3,378
Corporation tax recoverable	68	6	196	6
Other debtors	136	—	158	—
Prepayments and accrued income	1,179	11	1,109	14
	3,351	4,486	2,930	3,398

Included in Company debtors, within amounts owed by subsidiary undertaking, is an amount of £2,500,000 (2003: £2,500,000), due after more than one year.

14 Short term investments

Short term investments comprise fixed rate deposits with banks and money market funds which are not repayable on demand.

15 Creditors: amounts falling due within one year

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Bank and other borrowings (Note 16)	63	—	48	—
Amounts owed to Group undertakings	—	13	—	5
Trade creditors	1,271	1	648	8
Corporation tax	1	—	10	—
Other taxes and social security costs payable	110	1	204	—
Other creditors	168	—	13	—
Accruals and deferred income	1,218	34	1,152	23
	2,831	49	2,075	36

16 Bank and other borrowings due within one year

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Bank loans	26	—	24	—
Finance lease obligation	37	—	24	—
	63	—	48	—

17 Creditors: amounts falling due after more than one year

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Bank and other borrowings (Note 18)	226	—	86	—

18 Bank and other borrowings due after more than one year

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Bank loans – falling due within 2–5 years	170	—	43	—
Finance lease obligation – falling due within 2–5 years	56	—	43	—
	226	—	86	—

19 Provisions for liabilities and charges

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

	2004 £'000	2003 £'000
At 1 September	43	5
Charge/(credit) for the year (Note 8)	(43)	38
At 31 August	—	43

Deferred taxation provided in the financial statements is as follows:

	2004 £'000	2003 £'000
Capital allowances in advance of depreciation	8	65
Tax losses carried forward	(8)	(22)
	—	43

There is an unrecognised deferred tax asset on losses carried forward of £440,000 at 31 August 2004 (2003: £108,000).

> Notes to the financial statements

for the year ended 31 August 2004

20 Share capital

	Authorised		Authorised	
	2004 Number	2004 £'000	2003 Number	2003 £'000
Ordinary shares of 1p each	200,000,000	2,000	200,000,000	2,000
			Allotted, called up and fully paid	
			Number	£'000
Ordinary shares of 1p each At 31 August	121,862,320	1,219	121,862,320	1,219

Share options

Options over ordinary shares of 1p each have been granted to Directors and employees under share option schemes. The Company has issued options as follows:

	Held at 1 September 2003 Number	Granted Number	Lapsed Number	Held at 31 August 2004 Number	Granted since year end Number	At date of this report Number
Prof Sir C F George	200,000	125,000	(100,000)	225,000	—	225,000
Dr D P Clough	200,000	125,000	(100,000)	225,000	—	225,000
C G G Smith	1,250,000	1,050,000	(950,000)	1,350,000	150,000	1,500,000
Employees						
– EMI (approved)	1,831,898	4,206,898	(2,706,898)	3,331,898	200,000	3,531,898
– approved scheme	444,444	—	—	444,444	—	444,444
– US approved	2,450,000	3,700,000	(2,450,000)	3,700,000	450,000	4,150,000
– unapproved scheme	1,836,379	—	—	1,836,379	—	1,836,379
ESOP	1,613,791	2,888,791	(1,713,791)	2,788,791	—	2,788,791
	9,826,512	12,095,689	(8,020,689)	13,901,512	800,000	14,701,512

The market price of the Company's shares at the end of the financial year was 6 pence and the range of market prices was between 4.25 pence and 9.57 pence.

The conditions associated with the above options are as follows:

	Number of share options	Exercise price	Earliest and latest date of exercise
Professor Sir C F George	100,000	3.00p	7 March 2003 – 7 March 2010
	25,000	7.00p	1 September 2006 – 2 September 2013
	100,000	5.00p	16 August 2007 – 16 August 2014
Dr D P Clough	100,000	3.00p	7 March 2003 – 7 March 2010
	25,000	7.00p	1 September 2006 – 2 September 2013
	100,000	5.00p	16 August 2007 – 16 August 2014
C G G Smith	300,000	3.00p	31 August 2001 – 7 March 2010
	100,000	7.00p	1 September 2006 – 1 September 2016
	950,000	5.00p	16 August 2007 – 16 August 2014
	150,000	6.00p	1 September 2007 – 1 September 2014
Employees			
– approved scheme – EMI	750,000	7.00p	1 September 2006 – 1 September 2013
	2,581,898	5.00p	16 August 2007 – 16 August 2014
	200,000	6.00p	1 September 2007 – 1 September 2014
– approved scheme	444,444	6.75p	4 July 2003 – 4 July 2010
– approved scheme – USA	3,700,000	5.00p	16 August 2005 – 16 August 2014
	450,000	6.00p	1 September 2005 – 1 September 2014
– unapproved scheme	1,836,379	6.75p	4 July 2003 – 4 July 2010
– unapproved scheme – ESOP	875,000	7.00p	1 September 2006 – 1 September 2013
	1,913,791	5.00p	16 August 2007 – 16 August 2014

21 Reconciliation of movements on reserves and shareholders' funds**Group**

	Called up share capital £'000	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 September 2003 as previously reported	1,219	4,370	(454)	(219)	4,863
Prior year adjustment for ESOT				(53)	(53)
At 1 September 2003 as restated	1,219	4,370	(454)	(272)	4,863
Retained loss for year	—	—	—	(1,122)	(1,122)
Dividends	—	—	—	(244)	(244)
Adjustment in respect of ESOT	—	—	—	16	16
Unrealised exchange loss on subsidiary consolidation	—	—	—	(82)	(82)
At 31 August 2004	1,219	4,370	(454)	(1,704)	3,431

Company

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 September 2003 as previously reported	1,219	4,370	55	5,591
Prior year adjustment for ESOT	—	—	(53)	(53)
At 1 September 2003 as restated	1,219	4,370	2	5,591
Retained profit for year	—	—	288	288
Dividends	—	—	(244)	(244)
Adjustment in respect of ESOT	—	—	16	16
At 31 August 2004	1,219	4,370	99	5,651

Prior year adjustment

The Group has adopted UITF 38, "Accounting for ESOP Trusts", during the year by means of a prior year adjustment. As a result of the change in accounting policy, the cost of own shares held is presented as a deduction in arriving at shareholders' funds. Previously, own shares were included within investments. The effect for 2003 is to decrease shareholders' funds and investments at 31 August 2003 by £53,000 in both the Group and Company balance sheets. The effect for 2004 is to decrease shareholders' funds and investments at 31 August 2004 by £36,670 in both the Group and Company balance sheets.

The ESOT was set up in June 2002 to benefit the employees of the Company. The Scheme is administered by Pinnacle Trustees Limited, an independent professional trust company resident in Jersey. The ESOT provides for the issue of options to Fulcrum Pharma plc employees at the discretion of the Trustee acting upon the recommendation of the Board.

Funding for the share purchases by the ESOT was provided by a loan from the Company.

At 31 August 2004, the ESOT held 611,170 ordinary shares with a market value of £36,670 (2002: £35,000). All costs relating to the Scheme are dealt with in the profit and loss account as they accrue. The total costs charged to the profit and loss account for the year ended 31 August 2004 were £nil (2003: £4,000).

> Notes to the financial statements

for the year ended 31 August 2004

22 Notes to the statement of cash flow**Reconciliation of the operating loss to net cash outflow from operating activities:**

	2004	2003
	£'000	£'000
Operating loss	(1,259)	(1,065)
Depreciation	238	97
Shares in ESOT written down	59	—
Exchange (loss)/gain	(82)	4
Increase in debtors	(549)	(740)
Increase in creditors	750	1,013
Net cash outflow from operating activities	(843)	(691)

Analysis of net funds

	As at 1 September 2003 £'000	Cash flow £'000	As at 31 August 2004 £'000
Cash at bank and in hand	771	274	1,045
Bank loan	(67)	(129)	(196)
Short term investment	2,825	(1,402)	1,423
Finance lease	(67)	(26)	(93)
	3,462	(1,283)	2,179

23 Financial instruments

The financial risks faced by the Group include interest rate risk, currency risk and liquidity. The Board reviews and agrees policies for managing each of these risks.

The Group's main objective in using financial instruments are the maximisation of returns from funds held on deposit and, when appropriate, the generation of additional cash resources for Group operations through financing arrangements for capital assets and through the issue of shares and other financing instruments. The main purpose of these financial instruments is to provide working capital for the Group's operations in the UK, Japan and USA.

The Group's policy is to raise cash when it is required and when market conditions are appropriate, using those financial instruments that can be negotiated with the providers of finance at that time. These instruments include bank loans and finance leases.

The Group does not currently consider it necessary to use derivative financial instruments to hedge exposures to fluctuations in interest and foreign exchange rates as these exposures are not considered significant. However, due to the weakness of the dollar, the Group has entered into a forward foreign currency contract to sell US \$200,000 to US \$400,000 per quarter at a rate of US \$1.74 to US \$1.84 until September 2005.

Short term debtors, creditors, accruals and prepayments have been excluded from the disclosures below, except the current portion of bank loans and overdrafts and finance lease obligations.

23 Financial instruments (continued)

Interest rate risk

The Group finances its operations through a mixture of retained cash reserves, finance leases and bank loans. The policy of the Group is to monitor exposure to interest rate risk and take into account potential movements in interest rates when selecting methods of financing. However at present, the level of Group borrowings is low and the risk at present is not considered high.

Interest rate profile of the Group's financial liabilities

	2004 £'000	2003 £'000
Bank loans and overdrafts	196	67
Obligations under finance leases	93	67
	289	134

Financial liabilities

The finance leases are at various fixed and variable rates of interest. The total of these liabilities outstanding at 31 August 2004 was £93,000 (2003: £67,000), with a weighted average outstanding period of three years (2003: three years) and a weighted average interest rate of 4.75% (2003: 5.88%). The bank loan facilities are available at various rates of interest with interest rates of 5.75% – 7% during the year. The total amount outstanding at 31 August 2004 was £196,000 (2003: £67,000). The maturity profile of finance leases and bank loans is shown in Notes 16 and 18.

Borrowing facilities

The Group had unused borrowing facilities of £107,000 at 31 August 2004 (2003: £Nil).

Interest rate risk profile of the Group's financial assets

The Group's cash at bank and in hand and short term investments at 31 August 2004 comprised:

	2004 £'000	2003 £'000
Cash and bank balances	1,045	771
Short term investments:		
Short term deposits	1,019	1,500
Money market liquidity fund	404	1,325
	2,468	3,596

The Group maintains sterling, euro, US dollar and yen accounts in which all cash and bank balances are held. Cash and bank balances represent floating rate cash held in current accounts and deposit accounts with banks at interest rates based on interbank rates. Short term deposits represent fixed rate deposits placed with major clearing banks for up to three months earning interest at rates of 3% – 4.1% on sterling accounts. The money market liquidity funds are administered by a major institutional manager and represent a pool of cash invested in a range of short term money market instruments. The money market liquidity funds generate floating rates of return after fees that are benchmarked against the seven day bank rates.

> Notes to the financial statements

for the year ended 31 August 2004

23 Financial instruments (continued)

Currency risk profile

The Group's functional currency is sterling, and the majority of its transactions are denominated in that currency. The Group operates in US dollars, yen and euros. The Group also has overseas subsidiaries where the US subsidiary's functional currency is US dollars and the Japanese subsidiaries functional currency is yen. The Group's currency exposures, comprising foreign currency bank accounts and foreign currency money market liquidity funds at 31 August 2004, are shown below:

	2004			
	Yen £'000	US dollar £'000	Euro £'000	Total £'000
Foreign currency monetary assets/(liabilities)				
Functional currency of Group operation				
Sterling	(80)	221	194	335

	2003			
	Yen £'000	US dollar £'000	Euro £'000	Total £'000
Foreign currency monetary assets				
Functional currency of Group operation				
Sterling	396	789	116	1,301

Liquidity risk

The Board monitors the level of cash and liquid resources on a regular basis and manages it on a daily basis, to ensure that the Group has sufficient liquid funds to enable it to continue as a going concern. This is achieved through the production and review of cash forecasts.

Fair values

Other than as disclosed below there is no material difference between the fair value and the carrying value of the Group's financial assets and liabilities at 31 August 2004. Carrying values approximate to fair values for the short term investments because of the short maturity periods of these financial instruments.

	2004	
	Book value £'000	Fair value £'000
Derivative financial instruments held to hedge the currency exposure on expensed future sales:		
Forward foreign currency exchange contracts	—	559

Forward foreign exchange contracts have been valued at the spot rate of exchange on 31 August 2004 as the contracts mature within a year.

24 Commitments under operating leases to pay rentals for the next year

	2004	2004	2003	2003
	Property £'000	Equipment £'000	Property £'000	Equipment £'000
Operating leases which expire:				
In one year or less	40	1	—	—
Between two and five years	394	1	189	6
After five years	—	—	218	—
	434	2	407	6

25 Pensions

The Company makes contributions to individual personal pension plans. The total charge for the year was £145,000 (2003: £79,000). There are unpaid contributions outstanding at the year end of £6,000 (2003: £3,000).

26 Related party transactions

The Company has taken advantage of the exemption from disclosure available to parent companies under FRS 8, "Related party disclosures", where transactions and balances between Group entities have been eliminated on consolidation.

> Notice of annual general meeting

Notice is hereby given that the fifth Annual General Meeting of the Company will be held at the offices of Buchanans at 107 Cheapside, London EC2V 6DN at 11.00 am on 20 December 2004 for the following purposes:

Ordinary business

1. To receive the Company's annual financial statements for the period ended 31 August 2004, the Directors' report and the Auditors' report on those financial statements.
2. To re-appoint PricewaterhouseCoopers 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 Mr Charles Geoffrey Gregory Smith who is retiring by rotation.
5. To consider, and if thought fit, pass the following resolutions which will be passed as an ordinary resolution:
"THAT, in accordance with the rule of the share option schemes, the limit on the issue of ordinary share capital be raised such that there is a limit of 25% of issued ordinary share capital, on the new ordinary shares over which subscription options may be granted under the Schemes and any other executive or employee share scheme of the Company in any period of ten years ("the 25% limit") and a limit of 20% of issued ordinary share capital, on the new ordinary shares over which subscription options may be granted under the Schemes and any other executive share incentive scheme of the Company, in any period of ten years ("20% limit")."
6. To consider, and if thought fit, pass 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 the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £406,208 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 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 save that the Company may before the expiry of the authority granted by this resolution make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the Directors may allot relevant securities in pursuance of that offer or agreement."

Special business

7. To consider, and if thought fit, 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 6, 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 6 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
(a) to deal with equity securities representing fractional entitlements; and
(b) to deal with legal or practical problems under the laws of any territory, or the requirements of a regulatory body;
and
(ii) allotments of equity securities for cash otherwise than pursuant to paragraph (i) above up to an aggregate nominal amount of £60,931."

By order of the Board:

Mrs L Wotherspoon

Company Secretary

**Registered office: Kodak House, Station Road, Hemel Hempstead, Hertfordshire HP1 1JY
17 November 2004**

> Notice of annual general meeting

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 41 of the Uncertified Securities Regulations 2001, only those shareholders registered in the register of members of the Company as at 2pm on 17 December 2004 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 2pm on 17 December 2004 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 time fixed for 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 1 – Financial statements

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 2004. That report and those accounts, and the report of the Company's auditors on those financial statements, are set out on pages 1 to 30 of this document.

Resolution 2 – Reappointment of auditors

The Company is required to appoint auditors at each general meeting at which financial statements are laid, to hold office until the next general meeting. The present auditors, PricewaterhouseCoopers are willing to continue in office for a further year and this resolution proposes their re-appointment and, in accordance with standard practice, authorises the Directors to determine the level of the auditors' remuneration

Resolutions 3 and 4 – 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 latest 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. A retiring Director is eligible for re-election. Dr Jonathan Peter Court and Mr Charles Geoffrey Gregory Smith who retire by rotation and are offering themselves for re-election.

Resolution 5 – Raising of limits on the issue of share capital

This resolution grants the Directors authority to amend the individual limits on the share option schemes and increase the limit to 25% of the ordinary share capital. This authority requires to be raised as the existing limit of 15% operates for ten years and includes the cancelled share options arising from the Company re-pricing share options to employees. The Directors have agreed that excluding cancelled share options the existing limit of 15% will be maintained.

Resolution 6 – Authority to allot

This resolution grants the Directors; authority to allot relevant securities up to an aggregate nominal amount of £406,208 being an amount equal to one third of the issued share capital of the Company. It is not the Directors current intention to allot relevant securities pursuant to this resolution. This authority replaces the existing authority to allot relevant securities but does not affect the ability to allot shares under the share option schemes. This authority expires at the conclusion of the next Annual General Meeting of the Company or 15 months from the date of passing the resolution, whichever is the earlier.

Resolution 7 – 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 £60,931, being a sum equal to 5% of the issued share capital of the Company. This replaces the existing authority to disapply and expires at the conclusion of the next Annual General Meeting of the Company or 15 months from the date of passing the resolution, whichever is the earlier.

> Directors and advisers

Directors

Professor Sir C F George
Dr D P Clough
Dr M G Carter
Dr J P Court
Dr J A Devlin
Mr C G G Smith

Secretary and registered office

Mrs L Wotherspoon
Kodak House
Station Road
Hemel Hempstead
Hertfordshire HP1 1JY

Registered number

03930927

Registered auditors

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Abacus House
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Nominated adviser and nominated broker

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Registrars

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