Proteome Sciences plc

and subsidiary undertakings

Annual Report and Accounts for the year ended 31st December 2000
including Directors' and Auditors' Reports and Chairman's Statement

Registered number: 2879724

Directors and advisers

Directors	R.S. Harris, FPharm, MR PharmS (Chairman)* C.D.J. Pearce (Chief Executive) J. L. Malthouse FCA (Finance Director) Professor W. Dawson, DSc, FR PharmS, FRSC* Dr. A.I. Walker, PhD* * non-executive Directors and members of the Audit and Remuneration Committees
Secretary and registered office	J.L. Malthouse, FCA Coveham House Downside Bridge Road Cobham Surrey KT11 3EP
Stockbrokers and Nominated Advisers	West LB Panmure Limited New Broad Street House 35 New Broad Street London EC2M 1NH
Auditors	Arthur Andersen Abbots House Abbey Street Reading RG1 3BD
Solicitors	Lovells 65 Holborn Viaduct London EC1A 2DY
Bankers	Barclays Bank PLC Pall Mall Corporate Banking Group 50 Pall Mall London SW1Y 5AX
Registrars	Capita IRG Plc Balfour House 390/398 High Road Ilford Essex IG1 1NQ

Chairman's Statement

For the year ended 31st December 2000

Dear Shareholder,

The year ended 31st December 2000 has been very active, productive and successful for the Company in respect of its activities in proteomics and in its gene expression division. This momentum has continued into 2001 and a number of major new milestones have been achieved.

Considerable progress has been made both scientifically in proteomics towards the commercialisation of novel proteins discovered from Proteome Sciences' research programme and with SMaRT™ gene expression in the US for the broad range of applications of SMaRT. Over the period the Company has successfully concluded a £4.3m fund raising in 2000 and appointed a high profile CEO at Intronn, Dr Gerard McGarrity, to finalise the corporate strategy and to complete its funding ahead of preparing the business for a possible IPO in 2001. The recent announcement of the setting up of a high sensitivity proteomics research facility at King's College, London (KCL) is a further major development, establishing one of the most advanced proteomics facilities in Europe and increasing the opportunity to add more shareholder value through more comprehensive partnership agreements with pharmaceutical and biotechnology companies. This creates a significant landmark in Proteome Sciences' corporate development, taking it a long way from the virtual model from which the Company has evolved.

The advisory council for HUPO (Human Proteome Organisation) was created in February 2001 to increase the awareness of this discipline of science to society and to develop a broader understanding of the importance of proteins and proteomics, and the opportunities they offer in the diagnosis, prognosis and therapy of disease. Proteome Sciences is particularly well represented on this forum, with Christopher Pearce, the Company's chief executive, and three of our principal collaborators being members of the HUPO council.

Review of Activities

Last year I talked about our expectation that proteomics would arrive on centre stage in the field of drug discovery and development. The surprising revelation in February 2001 that humans have 30,000 genes, rather than the 100,000 to 150,000 predicted and that each gene may make several, or even several hundred, proteins, clearly establishes that proteins play a much more significant role than hitherto believed and confirms that other technologies, particularly proteomics, will be key in unlocking functional genomics. This has stimulated considerable activity in the pharmaceutical industry and engendered much media attention. The vast amount of sequence data produced needs to be made intelligible, and maximum value will be added to this process through function and ability to patent utility of function. The two areas addressed by Proteome Sciences, proteomics and modification of gene expression, fulfil these objectives. They are platform technologies with multiple applications, offering solutions in critical areas of unmet need. The science has now delivered and moves to commercialisation are in hand.

Proteome Sciences will continue to focus as a pure research company and its partners, pharmaceutical and biotechnology companies, will bring the specialist skills in development and taking products to market. The platform technologies at Proteome Sciences are complementary to other companies and their techniques. In proteomics, Proteome Sciences retains proprietary control of the data and results generated from its own research rather than acting on a fees for service basis for third parties. In gene expression, SMaRT™ which is effected at the mRNA level, is complementary to existing antisense and ribosyme technology. Most importantly, Intronn was granted two key patents in the US during the year and this will provide SMaRT™ with a field dominating position.

Proteomics

Proteomics has been recognised as a key scientific tool in understanding disease and from which to develop diagnostic and therapeutic interventions. On the commercial front, Proteome Sciences developed three potential products from proteomics over the course of the last year. These are protein markers with high sensitivity, specificity and predictive accuracy from human blood samples to detect CJD, stroke and chronic rejection. These are being actively marketed to pharmaceutical/biotechnology companies and Proteome Sciences expects to conclude licensing agreements in 2001/2002. Details of the CJD marker have been disclosed to the CJD Surveillance Unit under a confidential disclosure agreement. Further samples have now been provided to Proteome Sciences and the assay is under evaluation. Discussions are in progress with the stroke and solid organ transplant markers and Proteome Sciences anticipates further progress with the diabetes and obesity programmes at the University of Buckingham and the University of Geneva. A license agreement is expected to be concluded with the University of Michigan shortly and the specialist consultant retained to outlicense the cancer research programme has encountered considerable interest.

The fourth Siena Conference "From Genome to Proteome" in September provided an ideal platform for Proteome Sciences to present some of its recent results including stroke, diabetes, obesity, chronic heart disease and transplant rejection to the core and strategic research areas of major pharmaceutical, diagnostics and genomics companies. This has been followed with further specialist meetings in London, Birmingham and York in 2001. Strong scientific progress has been made across the proteomic projects with a further 7 patent applications in diabetes and obesity and applications also for transmissable spongiform encephalopathy (TSE – CJD, BSE, Scrapie etc) and acute rejection.

The new proteomics research facility at King's College, London (KCL) is a major strategic development in that it establishes Proteome Sciences' leading edge research capability, which will enable it for the first time to conduct external research programmes with corporate partners at its own facility. This will strengthen Proteome Sciences' ability to enter into strategic agreements with pharmaceutical and biotechnology companies and the ability to use in house intellectual property from data and results already generated for protein markers for diagnosis, prognosis and therapeutic intervention.

The laboratory facility will focus on high output proteomics, utilising high sensitivity protein separation techniques in a powerful combination with the latest mass spectrometry instrumentation. This brings together leading expertise in the two main disciplines with Dr. Michael Dunn (presently at the Heart and Lung Research Centre, Harefield Hospital, Imperial College, London and Chairman of the British Electrophoresis Society) heading the specialist protein separation team and Malcolm Ward (formerly of GlaxoSmithKline, Stevenage) leading the mass spectrometry and sequencing team.

At the same time, Proteome Sciences has entered into a collaboration with the Institute of Psychiatry at KCL to address a range of neurodegenerative conditions including Alzheimer's, Parkinson's and motor neurone disease. With the Institute of Psychiatry's expertise in the pathogenic mechanisms for neurodegenerative diseases, this will create a powerful approach and should accelerate the discovery process for new therapeutic treatments and diagnostics.

In April, Proteome Sciences and Mindset BioPharmaceuticals Ltd, an Israeli drug discovery and development company were awarded a £450,000 Britech grant for a new research programme in Alzheimer's (PRO-TAMAD) to discover new targets for therapy and new improved diagnostic markers. It has been estimated that there are about 500,000 Alzheimer's sufferers in Britain and, according to the American Alzheimer's Association, approximately 4 million people in the US have this disease. Most of them are over the age of 65 and half of all Americans over 85 are thought to have Alzheimer's. By 2005, it has been predicted that this will rise to over 14 million people in the US alone. For a disease that can span from 2 to 20 years, the cost in the US is currently estimated at $180bn annually. The PRO-TAMAD programme will further enhance Proteome Sciences' strong position in neurodegenerative disease.

The appointment of an internal business development manager in April 2000 has been complemented by external consultants in oncology and licensing. This, in combination with the human genome sequence information, should lead to a number of collaborative research and license agreements with biotechnology and pharmaceutical companies in 2001.

Chairman's Statement (continued)

Gene Expression

Over the course of the last year, considerable advances have been made at Intronn LLC, both in science and corporate development. SMaRT BioSciences Inc is currently in the process of incorporation and the intention is that this will shortly have all the personnel, results, data and intellectual property associated with SMaRT™ assigned into it. The other activities of Intronn relating to synthetic oligonucleotides and quality control markers will remain in Intronn.

Dr Gerard McGarrity (formerly senior Vice President and Director of Development at Genetic Therapy Inc, a Novartis company and most recently Chief Scientific Officer at Cambridge Genetics Ltd) was appointed CEO at Intronn in September. Since then he has undertaken a major scientific review of Intronn to finalise the business plan and corporate strategy for SMaRT BioSciences Inc and to complete its funding ahead of preparing the business for a possible IPO in 2001. An interim funding was completed in July, which raised $500,000, the initial part of the $6m total anticipated, and this is expected to be completed in the near future. With this in place, SmaRT BioSciences will be ideally positioned to move quickly to secure a substantial equity round and IPO when the biotech funding window in the US is open.

In April 2000, Intronn entered into its first Materials Transfer Agreement (MTA) with Dr John Engelhard at the University of Iowa to test the potential of SMaRT™ technology to repair the gene defects which cause cystic fibrosis in the most clinically relevant models of the disease, and for therapeutic intervention. A Phase 2 SBIR grant application in cystic fibrosis was made to the NIH in the USA, following the successful Phase 1 SBIR application in 1999. The Phase 2 application was praised by the reviewers as "one of the most innovative, thoughtful and exciting ones they had ever read". Intronn has again been successful with a major Phase 2 grant award and will receive a considerable proportion of the $3.2m grant for which it applied. This is a clear endorsement of the outstanding and innovative scientific approach established by SMaRT and is a good illustration of one specific model that it can address across a wide range of different diseases. At the present time, SMaRT™ is being applied to gene repair, exon tagging, exon swapping, gene knockdown, target validation, agricultural biotechnology and gene therapy.

At the Keystone Symposium in Utah USA in January 2001, Intronn for the first time confirmed a new event, double splicing of pre mRNA. SMaRT™ was able to replace an internal exon using double splicing. This has been the goal that gene therapy has tried without success to achieve using ribosomes over the last fifteen years. This completed a further major milestone for the SMaRT™ technology platform and has profound implications for modification of gene expression and vector delivery in gene therapy. By achieving double splicing using PTM inserts in a space of less than 600 nucleotides, the need for using a vector delivery system may be eliminated as the process may be carried out using chemistry in a conventional pharmaceutical setting. This will change the way that gene therapy will be applied in the future.

A CRADA (co-operative research and development agreement) was signed with the National Cancer Institute (NCI) within the National Institute of Health in the USA in April 2001. The agreement will involve Intronn and Dr Carl Baker at the NCI combining their expertise to develop RNA based treatments for human papillomavirus infection (HPV) and cervical cancer using SMaRT™.

A number of other MTA's have been signed following the Iowa agreement in April 2000 where Intronn has provided pre-transplicing molecules (PTMs). No additional external costs will be incurred under the MTAs and Intronn owns the PTMs and has exclusive commercialisation of any results. These cover cystic fibrosis (Duke University), factor VIII (haemophilia) (University of North Carolina), HPV and cervical cancer (NCI), Alzheimer's (King's College, London) and collagen disease (Salzburg General Hospital, Austria). The applications use different cell types and address diseases ranging from cancer, neurodegenerative, dermatological, genetic to haemophilia.

Heads of Agreement were signed in July for a collaborative programme in agricultural biotechnology using SMaRT and other collaborative research and partnering opportunities are being actively addressed.

Driven by the advances in genetics, in particular the mapping of the human genome, the US market for synthetic oligonucleotides, which was estimated to exceed $200m in 2000, is thereafter expected to grow at a very rapid rate: nucleic acid based therapeutics – there are 15 antisense products from nine US companies in clinical trials – and diagnostic (DNA chip) products are projected to reach $11bn in 2005.

Chairman's Statement (continued)

Purification and analysis of purity of synthetic oligonucleotides requires extensive methods and technologies. In order to achieve spliceosome mediated mRNA transplicing Intronn needed to utilise ultra pure synthetic oligonucleotides and therefore it had to develop new proprietary methods from its research to achieve this objective. Patent applications filed in this context cover a method for simple front end analysis and purification of synthetic oligonucleotides. Intronn is presenting its oligonucleotide technology to the FDA and National Institute of Standards and Technology (NIST) in the USA, and if accepted as the benchmark, Intronn is poised to become a market leader in the level of impurity and measurement of synthetic oligonucleotides. Commercialisation is proposed to be undertaken through licenses with oligonucleotide and DNA chip manufacturers.

External Investments

Over the course of the last year, Proteome Sciences has identified a new and complementary approach, in addition to outlicensing, which will maximise shareholder value and returns by converting elements of its intellectual property into equity stakes in specialist newcos with leading technology that plan future IPOs and listing.

Certain of the group's interests relating to patent filings in a colorectal research project in Europe have been assigned to Europroteome SA in exchange for equity. BioMerieux has taken a stake in Europroteome SA and a funding was completed in 2000 valuing the company at approximately DM25m. Having established a new laboratory facility in Berlin and completed a second funding round, Europroteome is anticipated to effect an IPO in 2001.

Because of its close relationship with University Cantonal Hospital, Geneva, Proteome Sciences was invited to be a seed investor in Geneva Proteomics™ (GeneProt™) - a company formed to sequence human proteomes using 51 mass spectrometers - in the first round of funding in April 2000. Since that time further funding rounds and investment by partners including Compaq and Bruker have been completed, capitalising the company in excess of $200m. In October GeneProt™ entered into an agreement with Novartis to sequence three disease proteomics for $43m, with further milestones which could trigger a further $41m of payments. This was the first major deal in proteomics since the announcement of the draft sequence of the human genome in June 2000 and sets a basis of valuation for future transactions in disease related proteomics. It is thought that GeneProt™ may seek an IPO in the future, possibly in 2001.

Given the substantial level of interest in the main proteomic cancer programme undertaken at the University of Michigan, other than through conventional research partnerships/out-licensing, Proteome Sciences is also exploring the possibility of converting its intellectual property into a specialist proteomics company in the US, with the major focus in cancer therapeutics and early diagnosis.

We expect that the external investments that Proteome Sciences has established will play an important role in the commercialisation of the research programme, and will also demonstrate the substantial value of the data and results generated from its early involvement in proteomics associated with human diseases.

Results

In the twelve month period ended 31st December 2000, Proteome Sciences incurred a pre-tax loss of £1,405,447 (1999: £1,229,758).

At the year end cash balances stood at £3.304m. With Intronn now raising its own funding in the US, it is not envisaged that Proteome Sciences will need to make any further significant investment into Intronn/SMaRT in the future.

Current Outlook

The sequence information from the human genome has dramatically elevated the importance and value of proteins in bio-medical research and this will have a substantial impact in accelerating the development of diagnostic and therapeutic intervention.

Chairman's Statement (continued)

Proteome Sciences has established a unique position with its platform technologies in proteomics and in modification of gene expression. These will be key value drivers to unlock functional genomics. The Company is exceptionally placed to capitalise from these technologies across Proteome Sciences substantial portfolio of research. The establishment of the high sensitivity proteomics facility at KCL creates a significant landmark in the Company's corporate development and will greatly increase its ability to undertake research partnerships with major pharmaceutical and biotechnology companies. The Board looks to the future with confidence and to exploiting the considerable commercial opportunities that this will provide.

I would like to express my sincere thanks and appreciation to Professor Keith Mansford, who retired following the last Annual General Meeting, for the outstanding contribution he made to Proteome Sciences, in particular as Chairman of the Scientific Advisory Board and he has been succeeded in that position by Professor William Dawson. The Board is, however, pleased to announce that Dr. Anthony Walker, has been appointed as a non-executive Director. He is Chief Executive of Onyvax Limited, a cancer vaccine company, prior to which he had a distinguished career as a management consultant at Arthur D. Little and The Wilkerson Group to many of the major European pharmaceutical and biotechnology companies.

As a final comment, I would like to pass on my sincere thanks and appreciation to all the employees, scientists, collaborators and consultants for their hard work and contribution to the progress at Proteome Sciences over the period.

Steve Harris

Chairman 25th May 2001

Directors' report

For the year ended 31st December 2000

The Directors present their annual report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 31st December 2000.

Directors' responsibilities

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 the Group and of the results of the Group for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

Principal activities and business review

The principal activity of the Group is research and development primarily in the field of proteomics, both through its own research and through collaborative agreements with a number of prestigious academic institutions.

The Group is involved in research to identify certain protein markers, primarily in blood, the presence of which may be used to identify specific disease states, and in the development of associated diagnostic techniques and potential clinical markers. The Group's research largely concentrates on proteins relating to neurological diseases, cancers, rejection after solid organ transplantation, diabetes and obesity.

Intronn LLC has developed a proprietary method for modification of gene expression, spliceosome mediate RNA technology, or SMaRT™, with a broad spectrum of potential applications, ranging from gene therapies for inherited genetic disorders, cancer, repair of genetic mutations (such as those causing cystic fibrosis) and to addressing the modification of gene expression in plants.

Further details of the Group's performance during the year and expected future developments are contained in the Chairman's statement.

Results and dividends

Following the loss after tax of £1,405,447 (1999 £1,229,758) incurred in the year, the Directors do not recommend the payment of a dividend. The Group results are described in the profit and loss account on page 17.

Directors' report (continued)

Directors and their interests

The Directors who served during the year are as shown below:

R.S. Harris	Non-Executive, Chairman
C.D.J. Pearce	Chief Executive
J.L. Malthouse FCA	Finance Director
Professor W. Dawson	Non-Executive
Professor K.R.L. Mansford	Non-Executive (resigned as a Director on 5th July 2000)
Dr. A.I. Walker	Non-Executive (appointed as a Director on 14th May 2001)

In accordance with the Company's articles, J.L. Malthouse retires by rotation at the next Annual General Meeting and, being eligible, offers himself for re-election. Dr. A.I. Walker, who was appointed by the Board on 14th May 2001, offers himself for election at the Annual General Meeting.

The Directors at 31st December 2000 and their interests in the share capital of the Company were as follows:

a) Beneficial interests in Ordinary Shares:

Name of Director	**31st December 2000 (or date of appointment if later) Number of Ordinary Shares of 1p each**	**31st December 1999 Number of Ordinary Shares of 1p each**
R.S. Harris	153,000	130,200
C.D.J. Pearce	4,323,222	4,101,000
J.L. Malthouse	180,937	145,833
Professor W. Dawson	-	-
Dr. A.I. Walker (appointed as a Director on 14th May 2001)	-	-

On 9th January 2001 Professor W. Dawson acquired 5,680 Ordinary Shares of 1p each. No other changes in the interests of the Directors took place between 31st December 2000 and 25th May 2001.

Directors' report (continued)

Directors and their interests (continued)

b) Number of Ordinary Shares under option:

		Number at 31st December 1999	**Granted in the year**	**Lapsed in the year**	**Number at 31st December 2000**	**Exercise price (pence)**	**Date of grant**
R.S. Harris	(ii)	83,300	-	-	83,300	45p	23rd December 1994
	(ix)(viii)	-	95,000	-	95,000	45p	20th April 2000
C.D.J. Pearce (iii)	(i)	888,889	-	-	888,889	45p	1st March 1995
	(i)	81,395	-	-	81,395	172p	22nd December 1995
	(ii)	333,300	-	-	333,300	45p	23rd December 1994
	(ii)(vi)	450,000	-	-	450,000	37p	19th May 1998
	(ii)(viii)	-	433,124	-	433,124	45p	20th April 2000
J.L. Malthouse	(i)	577,778	-	-	577,778	45p	1st March 1995
	(i)	52,326	-	-	52,326	172p	22nd December 1995
	(ii)	216,700	-	-	216,700	45p	23rd December 1994
	(ii)(vi)	375,000	-	-	375,000	37p	19th May 1998
	(ii)	-	200,000	-	200,000	61p	30th March 2000
Professor K.R.L. Mansford	(vii)(ix) (viii)	-	69,444	-	69,444	45p	20th April 2000
Professor W. Dawson	(ix)(viii)	-	69,444	-	69,444	45p	20th April 2000
Sir Michael Grylls	(ii) (iv)	211,100	-	211,100	-	45p	23rd December 1994

(i) Denotes options granted under the Approved Scheme which was adopted in 1995. The options are exercisable on or after the third anniversary of the date of the grant (or, if earlier, the date on which any shares in the Company are first admitted to the Official List of the London Stock Exchange) and will lapse on the tenth anniversary of the date of grant.

(ii) Denotes options granted under the Unapproved Scheme which was adopted in 1994. The options are exercisable on or after the third anniversary of the date of grant, (or, if earlier, the date on which any shares in the Company are first admitted to the Official List of the London Stock Exchange) and will lapse on the seventh anniversary of the date of grant.

(iii) In addition to the arrangements described in the above table, Mr. Pearce has a right to receive up to 642,840 Ordinary Shares of 1p each in the Company by virtue of an option held by him over $0.001 shares of Proteome Sciences, Inc. (formerly called Monoclonetics International, Inc.) Common Stock, as described in paragraph c) below.

(iv) Sir Michael Grylls resigned as a Director on the 15th January, 1999. The Committee of the Unapproved Scheme exercised its discretion to alter the exercise date of his outstanding share options to within 12 months of the date of his resignation. Accordingly, these options lapsed on 15th January 2000. No other options to Directors lapsed during the year.

Directors and their interests (continued)

(v) Further options have been granted under the Unapproved Share Option Scheme since the year-end as follows:-

	Number of Ordinary Shares under Option	Exercise Price	Date of Grant
J.L. Malthouse	51,671	89p	12th January 2001
C.D.J. Pearce	126,190	89p	12th January 2001

(vi) Denotes options granted under the Unapproved Share Option Scheme.

The exercising of the options is dependent upon the future development of the business and the generation of revenue streams.

(vii) Professor K.R.L. Mansford retired as a Director on the 5th July 2000. The Board exercised its discretion to alter the exercise date of his outstanding share options to within 12 months of the date of his resignation.

(viii) The grant of the options to Mr. Pearce, Mr. Harris, Professor Mansford and Professor Dawson was approved by shareholders at an Extraordinary General Meeting of the Company held on 20th April 2000.

(ix) Denotes options granted under separate Option Deeds on similar terms to those of the Unapproved Share Option Scheme.

c) Under an agreement dated 31st March 1993, Proteome Sciences, Inc. (formerly called Monoclonetics International, Inc.) granted to C.D.J. Pearce an option to purchase 99,998 $0.001 shares of Proteome Sciences, Inc. Common Stock at $7.50 per share, of which 35,714 were exchanged for shares in the Company under a Warrant Exchange agreement described in note 16 (iii) (the "Warrant Exchange"). C.D.J. Pearce is entitled to exercise 10,714 options a year in each of the years 1995 to 2000. The option terminates on the earlier of 15th April 2000 or the termination of his employment with the Company.

On 20th April 2000, following the approval of shareholders at an Extraordinary General Meeting of the Company held on that day, the term of the warrant was extended so that, subject to Mr. Pearce's continuing employment with the company, it will expire on 15th April 2005.

Accordingly, pursuant to the terms of the Warrant Exchange, on the exercise of all his outstanding warrants in respect of Proteome Sciences, Inc. Common Stock, Mr. Pearce has a right to receive up to 642,840 Ordinary Shares of 1p each in the Company in exchange for such Proteome Sciences, Inc. Common Stock.

d) The market price of the Ordinary Shares at 31st December 2000 was 90p and the range during the year was 13.5p to 90p.

Non-executive Directors

R. Steve Harris, Chairman, is a Fellow of the Royal Pharmaceutical Society. Until April 1995 he was Director of Development and Licensing at Medeva plc. He has worked in the pharmaceutical industry for thirty years including ICI, Merck Sharp & Dohme, Eli Lilly, Boots, Reckitt and Colman, and Gensia. He is a non-executive Director of Skye Pharma plc, Pharmaceutical Profiles Limited, Microscience Limited, Trigen Holdings Limited and Advanced Medical Solutions plc.

Directors' report (continued)

Non-executive Directors (continued)

Professor William Dawson retired from Eli Lilly and Company in August 1996 after 27 years' service, 14 as Research Director in the UK and latterly as Director of Technology Acquisition, Europe. He is a Director of Bionet Limited and a non-executive Director of Natrocell Technologies Ltd and The Babraham Institute. He is a Fellow of the Royal Pharmaceutical Society and of the Royal Society of Chemistry.

Dr. Anthony Walker is the Chief Executive of Onyvax Limited, a company based in London which is developing vaccines for treating cancer. Prior to co-founding Onyvax in 1997 he spent 10 years as a management consultant to the pharmaceutical and biotechnology industries, at Arthur D. Little and The Wilkerson Group.

Substantial shareholdings

As at 14th May 2001 the Company had received notification, in accordance with Sections 198 to 208 of the Companies Act 1985 of, or was otherwise aware of, the following significant interests in the ordinary share capital of the Company

Name of Holder	**Number of Ordinary Shares**	**Percentage of issued Ordinary Share Capital**
Nutraco Nominees Limited	3,947,972	4.31
Pershing Keen Nominees Limited	2,746,758	3.00
C.D.J. Pearce	4,323,222	4.72

Circle Nominees Limited is the registered holder of 10,086,151 ordinary shares. The Company does not believe that this party holds the beneficial interest in such shares.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and by circulation of copies of the interim and annual accounts. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Corporate Governance

Although as a Company listed on the Alternative Investment Market of the London Stock Exchange, the Company is not required to make a formal statement setting out the extent of its compliance with the Code of Best Practice ("Combined Code") published by the Committee on Corporate Governance in June 1998, save as described below, the policy of the Board of Directors of the Company (the "Board") is to try to manage the affairs of the Company in accordance with the Combined Code insofar as it considers it practical to do so and appropriate for a company of its size.

The Company has formalised the following matters by Board resolution:

- a formal schedule of Board responsibilities
- the procedure for Directors to take independent professional advice if necessary, at the Company's expense

Corporate Governance (continued)

- the procedure for the nomination and appointment of non-executive Directors, for specified periods and without automatic re-appointment
- establishment of and written terms of reference for an audit committee and remuneration committee.

The non-executive Directors of the Group make a considerable contribution to the management of the Group, particularly in the area of the commercialisation of new products and, in recognition of this, share options were granted in December 1994 to the Non-Executive Directors, under an Unapproved Share Option Scheme (the "Unapproved Scheme") and in April 2000 under separate Option Deeds on similar terms to those of the Unapproved Share Option Scheme.

Internal financial control

The Board has overall responsibility 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 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, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal control system that operated throughout the year are described under the following headings:-

- *Control environment:* particularly the definition of the organisation structure and the appropriate delegation of responsibility to operational management.

- *Identification and evaluation of business risks and control objectives:* particularly through a formal process of consideration and documentation of risks and controls which is periodically undertaken by the Board.

- *Main control procedures:* which include the setting of annual and longer term budgets and the monthly reporting of performance against them, agreed treasury management and physical security procedures, formal capital expenditure and investment appraisal and approval procedures and the definition of authorisation limits (both financial and otherwise).

- *Monitoring:* particularly through the regular review of performance against budgets and the progress of research activities undertaken by the Board.

The Board reviews the operation and effectiveness of this framework on a regular basis. The Directors consider that there have been no weaknesses in internal financial controls that have resulted in any losses, contingencies or uncertainties requiring disclosures in the accounts.

Going concern

After making enquiries, the Directors anticipate that the Company and the Group should have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Remuneration committee report

The Remuneration Committee is made up of the Company's two non-executive Directors, Professor W. Dawson and R.S. Harris. The role of the Committee is to make recommendations to the Board, within its agreed terms of reference, on the Company's framework of executive remuneration and its cost and to determine specific remuneration packages for each of the executive Directors. The remuneration of non-executive Directors is fixed by the Board as a whole.

The remuneration policy for Executive Directors and senior employees is to ensure that they are rewarded competitively and in line with their individual performance.

Remuneration committee report (continued)
Full details of the remuneration packages of individual Directors and information on share options and long-term incentive schemes are set out in note 6 to the accounts and the Directors' report.

In view of the Company's dependence on its key executives, the service contracts of Mr. Pearce and Mr. Malthouse were amended during 1997 to provide for a notice period of not less than 2 years.

J.L. Malthouse, who is proposed for re-election as a Director at the next Annual General Meeting, has a service contract which provides for a notice period of not less than two years.

Creditor payment policy
It is the policy of the Group to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, providing that the supplier has also complied with them. As the Company owed no amounts to trade creditors at 31st December 2000, the number of days to be shown in this Report, to comply with the provisions of paragraph 12(3) of Part VI of Schedule 7 to the Companies Act 1985, is nil. The equivalent figure for the Group is 11 days (1999: 45 days).

Auditors
The Directors will place a Resolution before the Annual General Meeting to re-appoint Arthur Andersen as auditors for the ensuing year.

Liability insurance for Company officers
As permitted by the Companies Act 1985 (as amended), the Company has purchased insurance cover for the Directors against liabilities that might arise in relation to the Company.

Special business at the Annual General Meeting
At the Annual General Meeting of the Company to be held on 21st June 2001, as well as the routine business, the following items will be proposed as Special Business. An Ordinary Resolution (Resolution 5) , as set out in the Notice on page 39 will be proposed to renew the Directors' authority to allot relevant securities up to an aggregate nominal amount of £302,076.72 which represents approximately 33 per cent of the current issued share capital of the Company as at 25th May 2001. The authority will lapse five years from the date on which the resolution is passed. The Directors do not have any present intention of exercising this authority.

Resolution 6, which is set out in the Notice on pages 39 and 40, will be proposed as a Special Resolution of the Company. The Resolution will renew the Directors' authority under Section 95 of the Companies Act 1985 to disapply pre-emption rights, thereby enabling the allotment of a limited number of shares for cash up to an aggregate nominal amount of £45,769.20,representing 5 per cent of the current issued Ordinary Share capital of the Company as at 25th May 2001. The proposed authority, if granted, will expire at the conclusion of the next Annual General Meeting after the passing of the Resolution or the period of fifteen months after the passing of the Resolution, whichever is the earlier.

Resolutions 7 and 8 – Share Schemes
Two further Resolutions are set out in the Notice on pages 40 and 41, and will be proposed as Special Resolutions.

Your Board has proposed and the Remuneration Committee is recommending that the Executive Share Option Scheme (the "Approved Scheme") and the Executive Share Option Scheme (No. 2) (the "Unapproved Scheme") (together the "Schemes") be amended as described briefly below.

Resolutions 7 and 8 – Share Schemes (continued)
The limit on the number of shares which are issued or capable of being issued on the exercise of options under the Schemes is 5,911,240 in total (which represented 10% of the issued ordinary share capital of the Company on the date the Schemes were adopted). This currently represents 6.46% of the current issued ordinary share capital of the Company. 4,065,700 shares have been issued or are issuable on the exercise of options under the Schemes leaving 1,845,540 shares for future option grants. This limit was set by reference to the Listing Rules of the London Stock Exchange at the time the Schemes were adopted. The Listing Rules no longer require that the rules of such schemes refer to a fixed number of shares available for the grant of options. Your Board is proposing that this fixed limit be replaced in each of the Schemes with an overall limit based on a percentage of the Company's issued share capital from time to time. This complies with current institutional investor guidelines and will ensure that flexibility is maintained for the future under the Schemes.

Your Board recommends therefore that the Schemes be amended so that the aggregate number of shares issued and issuable pursuant to options granted under the Schemes or any other executive share scheme adopted by the Company in general meeting would not in any period of ten years exceed 10% of the issued ordinary share capital of the Company from time to time. The amendment to the Approved Scheme will be subject to the approval of the Inland Revenue.

To reflect the recommendations of institutional investor organisations that companies phase the grants of options, your Board has proposed and the Remuneration Committee is recommending that a new annual individual limit be applied to the grants of options under the Unapproved Scheme. This would replace the existing individual limit which provides that a participant in the Unapproved Scheme cannot hold options with an aggregate subscription price which exceeds four times his annual remuneration. This limit reflected general practice at the time the scheme was established. However as this practice has now changed, your Board wishes to amend the Schemes to reflect current practice.

The new limit would provide that each year options could be granted to Eligible Employees with an aggregate subscription price of twice annual remuneration as determined by the Remuneration Committee.

The Remuneration Committee will consider whether or not the exercise of options should be subject to performance targets, and to what extent, on each occasion that the Unapproved Scheme is operated.

The Directors believe that the Resolutions referred to in this report which are to be proposed at the Annual General Meeting are in the best interests of the Company and of shareholders as a whole and recommend shareholders to vote in favour of them, as those Directors who hold shares intend to do so in respect of their own holdings.

Coveham House
Downside Bridge Road
Cobham
Surrey KT11 3EP

25th May 2001

By order of the Board,

J.L. Malthouse
Company Secretary

Auditors' report

To the Shareholders of Proteome Sciences plc:

We have audited the accounts on pages 17 to 38 and the information relating to Directors' share options set out on pages 10 and 11 which have been prepared under the historical cost convention and the accounting policies set out on pages 21 to 23.

Respective responsibilities of directors and auditors

As described on page 8 the Company's Directors are responsible for the preparation of the accounts, in accordance with applicable United Kingdom law and accounting standards. 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 Company and of the Group, 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 mis-statement, 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 affairs of the Company and of the Group at 31st December 2000 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

Abbots House
Abbey Street
Reading
RG1 3BD

25th May 2001

Consolidated profit and loss account

For the year ended 31st December 2000

	Notes	2000 £	1999 £
Administrative expenses		(1,149,995)	(761,396)
Realised exchange gains	4	303,158	71,072
Research and development expenses		(695,018)	(560,190)
Other operating expenses		(35)	(5,614)
Operating loss		(1,541,890)	(1,256,128)
Interest receivable		158,135	32,817
Interest payable and similar charges	3	(21,692)	(6,447)
Loss on ordinary activities before taxation	4	(1,405,447)	(1,229,758)
Tax on loss on ordinary activities	7	-	-
Loss for the financial year		(1,405,447)	(1,229,758)
Loss per share			
Basic and diluted	8	(1.59p)	(1.57p)

All activities in the current and prior year relate to continuing activities.

Consolidated statement of total recognised gains and losses

A statement of movements on reserves is given in note 17.

	2000	1999
Loss for the year	(1,405,447)	(1,229,758)
Loss on foreign currency translation	(308,052)	(84,493)
Total losses recognised since last annual report	(1,713,499)	(1,314,251)

The accompanying notes are an integral part of this consolidated profit and loss account and consolidated statement of total recognised gains and losses.

Consolidated balance sheet

As at 31st December 2000

	Notes	2000 £	1999 £
Fixed assets			
Intangible assets	9	-	32
Investments	10	225,756	-
Tangible assets	11	166,691	173,688
		392,447	173,720
Current assets			
Debtors	13	518,146	181,364
Cash at bank and in hand		3,304,412	446,818
		3,822,558	628,182
Creditors: Amounts falling due within one year, including convertible debt	14	(1,545,840)	(657,928)
Net current assets/(liabilities)		2,276,718	(29,746)
Total assets less current liabilities		2,669,165	143,974
Creditors: Amounts falling due after more than one year	15	(29,220)	(38,570)
Net assets		2,639,945	105,404
Capital and reserves			
Called-up share capital	16	915,384	816,034
Share premium account	17	12,945,904	8,797,214
Profit and loss account	17	(11,221,343)	(9,507,844)
Equity shareholders' funds	18	2,639,945	105,404

Signed on behalf of the Board

C.D.J. Pearce — Director

J.L. Malthouse — Director

25th May 2001

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

Company balance sheet

As at 31st December 2000

	Notes	2000 £	1999 £
Fixed assets			
Investments	12	12,517,098	10,696,906
Current assets			
Debtors	13	4	4
Cash at bank and in hand		3,254,808	450,396
		3,254,812	450,400
Creditors: Amounts falling due within one year	14	(45,504)	-
Net current assets		3,209,308	450,400
Total assets less current liabilities		15,726,406	11,147,306
Net assets		15,726,406	11,147,306
Capital and reserves			
Called-up share capital	16	915,384	816,034
Share premium	17	12,945,904	8,797,214
Group reconstruction reserve	17	1,082,244	1,082,244
Profit and loss account	17	782,874	451,814
Equity shareholders' funds	18	15,726,406	11,147,306

Signed on behalf of the Board

C.D.J. Pearce Director

J.L. Malthouse Director

25th May 2001

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

Consolidated cash flow statement

For the year ended 31st December 2000

	Notes	2000 £	1999 £
Net cash outflow from operating activities	20	(1,276,813)	(1,280,657)
Returns on investments and servicing of finance	21	136,443	26,370
Capital expenditure and financial investment	21	(233,381)	(44,504)
Cash outflow before financing		(1,373,751)	(1,298,791)
Financing	21	4,541,242	367,524
Increase/(Decrease) in cash in the year	22	3,167,491	(931,267)

The accompanying notes are an integral part of this consolidated cash flow statement.

Notes to the accounts

1 Going concern

The principal activity of the Group is research and development, primarily in the field of proteomics, both through its own research and through collaborative agreements with a number of prestigious academic institutions. However, the Group may require further funding to complete the development of its technology before it is able to generate revenues. The terms on which such funding may be available, if at all, will be dependent upon the results of future research and development activities.

The Directors consider that the Company and the Group has sufficient funds to continue its current operations for the foreseeable future and have prepared these statements on the going concern basis.

2 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently through the year and the prior year, is set out below:

a) Convention and accounting standards

The accounts are prepared under the historical cost convention and have been prepared in accordance with applicable accounting standards.

b) Basis of consolidation

The Group accounts consolidate the accounts of Proteome Sciences plc and all its subsidiary undertakings made up to 31st December 2000 using the acquisition method of accounting. Goodwill arising on acquisitions in the year ended 31st December 1997 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard, the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

In the Company's accounts, investments in subsidiary undertakings are stated at cost less amounts written off. Only dividends received and receivable are credited to the Company's profit and loss account.

No profit and loss account is presented for Proteome Sciences plc as provided by section 230 of the Companies Act 1985. The Company's profit for the year, determined in accordance with the Act, was £331,060 (1999: £89,187).

c) Intangible fixed assets

Research and development expenditure is written off in the year of expenditure. Patent costs (comprising legal fees and other direct costs incurred in obtaining patents) are written off in the year of expenditure.

d) Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Laboratory equipment, fixtures and fittings	5 years (20% per annum)
Motor vehicles	4 years (25% per annum)

Notes to the accounts (continued)

e) Investments

Fixed asset investments are shown at cost less amounts written off. Provisions are made for permanent diminutions in value. Provisions for temporary fluctuations in value are not made.

f) Taxation

Corporation tax payable is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax legislation) has been calculated on the liability method. Deferred taxation is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of the reversal. Deferred tax is not provided on timing differences which, in the opinion of the Directors, will probably not reverse.

g) Pension costs

The executive Directors have non-contributory pension arrangements which are funded by the Group. These arrangements do not provide defined benefits and consequently the Group has no obligations to meet any unfunded liabilities. The amount charged to the profit and loss account is the contributions payable in the period.

h) Foreign currency

In the accounts of individual undertakings, transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction (or, where appropriate, at the rate of exchange in a related forward exchange contract). Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date (or, where appropriate, at the rate of exchange in a related forward exchange contract). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

The results of overseas subsidiary undertakings and their balance sheets are translated at the closing rates of exchange for the year. Exchange differences arising on the translation of the opening net liabilities and results of such overseas operations are dealt with through reserves.

i) Leases

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 in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over their lease term to their expected residual values. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Costs in respect of operating leases are charged on a straight line basis over the lease term.

j) Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

k) Derivatives and other financial instruments

The Group's financial instruments comprise cash, liquid resources and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

Notes to the accounts (continued)

Derivatives and other financial instruments (continued)
The Group does not enter into derivative transactions. It has been, throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged during the year.

l) Interest rate risk
The Group finances its operations through existing funds placed on the money markets. The risk is that movements in interest rates will affect investment income from cash on deposit. The risk is managed by monitoring of banking arrangements.

m) Foreign currency risk
The Group has two overseas subsidiaries which operate in the United States of America and whose revenues and expenditure are denominated mainly in US dollars.

3 Interest payable

	2000	1999
	£	£
Bank loans, overdrafts and other loans	14,908	1,272
Charges payable under hire purchase contracts	6,784	5,175
	21,692	6,447

4 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2000	1999
	£	£
Depreciation and amounts written off tangible fixed assets		
- owned	24,883	33,095
- held under hire purchase contracts	36,896	25,798
Research and development	695,018	560,190
Amortisation of patents	35	5,614
Government grants	(137,408)	(99,151)
Operating lease rentals		
- plant and machinery	108	245
- other	57,184	53,516
Auditors' remuneration for audit services	17,500	17,500
Profit on sale of fixed assets	5,845	-

Certain of the Group's inter-company accounts are denominated in US dollars. The exchange gains and losses arise on the application of accounting policy 2 h) to the trading transactions recorded in these inter-company accounts.

Amounts paid to the auditors in respect of non-audit services totalled £31,540 (1999: £12,880).

Notes to the accounts (continued)

5 Staff costs

The average monthly number of employees (including executive Directors) was:

	2000 Number	1999 Number
Research and development	5	5
Administration	5	5
	10	10

Their aggregate remuneration (including that of executive Directors) comprised:	£	£
Wages and salaries	490,577	367,530
Social security costs	53,589	27,131
Other pension costs	33,129	34,377
	577,295	429,038

6 Directors' remuneration and transactions

The Directors' emoluments in the year ended 31st December 2000 were:

	Basic salary £	Incentive Payments £	Taxable Benefits £	Pension costs £	2000 £	1999 £
Executive Directors						
C.D.J. Pearce	116,944	50,000	19,345	16,800	203,089	34,837
J.L. Malthouse	115,599	50,000	18,387	13,288	197,274	139,777
Non-Executive Directors						
Prof. W. Dawson	25,000	-	-	-	25,000	25,000
Prof. K.R.L. Mansford	16,667	-	-	-	16,667	25,000
R.S. Harris	35,000	-	-	-	35,000	35,000
	309,210	100,000	37,732	30,088	477,030	259,614

i) C.D.J. Pearce has waived his entitlement to salary of £38,981 (1999: £155,925) for the year ended 31st December 2000.

ii) The remuneration of the Executive Directors is decided by the Remuneration Committee.

iii) Aggregate emoluments disclosed above do not include any amounts for the value of options to subscribe for Ordinary Shares in the Company granted to or held by the Directors.

iv) Details of the options in place are given in the Directors' Report on pages 10 and 11.

The number of Directors in pension schemes are as follows:

	2000	1999
Money purchase pension schemes	2	2

Notes to the accounts (continued)

Directors' transactions

a) On the 14th April 2000 C.D.J. Pearce subscribed for shares in Geneva Proteomics, Inc, on behalf of the Company. On the 2nd November 2000 the Board resolved to repay Mr. Pearce's subscription costs, and on the 9th January 2001 a payment of £225,756.43 was made to Mr. Pearce, being the subscription cost of $312,500 converted to sterling at the exchange rate on the 2nd November 2000, together with interest from this date, at Base Lending Rate, to the date of repayment. The Company holds a signed Declaration of Trust from Mr. Pearce in respect of the shares in Geneva Proteomics, Inc.

b) Professor K.R.L. Mansford is a partner in Mansford Associates who provided consultancy services to the Company during the year at a cost of £9,324.

c) Save as disclosed in (a) and (b) above, no Director had a material interest in any contract of significance with the Company.

7 Tax on loss on ordinary activities

The Group has tax losses available to be carried forward in the United Kingdom and in the United States at 31st December 2000.

No provision is required for deferred taxation.

8 Loss per Ordinary Share

The calculations of loss per Ordinary Share are based on the following losses and numbers of shares.

	Basic and Diluted	
	2000	**1999**
	£	**£**
Loss for the financial year	1,405,447	1,229,758

	2000 Number of shares	**1999 Number of shares**
Weighted average number of ordinary shares:	88,552,458	78,505,304

Notes to the accounts (continued)

9 Intangible fixed assets

The movement in the year was as follows:

Group	**Patent costs**
	£
Cost	
1st January 2000	87,192
Exchange adjustments	7,607
31st December 2000	94,799
Amortisation	
1st January 2000	87,160
Exchange adjustments	7,604
Charge for the year	35
31st December 2000	94,799
Net book value	
1st January 2000	32
31st December 2000	-

10 Investments

	Investments
	£
Cost at 1st January 2000	-
Additions	225,756
At 31st December 2000	225,756

The company owns shares of $0.001 common stock of Geneva Proteomics, Inc. which is incorporated in Delaware, United States of America, and shares of CHF100 in Europroteome SA, which is incorporated in Switzerland.

Notes to the accounts (continued)

11 Tangible fixed assets

Tangible fixed assets comprise laboratory equipment, fixtures and fittings and motor vehicles held by the Group. The movement in the year was as follows:

	Laboratory equipment, fixtures and fittings	Motor vehicles	Total
	£	£	£
Cost			
1st January 2000	257,975	68,589	326,564
Exchange adjustments	4,753	-	4,753
Additions during the year	6,778	46,315	53,093
Disposals during the year	(217)	(27,230)	(27,447)
31st December 2000	269,289	87,674	356,963
Depreciation			
1st January 2000	105,829	47,047	152,876
Exchange adjustments	2,911	-	2,911
Eliminated on disposals	(65)	(27,229)	(27,294)
Charge for the year	45,494	16,285	61,779
31st December 2000	154,169	36,103	190,272
Net book value			
1st January 2000	152,146	21,542	173,688
31st December 2000	115,120	51,571	166,691

The above figures include amounts relating to laboratory equipment and motor vehicles held under hire-purchase agreements as follows:

	Net book value
	£
1st January 2000	109,139
31st December 2000	118,558

The Company owned no fixed assets during the year.

Notes to the accounts (continued)

12 Fixed asset investments

Company	Cost of shares in subsidiary undertakings £	Loans to subsidiary undertakings £	Total £
At 1st January 2000	1,625,318	9,071,588	10,696,906
Additional investment	-	1,596,215	1,596,215
Exchange adjustments	-	223,977	223,977
At 31st December 2000	1,625,318	10,891,780	12,517,098

Principal Group investments

The Company has investments in the following subsidiary undertakings, which affect the net assets of the Group:

Principal subsidiary undertakings	Country of incorporation and operation	Principal activity	Description and proportion of shares held by the Company	Description and proportion of shares held by the Group
Proteome Sciences, Inc. (formerly called Monoclonetics International, Inc.)	U.S.A.	Research Company	100% Common Stock	100% Common Stock
Electrophoretics Limited	United Kingdom	Administrative and Research Company	100% Ordinary Shares	100% Ordinary Shares
Intronn LLC	U.S.A.	Research Company	50% member	50% member
Phenomics Limited	United Kingdom	Dormant	100% Ordinary Shares	100% Ordinary Shares

The investments in Proteome Sciences, Inc., Electrophoretics Limited and Phenomics Limited comprise the entire issued share capital of each subsidiary undertaking and carry 100% of the voting rights.

Details of the investment in Intronn LLC

The investment in Intronn LLC ("Intronn") relates to the Group's interest in a project to develop new gene therapy techniques. The project was initiated by a third party.

In January 1996 the Company entered into an agreement under which it became a 50% member of Intronn , a newly formed corporation registered in Maryland, U.S.A., which was formed to act as a vehicle for the project. The terms of the agreement are, inter alia, that the Company will provide all the funding, within agreed levels, to Intronn with the other 50% member providing intellectual property and research knowledge in exchange for their membership.

Intronn, as constituted, does not have share capital and the Company's investment is in the form of a capital account in the books of Intronn that can, in due course, be called to be repaid. The investment in Intronn is therefore classified by the Company as a loan.

Notes to the accounts (continued)

Fixed asset investments (continued)

The Directors consider that the Company exercises dominant influence over Intronn and therefore Intronn has been treated as a subsidiary undertaking when preparing these group accounts. In view of the funding arrangements set out above and the net liabilities of Intronn, no minority interest has been recognised in these accounts. At the date of the investment Intronn had no financial assets or liabilities. In accordance with Group policies, the intellectual property and research know-how introduced into Intronn by the other member have not been capitalised.

13 Debtors

	Group 2000 £	Company 2000 £	Group 1999 £	Company 1999 £
Amounts falling due within one year:				
VAT	47,882	4	11,098	4
Prepayments	470,264	-	170,266	-
	518,146	4	181,364	4

14 Creditors: Amounts falling due within one year

	Group 2000 £	Company 2000 £	Group 1999 £	Company 1999 £
Other Creditors				
Trade creditors	35,718	-	96,088	-
Obligations under hire purchase contracts	37,703	-	30,163	-
Other creditors				
- social security and PAYE	19,372	-	6,715	-
Government grants	5,130	-	5,130	-
Accruals	1,112,347	45,504	519,832	-
	1,210,270	45,504	657,928	-
Convertible Debt				
8% Convertible Promissory Notes 2001	335,570	-	-	-
	1,545,840	45,504	657,928	-

On 19th May 2000, Intronn LLC issued $500,000 of 8% Convertible Promissory Notes ("the Notes") which are redeemable at par on the 19th May 2001.

The Notes may be converted, at the option of the holder, into securities issued in Intronn's next round of equity financing at the price per 1% ownership for securities paid in cash by the investors in such equity financing.

Unless repaid, all unpaid principal and unpaid accrued interest of the Notes must be repaid out of the proceeds of any equity financing in which the holder elects not to convert such notes.

Equity financing means Intronn's sale of ownership percentages or other equity securities in which at least $1,000,000 in gross proceeds are received.

If an equity financing has not been completed by the 19th May 2001, the holders may convert all unpaid principal and accrued interest into ownership percentages or equity securities at a price based on a $5,500,000 pre-money valuation on a fully diluted basis.

Creditors: Amounts falling due within one year (continued)
In addition, a warrant for 15% of the principal amount of each convertible promissory note has been issued with an exercise price equal to the price per share at the next round of equity financing, or in the absence of such financing, at a price based on a $5,500,000 pre-money valuation on a fully diluted basis.

The Warrants are exercisable at any time from the earliest of the date of an equity financing or 19th May 2001 until the earliest of (i) 19th May 2005, (ii) the sale of Intronn's assets and its acquisition by another entity or (iii) the effective registration date of the Company's securities under the Securities Act of 1933 in connection with a Public Offering.

There is no material difference between the book value and the fair value of the 8% Convertible Notes.

15 Creditors: Amounts falling due after more than one year

	Group 2000 £	Company 2000 £	Group 1999 £	Company 1999 £
Obligations under hire purchase contracts	28,384	-	32,604	-
Government grants	836	-	5,966	-
	29,220	-	38,570	-

	Group 2000 £	Company 2000 £	Group 1999 £	Company 1999 £
Obligations under hire purchase contracts and Government grants				
Amounts falling due				
Within one year	37,703	-	35,293	-
Within two to five years	29,220	-	38,570	-
	66,923	-	73,863	-

16 Share capital

	2000 £	1999 £
i) Authorised		
130,000,200 (1999: 110,000,200) Ordinary Shares of 1p each	1,300,002	1,100,002
49,998 Redeemable Ordinary Shares of £1 each	49,998	49,998
1,063,822 5% (gross) Redeemable Preference Shares of £1 each (voting)	1,063,822	1,063,822
786,178 5% (gross) Redeemable Preference Shares of £1 each (non-voting)	786,178	786,178
	3,200,000	3,000,000

The 5% (gross) Redeemable Preference Shares (voting) and the 5% (gross) Redeemable Preference Shares (non-voting) entitle the holders in priority to any payment of dividend to the holders of Ordinary Shares to payment of a fixed non-cumulative preferential dividend at the gross rate of 5 per cent per annum.

As from the date of issue until 31st December 1999, or if earlier the date upon which any class of the Company's shares is admitted to the Official List of the London Stock Exchange or is admitted to listing on any other recognised Stock Exchange, every member holding Preference Shares (voting) shall have 45,000 votes for every £1,000 nominal fully paid Preference Shares (voting) of which he is the holder.

Notes to the accounts (continued)

Share capital (continued)

From the 1st January 2000, or, if earlier, the date of an event referred to in the foregoing paragraph, every holder of the Preference Shares (voting) has the right to receive notice of and to attend but not to speak or vote at any general meeting unless either:

(i) any of the Preference Shares (voting) required to be redeemed have not been redeemed on the due date (in which case the holder of such Preference Shares has the right to speak and vote on any Resolution at a general meeting of the Company): or

(ii) the business of the general meeting includes a Resolution varying the rights attaching to the Preference Shares (voting) (in which case the holders of such Preference Shares (voting) shall be entitled to speak and vote on that Resolution only): or

(iii) the business of the general meeting includes consideration of a Resolution for winding-up the Company or reducing share capital (in which case the holder of the Preference Shares (voting) shall have a right to speak and vote on any such Resolution at the general meeting).

In the circumstances described in (i) to (iii) above, registered holders of Preference Shares (voting) are entitled, on a show of hands or on a poll, to one vote in respect of each fully paid Preference Share.

All members of the Company shall rank pari passu with each other in respect of any distribution on a return of capital save that the holders of the 5% (gross) Redeemable Preference Shares (voting) and the 5% (gross) Redeemable Preference Shares (non-voting) shall only be entitled to receive up to a sum equal to the amount paid up thereon and are not entitled to any further rights of participation in the assets of the Company.

Both classes of Preference Shares are redeemable at the option of the Company, at any time on written notice to the holders of those shares but, in any event must be redeemed at par by 31st December 2019. They are classified as non-equity.

ii) Allotted and called-up	**2000**	**1999**
	£	**£**
91,538,400 Ordinary Shares of 1p each (1999: 81,603,357)	915,384	816,034

	Ordinary Shares of 1p each
	£
At 1st January 2000	816,034
Issued in Placing and Open Offer	99,350
At 31st December 2000	915,384

During the year the Company allotted 9,935,043 Ordinary Shares with a nominal value of £99,350.43 and at a premium of £4,371,418.92 in order to finance the continuing operations of the Company.

Notes to the accounts (continued)

Share capital (continued)

iii) Options and Warrants

At 31st December 2000 options had been granted and were still outstanding in respect of the Company's Ordinary Shares of 1p under the Company's share option schemes as follows:

	Number of Shares	Amount of capital	Subscription price	Dates normally exercisable
		£		
Approved				
(i)	1,466,667	14,666.67	45p	01.03.98 - 01.03.2005
(ii)	133,721	1,337.21	172p	22.12.98 - 22.12.2005
(iii)	20,000	200.00	37p	14.05.01 - 14.05.2008
(iv)	67,415	674.15	44.5p	06.04.03 - 06.04.2010
(v)	20,000	200.00	37.5p	11.05.03 - 06.04.2010
Unapproved				
(vi)	633,300	6,333.00	45p	23.12.97 - 23.01.2001
(vii)	825,000	8,250.00	37p	19.05.01 - 19.05.2005
(viii)	200,000	2,000.00	61p	30.03.03 - 30.03.2007
(ix)	32,585	325.85	44.5p	06.04.03 - 06.04.2007
(x)	433,124	4,331.24	45p	20.04.03 - 20.04.2007
Granted under separate Option Deeds				
(xi)	233,888	23,388.80	45p	20.04.03 – 20.04.2007

Options under both schemes may also be exercised from the date on which any shares in the Company are first admitted to the Official List of the London Stock Exchange.

The above options were granted in the following periods:

a) 60 week period ended 31st December 1995 – (i), (ii) and (vi).

b) Year to 31st December 1998 – (iii) and (vii).

c) Year to 31st December 2000 – (iv), (v), (viii), (ix), (x) and (xi).

Share Exchange/Warrant Exchange

On 4th November 1994, the shareholders of Monoclonetics International, Inc. (now called Proteome Sciences, Inc.) approved a Share Exchange agreement whereby they received one Ordinary Share of £1 each of the Company or $0.15 in cash (the "Share Exchange") for every 10 $0.001 shares of the Common Stock of Monoclonetics International, Inc.

Also on 4th November 1994, certain holders of options and warrants in Monoclonetics International, Inc. agreed to the Warrant Exchange whereby they received Ordinary Shares of £1 each in the Company pursuant to an exchange formula based on the per share exercise price of each warrant.

Under the terms of the Warrant Exchange (referred to above), a warrant holder or option holder who did not exchange his warrants or options in Monoclonetics International, Inc. and, subsequent to the termination of the Warrant Exchange exercises his warrants or options by paying the exercise price therefor, will have the right to receive, at his election (i) 100 Ordinary Shares of 1p each in the Company in respect of each ten $0.001 shares of Common Stock of Monoclonetics International, Inc., underlying the warrants, or (ii) $0.15 in cash in respect of each ten $0.001 shares of Common Stock underlying the warrants.

Notes to the accounts (continued)

Share capital (continued)
In December 1992 Monoclonetics International, Inc. entered into an agreement pursuant to which it has agreed to grant Dr. B. M. Cameron, Senior an option to acquire up to 250,000 $0.001 shares of Monoclonetics International, Inc. Common Stock at a purchase price of $1.50 per share, expiring in December 2002, in consideration of Dr. Cameron relinquishing all obligations owed to him under a Net Profits Interest Agreement previously entered into by Monoclonetics International, Inc. with Dr. Cameron (pursuant to which Dr. Cameron had a financial interest in revenues generated and created as a result of the development and discovery with Monoclonetics International, Inc. of the peripheral nerve damage ("PND") protein marker). The right to exercise the options accrues at the rate of 25,000 shares per year only in the event that the blood protein marker for PND produces revenue for Monoclonetics International, Inc. in that year. The Company has agreed to assume Monoclonetics International, Inc.'s obligations pursuant to this agreement. Accordingly, under the terms of the Warrant Exchange, if these outstanding warrants over $0.001 shares of Monoclonetics International, Inc. Common Stock are exercised, Dr. Cameron has a right to receive, at his election, up to 2,500,000 Ordinary Shares of 1p each of the Company in exchange for such Monoclonetics International, Inc. Common Stock.

On 31st March 1993 Monoclonetics International, Inc., granted to B.M. Cameron, Junior, the President of Monoclonetics International, Inc., an option to purchase 99,998 $0.001 shares of Monoclonetics International, Inc. Common Stock at US$7.50 per share, of which 35,714 have been exercised. Mr. Cameron is entitled to exercise 10,714 options a year, in each of the years 1995 to 2000. The option terminated on the earlier of 15th April 2000 or one year following the termination of his employment with Monoclonetics International, Inc. Accordingly, pursuant to terms of the Warrant Exchange, on exercise of all his outstanding options in respect of Monoclonetics International, Inc. Common Stock, Mr. Cameron had a right to receive, at his election, up to 642,840 Ordinary Shares of 1p each in the Company in exchange for such Monoclonetics International, Inc. Common Stock. Mr. Cameron resigned as a director of Monoclonetics International, Inc. on 8th February 2000, and the option lapsed on the 15th April 2000.

Under an agreement dated 31st March 1993, Monoclonetics International, Inc. granted to C.D.J. Pearce an option to purchase 99,998 $0.001 shares of Proteome Sciences, Inc. Common Stock at $7.50 per share, of which 35,714 were exchanged for shares in the Company under a Warrant Exchange agreement described above (the "Warrant Exchange"). C.D.J. Pearce is entitled to exercise 10,714 options a year in each of the years 1995 to 2000. The option terminates on the earlier of 15th April 2000 or the termination of his employment with the Company.

In part consideration for the waiver by Mr. Pearce of his accrued salary entitlement for the fifteen months to the 31st March 2000, the term of the warrant was extended on the 20th April 2000 so that, subject to Mr. Pearce's continuing employment with the group, it will expire on 15th April 2005.

Accordingly, pursuant to the terms of the Warrant Exchange, on the exercise of all his outstanding warrants in respect of Monoclonetics International, Inc. Common Stock, Mr. Pearce has a right to receive up to 642,840 Ordinary Shares of 1p each in the Company in exchange for such Monoclonetics International, Inc. Common Stock.

Notes to the accounts (continued)

17 Reserves

Group

	Share premium account £	Profit and loss account £	Total £
1st January 2000	8,797,214	(9,507,844)	(710,630)
Premium on allotments	4,371,419	-	4,371,419
Expenses of equity share issue	(222,729)	-	(222,729)
Unrealised exchange losses	-	(308,052)	(308,052)
Retained deficit for the year	-	(1,405,447)	(1,405,447)
31st December 2000	12,945,904	(11,221,343)	1,724,561

The cumulative amount of goodwill written off against reserves was £2,987,741 (1999: £2,987,741).

Company

	Share premium account £	Group reconstruction reserve £	Profit and loss account £	Total £
1st January 2000	8,797,214	1,082,244	451,814	10,331,272
Premium on allotments	4,371,419	-	-	4,371,419
Expenses of equity share issue	(222,729)	-	-	(222,729)
Retained profit for the year	-	-	331,060	331,060
31st December 2000	12,945,904	1,082,244	782,874	14,811,022

Of total reserves shown in the Company's balance sheet, the following amounts are regarded as non-distributable or otherwise:

	2000 £	1999 £
Non-distributable		
- share premium	12,945,904	8,797,214
- group reconstruction reserve	1,082,244	1,082,244
Distributable		
- profit and loss account	782,874	451,814
Total reserves	14,811,022	10,331,272

The Company has taken advantage of Group reconstruction relief as allowed by section 132 of the Companies Act 1985.

18 Reconciliation of movements in shareholders' funds

	Group 2000 £	Company 2000 £	Group 1999 £	Company 1999 £
(Loss)/Profit for the financial period	(1,405,447)	331,060	(1,229,758)	89,187
Unrealised exchange losses	(308,052)	-	(84,493)	-
New share capital subscribed (net of issue costs)	4,248,040	4,248,040	388,587	388,587
Net addition/(reduction) to shareholders' funds	2,534,541	4,579,100	(925,664)	477,774
Opening shareholders' funds	105,404	11,147,306	1,031,068	10,669,532
Closing shareholders' funds	2,639,945	15,726,406	105,404	11,147,306

19 Segment information

The Group's operations are based in the United Kingdom and the United States of America.

	2000 £	1999 £
Analysis of loss on ordinary activities before taxation		
Operating loss in the U.S.	(396,689)	(457,339)
Operating loss in the U.K.	(1,145,201)	(798,728)
Shared income	136,443	26,309
Loss on ordinary activities before taxation	(1,405,447)	(1,229,758)
Analysis of net assets		
Net liabilities (excluding cash and inter-company balances) in the U.S.	(383,366)	(43,278)
Net liabilities (excluding cash and inter-company balances) in the U.K.	(281,101)	(298,136)
Cash balances	3,304,412	446,818
Net assets	2,639,945	105,404

20 Reconciliation of operating loss to operating cash flows

	2000 £	1999 £
Operating loss	(1,541,890)	(1,256,128)
Depreciation charges	61,779	58,893
Amortisation charges	35	5,614
Profit on sale of tangible fixed assets	(5,845)	-
(Increase)/decrease in debtors	(75,379)	126,545
Increase/(decrease) in creditors	284,487	(215,581)
Net cash outflow from operating activities	(1,276,813)	(1,280,657)

Notes to the accounts (continued)

21 Analysis of cash flows

	2000	1999
	£	£
Returns on investments and servicing of finance		
Interest received	158,135	32,817
Interest paid	(14,908)	(1,272)
Interest element of finance lease rentals	(6,784)	(5,175)
Net cash inflow	136,443	26,370
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(7,625)	(44,504)
Purchase of investments	(225,756)	-
Net cash outflow	(233,381)	(44,504)
Financing		
Issue of ordinary share capital	4,248,040	388,587
Loans received	335,570	-
Capital element of finance lease rental payments	(42,368)	(21,063)
Net cash inflow	4,541,242	367,524

22 Analysis and reconciliation of net debt

	Cash in hand and at bank	Hire purchase contract obligations	Other loans	Net funds (debt)
31st December 1998	1,453,036	(22,539)	-	1,430,497
Other non-cash changes	-	(61,291)	-	(61,291)
Cash flow	(931,267)	21,063	-	(910,204)
Exchange movement	(74,951)	-	-	(74,951)
31st December 1999	446,818	(62,767)	-	384,051
Other non-cash changes	-	(39,473)	-	(39,473)
Cash flow	3,167,491	42,368	(335,570)	2,874,289
Exchange movement	(309,897)	(6,217)	-	(316,114)
31st December 2000	3,304,412	(66,089)	(335,570)	2,902,753

Notes to the accounts (continued)

Analysis and reconciliation of net debt (continued)

	2000	1999
	£	£
Increase/(decrease) in cash in the year	3,167,491	(931,267)
Cash flow from debt and lease financing	42,368	21,063
Change in net debt resulting from cash flows	3,209,859	(910,204)
New finance leases	(39,473)	(61,291)
New loans	(335,570)	-
Translation difference	(316,114)	(74,951)
Movement in net debt in year	2,518,702	(1,046,446)
Net funds at 1st January 2000	384,051	1,430,497
Net funds at 31st December 2000	2,902,753	384,051

Major non-cash transactions

During the year the group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of £46,315 (1999: £103,056).

23 Guarantees and other financial commitments

a) Capital commitments

At the end of the year the Company and Group had capital commitments amounting to £393,150 (1999: £nil).

b) Lease commitments

The Group leases certain land and buildings on short-term operating leases. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays insurance, maintenance and repairs of these properties.

The minimum annual rentals under the foregoing leases are as follows:

	Group 2000	Group 1999
	£	£
Operating leases which expire		
- within 1 year	-	13,344
- within 2-5 years	-	-
- over 5 years	26,900	26,900
	26,900	40,244

24 Derivatives and other financial instruments

The notes to the accounts provide an explanation of the role that financial instruments have had during the period in creating or changing the risks the group faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts and the strategies for achieving those objectives that have been followed during the period.

Derivatives and other financial instruments (continued)

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in FRS 13: Derivatives and other financial instruments.

As permitted by FRS 13, short-term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

Currency exposures

There are no currency exposures from transactional sources. Such exposures would be the monetary assets and liabilities of the group that are not denominated in the operating currency of the operating unit.

Interest rate profile

The group has no financial assets other than sterling cash deposits of £2,800,000 (1999: £400,000) which are part of the financing arrangements of the group and cash at the bank of £504,412. The sterling cash deposits comprise deposits placed on money market at call monthly rates.

The group has no financial liabilities other than the convertible debt disclosed in note 14 and four finance leases amounting to £66,087, repayable over 1 to 3 years at interest rates of between 9.8% and 10.8%.

Proteome Sciences plc

(Registered in England No: 2879724)

Notice of meeting

Notice is hereby given that the 7th Annual General Meeting of Proteome Sciences plc will be held at the offices of WestLB Panmure Limited, New Broad Street House, 35 New Broad Street, London EC2M 1NH on 21st June 2001 at 10.00 a.m., for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as ordinary and special Resolutions.

Ordinary Business

1 To receive the financial statements and the reports of the Directors and of the auditors for the year ended 31st December 2000.

2 To appoint Dr. A. Walker as a Director.

3 To re-appoint J.L. Malthouse as a Director.

4 To re-appoint Arthur Andersen as auditors of the Company and to authorise the Directors to fix their remuneration.

Special Business

Ordinary Resolution

5 THAT:

pursuant to and in accordance with Section 80 of the Companies Act 1985 ("the Act") and in substitution for any unexercised authority in that behalf, the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities having an aggregate nominal amount of £302,076.72 until the expiry of five years from the passing of this Resolution. Pursuant to such authority, the Directors may, before the expiry of such five year period, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such period and the Directors may allot relevant securities in pursuance of such an offer as if the authority conferred hereby had not expired.

Words and expressions defined in or for the purposes of Part IV of the Act shall have the same meanings in this Resolution.

Special Resolutions

6 THAT:

subject to, and upon Resolution 5 above, having been passed and becoming effective, the Directors be and are hereby authorised and empowered pursuant to Section 95 of the Companies Act 1985 (the "Act") to allot equity securities of the Company for cash pursuant to the authority conferred upon them by Resolution 5 above, as if Section 89(1) of the Act did not apply to such allotment provided that the authority and power in this Resolution shall be limited:

(a) to the allotment of equity securities in connection with a rights issue or any other pre-emptive offer in favour of holders of equity securities where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be) to the respective amounts of equity securities held by them subject only to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or legal or practical difficulties under the laws or the rules or regulations of any jurisdiction, stock exchange or other regulatory body whatsoever; and

(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities which are or are to be wholly paid up in cash up to an aggregate nominal amount of £45,769.20;

and provided further that the authority and power conferred by this Resolution shall expire at the conclusion of the next Annual General Meeting of the Company or the period of fifteen months from the passing of this Resolution, whichever is the earlier, unless such authority is renewed or extended at or prior to such time, save that the Company may before such expiry make any offer, agreement or other arrangement which would or might require equity securities to be allotted otherwise than in accordance with Section 89 of the Act after the expiry of this authority and the Directors may then allot equity securities in pursuant of such an agreement as if the authority and power hereby conferred had not expired.

Words and expressions defined in or for the purposes of Part IV of the Act shall have the same meanings in this Resolution.

7 THAT:

(a) subject to the approval of the Board of the Inland Revenue, the Board be and is hereby authorised to amend the Company's Executive Share Option Scheme (the "Approved Scheme") by deleting Rule 3.1 and substituting the following new Rule 3.1:

"No Options shall be granted under the Scheme if as a result the number of Shares issued or capable of being issued by way of subscription on the exercise of options granted by the Company (excluding any options which have lapsed or have been surrendered) during the previous ten years under the Scheme and Any Other Executive Scheme, would exceed ten per cent of the amount of the Company's ordinary issued share capital then in issue."; and

(b) the Directors be and they are hereby authorised to do all acts and things necessary to implement the changes to the rules of the Approved Scheme as may be necessary to obtain the approval of the Board of Inland Revenue and/or such other approvals as the Directors may consider necessary or desirable to obtain and/or to comply with London Stock Exchange requirements and/or institutional requirements.

8 THAT:

(a) the Board be and is hereby authorised to amend the Company's Executive Share Option Scheme (No. 2) (the "Unapproved Scheme") by:

(i) deleting Rule 3.1 and substituting the following new Rule 3.1:

"No Options shall be granted under the Scheme if as a result the number of Shares issued or capable of being issued by way of subscription on the exercise of options granted by the Company (excluding any options which have lapsed or have been surrendered) during the previous ten years under the Scheme and Any Other Executive Scheme, would exceed ten per cent of the amount of the Company's ordinary issued share capital then in issue.";

(ii) deleting Rule 3.2 and substituting the following new Rule 3.2:

"No Option shall be granted to an Eligible Employee under the Scheme if as a result the aggregate Subscription Price payable for that Option when aggregated with the aggregate Subscription Price payable for any other Option granted to such Eligible Employee in the same financial year would exceed 200% of such Eligible Employee's remuneration determined for these purposes by the Remuneration Committee in its absolute discretion; and

by adding the following definition to Rule 1.1 of the Unapproved Scheme:

"Financial Year" means a financial year of the Company within the meaning given to that expression by section 742 of the Companies Act 1985; and

(b) the Directors be and they are hereby authorised to do all acts and things necessary to implement the changes to the rules of the Unapproved Scheme as may be necessary to obtain such approvals as the directors may consider necessary or desirable to obtain and/or to comply with London Stock Exchange requirements and/or institutional requirements.

By order of the Board

Coveham House
Downside Bridge Road,
Cobham
Surrey KT11 3EP

J.L. Malthouse
Secretary

25th May 2001

Notes:

A member of the Company entitled to attend and vote at this meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. In accordance with Article 90, any such appointment is valid only if the instrument of proxy is deposited with the Company's registrars, not less than 48 hours before the time appointed for holding the meeting. A proxy need not also be a member of the Company. A form of proxy is enclosed; completion of an instrument of proxy will not prevent members from attending and voting in person should they wish to do so.