



Sinclair Pharma plc

Annual Report to 30 June 2004





Decapinol® (Oral Health)

Decapinol® is an oral rinse intended for the treatment and prevention of gingivitis, the common inflammation of the gums. Gingivitis is an inflammation of the gums caused by an accumulation of bacteria within the dental plaque. Gingivitis may progress to periodontitis, where there is loss of attachment between the teeth and surrounding bone. Eventually teeth may be lost. Decapinol® acts by interfering with bacterial adherence to the teeth and gums, facilitating plaque removal and an improvement in gum health. This mechanism does not disrupt the natural balance of oral bacteria in contrast to other current products for gingivitis.

Decapinol® is registered in the EU as a medical device and has had its designation as a medical device confirmed in the US where it has also been filed for registration as such.

SST™ and Salinum™ (Oral Health & Oncology)

Sinclair has two products that address this market; for patients with dry mouth (xerostomia); SST™, a saliva stimulant for patients with some salivary gland

function remaining, and Salinum™, a saliva substitute for those with more serious xerostomia.

Dry mouth, may have a variety of



causes, including oncology therapies, common medications, common diseases including diabetes and hypertension, radiotherapy or oral surgery. Dry mouth causes quality of life problems such as difficulties in speaking and swallowing. A long-term lack of saliva also causes oral health problems such as accelerated tooth decay and oral infections.

Both products are registered as medical devices in the US and the EU. Salinum™ and SST™ have received UK Drug Tariff status, meaning that UK GPs may prescribe the products and obtain reimbursement from the NHS.

Visclair™ Viscous Mucus.

Visclair™ is used for the treatment of viscous mucus, which is a characteristic of many lung conditions, including bronchitis and emphysema. Collectively these lung conditions are often known as Chronic Obstructive Pulmonary Disease (COPD) and are strongly associated with smoking.

A Cochrane review recently found that mucolytics such as Visclair™ had a proven beneficial effect in treating patients with COPD, "reducing the number of exacerbations, their duration and the consequent need for hospitalisation".

Visclair™ is classed in the UK as a pharmacy-only product which can be sold as an over the counter ("OTC") product for sale in pharmacies only. It has also received UK Drug Tariff status, meaning that UK GPs may prescribe the product and obtain reimbursement from the NHS.

Non-Core Products

Photofrin™ (Oncology)

Photofrin™ is a prescription only pharmaceutical product for cancer of the esophagus for which Sinclair have a UK marketing agreement with Axcan Canada.

Paradote™ (Overdose Management)

Paradote™ is a painkiller and fever medicine paracetamol, combined with the protective agent methionine. Methionine protects against liver damage caused by paracetamol overdose. Paradote is licensed by Sinclair from BTG International Limited and Penn Pharmaceuticals Services Limited. Paradote™ is registered only in the UK

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Sinclair Pharma plc Products

Sinclair Pharma is an international pharmaceutical company focused on the exploitation of niche patented products in the fields of oral health, oncology support and dermatology.



Sinclair Pharma plc Pro

Sinclair Pharma currently has 11 products that are registered with regulatory authorities in either the EU and/or the US. The Company has developed a number of line-extensions and reformulations that have the potential to extend the markets covered by the main products. The Company also maintains a continuous programme to identify and acquire new products that meet its key criteria.

The Company has already appointed distributors in over 40 countries for many of the Group's products.

Gelclair™ (Oral Health & Oncology)

Gelclair™ is an oral gel for relieving the symptoms of severe oral ulceration and inflammation of various causes.

Oral ulceration (also known as mucositis) is a frequent complication of anti-cancer (oncology) therapies,



principally chemotherapy and radiotherapy. It is characterised by severe and extensive mouth ulcers, which are extremely painful because of exposed and inflamed nerve endings. This pain will usually affect patients' eating, drinking and sleeping; mucositis is a common reason for interruption of anti-cancer therapy.

Outside oncology, oral ulceration is also a symptom of several other diseases, including HIV, Oral Lichen Planus and Behçet's Disease. It is also common in dental patients such as those with ill fitting dentures, having orthodontic treatment or oral surgery.

Products

Aloclair™ Liquid & Aloclair™ Gel (Oral Health)

Aloclair™ is a liquid or gel for the relief of painful mouth ulcers and other minor oral lesions.

Mouth ulcers are common particularly in children, women and the over-65s. The causes of mouth ulcers are generally known



but contributing factors may include stress, vitamin deficiencies and minor oral injuries. Mouth ulcers are painful because a layer of the oral mucosa has been removed, exposing the nerve endings beneath. Mouth ulcers may cause difficulties in eating, drinking, and even speaking. Children find mouth ulcers particularly painful and distressing.

Both liquid and gel Aloclair™ presentations are registered in the US and the EU as medical devices.

Developments using existing technology platforms to create products for new indications

T-Go (the Company internal project name) for symptom relief for sore throat (pharyngitis). T-Go is registered in the EU as a medical device. This product has achieved EU registration well

ahead of schedule and the Company now believes that the product may be launched early in its next financial year ending June 30th 2006.

Aloclair™ Spray Spray presentation of Aloclair™ for delivery direct to the oral lesion, which as a line extension of Aloclair™ are also registered in the EU as medical devices. These will require separate 510(k) filings in the US to obtain registrations there as medical devices.

Atopiclair™ (Dermatology)

Atopiclair™ is a hydrolipidic cream designed for the management of atopic dermatitis (eczema) and contact dermatitis (allergic skin reactions).

Atopiclair™ contains lipid and water-soluble moisturisers, which are designed to provide a deep and soothing replenishment of essential moisture to the skin. The barrier type of moisturising action can help to protect the injured tissue from further exogenous factors. Atopiclair™ offers



patients good control of the itch that is a key complaint of patients with atopic dermatitis, and also helps to relieve the other signs and symptoms including reddening.

Atopic dermatitis, also known as eczema, is a common condition characterised by itching and reddening of the skin. Atopic dermatitis is one of the most common skin conditions, particularly in children.

Contact dermatitis refers to an adverse reaction of the skin to allergens such as nickel, dyes or chemicals. This is often due to industrial factors and may be seen commonly in groups such as healthcare professionals, machinists, construction workers and hairdressers. An allergic reaction to laundry detergents is also common.

Atopiclair™ is registered in both the US and the EU as a medical device

Developments using existing technology platforms to create products for new indications

Xclair™ is for the relief of the dermatitis symptoms that may occur as a complication of cancer radiotherapy. There are currently few treatment options for this unpleasant side effect of radiotherapy. Xclair™ is registered in both the US and the EU as a medical device.

Sebclair™ is for the management of seborrheic dermatitis. Seborrheic dermatitis is a disease that causes reddening or flaking of the skin and is usually seen on the face, chest or creases of the arms, legs and groin. It may also affect the skin or scalp, where it is commonly known as dandruff or cradle cap

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Highlights for 2004

Operating Highlights

- Strong product development and licensing progress
- Four FDA approvals in US and four approvals in EU
- Nine distribution agreements signed for five products
- Advanced licensing discussions in progress for Atopiclair™

Financial Highlights

- Revenues of £2.7m (2003: £9.1m), with strong Aloclair™ sales growth to £1.8m (2003: £0.7m)
- Adjusted operating loss* of £2.6m (2003: £2.9m profit)
- Operating loss of £3.0m (2003: £0.6m profit)
- Loss per share of 6.6p (2003: 1.3p earnings)
- Successful IPO in December 2003 raised £21.8 million (net of expenses), including £8.9 million of new money for Sinclair (net of expenses)
- Cash balances of £7.8m at 30 June 2004 (2003: £0.1m)
- Product revenues growing from Aloclair™, SST™ and Salinum™, and royalties flowing from Gelclair™

* pre national insurance provision and goodwill amortisation.

“During its first financial year as a public company, Sinclair has made very good progress, gaining four product approvals in both the US and EU as well as securing nine product distribution deals. With an increasing portfolio of products on the market, a growing pipeline and a strong cash position, Sinclair looks to the future with confidence.”

Chairman’s Statement

In a year of considerable change at Sinclair, the Company achieved excellent progress in moving a large number of our pipeline products closer to launch and revenue streams. I am therefore pleased to report that as we anticipated at the time of our interim report, Gelclair™ royalties have started to flow through from our agreement with Helsinn Healthcare SA and also revenues from agreements for Aloclair™, SST™ and Salinum™. Due to a deferred milestone payment that will now be received this financial year, our sales figure was below expectation. This was because the issuance of a Gelclair™ US patent triggering the payment was delayed by a now resolved internal administrative problem at the US patent office. This should not mask the fact that this year Sinclair gained important regulatory product approvals for lead and other products. Notably, our lead product Atopiclair™ achieved registration in the US and the EU, and Decapinol® was registered in the EU and then accepted as a medical device in the US where we have now filed a 510(k) application.

Furthermore, this year we have concluded nine new licensing agreements for five of our products. Whilst our main licensing focus is on Europe and the US, some of the new agreements were concluded for territories in the Middle East and South America. In total we now have licensing agreements covering over 40 territories. As to the widely anticipated US licensing agreement for Atopiclair™, our negotiations are at an advanced stage with positive interest being shown by several parties.

I can report that our development programmes for pipeline products have also made good progress. Based on an existing technology platform, we introduced Aloclair™ Spray and we also obtained EU regulatory approval for T-Go (the Company’s internal project name for this product) well in advance of expectations. This new product is for the treatment of painful throat conditions such as pharyngitis. Whilst ahead of planned pipeline schedule, this product is not expected to be launched until the financial year ending 30th June 2006.

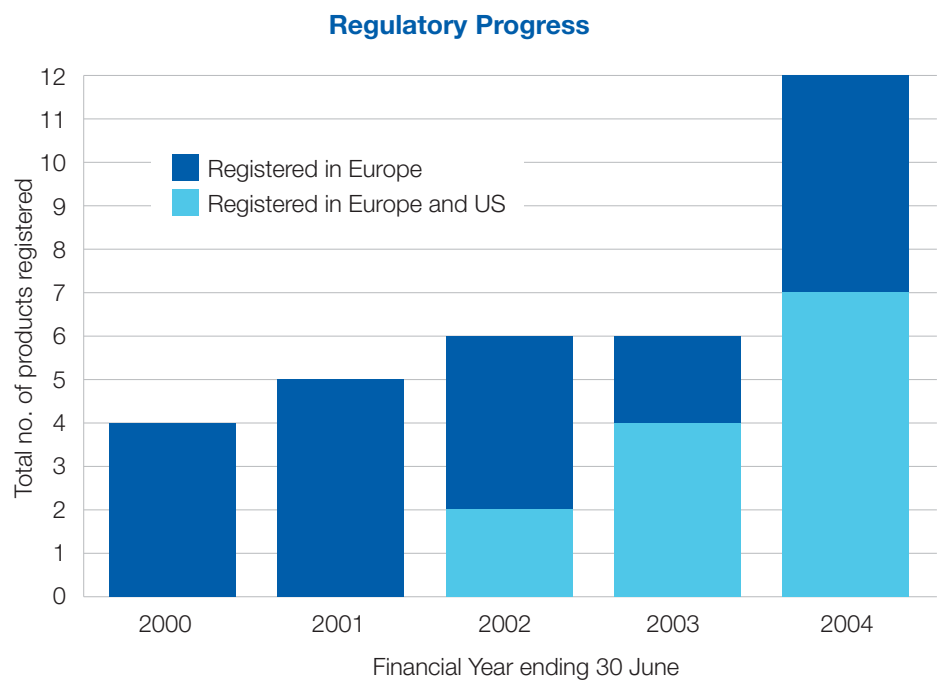
A significant development for Sinclair in the year to 30 June 2004, was the successful flotation of the Company on the Alternative Investment Market of the London Stock exchange (“AIM”). The placing of the Company’s shares on 11 December 2003 raised £21.8 million, including £8.9 million of new money for Sinclair (net of expenses). We believe that the success of the Sinclair flotation, which was achieved in uncertain market conditions, was due in part to the Company’s innovative risk averse business model. The uniqueness of this model was recognised in July 2004 when Sinclair was one of four nominated finalists in each of two of the S.E. Region National Business Awards categories, Small to Medium Business of the Year and Innovation Company of the Year.

As reported at the Interims in March this year, in December 2003 Andrew Sinclair, the founder of Sinclair Pharmaceuticals Limited, stepped down as non-Executive Chairman when I was appointed to the role. Andrew remains on the Board as a non-Executive director. I am pleased to report the post year-end strengthening of the Board with the appointment of Grahame Cook as non-Executive director. Grahame brings invaluable capital markets and pharmaceutical industry experience to Sinclair and will be a great asset as we advance the Company and pipeline. He now chairs our Audit Committee.

During its first financial year as a listed company, Sinclair has made very good progress, gaining four product approvals in both the US and EU as well as securing nine product distribution deals. With an increasing portfolio of products on the market, a growing pipeline and a strong cash position, Sinclair looks to the future with confidence.

Steve Harris

Non-Executive Chairman



“We are very encouraged that our two lead products Aloclair™ and Decapinol® have advanced significantly along the path to eventual launch in our main markets.”

Chief Executive’s Review

Sinclair Pharma plc focuses on the acquisition and development of niche patented pharmaceutical products in the fields of oral health, oncology support and dermatology, bringing them to the international market place via out-licensing partners. The Company combines skills in product evaluation, product development, regulatory and business development to add value to its acquired and in-house developed products. A key element of the Sinclair business model is to minimise risk and exposure by avoiding involvement in lengthy R&D programmes and rapidly achieving global distribution through a network of marketing partners. The Company has already licensed its products for distribution in over 40 countries around the world.

Overview

This has been a landmark year in the development of Sinclair. Since listing on the Alternative Investment Market (“AIM”) of the London Stock Exchange in December 2003, the Company has made significant regulatory progress, with four new approvals each in the US and EU, and achieved substantial licensing progress with its products, gaining nine distribution agreements in the period.

Whilst we have achieved eight regulatory approvals this year, we are very encouraged that two lead products have advanced significantly along the path to eventual launch in our main markets. Our lead product Atopiclair™, for the treatment of atopic and contact dermatitis,

gained approval in both the US and the EU. A second lead product with exciting potential, Decapinol®, for the treatment and prevention of gingivitis, obtained EU registration approval a year ahead of expectation. Decapinol®, which is patent protected, was also recognised as a medical device in the US by the Food and Drug Administration (“FDA”) and we have since filed for 510(k) approval with the FDA. I am pleased to report that licensing agreement negotiations for Atopiclair™ in the US are progressing well.

With this year’s regulatory approvals, we now have eight products approved in the EU and seven in the US. Including line extensions and reformulations, we have increased our portfolio of EU and US product registrations from 6 last year to 12. We anticipate significant future revenue growth as our licencees’ marketing and distribution networks launch our lead products in our targeted markets.

We are now enjoying royalties from the sales of Gelclair™ and also revenues from sales of Aloclair™, SST™ and Salinum™. As anticipated by the Board, following the agreement with Helsinn Healthcare SA, our cost base for Gelclair™ has fallen and royalty flows from the product began in the second half of the year.

We finished the year with a healthy year-end cash balance of £7.75 million enabling us to consider further company and product acquisitions and fund the continued rapid development of our pipeline.

Registration approvals

During the year to 30 June 2004, the Company successfully obtained eight product registrations in the EU or the US and made good progress towards further registration of additional products.

United States

The Company obtained FDA 510(k) registration for four of its products as prescription and OTC ("Over the Counter") medical devices. Specifically, 510(k) approval was gained for the following products, all of which are registered both for OTC and prescription use, apart from **Aloclair™ Gel** which is OTC only:

- **Atopiclair™**, for atopic and contact dermatitis, gained approval in July ahead of schedule. The addressable market is currently estimated to be in excess of \$2 billion and we expect to sign a distribution agreement shortly.
- **Xclair™**, for radiation dermatitis, was also registered in July. This addresses a niche market estimated to be worth about \$150 million. Global licensing discussions have commenced and the first distribution agreement has been signed.
- **Salinum™**, for xerostomia as replacement saliva where there is no salivary gland function, complements the already registered SST™ for less severe xerostomia.
- **Aloclair™ Gel** for the pain relief of mouth ulcers and other minor oral lesions, is a line extension for our product Aloclair™ Rinse which is sold in the USA by the oral health company Butler under the name Rincinol.

The US approval of Aloclair™ Gel will expand its use for the treatment of large, single oral ulcers and also for paediatric use. Aloclair™ Rinse has already received registration approval in both the US and the EU and the products have the potential to contribute

significantly to the Company's revenues. Subject to successful conclusion of licensing deals, both Aloclair™ products could be available on the US market in the current financial year, producing revenues for the Company. It is estimated that the major western markets in which Aloclair™ expects to compete are potentially worth £900 million per year.

Other US News

In April 2004, **Decapinol®**, Sinclair's patent protected NCE (New Chemical Entity) for the treatment of gingivitis, was designated a medical device in the US and was filed for 510(k) registration in June 2004. The time for approval of a medical device usually takes between 3 and 12 months. It is estimated that approximately 80% of the US adult population has some degree of gum inflammation resulting in a prescription market worth over \$300 million and an OTC market several times larger.

The Company also received positive results from a double-blind controlled study of Atopiclair™ in the US in contact dermatitis which will be published in this calendar year and a further multi-centre trial in atopic dermatitis has been initiated.

In March 2004 Sinclair filed for (510k) registration in the US for Sebclair™, for the treatment of seborrheic dermatitis. The FDA opined that the product would be designated in the US as a drug rather than a medical device because of the presence of salicylic acid. Sinclair will now file a modified formulation, to ensure that the product will be designated as a medical device, and plans to resubmit to the FDA in the current financial year. The Company's expectation for the launch of Sebclair™ in 2006 is not affected by this decision.

The EU

Sinclair has also made good progress with registration in the EU with four products receiving EU approval as medical devices, and two

products receiving reimbursement (UK Drug Tariff) approval in the UK.

Atopiclair™ was registered as a Class 2 medical device in February enabling it to be dispensed by medical professionals or sold in the retail market OTC. Atopiclair™ is a hydrolipidic cream designed for the management of atopic dermatitis (eczema) and contact dermatitis (allergic skin reactions). This is a major market opportunity for Sinclair and licensing discussions for the EU are in progress in parallel with those for the USA. We anticipate first sales during 2005. The report of a double blind trial in atopic dermatitis has recently been accepted for publication.

Xclair™ was registered as a Class 2 medical device in February enabling it to be dispensed by medical professionals or sold in the retail market OTC. Xclair™ is for the relief of the dermatitis symptoms that may occur as a complication of cancer radiotherapy. There are currently few treatment options for this unpleasant side effect of radiotherapy and, as such, the product enters an under-developed market estimated today to be worth £85 million. The product is expected to be welcomed by cancer clinicians and patients and further expands Sinclair's portfolio of cancer support products. First product sales are anticipated in this financial year. During this year a double blind trial in radiation dermatitis was completed and is in preparation for publication.

Decapinol® mouthwash, a patent protected NCE for the treatment of gingivitis, received registration approval as a Class 2a medical device in the EU in June 2004. This was significantly ahead of the Company's anticipated timeframe, enabling Sinclair to commence partnering discussions ahead of schedule. Decapinol® acts by selectively interfering with

the attachment of harmful bacteria to the teeth and gum surfaces, in contrast to antibiotics and antiseptics, which kill most oral bacteria and affect the natural balance of beneficial oral bacteria. Sinclair believes that Decapinol® is the first new chemical entity for gingivitis for the past 30 years and that it has the potential to significantly expand the existing market.

T-Go (the Company's internal project name) for pharyngitis (sore throat) was registered as a Class 2a medical device in June also substantially ahead of schedule. T-Go is presented initially in the form of a liquid gargle but is also being developed as a tablet and spray. Utilising the platform technology from Aloclair™ for the pain relief of mouth ulcers and other oral lesions, Sinclair has developed the new product as a result of feedback from Aloclair™ users. It addresses a market in the EU of about Euro 600 million and the Company anticipates first revenues in the next financial year following further (post-registration) clinical trials.

Other EU News

During the period, two products received UK Drug Tariff status meaning that GP's in the UK may prescribe the products to patients and obtain reimbursement from the NHS; Gelclair™ for severe inflammation in oral mucosal surfaces (mucositis) and Salinum™, a saliva substitute. Gelclair™ is already sold in the UK by Cambridge Laboratories Limited via Helsinn Healthcare SA and we are in licensing talks for Salinum™.

Licensing

During the financial year, we continued to make solid progress with our strategy of licensing out products once they have been registered in key territories. We struck eight such deals during the year and licensing discussions with potential distribution partners for Atopiclair™ continue to

make good progress. Sinclair is confident that these discussions will progress to a satisfactory conclusion.

Licensing deals struck during the year were as follows:

Visclair™ (1 agreement) - Visclair™, which can be sold OTC at pharmacies for the treatment of viscous mucus associated with many lung conditions, received UK reimbursement approval in early 2003. In September 2003, it was licensed in the UK to Ranbaxy (UK) Limited and launched in the UK in March 2004.

SST™ (3 agreements) - SST™ is a sugar-free pastille designed to stimulate the salivary glands to increase the flow of saliva in the case of dry mouth (xerostomia) where there is still some saliva gland function. In October 2003, we signed an agreement with Teva Tuteur S.A. to distribute SST™ in Argentina. In April 2004 we signed a distribution agreement for SST™ with Medac in the UK and in May 2005 we signed with Seven Days Tehran Trade for the distribution of SST™ in Iran.

Salinum™ (3 agreements) - Salinum™ is a replacement saliva for use in the case of severe dry mouth (xerostomia). In January 2004, Electra-Box Pharma AB signed an agreement to distribute Salinum™ in Sweden and in March 2004 we signed with IPC Nordic A/S for the distribution of Salinum™ in Denmark, Finland, Norway & Iceland. In June 2004 we signed with C.T.S. Ltd for the distribution of Salinum™ in Israel and the Palestinian Autonomy.

Aloclair™ Gel (1 agreement) - Aloclair™ Gel is for the relief of painful mouth ulcers and other minor oral lesions. In January 2004 we signed an agreement with Trima Trading Co. Ltd for the

distribution of Aloclair™ Gel in Israel and the Palestinian Autonomy.

Xclair™ (1 agreement) - Xclair™ is for the relief of the dermatitis symptoms that may occur as a complication of cancer radiotherapy. In June 2004 we signed an agreement with C.T.S. Ltd for the distribution of Xclair™ in Israel and the Palestinian Autonomy.

Outlook

The twelve months to 30th June 2004 have further demonstrated that the Sinclair strategy can build value and bring novel patented products through registration and to the major markets of the US and EU without taking on the risks, financial exposure and long time frames commonly associated with this industry. Now with nine novel registered products at the beginning of their commercial lives or still to be launched in the first markets the company can look forward to interesting revenue growth in the coming years. Meanwhile we are continuing our strategy of identifying and acquiring late stage products with patent protection which fill a market need and continuing to establish and strengthen an international network of sales and marketing partners. As with our acquisitions of Propharma SrL and Biosurface AB we will also be looking for products underpinned by technology platforms which would provide the potential to develop additional products.

Our key targets in this financial year are to establish the distribution of Atopicclair™, progress the US registration and first commercialisation of Decapinol®, to make further acquisitions and significantly increase revenues.

Dr MJ Flynn

Chief Executive Officer

“Gelclair™ income improved in the second half as royalty flows gathered momentum. Aloclair™ sales grew strongly, sales in SST™ continued to grow and Salinum™ has begun to generate sales”

Financial Review

Revenue

Total revenue on continuing operations for the period was £2.55m (2003: £8.11m), reflecting a decrease in licensing income and the change in nature of the Gelclair™ sales from product sales to receiving royalties from Helsinn. In 2003 we concluded a global licensing deal for Gelclair™ with Helsinn Healthcare SA which contributed the majority of the licence fee income in 2003. In 2004 there was no such large licensing deal. In addition, we had expected to have received a US\$500,000 (£272,000) milestone payment on issuance of a US patent for Gelclair™, but due to a now resolved internal administrative delay at the US patent office, the certificate was not delivered as expected before the year-end and the payment will now be received in this financial year.

By virtue of the licensing deal with Helsinn, the nature of our income from Gelclair™ has changed and 2004 saw the greatest impact of this change. In 2003 there was £2.2m of product sales of Gelclair™, which substantially comprised shipments of product into the US. Under the terms of the agreement with Helsinn, the Group now receives a royalty from Helsinn on its sales to the same network of distributors previously utilised by Sinclair. However, the amount of resource that the Group is now required to put into the product has fallen substantially, now only comprising maintenance of patents. Thus the costs of achieving this income are far lower, although the transition of the product to Helsinn has created a delay in revenue flow, as expected. As a result little Gelclair™ income was received in the first half but improved in the second half as royalty flows began to gather momentum and reach Sinclair.

Other product sales (on continuing activities) grew by 77% from £1.3m to £2.3m. The main component of this was sales of Aloclair™ which grew from £0.7m to £1.8m. This reflected growth in the most mature market, Italy, where the product occupies second position in the market and is promoted by Recordati Spa. The launch of the product in the US by Butler and in the UK by Forest Laboratories Limited has also contributed. Sales grew strongly through the year with the first half only contributing one third of the total sales in the year.

Sales in SST™ continued to grow and Salinum™ has begun to generate sales. Photofrin™, on which the Group only makes an 8% margin for physical distribution, performed well but we would expect this to diminish over time as the owner establishes its own distribution.

Gross Margin

The gross margin for the period is heavily influenced by the margin on Aloclair™, which comprised two thirds of product revenues. The gross margin on Aloclair™ was lower than normal as there is the usual heavy sampling in the launch phase of the product in the UK, Europe and the US, to which the Group contributes.

Administrative Expenses

Administrative expenses for the Group, excluding National Insurance provision, were £4.5m (2003: £4.4m), reflecting some growth in infrastructure post IPO and also acceleration on development costs through utilisation of the funds raised at the IPO. This figure includes £0.91m (2003: £0.94m) for the amortisation of purchased goodwill on acquisitions made by the Group in previous years. Costs totalling £1.8m from the IPO were taken through share premium as is permitted, and only £0.1m was reflected through the profit and loss account relating to costs not directly associated with the IPO.

Exceptional Items

The results for the year were affected by an exceptional credit arising in December 2003 relating to National Insurance provision on share options and warrants. This provision was made in the year ended 30 June 2003 and related to the provision for a National Insurance charge on the Company, in respect of the warrants put in place at the time of the management buy-in in August 2000. The National Insurance liability has been transferred to the relevant employees in return for the issue of further warrants to cover the costs of settling this liability. This liability transfer was effected at the time of the flotation of the Group. It transpired that the estimated flotation price used for the calculation of the provision was too high and as a result there is a credit of £578,000 to the profit and loss account.

Results for the period were also affected by the sale of Caprin™ concluded in September 2003. This latter resulted in an exceptional gain of £87,000, after charging associated goodwill.

Interest

The Group's cash balances primarily arising from the IPO have generated interest income of £0.165m (2003: £0.004m).

Taxation

The Group incurred a tax charge of £0.034m (2003: £0.143m), and benefited from claiming R&D tax credits in the amount of £0.045m (2003: £0.067m).

Working Capital and Cash Generation

During the year the Group had a net cash inflow/(outflow) of £7.62m (2003: (£0.435m)), of which £8.9m (2003: £nil) resulted from the IPO.

As the Group's product sales continue to grow these sales will add to the cash generation of the Group, alongside the licensing income. Debtors decreased by 52% to £2.1m (2003: £4.4m) and creditors decreased by 63% to £1.9m (2003: £4.8m). The Group had net cash balances of £7.8m (2003: £0.128m) as at the end of the financial year and will continue to use this for the further development of its pipeline and to continue its acquisition strategy.

JAP Randall ACA

Chief Financial Officer

Directors & Officers

The Board comprises - Two Executive Directors and four Non-executive Directors:



**Ralph Stephen Harris B.Pharm., F.R. Pharm.S. (aged 62),
Non-executive Chairman**

Chairman, Remuneration Committee

Chairman, Nomination Committee

Member, Audit Committee

Senior Independent Non-executive Director

Mr Harris joined the board of Sinclair Pharma as a non-executive director in October 2001 and was appointed non-exec Chairman on 18 November 2003. Mr Harris is currently the chairman of Proteome Sciences plc, a non-executive director of Skye Pharma plc, Microsciences Limited, Genemedix plc, London Capital Limited, Advanced Medical Solutions plc, Prophilian plc and Conve plc. After leaving Medeva plc in 1995, Mr Harris set up his own consultancy to work as non-executive director in the life sciences industry. Prior to joining Medeva plc, Mr Harris has held a number of positions in the prescription and consumer healthcare sectors, with sales, marketing and general management experience with Merck Sharp & Dohme Limited, Eli Lilly and Company, Boots plc and Reckitt Benckiser Plc.



**Dr. Michael John Flynn MBBS, MRCS, LRCP, FFP.RCP (Dist) (aged 62),
Chief Executive Officer**

Dr Flynn became Chief Executive Officer of Sinclair Pharma in August 2000 following a management buy-in of Sinclair Pharmaceuticals Limited, which he led. Between 1998 and 2000, Dr Flynn privately acquired the rights to a portfolio of products, which he brought to the Group. From June to November 1998, Dr Flynn was acting Chief Executive Officer of Cortecs Group plc where he held the position of president between 1992 and June 1998 and of director between 1986 and 1992. Between 1976 and 1986, he was medical director and president of Technology International Limited, a Contract Research Organisation that Dr Flynn co-founded. Prior to 1976, Dr Flynn had worked as senior medical advisor to Crookes Laboratories Limited, established Duphar Limited in the UK and spent approximately 5 years in the clinical research department of Philips Duphar in Holland.

Dr Flynn has spent over 30 years in the pharmaceutical industry and has served on the board of directors of approximately 30 private companies involved in the healthcare sector. Dr Flynn was elected a fellow by Distinction of the Faculty of Pharmaceutical Medicine of the Royal Colleges of Physicians in 2001 and qualified as a physician from Kings College Hospital, London.



**Jeremy Anthony Philip Randall ACA (aged 40),
Chief Financial Officer**

Mr Randall became Chief Financial Officer of the Company in August 2000 when he completed the management buy-in with Dr Flynn. Before joining Sinclair Pharma, Mr Randall worked in corporate finance setting up and running the Bristol office of Gambit Corporate Finance. Prior to that Mr Randall had been involved in two other buy-ins and acted as adviser to both private and quoted companies between 1993 and 2000, in both the capacity as nominated adviser and in practice with KPMG. During this period, Mr Randall was involved in a number of flotations and transactions on the Official List, Unlisted Securities Market and the Alternative Investment Market, as well as raising private equity. Mr Randall qualified as a chartered accountant with KPMG in 1990.



**Andrew John Sinclair Ph.C., MR Pharm.S. (aged 74),
Non-executive Director**

Mr Sinclair founded Sinclair Pharmaceuticals Limited in 1971 and became non-executive chairman of Sinclair Pharma following the buy-in of Sinclair Pharmaceuticals Limited in 2000. Before that he worked for ten years for Berk Pharmaceuticals Limited as sales manager and then as a director. Between 1957 and 1961 Mr Sinclair worked as a production manager and export executive for May and Baker Limited, a pharmaceutical manufacturer and distributor.



**Alexis Daniel Sandown Prens (aged 42),
Non-executive Director**

Member, Audit Committee
Member, Remuneration Committee
Member, Nomination Committee

Mr Prens joined the Company as a non-executive director in September 2000 and was one of the leading investors in Sinclair Pharma at the time of the management buy in. Mr Prens was part of a management buy-in team to Fii Group PLC, a footwear supplier to Marks and Spencer PLC. He held a number of senior marketing and general management positions with Magellan PLC (formerly Celestion Industries PLC) prior to its successful sale to Claremont Garments PLC. Mr Prens is a founder and managing director of an Internet consultancy, Rushmore Digital Technologies Limited, which has offices in London and Sofia, Bulgaria.



**Grahame Cook MA Hons (OXON), ACA, (aged 46),
Non-executive Director**

Chairman, Audit Committee
Member, Remuneration Committee
Member, Nomination Committee

Mr Cook joined the Company as a non-executive director on 12 July 2004. Mr Cook has over 18 years experience in investment banking, advising on a wide number of mergers & acquisitions and capital market transactions in the US and Europe. He was until recently, Global CEO of West LB Panmure, where he joined in 1999. Prior to that, from 1995, Mr Cook was Managing Director of Capital Markets and on the Global Investment Banking Management Committee at UBS. Mr Cook's earlier career includes six years as Director of Barclays de Zoete Wedd Corporation Finance, and seven years as a Chartered Accountant at Arthur Andersen. He has advised on a number of transactions in the pharmaceuticals and biotechnology sectors across Europe and the US, including private equity investments, IPO's and secondary offerings. Mr Cook was a founder member of the LSE's TechMARK Advisory Committee, and holds an MA, double first, from Oxford University.

Senior Management



Marco Mastrodonato (aged 36), Senior Vice President, Sinclair Pharmaceuticals Limited

Mr. Mastrodonato has headed up the Business and Products Development Division of Sinclair Pharma since the acquisition of Propharma S.r.l. by the Company in May 2001. Mr. Mastrodonato founded Propharma S.r.l. in 1999 and invented Gelclair, Aloclair and a range of hypoallergenic toiletries for paediatrics. Between 1996 and 1998 Mr. Mastrodonato worked as a consultant for Carrington Laboratories Inc, a US research-based bio-pharmaceutical company, licensing and exporting products from the US to Europe. Prior to 1996, Mr. Mastrodonato founded Protema S.p.a., an Italian agro-chemical company. Between 1989 and 1996 he worked for an international clinical research organisation, AAI Pharma Inc. and between 1987 and 1989 he worked for OEMF Informatore Farmaceutico.



Mike Killeen (aged 49), Vice President of Sales and Marketing, Sinclair Pharmaceuticals Limited

Mr. Killeen joined Sinclair Pharma following the acquisition of Propharma S.r.l. by the Company in May 2001. At Propharma S.r.l. Mr. Killeen held the position of vice president of sales and marketing for the US and Pacific Rim. Prior to joining Propharma S.r.l., Mr. Killeen was director of sales and marketing at Carrington Laboratories Inc., prior to which he was director of business development at Horizon Medical Inc.



Paul Phull (aged 41), BSc (Hons) in Applied Biology, M.C.I.M., Vice President Business Development Sinclair Pharmaceuticals Limited

Mr Phull joined Sinclair as Director of Business Development in February 2001 and earlier this year was appointed to his current position. Since graduating in 1986, Mr Phull has held a number of senior sales and marketing positions in the healthcare industry.

Directors' Remunerations Report

Introduction

As a company whose shares are traded on the Alternative Investment Market, the Company is not required to, and does not, comply with Schedule 7A of the Companies Act 1985. The following disclosures are provided on a voluntary basis.

The report meets the relevant requirements of the Listing Rules of the FSA and describes how the board has applied the Principles of Good Governance relating to directors' remuneration.

Remuneration Committee

The Company has established a Remuneration Committee. The members of the Committee are the non-executive directors Mr ADS Prenn and Mr A Sinclair. Mr RS Harris chairs the Committee. The Board of Sinclair approved a proposal on 1 October 2004 to review the constitution of the Remuneration Committee with regards to the requirement under the Combined Code to have the Committee comprise non-executive directors who are considered independent. It was noted that Mr A Sinclair was not considered to be independent as a 9% shareholder of the Company. Mr A Sinclair has stepped down from the Remuneration Committee and has been replaced by non-executive director, Mr G Cook.

None of the Committee has any conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the board. No director plays a part in any discussions about his own remuneration.

In determining the directors' remuneration for the year, the Committee has instructed Halliwells Consulting to prepare a review surveying its peer group companies to determine the positioning

and structuring of directors' remuneration packages during the year.

Remuneration Policy

Executive remuneration packages are designed to attract, motivate and retain directors and to reward them for enhancing value to shareholders. The performance measurement of the executive directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Remuneration Committee. The Board determines the remuneration of the non-executive directors.

There are 4 main elements of the remuneration policy:

- Basic salaries and benefits in kind;
- Shares and share option schemes;
- Bonus scheme; and
- Pensions.

The Company's policy is that a substantial proportion of the remuneration of the executive directors should be performance related. As described below, executive directors may earn annual incentive payments, the range being between 20% and 80% of their basic salary, together with the benefits of participation in share option schemes. Executive directors are entitled to accept appointments outside the Company but cannot be involved with a competing business except with the written consent of the Board. The directors' external remunerated appointments are listed below.

Executive Director	Company
Dr MJ Flynn	Axcan Pharma (Ireland) Limited
Mr JAP Randall	Kinneir Dufort Ltd

(i) Basic salaries and benefits in kind

Basic salaries are determined by the Remuneration Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and takes into account the performance of the individual and the rates for similar positions in comparable companies. Basic salaries were reviewed in June 2003.

Benefits in kind are not pensionable. Directors are paid a car allowance commensurate with their position within the Company.

(ii) Share option schemes

a. Sinclair Pharma Plc 2003 Enterprise Management Incentive Share Option Scheme and Sinclair Pharma Plc Unapproved Share Option Scheme

The Company operates an approved share option scheme, the Sinclair Pharma Plc 2003 Enterprise Management Incentive Share Option Scheme (2003 EMI Scheme), pursuant to a resolution of the Board passed on 18 November 2003. In addition the Company also operates an unapproved share option scheme, the Sinclair Pharma Plc Unapproved Share Option Scheme.

The Committee may grant options under the 2003 EMI Scheme and the Unapproved Share Option Scheme to any number of employees. In order to be qualifying, an employee must:

- not own 30% or more of the issued share capital of the Company; and
- be employed by the Group for at least 25 hours a week, or, if less, for at least 75% of his working time.

Non-executive directors and/or consultants to the Group will not be qualifying employees.

Options may be granted at any time other than during a close period or other than at any time when a grant would be in breach of any laws or regulations. No option may be granted after the tenth anniversary of the date of commencement of the 2003 EMI Scheme. No option may be assigned or transferred in any way, although the executors or personal representatives of a deceased option holder may in certain circumstances exercise options held by him. No consideration is payable for the grant of an option. The acquisition price payable for each ordinary share on exercise of an option will be determined by the Committee but will be an amount which is not less than the market value of an ordinary share at the date of grant. There are no performance conditions for options under the EMI or Unapproved share option schemes.

No options were granted under the EMI or Unapproved share option schemes to Executive or Non-Executive directors during the year.

b. Sinclair Pharma Plc 2003 Executive Incentive Plan

The Company has also established the Sinclair Pharma Plc 2003 Executive Incentive Plan (EIP) pursuant to a resolution of the Board passed on 18 November 2003. The EIP is intended to allow the Company to make performance share awards and grant options, make restricted share awards, award stock appreciation rights and cash based long-term incentives, or a combination thereof to senior executives and key employees.

The Committee made no awards from the EIP during the year.

A performance share award is a promise to deliver ordinary shares at the end of the performance period subject to the satisfaction of the performance conditions. The right will vest

automatically and does not require any action by the award holder.

An option right is a right to acquire Ordinary shares, which is exercisable at the end of the performance period subject to the satisfaction of the performance conditions.

A restricted share award is a transfer of ownership of ordinary shares made on terms that the legal title of those ordinary shares is conditional upon the satisfaction of the performance conditions at the end of the performance period.

A stock appreciation right is a right to receive a cash award that is calculated based upon a formula linked to the price of ordinary shares and which will vest automatically at the end of the performance period subject to the satisfaction of the performance conditions.

A cash based long-term incentive is a right to receive a cash amount at the end of the performance period subject to the satisfaction of the performance conditions.

Awards made under EIP are not granted under an Inland Revenue approved share scheme.

At the discretion of the Committee an award may be granted under the 2003 Executive Incentive Plan to the following qualifying employees:

- Any executive director or employee of the Group who is required to devote the whole or substantially the whole of his working time to the Group will be eligible to participate in the EIP.

Awards may be made at any time other than a close period or other than at any time when a grant would be in breach of any other applicable laws or regulations. No awards will be made more than ten years after the date of the

adoption of the EIP. No award may be assigned or transferred in any way, although the executors or personal representatives of a deceased participant may in certain circumstances benefit from the award. No consideration is payable for the grant of an award.

The performance criteria period will, in the absence of any other period determined by the Committee, be the three consecutive financial years commencing with the financial year in which the award is made.

The Committee will set performance conditions that they consider to be both relevant, stretching and designed to enhance the business having regard to the Combined Code and the guidelines and standards of principles published from time to time by the Association of British Insurers relating to best practice on share incentive schemes. The performance conditions must be met at the end of the performance period for the award to vest.

The Committee will determine at the date of the Award the acquisition price payable for each ordinary share when the award vests under EIP.

c. Replacement, New and Consultant Warrants

Replacement Warrants

On 2 December 2003, the Company and holders of 4,350,000 warrants ("Old Warrants") agreed to the issue of replacement warrants ("Replacement Warrants") in exchange for the release of 4,350,000 Old Warrants.

The Replacement Warrants provide the holder with a right to acquire such number of ordinary shares as are equal in amount to "target value". Target value was calculated using the following formula:

No. of Old Warrants (or Unapproved Options) held by warrant holder x placing price per ordinary share.

Replacement Warrants are denominated in units. On the exercise of each unit of value a corresponding value of ordinary shares in the Company may be acquired. The maximum number of ordinary shares which can be acquired under the terms of the replacement warrants shall not exceed the number of ordinary shares which may have been acquired under the terms of the Old Warrants. The acquisition price payable for ordinary shares shall be between £0.01 and £0.33 per unit and shall, in aggregate, be equal to the acquisition price payable for ordinary shares under the terms of the Old Warrants.

The Company and the holders of the warrants also entered into a joint election under section 4(4)(a) of the UK Social Security Contributions and Benefits Act 1992 to transfer legal responsibility for payment of the employer's national insurance contributions to the holders of the Replacement Warrants.

New Warrants

In consideration for the transfer of the employer's national insurance liability on the Replacement Warrants, a total of 784,875 New Warrants were granted to the warrant holders (the "New Warrants"). The New Warrants were granted under the same terms and the same exercise price as the Replacement Warrants to which they relate.

The replacement warrants and new warrants are exercisable in whole or in part at any time.

These warrants shall lapse on the earlier of:

1. the tenth anniversary of the date of grant; or
2. the bankruptcy of the warrant holder.

Consultant Warrants

The Company also granted warrants to subscribe for ordinary shares to consultants ("Consultant Warrants"). These warrants are exercisable at any time but will lapse on the earlier of:

1. the tenth anniversary of the date of grant;
2. twelve months after a death of a warrant holder;
3. the cessation of a consulting contract;
4. subject to the discretion of the Board; or
5. the bankruptcy of the warrant holder.

All ordinary shares issued under a Consultant Warrant will rank *pari passu* with all other ordinary shares then in issue other in relation to dividends, which have a record date prior to the date of issue.

The Sinclair Pharma Plc Employee Share Trust (ESOT)

The ESOT has been established to provide a vehicle through which share incentives and other benefits may be provided to past, present or future employees of the Company. The ESOT may for example gift, sell or grant options or warrants over shares to employees of the Company.

On 3 December 2003, the trustees of the ESOT subscribed for 6,034,875 ordinary shares for the aggregate sum of £913,853. The trustees have agreed to use these ordinary shares to settle the Replacement Warrants and New Warrants over, in aggregate up to 6,034,875 ordinary shares held by Dr M. Flynn, Mr JAP. Randall, Mr ADS. Prens, Mr S. Harris and Dr G. Hill. The trustees have allocated the ordinary shares to individual sub-funds in proportion to the warrants and options in issue for each holder. Further, the trustees have appointed an interest in these ordinary shares to the holders of the warrants

such that following the exercise of all Replacement and New Warrants by a warrant holder, the assets in their sub-funds shall vest in their names absolutely.

The interests appointed in these sub-funds to individual directors can be summarised as follows:

Name	No. of Ordinary shares
Dr MJ Flynn	3,448,500
Mr JAP Randall	1,379,400
Mr RS Harris	86,214
Mr ADS Prens	86,214

The interest in trust property shall lapse on the earlier of:

1. the tenth anniversary of the date of appointment;
2. the date of cessation of the beneficiary's employment or directorship with the Company; or
3. the bankruptcy of the beneficiary.

The Committee has responsibility for supervising the schemes and the grant of options to executive directors under its terms.

d. Interest in shares

In addition, on 3 December 2003, the trustees subscribed for 1,431,129 ordinary shares at an exercise price of £1.15 in the Company. The trustees appointed an interest in the ordinary shares to the following individuals:

Name	No. of Ordinary shares
Mr JAP Randall	1,172,490
Mr RS Harris	172,425
Mr ADS Prens	86,214

The relevant trust property will vest absolutely to the above beneficiaries after the earliest of the following events:

1. the day prior to the tenth anniversary of the date of appointment of the interest; and

2. as notified to the trustees at the discretion of the Committee, or on any take over, reconstruction, or passing of a resolution for the voluntary winding up of the Company.

The trustees may resolve that the interest in the trust property should vest absolutely to the beneficiary prior to the day prior to the tenth anniversary of the date of appointment.

The interest in trust property shall lapse on the earlier of:

1. the tenth anniversary of the date of appointment;
2. the date of cessation of the beneficiaries or directorship with the Company (unless such cessation is by reason of (a) injury, disability, retirement or redundancy or (b) be as notified to the trustees at the discretion of the Committee) for any reason, in which case the interest will lapse 40 days after such cessation; and
3. the bankruptcy of the beneficiary.

(iii) Bonus Scheme

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. Account is taken of the relative success of the different parts of the business for which the executive directors are responsible and the extent to which the strategic objectives are being met. The directors' bonus is divided equally between profit and share performance subject to targets being achieved.

(iv) Pensions

The Group operates a defined contribution scheme for the benefit of the executive directors and the employees. Both Dr MJ Flynn and Mr JAP Randall are members of the Sinclair Pharma Plc retirement plan, which is a money purchase scheme. The Group contributed 20% of their pensionable pay into the scheme during the year.

Their dependants are eligible for a lump sum in the event of death in service. The assets of the pension scheme are held separately from those of the Group.

Performance Graph

The following graph shows the Company’s performance, measured by total shareholder return (TSR), compared with the performance of the FTSE Pharma and Biotech Index also measured by TSR. TSR is defined as share price growth and reinvested dividend. The FTSE Pharma & Biotech Index has been selected for this comparison because it was deemed to be the most appropriate.

The graph below shows the percentage change in total shareholder return (with dividends reinvested) from 10 December 2003, the date of the Company’s flotation on the AIM.

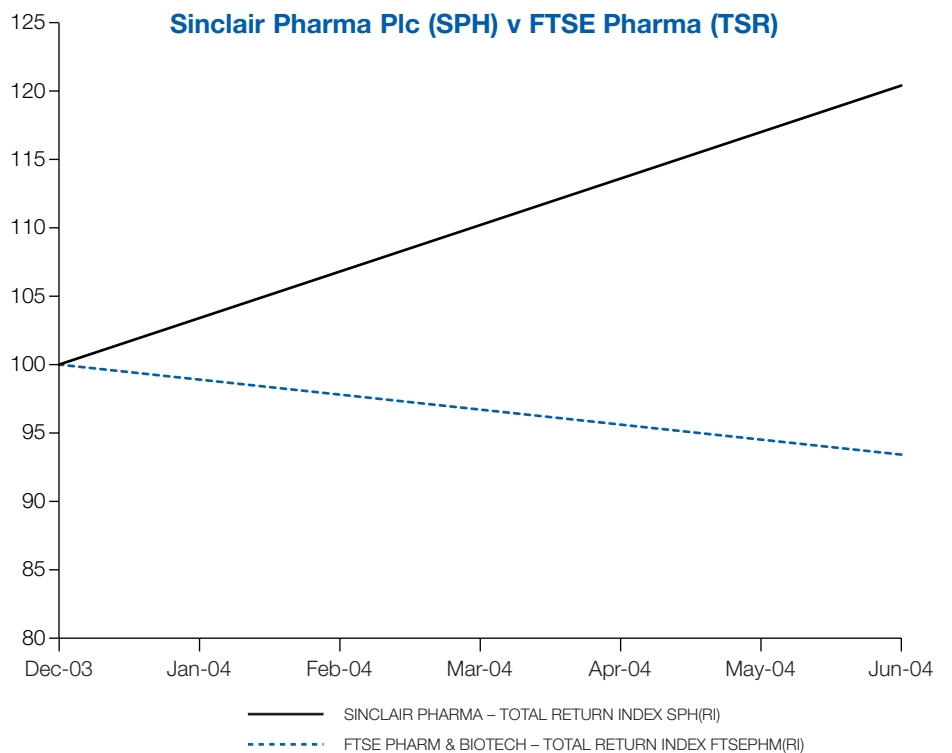
Executive directors’ contracts

It is the Group’s policy that executive directors should have contracts with a finite term of 12 months providing for a maximum of 12 months notice by either party.

The details of the executive directors’ contracts are summarised below:

	Date of Contract	Notice period (both parties)
Dr MJ Flynn	18 November 2003	12 months
Mr JAP Randall	18 November 2003	12 months

In the event of early termination, the directors’ contracts provide for compensation up to a maximum of basic salary, employer’s pension contributions and other benefits in kind for the notice period.



Data provided by Robert W.Baird Ltd

Non-executive directors' contracts

All non-executive directors have specific terms of engagement. Their remuneration is determined by the Board based upon Board surveys of fees paid to non-executive directors of similar companies with similar responsibilities.

	Date of Contract	Initial Period	Notice Period (both parties)
Mr RS Harris	18 November 2003	12 months	3 months
Mr AJ Sinclair	18 November 2003	Nil	3 months
Mr ADS Prens	18 November 2003	12 months	3 months
Mr G Cook	12 July 2004	12 months	3 months

Non-executive directors can participate in the Group's approved and unapproved share option schemes. The non-executive directors are not eligible to join the Company's pension scheme.

Directors' Emoluments

Name of director	Fees/Basic Salary £000	Benefits in kind £000	Annual bonuses £000	Loss of office £000	2004 Total £000	2003 Total £000
Executive						
Dr MJ Flynn	168	14	–	–	182	208
Mr JAP Randall	123	14	–	–	137	160
Dr G Hill (former director)	–	–	–	–	–	136
Non executive						
Mr RS Harris	32	–	–	–	32	14
Mr AJ Sinclair	48	–	–	–	48	91
Mr ASD Prens	21	–	–	–	21	14
Mr G Cook	–	–	–	–	–	–
	392	28	–	–	420	623

Mr AJ Sinclair resigned as Non-executive Chairman on 18 November 2003 and was appointed a non-executive director of the Company. Mr RS Harris was appointed Non-executive Chairman of the Company on 18 November 2003. Mr G Cook was appointed as a non-executive director on 12 July 2004.

Dr G Hill resigned as an executive director of Sinclair Pharma Ltd on 14 February 2003.

Directors' Pension Entitlements

Two directors were members of money purchase schemes. Contributions made by the Company in respect of such directors were as follows:

	2004 £000	2003 £000
Dr MJ Flynn	28	28
Mr JAP Randall	21	19
	49	47

Directors' Share Warrants and Interests in ESOT

Aggregate emoluments do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the directors.

Details of the options and interests in ordinary £0.01 shares for directors who served during the year are as follows:

	At 1.7.03 (†)	Granted	Exercised	Cancelled/ expired/ released	At 30.6.04	Exercise Price (p)	Exercisable From	to
M Flynn	3,000,000	448,500 (i)	–	–	3,448,500	£0.01	17 Aug 2000	16 Aug 2010
J Randall	1,200,000	179,400 (i)	–	–	1,379,400	£0.01	17 Aug 2000	16 Aug 2010
A Prens	75,000	–	–	–	75,000	£0.67	31 Oct 2000	30 Oct 2010
R Harris	75,000	–	–	–	75,000	£1.33	1 Mar 2002	28 Feb 2012
J Randall*	–	1,172,490	–	–	1,172,490	£1.15	3 Dec 2003	2 Dec 2013
R Harris	–	11,214 (i)	–	–	11,214	£1.33	3 Dec 2003	2 Dec 2013
R Harris*	–	172,425	–	–	172,425	£1.15	3 Dec 2003	2 Dec 2013
A Prens	–	11,214 (i)	–	–	11,214	£0.67	3 Dec 2003	2 Dec 2013
A Prens*	–	86,214	–	–	86,214	£1.15	3 Dec 2003	2 Dec 2013
	4,350,000	2,081,457	–	–	6,431,457			

The information presented above is a combination of outstanding warrants and interests in the ESOT held by each director.

(i) New warrants as disclosed on page 16

* Interests in ordinary £0.01 shares (see paragraph d above)

† Post 2:1 bonus issue

The market price of the Company's ordinary shares to which the options relate was £1.15 at admission onto the AIM on 10 December 2003 and fluctuated between £1.15 and £1.57 during the period from 10 December to 30 June 2004.

Approval

This report was approved by the board of directors on 13 October 2004 and signed on its behalf:

Mr RS Harris

Chairman Remuneration Committee

Corporate Governance Report

The Board has reviewed the Company's compliance with the provisions of the Principles of Good Governance and the Code of Best Practice forming part of the Combined Code (the "Code"), which is incorporated into the Listing Rules of the UK Listing Authority, and the Turnbull Report. This statement explains how the Company has applied the principles of section 1 of the Combined Code. In addition, the Board has considered the requirements of the revised Combined Code on corporate governance published in July 2003 (the "revised code") and the related guidelines produced by Derek Higgs and Sir Robert Smith. The Company intends to implement the provisions for the revised Code by June 2005.

Compliance with the Combined Code

The Board confirms that the Company has been in compliance with requirements of section 1 of the Combined Code except with regard to provision B2.1 of the Code, and in common with many smaller companies.

Provision B2.1 of the Combined Code states that the 'Board of Directors should set up remuneration committees of independent non-executive directors'. It has been judged that as Mr AJ Sinclair holds 9% of the ordinary shares of 1p in Sinclair Pharma plc that he could not be classed as an independent non-executive director.

The Board has considered the guidance of the Turnbull Report and intends to review the system of internal controls within 12 months of entry onto the Alternative Investment Market. The Board of Sinclair Pharma plc expect to be fully compliant with all sections of the Combined Code within the next twelve months.

Board and Board Committees

Board

The Board of Directors

The board currently comprises four non-executive and two executive directors.

Mr RS Harris is Non-Executive Chairman and Mr A Sinclair is the senior Non-Executive Director. Mr G Cook was appointed as a Non-Executive Director and Chairman of the Audit Committee on 12 July 2004. Mr Cook is a Chartered Accountant and brings invaluable capital markets and industry experience to the Board of Sinclair.

Details of directors' service contracts are given in the Directors Remuneration Report on page 18.

All the directors have access to advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and applicable regulations under the Company's Articles of Association or otherwise are complied with. Each director is entitled, if necessary, to seek independent professional advice at the Company's expense.

Board Meetings

The Board of directors meets at least bi-monthly and has a defined schedule of matters reserved for its decision. It is responsible for the overall Group strategy, approval of major capital expenditure projects, and consideration of major financing matters of the Group.

Board Committees

The Board Committees, which are comprised solely of non-executive directors, operate within clearly defined terms of reference, report regularly to the Board, and are as follows:

The Board of Sinclair approved a proposal on 1 October 2004 to review the constitution of the remuneration committee with regards to the requirement under the Combined Code to have

all committees comprise non-executive directors who are considered independent. It was noted that Mr A Sinclair was not considered to be independent as a 9% shareholder of the Company. Mr A Sinclair has stepped down from the nomination and remuneration committees and has been replaced on both committees by non-executive director, Mr G Cook who is Chairman of the audit committee.

Nomination Committee

During the year the nomination committee, which was chaired by Mr RS Harris and composed of Mr A Prens and Mr A Sinclair, was responsible for all senior appointments, which are made within the Group. With effect from the 1 October 2004, Mr A Sinclair stepped down as a member of the nomination committee and was replaced by Mr G Cook.

Executive and Non-Executive Directors are subject to election by shareholders at the first opportunity after their appointment and to re-election thereafter by the shareholders at least every three years.

Remuneration Committee

During the year the remuneration committee, which was chaired by Mr RS Harris and composed of Mr A Prens and Mr A Sinclair, was responsible for making recommendations to the Board on remuneration policy for the Company's executive directors and the terms of their service contracts, with the aim of ensuring that their remuneration, including share options and awards under the Share Schemes, is based both on their own performance and that of the Group generally. The remuneration committee will also administer and establish performance targets for the Share Schemes and approve further grants or awards under them. In addition, it will advise

on the remuneration policy for the Group's employees.

With effect from the 1 October 2004, Mr A Sinclair stepped down as a member of the nomination committee and was replaced by Mr G Cook.

Further details of the Company's policies on remuneration, service contracts and compensation payments are included in the Directors' Remuneration Report on pages 13 to 21.

Audit Committee

The audit committee, which during the year was chaired by Mr RS Harris, composed of Mr A Prens and Mr A Sinclair, will review any reports from management and the auditors regarding the accounts and the internal control systems implemented throughout the Group and considers draft interim and annual accounts. It will also make recommendations to the Board on the appointment of the auditors and their audit fee. The audit committee has unrestricted access to the Group's auditors. Meetings are also attended, by invitation, by the Chief Executive and the Chief Finance Officer. On the 12 July 2004, Mr A Sinclair resigned from the audit committee; Mr RS Harris stepped down as chairman of the audit committee and was replaced by Mr G Cook.

Internal Controls

The directors have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance that the assets of the Group are safeguarded and that the shareholders' investments are protected. The system includes internal controls covering financial, operational and compliance areas, and risk management.

There are limitations in any system of internal control, which can provide reasonable but not absolute assurance with respect to the preparation of financial information, the safeguarding of assets and the possibility of misstatement or loss.

The Board has considered the guidance provided by the Turnbull report and intends to review the system of internal controls within 12 months of entry onto the Alternative Investment Market.

The additional key procedures designed to provide an effective system of internal control are that:

- There is an organisational structure with clearly defined lines of responsibility and delegation of authority;
- Annual budgets are prepared and updated as necessary;
- Management accounts are prepared on a monthly basis and compared to budgets and forecasts to identify any significant variances; and
- The Group appoints staff of the required calibre to fulfil their allotted responsibilities.

The Board has considered it inappropriate to establish an internal audit function, given the size of the Group. However, this decision will be reviewed as the operations of the Group develop.

Shareholders

Relations with Shareholders

The Directors place great importance on maintaining good communications with both institutional and private investors. The Chief Finance Officer has responsibility for day-to-day investor relations and communications with other stakeholders. The Chief Executive and Chief Finance Officer meet regularly with the Company's institutional shareholders and report their views back to the Board.

The Annual General Meeting provides an opportunity to communicate with private and institutional shareholders and the Company welcomes their participation.

Going Concern

The financial statements have been prepared on a going concern basis. This assumes that the Group will have sufficient financial resources to allow it to continue in operational existence for at least 12 months following the date of this report.

The Directors believe it to be appropriate to prepare the accounts on a going concern basis.

JAP Randall ACA

Company Secretary

13 October 2004

Directors' Report

The Directors present their annual report on the affairs of the Group to the shareholders, together with the audited financial statements for the year ended 30 June 2004.

Re-registration

On 28 November 2003, the Company was re-registered as a public limited company.

Principal Activities and Review of Business

The Chairman's Statement, the Chief Executive's Review and the Financial Review together contain details of the principal activities and development of the business of the Group during the year and likely future developments.

Sinclair Pharma Plc identifies and acquires innovative pharmaceutical products and therapeutic medical devices in late stage development and brings them to the market place. We are focused on cancer support therapies, oral health and dermatology. Sinclair combines product evaluation, product development, regulatory and business development expertise to add value to its acquired and in house products. A key element of the business is to minimise risk and exposure. The Sinclair business model maximises returns, through the speed with which products are generally marketed.

Results, Earnings and Dividends

The loss for the financial year of £2,754,000 (2003: £440,000 profit) has been taken to reserves. The Directors do not recommend a dividend (2003: £nil).

Share Capital

Details of the Group's share capital and the bonus issue, which took place on 11 December 2003, is set out in note 22 to the accounts on page 57.

Directors

Names and biographies of the current directors who all served for the full year are detailed on pages 10 to 11. Mr AJ Sinclair resigned as Non-Executive Chairman on 18 November 2003 upon which time Mr RS Harris was appointed Non-Executive Chairman. Mr AJ Sinclair continued to serve as a Non-Executive Director. Mr G Cook was appointed as a Non-Executive Director on 12 July 2004.

Directors' Interests

The interests of the Directors in the Group's share capital at 30 June 2004 or upon appointment were as follows:

	Ordinary Shares of 1p on 14 Oct 2004	Ordinary Shares of 1p on 30 June 2004	Ordinary Share of 1p on 30 June 2003*	Share warrants interests/ in ordinary 1p shares/ options over Ordinary Shares of 1p on 30 June 2004	Share warrants/ options over Ordinary Shares of 1p on 30 June 2003*
Dr MJ Flynn ⁰	11,169,300	11,169,300	11,169,300	3,448,500	3,000,000
Mr RS Harris ¹	43,478	43,478	–	258,639	75,000
Mr ADS Prenn ²	247,500	247,500	247,500	172,428	75,000
Mr JAP Randall	1,200,000	1,200,000	1,200,000	2,551,890	1,200,000
Mr AJ Sinclair	5,079,750	5,079,750	11,310,000	–	–
Mr G Cook ³	100,000	100,000	150,000	–	–

* Post 2:1 bonus issue.

The warrants are only exercisable if the holder remains as an employee, director or consultant of the Group.

⁰ Dr MJ Flynn's holding includes 3,060,000 shares held by his wife (2003: 3,060,000).

¹ Mr RS Harris's holding of 43,478 shares is held by his wife (2003: nil).

² Mr ADS Prenn's holding includes 37,500 shares held by his children (2003: 37,500).

³ Mr G Cook's holding of 100,000 shares is held by his wife (2003: 150,000).

Details of the Directors' share warrants together with warrants granted and exercised is included in the Directors' share warrants and interests in ordinary £0.01 shares' section of the Directors' Remuneration Report.

None of the Directors at any time during the year ended 30 June 2004 had any material interests in any contracts with the Company or any of its subsidiaries. None of the Directors at any time during the year ended 30 June 2004 or subsequent to 30 June 2004 held any debentures of the Company or its subsidiaries.

Substantial Shareholdings

As at 13 October 2004 the Group has been notified, in accordance with sections 198 to 208 of the Companies Act 1985 (or are otherwise aware) of the following interests in 3% or more of the ordinary share capital of the Group.

	Shareholding	%
Dr MJ Flynn	11,169,300	19.9
The Sinclair Pharma plc Employee Share Trust	6,766,004	12.4
FMR Corp	5,375,550	9.6
Mr AJ Sinclair	5,079,750	9.0
Marco Mastrodonato	2,805,727	5.0
AIM Ltd	1,850,000	3.3

Research and development expenditure

The group has a policy of not performing pure research, however continues to invest in the development of new pharmaceutical products.

Payment to Suppliers

It is the Group's policy to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided goods and services in accordance with agreed terms and conditions. Creditors days during the year were 55 days (2003: 70 days).

Related Party Transactions

Details of related party transactions are given in note 27.

Employees

Our most important asset is our employees. We are committed to developing policies that encourage all employees to achieve their greatest potential and to continue to contribute to the success of the Group. We seek to develop employees potential by encouraging them to attend seminars, training courses, and providing help in seeking necessary professional qualifications to further their careers.

We operate equal opportunities in recruitment, training and promotion regardless of gender, ethnic origin, nationality or disability.

Every employee qualifies for our EMI share option plan. The conditions and restrictions on qualifying employees are set out on page 14 of the Directors' Remuneration Report. This ensures that staff are able to share the success of the business as it grows and have a sense of ownership. Additionally, we have cutting edge staff policies, enabling flexible working practices including Internet access from home.

Disabled Employees

It is our policy to treat applicants and employees with disabilities equally and fairly, and not to discriminate against the disabled in recruitment, training, career development and promotion.

Health, Safety and the Environment

Health and safety and impact upon the environment are considered when the Group conducts its business. It is the Group's aim to provide a safe working environment for employees at all times. The Group operates in a socially and environmentally responsible manner, proactively seeking ways of reducing any adverse impact upon our surroundings through recycling schemes, making more efficient use of utilities and seeking ways to reduce waste. The Company is committed to the implementation of all relevant Health and Safety legislation to ensure the welfare of its employees in the workplace. It is also aware of the increasing importance of environmental issues, the impact of which is taken into consideration in its business decisions.

Charitable and political donations

There were charitable donations of £115 paid in the year, (2003: £370). There were no political donations during the year (2003: nil).

Auditors

A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

Annual General Meeting

Explanatory information concerning the resolutions to be proposed at the Annual General Meeting to be held on 26 November 2004 is set out on pages 62-63.

By order of the Board

JAP Randall ACA

Secretary

13 October 2004

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and the profit or loss of the Group for that year.

In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently.
- make judgments 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 financial statements.
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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

By order of the Board

JAP Randall ACA

Company Secretary

13 October 2004

Independent auditors' report to the members of Sinclair Pharma PLC

We have audited the group's financial statements for the year ended 30 June 2004 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows and the related notes 1 to 27. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement, Chief Executive's Review, Financial Review, Directors' Remuneration Report, Corporate Governance Report and Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30 June 2004 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor

Southampton

13 October 2004

Group Profit and Loss Account

For the year ended 30 June 2004

	Note	2004 £000	2003 £000
Turnover			
Continuing operations	2	2,546	8,113
Discontinued operations	2	109	966
		2,655	9,079
Cost of sales		(1,664)	(2,738)
Gross profit			
		991	6,341
Administrative expenses excluding National Insurance provision and goodwill amortisation		(3,613)	(3,436)
National Insurance provision on share options	18	578	(1,360)
Goodwill amortisation		(914)	(939)
Total administrative expenses		(3,949)	(5,735)
Operating (loss)/profit			
Continuing operations	3	(2,885)	551
Discontinued operations	4	(73)	55
		(2,958)	606
Profit on sale of operations (discontinued)	5	87	–
(Loss)/profit on ordinary activities before interest and taxation			
		(2,871)	606
Interest receivable		165	4
Interest payable	8	(14)	(27)
(Loss)/profit on ordinary activities before taxation			
		(2,720)	583
Tax charge on (loss)/profit on ordinary activities	9	34	143
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			
		(2,754)	440
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR			
	22	(2,754)	440

Earnings per share per £0.01 Ordinary Share

Basic (loss)/earnings per share	11	(6.59)p	1.3p
Diluted (loss)/earnings per share	11	(6.59) p	1.1p

Group Statement of Total Recognised Gains and Losses

For the year ended 30 June 2004

	2004 £000	2003 £000
(Loss)/profit for the financial year	(2,754)	440
Exchange difference on retranslation of net assets of subsidiary undertakings	(51)	(48)
Total recognised gains and losses relating to the year	(2,805)	392

Group Balance Sheet

At 30 June 2004

	Note	2004 £000	2003 £000
Fixed assets			
Intangible assets	12	16,928	17,127
Tangible assets	13	124	164
		17,052	17,291
Current assets			
Stocks	15	109	260
Debtors	16	2,061	4,410
Cash at bank and in hand		7,753	364
		9,923	5,034
Creditors: amounts falling due within one year	17	1,860	4,766
Net current assets		8,063	268
Total assets less current liabilities		25,115	17,559
Provision for liabilities and charges			
National Insurance provision on share options	18	–	1,360
Minority interest		(4)	(4)
		25,119	16,203
Capital and reserves			
Called up share capital	19	539	118
Share premium	22	16,030	3,428
Shares to be issued	22	4,367	4,367
Merger reserve	22	10,062	10,062
Other reserve	22	698	–
Profit and loss account	22	(6,577)	(1,772)
Shareholders' funds – equity interests		25,119	16,203

Approved by the Board on 13 October 2004

Dr MJ Flynn
Director

Company Balance Sheet

At 30 June 2004

	Note	2004 £000	2003 £000
Fixed assets			
Intangible Assets	12	1,157	–
Investments	14	23,233	23,411
		24,390	23,411
Current assets			
Debtors	16	3,580	1,799
Cash at bank and in hand		7,494	–
		11,074	1,799
Creditors: amounts falling due within one year	17	98	736
Net current assets		10,976	1,063
Total assets less current liabilities		35,366	24,474
Provision for liabilities and charges			
National Insurance provision on share options	18	–	1,360
		35,366	23,114
Capital and reserves			
Called up share capital	19	539	118
Share premium	22	16,030	3,428
Shares to be issued	22	4,367	4,367
Merger reserve	22	15,162	15,162
Other reserve	22	698	–
Profit and loss account	22	(1,430)	39
Shareholders' funds – equity interests		35,366	23,114

Approved by the Board on 13 October 2004

Dr MJ Flynn
Director

Group Statement of Cash Flows

For the year ended 30 June 2004

	Note	2004 £000	2003 £000
Net cash outflow from operating activities	24(a)	(1,479)	(789)
Returns on investments and servicing of finance			
Interest received		165	4
Interest paid		(14)	(27)
		151	(23)
Taxation			
Corporation tax refunded		–	42
Capital expenditure			
Payments to acquire tangible fixed assets		(25)	(61)
Payments to acquire intangible fixed assets		(71)	–
		(96)	(61)
Acquisitions and disposals			
Purchase of subsidiary undertaking		–	(51)
Net cash acquired with subsidiary undertaking		–	(3)
Net proceeds on sale of operations (discontinued operations)		339	–
		339	(54)
Net cash outflow before financing		(1,085)	(885)
Financing			
Issue of ordinary share capital – flotation		10,800	–
Issue of ordinary share capital – ESOT		753	–
Share issue costs		(1,807)	–
Net movement in short term borrowings	24(b)	(450)	450
Net movement in long term borrowings	24(b)	(587)	–
		8,709	450
Increase/(decrease) in cash	24(b)	7,624	(435)

Group Statement of Cash Flows (Continued)

For the year ended 30 June 2004

Reconciliation of net cash flow to movement in net funds/(debt)

	Note	2004 £000	2003 £000
Increase/(decrease) in cash		7,624	(435)
Cash outflow/(inflow) from decrease in loans		450	(450)
Cash outflow from decrease in loan stock		587	–
Change in net debt resulting from cash flows	24(b)	8,661	(885)
Exchange differences		1	17
Movement in net debt		8,662	(868)
Net debt at 1 July	24(b)	(979)	(111)
Net funds/(debt) at 30 June	24(b)	7,683	(979)

Notes to the Financial Statements

At 30 June 2004

1. Accounting Policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with UK applicable accounting standards.

Basis of consolidation

The group financial statements consolidate the financial statements of Sinclair Pharma plc and all its subsidiary undertakings drawn up to 30 June each year. No profit and loss account is presented for Sinclair Pharma plc as permitted by section 230 of the Companies Act 1985. Acquisitions have been included in the group financial statements using the acquisition method of accounting. The results of acquired entities are included in the group financial statements from the date of acquisition. Purchase consideration is allocated to assets and liabilities on the basis of fair value at the relevant date of acquisition.

The purchase of the entire share capital of Pharmarights Limited has been merger accounted, reflecting the substance of that business combination on 18 August 2001 as a group reconstruction as defined by FRS 6 "Acquisitions and Mergers".

Turnover

Revenue from product sales is recognised upon shipment to customers. Provisions for rebates, product returns and discounts to customers are provided for as reductions to turnover in the same period as the related sales occurred.

Royalties receivable under licensing agreements are recognised as they are earned and are recorded within turnover.

The recognition of other payments received and receivable, such as licence fees, upfront payments and milestones, is dependent on the terms of the related arrangement, having regard to the ongoing risks and rewards of the arrangement, and the existence of any performance or repayment obligations, if any, with the third party. Amounts received are recognised immediately as turnover where there are no substantial remaining risks, no ongoing performance obligations and amounts received are not refundable. Amounts are deferred over an appropriate period where these conditions are not met.

The discontinued operations disclosed in the years to 30 June 2003 and 30 June 2004 relate to the sale of the group's UK Aspirin telesales and distribution business on 24 September 2003.

Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. The directors review the estimated useful life of the goodwill on an annual basis and have not identified any need to adjust these amounts.

If a subsidiary or business is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Other intangible assets

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition.

Intangible assets are amortised on a straight-line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full financial year following the acquisition, and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. The directors are of the view that the useful economic life of the intellectual property acquired with the Pharmarights business on 18 August 2000 is 10 years, and the intellectual property is being amortised over that period.

Notes to the Financial Statements

At 30 June 2004

1. Accounting Policies (continued)

Pensions

The group operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

ESOP Trusts

The group has adopted UITF 38 "Accounting for ESOP Trusts" during the year and accordingly has deducted issues of shares to the group's ESOT from profit and loss account reserves.

2. Turnover and segmental analysis

Turnover, which is stated net of discounts, rebates and value added tax, represents amounts invoiced to third parties, derived from the provision of goods and services which fall within the group's sole ordinary activity, the development and exploitation of pharmaceutical products, and can be analysed as follows:

	2004 £000	2003 £000
<i>Continuing operations</i>		
Licence Fees	50	4,545
Product Revenue	2,496	3,568
<i>Discontinued operations</i>		
Product Revenue	109	966
Total	2,655	9,079

Discontinued operations in 2004 and 2003 relate to the Caprin business, which comprised a UK based, telesales and distribution operation. The business was sold on 24 September 2003, as the business was considered no longer to be part of the core activities of the group.

On 27 June 2003, the Group signed an agreement to out-licence Gelclair to a third party, and in future years will receive royalties based on product sales. Revenues earned on Gelclair and the associated cost of sales included in the years ending 30 June 2004 and 30 June 2003 are as follows.

	2004 £000	2003 £000
Licence fees	24	4,543
Product revenue	142	2,224
	166	6,767
Cost of sales	(1)	(1,017)
Gross Margin	165	5,750

The Group operates from two principal areas of activity, that of the UK and the rest of Europe. It operates within four geographical markets, the United Kingdom, the Rest of Europe, the United States of America and the Rest of the World.

Notes to the Financial Statements

At 30 June 2004

2. Turnover and segmental analysis (continued)

An analysis of turnover by geographical market is given below:

	2004 £000	2003 £000
<i>Turnover by destination</i>		
United Kingdom		
– continuing operations	453	839
– discontinued operations	97	859
Rest of Europe		
– continuing operations	1,681	5,363
– discontinued operations	12	107
United States of America		
– continuing operations	245	1,782
– Rest of world		
– continuing operations	167	129
	2,655	9,079
<i>Turnover by origin</i>		
United Kingdom		
– continuing operations	1,825	7,718
– discontinued operations	109	966
Rest of Europe		
– continuing operations	721	395
	2,655	9,079
<i>Segment operating (loss)/profit</i>		
United Kingdom		
– continuing operations	(1,435)	1,620
– discontinued operations	(73)	55
Goodwill amortisation	(169)	(195)
Rest of Europe		
– continuing operations	(536)	(130)
Goodwill amortisation	(745)	(744)
	(2,958)	606
Profit on sale of operation (discontinued operations)	87	–
(Loss)/profit on ordinary activities before interest and taxation	(2,871)	606

Notes to the Financial Statements

At 30 June 2004

2. Turnover and segmental analysis (continued)

	2004 £000	2003 £000
<i>Net assets/(liabilities) by location</i>		
United Kingdom		
– continuing operations	10,404	(856)
– discontinued operations	–	(90)
Goodwill	2,643	3,315
Rest of Europe		
– continuing operations	(951)	67
Goodwill	13,019	13,763
	25,115	16,199
Minority interest	4	4
	25,119	16,203

3. Operating (loss)/profit

This is stated after charging / (crediting):

	2004 £000	2003 £000
Auditors' remuneration – audit services – Group audit fee	83	35
– Company audit fee	7	7
– non audit services	41	7
Depreciation of owned fixed assets	65	85
Amortisation of intangible fixed assets	993	946
Foreign exchange gain	(1)	(17)
Operating leases – land and buildings	17	17
Research and development	265	562

Notes to the Financial Statements

At 30 June 2004

4. Analysis of continuing and discontinued operations

	2004			2003		
	Continuing £000	Discontinued £000	Total £000	Continuing £000	Discontinued £000	Total £000
Turnover	2,546	109	2,655	8,113	966	9,079
Cost of sales	(1,567)	(97)	(1,664)	(2,070)	(668)	(2,738)
Other administrative expenses	(3,528)	(85)	(3,613)	(3,223)	(213)	(3,436)
National Insurance provision	578	–	578	(1,360)	–	(1,360)
Goodwill amortisation	(914)	–	(914)	(909)	(30)	(939)
Total administrative expenses	(3,864)	(85)	(3,949)	(5,492)	(243)	(5,735)
Operating (loss)/profit	(2,885)	(73)	(2,958)	551	55	606

The operating loss relating to the discontinued Caprin business was £73,000 (2003: profit £55,000).

5. Profit on sale of operations

The Caprin business, which comprised the UK based aspirin telesales and distribution operation, was sold on 24 September 2003, as the business was considered no longer to be part of the core activities of the Group. Accordingly, the results of this business are presented within the group profit and loss account as discontinued operations and the net gain on the disposal is shown as an exceptional item.

	2004 £000
Sale proceeds	650
Less: Goodwill written off	(502)
Less: Other costs	(61)
	87

The net cash outflow from operating activities as disclosed in the cash flow statement of £1,479,000 includes net cash inflows of £165,000 relating to the sale of the Caprin business. There is no impact on returns on investments and servicing of finance, taxation, capital expenditure or financing within the cash flow statement resulting from this sale.

Notes to the Financial Statements

At 30 June 2004

6. Staff costs

	2004 £000	2003 £000
Wages and salaries	1,047	1,426
Social security costs	168	147
Other pension costs	99	96
	1,314	1,669
The average monthly number of employees during the year was made up as follows:		
	2004 No.	2003 No.
Sales	9	9
Administration	15	17
Distribution and stores	1	3
	25	29

7. Directors' remuneration

Directors' remuneration is detailed within the within the *Directors' emoluments and Directors' pension entitlements* sections of the Directors' Remuneration Report.

8. Interest payable

	2004 £000	2003 £000
Bank loans and overdrafts	14	27
	14	27

Notes to the Financial Statements

At 30 June 2004

9. Taxation on (loss)/profit on ordinary activities

(a) Tax on (loss)/profit on ordinary activities

	2004 £000	2003 £000
Current tax:		
UK Corporation Tax		
Current tax on income for the year	–	143
Tax underprovided in previous years	6	–
	6	143
Foreign Tax	28	–
Total current tax (note 9 (b))	34	143
Deferred tax:		
Origination and reversal of timing differences	–	–
Group deferred tax	–	–
Tax on (loss)/profit on ordinary activities	34	143

(b) Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2003 – 30%). The differences are reconciled below:

	2004 £000	2003 £000
(Loss)/profit on ordinary activities before tax	(2,720)	583
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	(816)	175
Amortisation not allowed for tax purposes	274	281
Expenses not deductible for tax purposes	352	48
Charge for NI provision not deductible for tax purposes	–	96
Research and development tax credit	(45)	(67)
Tax underprovided in previous years	6	–
Unrelieved/(utilised) UK tax losses	572	(314)
Utilised overseas tax losses	(38)	(85)
Decelerated capital allowances	5	9
Share option gains deduction	(277)	–
Other timing differences	1	–
Total current tax (note 9(a))	34	143

Notes to the Financial Statements

At 30 June 2004

9. Taxation on (loss)/profit on ordinary activities (continued)

(c) *Deferred tax*

Group

£nil (2003: £nil) is provided for deferred taxation on the balance sheet.

The group has a potential deferred taxation asset, which has not been recognised in the accounts, due to uncertainties surrounding suitable future taxable profits, as follows:

	2004 £000	2003 £000
Taxation losses	(573)	(263)
Accelerated capital allowances	(4)	(4)
Other timing differences	(13)	–
Unprovided deferred taxation asset	(590)	(267)

Company

£nil (2003: £nil) is provided for deferred taxation on the balance sheet.

10. Profit attributable to members of the parent undertaking

The profit dealt with in the financial statements of the parent undertaking was £531,000 (2003: profit of £76,000).

11. Earnings per share

Basic and diluted (loss)/earnings per share

The basic (loss)/earnings per share has been calculated by dividing the (loss)/earnings for the year, after exceptional costs, by the weighted average number of shares in existence for the year.

Shares held by the Employee's Share Trust, including shares over which options have been granted to Directors and staff, have been excluded from the weighted average number of shares for the purposes of calculation of the basic (loss)/earnings per share.

The loss and weighted average number of shares for the purpose of calculating the diluted (loss)/earnings per share are identical to those used for the basic (loss)/earnings per share at 30 June 2004, as the exercise of share options would have the effect of reducing the loss per share and is therefore not dilutive. During 2003 there was a dilution of earnings per share.

	2004 £000	2003 £000
(Loss)/profit attributable to equity shareholders	(2,754)	440
	Number	Number
Weighted average number of shares	41,819,756	33,863,879
Dilutive share options	–	2,069,535
Dilutive share warrants	–	4,350,000
Diluted weighted average number of shares	41,819,756	40,283,414
Basic (loss)/earnings per share	(6.59)p	1.30p
Diluted (loss)/earnings per share	(6.59)p	1.09p

Notes to the Financial Statements

At 30 June 2004

12. Intangible fixed assets

Group	Goodwill £000	Licenses £000	Other £000	Total £000
<i>Cost:</i>				
At 1 July 2003	18,773	70	–	18,843
Additions in year	–	71	1,225	1,296
Disposals in year	(600)	–	–	(600)
At 30 June 2004	18,173	141	1,225	19,539
<i>Amortisation:</i>				
At 1 July 2003	1,695	21	–	1,716
Provided during the year	914	11	68	993
Disposals in year	(98)	–	–	(98)
At 30 June 2004	2,511	32	68	2,611
<i>Net book value:</i>				
At 30 June 2004	15,662	109	1,157	16,928
At 30 June 2003	17,078	49	–	17,127

The goodwill arose on the acquisition of four companies in previous years and is being amortised over a period of 20 years.

The licences are held in a subsidiary company and comprise product distribution rights that have been capitalised and are being amortised over their useful life, a period of 10 years.

Notes to the Financial Statements

At 30 June 2004

12. Intangible fixed assets (continued)

The other intangible fixed assets arose on the buy-out of future royalty obligations on certain of the Group's products. The consideration comprised 350,000* £0.01 ordinary shares at a price of £3.50 per ordinary share as detailed in note 22. The directors have determined that the useful economic life of the other intangible asset is 18 years.

Goodwill disposed of in the year related to the sale of the Caprin business on 24 September 2003. See note 5.

* before the 2:1 bonus issue.

Company	Goodwill £000	Licenses £000	Other £000	Total £000
<i>Cost:</i>				
At 1 July 2003	–	–	–	–
Additions in year	–	–	1,225	1,225
Disposals in year	–	–	–	–
At 30 June 2004	–	–	1,225	1,225
<i>Amortisation:</i>				
At 1 July 2003	–	–	–	–
Provided during the year	–	–	68	68
Disposals in year	–	–	–	–
At 30 June 2004	–	–	68	68
<i>Net book value:</i>				
At 30 June 2004	–	–	1,157	1,157
At 30 June 2003	–	–	–	–

The other intangible fixed assets arose on the buy-out of future royalty obligations on certain of the Company's products. The consideration comprised 350,000* £0.01 ordinary shares at a price of £3.50 per ordinary share, as detailed in note 22.

* before the 2:1 bonus issue.

Notes to the Financial Statements

At 30 June 2004

13. Tangible fixed assets

Group	Office & laboratory equipment £000	Leasehold improvements £000	Total £000
<i>Cost:</i>			
At 1 July 2003	255	37	292
Additions	22	3	25
Disposals	–	–	–
At 30 June 2004	277	40	317
<i>Depreciation:</i>			
At 1 July 2003	91	37	128
Provided during the year	62	3	65
At 30 June 2004	153	40	193
<i>Net book value:</i>			
At 30 June 2004	124	–	124
At 30 June 2003	164	–	164

14. Investments

Company	Subsidiary undertakings £000
<i>Cost:</i>	
At 1 July 2003	23,411
Transferred to Group undertakings	(178)
At 30 June 2004	23,233

Group investments in Sinclair Pharma have decreased during the year by £178,000 representing a 5% reduction in the investment in Propharma Srl, now Sinclair Pharma Srl. Correspondingly the investment in Sinclair Pharmaceuticals Ltd has increased by 5%.

	Country of incorporation	Holding	Proportion held	Nature of business
Sinclair Pharmaceuticals Ltd	England	Ordinary shares	100%	Pharmaceutical products
Pharmarights Ltd	England	Ordinary shares	100%	Distribution rights
For Zest Ltd	England	Ordinary shares	100%	Medical products
Sinclair Pharma SRL*	Italy	Ordinary shares	100%	Pharmaceutical products
Salix Pharma AB	Sweden	Ordinary shares	100%	Pharmaceutical products
Sinclair Pharma AB	Sweden	Ordinary shares	99.1%	Pharmaceutical products

*90% of the issued share capital is held by Sinclair Pharma plc, 10% is held by Sinclair Pharmaceuticals Ltd .

Notes to the Financial Statements

At 30 June 2004

15. Stocks

	2004 £000	Group 2003 £000	2004 £000	Company 2003 £000
Raw materials	19	22	–	–
Finished goods	90	238	–	–
	109	260	–	–

16. Debtors

	2004 £000	Group 2003 £000	2004 £000	Company 2003 £000
Trade debtors	1,308	4,217	–	–
Amounts owed by group undertakings	–	–	3,555	1,798
Other debtors	669	117	25	1
Corporation tax	–	–	–	–
Prepayments and accrued income	84	76	–	–
	2,061	4,410	3,580	1,799

17. Creditors: amounts falling due within one year

	2004 £000	Group 2003 £000	2004 £000	Company 2003 £000
Other loan	70	70	–	–
Bank loans and overdrafts	–	686	–	–
Trade creditors	927	1,803	54	17
Deferred consideration	–	587	–	587
Current corporation tax	177	143	32	32
Other taxes and social security costs	207	139	12	–
Other creditors	155	553	–	–
Accruals and deferred income	324	785	–	100
	1,860	4,766	98	736

In 2003, the deferred consideration arose on the acquisition of Sinclair Pharma Srl and comprises Loan Notes, which attracted no interest and were repayable at par on the earlier of an initial public offering of the company's securities within 36 months of their issue on 17 May 2001, or 10 May 2004. The loan notes were repaid on 22 December 2003.

The other loan of £70,000 arises in a subsidiary undertaking and is owed to a company controlled by Dr M Flynn, a director. The loan is interest free, is unsecured and has no fixed repayment schedule. The loan was repaid on 28 September 2004.

Notes to the Financial Statements

At 30 June 2004

18. Provisions for liabilities and charges

Group and Company	National Insurance on share options £000
At 1 July 2003	1,360
Written back against profit and loss account	(578)
Transferred to shareholders' funds	(749)
Transferred to other creditors	(33)
At 30 June 2004	–

During the year ended 30 June 2004, the Company entered into a joint election with the holders of certain warrants for the transfer of the employer's National Insurance liability arising on the exercise of the warrants. In consideration for the transfer of this liability, the company granted additional warrants over units to subscribe for shares, which, as at the date of grant, provided the warrant holders with a right to subscribe for 784,875 shares.

The warrants were granted at the same exercise price as the warrants that attracted the National Insurance liability, which was less than market value on the date of grant reflecting the value of the National Insurance liability transferred to the holders. Accordingly, the difference between market price and the grant price has been transferred from the National Insurance provision and included in other reserves, and will be released as the underlying warrants are exercised.

19. Share capital, share options and share warrants

Share Capital	2004 000's	2003 000's	2004 £000	2003 £000
<i>Authorised</i>				
Ordinary shares of £0.01 each	70,000	19,500	700	195
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £0.01 each	53,935	11,849	539	118

Notes to the Financial Statements

At 30 June 2004

19. Share capital, share options and share warrants (continued)

Share Options

The company has an EMI share option scheme under which approved and unapproved options to subscribe for the company's shares have been granted to certain employees, as follows:

Options at 1 July 2003*	Granted in year	Exercised in year	Lapsed in year	Options at 30 June 2004	Exercise Price (p)	Exercisable in year ended
150,000	–	(150,000)	–	–	1p	2011
150,000	–	(50,000)	–	100,000	33p	2011
1,316,700	134,550	(814,000)	(13,500)	623,750	67p	2011
–	990,000	–	–	990,000	115p	2013
1,616,700	1,124,550	(1,014,000)	(13,500)	1,713,750		

Share Warrants and interests in ordinary £0.01 shares

The company has issued share warrants and interests over ordinary £0.01 shares as follows:

Warrants over 1p ordinary shares at 1 July 2003*	Granted in year	Exercised in year	Lapsed in year	Warrants over 1p ordinary shares at 30 June 2004	Exercise Price (p)	Exercisable in year ended
4,200,000	627,900	–	–	4,827,900	1p	2010
150,000	–	(15,000)	–	135,000	1p	2011
225,000	–	(150,000)	–	75,000	67p	2011
2,835	–	–	–	2,835	133p	2011
225,000	–	–	–	225,000	133p	2012
–	11,214	–	–	11,214	67p	2013
–	1,431,129	–	–	1,431,129	115p	2013
–	611,214	–	–	611,214	133p	2013
4,802,835	2,681,457	(165,000)	–	7,319,292		

*Post the 2:1 bonus issue

The holder must be an employee, director or consultant of the company at the time of exercise. Rules governing the exercise of warrants and share options are detailed within the Directors Remuneration Report.

Notes to the Financial Statements

At 30 June 2004

20. Flotation costs and use of proceeds

	£000
Cash raised from the public offering	10,800
Costs of the offering	
– Charged to profit and loss account	(90)
– Charged to share premium account	(1,807)
Deferred consideration paid (see note 17)	(587)
	8,316

21. Financial instruments

The Group's principal financial instruments comprise cash positive bank deposit accounts and an interest free loan. The Group endeavours to maximise the return from cash deposits by regular market reviews while ensuring accessibility. The Group has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations.

It is, and has been throughout the period, the Group's policy that no trading in financial instruments is undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The policies for managing these risks are summarised below. The Group holds no derivative financial instruments to manage the interest rate profile or to hedge foreign currency exposures. It is not the Group's policy to hedge foreign currency as foreign subsidiaries receive and pay in foreign currency creating a netting effect.

With the exception of the analysis of currency exposures, the disclosures below exclude short-term debtors and creditors.

Interest rate risk profile of financial liabilities

	Total £000	Floating rate financial liabilities £000	Financial Liabilities on On which no Interest is paid £000
<i>2004</i>			
Sterling	70	–	70
US dollar	–	–	–
Euro	–	–	–
	70	–	70
<i>2003</i>			
Sterling	633	563	70
US dollar	587	–	587
Euro	123	123	–
	1,343	686	657

Notes to the Financial Statements

At 30 June 2004

21. Financial instruments (continued)

The floating rate financial liabilities comprised:

- Sterling denominated overdrafts that bear interest at rates based on LIBOR; and
- Euro denominated overdrafts that bear interest rates based on the European base rate.
- The financial liability of £70,000 in 2004 and 2003, upon which no interest is paid, has no fixed maturity. The loan was repaid on 28 September 2004.
- The £587,000 financial liability in 2003 and the overdrafts were repaid on the flotation in December 2003.

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the group as at 30 June is as follows:

	Total £000	Floating rate financial assets £000
<i>2004</i>		
Sterling	7,554	7,554
US dollar	1	1
Euro	198	198
	7,753	7,753
<i>2003</i>		
Sterling	–	–
US dollar	339	339
Euro	25	25
	364	364

Floating rate financial assets comprised cash deposits.

Currency Exposures

It is not the Group's policy to hedge foreign currency exposures as foreign subsidiaries receive and pay in foreign currency creating a netting effect.

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

Notes to the Financial Statements

At 30 June 2004

21. Financial instruments (continued)

At 30 June, these currency exposures are as follows:

Functional currency of group operations

	Net Foreign Currency Monetary Assets/(Liabilities)				Total £000
	Sterling £000	Euro £000	Swedish Kroner £000	US Dollar £000	
2004					
Sterling	–	228	–	1	229
US dollar	–	–	–	–	–
Euro	(27)	–	–	–	(27)
	(27)	228	–	1	202
2003					
Sterling	–	2,648	(429)	(255)	1,964
Swedish Kroner	–	23	–	–	23
	–	2,671	(429)	(255)	1,987

The Euro asset exposure in the UK operations was reduced primarily due to a milestone payment of £2,545,000 in respect of Gelclair.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 30 June is as follows:

	2004 £000	2003 £000
In one year or less, or on demand	70	1,343
In more than one year but not more than two	–	–
In more than two years but not more than five	–	–
	70	1,343

Borrowing facilities

The Group has an overdraft facility available to it. The undrawn committed facilities available at 30 June in respect of which all conditions precedent had been met at that date are as follows:

	2004 £000	2003 £000
Expiring in one year or less	400	164
	400	164

Fair values of financial assets and financial liabilities

There are no differences between the book and fair value of the Group's financial instruments, as disclosed above.

Notes to the Financial Statements

At 30 June 2004

22. Reconciliation of shareholders' funds and movement on reserves

Group	Share Capital £000	Share premium £000	Shares to be issued £000	Merger reserve £000	Other reserve £000	Profit and loss Account £000	Total £000
At 1 July 2002	106	3,428	–	3,810	–	(2,164)	5,180
Shares issued in the period	12	–	–	6,252	–	–	6,264
Shares to be issued	–	–	4,367	–	–	–	4,367
Profit for the period	–	–	–	–	–	440	440
Exchange differences	–	–	–	–	–	(48)	(48)
At 1 July 2003	118	3,428	4,367	10,062	–	(1,772)	16,203
Buy out royalty obligations	3	1,222	–	–	–	–	1,225
Bonus Issue	244	(244)	–	–	–	–	–
Warrant reserve	–	–	–	–	749	–	749
Issue of ordinary share capital - flotation	94	10,706	–	–	–	–	10,800
Flotation costs	–	(1,807)	–	–	–	–	(1,807)
Issue of ordinary share capital - ESOT	75	2,485	–	–	–	(2,560)	–
Warrants and options exercised	5	240	–	–	(51)	560	754
Loss for the period	–	–	–	–	–	(2,754)	(2,754)
Exchange difference	–	–	–	–	–	(51)	(51)
At 30 June 2004	539	16,030	4,367	10,062	698	(6,577)	25,119

Notes to the Financial Statements

At 30 June 2004

22. Reconciliation of shareholders' funds and movement on reserves (continued)

Company	Share Capital £000	Share premium £000	Shares to be issued £000	Merger reserve £000	Other reserve £000	Profit and loss Account £000	Total shareholders' funds £000
At 1 July 2002	106	3,428	–	8,910	–	(37)	12,407
Shares issued in the year	12	–	–	6,252	–	–	6,264
Shares to be issued	–	–	4,367	–	–	–	4,367
Profit for the year	–	–	–	–	–	76	76
At 1 July 2003	118	3,428	4,367	15,162	–	39	23,114
Buy out royalty obligations	3	1,222	–	–	–	–	1,225
Bonus Issue	244	(244)	–	–	–	–	–
Warrant reserve	–	–	–	–	749	–	749
Issue of ordinary share capital - flotation	94	10,706	–	–	–	–	10,800
Flotation costs	–	(1,807)	–	–	–	–	(1,807)
Issue of ordinary share capital - ESOT	75	2,485	–	–	–	(2,560)	–
Warrants and options exercised	5	240	–	–	(51)	560	754
Profit for the period	–	–	–	–	–	531	531
At 30 June 2004	539	16,030	4,367	15,162	698	(1,430)	35,366

Buy-out of royalty obligations

As disclosed in note 12, during the year to 30 June 2004, the Company issued 350,000* £0.01 ordinary shares in consideration for the buy-out of a royalty obligation on certain of its products. The fair value of the shares issued was £1,225,000.

* before the 2:1 bonus issue

Bonus issue

On 28 November 2003, the authorised share capital of the Company was increased and the shareholders of the Company approved a 2 for 1 bonus issue of shares in the Company, to be issued from the Company's share premium account. 24,398,794 £0.01 ordinary shares were issued as fully paid.

Warrant reserve

Other reserves arose on the grant of 784,875 warrants in settlement of the National Insurance liability on certain warrants and unapproved share options that were issued by the Company. The liability was previously included with provisions for liabilities and charges. The charge represents the amount expected to settle the National Insurance cost. Recent changes in the taxation legislation on such instruments has meant that certain warrants and options previously issued by the company will be subject to National Insurance on exercise and therefore a provision has been recorded

During the twelve months ended 30 June 2004, the Company entered into a joint election with the holders of certain warrants for the transfer of the employer's National Insurance liability arising on the exercise of the warrants. In consideration for the transfer of this liability, the Company granted additional warrants over units to subscribe for shares, which, as at the date of grant, provided the warrant holders with a right to subscribe for 784,875 shares.

Notes to the Financial Statements

At 30 June 2004

22. Reconciliation of shareholders' funds and movement on reserves (continued)

The warrants were granted at the same exercise price as the warrants that attracted the National Insurance liability, which was less than market value on the date of grant reflecting the value of the National Insurance liability transferred to the holders. Accordingly, the National Insurance on the difference between market price and the grant price has been transferred from the National Insurance provision and included in other reserves, and will be released as the underlying warrants are exercised.

Issue of ordinary share capital

On 11 December 2003, upon admission of the ordinary share capital of the company to trading on the Alternative Investment Market of the London Stock exchange plc ('AIM'), the Company issued 9,391,305 ordinary £0.01 shares for cash of £10,800,000.

As at 30 June 2004, the Company had 563,110 EMI options and 816,090 unapproved options to subscribe for the Company's ordinary £0.01 shares, granted to certain employees, granted at option prices between £0.01 and £1.15 each. As at 30 June 2004, the Company also had 7,653,842 warrants and interests in shares over ordinary £0.01 shares, to be exercised at between £0.01 and £1.33 each. As at 30 June 2004 the Sinclair Pharma plc Employee's Share Trust holds 6,766,007 shares in respect of certain of these warrants.

During the year 1,014,000 share options and 165,000 share warrants were exercised detailed in note 19.

Employee Share Option Trust (ESOT)

The group has adopted UITF 38 "Accounting for ESOP Trusts" during the period and accordingly has deducted issues of shares to the group's ESOT from profit and loss account reserves.

The ESOT has been established to provide a vehicle through which share incentives and other benefits may be provided to past, present or future employees of the Company. The ESOT may for example gift, sell or grant options or warrants over shares to employees of the Company in a most efficient manner.

The amount of reduction to shareholders' funds in the year is £2,560,000.

Warrants and options exercised

As at 30 June 2004, 314,000 EMI options, 165,000 warrants and 700,000 interests in shares over ordinary £0.01 shares have been exercised. The National Insurance on the difference between market price and grant price on certain options and warrants, capitalised in the warrant reserve as detailed above, has been released on the exercise of those warrants.

Share issue costs

Costs associated with the flotation have been charged to the share premium account, as detailed in note 20.

Shares to be issued

Shares to be issued relate to the contingent allotment of shares as part of the consideration for the acquisition of Sinclair Pharma AB.

On 11 November 2002 the group acquired Biosurface Pharma AB for a consideration £10,631,000, before expenses, satisfied by the allotment of 1,252,915 ordinary shares of £0.01, valued at £5 each, with a further 873,468 ordinary shares of £0.01, valued at £5 each, to be issued on a conditional basis. Further details in respect of the contingent consideration is provided below:

- (i) Additional consideration of £2,116,230, satisfied by the allotment of 423,246 ordinary shares of £0.01 each in the share capital of Sinclair Pharma Plc, issued on receipt of approval to advertise and sell the product (Decapinol) by the regulatory body in two of the following territories: UK, Germany, France, Italy, Sweden, Spain, USA and Japan; and
- (ii) Additional consideration of £2,251,110 satisfied by the allotment of 450,222 ordinary shares of £0.01 each in the share capital of Sinclair Pharma Plc, issued on receipt of release of the product for sale in one of the following territories: UK, Germany, France, Italy, Spain, USA and Japan.

Notes to the Financial Statements

At 30 June 2004

23. Operating lease commitments

At 30 June 2004 the Group was committed to making the following payments during the next year in respect of operating leases:

	Land & Buildings 2004 £000	Land & Buildings 2003 £000
Leases which expire:		
Within one year	–	–
Between two and five years	17	17
After five years	–	–
	17	17

24. Notes to the statement of cash flows

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

	2004 £000	2003 £000
Operating (loss)/profit	(2,958)	606
Depreciation of tangible fixed assets	65	85
Amortisation of intangible fixed assets	993	946
Decrease in debtors/(increase) in debtors	2,579	(3,620)
Decrease in stocks	151	370
Decrease in creditors	(1,697)	(519)
(Decrease)/ increase in provisions (see note 18)	(611)	1,360
Exchange gains	(1)	(17)
Net cash outflow from operating activities	(1,479)	(789)

Notes to the Financial Statements

At 30 June 2004

24. Notes to the statement of cash flows (continued)

(b) Analysis of net debt

	At 1 July 2003 £000	Cash flow £000	Exchange differences £000	Other non-cash movements £000	At 30 June 2004 £000
Cash at bank and in hand	364	7,388	1	–	7,753
Bank overdrafts	(236)	236	–	–	–
Cash	128	7,624	1	–	7,753
Short term loans	(520)	450	–	–	(70)
Loan stocks	(587)	587	–	–	–
	(979)	8,661	1	–	7,683

In September 2003 the Company sold its Caprin business to Pinewood Health Care Ltd, for £650,000, as Caprin was outside Sinclair's focus area of niche products. After costs the cash-inflow from the disposal was £339,000. In the financial year £169,000 is due within one year as disclosed in other debtors.

(c) Major non-cash transactions

As disclosed in note 12, during the year to 30 June 2004, the Company issued 350,000 (pre-bonus issue) £0.01 ordinary shares in consideration for the buy-out of a royalty obligation on certain of its products. The fair value of the shares issued was £1,225,000. The buy-out of the royalty obligation is a major non-cash transaction

(d) Exceptional items

There were no cashflows relating to operating exceptional items in the year.

25. Capital commitments

The group had capital commitments of £38,107 at 30 June 2004 (2003: £35,000).

26. Post balance sheet events

On 11 November 2002 the Group acquired Biosurface Pharma AB for a consideration of 10,631,000, before expenses, satisfied by the allotment of 1,252,915 ordinary shares of £0.01, with a further 873,468 ordinary £0.01, to be issued on a conditional basis.

The conditions concerning the approval to advertise and sell Decapinol by the regulatory body in the EU and the US have now been met. Contingent consideration of 1,269,738* ordinary £0.01 shares with a market value of £1.02 has been allotted to the former shareholders of Biosurface Pharma AB.

* Post 2:1 bonus issue.

Notes to the Financial Statements

At 30 June 2004

27. Related party transactions

1. During the year, the Company paid £5,000 (2003: £nil) to Equity Development Ltd for research and distribution, capital market service and media positioning. Mr G Cook a Non Executive Director of the Company is also a Non Executive Director of Equity Development Ltd. The contract was entered into prior to Mr Cook joining the Board of Sinclair Pharma Plc. There was no amount outstanding for this transaction at 30 June 2004.
2. An agreement was made on 5 April 2001 between Sinclair Pharmaceuticals Ltd ("Sinclair") and Axcan Pharma (Ireland) Ltd ("Axcan") to appoint Sinclair as exclusive distributor of Axcan to supply and distribute Photofrin® in Europe. Sinclair shall also provide the following services to Axcan:
 - a. Reception of products, sampling, labelling, quarantine, services and organization and delivery of the samples for bio-assay to a person designated by Axcan from time to time.
 - b. Warehousing of products for the benefit of Axcan and shipping of such products to independent distributors pursuant to directions given by Axcan from time to time.

During the year, the Company paid £696,571 (2003: £100,000) to Axcan for the cost of Photofrin® sold in the year less reimbursable costs. At 30 June 2004 the amount owing to Axcan was £127,483 (2003: £478,796).

Dr M Flynn, Chief Executive Officer is a remunerated Non Executive Director as disclosed in the Directors' Remuneration Report of Axcan Pharma (Ireland) Ltd.

3. A loan of £70,000 arises in a subsidiary undertaking and is owed to a company controlled by Dr M Flynn, a director. The loan is interest free, is unsecured and has no fixed repayment schedule. The loan was repaid on 28 September 2004.

Notice of AGM

SINCLAIR PHARMA PLC NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the ANNUAL GENERAL MEETING of SINCLAIR PHARMA PLC will be held at the offices of Simmons & Simmons at City Point, One Ropemaker Street, London EC2Y 9SS on Friday, 26 November 2004 at 12:00 noon, to transact the following business:

Ordinary Business

1. To receive and adopt the accounts for the year ended 30 June 2004, together with the Reports of the Directors and of the Auditors thereon.
2. To re-appoint Ernst & Young LLP as auditors to the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Directors to determine the remuneration of the auditors of the Company.
3. To re-elect as a Director JAP Randall, who retires by rotation, in accordance with Article 111 of the Company's Articles of Association.
4. To re-elect as a Director AJ Sinclair, who retires, in accordance with Article 109 of the Company's Articles of Association.
5. To re-appoint G Cook as a Director.
6. To approve the Directors' Remuneration Report for the year ended 30 June 2004.

To transact any other ordinary business of the Company.

Special Business

As special business, to consider and if thought fit pass the following resolutions which will be proposed as to resolution 7 as an ordinary resolution and as to resolutions 8 and 9 as special resolutions:

7. THAT, subject to and in accordance with Article 16 of the Articles of Association of the Company, the Directors be generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to a maximum nominal amount of £179,781 (being approximately one third of the current issued share capital) provided that such authority shall expire on the conclusion of the Annual General Meeting of the Company to be held in 2005, or on 31 January 2006, whichever is the earlier, but so that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry, and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired.
8. THAT, subject to the passing of resolution 7 as set out in the notice of this meeting, and in accordance with Article 17 of the Articles of Association of the Company, the Directors be empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (as defined in section 94 of the Companies Act 1985) for cash pursuant to the general authority conferred by resolution 7 as set out in the notice of this meeting and sell relevant shares (as defined in section 94 of the Companies Act 1985) held by the Company as treasury shares (as defined in section 162A of the Companies Act 1985) for cash, as if section 89(1) of the Companies Act did not apply to such allotment or sale, provided that this power shall be limited to allotments of equity securities and the sale of treasury shares:
 - (i) in connection with or pursuant to an offer by way of rights, open offer or other pre-emptive offer to the holders of shares in the Company and other persons entitled to participate therein in proportion (as nearly as practicable) to their respective holdings, subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory or the regulations or requirements of any regulatory authority or any stock exchange in any territory; and
 - (ii) otherwise than pursuant to sub-paragraph (i) above, up to an aggregate nominal amount of £26,967.25
 and such power shall expire on the conclusion of the Annual General Meeting of the Company to be held in 2005 or on 31 January 2006, whichever is earlier, but so that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted

or treasury shares to be sold after such expiry, and the Directors may allot equity securities or sell treasury shares in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

9. THAT the Company be generally and unconditionally authorised, pursuant to Article 9 of the Articles of Association of the Company and pursuant to section 166 of the Companies Act 1985, to make market purchases (as defined in section 163 of the Companies Act 1985) of up to 2,696,725 Ordinary Shares of 1p each in the capital of the Company (being approximately 5% of the current issued ordinary share capital of the Company) on such terms and in such manner as the Directors of the Company may from time to time determine, provided that:
- (a) the amount paid for each share (exclusive of expenses) shall not be more than 5% above the average of the middle market quotation for Ordinary Shares as derived from the Daily Official List of London Stock Exchange plc for the five business days before the date on which the contract for the purchase is made, and in any event not less than 1p per share; and
 - (b) the authority herein contained shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2005 or on 31 January 2006, whichever is earlier, provided that the Company may, before such expiry, make a contract to purchase its own shares which would or might be executed wholly or partly after such expiry, and the Company may make a purchase of its own shares in pursuance of such contract as if the authority hereby conferred hereby had not expired.

Dated: 29 October 2004
 Registered Office:
 Borough Road
 Godalming
 Surrey GU7 2AB

By Order of the Board
 JAP Randall
 Secretary

Notes:

1. Every member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his/her stead. A proxy need not be a member of the Company. Appointment of proxies does not preclude members from attending and voting at the meeting should they wish to do so. A form of proxy is enclosed; alternatively you may register your instructions electronically by logging onto www.capitaregistrars.com where you will find full details of the procedure or, if you hold shares in uncertificated form (ie in CREST) you may vote using the CREST system (please see the notes below)
2. To be valid, an instrument appointing a proxy in hard copy form must be deposited at the office of the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time of the meeting. Alternatively if you submit your proxy electronically through CREST, to be valid, the appropriate CREST message (regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy) must be transmitted so as to be received by the Company's registrars, Capita Registrars (ID RA10) by no later than 48 hours before the time of the meeting. The time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Capita Registrars are able to retrieve the message by enquiry to CREST.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 changes to entries in the register of members after 6.00pm on 24 November or on the date two days before any adjourned meeting (as the case may be) shall be disregarded in determining the rights of any member to attend or vote at the meeting or adjourned meeting (as the case may be). Accordingly, only a member registered in the register of members of the Company as at 6.00pm on 24 November or on the date two days before the meeting or any adjourned meeting (as the case may be) shall be entitled to attend and vote at the meeting or any adjourned meeting (as the case may be) in respect of the number of shares registered in his name at that time.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual.
6. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
8. The register of directors' interests in the share capital of the Company maintained under section 325 of the Act, and copies of the directors' contracts of service with the Company and letters of appointment will be available for inspection during normal business hours on any week day (public holidays excepted) at the registered office of the Company from the date of this notice until the conclusion of the annual general meeting.

Company & Corporate Advisors

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Auditors

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Wessex House
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Southampton
SO14 3QB

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