

## **Overview and prospects**

The launch of frovatriptan in the US in June 2002 means that we have now become a "product company", one of the small group of biopharmaceutical companies that have brought a new prescription drug all the way through development to the marketplace. The prescription data for the first three months following launch has been very encouraging. It shows that frovatriptan has already gained 2.6% of new prescriptions for the triptans and has shown solid week-on-week growth. We also received compelling results from our recently completed Phase IV study with frovatriptan in the prophylaxis (prevention) of menstrually-associated migraine. Prophylactic treatment of menstrually-associated migraine represents an untapped global market opportunity, and no triptans are currently approved for this indication.

Recognising the importance of long-term funding from big pharma, we negotiated three important new collaborations during the period with the Swiss multinational pharmaceutical company Roche, targeting major disease areas: obesity, diabetes, depression and anxiety. These deals provide a further external validation of the Company's science base in CNS and obesity related disorders, as well as bringing the potential for substantial future revenues to Vernalis, in the form of research funding and pre- and post-approval milestone payments. On sales of marketed drugs coming out of these programmes we would also receive royalties of up to 15%. Roche will fund and carry out all development work.

In the first half of the year we also took action to streamline and focus the business, which we expect to result in a reduction in expenditure from second half 2002, and we are now implementing further measures to reduce the Company's burn-rate. Our target is to achieve annual savings in excess of £3 million from 2003.

Our top priority and commitment over the next 18 months is to focus our efforts and resources on maximising the inherent value in the frovatriptan asset. We believe, based on frovatriptan's initial market acceptance in the US and the anticipated opportunities arising from the menstrually-associated migraine study, that revenues from frovatriptan sales may ultimately be much larger than we had projected. The commencement of royalty streams from frovatriptan has opened up new avenues for funding the Company's working capital requirements, and we also expect revenues from new sources over the next 12 months, including the start of royalties on European sales of frovatriptan and further partnering income from anticipated arrangements for frovatriptan in the Far East and Rest of World markets.

Our target is to reach sustainable profitability in 2004. Based on our current projections, which include the anticipated effect of our cost reduction measures and our increased revenue expectations for frovatriptan, we now expect the Company to become cash flow positive earlier than previously predicted. Although we will continue to explore various sources of finance, we believe that the Company's need for further funding has been substantially reduced and we have no plans to undertake a public equity offering.

## **Frovatriptan**

The US launch of frovatriptan in June 2002, under the trademark Frova™, was undoubtedly the highlight of the first half of the year. The initial feedback that we have received from US physicians has been very positive, and weekly surveys of prescription data show that, only three months after launch, Frova™ was already ahead of our target. In early September total weekly Frova™ prescriptions had reached 2,700, and it had captured 2.6% of new prescriptions for the triptan class of migraine treatments. If the current rate of growth is maintained, Frova™'s share of new prescriptions for triptans in the US would be over 5% by the end of 2002 after only six months in the market. The number of repeat prescriptions is also growing rapidly.

The appointment of UCB as Elan's co-promotion partner was, in our view, an important step for the future success of the product in the US market. The combined UCB and Elan neurology sales force, together with UCB's primary care sales force, are calling on neurologists and primary care physicians (PCPs). As part of the deal to appoint UCB, our commercial arrangements with Elan were re-structured. We agreed a reduced level of royalties during the first three years from launch on annual US sales up to a pre-determined level, and undertook to carry out additional Phase IV studies. Elan will have the option to extend the reduced royalty period by making an additional lump-sum payment to us. In return Elan has brought forward a milestone payment due under the licence agreement and has also waived our obligation to repay a \$10 million loan plus accrued interest.

On the European front, our commercial partner Menarini is now confident of launching frovatriptan in the first major European market during the fourth quarter 2002, with launches in most of the other major markets expected to follow beginning in first quarter 2003. Menarini is the foremost pharmaceutical company in Italy and one of the fastest growing pharmaceutical companies in the world with products marketed in over 110 countries. We were pleased to be able to announce marketing approval for frovatriptan in all 15 European Union countries in January 2002. Since then considerable progress has been made in obtaining the local country product licences and finalising the individual country packaging requirements.

With European launches now imminent, we expect that our net revenues from combined sales of frovatriptan in the US and Europe over the next three years, including royalties and potential milestone payments, will be in the region of 16-18% of net sales of the product, and could rise thereafter. We are also now in active discussions with potential licensees for frovatriptan in other territories and we expect to be able to put a number of new arrangements in place over the next 6-12 months.

### **Menstrually-associated migraine**

The feedback from the clinical investigators following our announcement of the headline results from our study in the prophylaxis (prevention) of menstrually-associated migraine supports our view on the increased potential market for frovatriptan. We believe the use of frovatriptan for this indication would represent a significant new market opportunity in both the US and Europe.

Epidemiology studies suggest that around 16-18% of women suffer from migraines and that as many as 50-70% of female migraineurs, representing between 26-34 million women in the US and Western Europe, report menstruation as a trigger for their attacks. Although many women already use triptans to treat their menstrual migraines acutely, ie after the headache has started, it is reported in the literature that menstrual migraines are generally of a longer duration, more debilitating, more likely to recur and more resistant to treatment than other types of migraine. No drug in the triptan class is currently approved for prophylactic use in menstrually-associated migraine. Accordingly we believe there is a large unmet medical need for an effective prophylactic treatment for this highly debilitating condition.

Our study, a double-blind, placebo controlled, cross-over design, was conducted at 36 clinics in the US and involved more than 500 menstrual migraine sufferers. Patients were evaluated over three menstrual cycles over the course of which each patient received all three dose regimens - placebo, 2.5mg frovatriptan and 5mg frovatriptan. During each cycle they took the treatment for a total of six days commencing before the predicted onset of their headache.

The headline results showed that both dose levels of frovatriptan were highly effective in reducing the incidence, severity and duration of menstrually-associated migraines compared to placebo. 52% of patients were completely headache-free during the six-day period when they took 5mg frovatriptan daily and 41% were headache-free at a daily dose of 2.5mg, compared to only 25% when they took placebo. These differences were statistically highly significant ( $p < 0.0001$ ). The strategy will be to discuss the results of this trial with regulatory agencies at the earliest opportunity.

## **VML 670 - Sexual dysfunction**

During the first half of 2002 we have continued to make good progress with VML 670. This drug is targeted at the treatment of sexual dysfunction experienced by patients taking anti-depressants of the class known as SSRIs (selective serotonin re-uptake inhibitors). Early in the year, we successfully completed a Phase I programme that included single and multiple dose studies in healthy volunteers as well as a study to confirm that there are no adverse consequences from the co-administration of VML 670 and fluoxetine, a commonly prescribed SSRI. Subsequently, in May, we announced the start of a Phase IIa trial with VML 670 in male and female patients taking SSRIs for depression. This is a multi-centre, double-blind, placebo controlled trial in the UK, involving 240 patients. We expect to be reviewing preliminary results from this study early in the second half of 2003.

Studies have shown that SSRIs reduce the activity of 5-HT<sub>1A</sub> receptors, which are known to be involved in the mediation of sexual behaviour. VML 670 has selective activity at 5-HT<sub>1A</sub> receptors and has been shown in pre-clinical models to improve aspects of sexual function. There is, therefore, a strong scientific rationale to suggest that VML 670 may be effective in correcting these symptoms during treatment with SSRIs.

## **Adenosine A<sub>2A</sub> antagonist programme**

### **Parkinson's disease**

In January 2002 we reached an important milestone in our adenosine A<sub>2A</sub> receptor antagonist programme targeting Parkinson's disease when we announced the selection of a lead development compound. The compound has shown efficacy in a well-established pre-clinical model of Parkinson's disease that is routinely used to test potential new treatments for this condition.

Our work during the first half of the year has primarily revolved around scaling up the chemistry and the manufacturing process for the compound to enable us to produce sufficient quantities to carry out our pre-clinical and initial clinical development programme.

### **Depression and anxiety**

In May 2002, we were very pleased to announce a new strategic collaboration with Roche to research and develop A<sub>2A</sub> antagonists to treat depression and anxiety. This followed pre-clinical research by Vernalis, Roche and a number of other companies suggesting that adenosine receptors, and specifically the adenosine A<sub>2A</sub> receptor subtype, may be a novel target for a completely new class of anti-depressant drugs. In our own programme we have already synthesised selective adenosine A<sub>2A</sub> receptor antagonists that show activity in pre-clinical models of depression, and we are currently working to optimise the selectivity and pharmacokinetic properties of the most promising compounds.

Since Roche has its own adenosine A<sub>2A</sub> programme, we have initially structured the collaboration as a time-limited option for Roche to license worldwide rights to develop, manufacture and market product candidates coming out of our research programme for the treatment of depression and anxiety. During the option period, we receive an annual option renewal fee and potential milestone payments. If Roche exercises its option, the parties' intellectual property would be pooled. We would then establish a joint research programme under which our research costs would be funded by Roche, which would also undertake and fund all development work. The agreement foresees a series of development and post-approval milestone payments totalling up to \$80 million on product candidates from the joint programme, whether arising from Vernalis' or Roche's intellectual property, as well as substantial royalties on future product sales.

## **5-HT2C agonist programme - Obesity**

The new agreement that we signed with Roche in February of this year signals very clearly Roche's continued commitment to this programme, particularly as we were able to negotiate improved commercial terms, with further research funding, potential milestone payments from Roche now doubled to around \$60 million, and royalties rising to as high as 15% on successfully marketed compounds, compared to less than 10% under the original agreement. Roche will also continue to undertake and fund all development work.

The collaboration has made rapid progress, culminating in the entry of the first clinical development candidate, VR 1065, into Phase I clinical trials in April of this year. We and Roche subsequently took the decision, in July, to withdraw this compound from the Phase I trials, when the early pharmacokinetic data in man revealed high levels of a metabolite of the drug. Although there were no resultant side effects, the data did not meet our stringent criteria for progression into Phase II.

While this has undoubtedly been a setback, it is not unusual for drugs to be discontinued in Phase I. Recognising the critical importance of safety in the treatment of obesity, Roche has always intended to take several compounds into Phase I trials in order to go forward with a drug with the best possible profile.

Resource allocation on this programme has been increased and we are working closely with Roche to bring forward new lead candidates as fast as possible.

## **Diabetes**

In another new agreement with Roche in February, we entered into a strategic collaboration to discover and develop new drugs for the treatment of diabetes mellitus. This is a group of diseases characterised by high levels of blood glucose resulting from defects in insulin secretion, insulin action or both. The new agreement with Roche is an earlier stage collaboration under which the companies have pooled their respective intellectual property in this area and will undertake a joint research programme. The structure is similar to that of our obesity collaboration, with Roche providing research funding, as well as funding and conducting all aspects of development of all development candidates. Vernalis also has the potential to receive substantial milestone payments and royalties on future product sales.

## **Financial Review**

The consolidated loss after tax for the period was £8.29 million, compared with a loss of £10.98 million for the first half of 2001.

Turnover in the first half of 2002 was £3.89 million compared to £1.74 million in the first half of 2001. Revenues recognised in first half 2002 included £1.57 million from Roche relating to our obesity collaboration, comprising research funding and a milestone payment when VR 1065 entered Phase I trials, and £2.32 million from Elan, made up of £1.89 million of milestone income and £0.43 million from royalties on US sales of frovatriptan, relating to stocking to wholesalers prior to launch.

Total revenues from Elan during first half 2002 amounted to £11.66 million, comprising royalties of £0.43 million, a milestone payment of £3.69 million following the US launch of frovatriptan, and £7.54 million arising as a result of Elan's waiver of the Company's obligation to repay a \$10 million loan plus accrued interest. The loan waiver was part of a general restructuring of the North American licence for frovatriptan, in which we also agreed revised royalty rates and milestone payments, and undertook to carry out additional Phase IV studies at our expense. In accordance with our accounting policy on revenue recognition that we adopted in 2001, and in keeping with best practice in the industry, we have deferred £9.34 million of the Elan revenues of £11.66 million, and will recognise it over the next two to three years as the related expenditure is incurred.

Research and development expenditure in the period was £10.77 million (first half 2001: £10.55 million). Higher expenditure on our development projects, which included the first Phase IV study with frovatriptan in menstrually-associated migraine, a Phase IIa study with VML 670 in SSRI-induced sexual dysfunction, and the commencement of the pre-clinical development work for the first clinical candidate in our Parkinson's disease programme, was largely offset by reduced expenditure in research as we focused our efforts on key projects.

Administrative costs in the period increased slightly to £1.81 million (first half 2001: £1.69 million). A key element of the increase over 2001 was a significant rise in the Company's insurance bill. In addition to a general increase in premiums, the Company was also obliged to take out product liability insurance for the first time, in anticipation of frovatriptan's launch in the US.

Interest received of £1.12 million (2001: £0.5 million) included an unrealised gain on exchange of £0.78 million relating to US dollar denominated amounts due to GlaxoSmithKline to buy out GSK's residual royalty on frovatriptan.

Cash and short-term investments at 30 June 2002 increased to £20.29 million, compared to £17.97 million at 31 December 2001, and £14.89 million at 30 June 2001. During the period, we agreed a new £7 million loan facility with Roche, the full amount of which we drew down in May 2002. The loan is convertible into ordinary shares at a conversion price of 329p per share, and if not converted, is repayable in 2007. It bears interest at 6.5% per annum, payable half-yearly.

In the first half of the year we took action to streamline and focus the business, which we expect to result in a reduction in expenditure from second half 2002, and we are now implementing further measures to reduce the Company's burn-rate. Our target is to achieve annual cost savings in excess of £3 million from 2003.

This press release contains forward-looking statements, including statements regarding Vernalis' projected revenues, market opportunities, financial condition, strategy and prospects. Statements that are not historical facts are based on Vernalis' current expectations, beliefs, estimates and assumptions. Such statements are not guarantees of future performance and involve risks, uncertainties and other important factors that may cause Vernalis' actual results, performance or achievements to be materially different from those anticipated by such forward-looking statements. Important factors which may affect Vernalis' future operating results include the following: Vernalis may not receive royalty revenues, milestone payments or other revenues when expected or at all, frovatriptan and Vernalis' product candidates may not receive regulatory or marketing approval or gain market acceptance in key markets to the extent expected, when anticipated or at all, Vernalis may be unable to enter into additional licensing, partnering or collaboration agreements when expected or at all, Vernalis may be unable to conduct its clinical trials as quickly as it has predicted, Vernalis' product candidates may not demonstrate therapeutic efficacy, Vernalis may require additional equity capital or debt financing earlier than projected and may be unable to obtain sufficient capital when needed, and other important factors described in the section entitled "Risk Factors" in Vernalis' Annual Report on Form 20-F for the year ended December 31, 2001 filed with the US Securities and Exchange Commission.

## **Independent Review Report to Vernalis Group plc**

### **Introduction**

We have been instructed by the Company to review the financial information for the six months ended 30 June 2002 which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement and the related notes. We have read the other information contained in the interim report for any apparent misstatements or material inconsistencies with the financial information.

## **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999 / 4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2002.

PricewaterhouseCoopers

Chartered Accountants

London

27 September 2002

Vernalis Group plc

Consolidated Profit and Loss Account for the six months ended 30

June 2002

		Unaudited	Unaudited	Audited
		Six months to	Six months to	Year to
		30 June 2002	30 June 2001	31 Dec 2001
Note	£'000	£'000	£'000	£'000
Turnover		3,888	1,742	13,828
Research and development expenses			(10,769)	(10,550) (20,431)
Administrative expenses	- Amortisation of goodwill and other intangible assets		(1,015)	(895) (1,791)
- Other		(1,808)	(1,689)	(3,178)
- Total		(2,823)	(2,584)	(4,969)
Other operating (expenses) / income			(173)	- 164
Operating loss		(9,877)	(11,392)	(11,408)
Interest receivable and similar income			1,116	498 833
Interest payable and similar charges			(280)	(535) (607)
Loss on ordinary activities before taxation			(9,041)	(11,429) (11,182)
Tax on loss on ordinary activities	2	750	450	1,291
Loss on ordinary activities after taxation			(8,291)	(10,979) (9891)
Basic and diluted loss per ordinary share	3	(19)p	(26)p	(23)p

There is no difference between the loss on ordinary activities before and after taxation stated above, and their historical cost equivalents.

There are no recognised gains and losses other than the losses above and therefore no separate statement of total recognised gains and losses has been presented.

All results arise from continuing activities.

Vernalis Group plc

Consolidated Balance Sheet as at 30 June 2002

	Note	Unaudited 30 June 2002 £'000	Unaudited 30 June 2001 £'000	Audited 31 Dec 2001 £'000
<b>Fixed assets</b>				
Intangible fixed assets	4	21,386	6,119	22,400
Tangible fixed assets		2,113	2,733	2,435
Investments	5	41	146	82
		23,540	8,998	24,917
<b>Current assets</b>				
Debtors		4,019	3,384	3,120
Investments	6	20,207	14,500	17,921
Cash at bank and in hand		87	386	50
		24,313	18,270	21,091
Creditors: amounts falling due within one year	7	(14,141)	(5,135)	(16,256)
Net current assets		10,172	13,135	4,835
Total assets less current liabilities		33,712	22,133	29,752
<b>Creditors: amounts falling due after one year</b>				
Other creditors	8	(19,246)	(7,760)	(14,135)
Convertible loan	9	(7,000)	-	-
		(26,246)	(7,760)	(14,135)
Net assets		7,466	14,373	15,617

Capital and Reserves

Called-up share capital	4,298	4,272	4,285
Share premium account	86,993	86,815	86,875
Other reserves	20,726	20,633	20,716
Profit and loss account (deficit)	(104,551)	(97,347)	(96,259)
Equity shareholders' funds	7,466	14,373	15,617

Vernalis Group plc

Consolidated Cash Flow Statement for the six months ended 30 June 2002

	Unaudited	Unaudited	Audited	
	Six months to	Six months to	Year to	
	30 June 2002	30 June 2001	31 Dec 2001	
Note	£'000	£'000	£000	
Net cash outflow from operating activities	10	(4,809)	(9,637)	(8,395)

Returns on investments and servicing of finance

Interest received	376	579	946	
Interest element on finance lease rental payments		(42)	(75)	(115)
Net cash inflow from returns on investments and servicing of finance		334	504	831
Taxation	-	-	1,573	

Capital expenditure and financial investment

Purchase of tangible fixed assets	(213)	(843)	(1,061)
Sale of tangible fixed assets	-	9	9

Net cash outflow from capital expenditure and financial investment		(213)	(834)	(1,052)
Cash outflow before management of liquid resources and financing		(4,688)	(9,967)	(7,043)
Management of liquid resources	6	(2,286)	6,300	2,879
Net cash outflow before financing		(6,974)	(3,667)	(4,164)

### **Financing**

Net proceeds of shares issued and options exercised		140	227	419
Repayment of principal under finance leases		(129)	(106)	(277)
Inflow from new finance leases		-	408	548
New loans	7,000	3,517	3,517	
Net cash inflow from financing		7,011	4,046	4,207
Increase in cash	10	37	379	43

**Notes to the financial statements at 30 June 2002**

**1. Basis of Preparation**

Basis of accounting

The interim statements have been prepared in accordance with the accounting policies set out in the annual report for the year ended 31 December 2001 with the exception that the Group has adopted FRS19 'Deferred Tax', which became effective for years ending on or after 23 January 2002, in order to comply with the latest United Kingdom accounting standards (see note 2).

The results for the six months ended 30 June 2002 and 30 June 2001 have not been audited and do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The results for the year ended 31 December 2001 are extracted from the audited annual financial statements, which have been filed with the Registrar of Companies and on which the auditors reported without qualification.

**2. Tax on loss on ordinary activities**

From April 2000, the Group has been entitled to claim tax credits for certain research and development expenditure. The amount included in the financial statements for the six months ended 30 June 2002 of £0.75 million (six months to 30 June 2001: £0.45 million, year to 31 December 2001: £1.291 million) represents the credit receivable by the Group.

The Group had tax losses of approximately £109 million at 31 December 2001 that are available to be carried forward and offset against future taxable UK profits from the same trade. The adoption of FRS 19 has not led to the recognition of a deferred tax asset in respect of these losses at 30 June 2002 and has had no impact on prior periods.

**3. Loss per ordinary share**

The basic loss per share has been calculated by dividing the loss for the year by the weighted average number of shares of 42.8 million in issue during the six months ended 30 June 2002 (six months to 30 June 2001: 42.5 million and year to 31 December 2001: 42.6 million), excluding those held in the employee share trust which are treated as cancelled.

The Group had no dilutive potential ordinary shares in either year that would serve to increase the loss per ordinary share. There is therefore no difference between the loss per ordinary share and the diluted loss per ordinary share.

**4. Intangible assets**

	30 June 2002	30 June 2001	31 Dec 2001
	£'000	£'000	£'000
Net book amount			
Goodwill	4,328	6,119	5,223
Other intangible assets	17,058	-	17,177
	21,386	6,119	22,400

Other intangibles represent the capitalisation of payments conditionally due to GlaxoSmithKline (GSK) to buy out royalties due to GSK on sales of frovatriptan. These are being amortised from the date of launch of frovatriptan to the end of the patent life in 2014, which is considered by the Directors to be the useful life of the asset.

## 5. Other investments

Other investments represents the cost less amortisation of 130,554 (30 June 2001: 157,191 and 31 December 2001: 143,191) of the Group's own ordinary shares of 10p which are held in an employee share ownership plan. The market value of the shares at the balance sheet date was £0.19 million (30 June 2001: £0.36 million and 31 December 2001: £0.29 million).

## 6. Current asset investments

Current asset investments is comprised of short-term investments which are included in the cash flow as liquid resources. The short-term investments relate to amounts held in Sterling and US Dollar managed funds. The funds are actively managed by reputable independent fund managers to provide the highest rate of return with a neutral risk profile. Reductions in amounts held in these funds are included in the cash flow as inflows from management of liquid resources.

## 7. Creditors: amounts falling due within one year

	30 June 2002	30 June 2001	31 Dec 2001
	£'000	£'000	£'000
Loan (note 8)	-	-	7,363
Trade creditors	2,230	1,586	1,415
Obligations under finance lease		259	259
Tax and social security costs		255	272
Other creditors (note 8)	3,280	-	3,435
Accruals	4,472	3,005	3,512
Deferred income	3,645	-	-
	14,141	5,135	16,256

Deferred income included above and in creditors falling due after more than one year relates to the deferral of revenues arising from the loan waiver (note 8) and a milestone payment from Elan. These revenues are being deferred and recognised by reference to expenditure being incurred to complete certain Phase IV trials on frovatriptan which the Group has agreed with Elan to undertake.

## 8. Creditors: amounts falling due after one year

	30 June 2002	30 June 2001	31 Dec 2001
	£'000	£'000	£'000
Loan	-	7,336	-

Obligations under finance leases	264	424	393
Other creditors	13,121	-	13,742
Deferred income (note 7)	5,861	-	-
	19,246	7,760	14,135

The loan included at 30 June 2001, and at 31 December 2001 in creditors less than one year, related to a total loan facility of £6.9 million (\$10 million) from Elan Corporation, the Group's North American licensee for frovatriptan. The obligation to pay this loan and accrued interest was waived during 2002 in conjunction with a reduction in the rate of royalties due and a commitment by the Group to undertake certain Phase IV trials.

Other creditors relates to payments conditionally due to GlaxoSmithKline (GSK) under the agreement of December 2000 to buy out royalties due to GSK on sales of frovatriptan (note 4). The Group is committed to making four annual payments of \$5 million, the first commencing in September 2002 and the following three on the anniversary of the first payment. A fifth payment of \$5 million dollars is due in 2006 if cumulative global sales of frovatriptan exceed \$300 million on that date, or 90 days after cumulative global sales exceed \$300 million. The full liability for \$25 million (£16,401,000) has been recognised as the Directors believe it is probable that cumulative global sales will exceed \$300 million.

#### 9. Convertible loan

	30 June 2002	30 June 2001	31 Dec 2001
	£'000	£'000	£'000
Convertible loan	7,000	-	-

The loan at 30 June 2002 relates to a new convertible loan facility with Roche that was entered into coincident with a strategic agreement to research and develop new drugs for the treatment of depression in May 2002. This loan is convertible at any time at the option of the holder into 2,127,659 ordinary shares at a conversion price of 329p per share or at the option of the Group if the share price is in excess of 428p per share for a period of 20 days. If not converted, the loan is repayable after five years.

#### 10. Notes to the consolidated cash flow statement

##### i) Net cash flow from operating activities

	30 June 2002	30 June 2001	31 Dec 2001
	£'000	£'000	£'000
Operating loss	(9,877)	(11,392)	(11,408)
Depreciation	534	434	958
Profit on sale of tangible fixed assets	-	-	(9)
Write down of investment in own shares		41	76
			140

Amortisation of goodwill and other intangible assets	1,015	895	1,791
(Increase) / Decrease in other debtors (excluding accrued interest income)	(387)	579	41
Increase in creditors (excluding non-operating liabilities and deferred income)	1,708	203	565
Non cash movement arising from loan waiver	(7,349)	-	-
Increase in deferred income	9,506	-	-
Exchange adjustments	-	-	(3)
Payments made in respect of restructuring costs	-	(432)	(470)
Net cash outflow from operating activities	(4,809)	(9,637)	(8,395)

ii) Reconciliation of net cash flow to movements in net funds

	30 June 2002	30 June 2001	31 Dec 2001
	£'000	£'000	£'000
Movement in cash in the period	37	379	43
Decrease in capital element of finance lease	129	106	277
Inflow from finance leases	-	(408)	(548)
New loans	(7,000)	(3,517)	(3,517)
Net investment / (disinvestment) in liquid resources	2,286	(6,300)	(2,879)
Changes in net funds resulting from cash flows	(4,548)	(9,740)	(6,624)
Other non-cash items			

Loan waiver	7,537	-	-
Accrued interest	(238)	(212)	(490)
Exchange adjustments	14	(248)	3
Movement in net debt in the period	2,765	(10,200)	(7,111)
Net opening funds	9,956	17,067	17,067
Net closing funds	12,721	6,867	9,956

iii) Analysis of net funds

	At 1 Jan 2002 £'000	Cash flow £'000	Non-cash movements £'000	Exchange Movements £'000	At 30 June 2002 £'000
Cash at bank and in hand		50	37	-	87
Other current asset investments/liquid resources		17,921	2,286	-	20,207
Short-term investments and cash		17,971	2,323	-	20,294
Finance leases		(652)	129	-	(523)
Debt due within one year		(7,363)	-	7,349	14
Debt due after one year		-	(7,000)	(50)	(7,050)
Net funds		9,956	(4,548)	7,299	14
					12,721

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