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<u>For Immediate Release</u>

Preliminary Results for the year ended 31 December 2000

Royston, UK 13 March 2001 - Pharmagene plc (LSE: PGN) announces its preliminary results for the year ended 31 December 2000.

Year 2000 Highlights

Business Development

- Market penetration ahead of expectations: deals signed with 18 companies, including 10 repeat customers (1999: 11 with 4 repeat customers)
- Expanded relationship with Bayer in target validation area
- Renewed Phase ZERO™ relationship with Kyowa Hakko Kogyo for fourth year
- Internal therapeutic programmes progressed:
  - Indication Switch programmes in cystic fibrosis, irritable bowel syndrome, dysmenorrhoea, pre-term labour, pulmonary fibrosis and renal colic; and
  - two new lead discovery programmes in migraine and irritable bowel syndrome
- Intellectual property position expanded with 1 patent granted and 7 new patents filed
- First phase of expansion of laboratory facilities in Royston and Peterborough completed

Financial

- Listed on London Stock Exchange and raised net proceeds of £37 million from Global Offer
- Revenue of £1.03 million (1999: £1.26 million). Year ended with signed order book of £1.25 million
- Loss on ordinary activities before tax of £6.5 million (1999: £4.2 million) after charging exceptional expenses of £2.5 million (1999: £151,000)
- Closing cash and short term investments of £38.3 million (1999: £4.6 million) with annual cash outflow before financing and management of liquid resources of £4.1 million (1999: £3.7 million)

Board Structure

- Board strengthened through appointment of Neil Johnston as Chief Financial Officer and David Lee as non-executive director

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Early 2001 Highlights

- International customer base expanded to 20; new deal signed with Taisho continues to illustrate significant penetration of Japanese market
- Proteomics relationship established with WITA Proteomics AG
- Achieved key step in exemplification of Indication Switch approach with patent publication
- Board further strengthened through appointment of David Briscoe (formerly President of Incyte Genomics, Europe) as Commercial Director and Ron Long (Vice Chairman of Nycomed Amersham and previously Chief Executive of Amersham Pharmacia Biotech) as non-executive director
- Sales and marketing team expanded and strengthened

Commenting on the results, Alastair Riddell, Chief Executive Officer of Pharmagene said:

"We have made significant progress in the past 12 months. We continue to believe strongly in our balanced risk business model and will continue to focus on both revenue generating activities and building our therapeutic portfolio through our unique human tissue focus. We are investing resources in our technologies and business development activities to generate value for our shareholders over the short and longer term. We have strengthened the board considerably since the beginning of 2000 and together, we look forward to building on the momentum generated in 2000 during 2001."

Chief Financial Officer, Neil Johnston, added:

"Our strong cash position gives us a platform from which we will continue to build our business. We began 2001 with a strong order book and we expect to see good revenue growth for the rest of the year. This will offset, to some extent, a planned increase in expenditure as we continue to invest in our business."

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CHIEF EXECUTIVE'S REVIEW

The year 2000 saw tremendous progress for Pharmagene including a listing on the London Stock Exchange and the raising of approximately £37 million (net of expenses) through our Global Offer. We made significant progress in the development of our drug discovery capabilities and therapeutic portfolio. We have a balanced risk business model comprising our Phase ZERO bespoke research offering, our Data Products (formerly known as Pharmabase) capability and our Therapeutics portfolio with an emphasis on our novel Indication Switch approach.

Commercial Activity

This year has seen a significant increase in our commercial activity generating revenues which will be recognised in both 2000 and 2001. We have started 2001 with a signed order book worth approximately £1.2 million. Our customer base grew from 11 in 1999 with 4 repeat customers, to 18 in 2000 with 10 repeat customers. Of these 18 customers, 7 are in the top 20 group of the world's largest pharmaceutical companies.

We made considerable progress with both our Phase ZERO and Data Product offerings and launched new products in both areas. We renewed our contract with Kyowa Hakko Kogyo for the third time and we continue to penetrate the Japanese market successfully. Our confidence for growth in Japan is high and in recognition of this we have employed the services of a further sales and marketing agent, YMP-I to work alongside New Business Horizons to promote our business in Japan. We signed two significant target validation deals with Bayer plc and Bayer Corp in the respiratory and oncology disease areas. Target validation remains a key bottleneck for the pharmaceutical industry.

In order to pursue our future growth objectives we expect to establish a sales and marketing presence in the USA during the course of 2001.

We also recently announced a strategic alliance with WITA Proteomics AG. Under the terms of this agreement, Pharmagene will combine its experience, expertise and broad range of capabilities in human tissue, genomics, informatics and functional pharmacology with WITA's proteomic and mass spectrometry tools to identify and validate potential drug targets for pharmaceutical partners and for internal development.

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Indication Switch

At the IPO we announced our ideas on looking for new intellectual property or "Use Patents" on products that have stalled in clinical trials. We have now exemplified this approach and it has become clear to us that the ability to find new uses for existing drugs should also be extended to marketed products, especially those reaching the end of their patent life or those in an unprofitable indication.

Pharmagene has an active and expanding pipeline in this exciting area of our business but we also believe that our customer's therapeutic portfolios could benefit from this offering and we have recently begun to roll out our capabilities in this area to them.

Intellectual Property

Pharmagene is making considerable progress in the generation of intellectual property to support its therapeutics portfolio. We filed 7 separate patent applications related to potential treatments for migraine, irritable bowel syndrome (IBS), premature labour, dysmenorrhoea, inflammatory bowel disorders (IBD) and cystic fibrosis in 2000. We were granted our first patent in August 2000 for a novel target for migraine and this opens the way to a novel chemical approach. Further patent filings are in progress.

Expansion of laboratories

To meet the increased capacity requirements from our business growth and our research and development objectives we have invested in enlarging our laboratories on site in Royston and we opened new laboratories at one of our supplier hospital sites to further enhance our human tissue acquisition.

Strengthened Board

During 2000 we were delighted to welcome Neil Johnston to executive management and the Board as CFO. We also welcomed David Lee as non-executive director. This year we welcomed Ron Long as a non-executive director. We have announced today the appointment of David Briscoe as Commercial Director. David was previously President of Incyte Genomics, Europe and brings a wealth of pharmaceutical industry experience to Pharmagene. He will lead a commercial team which has been considerably strengthened over the past few months. The direction of the Company is in very experienced hands and ready for the next phase of its growth.

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2001 will be a year for building on the momentum provided by adequate funding from which we will construct the long term sustainable business that delivers value to its shareholders, staff and customers

FINANCIAL REVIEW

Listing of the Company's Shares on the London Stock Exchange

On 31 July 2000, the Company's shares were admitted to the Official List of the London Stock Exchange. In connection with this Global Offer 14,285,714 new ordinary shares and 6,177,945 existing shares (following the exercise of an over-allotment option) were placed at £2.85 per share. After expenses incurred in connection with the listing, the Company raised approximately £37 million. This has enhanced the cash resources available to finance the Company's future growth.

Following the successful completion of the Global Offer, outstanding investor warrants and options were exercised over 512,200 shares and the Company's remaining loan stock was converted into 2,980,740 shares. Subsequently, 1,005,704 share options have been exercised.

Results of Operations

Revenue for the year was £1.03 million (1999: £1.26 million) and was generated from sales of the Group's drug discovery services. Our overall level of activity was significantly greater during 2000 than 1999 although certain revenues cannot be recognised until work is done even when, in some cases, cash has been received. We expect this increased activity to be reflected in 2001.

Cost of sales (including research and development costs) increased to £2.7 million (1999: £2.4 million). The increase is due to additional scientific headcount reflecting increased investment in research and development.

Net operating expenses comprises the Group's sales and marketing and administrative costs. Such costs increased to £3.3 million (1999: £3.1 million) reflecting the early stages of our investment in sales and marketing as well as increased administrative costs following our listing on the London Stock Exchange.

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The Group incurred exceptional expenses of £2.5 million (1999: £0.2million). As set out in the prospectus at the time of flotation this largely comprises a charge relating to the granting of share options under the Long Term Exceptional Performance Plan (the “LTIP”) to acquire ordinary shares exercisable at 5p per share. These options were granted as an alternative to a cash payment in order to align the interests of the beneficiaries of the LTIP with those of shareholders. The amount recognised as a compensation charge in connection with these options was £2.3 million (1999: £0.2 million). This is a non-cash item, the vast majority of which is not expected to recur in future years. The Group also charged £266,000 (1999: £9,000) to recognise the potential employer’s national insurance liability which may arise on the exercise of employee’s share options.

Interest receivable increased to £1.1 million (1999: £167,000) as a result of higher average cash balances during the year. Interest payable of £116,000 (1999: £40,000) consisted mainly of interest on loan stock payable at 8% per annum. This loan stock was converted into ordinary shares at the time of flotation.

As a result of legislation allowing small and medium-sized companies to claim research and development tax credits on qualifying expenditure, the Group has claimed a refund of £0.4 million (1999: Nil) which is shown as a credit to the profit and loss account. This is subject to agreement with the Inland Revenue.

Liquidity and Cash Resources

The Group’s net funds comprise cash balances together with amounts held as short-term investments. The net cash and short term investments position at 31 December 2000 was £38.3 million (1999: £4.6 million). The net cash outflow during the year (excluding financing and management of liquid resources) was £4.1 million (1999: £3.7 million). We expect that operating cash outflow will increase in 2001 principally as a result of increased research and development and sales and marketing expenditure.

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Consolidated profit and loss account for the year ended 31 December 2000

All figures in thousands except earnings per share

	Note	**2000 Unaudited £ 000**	1999 Audited £ 000
Turnover		**1,030**	1,256
Costs of sales		**(2,734)**	(2,392)
Gross loss		**(1,704)**	(1,136)
Net operating expenses		**(3,297)**	(3,054)
Exceptional operating expenses	2	**(2,546)**	(151)
Total operating expenses		**(5,843)**	(3,205)
Operating loss		**(7,547)**	(4,341)
Interest receivable and similar income		**1,131**	167
Interest payable and similar charges		**(116)**	(40)
Loss on ordinary activities before taxation		**(6,532)**	(4,214)
Tax credit on loss on ordinary activities		**448**	-
Loss for the financial year		**(6,084)**	(4,214)
Loss per 5p ordinary share*			
Basic and diluted	3	**(15.3 p)**	(15.4 p)

* Restated following the 4 for 1 share split of the ordinary shares of the Company in June 2000. The Group has 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 operations.

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Consolidated balance sheet as at 31 December 2000

	Note	**2000 Unaudited £ 000**	1999 Audited £ 000
Fixed assets			
Tangible assets		**1,644**	1,320
Investments		**44**	45
		1,688	1,365
Current assets			
Debtors	4	**1,604**	226
Short term investments		**37,305**	4,137
Cash at bank and in hand		**963**	466
		39,872	4,829
Creditors: amounts falling due within one year		**(1,924)**	(723)
Net current assets		**37,948**	4,106
Total assets less current liabilities		**39,636**	5,471
Creditors: amounts falling due after more than one year		**(19)**	(2,476)
Provisions for liabilities and charges		**(275)**	-
Net assets		**39,342**	2,995
Capital and reserves			
Called up share capital	5	**2,541**	1,587
Share premium account		**46,019**	6,822
Other reserves		**3,083**	3,083
Profit and loss account		**(12,301)**	(8,497)
Equity shareholders' funds		**39,342**	2,995

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Consolidated cash flow statement
for the year ended 31 December 2000

	2000 Unaudited £ 000	1999 Audited £ 000
Net cash outflow from operating activities	**(3,767)**	(3,578)
Returns on investments and servicing of finance		
Interest received	**475**	151
Interest paid	**(151)**	(6)
Net cash inflow from returns on investments and servicing of finance	**324**	145
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(631)	(281)
Sale of tangible fixed assets	5	-
Disposal of own shares	1	-
Net cash outflow from capital expenditure and financial investment	**(625)**	(281)
Net cash outflow before management of liquid resources and financing	**(4,068)**	(3,714)
Management of liquid resources		
Increase in short term investments	**(33,168)**	(3,834)
Financing		
Proceeds on issue of ordinary share capital	**41,382**	6,074
Increase in borrowings	**35**	-
Repayment of borrowings	**(32)**	-
Expenses of share issue	**(3,652)**	(797)
Issue of loan stock	**-**	2,447
Net cash inflow from financing	**37,733**	7,724
Increase in cash	**497**	176

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Reconciliation of operating loss to net cash outflow from operating activities

	2000 Unaudited £ 000	1999 Audited £ 000
Operating loss	**(7,547)**	(4,341)
Depreciation charges	**492**	413
Share option compensation charge	**2,280**	142
(Increase)/ decrease in debtors	**(274)**	309
Increase/(decrease) in creditors	**1,285**	(101)
Gain on fixed asset disposal	**(3)**	-
Net cash outflow from operating activities	**(3,767)**	(3,578)

Notes to preliminary results for the year ended 31 December 2000

1. Basis of reporting

The preliminary results have been prepared in accordance with UK GAAP on the basis of the accounting policies set out in the Group's 2000 statutory accounts.

The financial information contained in this announcement of preliminary results does not constitute financial statements within the meaning of Section 240 of the Companies Act 1985. Statutory consolidated financial statements for the year ended 31 December 1999 have been delivered to the Registrar of Companies upon which the auditors' report was unqualified and did not contain any statement under section 237(2) or section 237 (3) of the Companies Act 1985. The statutory accounts for the financial year ended 31 December 2000 have not yet been signed by the directors or the auditors of the Company.

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2. Exceptional operating expenses

	2000 Unaudited £ 000	1999 Audited £ 000
Employer's National Insurance liabilities	**266**	9
Share option compensation charge	**2,280**	142
Total exceptional operating expenses	**2,546**	151

The comparative information has been re-presented to permit comparison of these amounts in each year. In 1999 these costs were included in cost of sales and net operating expenses.

Employer's National Insurance liabilities

The Group charged approximately £266,000 to the profit and loss account during the year ended 31 December 2000 (1999: £9,000) to recognise the potential National Insurance liability that may arise on the exercise of employee share options, in accordance with Urgent Issues Task Force Abstract 25 ("National insurance contributions on share option gains"). This is included in provisions for liabilities and charges.

Share option compensation charge

In accordance with the provisions of Urgent Issues Task Force Abstract 17("Employee share schemes"), the Group makes charges to the profit and loss account when options are granted, the charge being the estimated market value of the shares at the date of grant less the exercise price of the options. The charge is then credited back to reserves. The amount charged to the profit and loss account in the year ended 31 December 2000 was approximately £2.3 million (1999: £142,000).

3. Losses per share

The basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of £6.1 million (1999: £4.2 million) by the weighted average number of ordinary shares in issue during the period, being 39,724,000 ordinary shares of 5p each (1999: 27,409,000 ordinary shares of 5p each). The Company has no dilutive potential ordinary shares in issue.

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The comparative figures have been restated to reflect a share split which took place on 8 June 2000, whereby each issued ordinary share of 20p was subdivided into four ordinary shares with a nominal value of 5p each.

4. Debtors: amounts falling due within one year

	2000 Unaudited £ 000	1999 Audited £ 000
Trade debtors	215	78
Other debtors	38	-
Corporation tax recoverable	448	-
Prepayments and accrued income	903	148
	1,604	226

5. Share capital

On 31 July 2000, the Company's shares were admitted to the Official List of the London Stock Exchange. In connection with the Global Offer 14,285,714 new ordinary shares and 6,177,945 existing shares (following the exercise of the over-allotment option) were placed at £2.85 per share. After expenses incurred, the Company raised approximately £37 million. On admission to the Official List of the London Stock Exchange, the Company issued 3,492,940 ordinary shares of 5p in consideration of the exercise of an outstanding share warrant and share option with an existing investor and following the conversion of all outstanding loan stock.

Immediately following the successful completion of the Global Offer, exercise of the outstanding share warrants and share option and conversion of the loan stock, there were 49,809,522 shares in issue. During the year employees exercised 1,005,704 options over ordinary shares. At 31 December 2000, there were 50,815,226 ordinary shares in issue.

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