CeNeS announces preliminary results for the year ended 31 December 2001.

Cambridge, UK 27th March 2002 - CeNeS Pharmaceuticals plc (LSE:CEN) today announced its results for the year ended 31 December 2001 and an update on its restructuring plan.

Key events since January 2001

Restructuring
• Implementation of restructuring programme announced in October 2001
• Focus on lead clinical candidates in pain and pharmaceutical products division
• Research activities halted. USA site shut down
• Non-core assets - divestment plan initiated
• Cash burn significantly reduced

Pharmaceutical sales division
• 2001 was first full year of this division – products performing to plan
• UK hospital sales force recruited and new pain product Xefo launched in Q3 2001

New business venture
• Pain portfolio expanded with commencement of business venture in June 2001 with Elan Corporation plc
• Under this business venture M6G is to be combined with Elan's Medipad drug delivery technology to develop a treatment for chronic pain
• Elan business venture extended in October 2001 to include M6G post –operative pain clinical programmes
• Elan became a CeNeS shareholder and now holds 9.9% of CeNeS shares

Clinical pipeline
• M6G global clinical programme fully managed via business venture with Elan
• M6G reports further positive phase II results in post – operative pain
• Following further phase II trials in 2002 M6G is planned to enter phase III trials in post-operative pain in 2003
• Phase 1 study for treatment of chronic pain using M6G underway
• CNS5161 - Phase II neuropathic pain trial first cohort completed – results due Q2
• CEE 310 - Second phase II sleep trial successfully completed - partners being sought
• CEE 320 – Schizophrenia candidate successfully advanced to pre-clinical stage – partners being sought

Pharmaceutical services
• Cognition - management team strengthened and sale expected Q2 2002
• Channelwork - Wyeth orders $1.2m of ion-channel screening equipment
• Drug Delivery - CeNeS commenced divestment of drug delivery technologies

Financial and corporate

• Retained loss for 2001 of £64.6 million after goodwill write off of £33.7 million and provision for loss on disposal of discontinued operations of £4.2 million. Retained loss for 2000 was £20.8 million
• Turnover down to £5.3 million in 2001 from £6.6 million in 2000
• £5.5 m raised through Elan's two subscriptions of CeNeS shares. Elan now holds 9.9% of CeNeS shares in issue.
• CeNeS assigned its head office lease and sold surplus fixed assets for £0.6 million
• Cash burn reduced so that on completion of restructuring cash resources are expected to be sufficient until the end of 2003
• CeNeS is in discussion with the administrator of Bioglan regarding the pain development and drug delivery contracts with Bioglan that can be terminated by CeNeS on Bioglan's entry into administration
• CeNeS has approached the administrator of Bioglan to agree an orderly disposal of Bioglan's 8.9 million CeNeS shares

Commenting on the results, Alan Goodman Chairman said: “We are effecting our restructuring plan successfully. We are implementing our strategy to build a specialised pharmaceutical company focused on the development and sale of CNS and pain pharmaceutical products. We are looking forward to building on the expertise we have developed in CNS and pain and expanding our clinical pipeline and product portfolio”.

CeNeS’ strategy

CeNeS has focused its business in the second half of 2001 on its core capabilities in pain and CNS drug development and pharmaceutical product sales and marketing. CeNeS is now well placed to capitalise on its expertise in these fields.

CeNeS’ preferred policy has been to maintain an interest in disposed assets in the form of milestones or royalties. As part of the restructuring CeNeS has stopped research and is concentrating on the development of late stage candidates subject to adequate funding being available. CeNeS has reduced the number of employees from 145 to 50 and the number of sites from which the group operates.

CeNeS’ strategy is designed to capitalise on the synergy between the marketing and clinical experiences gained in our chosen areas. CeNeS is now positioned so that on completion of the restructuring it expects to have sufficient existing cash resources and future cash generation from its recurring pharmaceutical product revenue stream to be self- funding into 2003.

Chairman’s statement

The year has been a difficult one for CeNeS and a major restructuring was announced in October 2001 to secure the future of the company. The restructuring programme has progressed well and management have implemented a simplified strategy.
The company received a frustrated bid approach from Bioglan Pharma early in 2001 that diverted management time and reduced the ability of the company to secure appropriate funding from external sources. Funding opportunities were further reduced by the downturn in the global economy that accelerated in the second half of 2001 and the shortfall in funding was exacerbated by delays in revenue generation from the company’s drug delivery and research divisions.

Unfortunately the restructuring has resulted in job losses at the group’s three main operating sites in Cambridge (England), Irvine (Scotland) and Boston (USA). I wish all of our former employees success in their future careers and thank them for their hard work at CeNeS.

The restructuring resulted in a number of changes to the Board. Dan Roach (Chief Executive) and Martyn Collett (Commercial Director) stepped down as directors in October and I would like to thank them for their significant contributions to the development of CeNeS. I would also like to thank the four non –executive directors who stepped down in October namely, David Needham, Mike Redmond, Harry Wilcox and Paul O’Brien.

Neil Clark, our Finance director was appointed Chief Operating Officer. John Buckle joined the Board as Pharmaceutical Operations Director and Tim Wright from Elan Pharmaceuticals European operation was appointed as non-Executive Director.

The Board and management have faced up to the key issues for the company and acted decisively to move the company forward.

The outlook for the restructured CeNeS business is positive and on completion of the restructuring the core operations are expected to be self-financing into 2003. The Board are now looking forward to build up the pharmaceutical products and clinical development portfolios in line with our increased focus on pain control and CNS diseases and disorders. The Board will deliver value to shareholders by maximising on its pain and CNS expertise. This is expected to be led by the further progress in the development of M6G – CeNeS' leading candidate for the treatment of pain and, subject to funding, the development of CNS5161 for the treatment of neuropathic pain.

Chief Operating Officer's review

Strategy
CeNeS remains focused on becoming a key UK player in the field of pain and CNS pharmaceuticals. The company has acted to reduce its commitment to non-core activities and is now looking to build its pharma product and clinical assets focused on its existing expertise in the areas of pain control and disorders of the CNS. The Board are committed to maintaining a clear business focus.

Sales and marketing of CNS pharmaceuticals

CeNeS' strategy is to build the regulatory, sales, marketing and distribution infrastructure that will support the launch of CeNeS own development candidates in the future.

CeNeS launched its pharmaceutical business in late 2000 with the acquisition of three GlaxoWellcome products Diconal, Cyclimorph and Valoid. Diconal and Cyclimorph are strong analgesics used in the management of moderate to severe pain either by the oral route (Diconal) or the intravenous route (Cyclimorph). Cyclimorph contains morphine whereas Diconal contains the analgesic dipipanone. In both cases the analgesic is combined with cyclizine, a proven agent to counter the nausea and vomiting commonly associated with opioid analgesics. Valoid contains cyclizine as the sole active ingredient and is used to counter nausea and vomiting. These products have performed in line with expectations in 2001 and we expect further growth in 2002 based on an increased marketing effort. In September 2001 CeNeS launched Xefo, a novel product for the treatment of post-operative pain, which had been in-licensed from Nycomed in January 2001. September 2001 also saw the establishment of CeNeS hospital sales force. Therefore, within twelve months of the acquisition of the GlaxoWellcome products CeNeS has successfully completed its aim of forming a small, focused pharma products sales and marketing division. Now that CeNeS has established a critical mass in this area, the plan is to acquire new products in the chosen areas of expertise to achieve maximum benefit from the infrastructure.

Divesting of non-core assets

During the restructuring we have cut back on certain of our non-core activities and focused on our pharmaceutical products and pain control clinical programmes. As part of this process we are undertaking a systematic exercise to complete commercial arrangements to realise value for non-core assets.

Clinical development in CNS and pain

Under the restructuring plan CeNeS has cut back on its clinical development programmes and is concentrating its efforts in the medium term on its leading pain candidate M6G for severe pain (fully partnered with Elan) and CNS 5161 for the treatment of neuropathic pain. In October 2001, CeNeS suspended the phase II clinical trial investigating the use of sipatrigine in the treatment of stroke. After discussion with our partner GlaxoSmithKline ("GSK") it has been agreed that we hand back all our rights to sipatrigine to GSK. CeNeS other clinical projects have been placed on hold and we are talking to prospective and existing collaborators with regard to the future development of these candidates. CeNeS' strategy with these non-core projects is to seek milestone and royalty based deals that involve no funding requirement from CeNeS.

Research in CNS and pain

Under the restructuring plan we have cut back our internal and external funding of research. Our research facilities in Boston, USA have been shut down. We have disposed of our ion-channel focused chemical library to Scion Pharmaceuticals Inc. for $300,000 in cash at completion together with further stage payments totalling $500,000 and up to $2 million in the form of milestone dependent payments.

CeNeS has reduced its research capability in Cambridge, England to focus solely on our world leading ion-channel high throughput screening technology and associated research projects. Our Parkinson's disease research program has been assigned to our partner Shire Pharmaceuticals plc and we again retain an interest in the form of milestones and royalties in this programme should it proceed into clinical development.

In the medium term CeNeS is reviewing its strategy regarding its expertise in ion-channel research and associated platform technologies and is talking to interested parties with this in mind. As part of CeNeS strategy the company plans to remove its commitment to research funding and focus its efforts solely on clinical development projects.

The table summarises the current status of the CeNeS research and development portfolio.

Current CeNeS portfolio		**2002 status**
Cyclimorph	Severe pain	Sales
Diconal	Severe pain	Sales
Valoid	Nausea and Vomiting	Sales
Xefo	Post operative pain	Sales
M6G*	Post operative pain	Phase II
M6G*	Chronic pain	Phase I
CNS 5161	Neuropathic pain	Phase II
Assets on hold seeking partners		
CEE 03-310	Sleep disorders	Phase II
CEE 03-310	Substance abuse	Phase II/IND
CEE 03-320	Schizophrenia	Pre-clinical
GGF2**	Multiple sclerosis	Pre-clinical
Moraxen	Cancer pain	UK/EU/Japan available
Research/clinical assets divested		
Sipatrigine	Acute stroke	Returned to GSK
D1 agonists	Parkinson's disease	Licensed to Shire Pharmaceuticals

*M6G is being developed in a business venture with Elan.
** GGF2 licence has been retrieved from Bayer AG and CeNeS now has sole rights.

Clinical development – pain portfolio

CeNeS is focusing its clinical development efforts on its pain portfolio. CeNeS is actively looking to out-license its other clinical candidates and is also looking to in-license appropriate clinical candidates in its chosen areas of expertise.

M6G (morphine-6-glucuronide) – for the treatment of post-operative pain

In January 2001 we announced successful results from clinical trials in over 140 post-operative pain patients which showed that CeNeS' lead drug candidate M6G, metabolite of morphine, has an advantage over morphine by reducing by more than 50% the incidence of nausea and vomiting.

In October 2001 CeNeS announced further positive phase II results for our lead candidate M6G in post-operative pain. These results showed that M6G had again shown positive results in a Phase II clinical trial comparing M6G with morphine in the relief of post-operative pain. A total of 18 patients undergoing hip-replacement surgery were studied and M6G doses were escalated in three steps, each of which was compared with a standard dose of morphine. Drugs were administered as intravenous bolus injections followed by use of a Patient Controlled Analgesia (PCA) device for 24 hours post-operatively. The data showed that all doses provided effective analgesia during the 24-hour post-operative period and that all doses were well tolerated. A reduction in pain scores over 24 hours was seen in all groups. After 24 hours there did not appear to be any difference between pain relief provided by any of the M6G dose groups and the standard dose of morphine.

CeNeS is currently carrying out a phase II study of M6G to investigate the effect of timing of administration of M6G in order to optimize pain control during the immediate post-operative period. The extended Elan/CeNeS business venture has taken responsibility for this programme worldwide. In the extended development programme, CeNeS will carry out a further dose escalation study in 2002, which will enable a well designed phase III worldwide programme to commence in Europe during 2003. This will be a major milestone in the history of the company. Current sales of morphine in post-operative pain are estimated to be £350m in USA and Europe.

In June 2001, we entered into a collaboration with Elan Corporation plc to develop M6G with their unique Medipad subcutaneous drug delivery device for the treatment of chronic pain. Preliminary subcutaneous bioavailability studies have commenced in volunteers to enable Phase I clinical trials with M6G/Medipad to be carried out later in 2002.

Opioids are the mainstay of the treatment for chronic cancer pain, and, it is estimated that there are over 13 million cancer patients in the US and Europe requiring increasing doses of opioids as their disease progresses. If the clinical development of M6G in the Medipad device is successful, it will provide a portable treatment option for these patients.

CNS 5161 – for the treatment of neuropathic pain

Our candidate for the treatment of neuropathic pain (CNS 5161) commenced a phase II single centre study in early 2001. CNS5161 is a blocker of the NMDA ion channel. Earlier studies showed that CNS5161 was well tolerated by healthy volunteers and that it caused a statistically significant reduction in pain as compared to either morphine or placebo. The current study was placed on hold under the restructuring but results of the trial to date will be analysed when available and if appropriate it is then planned to restart this study as a Phase II multi-centre study.

The market for the treatment of neuropathic pain is large and few drugs are currently licensed for treatment of this chronic and debilitating condition. For example, up to 35% of the over 13 million diagnosed diabetics in the USA and Europe are thought to suffer from neuropathic pain. In addition, neuropathic pain is experienced by patients with shingles (post-herpetic neuralgia), phantom limb pain and following trauma.

CEE 03 310 – for the treatment of sleep disorders

CEE 03-310 is a dopamine D1 receptor antagonist and CeNeS has been developing the drug candidate for sleep disorders and substance abuse. In the sleep disorders field CeNeS reported data previously describing the significant effect of CEE 03-310 on sleep patterns in young healthy volunteers. In October 2001 CeNeS announced the results of a second volunteer study completed in 24 male subjects. CEE 03-310 again showed a significant

alteration in sleep architecture, specifically changes in some non-REM stages of light and slow-wave sleep. These effects on sleep patterns, however, did not translate into effects on subjective ratings of sleep quality in the healthy volunteers.

To progress CEE 03-310 the next step in the clinical development programme should be in patients with sleep disorders to explore the effects of this drug in subjects with already dislocated sleep patterns such as patients experiencing sleep disorders following cardiac surgery. With these results and the increased package of clinical data CeNeS is actively seeking partners for the further development of this potential drug.

Pharmaceutical services

As part of the restructuring plan CeNeS is in the process of reducing its commitment to the three revenue generating businesses that formed this division, namely Cambridge Cognition, CeNeS Drug Delivery and Channelwork. All three businesses have continued to develop in 2001 but the combined requirement for further capital funding and the increased complexity they add to CeNeS organisation means they have become non-core assets.

CeNeS Cognition, the neuropsychological testing business continued to grow its revenues and extend its product range during 2001. In July 2001 CeNeS merged the business of Management Dynamics with its own cognition division and established Cambridge Cognition as a subsidiary with a separate management team. CeNeS is currently talking to interested parties regarding the sale of the cognition business.

CeNeS Drug Delivery had a difficult 2001. The UK sales for Moraxen since its launch in late 2000 were disappointing and the new UK and European partner, Bioglan Pharma, entered administration. The contract drug delivery business also experienced slower growth than forecast despite making progress on several of its commercial contracts. Under the restructuring plan CeNeS is exiting drug delivery and is in the process of divesting its drug delivery assets.

CeNeS Channelwork, the contract electrophysiology and ion-channel high throughput screening technology business has been re-organised and the team continue to make progress in developing the next generation of the technology. CeNeS is seeking partners to continue the development and commercialisation of the technology. In 2001 this division made significant progress in its development of an automated method of patch-clamping based on its proprietary Interface Patch-ClampTM methodology. In 2001 five systems were installed at GSK's research laboratories, three in the UK and two in the USA. In November 2001 CeNeS announced the second sale of $1.2m of AutoPatch systems to Wyeth Aerst.

In contrast to conventional patch-clamp technology AutoPatch does not require the use of a microscope or three-dimensional micro-manipulation. In addition, because it is fully automated and mechanically robust the technology has the potential for further miniaturisation and parallelisation to a high-throughput device capable of around 1000x the screening rate of conventional electrophysiology.

Financial review

Results of operations

The retained loss for the year ended 31 December 2001 was £64.6 million (2000: £20.8 million). The cash balance at 31 December 2001 was £2.2 million (31 December 2000: £10.6 million).

Turnover decreased to £5.3 million in the year to 31 December 2001 compared to £6.6 million in the previous financial year. The fall in revenue is primarily due to the reduction in contract and out-licensing revenues from the drug delivery division and is offset by the increase in recurring revenues from the first full year's contribution from the pharmaceutical products division. Gross profits were similarly reduced in 2001 primarily due to the inclusion of milestone revenues from the licensing of drug delivery technologies in 2000. The gross profits of the pharmaceutical division will be improved in 2002 as the full benefit of new manufacturing arrangements is realised. The discontinuing turnover and gross loss figures relate to the activities located at our drug delivery site in Scotland that will be shut down as part of the restructuring.

Excluding licence write-offs, research and development costs increased to £8.5 million in the year ending 31 December 2001 from £7.8 million in the previous financial year. This increase reflects the increased commitment CeNeS made to research and development following the acquisition of Cambridge NeuroScience in December 2000. The expense includes the write off of £1.3 million being the prepaid development cost relating to the opioid spray collaboration with Bioglan. This prepayment relates to a development and licence agreement that can be terminated by CeNeS on Bioglan's administration. This is offset by the write back of the £2 million creditor that was due to be paid to Bioglan Pharma under the same opioid spray agreement that can now be terminated on Bioglan's administration. CeNeS is currently discussing the termination of all the CeNeS/Bioglan agreements with the administrator of Bioglan. The discontinuing research and development costs relate to the expenditure incurred at our drug delivery site in Scotland that will be shut down as part of the restructuring and our Boston USA site that has already closed. Also included in research and development costs is £10.7 million arising on the consolidation of the Medipad licence acquired in the business venture with Elan Corporation.

Excluding goodwill write downs, administration expenses increased to £13.8 million from £6.3 million in 2000. Administration expenses include £5.4 million of goodwill amortisation (2000 £2.0 million). The amortisation relates to goodwill arising on the consolidation of Cambridge NeuroScience and CeNeS Limited and the amortisation of pharmaceutical product licences. The increase is also due to the increased cost of operating three sites located in England, Scotland and Boston, USA and the costs associated with establishing and running the pharmaceuticals marketing and sales operation. The discontinuing administration costs relate to the expenditure incurred at our drug delivery site in Scotland that will be shut down as part of the restructuring and our Boston USA site that has already been closed.

Following the implementation of the restructuring programme and the reduction of the ongoing research and development programmes the directors have reviewed the fair value of the goodwill held on the balance sheet as intangible assets at 31 December 2001. After review it has been agreed that the balances should be written down significantly and a write down of £33.7 million has been expensed. Of this write down £24.3 million relates to the goodwill arising on the consolidation of the discontinued Cambridge NeuroScience business in the USA which was acquired in December 2000 and £9.2 million relates to the continuing CeNeS Limited's merger with Core Group in December 1999.

The profit and loss account also includes the provision made for the loss on disposal of discontinued operations. These costs total £4.2 million and include £3.3 million relating to the write down of the fixed assets at the drug delivery manufacturing facility to their estimated realisable value and a provision of £0.9 million for the expected liability relating to the lease of the drug delivery premises in Scotland that are longer required by the group. The site in Scotland is being actively marketed. The loss on disposal provision is included in creditors due within one year on the balance sheet.

Following the changes introduced as part of the Finance Act 2000 CeNeS has recognised an estimated tax credit on its qualifying research and development expenditure amounting to £0.8 million in relation to 2001. This amount

has not yet been agreed with the Inland Revenue. The amount claimed in 2000 (£0.7 million) was not recognised in the accounts for the year ended 31 December 2000 as this was the first year of the scheme. This amount was received during 2001 and has also been recognised in 2001 as a tax credit.

Financing

CeNeS announced shareholder approval of the CeNeS/Elan business venture on June 25th 2001. The business venture combines CeNeS' lead pain candidate, M6G with Elan's Medipad drug delivery technology. At the same time Elan subscribed for 7.8 m shares at 54p raising £4.2m. Elan will also receive warrants over 779,933 CeNeS ordinary shares at an exercise price of 79.26p. To assist in the equity funding of the business venture, CeNeS issued to Elan a US$12,015,000 convertible exchangeable loan instrument. This instrument can be, in certain circumstances, redeemed in CeNeS shares, repaid in cash or exchanged for shares in the business venture at the option of Elan. There is an additional US$6,408,000 convertible loan instrument that may be drawn down based on CeNeS and Elan's agreement to assist in the funding of the clinical development programme of the business venture. Under the extension of the Elan/CeNeS business venture announced in October 2001, the funding available under the convertible loan instrument was increased by a further $1,602,000. Elan also subscribed for a second tranche of 9.1 million shares at 16.5p raising £1.5m. Elan will also receive further warrants over 914,988 CeNeS ordinary shares at an exercise price of 31.6p. Elan now holds 9.9% of CeNeS shares in issue

Financial outlook for 2002

On completion of the restructuring plan it is expected that CeNeS will have sufficient funds available to maintain its current operations into 2003. The Board will only seek additional funds if it is felt appropriate to support the expansion of the clinical and/or product portfolios.

Consolidated Profit and Loss Account
For the year ended 31st December 2001

			2001	2000
			£'000	£'000
Turnover	- continuing		**4,655**	2,576
	- discontinuing		**649**	4,027
			5,304	6,603
Gross profit/(loss)	- continuing		**2,549**	1,544
	- discontinuing		**(59)**	3,338
			2,490	4,882
Research and development costs		- continuing	**(5,138)**	(4,512)
		- licences acquired in continuing operations	**(10,664)**	(12,270)
		- discontinuing	**(3,332)**	(3,273)
			(19,134)	(20,055)
Administrative expenses		- continuing	**(9,358)**	(5,010)
		- goodwill write down in continuing operations	**(9,231)**	-
		- discontinuing	**(4,427)**	(1,244)
		- goodwill write down in discontinuing operations	**(24,479)**	-
			(47,495)	(6,254)
Operating loss	- continuing		**(31,842)**	(20,248)
	- discontinuing		**(32,297)**	(1,179)
			(64,139)	(21,427)
Provision for loss on disposal of discontinued operations			**(4,216)**	-
Interest payable (net)			**(106)**	603
Loss on ordinary activities before taxation			**(68,461)**	(20,824)
Taxation			**1,493**	-
Loss on ordinary activities after taxation			**(66,968)**	(20,824)
Minority interest			**2,371**	-
Retained loss for the period			**(64,597)**	(20,824)
Loss per ordinary share			**(40.7p)**	(20.9p)

Statement of total recognised gains and losses
For the year ended 31 December 2001

	Group	Group
	2001	2000
	£'000	£'000
Loss for the year	**(64,597)**	(20,824)
Gain on foreign currency translation	**124**	-
Total recognised gains and losses for the year	**(64,473)**	(20,824)

Consolidated Balance Sheet
As at 31st December 2001

	Group 2001 £'000	Group 2000 £'000
Fixed assets		
Intangible assets	17,992	56,917
Tangible assets	596	6,067
	18,588	62,984
Current assets		
Stocks	473	349
Debtors	2,072	3,986
Cash at bank and in hand	2,161	10,561
	4,706	14,896
Creditors		
Creditors - amounts falling due within one year	5,367	7,616
Net current (liabilities)/assets	(661)	7,280
Total assets less current liabilities	17,927	70,264
Creditors		
Creditors - amounts falling due after more than one year	8,998	2,668
Net assets	8,929	67,596
Capital and reserves		
Called up share capital	17,016	15,272
Share capital to be issued	5,262	5,307
Share premium account	85,603	81,473
Profit and loss account	(109,350)	(44,877)
Other reserves	10,421	10,421
Equity shareholders' funds	8,952	67,596
Minority interests	(23)	-
Total capital employed	8,929	67,596

Consolidated Cash Flow Statement

For the year ended 31st December 2001

	2001 £'000	2000 £'000
Net cash outflow from operating activities	(14,834)	(17,760)
Returns on investments and servicing of finance		
Interest received	199	743
Interest paid	(20)	(29)
Interest element of finance lease rental payments	(57)	(121)
Net cash inflow from returns on investment and servicing of finance	122	593
Tax refund	693	-
Capital expenditure and financial investments		
Payment to acquire tangible fixed assets	(223)	(298)
Payment to acquire product licence	(8,542)	-
Payment to acquire intangible fixed assets	-	(10,252)
Receipts from sale of tangible fixed assets	724	69
Net cash outflow from capital expenditure and financial investment	(8,041)	(10,481)
Acquisitions		
Purchase of subsidiary undertaking	-	(1,234)
Net cash acquired with subsidiary	20	4,685
Net cash inflow from acquisitions	20	3,451
Net cash outflow before financing	(22,040)	(24,197)
Financing		
Issue of ordinary share capital	5,742	21,242
Costs associated with issue of shares	-	(1,084)
Repayment of loans	(64)	(45)
Issue of convertible loan note (net)	8,502	-
Capital element of finance lease rentals	(540)	(507)
Net cash inflow from financing	13,640	19,606
Decrease in cash	(8,400)	(4,591)

Reconciliation of Net Cash Flow to Movement in Net Funds

	2001 £'000	2000 £'000
Decrease in cash in the period	(8,400)	(4,591)
Cash (inflow)/outflow due to changes in debt and finance leasing	(7,898)	552
Change in net funds resulting from cash flows	(16,298)	(4,039)
New finance leases	-	(175)
Exchange adjustments	-	-
Movement in net funds	(16,298)	(4,214)
Net funds brought forward	9,481	13,695
Net funds carried forward	(6,817)	9,481

Notes to preliminary results for the year ended 31 December 2001

Basis of Preparation
CeNeS continues to undertake a significant proportion of its activities in the field of drug development; as such it is likely to be loss making for the foreseeable future.

The financial information for the year ended 31 December 2001 is unaudited, and has been prepared in accordance with the accounting policies set out in the Annual Report for the year ended 31 December 2000. The auditors have not yet reported on the accounts for the year ended 31 December 2001, nor have any such accounts been delivered to the Registrar of Companies for Scotland. The financial information for the year ended 31 December 2000 has been extracted from the full report and accounts for that year which have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2001 will be sent to shareholders with the notice of the Annual General Meeting and filed with the Registrar of Companies in due course.

These preliminary results were approved by the Board on 26 March 2002 and have been agreed with the group's auditors. The audit report for the year ended 31 December 2001 has yet to be signed.

Based on the directors' plans and the currently available information, the auditors have indicated that at the time of signing their audit report, they will consider the need to draw attention in their report to the directors' comments on the status of the restructuring and the availability of funding, although they would not expect their report to be qualified in that respect.

The financial information set out in the preliminary statement does not comprise the Company's statutory accounts within the meaning of section 240(5) of the Companies Act 1985.

The Group has consistently applied accounting policies throughout the year and the preceding year.

Loss per share

The loss per share is based on losses of £64.6m (2000 £20.8m) and the weighted average number of shares in issue during the year of 158,906,546 shares (2000 99,561,870).

Creditors falling due after one year

This balance includes £8.7m relating to a convertible unsecured loan note. The note has a fixed term of 8 years and an interest rate of 5%.

Bioglan Pharma

The Directors of CeNeS are in discussions with the administrators of Bioglan Pharma with the intention of terminating all the agreements CeNeS has entered into with Bioglan Pharma. All the agreements can be terminated by CeNeS as a result of Bioglan's administration. Based on this knowledge the Director's have written back the £2m creditor that was due to Bioglan under the opiate spray agreement and written off the development prepayment of £1.3m that was being expensed to the profit and loss account over the term of the opioid spray development project.

Discontinued operations

In the consolidated profit and loss account, discontinuing activities refer to the drug delivery division based in Scotland which is being closed and the Boston, USA site which has already been shut down.

Reconciliation of operating loss to net cash outflow from operating activities

	2001	2000
	£'000	£'000
Operating loss	(64,139)	(21,427)
Depreciation	1,429	1,266
Amortisation of grant	(38)	(51)
Amortisation of goodwill	5,354	2,017
Amortisation of licence acquired	10,664	-
Loss on sale of tangible fixed assets	256	6
Goodwill write down	33,710	-
Benefits and options settled by shares	110	-
(Increase)/decrease in stocks	(100)	(273)
(Increase)/decrease in debtors	2,701	(2,970)
Increase/(decrease) in creditors	(4,781)	3,672
Net cash outflow from operating activities	(14,834)	(17,760)