CeNeS announces preliminary results for the year ended 31 December 2002.

Cambridge, UK 16 April 2003 - CeNeS Pharmaceuticals plc (LSE:CEN) today announced its results for the year ended 31 December 2002 and an update on its restructuring plan.

Key events since January 2002

Highlights

- Sale of pharmaceutical products in deal worth over £9 million
- M6G for post-operative pain ready to start Phase III trials after successful completion of Phase II trials
- CNS5161 for neuropathic pain ready to start extended Phase II trials
- Disposed of all non-core assets to complete restructuring plan: Cambridge Cognition, Channelwork

Financial and corporate

- Retained loss for 2002 of £6.3 million. Retained loss for 2001 was £64.6 million
- Turnover down slightly to £5.2 million in 2002 from £5.3 million in 2001

Commenting on the results, Alan Goodman Chairman said: “These results demonstrate that the Board were right to restructure the company in light of market conditions in October 2001. The company is now in a strong position to meet the challenges of the next two years”.

Chairman's statement

I am pleased to report that CeNeS has effected a successful financial restructuring whilst maintaining momentum in our key clinical assets. CeNeS is now well placed to progress its late stage clinical pipeline focused on the treatment of pain and thereby deliver increased shareholder value.

The year of 2002 has seen the successful completion of the main objectives of the restructuring plan commenced in late 2001. This success has been followed early in 2003 by the completion, subject to shareholder approval, of the disposal of our main pharmaceutical products in return for a significant cash consideration of over £9m. As a result, CeNeS is now in its strongest financial position for over four years. The pharmaceuticals products division had continued to perform to plan in 2002/2003 but, following the receipt of several unsolicited offers, the Board took the view that, in light of the poor funding environment, the investment needed in CeNeS late stage clinical assets and the financial restructuring of CeNeS partner, Elan, the realisation of a significant amount of cash was the best option.

CeNeS now has sufficient cash resources for at least the next two years and the capability to take forward its two late stage clinical projects in post-operative and neuropathic pain into their Phase III and Phase II programmes respectively. CeNeS also has interests in several non-core assets that have been sold/partnered under the restructuring programme.

The attainment of this secure, focused status is a major achievement and has been carried out against the background of extremely adverse conditions in the public markets and the biopharma sector in particular. In addition, CeNeS has had to deal with the implications of the financial restructuring plan implemented by its key corporate partner Elan.

The successful restructuring of CeNeS and the continued progress of our key clinical assets would not have been possible without the efforts of everyone at CeNeS and I would like to thank the Board, management and employees of CeNeS for all their hard work and commitment.

The Board now look forward to increasing investor interest and confidence in CeNeS starting from a sound financial base with a clear therapeutic focus. It is the Board's view that increased shareholder value will best be attained by the progression of CeNeS existing clinical assets in pain. However, the Board will also continue to examine realistic in-licensing and corporate transactions when it is felt that a successful conclusion will enhance the delivery of shareholder value.

The continuing depressed state of the biopharmaceutical sector remains an extremely challenging operating environment for the smaller companies such as CeNeS. The difficult decisions that the CeNeS Board has taken in the past eighteen months mean that CeNeS is well placed to cope with the ongoing uncertainty.

Chief Operating Officer's review

Strategy

After a difficult eighteen months CeNeS is now securely established as a small, well funded biotechnology company focused on its late stage clinical candidates - morphine-6-glucuronide (M6G) and CNS 5161 - that are targeted at the treatment of post-operative and neuropathic pain respectively. CeNeS plans to eventually license these potential products to pharmaceutical companies who will then complete their clinical development, gain marketing approvals and commercialise the products.

CeNeS medium term strategy is to take M6G and CNS 5161 through further Phase III and Phase II trials respectively in the next 18 months with the intention of assembling comprehensive data packages which will enhance the ability of the Company to locate suitable partners for the final development and commercialisation of these planned drugs. Concurrently, CeNeS will manage its cash resources prudently and plans to carry out the M6G and CNS 5161 clinical programmes referred to above and still have cash resources to fund operations into late 2005. CeNeS management will also continue to examine in-licensing opportunities with the intention of expanding the portfolio if suitable drug candidates and acceptable financial deal structures/clinical investment plans can be agreed. CeNeS Board will also, with the assistance of its advisors, continue to review corporate transactions that it judges to be in the interests of CeNeS shareholders. CeNeS improved financial position means that it is better placed to obtain value for shareholders should any transaction proceed to completion.

CeNeS continues to have a diverse range of interests in non-core assets that have been sold or partnered under the restructuring programme. In the longer term this portfolio could generate up to $20 million plus royalty streams if various milestones and targets are achieved under the agreed contracts. Under its strategic plan CeNeS management will continue to monitor the progress of these interests.

Pharmaceutical products sale

Raising funds from the disposal of the pharmaceutical products reduces the Company's dependence on Elan in the continuing late stage development of M6G and enables the Company alone to continue the clinical development of M6G until a new partner is secured.

The proceeds of the disposals will also allow the Company to develop its second clinical candidate, CNS 5161, targeted at the treatment of neuropathic pain. Phase II clinical trials of CNS 5161 are planned to commence as soon as practicable in 2003 assuming the passing of the Ordinary Resolution at the Disposals EGM. The funds raised from the Disposal will also remove any perceived short term risk associated with the Company's cash resources and will enable the Board to negotiate further partnership deals from a more financially secure position, thereby increasing the prospects of the Board realising greater value to shareholders.

Elan Joint Venture
CeNeS is continuing discussions with its partner Elan with the intention of simplifying the joint venture. Further details will be announced in due course as the details of the new arrangement are finalised.

Restructuring

During the period under review CeNeS management completed the sale of two non-core divisions and several out-licensing deals.

Cambridge Cognition sale
This neuropsychological testing business was sold to a management buy out team backed by venture capitalists in May 2002 to create a new company called Cambridge Cognition Limited. Under the terms of the sale, CeNeS will realise a maximum of £1m in stage payments and CeNeS retains rights to use the CANTAB cognitive testing system in its clinical trials. CeNeS had owned the business since early 1997 and revenues had grown to £1.1m in 2001 from £0.4m in 1997. The division was not core to the strategy going forward and required further investment to realise the full potential of the technology and software that CeNeS had developed. In mid 2001, CeNeS established the necessary management team to lead the spinout.

CeNeS Channelwork spinout
In August 2002, CeNeS announced the spinout of its ion channel technology development business (Channelwork). Channelwork was acquired by a new company called Xention Discovery Ltd in a transaction led by a venture capital fund manager specialising in life sciences start-up companies. In addition to a minority shareholding in the new company, CeNeS retains certain option rights over clinical candidates for the treatment of pain disorders that arise from the research undertaken by Xention.

Under the terms of the transaction, Xention has acquired the AutoPatch™ technology and all related intellectual property. The CeNeS employees working on the project also transferred to Xention. AutoPatch is a pioneering technology that enables high-throughput functional screening of ion channel drug targets at speeds and in volumes not possible with conventional technology. This enhanced throughput will be exploited by Xention to address more targets and to create more novel chemistry than would be possible using traditional methods. On completion, CeNeS received consideration of a minority shareholding in Xention and a loan note of £375,000.

Disposal of other non-core assets

In late 2001, CeNeS completed the disposal of the ion-channel focused chemical library to Scion Pharmaceuticals, Inc. for consideration of up to $2.8m. In early 2002 CeNeS assigned a Parkinson's disease research programme to our partner Shire Pharmaceuticals plc and again retained an interest in the form of milestones of up to £2m and royalties in this programme should it proceed through clinical development.

In November 2002, CeNeS out-licensed its recombinant glial growth factor (GGF2) for the potential treatment of multiple sclerosis (MS) to Acorda Therapeutics, Inc. a leading US based research and development company specialising in spinal cord injury and central nervous system (CNS) disorders.

GGF2 is involved in controlling the cells that form and maintain the myelin sheath insulating nerve axons in the CNS. These cells are thought to be involved early in the demyelination of nerve fibres seen in MS. A recombinant version of GGF2, rhGGF2, is currently in late stage pre-clinical trials for multiple sclerosis. Cambridge Neuroscience, which was acquired by CeNeS in December 2000, along with Bayer, had originally developed the growth factor.

Under the terms of the agreement, Acorda acquired CeNeS rights relating to GGF2 and its earlier stage research candidate neuregulin 2 (NRG2). In return, CeNeS will receive up to $13m consisting of $0.5m upfront together with up to $12.5m further stage payments dependent on the achievement of clinical milestones. CeNeS will also receive royalties on any product sales.

In December 2002, CeNeS signed an agreement to out-licence CEE 03-310, its selective antagonist of dopamine D1-like receptors, which CeNeS had been developing for the potential treatment of sleep disorders and substance abuse. The compound was out-licensed to Addex Pharmaceuticals, a biopharmaceutical company committed to the discovery, development and marketing of novel therapeutic compounds for the treatment of addiction and other neuropsychiatric conditions in spinal cord injury and central nervous (CNS) disorders. Addex will focus on the development of the compound in the treatment of drug abuse.

Under the terms of the agreement, Addex acquired CeNeS rights relating to CEE 03-310 and in return, CeNeS will receive up to $4.5m consisting of $0.3m upfront together with up to $4.2m further stage payments dependent on the achievement of clinical milestones. CeNeS will also receive royalties on any product sales.

Financial Review

Results of operations

The retained loss for the year ended 31 December 2002 was £6.3 million (2001: £64.6 million). The cash balance at 31 December 2002 was £0.5 million (31 December 2001: £2.2 million).

Turnover decreased to £5.2 million in the year to 31 December 2002 compared to turnover of £5.3 million in the previous financial year. A fall in the revenues generated by the Cambridge Cognition Limited and Channelwork divisions – which were both sold during the year – was largely offset by the continued steady growth in sales of the portfolio of pharmaceutical products and also non-recurring revenues generated in 2002 from the divestment of non-core assets under the restructuring plan. Gross profits have increased as a result of changes in pharmaceutical product manufacturing arrangements and the recognition of certain licensing revenues. The discontinued turnover and gross profit figures relate to the activities of Cambridge Cognition and the Channelworks division which were disposed of during the year.

Research and development costs in total decreased significantly to £3.5 million (2001: £8.3 million) as a result of the cut backs and divestments made in non-core activities. Research and development costs in continuing operations have decreased to £2.1 million (2001: £2.5 million). The majority of this spend relates to the clinical development of M6G undertaken by the CeNeS/Elan joint venture. CeNeS has reclaimed its joint venture spend by calling down funds under the 7% Convertible Unsecured Loan Stock 2007 instrument issued to Elan under the joint venture arrangement. Research and development costs in discontinued operations have decreased to £1.5 million (2001: £5.8 million) principally as a result of the discontinuation of non-core research and development activities. The reduction in discontinued research and development cost is offset by the inclusion of an amount of £1.0 million paid in December 2002 to British Technology Group (BTG) for drug delivery licences originally acquired from BTG in 1997. At the same time BTG subscribed for 4 million CeNeS ordinary 10 pence shares at 25 pence per share.

Administrative expenses, excluding exceptional goodwill write downs of £1.7 million (2001: £33.7 million), have significantly decreased to £6.2 million (2001: £13.8 million), reflecting cut backs made under the restructuring process. Included in these numbers is the charge for amortisation of intangible assets which for the year to 31 December 2002 was £2.8million (2001 £3.5 million).

Administrative costs relating to discontinued activities were £0.8 million (2001: £5.3 million). Following the disposals of Cambridge Cognition Limited and the Channelworks division during 2002, staff numbers have reduced to 11 from 85 as at 31 December 2001.

Following the disposals of Cambridge Cognition Limited and the Channelworks division and as a result of the prevailing market conditions, the directors have reviewed the carrying value of the goodwill held on the balance sheet as an intangible asset at 31 December 2002. Accordingly, the directors have decided that the balance of goodwill should be written down to £7.5 million, resulting in a write down of £1.7 million. The goodwill arose on CeNeS Limited's merger with Core Group in December 1999.

Other operating income of £1.6 million (2001: £0.5 million) relates to the development spend reclaimed by CeNeS in the period under the CeNeS/Elan joint venture arrangements. A profit on disposal of £0.6 million (2001: £nil) was made on the sales of Cambridge Cognition Limited and the Channelworks division. Other interest receivable and similar income of £1.2 million (2001: £nil) relates to the gain on foreign currency translation made on conversion of the dollar denominated long term convertible debt.

A provision of £0.9 million (2001: £0.9 million) has been made for the expected liability relating to the leases of premises in Scotland that are no longer required by the group. The sites in Scotland are being actively marketed. Of this provision, £0.6 million (2001: £0.7 million) is included in creditors due after more than one year and £0.3 million (2001: £0.2 million) is included in creditors due within one year.

During the 2002 financial year CeNeS received £962,000 under the research and development tax credit scheme in respect of the year to 31 December 2001. It is estimated that the claim for 2002 will be £85,000. This amount has yet to be agreed with the Inland Revenue. The amount to be claimed in 2002 is lower because CeNeS has received funding via the CeNeS/Elan joint venture and this receipt reduces the amount of qualifying research and development expenditure.

The tax credit in the profit and loss account for 2002 of £226,000 includes £85,000 in respect of 2002, £162,000 received in respect of 2001 and £21,000 repayable in respect of 2000. The tax credit for 2001 of £1,493,000 included amounts received in respect of 2000 of £693,000 and a provision for £800,000 in respect of the anticipated claim for 2001.

Fixed assets
The decrease in intangible assets to £13.3 million (2001: £18.0 million) is a result of amortisation of product licences and goodwill of £2.8 million, excluding the BTG licence, the disposal of Cambridge Cognition Limited and the impairment of CeNeS Limited goodwill of £1.7 million.

Tangible fixed assets have decreased to £43,000 (2001: £596,000) as a result of the disposals of Cambridge Cognition Limited and the Channelworks division, and the closure of the Scottish premises.

Debtors
Debtors due after more than one year of £2.1 million (2001: £nil) include amounts advanced to CeNeS (Bermuda) Limited of £1.8million, deferred consideration owed following the disposal of Cambridge Cognition Limited and the loan note due following the disposal of the Channelworks division. Debtors due within one year are lower at £1.2 million (2001: £2.6 million) mainly because of lower trade debtors following the group restructuring and a lower tax debtor in respect of the research and development tax credit.

Creditors
Creditors due within one year are lower at £2.1 million (2001: £4.5 million). Included in 2001 creditors were payments in advance of £0.5 million (2002: £nil), restructuring provisions of £0.8 million (2002: £0.4 million) and obligations under finance leases of £0.2 million (2002: £8,000). Trade creditors, accruals and tax and social security creditors are also lower in 2002 as a result of the restructuring process.

The share of net liabilities of joint venture of £1.8 million (2001: £0.5 million) reflects the losses made by CeNeS (Bermuda) Limited in carrying out development work on M6G.

Cash resources
Net cash outflow for the year ended 31 December 2002 was £1.7m (2001: £8.4m). Cash at bank and in hand at 31 December 2002 was £0.5m (2001: £2.2m).

Convertible debt
The 5% convertible unsecured exchangeable loan stock 2009 has decreased to £8.0 million (2001: £8.7 million) after interest of £0.4 million and a gain on retranslation of £1.1 million. The movement on the 7% Convertible Unsecured Loan stock 2007 of £1.8 million reflects the draw downs made by CeNeS under the CeNeS/Elan joint venture to fund CeNeS portion of the development work undertaken in 2001/2002 on the joint ventures development of M6G.

Financial outlook for 2003 and 2004
One of the key objectives of the restructuring process initiated in 2001 was for the company to be self funding to the end of 2003. As a result of the progress to date, the directors are now confident that this target will be exceeded. This was achieved during 2002 with the disposals of non-core assets. The disposal of the pharmaceutical products, generating cash of approximately £9 million, means that the company will have sufficient funds to progress its late stage clinical portfolio and to fund other corporate activities over the next two years.

Consolidated Profit and Loss Account

For the year ended 31 December 2002		**Unaudited 2002 £'000**	Audited * 2001 £'000
Turnover	- continuing	4,146	3,145
	- discontinued	1,086	2,159
		5,232	5,304
Cost of sales	- continuing	(1,590)	(1,795)
	- discontinued	(212)	(1,019)
		(1,802)	(2,814)
Gross profit	- continuing	2,556	1,350
	- discontinued	874	1,140
		3,430	2,490
Research and development costs	- continuing	(2,058)	(2,543)
	- discontinued	(1,478)	(5,803)
		(3,536)	(8,346)
Administrative expenses	- continuing	(5,400)	(8,514)
	- exceptional goodwill write down in continuing operations	(1,731)	(9,231)
	- discontinued	(788)	(5,271)
	- exceptional goodwill write down in discontinued operations	-	(24,479)
		(7,919)	(47,495)
Other operating income		1,574	519
Operating loss	- continuing	(5,059)	(18,419)
	- discontinued	(1,392)	(34,413)
		(6,451)	(52,832)
Share of operating loss of joint venture		(1,391)	(9,057)
Profit on disposal of discontinued operations		553	-
Provision for loss on disposal of discontinued operations		-	(4,216)
Interest payable		(445)	(106)
Other interest receivable and similar income		1,186	-
Loss on ordinary activities before taxation		(6,548)	(66,211)
Taxation		226	1,493
Loss on ordinary activities after taxation		(6,322)	(64,718)
Minority interest		64	121
Loss for the year		(6,258)	(64,597)
Loss per ordinary share		(3.7p)	(40.7p)

* Results for this year have been re-presented to show the group’s interest in CeNeS (Bermuda) Limited as a joint venture, see note 5.

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2002	**Unaudited 2002 £'000**	Audited 2001 £'000
Loss for the year	(6,258)	(64,597)
Gain on foreign currency translation	18	124
Total recognised gains and losses for the year	(6,240)	(64,473)

Consolidated Balance Sheet

As at 31 December 2002

	Unaudited 2002 £'000	Audited *2001 £'000
Fixed assets		
Intangible assets	13,309	17,992
Tangible assets	43	596
	13,352	18,588
Current assets		
Stocks	888	473
Debtors - amounts falling due after more than one year	2,142	-
Debtors - amounts falling due within one year	1,247	2,591
Cash at bank and in hand	480	2,161
	4,757	5,225
Creditors - amounts falling due within one year	(2,145)	(4,515)
Net current assets	2,612	710
Total assets less current liabilities	15,964	19,298
Creditors - amounts falling due after more than one year		
5% convertible unsecured exchangeable loan stock 2009	(7,995)	(8,717)
7% convertible unsecured loan stock 2007	(1,801)	-
Other creditors	(663)	(1,013)
Share of net liabilities of joint venture	(1,793)	(512)
Net assets	**3,712**	**9,056**
Capital and reserves		
Called up share capital	17,441	17,016
Share capital to be issued	5,219	5,262
Share premium account	86,235	85,603
Profit and loss account	(115,590)	(109,350)
Other reserves	10,407	10,421
Equity shareholders' funds	3,712	8,952
Minority interests	-	104
Total capital employed	**3,712**	**9,056**

* The prior year has been re-presented to show the group’s interest in CeNeS (Bermuda) Limited as a joint venture, see note 5.

Consolidated Cash Flow Statement

For the year ended 31 December 2002

	Unaudited	Audited
	2002	2001
	£'000	£'000
Net cash outflow from operating activities	(5,005)	(14,834)
Returns on investments and servicing of finance		
Interest received	49	199
Interest paid	(15)	(20)
Interest element of finance lease rental payments	(8)	(57)
Net cash inflow from returns on investment and s ervicing of finance	26	122
Taxation		
Corporation tax refund	962	693
Capital expenditure and financial investment		
Payment to acquire tangible fixed assets	(16)	(223)
Payment to acquire intangible fixed assets	(1,000)	-
Receipts from sale of tangible fixed assets	354	724
Net cash (outflow)/inflow from capital expenditure and financial investment	(662)	501
Acquisitions and disposals		
Investment in joint venture	-	(8,542)
Proceeds from sale of subsidiary undertaking	488	-
Net cash acquired with subsidiary	-	20
Net cash inflow/(outflow) from acquisitions and disposals	488	(8,522)
Net cash outflow before financing	(4,191)	(22,040)
Financing		
Issue of ordinary share capital	1,005	5,742
Repayment of loans	(61)	(64)
Issue of convertible loan note	1,794	8,502
Capital element of finance lease rentals	(228)	(540)
Net cash inflow from financing	2,510	13,640
Decrease in cash	(1,681)	(8,400)

Reconciliation of Net Cash Flow to Movement in Net Debt

	2002	2001
	£'000	£'000
Decrease in cash in the period	(1,681)	(8,400)
Cash inflow due to changes in debt and finance leasing	(1,505)	(7,898)
Change in net debt resulting from cash flows	(3,186)	(16,298)
Exchange adjustment	1,186	-
Non-cash items	(471)	(215)
Movement in net debt	(2,471)	(16,513)
Net (debt)/funds brought forward	(7,032)	9,481
Net (debt) carried forward	(9,503)	(7,032)

Notes to preliminary results for the year ended 31 December 2002

1. Basis of Preparation

Other than as explained in note 5, these preliminary results have been prepared on a consistent basis with the financial statements for the year ended 31 December 2001, except that FRS 19 ‘Deferred tax’ has been adopted. The adoption of FRS 19 has had no effect on the amounts disclosed.

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

The financial information for the year ended 31 December 2002 is unaudited, and has been prepared in accordance with the accounting policies set out in the Annual Report for the year ended 31 December 2001. The auditors have not yet reported on the accounts for the year ended 31 December 2002, nor have any such accounts been delivered to the Registrar of Companies for Scotland. The financial information for the year ended 31 December 2001 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 2002 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 15th April 2003

2. Loss per share

The loss per share is based on losses of £6.3m (2001: £64.6m) and the weighted average number of shares in issue during the year of 170,361,713 shares (2001: 158,906,546).

3. Discontinued operations

In the consolidated profit and loss account, discontinued activities refer to Cambridge Cognition Limited and the Channelworks division which have been sold, as well as the drug delivery division based in Scotland and the site in Boston, USA whose operations were discontinued in 2001.

4. Reconciliation of operating loss to net cash outflow from operating activities

	Unaudited 2002 £'000	Audited 2001 £'000
Operating loss	(6,451)	(52,832)
Depreciation	184	1,429
Release of grant	(96)	(38)
Amortisation of goodwill/licences	3,820	5,355
(Profit)/loss on sale of tangible fixed assets	(207)	256
Impairment of goodwill	1,731	33,710
Benefits and options settled by shares	-	109
(Increase) in stocks	(460)	(100)
(Increase)/decrease in debtors	(1,559)	2,182
(Decrease) in creditors	(1,967)	(4,905)
Net cash outflow from operating activities	**(5,005)**	**(14,834)**

5. Accounting for joint venture arrangement

Due to its 80.1% shareholding in CeNeS (Bermuda) Limited, the Group accounted for CeNeS (Bermuda) Limited as a subsidiary in the Financial Statements for the year ended 31 December 2001.

The Directors continually review the method of accounting for this arrangement and now believe that to account for CeNeS (Bermuda) Limited as a joint venture rather than as a subsidiary better presents the substance of the relationship. As a result, CeNeS (Bermuda) Limited has been accounted for using the gross equity method of accounting in these preliminary results. The comparative figures for have also been adjusted to reflect this method of accounting.

6. Reconciliation of movements in group shareholders' funds

	Unaudited 2002 £'000	Audited *2001 £'000
Loss for the financial year	(6,258)	(64,597)
Gain on foreign currency translation	18	124
Movement in share option reserve	(14)	-
Movement in share capital to be issued	(43)	(45)
Issue of shares	1,057	5,874
Net decrease in shareholders' funds for the year	(5,240)	(58,644)
Opening shareholders' funds	8,952	67,596
Closing shareholders' funds	**3,712**	**8,952**

* The prior year has been re-presented to show the group’s interest in CeNeS (Bermuda) Limited as a joint venture.