Sinclair Pharma plc

Interim Report to 31 December 2003




SINCLAIR

SINCLAIR PHARMA PLC INTERIM RESULTS

HIGHLIGHTS

Interim results for the six months to 31 December 2003. The results follow the placing and admission of Sinclair's shares on the Alternative Investment Market of the London Stock Exchange ("AIM") on 11 December 2003.

- **Successful IPO in December 2003**
  - Placing of 18,986,199 ordinary shares on AIM at 115p per share
  - Placing raised £21.8 million, which included £8.9 million, net of expenses, for the Company
  - Strong aftermarket in shares
- **First half performance in line with Board's expectations**
  - Turnover £0.9m
  - Adjusted Operating loss* (£1.4m)
  - EPS loss per share 3.3p
  - Cash balances of £9.1m at 31December 2003
- **Strong regulatory progress with FDA approval of three products**
  - FDA 510(k) approval of Atopiclair™ for atopic dermatitis
  - FDA 510(k) approval of Xclair™ for radiation dermatitis
  - FDA 510(k) approval of Salinum™ for xerostomia
  - Gelclair™ receives reimbursement approval in UK
- **Agreements signed with:**
  - Ranbaxy (UK) Limited for distribution of Visclair™ in UK
  - Teva Tuteur for distribution of SST™ in Argentina
  - BTG International Limited/Penn Pharmaceutical Services Limited for the global distribution of Paradote®
- **Good progress being made with licensing of Atopiclair™**

*Pre National Insurance provision and Goodwill amortisation

Mr Steve Harris, Non-executive Chairman said: "The success of our AIM listing is testament to the recognition of our expertise in identifying niche products and achieving regulatory approvals and marketing agreements for them.

Sinclair has made significant regulatory progress, gaining FDA approval for three of our products whilst striking agreements for the distribution of several other products. We continue to work on licensing agreements for Atopiclair™ and Xclair™ and I am confident that the results for the full year to 30 June 2004 will demonstrate further good progress."

www.sinclairpharma.com

CHAIRMAN'S STATEMENT

OVERVIEW

The Company enjoyed an extremely successful first half of the financial year with significant regulatory progress and the successful flotation of the Company on the Alternative Investment Market of the London Stock exchange ("AIM"). The placing of the Company's shares on 11 December 2003 raised £21.8 million, including £8.9 million of new money for Sinclair (net of expenses).

We believe that the successful flotation of Sinclair in uncertain market conditions was due in part due to the Company's innovative business model. Sinclair sources and acquires late stage niche patented products and applies its regulatory expertise to commercialise products in a short time frame, thereby minimising the risks and long timeframes often associated with the pharmaceutical industry.

The Board believes the increased profile and status of Sinclair as a listed company will assist it in pursuing its acquisition and licensing strategy and enable its shares to be used as consideration, as and when opportunities occur.

This has also been a six month period when important milestones, including registration of three products in the US, were achieved and our development programmes for pipeline products have made good progress.

We are pleased to report that the results for the 6 month period to 31 December 2003 are in line with the Board's expectations.

PRODUCT

Developments, Registrations and Approvals

During the six month period to 31 December 2003, the Company has successfully obtained the registration of a number of its products and made good progress towards further registrations of additional products. In particular, over the period, the Company has:

- obtained FDA (Food and Drug Administration) 510(k) registration in the US for three of its products as prescription and OTC ("Over the Counter") medical devices, namely:
  Atopiclair™ for atopic and contact dermatitis
  Xclair™ for radiation dermatitis
  Salinum™ for xerostomia
- received positive results from a double blind controlled study of Atopiclair™ performed in the US on patients with contact dermatitis;

– gained approval for reimbursement in the UK from the Department of Health for Gelclair™, in August 2003; and
– applied for a further patent to support its developing portfolio of dermatology products.

Licensing

During the first half of the financial year, we have continued to make progress with our strategy of licensing out our products once they have been registered in key territories, mainly the US and the EU.

In particular, the following has been achieved during the period under review:

– In July 2003, we announced that the Company, had in June, signed an exclusive worldwide licensing agreement with Helsinn Healthcare SA, a private Swiss Pharmaceutical company, to take over the marketing and distribution rights for Gelclair™, which is registered as a medical device for the treatment of oral mucositis in both the EU and the US.
– Visclair™, which can be sold OTC for the treatment of viscous mucus associated with many lung conditions, received UK reimbursement approval in early 2003, and in September was licensed in the UK to Ranbaxy (UK) Limited.
– In October 2003, we signed an agreement with Teva Tuteur S.A. in Argentina to distribute SST™, a sugar-free pastille designed to stimulate the salivary glands to increase the flow of saliva.
– Also, in October, we signed an agreement with BTG International Limited and Penn Pharmaceutical Services Limited for Sinclair to in-license the worldwide rights to Paradote®, a paracetamol product with built in antidote for overdosing.

Disposal

In September 2003 the company sold its Caprin™ (enteric coated asprin) business Pinewood Health Care Limited, for £650,000, as Caprin™ was outside Sinclair's focus area of niche products which at present lie mainly in oral health, oncology support and dermatology.

FINANCIALS

We are pleased to report that group's sales for the six months period to 31 December 2003, are in line with Board's expectations. Sales for the period were £0.9 million against £2.3 million during the comparative 2002 period, which was inflated by an exceptional stocking order for Gelclair™ in the US.

In particular, Aloclair™ sales grew as expected during the period and we believe that this will continue more strongly through the second half of our financial year as reordering of Aloclair™ is now occurring following a successful launch in the US and UK. Aloclair™ sales growth should also increase as the gel presentation line extension for infants and children is introduced into more markets.

SST™ and Salinum™ sales are growing both in existing territories and through the introduction of SST™ in more territories. In addition, revenue from Gelclair™ will begin to flow in the second half of the year as a result of signing a worldwide licensing agreement with Helsinnn.

Over the period, overheads also have been maintained in line with the Board's expectations at £1.7 million (2002: £1.3 million).

The results for the period were affected by the sale of Caprin™ concluded in September 2003, which resulted in an exceptional gain of £87,000, after charging associated goodwill. In addition, there was also an exceptional credit arising in December 2003 relating to National Insurance provision on share options and warrants. This provision was made in the year ended 30th June 2003 and related to the provision for a National Insurance charge on the Company, in respect of the warrants put in place at the time of the management buy-in in August 2000. The National Insurance liability has been transferred to the relevant employees in return for the issue of further warrants to cover the costs of settling this liability. This liability transfer was effected at the time of the flotation of the group. The estimated flotation price used for the calculation of the provision was, as it transpired, too high and as a result there is a credit of £0.6 million to the profit and loss account in the six month period ending 31 December 2003.

Operating loss, before goodwill amortisation and National Insurance provision, was £1.4 million (2002: £0.2 million loss). Loss after tax, goodwill amortisation and National Insurance provision was £1.3 million loss (2002: £1.5 million loss).

As at 31 December 2003, the group had net cash of £9.1 million.

MANAGEMENT

In December 2003, Andrew Sinclair, the founder of Sinclair Pharmaceuticals Limited, stepped down as non-executive chairman of the Company when I was appointed to take over the role. Andrew remains on the Board as a non-executive director until the appointment of a replacement.

I would like to thank our staff and senior managers for their contribution to the Company both leading up to the flotation and afterwards.

PROGRESS SINCE 31 DECEMBER 2003

Since 31 December 2003, the Group has increased the pace of its product development and licensing activities as follows:

– In January 2004, we received EU regulatory approval for Atopiclair™, for atopic and contact dermatitis

– In addition, we received re-imbursement approval for Salinum™, a saliva substitute, in the UK

– In March 2004 we filed for registration (510k) in the US for our product Sebclair™, for the treatment of sebborrheic dermatitis

– In March 2004, Ranbaxy launched our product Visclair™ in the UK

– We have also enlarged our clinical trial programme during the last six months to now to include atopic dermatitis, sebborrheic dermatitis, radiation dermatitis, oral mucositis, oral pain and gastro-oesophageal reflux

In the meantime, we await news from the FDA following our recent application for Decapinol®, our product for the treatment and prevention of gingivitis and periodontitis, to be categorised as an ethical medical device in the US. We have also filed responses to the Swedish regulatory authorities providing answers to questions they had addressed concerning the registration application for Decapinol® in Sweden. We have commenced licensing activity for Salinum™ and have recently signed distribution agreements with Electra Box AB for Sweden and IPC Nordic for Norway, Finland and Denmark.

OUTLOOK

Sinclair has enjoyed an active first half-year on all fronts with product objectives being met and an intensive second quarter dominated by the successful placing of our shares on AIM. Our profitability until now has to a large degree been as a result of up-front licensing and milestone payments and our acquisition and registration strategy will provide opportunities for these to continue. However, with licensing agreements in place in 40 countries including the major US market, (Gelclair™ and Aloclair™) the directors believe that as products begin to generate revenues, up-front licensing and/or milestone payments will contribute proportionately less towards total revenue.

Following the successful registration of Atopiclair™ and Xclair™, which both obtained EU approval in January 2004 as Class 2 medical devices, the focus during the remainder of this financial year is to conclude licence agreements for these products, especially for Atopiclair™ in the US and Europe. In the Admission document published in connection with the flotation, we stated that the group was in discussion with a number of parties for the licensing of Atopiclair™. I am pleased to report that these discussions have continued and good progress is being made.

In line with the group's strategy contained in the Admission document published at the time of the flotation of the group, the Board intends to pursue the development of the group via acquisition and is actively reviewing potential opportunities.

As a result of the good progress made to date, the directors are confident that Sinclair's results for the year ending 30 June 2004 will further demonstrate the group's progress.

R.S Harris B.Pharm., F.R. Pharm.S.

Non-executive Chairman

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 AIM rules issued by the London Stock Exchange Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

INDEPENDENT REVIEW REPORT TO SINCLAIR PHARMA PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 31 December 2003 which comprises the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses and the related notes 1 to 8. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company having regard to guidance contained in Bulletin 1999/4 "Review of interim financial information" issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

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 as required by the AIM Rules issued by the London Stock Exchange.

Review work performed

We conducted our review having regard to the guidance contained in Bulletin 1999/4 "Review of interim financial information" 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 31 December 2003.

Ernst & Young LLP
Wessex House
Threefield Lane
Southampton

26 March 2004

GROUP PROFIT AND LOSS ACCOUNT

For the six months to 31 December 2003

	Notes	*Unaudited Half Year 31-Dec-03 £'000*	*Unaudited Half Year 31-Dec-02 £0'00*	*Audited Year End 30-Jun-03 £'000*
TURNOVER				
Continuing operations		845	1,777	8,113
Discontinued operations		78	483	966
	2	923	2,260	9,079
Cost of sales		(579)	(1,133)	(2,738)
GROSS PROFIT		344	1,127	6,341
Administrative expenses excluding National Insurance provision and goodwill amortisation		(1,791)	(1,323)	(3,436)
National Insurance provision on share options		578	(870)	(1,360)
Goodwill amortisation		(461)	(469)	(939)
Total administrative expenses		(1,674)	(2,662)	(5,735)
OPERATING (LOSS)/PROFIT				
Continuing operations		(1,241)	(1,563)	551
Discontinued operations		(89)	28	55
		(1,330)	(1,535)	606
Profit on sale of operations	*7*	87	–	–
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		(1,243)	(1,535)	606
Interest receivable		18	–	4
Interest payable		(13)	(10)	(27)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,238)	(1,545)	583
Tax charge on (loss)/profit on ordinary activities		44	–	143
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(1,282)	(1,545)	440
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL PERIOD/YEAR	*6*	(1,282)	(1,545)	440
Basic and diluted (loss)/earnings per share				
Basic (loss)/earnings per share	*8*	(3.3)p	(4.8)p	1.3p
Diluted (loss)/earnings per share	*8*	(3.3)p	(4.8)p	1.1p

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the six months ended 31 December 2003

	Unaudited Half Year 31-Dec-03 £000	*Unaudited Half Year 31-Dec-02 £000*	*Audited Year End 30-Jun-03 £000*
(Loss)/profit for the financial period/year attributable to members of the parent company	(1,282)	(1,545)	440
Exchange difference on retranslation of net assets of subsidiary undertaking	–	–	(48)
TOTAL RECOGNISED LOSSES AND GAINS RELATING TO THE PERIOD/YEAR	(1,282)	(1,545)	392

GROUP BALANCE SHEET

At 31 December 2003

	Notes	Unaudited Half Year 31-Dec-03 £000	Unaudited Half Year 31-Dec-02 £000	Audited Year End 30-Jun-03 £000
FIXED ASSETS				
Intangible assets	5	17,377	17,602	17,127
Tangible assets		184	190	164
		17,561	17,792	17,291
CURRENT ASSETS				
Stocks		222	729	260
Debtors		1,968	1,399	4,410
Cash at bank and in hand		9,095	6	364
		11,285	2,134	5,034
CREDITORS: amounts falling due within one year		2,609	4,794	4,766
NET CURRENT ASSETS/(LIABILITIES)		8,676	(2,660)	268
TOTAL ASSETS LESS CURRENT LIABILITIES		26,237	15,132	17,559
PROVISIONS FOR LIABILITIES AND CHARGES				
National Insurance provision on share options		33	870	1,360
Minority interest		(4)	(4)	(4)
		26,208	14,266	16,203
CAPITAL AND RESERVES				
Called up share capital		538	118	118
Share premium		16,001	3,428	3,428
Shares to be issued		4,367	4,367	4,367
Merger reserve		10,062	10,062	10,062
Other reserve		734	–	–
Profit & loss account		(5,494)	(3,709)	(1,772)
SHAREHOLDERS' FUNDS – EQUITY INTERESTS	6	26,208	14,266	16,203

GROUP STATEMENT OF CASH FLOWS

For the six months ended 31 December 2003

	Notes	*Unaudited Half Year 31-Dec-03 £000*	*Unaudited Half Year 31-Dec-02 £000*	*Audited Year End 30-Jun-03 £000*
Net cash inflow/(outflow) from operating activities	*3a*	526	(799)	(789)
Returns on investments and servicing of finance				
Interest received		18	–	4
Interest paid		(13)	(10)	(27)
		5	(10)	(23)
Taxation				
Corporation tax refunded		–	–	42
Capital expenditure				
Payments to acquire tangible fixed assets		(39)	(53)	(61)
Payments to acquire intangible fixed assets		(26)	–	–
		(65)	(53)	(61)
Acquisitions and disposals				
Purchase of subsidiary undertaking		–	(51)	(51)
Net cash acquired with subsidiary undertaking		–	(3)	(3)
Net proceeds on sale of operations		339	–	–
		339	(54)	(54)
Net cash inflow/(outflow) before financing		805	(916)	(885)
Financing				
Issue of ordinary share capital		11,000	–	–
Share issue costs		(1,807)	–	–
Net movement in short term borrowings		(450)	–	450
Net movement in long term borrowings		(587)	–	–
		8,156	–	450
Increase/(decrease) in cash	*3b*	8,961	(916)	(435)

GROUP STATEMENT OF CASH FLOWS (Continued)

For the six months ended 31 December 2003

Reconciliation of net cash flow to movement in net debt

	Notes	*Unaudited Half Year 31-Dec-03 £000*	*Unaudited Half Year 31-Dec-02 £000*	*Audited Year End 30-Jun-03 £000*
Increase/(decrease) in cash		8,961	(916)	(435)
Cash inflow from increase in loans		–	–	(450)
Cash outflow from decrease in loans		1,037	–	–
Change in net debt resulting from cash flows		9,998	(916)	(885)
Exchange differences		6	(18)	17
Movement in net funds/(debt)		10,004	(934)	(868)
Net debt at 1 July		(979)	(111)	(111)
Net funds/(debt) at 31 December/30 June	*3b*	9,025	(1,045)	(979)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2003

1. BASIS OF PREPARATION

The interim financial information for the six months ended 31 December 2003 has not been audited and does not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985. It has been prepared on the basis of the accounting policies set out in the Group's 2003 statutory financial statements as set out in the listing particulars prepared for the purposes of the admission of Sinclair Pharma plc to the Alternative Investment Market of the London Stock Exchange, except for the adoption of UITF 38 "Accounting for ESOP Trusts" as noted below.

All shares issued to the ESOT during the period, which are not unconditionally vested with the employees, are accounted for as a deduction to profit and loss account reserves, in accordance with UITF 38 "Accounting for ESOP Trusts". The group has adopted this policy for the first time, upon the establishment of the ESOT during the year. Therefore there are no prior year adjustments relating to the implementation of this new UITF abstract.

2. TURNOVER

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

	Unaudited Half Year 31-Dec-03 £000	*Unaudited Half Year 31-Dec-02 £000*	*Audited Year End 30-Jun-03 £000*
Licence Fees			
– continuing operations	50	322	4,545
– discontinued operations	–	–	–
Product Revenue			
– continuing operations	795	1,455	3,568
– discontinued operations	78	483	966
TOTAL	923	2,260	9,079

The discontinued operations relate to the disposal of the Caprin business in 2003 and the closure of the Group's For Zest subsidiary in 2002. The Caprin business, which comprised the UK aspirin telesales and distribution operation, was sold on 24 September 2003, as the business was considered no longer to be part of the core activities of the group.

2. TURNOVER (continued)

An analysis of turnover by geographical market is given below:

	Unaudited Half Year 31-Dec-03 £000	*Unaudited Half Year 31-Dec-02 £000*	*Audited Year End 30-Jun-03 £000*
United Kingdom			
– *continuing operations*	240	264	839
– *discontinued operations*	66	461	859
Rest of world			
– *continuing operations*	605	1,513	7,274
– *discontinued operations*	12	22	107
TOTAL	923	2,260	9,079

3. CASHFLOW

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

	Unaudited Half Year 31-Dec-03 £000	*Unaudited Half Year 31-Dec-02 £000*	*Audited Year End 30-Jun-03 £000*
Operating (loss)/profit	(1,330)	(1,535)	606
Depreciation of tangible fixed assets	19	11	85
Depreciation of intangible fixed assets	499	475	946
Decrease/(increase) in debtors	2,779	(531)	(3,620)
Decrease/(increase) in stocks	38	(95)	370
Decrease in creditors	(895)	(12)	(519)
(Decrease)/increase in provisions	(578)	870	1,360
Exchange (gains) / losses	(6)	18	(17)
	526	(799)	(789)

3. CASHFLOW (continued)

b) Analysis of net cash

At 31 December 2003	*At 1 July 2003 £000*	*Cash Flow £000*	*Exchange Differences £000*	*At 31 Dec 2003 £000*
Cash at bank and in hand	364	8,725	6	9,095
Bank overdrafts	(236)	236	–	–
Cash	128	8,961	6	9,095
Short term loans	(520)	450	–	(70)
Loan stock	(587)	587	–	–
	(979)	9,998	6	9,025

At 31 December 2002	*At 1 July 2002 £000*	*Cash Flow £000*	*Exchange Differences £000*	*At 31 Dec 2002 £000*
Cash at bank and in hand	751	(727)	(18)	6
Bank overdrafts	(157)	(189)	–	(346)
Cash	594	(916)	(18)	(340)
Short term loans	–	–	–	–
Long term loans	(70)	–	–	(70)
Loan stock	(635)	–	–	(635)
	(111)	(916)	(18)	(1,045)

4. FLOTATION COSTS AND USE OF PROCEEDS

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

5. INTANGIBLE FIXED ASSETS

	Goodwill *£000*	*Licences* *£000*	*Other* *£000*	*Total* *£000*
Cost:				
At 1 July 2002	7,702	70	–	7,772
Additions in the period	11,071	–	–	11,071
At 1 January 2003	18,773	70	–	18,843
Additions in the period	–	–	–	–
At 1 July 2003	18,773	70	–	18,843
Additions in the period	–	26	1,225	1,251
Less: Disposals in the period	(600)	–	–	(600)
At 31 December 2003	18,173	96	1,225	19,494
Amortisation:				
At 1 July 2002	756	14	–	770
Provided in the period	467	4	–	471
At 1 January 2003	1,223	18	–	1,241
Provided in the period	472	3	–	475
At 1 July 2003	1,695	21	–	1,716
Provided during the period	460	5	34	499
Less: Disposals in the period	(98)	–	–	(98)
At 31 December 2003	2,057	26	34	2,117
Net book value:				
At 31 December 2003	16,116	70	1,191	17,377
At 30 June 2003	17,078	49	–	17,127
At 31 December 2002	17,550	52	–	17,602

The other intangible fixed asset has arisen on the buy-out of future royalty obligations on certain of the Company's products. The consideration comprised 350,000 £0.01 ordinary shares (prior to the bonus issue), as detailed in Note 6.

6. SHAREHOLDERS' FUNDS – EQUITY INTERESTS

	Share capital £000	*Share premium £000*	*Shares to be issued £000*	*Merger reserve £000*	*Other reserve £000*	*Profit & Loss Account £000*	*TOTAL £000*
1 July 2002	106	3,428	–	3,810	–	(2,164)	5,180
Shares issued in period	12	–	–	6,252	–	–	6,264
Shares to be issued	–	–	4,367	–	–	–	4,367
Loss for the period	–	–	–	–	–	(1,545)	(1,545)
1 January 2003	118	3,428	4,367	10,062	–	(3,709)	14,266
Profit for the period	–	–	–	–	–	1,985	1,985
Exchange differences on the re-translation of net assets of subsidiary undertakings	–	–	–	–	–	(48)	(48)
1 July 2003	118	3,428	4,367	10,062	–	(1,772)	16,203
Buy-out of royalty obligations	3	1,222	–	–	–	–	1,225
Bonus issue	244	(244)	–	–	–	–	–
Warrant reserve	–	–	–	–	749	–	749
Warrants and options exercised	4	211	–	–	(15)	120	320
Issue of ordinary share capital	169	13,191	–	–	–	(2,560)	10,800
Share issue costs	–	(1,807)	–	–	–	–	(1,807)
Loss for the period	–	–	–	–	–	(1,282)	(1,282)
31 December 2003	538	16,001	4,367	10,062	734	(5,494)	26,208

Buy-out of royalty obligations

As disclosed in note 5, during the period to 31 December 2003, the Company issued 350,000 £0.01 ordinary shares (prior to the bonus issue) in consideration for the buy-out of a royalty obligation on certain of its products. The fair value of the shares issued was £1,225,000.

Bonus issue

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

Warrant reserve

Other reserves arose on the grant of 784,875 warrants in settlement of the National Insurance liability on certain warrants and unapproved share options that were issued by the Company. The liability was previously included within the provision for liabilities and charges.

During the six months ended 31 December 2003, the Company entered into a joint election with the holders of certain warrants for the transfer of the employer's National Insurance liability arising on the exercise of the warrants. In consideration for the transfer of this liability, the company granted additional warrants over units to subscribe for shares, which, as at the date of grant, provided the warrant holders with a right to subscribe for 784,875 shares.

6. SHAREHOLDERS' FUNDS – EQUITY INTERESTS (continued)

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

Issue of ordinary share capital

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

As at 31 December 2003 the Company had 680,610 EMI options and 876,090 unapproved options to subscribe for the Company's shares, granted to certain employees at option prices between £0.01 and £1.15 each. As at 31 December 2003, the Company also had 8,188,839 warrants and interests in shares over ordinary £0.01 shares, to be exercised at between £0.01 and £1.15 each. As at 31 December 2003 the Sinclair Pharma plc Employee's Share Trust holds 7,286,004 shares in respect of certain of these warrants.

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

Warrants and options exercised

As at 31 December 2003, 150,000 EMI options and 330,000 warrants have been exercised. The difference between market price and grant price on certain options and warrants, capitalised in the warrant reserve as detailed above, has been released on the exercise of those warrants.

Share issue costs

Costs associated with the flotation have been charged to the share premium account, as detailed in note 4.

7. PROFIT ON SALE OF OPERATIONS

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

	31-Dec-03
	£000
Sale Proceeds	650
Less: Goodwill amortisation	(502)
Less: Redundancy costs	(61)
	87

8. EARNINGS PER SHARE

Basic and diluted earnings per share

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

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

The loss and weighted average number of shares for the purpose of calculating the diluted (loss)/earnings per share are identical to those used for the basic (loss)/earnings per share at 31 December 2002 and 31 December 2003, as the exercise of share options would have the effect of reducing the loss per share and is therefore not dilutive.

	Unaudited Half Year 31-Dec-03 £000	*Unaudited Half Year 31-Dec-02 £000*	*Audited Year End 30-Jun-03 £000*
Basic and diluted EPS			
Net (loss)/earnings	(1,282)	(1,545)	440
Weighted average number of shares	38,342	32,188	33,863
Weighted average number of shares – diluted	38,342	32,188	40,282
Basic (loss)/earnings per share	(3.3)	(4.8)	1.3
Diluted (loss)/earnings per share	(3.3)	(4.8)	1.1

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SINCLAIR PHARMA PLC

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Dr Michael John Flynn MBBS, MRCS, LRCP, FFP.RCP (Dist)
(Chief Executive Officer)
Jeremy Anthony Philip Randall ACA *(Chief Financial Officer and Company Secretary)*
Andrew John Sinclair Ph.C., MR Pharm.S *(Non-executive Director)*
Alexis Daniel Sandown Prenn *(Non-executive Director)*

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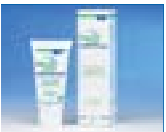

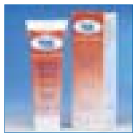

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