

***NeuTec* Pharma plc**

Interim report

Six months ended 31 December 2001

NeuTec Pharma plc

Chairman's Statement

I am delighted to report the first set of results for NeuTec Pharma plc (“NeuTec Pharma”) as a publicly quoted company. On 20 February 2002 the Company's shares were admitted to trading on the Alternative Investment Market of the London Stock Exchange and the Company was successful in raising its target funding of £10,725,000 via the placing of new ordinary shares with institutional investors. My thanks go to all those involved in the flotation process.

The results under review cover the six months ended 31 December 2001 and therefore pre-date the events described above. However, it is worth noting that the cash outflow during the six month period was £952,000 representing an 75% increase on the equivalent period in 2000, and the total operating loss was £1,042,000 representing an 84% increase on the equivalent period in 2000. These totals were within the planned budgets for the period.

The increased spend was principally due to the first large scale manufacturing of Aurograb®, the Company's second most advanced product which targets *staphylococcus aureus* infections, particularly MRSA, a life threatening and usually hospital-acquired infection which is increasingly coming under the media and political spotlight. On 25 January 2002 Aurograb® received a Clinical Trial Exemption Certificate (“CTX”) which allows us to proceed directly into Phase II clinical trials to test the safety and efficacy of the product. The necessary clinical sites to carry out these trials are currently being sourced.

Our lead product, Mycograb®, which targets systemic candidiasis, was granted Orphan Drug Status in September 2001 by the European Medicines Evaluation Authority. This has given the product a 10 year market exclusivity period in Europe. The drug commenced multi-centre UK Phase II trials in July 2001. The Company is presently investigating the roll-out of the trials programme into mainland Europe.

As well as systemic candidiasis (Mycograb®) and *staphylococcus aureus* infections (Aurograb®), NeuTec Pharma has identified a pipeline of six other potential therapeutic targets and work has continued on the early stage research programmes associated with these.

The Company is now well funded and this places us in a strong position to extend and develop our research and development programmes. We are a small, highly efficient company and I thank you, as shareholders, and the employees of NeuTec Pharma for your encouraging and valuable support.

Anthony Martin Ph.D
Chairman

25 March 2002

NeuTec Pharma plc

(Background information on *NeuTec Pharma*, its products and markets is set out in the attached Notes to Editors)

NeuTec Pharma plc

Profit and loss account

	<i>Note</i>	(Unaudited) Six months ended 31 December 2001 £	(Unaudited) Six months ended 31 December 2000 £	(Audited) Year ended 30 June 2001 £
Turnover		-	-	-
Cost of sales		-	-	-
		<hr/>	<hr/>	<hr/>
Gross profit		-	-	-
Research, development and administrative expenses		(1,041,630)	(565,049)	(1,060,841)
		<hr/>	<hr/>	<hr/>
Total operating loss		(1,041,630)	(565,049)	(1,060,841)
Interest receivable and similar income		73,741	126,083	229,575
		<hr/>	<hr/>	<hr/>
Loss on ordinary activities before taxation		(967,889)	(438,966)	(831,266)
Taxation on loss on ordinary activities	2	-	-	-
		<hr/>	<hr/>	<hr/>
Loss on ordinary activities after taxation		(967,889)	(438,966)	(831,266)
Dividends paid and proposed		-	-	-
		<hr/>	<hr/>	<hr/>
Retained loss for the period/year		(967,889)	(438,966)	(831,266)
		<hr/>	<hr/>	<hr/>
Loss per ordinary share				
- Basic	3	6.0 pence	2.7 pence	5.2 pence
- Diluted		6.0 pence	2.7 pence	5.2 pence
		<hr/>	<hr/>	<hr/>

The Company's operating loss arises from continuing operations.

The Company has no recognised gains or losses in these periods/years other than those reported above and therefore no statement of total recognised gains and losses has been presented.

Balance sheet

NeuTec Pharma plc

	(Unaudited) As at 31 December 2001 £	(Unaudited) As at 31 December 2000 £	(Audited) As at 30 June 2001 £
Fixed assets			
Tangible assets	140,835	75,584	150,387
Investments	1,391	1,391	1,391
	<u>142,226</u>	<u>76,975</u>	<u>151,778</u>
Current assets			
Debtors	45,133	26,713	12,201
Cash at bank and in hand	2,696,014	4,087,455	3,648,138
	<u>2,741,147</u>	<u>4,114,168</u>	<u>3,660,339</u>
Creditors: amounts falling due within one year	(246,957)	(194,538)	(207,812)
Net current assets	2,494,190	3,919,630	3,452,527
Net assets	2,636,416	3,996,605	3,604,305
Capital and reserves			
Called up share capital	4,011,539	4,011,539	4,011,539
Share premium account	2,337,248	2,337,248	2,337,248
Profit and loss account	(3,712,371)	(2,352,182)	(2,744,482)
Equity shareholders' funds	2,636,416	3,996,605	3,604,305

NeuTec Pharma plc

Reconciliation of movements in shareholders' funds

	(Unaudited) Six months ended 31 December 2001 £	(Unaudited) Six months ended 31 December 2000 £	(Audited) Year ended 30 June 2001 £
Loss for the period/year	(967,889)	(438,966)	(831,266)
Net reduction in to shareholders' funds	(967,889)	(438,966)	(831,266)
Opening shareholders' funds	3,604,305	4,435,571	4,435,571
Closing shareholders' funds	2,636,416	3,996,605	3,604,305

NeuTec Pharma plc

Cash flow statement

		(Unaudited) Six months ended 31 December 2001 £	(Unaudited) Six months ended 31 December 2000 £	(Audited) Year ended 30 June 2001 £
Net cash outflow from operating activities	<i>Note</i> 4	(1,025,865)	(668,724)	(1,122,754)
Returns on investment and servicing of finance				
Interest received and similar income		73,741	126,083	229,575
Total returns on investments and servicing of finance		73,741	126,083	229,575
Taxation paid		-	-	-
Capital expenditure				
Purchase of tangible fixed assets		-	-	(88,779)
Net cash outflow from capital expenditure		-	-	(88,779)
Cash outflow before use of liquid resources and financing and decrease in funds		(952,124)	(542,641)	(981,958)

NeuTec Pharma plc

Notes

1 Basis of preparation

The interim financial statements have been prepared on the basis of the accounting policies set out in the Company's last Annual Report and Accounts.

The financial information for the year ended 30 June 2001 has been extracted from the statutory financial statements, which have been filed with the Registrar of Companies. The auditors' report on these financial statements was unqualified.

The interim report for the six months ended 31 December 2001 was approved by the Board on 25 March 2002

2 Taxation

There is no charge for taxation during the current period as the estimated effective rate of tax for the year is nil%.

3 Loss per share

	(Unaudited) Six months ended 31 December 2001 Pence	(Unaudited) Six months ended 31 December 2000 Pence	(Audited) Year ended 30 June 2001 Pence
Loss per ordinary share:			
Basic	6.0	2.7	5.2
Diluted	6.0	2.7	5.2

Loss per ordinary share is based on the Company's loss for the financial period of £967,889 (31 December 2000: £438,966; 30 June 2001: £831,266).

The weighted average number of shares used in the basic calculation is 16,046,156 (31 December 2000: 16,046,156; 30 June 2001: 16,046,156). The weighted average number of shares reflects the subdivision of the ordinary shares of 50p each into two ordinary shares of 25p each on 20 February 2002 (see Note 6).

The calculation of diluted loss per ordinary share is identical to that used for the basic loss per ordinary share. This is because the exercise of these options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of FRS 14.

NeuTec Pharma plc

Notes (continued)

4	Reconciliation of operating loss to net cash outflow from operating activities			
		(Unaudited)	(Unaudited)	(Audited)
		Six months ended	Six months ended	Year ended
		31 December	31 December	30 June
		2001	2000	2001
		£	£	£
	Total operating loss	(1,041,630)	(565,049)	(1,060,841)
	Depreciation and amortisation charges	9,552	5,130	19,106
	(Increase)/decrease in debtors	(32,932)	(14,421)	91
	Increase/(decrease) in creditors	39,145	(94,384)	(81,110)
		-----	-----	-----
	Net cash outflow from operating activities	(1,025,865)	(668,724)	(1,122,754)
		=====	=====	=====
5	Reconciliation of net cash flow to movement in net funds			
		(Unaudited)	(Unaudited)	(Audited)
		Six months ended	Six months ended	Year ended
		31 December	31 December	30 June
		2001	2000	2001
		£	£	£
	Decrease in cash and cash equivalents in the period/year	(952,124)	(542,641)	(981,958)
		-----	-----	-----
	Movement in net funds resulting from cash flows	(952,124)	(542,641)	(981,958)
	Net funds at the start of the period/year	3,648,138	4,630,096	4,630,096
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	Net funds at the end of the period/year	2,696,014	4,087,455	3,648,138
		=====	=====	=====

NeuTec Pharma plc

Notes *(continued)*

6 Post balance sheet events

Flotation

On 20 February 2002 the Company's shares were admitted to trading on the Alternative Investment Market of the London Stock Exchange.

Share capital

By special resolutions passed at an extraordinary general meeting of the Company held on 13 February 2002 and subject to and with effect from the date of admission to the Alternative Investment Market of the London Stock Exchange it was resolved that:

- (i) every 500 ordinary shares of 0.1p in the capital of the Company were consolidated into one ordinary share of 50p each.
- (ii) following this, each of the ordinary shares of 50p each were sub-divided into two ordinary shares of 25p each.
- (iii) the authorised share capital of the Company was increased to £12,000,000 by the creation of an additional 8,000,000 ordinary shares.

On 20 February 2002 7,150,000 ordinary shares of 25p each were issued by means of a placing.

kpmg Audit Plc

Independent Review Report by KPMG Audit Plc to the members of *NeuTec Pharma plc*

Introduction

We have been instructed by the company to review the financial information set out on pages 2 to 8 and 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.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors.

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. A review consists principally of making enquiries of 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 is substantially less in scope than an audit performed in accordance with 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 2001.

KPMG Audit Plc
Chartered Accountants
Manchester
25 March 2002

Notes to Editors

For further information, please contact:

NeuTec Pharma plc

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via Hogarth Partnership (see below)

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Antibiotic resistance and the pharmaceutical industry

Before antibiotics became widely available in the 1940's, patients suffered from life-threatening bacterial infections such as pneumonia, wound infections, meningitis and septicaemia, which were virtually untreatable. Then, for over 50 years, antibiotics provided the ability to cure and prevent these infections. They revolutionised medicine worldwide, providing cures for many formerly life-threatening infections and became the essential ingredient in most modern medical and surgical practices. Without antibiotics many patients would die, not from the underlying disease, but from infectious complications.

However, within a relatively short period of time of introducing an antibiotic, some bacteria become resistant to it such that the antibiotic loses its effectiveness against the infections caused by the bacteria. Pharmaceutical companies have responded by modifying existing antibiotics or by generating new classes. However, this is a slow process associated with high research and development costs, long lead times and a high risk of product failure. While modification of existing antibiotics may be more economically viable, resistance is more likely to develop sooner rather than later if the new treatment is a variant of an existing antibiotic rather than a new class of antibiotic.

There is worldwide concern that the pace of development of new classes of antibiotics has slowed down, so widening the gulf between infections and the means to treat them.

Introduction to NeuTec Pharma

NeuTec Pharma plc ("*NeuTec*") is a biopharmaceutical company specialising in the development of antibody-based therapeutics for the treatment of life-threatening infections, particularly those hospital-acquired infections, such as MRSA and systemic candidiasis, which are increasingly resistant to conventional antibiotics.

Antibodies are an important component of the body's defence system against infectious diseases. The Company's approach is to identify naturally occurring protective antibodies from patients who have recovered from an infection and to then use these to generate "grabs". It is intended that these "grabs" will be given as a therapeutic treatment either in combination with existing antibiotics or antifungals, to reduce the mortality rate of life-threatening infections, or alone, where no suitable antibiotic or antifungal treatment exists. In addition, over the longer term, "grabs" may be used as part

of a preventative regime.

NeuTec was founded in 1997 by Professors James Burnie and Ruth Matthews, now Chief Executive Officer and Research and Development Director respectively, both of whom are medical doctors and who between them have nearly 40 years experience of investigating clinical infectious diseases and immunology.

The founding scientific team, led by Professors Burnie and Matthews, the related technological know-how and early patent portfolio created by them at the University of Manchester were transferred to *NeuTec* on its formation in 1997. In that year, the Company raised approximately £1.2 million of initial funding from ABN AMRO Ventures B.V. and then subsequently raised approximately £6.1 million in 1998 from, amongst others, 3i Group plc to enable the Company to fund its research and development programmes.

On 20 February 2002 the Company's shares were admitted to trading on the Alternative Investment Market of the London Stock Exchange and the Company was successful in raising its target funding of £10,725,000 via the placing of new ordinary shares with institutional investors.

NeuTec currently employs ten full-time employees, including the executive directors, the majority of whom are post-doctoral scientists.

NeuTec has excellent relationships with the University of Manchester and those associated teaching hospitals with which the Company works. These relationships are a strategic advantage for *NeuTec*, providing authorised and consented access to patient blood samples from which to identify bacterial and fungal targets and the potentially protective antibodies associated with them. The University of Manchester provides the premises from which the Company operates. James Burnie is Professor of Medical Microbiology and Ruth Matthews is Professor of Infectious Diseases, both also being honorary consultants.

NeuTec's product portfolio

NeuTec has identified a pipeline of 8 potential therapeutic targets and has filed 14 families of patent applications on major bacterial and fungal infections and associated antibody technology, of which 55 patents have been granted to date.

The Company's two lead products are:

Mycograb®, a "grab" targeting systemic candidiasis, a life-threatening fungal infection which accounts for 7 per cent of all hospital-acquired infections in the US. Post-surgical and immunocompromised patients are particularly at risk from this infection. *NeuTec* has been granted Orphan Drug Status for Mycograb® in Europe by the European Medicines Evaluation Agency ("EMA"), which provides for a 10 year exclusive marketing period for the product, once regulatory marketing approval has been obtained.

Mycograb® has successfully completed a pre-clinical toxicology programme and first human studies to assess safety and pharmacokinetics. Phase II clinical trials in the UK commenced in the third quarter of 2001. This is a 60 patient multi-centre trial.

Aurograb®, a “grab” targeting *Staphylococcus aureus*, including MRSA and vancomycin-resistant *Staphylococcus aureus* (“VRSA”). MRSA is now endemic in hospitals around the world with an estimated 1.5 million cases per year worldwide and mortality from bloodstream infections of up to 50 per cent. More recently, VRSA has been recognised as an emerging threat, with incidence appearing around the world, and is increasingly perceived as a significant issue.

Pre-clinical studies were successfully completed on Aurograb® in November 2001 and in January 2002 a Clinical Trial Exemption Certificate (“CTX”) was awarded which allows NeuTec to proceed directly into Phase II clinical trials.

In addition, the Company has research programmes targeted at the following infections:

- *Enterococci*, including vancomycin-resistant *enterococci* (“VRE”), a common cause of hospital-acquired infections;
- *Burkholderia cepacia*, a cause of morbidity and mortality in cystic fibrosis patients which is particularly difficult to treat given its multiple antibiotic resistance;
- *E. coli* O157, an important cause of community acquired infections, the toxin from which is one of the commonest causes of acute renal failure in children in the UK;
- *Viridans streptococci*, the commonest cause of infection of the heart valves, a significant cause of septicaemia in immunocompromised patients, as well as playing a critical role in tooth decay;
- *Helicobacter pylori*, now recognised as the main underlying cause of duodenal and gastric ulcers; and
- *Chlamydia pneumoniae*, now believed to play a key role in the development of atheroma, the disease process underlying ischaemic heart disease.

Corporate objective and strategy

NeuTec’s objective is to develop “grabs” for the treatment of a range of life-threatening infections.

NeuTec identifies and, importantly, files patent applications on a range of bacterial and fungal targets or “antigens” and the potentially protective antibodies associated with them. Central to NeuTec’s research and development work is the filing of patent

applications for the microbial target itself, thereby leaving it free to select the best available method for the commercial and economic production of protective antibodies for human therapeutic use.

Since 1998, in order to accelerate the value creation from its work, the Company's primary target has been to fast track the development of its two lead products, Mycograb® and Aurograb®, into clinical trials. *NeuTec*'s current goal is to establish the clinical efficacy of these two products and then bring them to market soon thereafter. The directors believe this is most likely to be after the successful completion of Phase II trials, at which time the directors currently anticipate forming strategic alliances with other pharmaceutical companies. The Company has already received interest from such companies with regard to both Mycograb® and Aurograb®, as well as other *NeuTec* research programmes.

The market for Mycograb®

Systemic fungal infections are estimated at 320,000 incidences per year worldwide. Most common is systemic candidiasis, representing about 70 per cent of all such infections with a mortality rate of approximately 40 per cent. Mycograb® is being assessed in the treatment of systemic candidiasis and may also be active against other fungal infections.

At particular risk are low birth-weight babies, surgical patients and patients whose immune systems have been compromised by therapies for cancer, bone marrow transplantation or patients on peritoneal dialysis, and so are unable to combat this infection. Indeed, general medical advances in these areas over recent decades have almost certainly contributed to an increase in the number of patients at risk.

The market for Aurograb®

Staphylococcus aureus is the bacterium responsible for the largest proportion of hospital-acquired bacterial infections. MRSA has become increasingly prevalent worldwide, with resistance in the US increasing from 2 per cent to 35 per cent of all *Staphylococcus aureus* infections from 1975 to 1996. In the UK, the incidence of MRSA bloodstream infections increased sevenfold between 1994 and 1998. It has been estimated that the annual incidence of MRSA infections may be as high as 1.5 million worldwide. MRSA causes significant morbidity with mortality from MRSA bloodstream infections of up to 50 per cent. Aurograb® is being assessed in the treatment of MRSA.

Vancomycin and teicoplanin are the two principal remaining antibiotics that are effective against MRSA. However, the emergence in the late 1990's of strains of *Staphylococcus aureus* with resistance to vancomycin and teicoplanin presents what "The Lancet" described as the "apocalypse now" scenario and highlights the urgent need for new and more effective therapies.