

**INTERIM REPORT**  
**30<sup>th</sup> JUNE 2003**

**Proteome Sciences plc**



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**PROTEOME SCIENCES plc**  
**INTERIM STATEMENT**  
**for the six months to 30<sup>th</sup> June, 2003**

R.S. Harris, BPharm, FR PharmS (Chairman)*	Professor W. Dawson, DSc, FR PharmS, FRSC*
C.D.J. Pearce (Chief Executive)	Dr. G.H. Schmidt
J.L. Malthouse FCA (Finance Director)	Dr. W.M.H.H. Schüller*
A.J. Green BSc (Commercial Director)	Dr. S.C. Steiner (Research & Development Director)
	(*non-executive Directors)

Dear Shareholder,

I am pleased to set out below the full text of the Company's half yearly statement which was released to the Stock Exchange on the 30<sup>th</sup> September, 2003. The highlights can be summarised as follows:

• **Interim results**

- Integration of proteomics activities in Frankfurt with existing London facilities completed.
- Strong scientific progress being made, particularly with chemistry based technologies acquired from Aventis.
- Out-licensed BSE and TSE biomarkers in animals to IDEXX Laboratories Inc. in April.
- PST® membrane protein technology attracting considerable commercial and scientific interest.
- Headline loss excluding non-cash operating expenses £2.27 million (2002: £1.28 million) reflecting additional costs since acquisition of Aventis proteomics activities.
- Non-cash expenses of £963K (2002: £96K).
- Company remains well funded with low and predictable cash burn following £5.8 million Placing in June.
- Cash balance at 30 June 2003 of £8.0 million.

• **Commercialisation**

- Further commercialisation and applications expected from stroke biomarkers for high throughput screening and for CJD/vCJD markers for clinical and blood screening applications.
- Commercialisation strategies to out-license Sensitizer® reagents and Veri-Q antibodies for high volume and high margin applications running to plan.
- Other disease programmes also on track to become revenue generating.

• **Current Outlook**

- Product development programmes at Biosite Inc. and IDEXX Laboratories Inc. making excellent progress in line with best expectations.
- Proprietary technologies included within ProteoSHOP™ toolbox will accelerate discovery programmes and commercialisation process.
- Defined strategy to focus on proteins in disease has now started to deliver results and will increase newsflow and commercialisation activity.

• **Intronn Inc.**

- Received two grants totalling \$1.14 million for preclinical studies in haemophilia A and cystic fibrosis.
- Research collaboration with ProBioGen Inc. to use SMART® in cell line development programme.
- Well positioned to address new range of substantial commercial applications.

Commenting on these results, Christopher Pearce, Chief Executive of Proteome Sciences, said:

“Our focus on proteins in disease, combined with our own proprietary research and valuable collaborations with academia, has resulted in Proteome Sciences achieving a position of global leadership in applied proteomics for human diseases in 2003. This has been reflected by the Company having concluded two significant licensing deals to date and with further announcements expected later in the year.

“Proteome Sciences has come a long way over the last twelve months and with the prospects for proteomics and the related commercial opportunities becoming increasingly recognised, the outlook for Proteome Sciences continues to improve”.

## Chairman's Statement

I am very pleased to report that Proteome Sciences has enjoyed a particularly successful period both scientifically, corporately and commercially.

### Proteomics

- The Company has continued to expand its research profile from historically funding exclusive collaborative agreements with leading academic centres of excellence to establishing a global leadership position in 2003 in applied proteomics for human diseases by combining its own proprietary research with its existing collaborations in academia. The integration of the former Aventis proteomics activities in Frankfurt with the facilities in London has largely been completed and Proteome Sciences has developed and progressed considerably over a short time horizon.
- Proteome Sciences has intentionally followed a cautious approach, with a deliberately low and conservative cash burn until such time as the importance of proteins and proteomics became clear after the sequencing of the human genome. As a consequence the Company was ideally positioned to rapidly scale up its proprietary capabilities in proteomics, once again with a highly controlled rate of cash burn, but against a background of impending commercialisation of the existing research programmes.
- Over the same period, the executive management team was further strengthened by the appointment of Dr. Sandra Steiner as Research and Development Director in June 2003, joining James Green, Commercial Director and Dr. Ian Pike, Business Development Director.
- From the Group's portfolio of research programmes, the stroke biomarkers in blood were successfully out-licensed to Biosite Inc., a world leader in point of care diagnostics and, in April 2003 the biomarkers in blood for the detection of BSE in live cattle and TSE's in other animals, to IDEXX Laboratories Inc., a global leader in veterinary diagnostics. The Proteome Sciences business model has now been expanded to commercialise the chemistry based technologies acquired with the Aventis proteomics facilities in Frankfurt in July 2002 including PST®, TMT™, and Sensitizer™. PST®, which was launched in San Diego and Lyon in April and at Bio 2003 in Washington in June, has attracted considerable commercial and scientific interest.
- The Company has further developed its proprietary technologies which are now being promoted under the ProteoSHOP™ brand - Proteome Sciences High Output Proteomics - this includes gel based and gel-free systems which uniquely provide high sensitivity / high throughput capabilities to rapidly identify novel markers and targets for diagnostic, prognostic, drug validation and therapeutic uses, across all protein classes.
- Over the next few months, it is expected that there will be a strong continuing news flow about further commercialisation, including additional applications from the blood biomarkers already licensed in stroke, where the rights have been retained for high throughput screening in clinical laboratory systems, and also from CJD/vCJD markers for both clinical and blood screening applications.
- The potential scale of the opportunities available to the Company is illustrated by reference to Biosite's announcement in July 2003 in respect of its Triage BNP Test, which is being used in more than 1,700 US hospitals. By out-licensing the BNP test to Beckman Coulter Inc. for the high throughput immunoassay systems, the test will be used on Beckman Coulter's 200,000 installed systems worldwide and is expected to be available in the first quarter of 2004. In a similar way, Proteome Sciences will out-license the high throughput applications for its stroke biomarkers to the major players in the field.

- In addition to stroke and TSE's, other disease programmes at Proteome Sciences will become revenue generating, through funded research and strategic alliances with pharmaceutical and diagnostics industry partners, using the ProteoSHOP™ toolbox to provide highly effective and novel solutions for detailed analysis and identification of membrane proteins. The non-core technologies including Sensitizer® reagents and Veri-Q antibodies will be out-licensed for use in applications which are both high volume and offer high margins, and should deliver strong cash flow contributions. Further announcements are expected later this year.
- The commercialisation process is beginning to have a significant effect on the business and will shift the equilibrium from being cash absorbing pre-2003, into revenue in the current year and then generating both revenue and royalties in 2004. This will be made up from a combination of out-licenses with upfront payments and milestones, funded research, strategic alliances, grants and proprietary technology income from Sensitizer™ and Veri-Q.

### **Corporate**

- In June, having been approached by institutional investors, £5.8m was raised by way of a 5% placing at 122p under the authority granted by shareholders at last year's AGM. The Company continues to be well funded, and as discussed earlier, has a low and predictable rate of cash burn with no major capital expenditure envisaged for the foreseeable future.

### **Share Capital**

- You will find attached to this letter a notice of an extraordinary general meeting to be convened to increase the authorised share capital of the Company from £1,300,002 to £1,800,002, as previously discussed at the Annual General Meeting in July. The extraordinary meeting is to be held at the Company's Offices at Coveham House, Downside Bridge Road, Cobham, Surrey KT11 3EP at 9.30 a.m. on 21<sup>st</sup> November, 2003.
- At the Meeting it will be proposed that the authorised share capital of the Company be increased. Whilst the directors do not have any present intention to issue further shares, they consider it prudent to create some headroom should any opportunity or need arise in the future requiring the issue of further shares. Two further items will also be proposed as Special Business.
- An Ordinary Resolution (Resolution 2), as set out in the Notice on page 10 will be proposed to renew the Directors' authority to allot relevant securities up to an aggregate nominal amount of £396,951.76 which represents approximately 33 per cent of the current issued share capital of the Company as at the 29<sup>th</sup> October 2003. The authority will lapse five years from the date on which the resolution is passed. The Directors do not have any present intention of exercising this authority.
- Resolution 3 which is set out in the Notice on pages 10 and 11 will be proposed as a Special Resolution of the Company. The Resolution will renew the Directors' authority under Section 95 of the Companies Act 1985 to disapply pre-emption rights, thereby enabling the allotment of a limited number of shares for cash up to an aggregate nominal amount of £119,085.53 representing 10 per cent of the current issued Ordinary Share capital of the Company as at the 29<sup>th</sup> October 2003. The proposed authority, if granted, will expire at the conclusion of the next Annual General Meeting after the passing of the Resolution or the period of fifteen months after the passing of the Resolution, whichever is the earlier.

### **Intronn Inc**

- Intronn has continued to make strong progress across its research programmes and the development of its library assay system for screening pre-transplicing molecules (PTMs). The

company has gained considerable recognition from scientific publications and at scientific meetings over the period and has been awarded two Phase 1 SBIR grants from the National Institutes of Health in the USA to date in 2003. The first of these was from the National Heart, Lung and Blood Institute for \$605,791 to fund pre-clinical studies in haemophilia A. The second was from the National Institute of Diabetes and Digestive Kidney Disease for \$536,801, to conduct studies in cystic fibrosis in the final stages of pre-clinical development for clinical trials.

- An article in the August issue of Nature Medicine shows for the first time the phenotypic correction of a genetic defect by RNA using SMaRT® in knock out haemophilia mice. ProBioGen Inc. entered into a research collaboration with Intronn to use SMaRT® in its cell line development programme and the NCI grant in molecular imaging has accelerated the potential for SMaRT® to address a new range of substantial commercial applications.

### **Veri-Q Inc**

- Further development is under way at Veri-Q relating to the research into the protecting/de-protecting groups in synthetic oligonucleotides and the commercialisation strategy being pursued is running to plan, with further announcements expected later in the year.

### **Financial Results**

The financial results for the six months to June 2003, which include the former Aventis proteomics activities in Frankfurt for the first time, show a headline loss (being the operating loss excluding non-cash operating costs and share of associate company's losses) of £2,267,873 compared with £1,283,888 in the corresponding period in 2002. Non-cash operating costs (amortisation of goodwill, depreciation and national insurance on notional share option gains) were £962,573 against £96,153 in 2002. The period to 30<sup>th</sup> June 2003 also contains a share of associates' loss at Intronn, Inc of £352,096 (2002: £127,324). Cash at 30<sup>th</sup> June 2003 stood at £8m.

### **Future Prospects**

The importance and value of proteins have greatly increased since the completion of the sequence of the human genome in 2001 and proteomics is poised to play a key role in unlocking value from functional genomics and protein expression. The unique ProteoSHOP tool box that has been developed provides Proteome Sciences with a considerable advantage to exploit the discovery of high value protein biomarkers with commercial partners and to accelerate the process of diagnostic, prognostic and therapeutic applications. The development programmes with Biosite and Idexx are making excellent progress and running in line with best expectations.

The Company has come a very long way over the last twelve months and the prospects for our proteomics technology and its application in human diseases look increasingly attractive. The strategy of concentrating on proteins and protein modifications in disease, rather than on genomics, has now started to deliver the results that had been envisaged when the original research and business strategy was implemented and this will result in an accelerating news flow and commercialisation process. The prospects for proteomics and the position that Proteome Sciences has established addressing human and animal diseases continue to improve.

R. Steve Harris  
Chairman  
29<sup>th</sup> October, 2003

**Unaudited Consolidated Profit and Loss Account**  
**For the Six Months ended 30<sup>th</sup> June, 2003**

	Six months ended 30 <sup>th</sup> June 2003	Six months ended 30th June 2002	Year ended 31st December 2002
	£	£	£
<b>Turnover</b>			
Existing Operations	108,720	34,691	100,057
Acquisitions	—	—	<u>71,344</u>
	108,720	34,691	171,401
Cost of Sales	<u>(64,571)</u>	<u>(24,631)</u>	<u>(131,753)</u>
<b>Gross Profit</b>	44,149	10,060	39,648
Operating Costs excluding non-cash items	<u>(2,345,831)</u>	<u>(1,294,874)</u>	<u>(3,527,300)</u>
Amortisation of Goodwill	(324,480)	-	(324,480)
Depreciation	(301,271)	(79,342)	(369,845)
N.I. on Notional Share Option Gains	(336,822)	(16,811)	(16,207)
Total Operating Expenses	<u>(3,308,404)</u>	<u>(1,391,027)</u>	<u>(4,237,832)</u>
<b>Operating Loss</b>	<u>(3,264,255)</u>	<u>(1,380,967)</u>	<u>4,198,184</u>
Existing Operations	(3,264,255)	(1,380,967)	(2,870,701)
Acquisitions	—	—	<u>(1,327,483)</u>
Continuing Operations	(3,264,255)	(1,380,967)	(4,198,184)
Share of Associate's Operating Loss	(352,096)	(127,324)	(322,128)
Interest Receivable	37,369	7,321	85,259
Interest Payable and Similar Charges	<u>(3,560)</u>	<u>(6,395)</u>	<u>(11,018)</u>
<b>Loss on Ordinary Activities before Taxation</b>	<u>(3,582,542)</u>	<u>(1,507,365)</u>	<u>(4,446,071)</u>
Tax on Loss on Ordinary Activities	—	—	<u>336,485</u>
<b>Loss for the Financial Period</b>	<u>(3,582,542)</u>	<u>(1,507,365)</u>	<u>(4,109,586)</u>
<b>Loss per Share</b>			
<b>Headline Loss per Share (Note 3c)</b>	<u>(1.99p)</u>	<u>(1.39p)</u>	<u>(2.97p)</u>
<b>Basic and diluted (note 3a)</b>	<u>(3.14p)</u>	<u>(1.64p)</u>	<u>(3.96p)</u>

**Unaudited Consolidated Balance Sheet**  
**As at 30<sup>th</sup> June, 2003**

	<b>2003</b>	<b>2002</b>
	<b>£</b>	<b>£</b>
<b>Fixed Assets</b>		
Goodwill	5,840,641	-
Tangible assets	1,280,729	572,388
Associates	574,826	1,221,417
Other investments	<u>225,756</u>	<u>225,756</u>
	<u>7,921,952</u>	<u>2,019,561</u>
<b>Current Assets</b>		
Debtors	383,294	43,853
Cash held on deposit as short term investment	1,164,162	2,032,637
Cash at bank and in hand	<u>6,749,536</u>	<u>556,101</u>
	<u>8,296,992</u>	<u>2,632,591</u>
<b>Creditors : Amounts falling due within one year</b>	(1,750,272)	(831,181)
	<u>6,546,720</u>	<u>1,801,410</u>
<b>Net current assets</b>		
	14,468,672	3,820,971
<b>Creditors : Amounts falling due after more than one year</b>	<u>(110,000)</u>	<u>(127,705)</u>
<b>Net assets</b>	<u>14,358,672</u>	<u>3,693,266</u>
<b>Capital and reserves</b>		
Called-up share capital	1,189,211	961,153
Share premium account	21,331,605	15,516,629
Other reserve	10,755,000	-
Profit and loss account	(18,917,144)	(12,792,604)
Equity minority interests	<u>-</u>	<u>8,088</u>
<b>Equity shareholder's funds</b>	<u>14,358,672</u>	<u>3,693,266</u>

## Notes to the Financial Information

1. There has been no change to any of the accounting policies set out in the 2002 statutory accounts.
2. Following the loss of £3,582,542 incurred in the period, the Directors do not recommend the payment of a dividend.
3.
  - a. The calculation of the loss per share for the six months ended 30th June 2003 is based on the loss for the financial period of £3,582,542 and on 114,248,076 Ordinary Shares, being the weighted average number of shares in issue and ranking for dividend during the period (six months ended 30th June 2002 – loss £1,507,365, number of Ordinary Shares in issue and ranking for dividend, 92,297,005).
  - b. The calculation of the loss per share for the year ended 31st December 2002 is based on the loss for the year of £4,109,586 and on 103,672,012 Ordinary Shares, being the weighted average number of shares in issue and ranking for dividend during the year.
  - c. The losses used to calculate the headline loss per share are as follows:

	<b>Six Months Ended 30<sup>th</sup> June, 2003 £</b>	<b>Six Months Ended 30<sup>th</sup> June, 2002 £</b>	<b>Year Ended 31<sup>st</sup> December, 2002 £</b>
Loss for the Financial Period	(3,582,542)	(1,507,365)	(4,109,586)
<b>Add back :</b>			
Amortisation of Goodwill	324,480	-	324,480
Depreciation	301,271	79,342	369,845
National Insurance on Notional Share Option Gains	336,822	16,811	16,207
Share of Associates Operating Loss	<u>352,096</u>	<u>127,324</u>	<u>322,128</u>
<b>Headline Loss</b>	<b><u>(2,267,873)</u></b>	<b><u>(1,283,888)</u></b>	<b><u>(3,076,926)</u></b>

The Headline loss per share is considered by the Directors to be a more meaningful measurement of financial performance than the basic loss per share as it excludes goodwill amortisation and other non-cash items and better reflects the cash outflow of the business.

4. Formal completion of the acquisition of Xzillion Proteomics GmbH & Co. KG (Xzillion) did not take place until the 4th July 2002 and the figures for the six months to the 30th June 2002 do not include the results of Xzillion.
5. The preceding financial information does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information for the year to 31st December 2002 is based on the statutory accounts for that year. These accounts, upon which the auditors issued an unqualified opinion, and which did not contain any statement under Section 237(2) or (3) of the Companies Act 1985, have been delivered to the Registrar of Companies.

# PROTEOME SCIENCES PLC

(the "Company")

## NOTICE OF MEETING

Notice is hereby given that an extraordinary general meeting of the Company will be held at the Company's registered office at Coveham House, Downside Bridge Road, Surrey, KT11 3EP on Friday 21<sup>st</sup> November 2003 at 9.30 a.m. when the following resolutions will be proposed as ordinary resolutions (the "**Ordinary Resolutions**") and a special resolution (the "**Special Resolution**"):

### ORDINARY RESOLUTIONS

1. That pursuant to and in accordance with Section 121 of the Companies Act 1985 (the "**Act**"), the authorised share capital of the Company be and it is hereby increased from £1,300,002 to £1,800,002 by the creation of 50,000,000 ordinary shares of 1p each.
2. That for the purposes of Section 80 of the Act, and in substitution for all existing unexercised authorities, the directors of the Company be and they are hereby generally and unconditionally authorised to exercise all of the Company's power to allot up to a total of £396,951.76 in ordinary shares of 1p each in the capital of the Company on the following terms (a) this authority shall expire on 21<sup>st</sup> November 2008; and (b) before this authority expires, the directors may make an offer or agreement which would or might require relevant securities to be allotted after it expires and the directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.

### SPECIAL RESOLUTION

3. That subject to, and upon Resolution 2 above, having been passed and becoming effective, the Directors be and are hereby authorised and empowered pursuant to Section 95 of the Act to allot equity securities within the meaning of Section 94 of the Act of the Company for cash pursuant to the authority conferred upon them by Resolution 2 above, as if Section 89(1) of the Act did not apply to such allotment provided that the authority and power in this Resolution shall be limited:
  - (a) to the allotment of equity securities in connection with a rights issue or any other pre-emptive offer in favour of holders of equity securities where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be) to the respective amounts of equity securities held by them subject only to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or legal or practical difficulties under the laws in any territory or the requirements of a regulatory body or stock exchange or other authority in any territory; and
  - (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to a total nominal amount of £119,085.53;

and provided further that the authority and power conferred by this Resolution shall expire at the conclusion of the next Annual General Meeting of the Company or the period of fifteen months from the passing of this Resolution, whichever is the earlier, unless such authority is renewed or extended at or prior to such time, save that the Company may before such expiry make any offer, agreement or other arrangement which would or might require equity securities to be allotted otherwise than in accordance with Section 89 of the Act after the expiry of this authority and the Directors may then allot equity securities in pursuance of such

agreement as if the authority and power hereby conferred had not expired. This power is in substitution of all unexercised existing powers given for the purposes of Section 95(1) of the Act.

Words and expressions defined in or for the purposes of Part IV of the Act shall have the same meanings in this Resolution.

Dated: 29<sup>th</sup> October, 2003

By Order of the Board

J.L. Malthouse

Secretary

Registered Office: Coveham House, Downside Bridge Road, Cobham, Surrey KT11 3EP

**NOTE:**

A member of the Company entitled to attend and vote at this meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. In accordance with Article 90, any such appointment is valid only if the instrument of proxy is deposited with the Company's registrars, not less than 48 hours before the time appointed for holding the meeting. A proxy need not also be a member of the Company. A form of proxy is enclosed; completion of an instrument of proxy will not prevent members from attending and voting in person should they wish to do so.





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