

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2003.

Principal activities

The principal activities of the Group continue to be (i) the development and supply of rapid diagnostic and monitoring systems for use in the detection and measurement of low level microbial contamination in a wide range of manufacturing processes and end products; and (ii) the provision of contract testing services for customers, mainly focused on the pharmaceutical, personal care, food, drink and dairy industries.

Review of the business and future developments

The financial benefits of the restructuring plan implemented in 2001 and 2002 have been tangible in 2002-2003 and are expected to continue allowing the Group to maintain its world leadership as global manufacturer of rapid diagnostic systems used to detect and measure microbial contamination for the major international pharmaceutical, personal care and food companies, as well as a leading US supplier of cGMP analytical services for the pharmaceutical industry.

Dividends

Due to the level of losses brought forward, the Directors are unable to recommend the payment of a dividend (2002: \$ Nil).

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Research and development activities

The Group spent \$891,000 in the year (2002: \$1,045,000) on research and development, all of which has been written off to the profit and loss account. Continued investment in research and development is essential to the future of the Group.

Following the decision to relocate the remaining office and R&D activities to less expensive premises in Newmarket, substantial savings have been made without impairing the potential for product development. R&D activities will continue to concentrate on the further development of the end product screening technology.

Directors

The Directors who served the Company during the whole of the year are as follows: Dr J Rowell, J LeCoque, C Madrolle, Dr P L Grant, Sir C T Evans, J R Morris and Dr D R Pearce.

Biographical details of the Executive Directors are given below:

Mr Jay LeCoque has previous experience in both sales and marketing in the USA, UK and France with AptarGroup, a leading worldwide manufacturer of pharmaceutical and personal care dispensing systems and drug delivery devices. Mr LeCoque was also previously a Senior Manager in global marketing for the Renal Division of Baxter International Corporation.

Mr LeCoque joined Celsis in 1995 as Director of Global Business Development for the Personal Care market, then progressed to Vice President of Sales and Marketing for North and South America and finally was the Vice President and General Manager of Celsis, Inc., the Americas profit centre.

Following this Mr LeCoque moved to help start OurHouse.com in September of 1999 where he held the position of Vice President of Business Development before returning to Celsis again in November 2000 as CEO. Mr LeCoque received his MBA from the Kellogg Graduate School of Management at Northwestern University in the United States.

Biographical details of the Executive Directors (continued)

Christian Madrolle has more than 30 years experience in finance and general management. Mr Madrolle started his career with Xerox, as Finance and Administration Manager. Following this he became General Manager of Portakabin, in France, where he created the french subsidiary and developed it into a successful and profitable business during 6 years.

Mr Madrolle then moved to Transport International, part of the GE Capital Group, in Amsterdam, where he was Managing Director for southern Europe. Mr Madrolle then returned to Portakabin as Director and General Manager of the European division where he created subsidiary companies in Belgium, Switzerland and Spain and ran profitable German, Dutch and French companies. Following this he joined Biocom as Vice President, Finance and later as President and Chief Executive before joining Celsis in October 2000.

Biographical details of the Non-Executive Directors are given below:

Dr Jack Rowell OBE was previously Finance Director and then CEO of Lucas, part of the Dalgety Group. Dr Rowell then became CEO of Golden Wonder (also part of the Dalgety Group). Following this he was a Director on the Board of Dalgety plc with responsibility for the Consumer Foods Division. Since then he has acted as chairman of five companies. In parallel to his business career he has long been involved with rugby, being England coach between 1994 and 1998.

J R Morris manages his own biotechnology companies, Biotrade and Fermic AG, founded in 1987, which have offices around the world. Mr Morris was previously with Cooper McDougall, Robertson Limited and the Wellcome Foundation, he was then appointed Managing Director of Glaxo Group's bulk pharmaceutical companies.

Professor Sir Christopher Evans, OBE, DSc co-founded Merlin Biosciences in 1996. Merlin is currently one of the largest specialist biomedical venture capital and advisory firms in Europe having raised more than EUR 400 million to invest in European biotechnology companies. Prior to 1991, Sir Christopher held senior research scientist positions with a number of North American bioscience companies. Between 1991 and 1996, he founded several companies, including Chiroscience plc, one of Europe's most successful bioscience stocks. These companies went on to be worth in excess of EUR 1.5 billion.

Sir Christopher holds a BSc (Hons) in Microbiology from Imperial College and a PhD in Biochemistry from Hull University, as well as seven Doctor of Science degrees from British universities in recognition of his achievements as a scientist. He is an honorary Professor of Biotechnology at the Universities of Dundee, Exeter, Manchester, Liverpool, Bath and Imperial College.

Dr D R Pearce is former Chief Executive of the Leeds Training and Enterprise Council and was previously a Director of Tioxide Group PLC. Dr Pearce is a trustee of Raleigh International (a youth charity).

Dr P L Grant completed his PhD at the University of Wales in Cardiff. He has previously held Research and Development posts at Genzyme Limited and Celltech plc, then became Head of Research and Development at Enzymatix Limited. Enzymatix developed five business areas all based on the successful manipulations of enzymes, including development of the rapid methods group from which Celsis is derived. As a founding director of Celsis he was responsible for developing the technology base from concept to product to service the PCP Pharma and Dairy sectors. Following this position he was Director of Technology and Business development, a role which included acquisitions and licensing. Dr P L Grant became a Non-Executive Director on 1st May 2002.

In accordance with the Articles of Association, Dr D R Pearce and Dr P L Grant retire by rotation and being eligible, offer themselves for re-election. J R Morris, having reached the age of 73 years, retires and offers himself for re-election, subject to shareholder approval.

Directors' report (continued)

Directors' interests

The interests of Directors in the shares of the Company at 31 March 2002, 31 March 2003 and 5 June 2003 are disclosed in the report of the Remuneration Committee on pages 10 to 13 of the Full Annual Report and Accounts.

Creditor payment policy

Wherever possible, the Group's policy is to:

- (a) settle the terms of payment with suppliers when agreeing the terms of each transaction;
- (b) ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- (c) pay in accordance with its contractual and other legal obligations.

The Company has no trade creditors. The Group's payment period for the year ended 31 March 2003 was 41 days (2002: 58 days), based on amounts invoiced by suppliers in the year and amounts owed at the year end.

Substantial shareholdings

Interests in the Ordinary Shares of the Company at 5 June 2003 required to be recorded in the register under s211 of the Companies Act 1985 were as follows:

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	Number of Ordinary Shares	Percentage of issued share capital
Shareholder		
Sir C T Evans	11,895,250	11%
Prudential Client HSBC GIS Nominee (UK) Ltd	4,800,000	4%
HSBC Global Custody Nominee (UK) Ltd	4,250,000	4%
Sharelink Nominees Ltd PEP191 Acct	3,296,454	3%
Sharelink Nominees Ltd JMM Acct	3,277,699	3%
J R Morris	3,266,082	3%

Save for the above, the Company has not been notified, as at 5 June 2002, of any material interest of 3 percent or more or any non-material interest exceeding 10 percent of the issued share capital of the Company.

Environmental matters

It is the responsibility of the Company to implement a health, safety and environmental management system. The Company is committed to safeguarding the environment by continuously improving its efficiency and minimising potentially harmful waste. The Company recognises the need to provide a safe and healthy workplace with the aims of preventing hazards and ensuring employees are adequately trained to carry out their jobs. The Company has established a Safety Committee which regularly meets to discuss health and safety matters and to ensure that these objectives are met.

Employees

The Company's policy is to consult and discuss with employees, through regular company meetings, matters likely to affect employees' interests. The meetings seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance. The Group has a policy of providing equal employment opportunities to disabled individuals, where practicable. Opportunities also exist for employees of the Group who become disabled to continue in their employment or to be trained for other positions within the Group.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) with effect from 1 January 2003, PricewaterhouseCoopers resigned on 7 February 2003 and the directors appointed its successors, PricewaterhouseCoopers LLP, as auditors to fill the casual vacancy. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Group will be proposed at the Annual General Meeting, notice of which is set out on page 41 of the Full Annual Report and Accounts.

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Authority to allot shares

Under the Companies Act 1985 (section 80) the Directors of the Company may only allot unissued shares if authorised to do so. The articles of association give a general authority to the Directors to allot unissued shares, but that authority is subject to renewal by the shareholders. It is proposed, subject to the passing of a resolution (Resolution 6) at the Annual General Meeting, to renew the Directors' authority giving the power to issue new shares subject to the provisions of the Companies Act 1985. This authority, if renewed, will terminate at the conclusion of the 2005 Annual General Meeting or 15 months after the passing of the resolution whichever is the earlier. The Directors have no present intention of issuing any shares other than pursuant to existing rights under employee share schemes.

Authority to allot shares for cash

Under section 89(1) of the Companies Act 1985 if the Directors wish to allot any of the unissued shares for cash (other than pursuant to an employee share scheme) they must in the first instance offer them to existing shareholders in proportion to their shareholding (a pre-emption offer). There may be occasions, however, when the Directors will need the flexibility to finance business opportunities by the issue of ordinary shares without a pre-emption offer to existing shareholders. The articles of association give a general authority to the Company to disapply this pre-emption requirement for allotments of shares for cash up to a specific amount or pursuant to rights issues as defined in the articles. This general authority is subject to renewal by shareholders. Subject to the passing of Resolution 6 at the Annual General Meeting, a further resolution (Resolution 7) proposes that the authority be renewed limited to the issue of new shares up to a nominal value representing 5% of the issued share capital as at 5 June 2003 or for a rights issue as defined in the articles. This limit protects the interest of existing shareholders and is within the guidelines issued by the Investment Committee. This authority if renewed will terminate at the conclusion of the 2005 Annual General Meeting or 15 months after the passing of the resolution whichever is the earlier.

By order of the Board
Christian Madrolle, Company Secretary
5 June 2003