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GW Pharmaceuticals plc is licensed by the UK Home Office to develop a portfolio of non-smoked prescription medicines derived from cannabis.

GW's medicines exploit the exciting therapeutic properties of cannabinoids, molecules unique to the cannabis plant, and are being developed for patients with Multiple Sclerosis, Spinal Cord Injury, Cancer Pain, Rheumatoid Arthritis and other severe medical conditions.

GW maintains control over all aspects of the R&D process – cultivation, pharmaceutical development, production, clinical trials and regulatory affairs.

Highlights

- Successful pre-IPO £7m fundraising
- Flotation on Alternative Investment Market of the London Stock Exchange, raising £25m
- Phase III trials commence in Multiple Sclerosis and Cancer Pain
- Positive results from Phase I and II trials
- First international clinical trial commences in Canada
- Significant expansion of operations heralds transformation into an integrated R&D company
- Support from UK Home Secretary and House of Lords Science & Technology Select Committee

“Should, as I believe it will, this programme [of trials] be proved to be successful, I will recommend to the Medicines Control Agency they should go ahead with authorising the medical use.”

UK Home Secretary, the Rt Hon David Blunkett, MP, October 2001

Chairman's Statement



“GW occupies a lead position worldwide in cannabinoid therapeutics and we are uniquely placed to become the first company in the world to produce prescription cannabis-based medicines.”

It gives me great pleasure to welcome you to GW's first annual report as a public company. GW was founded in 1998 in response to the increasing recognition by the government and the medical community of the need to evaluate the potential of creating non-smoked prescription medicines derived from cannabis.

GW successfully achieved its flotation on the Alternative Investment Market of the London Stock Exchange (AiM) in June 2001. At that time, the company raised £25m (£23.5m net of expenses). In addition, at the beginning of the financial year, the Group closed a pre-IPO financing of over £7m. Both financings were significantly oversubscribed. In total, the company has raised nearly £40m since its inception.

Our research programme, and in particular the clinical trials activity, remains on track and is moving ahead in a most satisfactory manner. Patients are clearly receiving benefit from our medicines and we have now moved into Phase III trials, the last and most critical stage of development. GW occupies a lead position worldwide in cannabinoid therapeutics and we are uniquely placed to become the first company in the world to produce prescription cannabis-based medicines.

There is now broad recognition in the scientific community of the importance of the mammalian cannabinoid system. As the company's initial product candidates advance in the later stages of clinical development, I see a real opportunity to investigate the cannabinoid system in more depth through primary research. This is now underway and

will allow us to examine new product opportunities by targeting cannabinoids more precisely for certain illnesses and also discover new cannabinoid entities as potential product candidates for the future.

During the year, I was very pleased to welcome two key appointments to the Board. In January 2001, Peter Mountford was appointed as a non-executive director. Peter is a highly successful corporate financier and a director of a number of private and public companies. In September, David Kirk joined the Board as Finance Director. With 20 years at Arthur Andersen and the last five years spent as director of CeNeS and other companies in the biotechnology field, David brings with him a wealth of valuable experience. At the time of David's appointment, Jonathan Laughton stood down from the Board but remains as Company Secretary and has assumed the title of Financial Controller. Jonathan remains a valued member of the senior management and I should like to thank him for his important contribution during his years as Finance Director.

I should like to take this opportunity to recognise the outstanding contributions made by all our employees over the last 12 months. There is a real sense of excitement at the prospect of what we have set out to achieve and the team's continued dedication and enthusiasm ensures that the advancement of our research activities maintains full momentum.



Dr Geoffrey W Guy
Executive Chairman



Q&A

What are GW's medicines?

The medicines are derived from standardised whole extracts of proprietary cannabis plant varieties bred to exhibit a pre-determined content of cannabinoids. These extracts are incorporated into non-smoked drug delivery technologies and then undergo pre-clinical and clinical testing prior to submitting applications to pharmaceutical regulatory authorities.

What are cannabinoids?

Cannabinoids are a group of molecules found only in the cannabis plant. Cannabinoids have been shown to have analgesic, anti-spasmodic, anti-convulsant, anti-tremor, anti-psychotic, anti-inflammatory, anti-oxidant, anti-emetic and appetite-stimulant properties and research is ongoing into neuroprotective and immunomodulatory effects.

Does GW carry out research under special licences?

Yes. GW operates under licences granted under Section 7 of the Misuse of Drugs Act 1971. These licences allow the Group to cultivate, produce, supply and possess cannabis for the purpose of medical research.

Why not just let patients smoke cannabis?

Smoking is not an acceptable means of delivery for a medicine. Patients wish to use a medicine that is legally prescribed, does not require smoking, is of guaranteed quality, has been developed and approved by regulatory authorities for use in their specific medical condition, and is dispensed by pharmacists under the medical supervision of their doctor.

Where does GW grow cannabis?

GW's cannabis plants are grown under computer-controlled conditions in secure glasshouses at a secret location in the UK. GW has developed a highly sophisticated phytomedicine cultivation process which ensures that plant material grown is of sufficient quality and consistency to be suitable for incorporation into pharmaceutical products.

What results have been achieved in the Phase II trials?

Phase II trials have involved approx 100 patients to date, mostly suffering from Multiple Sclerosis and Spinal Cord Injury. Among the positive effects recorded are relief of

nerve damage pain, spasms, spasticity, bladder-related symptoms, partial relief of tremor, improvements in quality and length of sleep, improvements in mood and measures of overall well-being. In some cases, the improvements have been sufficient to transform lives.

When will a cannabis medicine be ready for market?

The most advanced medicine, for Multiple Sclerosis, is now in Phase III clinical trials, the last stage in the development process. GW hopes to be in a position to submit a confident application for regulatory approval to the UK's Medicines Control Agency in 2003 with a view, subject to approval by the MCA, to the first cannabis-based medicine being available to patients on prescription shortly thereafter.

Are cannabis medicines safe?

Data from GW's clinical trials confirm that its medicines have an excellent safety profile. The trials have generated over 80 patient-years of safety data and adverse events have been predictable and generally well tolerated.

Do patients get "high"?

By careful self-titration (dose adjustment), most patients are able to separate the thresholds for symptom relief and intoxication, the "therapeutic window", so enabling them to obtain symptom relief without experiencing a "high". Patients emphasise that they seek to obtain the medical benefits without intoxication.

How will these cannabis medicines become legal?

The UK government has stated repeatedly that it will permit, subject to regulatory approval from the MCA, cannabis-based medicines to be re-scheduled under the Misuse of Drugs Regulations so as to enable their general prescription. These changes can be made swiftly and do not require parliamentary time.

If GW's medicines become legal, will cannabis be legal?

No. Following approval from the regulatory authorities, it is the specific approved medicine which would become legal for medicinal use. This change has no direct consequence for the legal status of herbal cannabis for recreational and medical use.



Cannabinoids Explained

The term "cannabinoid" has different meanings. Cannabinoids were originally defined as a group of C₂₁ compounds uniquely produced by the cannabis plant. Subsequent development of synthetic cannabinoids and the discovery of natural cannabinoids in the body ("endocannabinoids") has somewhat blurred this definition. The molecules derived from the plant itself are therefore now termed "phytocannabinoids".

Cannabinoid Receptor System

Only in the last decade or so, a natural cannabinoid receptor system in the human body has been discovered. The discovery of this system has sparked renewed interest in the therapeutic potential of cannabinoids by providing important new targets for drugs.

There are at least two types of cannabinoid receptors in mammalian tissues, CB₁ and CB₂. CB₁ receptors are present in the brain and spinal cord and in certain peripheral tissues. CB₂ receptors are expressed primarily in immune tissues. There is preliminary evidence to suggest that additional cannabinoid receptor types may exist.

CB₁ receptors are widely distributed but are particularly abundant in some areas of the brain including those concerned with movement and postural control, pain and sensory perception, memory, cognition, emotion, autonomic and endocrine functions. The role of the second type

of receptor, CB₂, is still under investigation but it is believed to mediate the immunological effects of cannabinoids.

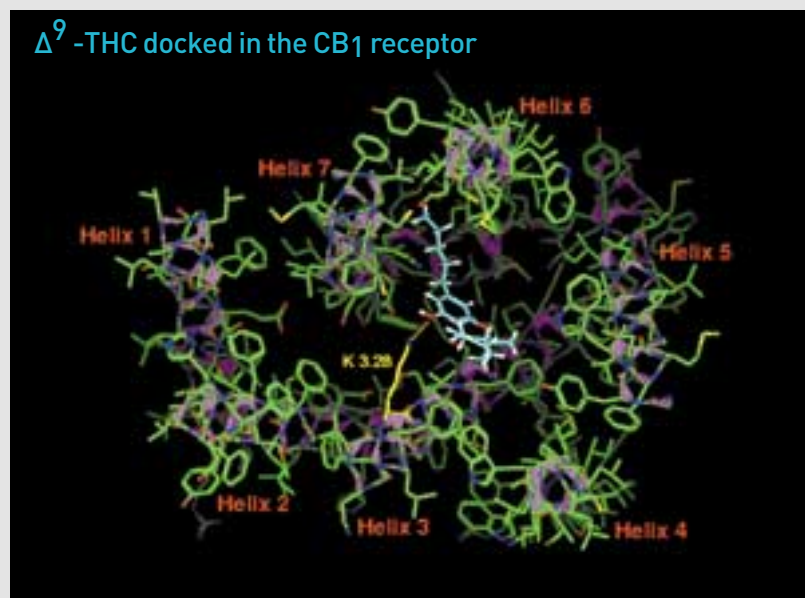
The cannabinoid system interacts with many other neurotransmitter/neuromodulator systems such that cannabinoids affect almost every body system.

Natural Cannabinoids

The discovery of the cannabinoid receptors led to the demonstration of the existence of the body's own natural cannabinoids (endocannabinoids), the most important of which are arachidonoyl-ethanolamide (anandamide), 2-arachidonoyl glycerol (2-AG) and arachidonoyl glyceryl ether (noladin ether). This remains a highly dynamic field. There is evidence that anandamide can serve as a neuromodulator or neurotransmitter on its own or in conjunction with inactive precursors in what has been dubbed the "entourage effect".

“The recent dual discoveries that our bodies express cannabinoid receptors and also produce chemical messengers that can activate these receptors have exciting scientific implications. There is little doubt these discoveries will help to advance medical science and lead to the development of important new drugs.”

Prof Roger Pertwee, MA D.Phil D.Sc. (Oxon)
Professor of Neuropharmacology,
University of Aberdeen



“Research into the cannabinoid system not only enhances the potential for GW’s phytocannabinoid products but may also lead to the discovery of new cannabinoid entities as potential product candidates for the future.”

Dr Brian Whittle, Scientific Director



Cannabis has been reported to provide medical benefit in the following conditions:

- AIDS
- Alzheimer’s Disease
- Anti-Nausea
- Arachnoiditis
- Arthritis
- Asthma
- Auditory/Visual Deficit
- Cancer Pain
- Chronic Pain
- Diabetic/HIV Neuropathy
- Drug Dependence
- Epilepsy
- Glaucoma
- Migraine
- Mood Disorders
- Multiple Sclerosis
- M.E. (Chronic Fatigue)
- Neuralgia
- Neuropathic Pain
- Parkinson’s Disease
- Phantom Limb Pain
- Schizophrenia
- Spinal Cord Injury
- Stroke/Head Injury
- Tremor

Phytocannabinoids

There are over 60 phytocannabinoids in the cannabis plant and GW’s programme includes research on a selected number of these, including

- Δ^9 Tetrahydrocannabinol (THC)
- Δ^9 -THC Propyl Analogue (THC-V)
- Cannabidiol (CBD)
- Cannabidiol Propyl Analogue (CBD-V)
- Cannabinol (CBN)
- Cannabichromene (CBC)
- Cannabichromene Propyl Analogue (CBC-V)
- Cannabigerol (CBG)

To date, GW has primarily focused on the two principal phytocannabinoids –THC and CBD.

THC has been demonstrated to have the following effects: analgesic, anti-spasmodic, anti-tremor, anti-inflammatory, anti-emetic and appetite-stimulant properties.

CBD has been demonstrated to have the following effects: anti-inflammatory, anti-convulsant, anti-psychotic and anti-oxidant. Research is ongoing into the neuroprotective and immunomodulatory effects of CBD.

Of the other cannabinoids, less is known at present but there are indications of much exciting research to come.

Phytocannabinoid ratios

The beneficial therapeutic effects reported by patients who use cannabis result from the interaction of certain phytocannabinoid molecules – as the UK Royal Society concluded, “several components of cannabis might be required to reproduce the effects seen with the whole drug”. Hence, by developing products which incorporate phytocannabinoids in different ratios, a rich portfolio of products is created for the treatment of a wide range of medical conditions.

Cannabis-based medicinal extracts

GW has an extensive library of cannabis plant varieties, each of which has been bred to exhibit a pre-determined ratio of selected phytocannabinoids.

GW has to date focused on using extracts from the cannabis plant rather than synthesising individual cannabinoids. Selected phytocannabinoids combine (together with other components of the original plant such as essential oils and flavinoids) to produce a synergistic effect which is unlikely to be replicated with a single isolated cannabinoid compound extracted from the plant or produced synthetically.

Such plant extracts have the added advantage that they can call on the historical safety and efficacy data available for cannabis, whilst offering a safe appropriate medicinal formulation and application method. Hundreds of years of cannabis use provide for compelling evidence of safety. The therapeutic index for cannabis (the ratio between a normal and lethal dose) is estimated to be 40,000 to 1. The equivalent ratio for Aspirin is 23 to 1 and for Morphine is 50 to 1.

As a result of the long history of medicinal use, relative to many pharmaceuticals, GW’s cannabis-based medicines benefit from short development timelines. They should also hold a greater certainty of success than many other biopharmaceutical or biotechnology programmes.

Future prospects

GW intends to expand its programme of primary research of the cannabinoid system. This will allow us to examine new product opportunities by targeting cannabinoids more precisely for certain illnesses and also discover new cannabinoid entities as potential product candidates for the future.

“There could be a huge market for a cannabis medicine. Independent experts say if it works it would be the biggest advance in pain relief for decades.”

BBC Television News

Market Needs

– unique opportunities

Market Strategy – initial focus on nerve damage pain

The target markets for GW's medicines have been selected on the basis that there is significant unmet medical need, substantial evidence to support the effectiveness of cannabis-based medicines, a strong pharmacological rationale and large target patient populations.

\$15bn

Worldwide pain market forecast to grow to \$15 billion in 2002

A key area of interest is conditions characterised by neuropathic (nerve damage) pain and dysfunction, such as Multiple Sclerosis and Spinal Cord Injury. Cancer pain is also a priority target market for the company.

The worldwide pain market in 1999 was over \$11bn and is forecast to grow to over \$15bn in 2002. With no optimum treatment, neuropathic pain is extremely difficult to manage resulting in a huge unmet patient need.

It is estimated that at least 1% of the world's population suffers from neuropathic pain and that the most effective oral compounds produce relief in only 50%-60% of research participants.



“ [cannabis-based medicine has meant] a whole new outlook on life because of having a good night's sleep, pain free, and being able to feed myself breakfast, feed myself lunch, feed myself dinner, it makes me feel normal which is all I'm asking. ”

Sandra has had MS for almost 25 years and is a mother of two.

Multiple sclerosis

MS affects more than 2.5 million people worldwide, including an estimated 480,000 people in Europe alone. It is the most common neurological disease among young adults.

There is a very clear need for new treatments for MS sufferers. The UK MS Society has commented as follows on the options currently available: “There are very limited treatment options which people with MS can use for symptom management. This is especially true of pain control, where few treatments are effective...”

There is considerable evidence of the benefits of cannabis for MS sufferers. The UK MS Society in 1998 estimated that 3-4% of sufferers were illegally

using cannabis. Some observers suggest that the real number may be over 30%. In addition to human clinical and anecdotal evidence, a recent study in an animal model for MS scientifically demonstrated the link

between cannabis constituents and the suppression of MS symptoms. Should cannabis medicines prove to have disease-modifying capability, the potential additional market would be considerable.

2.5million

MS affects more than 2.5 million people worldwide



“ I can't really describe the pain no more because for the last seven months I've had no pain. What can I say about pain? I'm not the right person to talk to now. I'm free from pain. ”

Alex has severe spinal cord injury and has been suffering from intense pain for 14 years.

Cancer pain

There are approximately 26 million people throughout the world suffering from cancer at any one time. It has been reported that approx 40% of cancer sufferers have unmet needs in pain suppression, of which approx 55% are suffering from nerve damage.

Although opioid treatment, notably morphine, may be considered the strongest pharmacological method for controlling cancer pain, opioids are not effective in treating nerve damage cancer pain.

The US National Academy of Sciences, Institute of Medicine reported that some of the most encouraging clinical data on the effects of cannabis and cannabinoids on chronic pain are from

studies of cancer pain. Of additional interest to the cancer market is the fact that cannabis has also been shown to provide benefit to cancer patients suffering nausea and vomiting from chemotherapy as well as stimulating appetite. Hence, GW believes that a cannabis medicine has the potential to provide considerable advantages over current medications to cancer patients.

40%

Approx 40% of cancer sufferers have unmet needs in pain suppression

Rheumatoid arthritis

There are 16.5 million rheumatoid arthritis patients worldwide. The worldwide market for pain treatments for rheumatoid arthritis and osteoarthritis was estimated to be worth \$4bn in 1999 and is expected to be worth \$13bn in 2005.

\$13bn

Estimated worldwide market for pain treatments for rheumatoid arthritis and osteoarthritis in 2005

In addition to cannabis' well documented pain reducing properties, animal and laboratory studies indicate that both THC and CBD hold anti-inflammatory qualities. Recent evidence has also shown that CBD has significant disease-modifying activity to a comparable degree to that achieved by the recently introduced disease-modifying antirheumatic (anti-TNF) drugs.

Additional markets

Further potential markets for the Group's products include Stroke/Head Injury, Migraine, Inflammatory Bowel Disease (IBD), Schizophrenia, Epilepsy, Movement Disorders (Parkinson's disease, Huntington's disease, Dystonia). All of these markets have been selected on the basis of evidence supporting the potential effectiveness of cannabis-based medicines.



“ [The effect is] really extraordinary. I mean I've never had any sort of relief of this kind and as I told you, [I've] tried pretty well every alternative therapy that there is... The sort of muscle relaxants that they give you have all had rather unpleasant side effects. Whereas this, I think now we've got the dose nearer to what I should have, it's helpful without being at all hindbersome. ”

Jo has very severe MS and is almost totally paralysed.

The patients pictured here were featured in a television documentary on GW's clinical trials which was broadcast by the BBC in November 2001

The GW Process

– from the ground up

Cultivation

The key consideration when developing plant-based medicines is control of starting materials so as to meet the standards of quality laid down by the regulatory authorities. All of the cannabis plant material used by GW in its pharmaceutical development process is selected according to its cannabinoid content, cloned, and cultivated under optimised and standardised computer-controlled conditions in the UK.

Facility

GW has set up a high security cannabis cultivation facility at a secret location in the UK under strict UK Home Office supervision. The facility is guarded by electric fences, 24 hour security guards, security cameras and sophisticated alarms. All aspects of the growing climate within the facility – photoperiod, temperature, humidity and air changes – are controlled by computer. No pesticides are used. This environment prevents contamination, reduces disease and pest problems, and allows for continual production throughout the year.

Botanical Research

In 1998, GW entered into an exclusive worldwide collaboration with medicinal cannabis breeding specialists through which it obtained access to a unique library of plant varieties specifically bred to form the basis of medicinal products. This collaboration accelerated GW's entire research programme by several years. Ongoing breeding work is now carried out by GW's in-house team.

Plant Consistency

Following selection of GW's special chemovars (plants characterized by their chemical content), all production uses cloned plants (cuttings). Growing from clones ensures that the ratio of plant constituents is fixed within narrow limits. Laboratory analysis of selected chemovar lines demonstrates that the cannabinoid ratios are highly consistent.



Quality and consistency

“GW has complete control over the breeding, cultivation, harvesting and processing of its plant material so as to ensure that the product meets the specifications laid down by the regulatory bodies for a pharmaceutical grade starting material. All of this is achieved at an economic scale appropriate for commercial production.”



Extraction and Production

GW has a specialist in-house team to manage the extraction and production of the pharmaceutical product. The company applies the rigorous standards of Good Manufacturing Practice to all steps in the manufacturing process so as to ensure compliance with the strict quality standards required by pharmaceutical regulatory authorities. Extraction and production are carried out both in-house and by sub-contractors.



Pharmaceutical Development

GW's team of scientists are responsible for the development of pharmaceutical formulations derived from the plant extracts and for providing appropriate formulations for incorporation into selected drug delivery technologies. Analysis of all materials and formulations is carried out throughout the development process and stability testing performed to evaluate changes in composition over time. Research is carried out according to appropriate standards of Good Laboratory Practice and Good Manufacturing Practice.



Drug Delivery Technologies

GW's team incorporates pharmaceutical grade extracts into a range of drug delivery technologies. Target routes of administration are sub-lingual, buccal and inhaled. GW's most advanced products are those using a spray technology for sublingual and buccal delivery. GW is developing a novel inhalation device in-house. Early development of this device has been partly funded by an award under the UK Government's SMART award scheme.



Pre-clinical and Clinical Research

GW's pre-clinical and clinical research activities are managed in-house. With over 40 staff, the clinical research department represents the Group's largest operational division and is responsible for planning, design, set-up, monitoring of all clinical trials as well as data handling and statistical analysis. Clinical trials are carried out by selected clinical investigators in hospital centres around the UK and abroad. GW's team of monitors ensure that research is carried out in accordance with ICH Good Clinical Practice.

Regulatory Affairs

GW's regulatory department is responsible for liaison with regulatory authorities around the world and the compilation of dossiers to submit future applications to obtain product licences. Data and documentation covering every aspect of product development is required to form part of the application process.



Managing Director's Review



“GW has a broad product portfolio under development with a range of cannabinoids, drug delivery technologies and target medical conditions providing significant commercial opportunities.”

This year has been one of considerable progress for the Group. GW has transformed from a young research entity into an integrated pharmaceutical research and development Group. Notably, our research activities entered the final pivotal regulatory stage with the commencement of the first Phase III clinical trial in Multiple Sclerosis. Since the financial year end, a Phase III trial in Cancer Pain has commenced. As a consequence of our ongoing progress, we remain on track to deliver our first products to market in 2004.

GW has a broad product portfolio under development with a range of cannabinoids, drug delivery technologies and target medical conditions providing significant commercial opportunities. A number of products are in late stage development and are targeted at conditions for which cannabis is commonly understood to be beneficial and for which there is a strong scientific foundation for the application of cannabinoids. Hence, GW sets out on each product development with a high degree of confidence as to the prospect of future regulatory approval. In addition, strong supporting evidence for safety and efficacy in each target condition allows cannabis-based medicines to benefit from short development timelines.

Phase III Trials

GW has implemented a programme of Phase III clinical trials designed to provide the most rapid advancement

towards product approval whilst at the same time minimising risk of failure. In May, we commenced the first Phase III trial in Multiple Sclerosis. Recruitment for this trial is well underway and the trial is forecast to complete towards the end of 2002. In addition, a series of further Phase III trials focusing on key symptoms of Multiple Sclerosis are due to take place in 2002. Since the financial year end, the company has commenced a Phase III trial in Cancer Pain. In this area, as well as in other forms of neurogenic pain, programmes of multiple studies should similarly provide for a sound basis for regulatory submissions.

Phase II Trials

Much of the focus of clinical trials activity in the last year has been GW's Phase II trials, which have involved approx 100 patients to date. The majority of patients in these trials suffer from Multiple Sclerosis or Spinal Cord Injury. These trials are the most comprehensive evaluation of cannabis-based medicines ever undertaken in such types of patients.

Positive data from the Phase II trials shows significant improvements in a range of symptoms, even in small numbers of patients. These encouraging findings provide confidence for the larger pivotal Phase III trials programme now underway. More information on the Phase II results is presented in the Clinical Update on page 14.

Regulatory Progress

Throughout the course of GW's development programme, the Group has maintained a close dialogue with the Medicines Control Agency (MCA).

“As a consequence of our ongoing progress, we remain on track to deliver our first products to market in 2004.”

As they progress, our trials increasingly demonstrate an excellent safety profile for GW's medicines. Most recently, the MCA has approved the extended use of GW's medicines (both THC and CBD containing materials) in patients for up to 24 months.

Whilst the UK remains the focus for GW's research programme at the present time, discussions have been held with several European regulators in the course of the last year and the company has designed its programme to cater for regulatory bodies in Europe and elsewhere around the world. In North America, Canada represents significant near term opportunities for GW whilst timescales in the United States remain longer term.

Canadian Trials

During the year, GW's first clinical trial outside the UK commenced in Canada. This followed receipt of permission to commence Phase II trials from Health Canada, the Canadian regulatory authority, known as an Investigational New Drug (IND) authorisation. In this first instance, this IND relates to a specific clinical trial in patients with chronic pain, Multiple Sclerosis and Spinal Cord Injury. Health Canada is the first overseas regulatory authority to evaluate GW's data and this represents a major breakthrough in terms of the international potential for GW's product portfolio.

United States

In the US, GW has held meetings with the Food and Drug Administration (FDA), Drug Enforcement Agency (DEA), the Office for National Drug

Control Policy (ONDCP), National Institute for Drug Abuse (NIDA) and senior State officials in California and Maine. Although the licensing process in the US is often protracted, GW received its first import licences from the DEA and subsequently successfully imported its first cannabis extracts into the US. Pre-clinical research using these extracts is ongoing. GW's competitive position in the US remains strong.

Advanced Dispensing Systems

GW has developed specialist advanced dispensing systems which can be applied to all its medicines and to all its drug delivery systems. In particular, the system incorporates anti-diversionary technology so as to prevent any potential abuse of cannabis-based medicines. In addition, this technology allows for the recording and remote monitoring of patient usage.

Now at late stages of implementation, we recognise the wider potential of the technology for a range of controlled drugs and are examining ways to ensure optimum exploitation of these technologies on behalf of shareholders.

Premises

GW currently has offices in Wiltshire and Cambridgeshire as well as dedicated hospital units in Oxford and Guernsey. The location of the Group's botanical research and cultivation operations, analytical and formulation laboratories, and production facilities cannot be disclosed for security reasons.

During the year, the Group moved into new analytical and formulation laboratories. We have extended the

long term lease on our current glasshouse and also moved into a small botanical research glasshouse adjacent to the larger facility. We have also established in-house Good Manufacturing Practice pilot production facilities and moved the clinical department to larger premises. GW has also commissioned an additional indoor growing unit on land adjacent to the current glasshouse. On completion, we will be able to produce plant material at the rate of 30 tonnes per year.

Staff

This year has seen the appointment of directors of the key operating divisions of the Group. These divisions encompass all of GW's principal development activities and are entitled: Botanical Research and Cultivation, Extraction and Production, Pharmaceutical R&D, and Special Technologies.

The Group had 85 employees at the financial year-end. Staff numbers have risen steadily during the course of the year and reflect the considerable growth in the scale of the Group's activities during this time. The Group has reached broadly appropriate staff levels for the current scope of operations and headcount growth has accordingly now slowed considerably.

Intellectual Property Rights

An integral part of GW's research is to establish proprietary intellectual property rights to protect techniques and technologies involved in the development programme. Examples of the areas in which we have and will continue to seek protection are plant registration rights, methods of extraction patents, drug delivery



device patents, patents on compositions of matter for the delivery of cannabis, methods of use patents, design copyright on devices and trademarks.

Our aim is to develop a matrix of interlocking intellectual property rights which is difficult for competitors to penetrate and a varied patent portfolio is a key part of achieving this. During the year, we have made much progress on this front. The Group is the proprietor of 9 UK patent applications, 3 international applications and 2 US applications. In addition, one US patent, to which the Group is the exclusive licensee, was granted during the year. The Group is also pursuing protection for a number of its plants via the Plant Varieties Act.

Public Affairs

Since GW's inception, our research activities have been conducted under the spotlight of the world's media. This year was no exception with extensive interest in the progress of patients participating in GW's clinical trials. In February, the House of Lords Science & Technology Select Committee met to evaluate the progress in the area of medicinal cannabis research since its original report in 1998. At this meeting and at several points during the year, the UK Government confirmed in the clearest terms its policy to allow the prescription of cannabis-based medicines following approval by the MCA.

The company maintains a close cooperation with the Home Office concerning all aspects of its research activities. Elsewhere in Europe, GW has developed a dialogue with government representatives from several European countries.

These meetings were requested by each country's respective government officials with the aim of understanding GW's programme and exploring means by which GW could extend its research to their countries.

Outlook

Our research programme continues at maximum pace, the operations of the Group are sound, the competitive position is strong and the team highly motivated to deliver. We are all too aware that the company's programme is being monitored closely worldwide by governments, media, medical practitioners, patients and the general public. This company's history has been an extraordinary one to date and we look forward with excitement to the next twelve months.

Justin Gover
Managing Director

“Our research programme continues at maximum pace, the operations of the Group are sound, the competitive position is strong and the team highly motivated to deliver.”

Product Pipeline

Product	Indication	Pre-clinical	Phase I	Phase II	Phase III	Submit
THC	Cancer Pain	Pivotal regulatory programme underway				
	Migraine	Early stage plans being formulated				
THC:CBD (Narrow ratio)	Multiple Sclerosis	Pivotal regulatory programme underway				
	Spinal Cord Injury	Pivotal regulatory programme underway				
	Other Neurogenic Pain	Pivotal regulatory programme underway				
	Peripheral Neuropathy	Product evaluated in small numbers of patients				
THC:CBD (Broad ratio)	Rheumatoid Arthritis	Product evaluated in small numbers of patients				
	Inflammatory Bowel Diseases	Early stage plans being formulated				
CBD	Psychotic Disorders (Schizophrenia)	Early stage plans being formulated				
	Epilepsy/Movement Disorders	Early stage plans being formulated				
	Stroke/Head injury	Early stage plans being formulated				

Key

Pivotal regulatory programme underway
 Product evaluated in small numbers of patients
 Early stage plans being formulated

To obtain regulatory approval for a prescription medicine it must be demonstrated that the product meets the authorities' requirements in respect of quality, safety and efficacy. This requires lengthy, extensive and costly pre-clinical and clinical research.

Each medicine must pass Phase I, II and III clinical trials. These trials are carried out in humans to establish the safety and efficacy of a drug.

Phase I clinical trials are carried out in very limited numbers of healthy volunteers to establish how the human body handles the test medicine and what, if any, toxic effects are experienced.

Phase II trials are the first trials of a medicine in patients (as opposed to healthy volunteers) and are intended to give an idea of efficacy, which dose is optimal and some preliminary information on safety.

Phase III trials are the major efficacy and safety trials and involve much larger numbers of patients.

“I have seen at first hand the very real clinical benefits that cannabis-based medicines can provide for these seriously ill patients. We are seeing clinically significant improvements in a range of symptoms. In some cases the improvement has been sufficient to transform lives.”

Dr Philip Robson, Medical Director



Clinical Update

Regulatory Status

GW and its investigators now have regulatory approvals to include patients in trials to examine the following indications: relief of pain of neurological origin and defects of neurological function in multiple sclerosis, spinal cord injury, peripheral nerve injury, central nervous system damage, neuro-invasive cancer, dystonias, cerebral vascular accident and spina bifida. In addition, GW has approval to examine relief of pain and inflammation in rheumatoid arthritis as well as relief of pain in brachial plexus injury.

Phase I Trials

GW has completed 6 Phase I clinical trials that have assessed 14 different dosage forms and involved 48 healthy subjects. These trials were used to establish safe dosage regimen, tolerability and clinical pharmacology. All trials have to date successfully met their objectives.

Phase II Trials

GW's Phase II trials commenced in May 2000 and have involved approx 100 patients to date. The majority of patients in the Phase II trials suffer from Multiple Sclerosis or Spinal Cord Injury. However, the trials have also

included patients suffering from Rheumatoid Arthritis, neuropathic pain and other intractable neurological conditions. Patients were selected on the basis that their symptoms have been considered intractable in the face of all available standard therapy. These trials are the most comprehensive evaluation of cannabis-based medicines ever undertaken in such types of patients

Positive Outcomes

In September 2001, GW released preliminary safety and efficacy data from its Phase I and II clinical trials. In addition, positive data from two independent Phase II clinical trials has recently been presented by researchers at scientific symposia.

The data shows significant improvements in a range of symptoms even in small numbers of patients. In addition, there are definite trends indicating the superiority of active treatment over placebo in several other key outcomes. Clinically significant improvements have been seen in pain, muscle spasms, spasticity, sleep duration and quality, bladder-related symptoms, tremor and overall improvements in quality of life. In some cases the improvement

has been sufficient to transform lives. Given the previously intractable nature of these patients' symptoms, these improvements are all the more remarkable.

Of the first 90 patients entering the Phase II trials, 81 completed the acute phase of the study, of which 74 sustained a sufficiently beneficial response for them to opt to continue on active treatment long term.

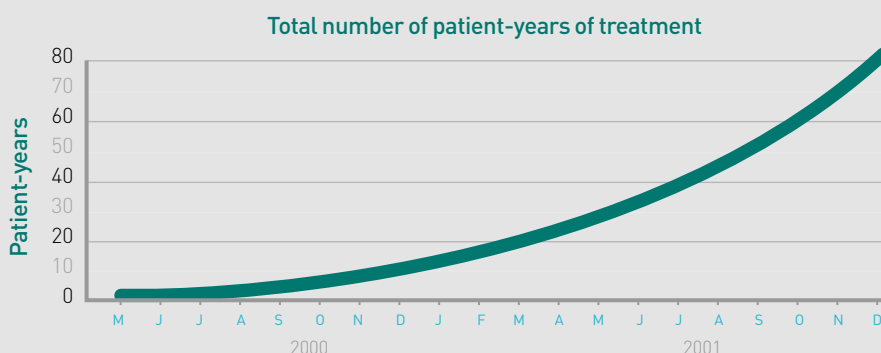
Excellent Safety Profile

The data also confirms that GW's medicines have an excellent safety profile. Adverse events have been predictable and generally well tolerated. By careful self-titration (dose adjustment), most patients are able to separate the thresholds for symptom relief and intoxication. Analysis of dosage levels over extended periods shows no evidence of tolerance, thereby avoiding the requirement for patients to progressively increase their dose.

GW has accumulated over 80 patient-years of safety data for its medicines. On the basis of data submitted, the MCA has now approved the extended use of GW's medicines (both THC and CBD containing materials) in patients for up to 24 months.

Phase III Trials

GW commenced its first Phase III trial in Multiple Sclerosis patients in May 2001. A Phase III trial has recently commenced in Cancer Pain. Several other Phase III studies are planned to commence in early 2002. The first studies should complete towards the end of 2002. Overall, we look forward to a very busy and exciting year for the clinical programme.



Financial Review



“In June 2001, the Company’s shares were admitted to the Alternative Investment Market of the London Stock Exchange. After expenses incurred, the Group raised a total of £30.5m this year, including £23.5m from the successful institutional placing at the time of the IPO.”

Fundraising and Initial Public Offering

On 28 June 2001, the Company’s shares were admitted to the Alternative Investment Market of the London Stock Exchange (AiM) following the placing of 13,736,264 new ordinary shares with institutions at £1.82 per share. After expenses the IPO raised approximately £23.5m. The total amount raised during the last financial year was £30.5m net (£32.0m gross) from both the IPO and pre-IPO fundraising.

Results of Operations

The Group loss for the year ended 30 September 2001 increased to £6.9m (2000: £2.2m), reflecting planned increases in research and development and administrative expenditure as described below.

Research and development expenditure increased to £6.6m (2000: £2.0m) as the Group continues to invest in its therapeutic opportunities and advance its product pipeline. It is likely that research and development expenditure will increase further in 2002.

Management and administrative expenses increased to £1.1m (2000: £0.4m) as a result of the increasing size and sophistication of the Group’s activities. Management and administrative expenses (including amortisation of goodwill) account for 14% (2000: 16%) of total expenditure with research and development expenditure accounting for the remaining 86% (2000: 84%).

The Group received grant income of £0.1m (2000: £0.06m) from a SMART award for a novel inhalation device currently under development.

2001 has been a year of rapid expansion for the Group in all areas of activity as

we have continued to build the team. Although average headcount of the Group was 48 in 2001 we ended the year with 85 employees.

The Group benefited from net interest income of £0.5m (2000: £0.07m) as a result of increased cash balances following its fundraising activities during the year.

Capital expenditure increased to £0.9m (2000: £0.1m) as the Group continued to enlarge its research and development capability, improve information technology systems, and expand its extraction and production operations.

Research and Development Tax Credit

As a result of legislation allowing small and medium sized companies to claim research and development tax credits on qualifying expenditure, the Group has claimed £0.35m (2000: £0.09m) which is shown as a credit to the profit and loss account. This is subject to agreement with the Inland Revenue.

Liquidity and Cash Resources

The Group’s net funds comprise cash balances together with amounts held on short term deposit. Cash and short term deposits at 30 September 2001 totalled £25.7m (2000: £1.7m). The net cash outflow during the year (before financing and management of liquid resources) was £6.6m (2000: £2.3m). We expect that operating cash outflow will increase in 2002, principally as a result of increased research and development expenditure.

David Kirk
Finance Director

Directors and Senior Management



Executive Directors

1 Executive Chairman

Dr Geoffrey Guy (Aged 47) BSc, MB BS, MRCS Eng, LRCP, LMSSA, Dip Pharm Med
Dr Guy is the founder of GW and has 20 years experience in pharmaceutical development. In 1985, he founded Ethical Holdings plc, the drug delivery company, and was Chairman and Chief Executive until 1997. In 1990, Dr Guy co-founded Phytopharm plc, the plant-medicines company, of which he was Chairman until 1997.



2 Managing Director

Justin Gover (Aged 30) BSc, MBA
Mr Gover has been Managing Director of GW since January 1999. He was previously Head of Corporate Affairs at Ethical Holdings plc, the NASDAQ-quoted drug delivery company, where he was responsible for strategic corporate activities, including mergers and acquisitions, equity financing and investor relations. Mr Gover holds an MBA from the INSEAD business school in France.

3 Scientific Director

Dr Brian Whittle (Aged 68) FRPhS, B Pharm, MSc, PhD
Dr Whittle has over 40 years experience in the pharmaceutical industry. He was co-founder and Chief Executive of Phytopharm plc from 1990 to 1994 and Chief Scientific Officer from 1994 and 1998. He also founded Brian Whittle Associates Ltd and has held senior positions at Wyeth Europa Ltd, Reckitt and Colman plc, and ICI Pharmaceuticals Ltd.

4 Finance Director

David Kirk (Aged 48) BSc, FCA
Mr Kirk joined GW as Finance Director in September 2001. He spent 20 years at Arthur Andersen including 10 years as partner. Prior to joining GW, Mr Kirk was Finance Director of CeNeS Pharmaceuticals Plc. He was also a founding Director of Amura Limited, an antibacterial research company, and a non executive Director of Avlar Bioventures.



Non-Executive Directors

5 David Mace

(Aged 46) BSc
Mr Mace has served as a non-executive director of a number of private and venture capital backed companies. In 1987, he led a management buy-out of Sea Life Centre (Holdings) Ltd from Norsk Hydro, through to subsequent merger and flotation in 1992 as Vardon plc. From 1992 to 1996, Mr Mace was a director of Vardon plc.

6 Peter Mountford

(Aged 43) BSc, FCA
Mr Mountford is a director of a number of private and public companies, including Comprehensive Business Services plc and Health Media Group plc. He is the co-founder of Bradmount Investments Ltd, a private investment company. In 1986, he was one of the founding directors of Arthur Andersen Corporate Finance. Between 1989 and 1991 he was seconded to the Takeover Panel.

Senior Management

Medical Director

Dr Philip Robson (Aged 54) MB, MRCP, FRCPsych
Prior to joining GW, Dr Robson was a Consultant Psychiatrist and Senior Clinical Lecturer in the Oxford University Department of Psychiatry. Prior to this, he worked for 8 years in the pharmaceutical industry, initially as a clinical pharmacologist and then as Director of Clinical Research at Wyeth Laboratories.

Clinical Development Director

Dr Nicos Sarantis (Aged 46) MB BChir, MRCP, MFPM, MBA
Dr Sarantis was most recently Medical Director of Knoll Ltd (BASF Pharma) with responsibility for the UK and Eire. Prior to this, he was European Director of Infectious Diseases and Rheumatology at GlaxoWellcome Clinical Development and a Global Development Team Leader at Pfizer Central Research.

Technical Director

Dr Peter Gibson (Aged 49) PhD, BSc
Dr Gibson has 18 years experience in pharmaceutical development. Prior to joining GW, Dr Gibson was Director of Scientific Services for Elan Transdermal Technologies (UK) Ltd. Dr Gibson was previously co-founder of Bioanalytical Research Ltd, a contract research company specialising in bioanalysis.

Production Director

Stefan Antosik (Aged 54) BSc
Mr Antosik has 28 years management experience in the pharmaceutical industry. Previous positions include Deputy Managing Director of Syntex Ireland and Managing Director of Angus Fine Chemicals. Prior to joining GW, he was Production Director with Scotia Pharmaceuticals.

Director of Botanical Research and Cultivation

David Potter (Aged 48)
Mr Potter has 23 years research and development experience as a horticulturalist and agronomist. He spent over 20 years as a scientist at a multinational petrochemicals company testing novel pesticides and plant growth regulants in glasshouse and field grown crops.

Director of Special Technologies

Rajiv Dave (Aged 32)
Mr Dave has 14 years experience in the electronics industry. He spent 7 years at the BBC in design and development working on digital audio systems and equipment. Prior to joining GW, he was Technical Director for an electronics company leading the design & development team and managing new product introductions in the UK.

Regulatory Affairs Manager

Alison Thompson (Aged 47) BSc
Ms Thompson has 12 years experience in the management of regulatory affairs. Most recently, she worked at Novartis where she was Manager, Regulatory Affairs, in the veterinary products division. Prior to joining the life sciences industry, she worked for 10 years as an agricultural scientist.

Director of R&D Operations

Colin Stott (Aged 36) BSc (Hons) D.I.S. Dip.Clin.Sci
Mr Stott has 15 years experience in the pharmaceutical industry. Prior to joining GW, he was Clinical Programme Manager & International Project Leader at Napp Pharmaceuticals, leading the development of an international joint development programme of a plant-based medicine. Prior to this, he was Clinical Projects Manager at Phytopharm plc.

Financial Controller and Company Secretary

Jonathan Laughton (Aged 29) MA, ACA
Mr Laughton was Finance Director of GW from May 1999 to September 2001. He joined the company from KPMG, where he acted as auditor and consultant to clients including NM Rothschild & Sons, ING Barings, Woolwich Building Society and Rabobank.

Financial Contents

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Directors' Report

for the year ended 30 September 2001

The Directors present their report and the audited financial statements for the Company and for the Group for the financial year ended 30 September 2001.

Principal activity and business review

The principal activity of the Group is the development of a portfolio of prescription medicines derived from cannabis to meet patient needs in a wide range of therapeutic conditions.

A review of the results for the year and of future developments in the business is given in the Chairman's Statement, Managing Director's Review and in the Financial Review, which form part of this annual report.

GW Pharmaceuticals plc was incorporated as Mawlaw 541 plc on 15 February 2001 and changed its name to GW Pharmaceuticals Group plc on 6 March 2001. GW Pharmaceuticals Group plc changed its name to GW Pharmaceuticals plc on 1 June 2001.

During the year GW Pharmaceuticals plc acquired GW Pharma Limited in a share for share exchange which was merger accounted. Subsequent to the merger in June 2001 GW Pharmaceuticals plc was admitted to the Alternative Investment Market (AIM) via way of a placing raising net proceeds of £23.5m.

Prior to the acquisition by GW Pharmaceuticals plc GW Pharma Limited raised £7m via a private placing in November 2000 and acquired G-Pharm Limited in a share for share exchange in May 2001.

The subsidiary undertakings principally affecting the results and net assets of the Group are listed in Note 8 to the financial statements.

Results and dividends

The consolidated profit and loss account for the year is set out on page 28. The Group's loss for the financial year after taxation was £6,865,000 (2000: £2,226,000).

The Director's do not recommend the payment of a dividend.

Group research and development activities

The research and development undertaken by the Group amounted to £6,642,000 (2000: £2,007,000), all of which was written off during the year.

Directors' Report continued

for the year ended 30 September 2001

Directors and their interests

The Directors who served during the year, together with their beneficial interests in the shares of the Company, are as follows:

		Ordinary shares of 0.1p 30 September 2001
Executive		
Dr Geoffrey Guy – Chairman	Appointed 5 March 2001	25,903,708
Mr Justin Gover – Managing Director	Appointed 5 March 2001	4,184,001
Mr David Kirk – Finance Director	Appointed 10 September 2001	–
Dr Brian Whittle (1) – Scientific Director	Appointed 5 March 2001	11,545,446
Mr Jonathan Laughton	Appointed 5 March 2001 – Resigned 10 September 2001	1,747,482
Mawlaw Administration Limited	Appointed 15 February 2001 – Resigned 5 March 2001	–
Mawlaw Corporate Services Limited	Appointed 15 February 2001 – Resigned 5 March 2001	–
Non – executive		
Mr Peter Mountford (2)	Appointed 5 March 2001	497,205
Mr David Mace (3)	Appointed 5 March 2001	174,000

(1) Dr Brian Whittle's holding includes 207,942 ordinary shares held by his pension trust.

(2) Peter Mountford's holding includes 165,735 ordinary shares held by his wife.

(3) David Mace's holding includes 87,000 ordinary shares held by his wife.

Details of the Directors' share options and service contracts are shown in the Remuneration Report.

The following changes in the interests of the Directors occurred subsequent to the year end.

	At 30 September 2001	Shares purchased	At 10 January 2002
Mr David Kirk	–	6,000	6,000

Biographical details of the Directors are given on page 16.

In accordance with the Articles of Association all members of the Board will retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

Substantial shareholdings

On 10 January 2002 the following shareholders were registered as being interested in 3% or more of the Company's ordinary share capital:

	Number of shares held	%
Dr Geoffrey Guy	25,903,708	27.0
Dr Brian Whittle	11,545,446	12.0
Mr Preston L Parish	8,201,015	8.5
Mr Justin Gover	4,184,001	4.4

Directors' Report continued

for the year ended 30 September 2001

Share capital

Information relating to shares issued in the financial period is given in Note 14 to the financial statements.

Charitable and political contributions

A donation of £12,500 (2000: £12,500) was made during the year to the Medicinal Cannabis Research Foundation.

Supplier payment policy

It is the Group's policy to settle debts with its creditors on a timely basis, taking into consideration the terms and conditions offered by each supplier. The number of supplier days outstanding at the year end, based on the average monthly outstanding Group creditor balances, was 27 days (2000: 26 days). At the year end the Company had nil creditors.

Introduction of the Euro

The Group does not see any immediate impact to its business practices as a result of the introduction of the Euro.

Employee consultation

The Group places considerable value on the involvement of its employees and they are regularly briefed on the Group's activities. Their contribution is a key element to the future success of the Group and accordingly the employees are given the opportunity of participating in the Company's share capital by joining one or more of the share option schemes operated by the Company. Details of the share options issued under these plans are set out in Note 15 to the financial statements.

Equal opportunity is given to all employees regardless of their sex, colour, race, religion or ethnic origin.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Annual General Meeting

The Annual General Meeting will be held at 11am on 13 March 2002 at Porton Down Science Park, Salisbury, Wiltshire, SP4 0JQ.

Auditors

Arthur Andersen were appointed during the period. A resolution to re-appoint Arthur Andersen as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board

Jonathan Laughton

Company Secretary

15 January 2002

Corporate Governance

for the year ended 30 September 2001

Corporate Governance

Companies that have securities traded on the Alternative Investment Market (AiM) are not required to comply with the disclosures of the Combined Code. However the Board is committed to maintaining the highest standards of corporate governance.

Statement of Compliance with the Code of Best Practice

Since being admitted to AiM the Group has complied with the provisions of the Code of Best Practice set out in Section 1 of the Combined Code for the period to 30 September 2001, with the following exceptions;

The roles of Chairman and Chief Executive are not separated. Due to the current size of the Group it is the Board's view that the existing arrangement whereby the Company has an Executive Chairman is in the best interests of the Group.

There is no senior independent non-executive Director. All non-executive Directors are experienced, play an active role in setting objectives for the Company, participate in the making of all major policy decisions and are capable of dealing with concerns should any be conveyed to them.

The non-executive Directors hold shares in the Company and also hold options/warrants to subscribe for shares in the Company. The Board considers that this was necessary to attract and retain a high calibre of non-executive Director. The Board is satisfied that the non-executive Directors exercise independent judgement and are independent of management.

The Audit Committee comprises the two non-executive Directors rather than three as recommended in the Combined Code.

A Nomination Committee has not been established due to the small size of the Board. All Directors are actively involved with Board nominations.

Statement about applying the Principles of Good Governance

The Company has applied the Principles of Good Governance set out in Section 1 of the Combined Code by complying with the Code of Best Practice as reported above. Further explanation of how the Principles have been applied is set out below and, in connection with Directors' remuneration, in the Remuneration Report.

The Board of Directors

The Company is controlled by the Board of Directors which comprises four executive and two non-executive Directors. All Directors are able to take independent financial advice in furtherance of their duties if necessary.

The Board is responsible to shareholders for the proper management of the Group and meets formally at least four times a year to set the overall direction and strategy of the Group, to review financial and operating performance and to advise on senior management appointments. Financial policy and budgets, including capital expenditure, are approved and monitored by the Board. All key operational decisions are subject to Board approval. The Company Secretary is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Directors are subject to election by shareholders at the first opportunity after their appointment. In addition, one third of Directors are subject to retirement by rotation at each Annual General Meeting. All Directors, therefore, in accordance with the Code, will submit themselves for re-election at the forthcoming meeting.

Committees of the Board

Remuneration Committee The Remuneration Committee comprises the two non-executive Directors under the chairmanship of Mr David Mace. It reviews, inter alia, the performance of the executive Directors and sets the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of the shareholders. The Remuneration Committee also determines the allocation of share options to executive Directors under the Approved and Executive Schemes. No Director has a service agreement exceeding one year.

It is a policy of the Remuneration Committee that no individual participates in discussions or decisions concerning his own remuneration.

Corporate Governance continued

for the year ended 30 September 2001

The Remuneration Report is set out on pages 24 to 25.

Audit Committee The Audit Committee comprises the two non-executive Directors under the chairmanship of Mr Peter Mountford. It meets at least twice per year and oversees the monitoring of the Group's internal controls, accounting policies and financial reporting and provides a forum through which the external auditors report. It meets at least once a year with the external auditors without executive Board members present.

Executive Management Committee Operational decision making is delegated to the Executive Management Committee which is a committee consisting of all the executive Directors and certain members of senior management. The Executive Management Committee meets as required and at least every 6 weeks.

Relations with shareholders

The Board attaches great importance to effective communication with shareholders and encourages dialogue with both its institutional and private investors and responds promptly to all questions received verbally or in writing. Directors regularly attend meetings with analysts and institutional shareholders throughout the year. All shareholders have at least 21 days notice of the Annual General Meeting at which they have the opportunity to discuss the Group's developments and performance.

In addition the Company operates a web-site which can be found at www.gwpharm.com. It contains further details of the Group and its activities, details of Regulatory News Service ("RNS"), press announcements, details of the Company's share price, share trading activity and graphs.

Maintenance of a sound system of internal control

The Directors have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance that the assets of the Group are safeguarded and that the shareholders' investments are protected. The system includes internal controls covering financial, operational and compliance areas, and risk management. There are limitations in any system of internal control, which can provide reasonable but not absolute assurance with respect to the preparation of financial information, the safeguarding of assets and the possibility of material misstatement or loss.

The Board has considered the guidance provided by the Turnbull Report and, since May 2001 has reviewed the system of internal controls in place. An assessment of the major risk areas for the business and methods used to monitor and control them was also undertaken. In addition to financial risk, the review covered operational, commercial, environmental, regulatory and research and development risks. The risk review has become an ongoing process with regular review by the Board at least annually.

The key procedures designed to provide an effective system of internal control are described below.

Control environment There is an organisational structure with clearly defined lines of responsibility and delegation of accountability and authority.

Risk management The Group employs Directors and senior executives with the appropriate knowledge and experience for a pharmaceutical Group such as GW Pharmaceuticals plc. A formal risk management review is performed annually as part of the process of determining the Group's system of internal controls and risk mitigation procedures.

Corporate Governance continued

for the year ended 30 September 2001

Financial information The Group prepares detailed budgets and working capital projections, which are approved annually by the Board and are updated regularly throughout the year. Detailed management accounts and working capital cashflows are prepared on a monthly basis and compared to budgets and projections to identify any significant variances.

Management of liquid resources The Board is risk adverse when investing the Group's surplus cash funds. The Group's treasury management policy is reviewed annually and sets out strict procedures and limits on how surplus funds are invested.

The Board has considered it inappropriate to establish an internal audit function, given the size of the Group. However, this decision will be reviewed as the operations of the Group develop.

Remuneration Report

for the year ended 30 September 2001

Remuneration Report

The Board has applied the Principles of Good Governance relating to Directors' remuneration as described below.

The Remuneration Committee

The Remuneration Committee comprises the two non-executive Directors under the chairmanship of Mr David Mace. The constitution and operation of the Committee is in compliance with the provisions of the Combined Code on Corporate Governance. When setting its remuneration policy for executive Directors the Committee gives full consideration to the provisions and principles of the Combined Code.

Remuneration policy for executive Directors

The remuneration policy has been designed to ensure that executive Directors should receive appropriate incentive and reward given their performance, responsibility and experience. In determining this, the Remuneration Committee has regard to ensure that the policy aligns the interests of executive Directors with those of the shareholders.

The Company's remuneration policy for executive Directors is to:

- Have regard to the individual's experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality, while avoiding remunerating those Directors more than is necessary.
- Link individual remuneration packages to the Group's long term performance through the award of share options and bonus schemes.
- Provide post retirement benefits through defined contribution pension schemes.
- Provide employment related benefits including the provision of life assurance and medical insurance.

Remuneration policy for non-executive Directors

The remuneration of the non-executive Directors is determined by the Board as a whole, based on a review of current practices in other equivalent companies. The non-executive Directors do not receive any pension or other benefits from the Company, nor do they participate in any of the bonus schemes.

During the year warrants and options under the Unapproved Executive Share Option Scheme were granted to the non-executive Directors.

The non-executive Directors have service agreements which are reviewed by the Board annually. They are included in the one third of Directors subject to retirement by rotation at each Annual General Meeting.

Directors' remuneration

The Directors received the following remuneration during the year:

Name of Director	Salary and fees £	Taxable benefits £	Pension contributions £	2001 total £	2000 total £
Executive					
Dr Geoffrey Guy	121,250	440	13,784	135,474	91,224
Mr Justin Gover	69,500	290	4,636	74,426	49,872
Mr David Kirk (1)	7,500	–	938	8,438	–
Dr Brian Whittle (2)	73,927	1,736	–	75,663	47,025
Mr Jonathan Loughton	40,900	121	2,728	43,749	43,817
Non-executive					
Mr Peter Mountford (3)	9,000	–	–	9,000	–
Mr David Mace	11,000	–	–	11,000	–
Aggregate emoluments	333,077	2,587	22,086	357,750	231,938

(1) Prior to joining the Board David Kirk worked for the Company in a consultancy capacity. During this period fees amounting to £10,487 were paid to David Kirk.

(2) In addition to the fees stated above during the year the Group purchased services in the ordinary course of business from Brian Whittle Associates Limited a company controlled by Brian Whittle, at a cost of £14,774 (2000: £40,764). As at 30 September 2001 a balance of £16,490 (2000: £16,949) was due to Brian Whittle Associates Limited.

(3) Peter Mountford's fees were paid to Bradmount Investments Limited.

Remuneration Report continued

for the year ended 30 September 2001

Directors' shareholdings

The interests of the Directors in the shares of the Company as 30 September 2001 were:

Name of Director	Ordinary shares of 0.1p 30 September 2001
Executive	
Dr Geoffrey Guy	25,903,708
Mr Justin Gover	4,184,001
Mr David Kirk	–
Dr Brian Whittle (1)	11,545,446
Non – Executive	
Mr Peter Mountford (2)	497,205
Mr David Mace (3)	174,000

(1) Dr Brian Whittle's holding includes 207,942 ordinary shares held by his pension trust.

(2) Peter Mountford's holding includes 165,735 ordinary shares held by his wife.

(3) David Mace's holding includes 87,000 ordinary shares held by his wife.

As at 30 September 2000 Dr Geoffrey Guy, Mr Justin Gover, Dr Brian Whittle and Mr David Mace had interests in GW Pharma Limited, the principal trading subsidiary of GW Pharmaceuticals plc, of 660,300, 107,000, 303,900, 6,000 ordinary shares of 0.1p respectively.

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. Details of the options are as follows:

Name of Director	At 15 February 2001	Granted	Exercised	Lapsed	At 30 September 2001	Exercise price	Earliest date of exercise	Date of expiry
Executive								
Dr Geoffrey Guy	–	565,500	–	–	565,500	36.21p	15/1/04	15/1/11
Mr Justin Gover	–	471,250	–	–	471,250	20.52p	2/10/03	2/10/10
	–	217,500	–	–	217,500	182p	14/5/04	14/5/11
	–	217,500	–	–	217,500	237p	14/5/04	14/5/11
Mr David Kirk	–	900,000	–	–	900,000	104.5p	10/9/04	10/9/11
Dr Brian Whittle	–	471,250	–	–	471,250	20.52p	2/10/03	2/10/10
Non-executive								
Mr Peter Mountford	–	36,250	–	–	36,250	182p	14/5/04	14/5/11
	–	36,250	–	–	36,250	237p	14/5/04	14/5/11
Mr David Mace	–	43,500	–	–	43,500	36.21p	1/2/04	1/2/11
	–	50,750	–	–	50,750	182p	14/5/04	14/5/11
	–	50,750	–	–	50,750	237p	14/5/04	14/5/11

Share options that were initially granted in GW Pharma Limited were replaced with options in GW Pharmaceuticals plc when the Group reorganisation was completed.

In addition Justin Gover and Brian Whittle each have 14,384 ordinary shares, conditionally gifted to them under the rules of the GW Pharmaceuticals All Employee Share Scheme. They will be entitled to these shares on 2 October 2003 if they continue to be employed until that date.

In addition Peter Mountford owns certain warrants to subscribe for ordinary shares in the Company as detailed in Note 15 to the financial statements.

Statement of Directors' Responsibilities

for the year ended 30 September 2001

Financial statements, including adoption of going concern basis

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In preparing the financial statements, the directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Other matters

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

for the year ended 30 September 2001

To the shareholders of GW Pharmaceuticals plc

We have audited the financial statements of GW Pharmaceuticals plc for the period ended 30 September 2001 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, and the Consolidated Cash Flow Statement and the related notes numbered 1 to 24 and the information relating to directors' remuneration and share options on page 24 to 25. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom accounting standards are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Managing Director's Review, the Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group at 30 September 2001 and of the group's loss for the financial year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Chartered Accountants and Registered Auditors
15 January 2002

Abbots House
Abbey Street
Reading
Berkshire
RG1 3BD

Consolidated Profit and Loss Account

for the year ended 30 September 2001

Notes	2001 £000's	2000 £000's
	Turnover	–
	Research and development costs	(2,007)
	Management and administrative expenses	(379)
2	Operating loss	(2,386)
	Continuing operations	(2,386)
2	Acquisitions	–
	Interest receivable	70
	Interest payable	(2)
2	Loss on ordinary activities before taxation	(2,318)
5	Tax credit on loss on ordinary activities	92
16	Loss on ordinary activities after taxation being retained loss for the financial year	(2,226)
6	Loss per share - basic and diluted	(4.2p)

The accompanying notes are an integral part of this consolidated profit and loss account.

All activities relate to continuing operations.

The Group has no recognised gains and losses other than the losses above and therefore no separate statement of total recognised gains and losses has been presented.

Consolidated Balance Sheet

as at 30 September 2001

Notes	2001 £000's	2000 £000's	
	Fixed assets		
7	Intangible assets – goodwill	6,992	–
9	Tangible assets	740	108
		7,732	108
	Current assets		
10	Debtors	976	187
	Cash at bank and in hand	25,650	1,729
		26,626	1,916
11	Creditors: Amounts falling due within one year	(1,762)	(265)
		24,864	1,651
	Net current assets		
	Total assets less current liabilities	32,596	1,759
	Creditors: Amounts falling due after more than one year	–	(4)
13	Provisions for liabilities and charges	(20)	–
	Net assets	32,576	1,755
	Capital and reserves		
14	Called-up share capital	96	2
16	Share premium account	23,491	–
16	Other reserves	19,262	5,161
16	Profit and loss account	(10,273)	(3,408)
17	Equity shareholders' funds	32,576	1,755

The financial statements on pages 18 to 43 were approved by the Board on 15 January 2002, and were signed on its behalf by:

Dr Geoffrey Guy

Chairman

15 January 2002

The accompanying notes are an integral part of this consolidated balance sheet.

Company Balance Sheet

as at 30 September 2001

Notes		2001 £000's
	Fixed assets	
8	Investments	82
	Current assets	
10	Debtors	23,450
	Creditors: Amounts falling due within one year	-
	Net current assets	23,450
	Total assets less current liabilities	23,532
	Net assets	23,532
	Capital and reserves	
14	Called-up share capital	96
16	Share premium account	23,491
16	Profit and loss account	(55)
	Equity shareholders' funds	23,532

The financial statements on pages 18 to 43 were approved by the Board on 15 January 2002, and were signed on its behalf by:

Dr Geoffrey Guy

Chairman

15 January 2002

The accompanying notes are an integral part of this balance sheet.

Consolidated Cash Flow Statement

for the year ended 30 September 2001

Notes		2001 £000's	2000 £000's
18	Net cash outflow from operating activities	(6,317)	(2,275)
19	Returns on investments and servicing of finance	470	68
	Taxation	93	(4)
19	Capital expenditure	(876)	(114)
19	Acquisitions and disposals	30	-
	Cash outflow before management of liquid resources and financing	(6,600)	(2,325)
19	Management of liquid resources	(22,700)	(900)
19	Financing	30,521	3,464
20	Increase in cash during the year	1,221	239

The accompanying notes are an integral part of this consolidated cashflow statement.

Notes to the Financial Statements

for the year ended 30 September 2001

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The Group financial statements consolidate the accounts of GW Pharmaceuticals plc and all its subsidiary undertakings made up to 30 September 2001. Acquisitions are accounted for under the acquisition method.

As part of a Group reconstruction GW Pharmaceuticals plc acquired GW Pharma Limited on 31 May 2001. This purchase was accounted for under merger accounting principles. Under this method, results are reported as if the acquiring companies have been combined since the earlier date of incorporation. No purchased goodwill is created in the acquisition and the assets and liabilities of the acquired company are not adjusted to reflect their market value.

As part of a Group reconstruction GW Pharma Limited acquired Guernsey Pharmaceuticals Limited on 25 February 1999. This purchase was accounted for under merger accounting principles as detailed above.

No profit and loss account is presented for GW Pharmaceuticals plc as permitted by Section 230 of the Companies Act 1985. The Company's loss for the financial period was £55,000.

Intangible assets – goodwill

Goodwill arising on the acquisition of the subsidiary undertakings, representing excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired is capitalised and written off on a straight line basis of over its useful economic life, which is 20 years. Provision is made for any impairment.

Research and development

Research and development expenditure is written off as incurred.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, with a full charge in the year of acquisition and no charge in the year of disposal, as follows:

Plant and machinery	5 years
Motor vehicles	4 years
Lab equipment	4 years
IT equipment	4 years
Office equipment	4 years

Residual value is calculated on prices prevailing at the date of acquisition.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Investments in subsidiary companies which are accounted for under merger accounting principles are shown at the nominal value of shares issued in accordance with the provisions of Section 131 of the Companies Act 1985.

Notes to the Financial Statements continued

for the year ended 30 September 2001

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

Pension costs and other post retirement benefits

The Group does not maintain any pension plans, but makes defined contributions to the personal pension arrangements of all its executive Directors and employees. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Derivative financial instruments

The Group's financial instruments comprise cash, liquid resources and various items such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group does not enter into derivative transactions for speculative purposes. It has been, throughout the year the Group's policy that no trading in financial instruments shall be undertaken.

Leases and hire purchase commitments

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

Notes to the Financial Statements continued

for the year ended 30 September 2001

2 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging (crediting):

	2001 €000's	2000 €000's
Depreciation and amounts written off tangible fixed assets		
- owned	256	35
- held under finance leases and hire purchase contracts	3	4
Research and development	6,642	2,007
Amortisation of goodwill	140	-
Government grants	(117)	(56)
Operating lease rentals – land and buildings	201	12
Auditors' remuneration		
- audit services	25	11
- non-audit services*	6	6

* In addition €92,240 for non-audit services was charged to the share premium account in 2001.

The operating loss relating to acquisitions of €149,000 comprises €9,000 for research and development and €140,000 for management and administration expenses, relating to the acquisition of G-Pharm Limited. The trade and activities of G-Pharm Limited were transferred to GW Pharma Limited shortly after the acquisition.

3 Staff costs

The average monthly number of employees (including executive Directors) was:

	2001 Number	2000 Number
Research and development	39	8
Management and administration	9	6
	48	14

	2001 €000's	2000 €000's
Their aggregate remuneration comprised:		
Wages and salaries	1,409	464
Social security costs	136	46
Other pension costs	67	26
	1,612	536

4 Directors' remuneration, interests and transactions Aggregate remuneration

The total amounts for Directors' remuneration and other benefits were as follows:

	2001 €000's	2000 €000's
Emoluments	336	218
Money purchase contributions	22	14
	358	232

The number of Directors who are members of a defined contribution scheme is as follows:

	2001 Number	2000 Number
	4	3

Further details concerning the Directors' remuneration, shareholding and share options which form part of these financial statements, is set out in the Remuneration Report on pages 24 to 25.

Notes to the Financial Statements continued

for the year ended 30 September 2001

5 Tax credit on loss on ordinary activities

The tax credit of £347,000 (2000: £92,000) has arisen as a result of the research and development expenditure claimed under the Finance Act 2000.

At 30 September 2001 the Group had trading losses of approximately £9,500,000 (2000: £2,900,000) available to carry forward against future tax liabilities.

The tax credit and trading losses to be carried forward for the year are subject to the agreement of the Inland Revenue.

6 Loss per share

The calculations of loss per share are based on the following losses and numbers of shares.

	Basic		Diluted	
	2001 £000's	2000 £000's	2001 £000's	2000 £000's
Loss for the financial year	6,865	2,226	6,865	2,226
			2001 Number of shares	2000 Number of shares
Weighted average number of shares			75,949,639	53,019,905

Since the Group reported a net loss, diluted loss per share is equal to basic loss per share.

7 Intangible fixed assets – goodwill

	Group £000's
Cost	
As at 1 October 2000	–
Additions	7,132
As at 30 September 2001	7,132
Aggregate Amortisation	
As at 1 October 2000	–
Charge for the period	140
As at 30 September 2001	140
Net book value	
30 September 2000	–
30 September 2001	6,992

As at 30 September 2001 the Company had no intangible assets.

On the 10 May 2001 GW Pharma Limited acquired 100% of the share capital of G-Pharm Limited by issuing 13,018,970 ordinary shares of 0.1 p each.

Net book value and fair value of net assets acquired

	£000's
Fair value of consideration	7,160
Less fair value of net assets acquired:	
Tangible fixed assets	15
Cash	30
Debtors	9
Creditors	(26)
	(28)
Goodwill	7,132

Notes to the Financial Statements continued

for the year ended 30 September 2001

7 Intangible fixed assets – goodwill (continued)

The results of G-Pharm Limited for the year ended 30 September 2000 and for the period 1 October 2000 to the date of acquisition on 10 May 2001 were:

	1 October 2000 to 10 May 2001 £000's	Year ended 30 September 2000 £000's
Turnover	265	421
Cost of sales	(62)	(27)
Gross profit	203	394
Administrative expenses	(187)	(397)
Profit / loss on ordinary activities before taxation	16	(3)
Taxation	–	–
Profit / loss on ordinary activities after taxation	16	(3)

For both periods turnover relates to sales of services to GW Pharma Limited a wholly owned subsidiary of GW Pharmaceuticals plc.

8 Fixed asset investments

	Company 2001 £000's
Subsidiary undertakings	
Cost and net book value	
At 1 October 2000	–
Additions	82
At 30 September 2001	82

Principal Group investments

The parent Company and the Group have investments in the following subsidiary undertakings.

Name of undertaking	Country of registration	Description of shares held	Activity	% holding
GW Pharma Limited +	England and Wales	0.1p ordinary shares	Research and Development	100%
G-Pharm Limited	England and Wales	£1 ordinary shares	Research and Development	100%
Guernsey Pharmaceuticals Limited	Guernsey	£1 ordinary shares	Research and Development	100%
GWP Trustee Company Limited	England and Wales	£1 ordinary shares	Employee Share Ownership	100%
G-Pharm Trustee Company Limited	England and Wales	£1 ordinary shares	Dormant	100%

+ Held directly by GW Pharmaceuticals plc.

Own shares

The GW Pharmaceuticals All Employee Share Scheme, an Inland Revenue approved employee share scheme constituted under a trust deed, holds 922,200 ordinary shares in GW Pharmaceuticals plc. The trustee is the GWP Trustee Company Limited, a wholly owned subsidiary of the Company. Costs incurred by the trust are expensed in the Group's financial statements as incurred.

The trust holds 922,200 (2000: nil) ordinary shares acquired by way of a gift at nil cost per share. On 30 September 2001 the shares had a market value of £617,874. As at the year end 158,079 (2000: nil) of these shares had been conditionally gifted to employees.

Notes to the Financial Statements continued

for the year ended 30 September 2001

9 Tangible fixed assets

Group	Motor vehicles €000's	Plant and machinery and lab equipment €000's	Office and IT equipment €000's	Total €000's
Cost				
At 1 October 2000	41	50	67	158
Additions	110	398	368	876
Acquisition of subsidiary undertaking	-	13	2	15
At 30 September 2001	151	461	437	1,049
Depreciation				
At 1 October 2000	14	13	23	50
Charge for the year	38	112	109	259
At 30 September 2001	52	125	132	309
Net book value				
At 30 September 2000	27	37	44	108
At 30 September 2001	99	336	305	740

Leased assets included above:

Net book value				
At 30 September 2000	7	-	-	7
At 30 September 2001	4	-	-	4

The Company does not own any tangible fixed assets.

10 Debtors: Amounts falling due within one year

	Group		Company
	2001 €000's	2000 €000's	2001 €000's
Amounts owed by group undertakings	-	-	23,450
Corporation tax recoverable	347	93	-
Other debtors	321	67	-
Prepayments and accrued income	308	27	-
	976	187	23,450

11 Creditors: Amounts falling due within one year

	Group		Company
	2001 €000's	2000 €000's	2001 €000's
Trade creditors	1,231	165	-
Obligations under finance leases and hire purchase contracts	4	5	-
Other taxation and social security	70	21	-
Accruals and deferred income	429	63	-
Defined contribution pension scheme accrual	28	11	-
	1,762	265	-

Notes to the Financial Statements continued

for the year ended 30 September 2001

12 Financial instruments

The Group's financial instruments comprise cash and liquid resources and various items such as trade creditors and trade debtors, which arise directly from the Group's operations. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

As permitted by FRS 13, short-term debtors and creditors have been excluded from the following disclosures, other than currency risk disclosures.

i) Interest rate risk

The Group has no financial assets other than Sterling cash deposits of £25,650,000 (2000: £1,729,000) which are part of the financing arrangements of the Group. The Group's policy throughout the year has been to maximise the return on funds placed on deposit but to minimise the associated risk by placing funds in low risk cash deposits. The weighted average interest rate on these cash deposits during the year to 30 September 2001 was 4.92%.

The Group has two finance leases amounting to £4,441 all due within one year.

ii) Liquidity risk

The cash deposits comprise deposits placed on money markets for periods up to six months and at call. The weighted average time for which the rate is fixed is 45 days. Liquidity risk is minimised by ensuring that the Group has sufficient cash for all anticipate short term needs.

iii) Borrowing facilities

The Group has no borrowing facilities available to it.

iv) Fair value of financial assets

The Directors consider there to be no material difference between the book and fair value of the Group's financial instruments at the balance sheet date.

v) Currency risk profile

The Group's functional currency is Sterling and the majority of its transactions are denominated in that currency. As at 30 September 2001 the Group has net foreign currency liabilities of £175,000 (2000: £13,000) in US dollars and £52,000 (2000: £nil) in other currencies.

13 Provisions for liabilities and charges

Provision for National Insurance on share option gains:

Group

	2001 £000's
At 1 October 2000	–
Charge to profit and loss account	20
At 30 September 2001	20

As at 30 September 2001 the Company has no provisions for liabilities and charges.

Notes to the Financial Statements continued

for the year ended 30 September 2001

14 Called-up share capital

As at 30 September 2001 the authorised share capital of the Company and the called-up and fully paid amounts were as follows:

	2001 £000's
Authorised	
150,000,000 ordinary shares of 0.1p each	150
Allotted, called-up and fully-paid	
96,027,099 ordinary shares of 0.1p each	96

Mawlaw 541 plc was incorporated on 15 February 2001 with an authorised share capital of 100,000,000 ordinary shares of 0.1p each. Mawlaw 541 plc changed its name on 6 March 2001 to GW Pharmaceuticals Group plc. GW Pharmaceuticals Group plc changed its name on 1 June 2001 to GW Pharmaceuticals plc. On 20 June 2001 the authorised share capital was increased by ordinary resolution to 150,000,000 ordinary shares of 0.1p each.

During the period the following ordinary shares of 0.1p each were issued by the Company to acquire the entire issued share capital of GW Pharma Limited and in order to provide further working capital:

		Number of shares	Total nominal value £000's	Total share premium £000's
15 February 2001	Subscriber shares	2	–	–
31 May 2001	Purchase of subsidiary	82,290,833	82	–
21 June 2001	Issued for cash consideration	13,736,264	14	24,986
		96,027,099	96	24,986

The share capital shown in the Group balance sheet as issued share capital as at 30 September 2000 represents the capital of the Company which would have been issued to acquire the share capital of GW Pharma Limited as at that date.

Notes to the Financial Statements continued

for the year ended 30 September 2001

15 Options and warrants in the shares of GW Pharmaceuticals plc

Options

Options have been granted over 0.1p ordinary shares as follows:

	2001 Number
At 1 October 2000	–
Granted during the year	8,679,250
Exercised during the year	–
Lapsed during the year	(68,504)
At 30 September 2001	8,610,746

As at 30 September 2001 the outstanding share options, which include share options granted to Directors as stated in the Remuneration Report, are shown below.

At 15 February 2001 Number	Options granted Number	Options exercised Number	Options lapsed Number	At 30 September 2001 Number	Date granted	Exercise price	Earliest date of exercise	Date of expiry
Executive Scheme (Unapproved)								
–	296,525	–	–	296,525	2/10/00	20.52p	2/10/03	2/10/10
–	289,333	–	–	289,333	15/1/01	36.21p	15/1/04	15/1/11
–	144,333	–	–	144,333	1/2/01	36.21p	1/2/04	1/2/11
–	17,400	–	–	17,400	1/6/01	36.21p	1/6/04	1/6/11
–	128,482	–	–	128,482	1/6/01	55.00p	1/6/04	1/6/11
–	908,820	–	–	908,820	1/6/01	182.00p	1/6/04	1/6/11
–	1,355,750	–	–	1,355,750	1/6/01	237.00p	1/6/04	1/6/11
–	871,292	–	–	871,292	10/9/01	104.50p	10/9/04	10/9/11
Executive Scheme (EMI)								
–	1,621,100	–	–	1,621,100	2/10/00	20.52p	2/10/03	2/10/10
–	377,000	–	–	377,000	2/10/00	25.34p	2/10/03	2/10/10
–	56,550	–	–	56,550	2/10/00	27.10p	2/10/03	2/10/10
–	348,667	–	–	348,667	15/1/01	36.21p	15/1/04	15/1/11
–	290,667	–	–	290,667	1/2/01	36.21p	1/2/04	1/2/11
–	635,668	–	(8,700)	626,968	14/5/01	55.00p	14/5/04	14/5/11
–	446,930	–	–	446,930	14/5/01	182.00p	14/5/04	14/5/11
–	38,425	–	–	38,425	1/6/01	55.00p	1/6/04	1/6/11
Approved Scheme								
–	37,700	–	–	37,700	2/10/00	20.52p	2/10/03	2/10/10
–	94,250	–	–	94,250	2/10/00	25.34p	2/10/03	2/10/10
–	150,800	–	(59,804)	90,996	2/10/00	27.10p	2/10/03	2/10/10
–	281,300	–	–	281,300	1/2/01	36.21p	1/2/04	1/2/11
–	30,450	–	–	30,450	23/2/01	36.21p	23/2/04	23/2/11
–	28,708	–	–	28,708	10/9/01	104.50p	10/9/04	10/9/11
–	229,100	–	–	229,100	26/9/01	72.00p	26/9/04	26/9/11
Total	8,679,250	–	(68,504)	8,610,746				

Share options that were initially granted in GW Pharma Limited were replaced with options in GW Pharmaceuticals plc when the Group reorganisation was completed.

Notes to the Financial Statements continued

for the year ended 30 September 2001

15 Options and warrants in the shares of GW Pharmaceuticals plc (continued)

Warrants

On 4 June 2001, the Company granted each of Lord Weinstock and Atlantic and General Investment Trust Limited a warrant to subscribe for 195,750 ordinary shares exercisable at 103 pence during the period to 3 June 2006 by way of a commitment fee and in consideration of them undertaking to subscribe for 7,766,990 ordinary shares for an aggregate consideration of £8,000,000 in the event the Company were unable to effect an initial public offering by July 2001.

On 9 February 2001, GW Pharma Limited granted to Peter Mountford in consideration for the provision of past and future services a warrant to subscribe for 24,285 ordinary shares of 0.1 pence each which was held on his behalf and on trust for Adrian Bradshaw. The warrant was exercisable in three tranches of 9,285, 7,500, and 7,500 shares respectively and exercisable at £17.50, £29.74, and £54.40 respectively during the period to 14 January 2006, 2008 and 2011 respectively. The terms of the warrant provided that in the event of a capital reorganisation, such warrant would become a warrant in respect of the shares of any holding company of GW Pharma Limited. Accordingly, following the capital reconstruction and bonus issue and upon the share for share exchange on 31 May 2001, whereby GW Pharmaceuticals plc became the holding company of GW Pharma Limited, the warrant became warrants in respect of 704,265 ordinary shares in GW Pharmaceuticals plc. On 20 June 2001 the warrant, as aforesaid, was cancelled and in its place two separate warrants were issued to Peter Mountford and Adrian Bradshaw each in respect of 269,265 and 435,000 shares respectively and exercisable by Peter Mountford in three tranches of 51,765, 108,750 and 108,750 and by Adrian Bradshaw in three tranches of 217,500, 108,750 and 108,750 at 60 pence, 103 pence and 188 pence respectively during the same periods detailed above.

16 Reserves

Group	Share premium account £000's	Other reserves £000's	Profit and loss account £000's	Total £000's
At 1 October 2000	–	5,161	(3,408)	1,753
Premium on shares issued by subsidiary	–	14,168	–	14,168
Bonus issue by subsidiary	–	(67)	–	(67)
Equity share issue	24,986	–	–	24,986
Expense of equity share issue	(1,495)	–	–	(1,495)
Retained loss for the year	–	–	(6,865)	(6,865)
At 30 September 2001	23,491	19,262	(10,273)	32,480
Company				
At 1 October 2000	–	–	–	–
Equity share issue	24,986	–	–	24,986
Expense of equity share issue	(1,495)	–	–	(1,495)
Retained loss for the year	–	–	(55)	(55)
At 30 September 2001	23,491	–	(55)	23,436

17 Reconciliation of movements in Group shareholders' funds

	2001 £000's	2000 £000's
Loss for the financial year	(6,865)	(2,226)
New ordinary shares issued net of expenses	37,686	3,468
Net addition to shareholders' funds	30,821	1,242
Opening shareholders' funds	1,755	513
Closing shareholders' funds	32,576	1,755

Notes to the Financial Statements continued

for the year ended 30 September 2001

18	Reconciliation of operating loss to net cash outflow from operating activities				2001 £000's	2000 £000's
	Operating loss			(7,725)	(2,386)	
	Depreciation charge			259	39	
	Amortisation of goodwill			140	-	
	(Increase) / decrease in debtors			(483)	32	
	Increase in creditors			1,492	40	
	Net cash outflow from operating activities			(6,317)	(2,275)	
19	Analysis of cash flows				2001 £000's	2000 £000's
	Returns on investments and servicing of finance					
	Interest received			471	70	
	Interest element of finance lease payments			(1)	(2)	
	Net cash inflow			470	68	
	Capital expenditure and financial investment				2001 £000's	2000 £000's
	Purchase of tangible fixed assets			(876)	(114)	
	Acquisitions and disposals				2001 £000's	2000 £000's
	Cash acquired with subsidiary undertaking			30	-	
	Management of liquid resources				2001 £000's	2000 £000's
	Movement in cash placed on term deposit			(22,700)	(900)	
	Financing				2001 £000's	2000 £000's
	Issue of ordinary share capital			30,526	3,468	
	Capital element of finance lease payments			(5)	(4)	
	Net cash inflow			30,521	3,464	
	Analysis of changes in net funds					
		30 September 1999 £000's	Cashflow £000's	30 September 2000 £000's	Cashflow £000's	30 September 2001 £000's
	Cash at bank and in hand	190	239	429	1,221	1,650
	Finance leases	(13)	4	(9)	5	(4)
	Liquid resources	400	900	1,300	22,700	24,000
	Total	577	1,143	1,720	23,926	25,646

Notes to the Financial Statements continued

for the year ended 30 September 2001

20 Reconciliation of net cash flow to movement in net funds

	2001 €000's	2000 €000's
Increase in cash during the year	1,221	239
Cash outflow from decrease in lease financing	5	4
Cash outflow from increase in liquid resources	22,700	900
Movement in net funds during the year	23,926	1,143
Net funds at start of year	1,720	577
Net funds at end of year	25,646	1,720

21 Financial commitments

There were no capital commitments for fixed assets contracted for at 30 September 2001 (2000: €nil).

Annual commitments under non-cancellable operating leases are as follows:

	Group 2001 €000's	Company 2001 €000's	Group 2000 €000's
Land and Buildings with an expiry date:			
- within one year	8	-	3
- between two and five years	97	-	-
- after five years	111	-	-
	216	-	3

22 Contingent liabilities

There were no contingent liabilities at 30 September 2001 (2000: €nil).

23 Related party transactions

As stated in the Remuneration Report during the year the Group purchased services in the ordinary course of business from Brian Whittle Associates Limited a company controlled by Brian Whittle a Director of GW Pharmaceuticals plc, at a cost of €14,774 (2000: €40,764). As at 30 September 2001 a balance of €16,490 (2000: €16,949) was due to Brian Whittle Associates Limited.

GW Pharma Limited made purchases of services in the ordinary course of business of €265,000 (2000: €421,000) from G-Pharm Limited prior to the acquisition on 10 May 2001. G-Pharm Limited prior to the acquisition by GW Pharma Limited was considered to be a related party.

Certain Directors of GW Pharmaceuticals plc namely Dr Geoffrey Guy, Dr Brian Whittle and Mr Justin Gover owned 54.8%, 19.1% and 8.3% of G-Pharm Limited respectively immediately prior to the date of acquisition by GW Pharma Limited. Both the acquisition and the purchase of services prior to the acquisition were transacted on an arms length basis.

24 Prior year statutory accounts

The prior year statutory accounts were audited by a firm other than Arthur Andersen.

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Registered Number

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