

Physiomics Plc

Annual Report and Financial Statements

For the Year Ended 30 June 2011

Company Registration No. 4225086

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Officers and Professional Advisers

DIRECTORS

Dr P B Harper
Dr M P Chadwick
Dr C D Chassagnole

Chairman
Chief Executive Officer
Chief Operating Officer

SECRETARY

R J Jones

REGISTERED OFFICE

The Magdalen Centre
Robert Robinson Avenue
Oxford Science Park
Oxford
OX4 4GA

AUDITOR

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10 Orange Street
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London
WC2H 7DQ

REGISTRAR

Capita Registrars
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Beckenham
Kent
BR3 2YU

BANKER

National Westminster Bank Plc
Woollen Hall
Castle Way
Southampton
SO14 2DE

NOMINATED ADVISOR, BROKER AND FINANCIAL ADVISER

WH Ireland Limited
11 St James's Square
Manchester
M2 3WH

SOLICITOR

Bircham Dyson Bell LLP
50 Broadway
Westminster
London
SW1H 0BL

Physiomics Plc is a limited liability company incorporated in England & Wales and domiciled in United Kingdom.

Chairman's Statement

Summary of Results in the year ended 30 June 2011

- Successful fundraising in early 2011 generated cash of £600,000 before issue expenses
- The turnover of the Company decreased to £53,345 (2010 £152,694)
- The operating loss was £693,795 (2010 £393,010)
- On 30 June 2011 the surplus of shareholders' funds was £755,511 (2010 £786,825)

The increased spend over the past year has largely been the result of further validation studies, which have now paid dividends. As a result of the validation study we performed in collaboration with Oncodesign, we have shown that our technology can make the difference between success and failure of a new drug, by increasing its effectiveness. As a result of this breakthrough, and our business development efforts, we believe we have the best pipeline of interest and active enquiries that we have seen in the Company's history to date.

In addition, we have

- Undertaken projects in conjunction with major pharmaceutical companies to demonstrate the capabilities of our model to advance their particular development programmes. We hope to be able to publish the results of these studies shortly. The recently published data involving compounds from Eli Lilly is an example of this.
- Developed a more flexible menu-based pricing system for clients, including elements of service and licensing.
- Appointed an US-based business development specialist who is fully familiar with marketing *in silico* technologies such as ours to pharma industry customers.
- Had discussions with other significant players in the drug development services space, where collaboration (such as Jubilant) would provide traction in new markets for both parties.
- Successfully completed a Carbon Trust funded project to develop an advanced fermentation process for a biofuel. This is the first non-pharmaceutical application of our technology and represents part of our diversification strategy.
- Developed a drug combination oncology database, in conjunction with Pharmacometrics Limited, to open a route into the newly developing field of personalised medicine.
- Continued to investigate M&A opportunities to add either synergistic technologies or wholly new modalities to our Virtual TumourTM model, in order to provide a more comprehensive and holistic approach to addressing the needs of our customer base. We have established a number of small but focused projects designed to evaluate such opportunities.

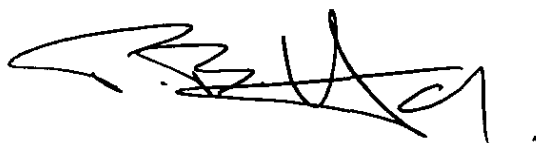
Chairman's Statement - continued

Adoption of new articles of association

At the Annual General Meeting on 18 November 2011 shareholders will be asked to approve the adoption of new articles of association to bring them into line with the requirements of the Companies Act 2006

Dr Paul Harper

Non-Executive Chairman

A handwritten signature in black ink, appearing to read 'P. Harper', with a stylized flourish at the end.

Chief Executive Officer's Statement

Introduction

We believe that the restructuring of the pharmaceutical industry continues to create delays and uncertainty and accordingly formed the view that further technological validation of our Virtual Tumour™ platform was required to ignite the interest of the large pharmaceutical companies. We therefore performed a study using two 'standard of care' drugs, in which we demonstrated that scheduling changes predicted by our models led to a 50% increase in the potency of the combination. We also continue to investigate how we could further reduce the amount of experimental data we need to calibrate our models.

In order to build the value of Physiomics still further, our growth strategy is now based around three key principles: to increase the scope of our services in terms of modelling in new therapeutic areas, to increase the geographic reach of our technology, especially into the US market, and to provide laboratory-based services to complement our modelling efforts, and/or demonstrate further reductions in the need for experimental calibration. We are actively investigating both organic and corporate (M&A) avenues to achieve this growth and will report on related developments in due course.

Technology Development

This year saw our Virtual Tumour™ technology become fully validated in terms of the accuracy of predictions and also the value added to pre-clinical oncology projects. The results of our collaboration with Eli Lilly were presented in an article for *Innovations in Pharmaceutical Technology*, which we previously reported on 15 June 2010. The same results were presented as a poster at the AACR meeting in Florida, which we reported on 5 April 2011. This validation study showed that we could accurately predict the outcome of proposed drug schedules 'blindly' / *i.e.* without seeing the final experimental outcome. We then performed a study in collaboration with Oncodesign S.A. to demonstrate that we could actually predict improved outcomes in pre-clinical studies. We reported the results of this study on 1 April 2011. We believe this has proven to be a pivotal study. In addition to saving customers' time and money through reduced drug development time, we have now demonstrated that we could make the difference between success and failure for some drugs by increasing their potency without increasing toxicity.

We have established a number of programmes to establish the extent to which *in vitro* data can be used to provide data to prime the Virtual Tumour™ model. This would avoid the need to ask clients for data from unreliable xenograft models, reduce the cost of generating data to drive the models and speed up the drug development process. We believe that such data could give a more accurate read-out of the way a drug interacts with a cancer cell and improve the quality of the forecast data provided by the model.

In addition, we initiated a collaboration with Pharmacometrics Limited to design a new database of anti-cancer drugs and therapeutic treatment information aimed at oncology researchers and clinicians. This database, accessible through a web interface, will offer data on more than 130 anti-cancer drugs (small molecules and biologics) on drug combinations and also on several hundred cancer chemotherapy regimens routinely used in the clinic. The database will help the users to determine which standards-of-care should be used in combination with new chemical or biological entities, given the mechanism of action and other PK/PD data. Also, it will allow users to design new combinations and regimens that obey dosing constraints.

Chief Executive Officer's Statement - continued

All of these advances should make our offering more attractive to our customers and increase the clinical relevance of our models

Collaborations

Our collaboration with Green Biologics Limited to optimise their biobutanol production process demonstrated our capabilities outside of the pharmaceutical arena. The first phase of this collaboration went well. Physiomics developed a model of microbial populations which can provide input into how best to optimise the fermentation process. Green Biologics are currently testing our models and software developed during the course of the project. Based on this evaluation they will decide how to move this project forward.

We also signed a Heads of Terms with Jubilant Biosys and recently executed the full Alliance agreement. Jubilant can now provide a global business development presence for us and also provide a 'one-stop-shop' for delivering predictions to customers, as their capabilities include all of the experimental calibration services that we need. We are also currently looking at other collaboration avenues to enhance our services.

In addition, we are in discussions with other companies, where there may be opportunities to co-market our technologies to provide a more comprehensive package and gain presence in territories such as the USA, supported by an established service provider to the pharma sector.

Business Development Strategy

Building the pipeline of potential customers has been a particular focus of this year. We have undertaken a number of steps to align our offerings more closely with the needs of each potential customer as in almost every case the drug discovery programmes have features that are unique. Moving away from a "one size fits all" approach to a more individual approach reflects the learning gained from very detailed discussions with potential clients, often under the terms of a confidentiality agreement.

We have now developed a menu based approach to developing technical solutions and the pricing of our services, leading to a proposal that precisely matches what the customer requires and is transparent in terms of cost.

A number of small biotechnology companies are interested in engaging with us when the time is right for their project. In addition, four big pharmaceutical companies are now considering placing projects with us. Whilst there is no guarantee that any of these will sign contracts, we believe that this shows an increased appetite for our offerings based on the further validation work done in the year.

It has become clear that additional business development resources are needed to accelerate sales. To that end the Company has entered into consultancy arrangements with a sales executive on the US West Coast.

Growth Strategy

Our growth strategy is based on achieving three key objectives and these are

- Expanding the geographic reach and scope of our services

Chief Executive Officer's Statement - continued

- Reducing the amount of experimental data needed to calibrate our models
- Investigating which laboratory-based technologies could be brought in-house to broaden and deepen our business offering

Our approach to meeting the first two objectives has been described earlier. We are putting considerable resource into evaluating M&A and joint venture opportunities that will deliver our growth strategy.

In addition, our collaboration with Pharmacometrics is our first step towards entering the 'personalised medicine' sector. The aim here is to make our models more specific to certain groups of patients, defined by their biomarker profiles.

Outlook

The dynamics of the healthcare industry are changing and conventional research and development needs are evolving as political, financial and competitive pressures lead to change. The major restructuring of even the most prominent companies in the sector have been headlined regularly in the press and media. The environment is changing and companies operating within this space need to recognise this fact and adapt their business models to meet new needs and approaches. This has been a key driver for Physiomics where failure to evolve and adapt to meet the new challenge is not an option.

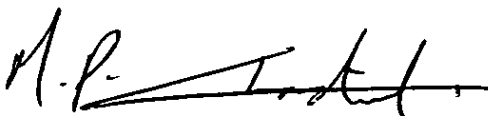
Whilst big pharma remains the most likely source of immediate revenues, we believe we have developed a pipeline of potential business opportunities that exceeds anything that we have achieved before. We believe that this is evidence that the evolution of our thinking and our business model is proving to be attractive. We aim to undertake further revenue sharing agreements with the smaller biotech companies, while big pharma are most likely to engage via 'fee-for-service' and platform licensing deals.

The Directors believe that the resource devoted to evolving the Physiomics business model was the right strategy and that the Company is very well placed to capitalise on the business opportunities which our pipeline of potential new business represents.

Finally, in addition to the traction we have achieved with large pharma, we continue to discuss revenue sharing deals with smaller biotech companies (such as the recently announced deal with ValiRx plc). We believe that this will allow us to build a pipeline of downstream revenues of higher value than could be achieved by fee-for-service payments alone.

Dr Mark Chadwick

Chief Executive Officer



Directors' Report

The Directors submit their report and the audited financial statements of Physiomics Plc for the year ended 30 June 2011

Principal Activities and Performance Review

The Company is principally engaged in providing services to pharmaceutical companies in the areas of outsourced systems and computational biology

There was a loss for the year after taxation amounting to £644,532 (2010 loss £367,561). In view of accumulated losses, and given the stage of the company's development, the Directors are unable to recommend the payment of a dividend

Performance Indicators

The Directors consider that the key performance indicators are those that communicate the financial performance and strength of the company as a whole, these being revenue, profitability and shareholders' funds

- The turnover of the Company decreased to £53,345 (2010 £152,694)
- The operating loss was £693,795 (2010 £393,010)
- At the 30 June 2011 the surplus of shareholders' funds was £755,511 (2010: £786,825)

Future Risks

The Company faces many risks on the way to building shareholder value. The process of winning major contracts in a competitive environment is rarely simple and can be delayed for reasons outside the Company's control. This means the Company faces major uncertainties in its cash flow

Addressing the Risks

The Board addresses the financial uncertainties by careful budget monitoring and by quickly responding to variations. If there are delays in signing contracts then recruitment and capital expenditure is frozen until the anticipated income is achieved.

Interest rate risk

The Company finances its operations by cash and short term deposits. The Company's policy on interest rate management is agreed at board level and is reviewed on an ongoing basis.

Other creditors, accruals and deferred income values do not bear interest

Interest rate profile

The Company had no bank borrowings at the 30 June 2011

Directors' Report - continued

Liquidity risk

The Company seeks to manage financial risk by ensuring that sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably

Fair values

Fair values of financial instruments equate to the best value as disclosed in the financial information. There are no material differences between the fair value of financial instruments and the amount at which they are stated in the financial statements.

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

UK company law requires the directors to prepare financial statements for the company in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 2006 and Article 4 of the IAS Regulation.

The financial statements are required by law, and IFRS as adopted by the EU, to give a true and fair view of the state of affairs of the company.

In preparing the company financial statements, the directors are required to:

- a select suitable accounting policies and then apply them consistently;
- b make judgements and estimates that are reasonable and prudent,
- c state whether they have been prepared in accordance with IFRS as adopted by the EU;
- d prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the Physiomics Plc website.

Directors' Report - continued

Substantial shareholdings

The Company has been informed that on 30 June 2011 the following shareholders held substantial holdings in the issued ordinary shares of the Company.

	Number of Ordinary shares	Holding %
TD Waterhouse Nominees (Europe) Limited	201,249,184	17.8%
Barclayshare Nominees Limited	191,876,708	17.0%
HSDL Nominees Limited	151,566,409	13.4%
LR Nominees Limited	78,407,669	7.0%
James Capel (Nominees) Limited	67,823,003	6.0%
Dr Paul Harper	52,570,787	4.7%

No other person has reported an interest of more than 3% in the ordinary shares

Directors' remuneration

Details of Directors' remuneration in the year ended 30 June 2011 is set out below:

	Emoluments £	Benefits £	Pension contributions £	Total £
Dr P B Harper	35,000	-	-	35,000
Dr C D Chassagnole	53,913	-	3,030	56,943
Dr M P Chadwick	61,775	-	-	61,775
Appointed on 6 December 2010				
Total	150,688	-	3,030	153,718
	=====	=====	=====	=====

Directors' Report - continued

Payment policy

The Company pays its suppliers as it would wish to be paid and supports initiatives aimed at ensuring good practice in this area. Trade creditors of the Company were equivalent to 57 days purchases (2010: 84 days), based on the average daily amount invoiced by suppliers to the Company during the year.

Post balance sheet events

There are no material post balance sheet events.

Statement as to disclosure of information to auditors

The directors in office on 11 October 2011 have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

Corporate Governance

The Board of Directors is accountable to the Company's shareholders for good corporate governance. The company takes corporate governance seriously and the statement below sets out how the Board apply the principles of good corporate governance.

Directors

The Company supports the concept of an effective Board leading and controlling the Company. The Board is responsible for formulating and approving the strategy of the business and meets at least six times per year. Various matters are specifically reserved for Board decision, ensuring that the Board maintains full control over strategic, financial, organisational, risk and compliance issues. Management supply the Board with appropriate and timely information, while the directors are encouraged to seek any further information they consider necessary.

The Board comprises two executive directors, who fulfill the main operational roles in the Company, and a non-executive Chairman. Due to the size of the Company, the Board does not consider the appointment of a senior non-executive director to be necessary. A full list of the directors is shown above.

Directors' Report - continued

Accountability

The Board endeavours to present a balanced and comprehensible assessment of the Company's situation and prospects in all of its published statements, including interim reports, price-sensitive announcements, reports to regulators and information supplied to comply with statutory requirements

The Audit Committee consists of Christophe Chassagnole and Roger Jones and is chaired by Paul Harper. The Committee meets at least three times per year to consider matters relating to the Company's financial position and financial reporting. The Audit Committee reviews the independence and objectivity of the external auditors, as well as the amount of non-audit work undertaken by Shipleys LLP to satisfy the Committee that this will not compromise their independence. Details of the fees paid to Shipleys LLP during the current accounting period are given in note 3 to the accounts. There are no areas of work where Shipleys LLP are prohibited from carrying out work.

Remuneration Committee

The Remuneration Committee has been established primarily to determine the remuneration, terms and conditions of employment of the executive directors of the Company. The Committee comprises Mark Chadwick and Roger Jones and is chaired by Paul Harper. It meets at least twice a year. The primary concern of the Committee is to establish a system of rewards and incentives that aim to align the interests of the executive directors with the long-term interests of the share-holders. These are based on the achievement of both scientific and commercial milestones while taking no account the financial position of the Company at this stage in its development. Any remuneration issues concerning non-executive directors are resolved by this Committee and no director participates in decisions that concern his own remuneration.

Going Concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Company will safeguard the Company's assets. The risk management process and internal control systems are designed to manage rather than eliminate the risk of failing to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss. The key features of the Company's system of internal control are as follows:

- a clearly defined organisational structure and set of objectives
- the executive directors play a significant role in the day to day operation of the business
- detailed monthly management accounts are produced by an independent third party for the Board to review and take appropriate action

Directors' Report - continued

Internal Control

The Company values the views of its shareholders and recognises their interest in the Company's strategy, performance and the ability of the Board. The AGM provides an opportunity for two-way communication and all shareholders are encouraged to attend and participate. Separate resolutions will be put to shareholders at the AGM, giving them the opportunity to discuss matters of interest. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after each has been dealt with on a show of hands.

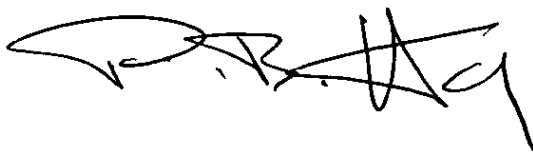
The Company uses its website www.physiomics-plc.com as another means of providing information to shareholders and other interested parties. The website displays the annual report and accounts, interim results and other relevant announcements.

Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of Bircham Dyson Bell, 50 Broadway, London, SW1H 0BL at 10 00 am on 18 November 2011.

By order of the board

Dr Paul Harper
Chairman
11 October 2011



Independent Auditors Report to the shareholders of Physiomics Plc

We have audited the financial statements of Physiomics Plc for the year ended 30 June 2011 which comprise the income statement, the balance sheet, the cash flow statement, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2011 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Independent Auditor's Report to the shareholders of Physiomics Plc - continued

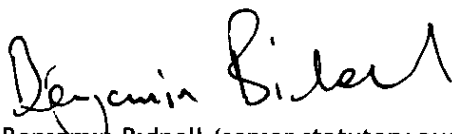
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law and not made, or
- we have not received all the information and explanations we require for our audit.



Benjamin Bidnell (senior statutory auditor)

For and on behalf of Shipleys LLP statutory auditor

10 Orange Street
Haymarket
London
WC2H 7DQ

11 October 2011

Income Statement for the year ended 30 June 2011

	Notes	Year ended 30-Jun-11 £	Year ended 30-Jun-10 £
Revenue	2	53,345	152,694
Net operating expenses		(725,746)	(495,827)
Share-based compensation		(21,394)	(49,877)
Operating loss	3	(693,795)	(393,010)
Finance income	4	7,869	5,360
Finance costs	5	-	(2,948)
Loss before taxation		(685,926)	(390,598)
UK corporation tax	7	41,394	23,037
Loss for the year attributable to equity shareholders		(644,532)	(367,561)
Loss per share (pence)			
Basic and diluted	8	(0.063) p	(0.043) p

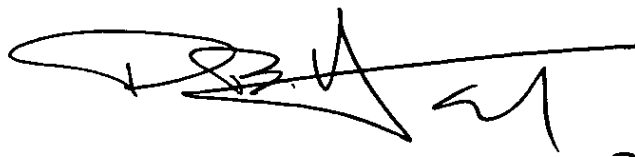
Balance Sheet as at 30 June 2011

Company Number 4225086

	Notes	Year ended 30-Jun-11 £	Year ended 30-Jun-10 £
Non-current assets			
Intangible assets	10	25,759	30,244
Property, plant and equipment	11	7,473	1,964
Investments		1	1
		<u>33,233</u>	<u>32,209</u>
Current assets			
Trade and other receivables	12	104,703	109,741
Cash and cash equivalents		<u>729,615</u>	<u>780,054</u>
	9	<u>834,318</u>	<u>889,795</u>
Total assets		<u>867,551</u>	<u>922,004</u>
Current liabilities			
Trade and other payables		(112,040)	(114,047)
Deferred income		-	(21,132)
	9,12	<u>(112,040)</u>	<u>(135,179)</u>
Total liabilities		<u>(112,040)</u>	<u>(135,179)</u>
Net assets		<u>755,511</u>	<u>786,825</u>
Capital and reserves			
Share capital	14	451,420	399,690
Capital reserves	15	3,407,100	2,845,612
Retained earnings	16	<u>(3,103,009)</u>	<u>(2,458,477)</u>
Equity shareholders' funds		<u>755,511</u>	<u>786,825</u>

The financial statements were approved by the Board of Directors and authorised for issue on 11 October 2011 and are signed on its behalf by.

Dr Paul Harper
Chairman



Statement of changes in equity for the year ended 30 June 2011

	Share capital £	Share premium account £	Share-based compensation reserve £	Retained earnings £	Total shareholders' funds £
At 30 June 2009	249,856	1,755,713	-	(2,090,916)	(85,347)
Share issue (net of costs)	149,834	1,040,022	-	-	1,189,856
Loss for the year	-	-	-	(367,561)	(367,561)
Share-based compensation	-	-	49,877	-	49,877
At 30 June 2010	399,690	2,795,735	49,877	(2,458,477)	786,825
Share issue (net of costs)	51,730	540,094	-	-	591,824
Loss for the year	-	-	-	(644,532)	(644,532)
Share-based compensation	-	-	21,394	-	21,394
At 30 June 2011	451,420	3,335,829	71,271	(3,103,009)	755,511

Cash Flow Statement for the year ended 30 June 2011

	Year ended 30-Jun-11 £	Year ended 30-Jun-10 £
Cash flows from operating activities:		
Operating loss	(693,795)	(393,010)
Amortisation and depreciation	6,332	6,298
Share-based compensation	21,394	49,877
Decrease in receivables	13,394	36,729
Decrease in payables	(2,006)	(73,925)
Decrease in deferred income	(21,132)	(72,276)
Cash generated from operations	(675,813)	(446,307)
UK corporation tax received	33,037	19,969
Interest paid	-	(7,912)
Net cash generated from operating activities	(642,776)	(434,250)
Cash flows from investing activities:		
Interest received	7,869	5,360
Purchase of non-current assets, net of grants received	(7,356)	(1,432)
Net cash used by investing activities	513	3,928
Cash outflow before financing	(642,263)	(430,322)
Cash flows from financing activities:		
Issue of ordinary share capital (net of expenses)	591,824	1,115,296
Net cash from financing activities	591,824	1,115,296
Net (decrease) increase in cash and cash equivalents	(50,439)	684,974
Cash and cash equivalents at beginning of year	780,054	95,080
Cash and cash equivalents at end of year	729,615	780,054

Notes on the Financial Statements

Basis of preparation

Physiomics Plc has adopted International Financial Reporting Standards ("IFRS"), IFRIC interpretations and the Companies Act 2006 as applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis. The significant accounting policies are set out below.

Accounting policies

Revenue recognition

The revenue shown in the income statement relates to amounts received or receivable from the provision of outsourced systems and computational biology services to pharmaceutical companies.

Revenue from the provision of its principal activities are recognised when the Company has transferred to the buyer the significant risks and rewards of ownership, has no continuing managerial involvement or control to the degree normally associated with ownership and can reliably measure the economic benefits of the transaction.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Intangible assets

Intangible assets acquired separately from third parties are recognised as assets and measured at cost.

Following initial recognition, intangible assets are measured at cost or fair value at the date of acquisition less any amortisation and any impairment losses. Amortisation costs are included within the net operating expenses disclosed in the income statement.

Intangible assets are amortised over their useful lives as follows:

	Useful Life	Method
Software	15 years	Straight line

Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis. The Company does not have any intangible assets with indefinite lives.

Property, plant and equipment

All items are initially recorded at cost.

Notes on the Financial Statements - continued

Impairment of assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets that do not individually generate cash flows are assessed as part of the cash generating unit to which they belong. Cash generating units are the lowest levels for which there are cash flows that are largely independent of the cash flows from other assets or groups of assets.

Depreciation

Depreciation is calculated to write off the cost of an asset over its useful economic life as follows.

Leasehold improvements - the remaining life of the lease

Fixtures and computers - three years, straight-line basis

Research and development expenditure

Expenditure on research activity is recognised as an expense in the period in which it is incurred.

Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Balances are written off when the probability of recovery is considered to be remote.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Foreign currency

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating result.

Notes on the Financial Statements - continued

Leased assets and obligations

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease terms. The corresponding leasing commitments are shown as obligations to the lessor. Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss in proportion to the remaining balance outstanding.

All other leases are 'operating leases' and the annual rentals are charged to the income statement on a straight-line basis over the lease term.

Government Grants

Deferred government grants in respect of capital expenditure are treated as deferred income and are credited to the income statement over the estimated useful life of the assets to which they relate.

Government grants of a revenue nature are credited to the profit and loss account in the same period as the related expenditure.

Share based payments

The Company issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over an estimated vesting period. Fair value is measured by use of a binomial model.

Investments

Participating interests are stated at cost less amounts written off in the Company balance sheet.

Taxation

Tax currently payable is based on the taxable profit for the period which may differ from net profit reported in the income statement.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay further tax, or a right to pay less tax in future. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the gains or losses in tax assessments in period different from those in which they are recognised in the financial statements. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse.

Notes on the Financial Statements - continued

Adoption of International accounting standards

In the current financial year, the Company has adopted the following Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee

IAS 32 (Amendment) (October 2009) - Classification of Rights Issues

IAS 39 (Amendment) (July 2008) - Eligible Hedged Items

IFRS 1 (revised November 2008) - First-Time Adoption of International Financial Reporting Standards

IFRS 1 (Amendment) (July 2009) - Additional Exemptions for First-Time Adopters

IFRS 1 (Amendment) (January 2010) - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters

IFRS 3 (revised January 2008) - Business Combinations

Annual Improvements to IFRSs 2009

IFRIC 17 - Distributions of Non-cash Assets to Owners

IFRIC 18 - Transfers of Assets from Customers

IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

Adoption of these Standards and Interpretations did not have any effect on the financial statements of the Company, or result in changes in accounting policy or additional disclosure.

The IASB and IFRIC have issued a number of Standards and Interpretations with an effective date after the date of these financial statements. The new Standards and Interpretations issued include

IAS 24 - Related Party Disclosures - effective from periods beginning on 1 January 2011

IFRS 9 - Financial Instruments - effective from 1 January 2013

IFRIC 14 (Amendment) - Prepayments of a Minimum Funding Requirement - effective from periods beginning on 1 January 2011

IFRS 7 Amendment - Financial Instrument Disclosures: Transfers of Financial Assets is effective from 1 July 2011

IAS 12 Amendment - Deferred Tax. Recovery of Underlying Assets is effective from 1 January 2012

IAS 27 (revised 2011) - Separate Financial Statements is effective from 1 January 2013.

IFRS 11 - Joint Arrangements is effective from 1 January 2013

IFRS 12 - Disclosures of Interest in Other Entities is effective from 1 January 2013

IFRS 13 - Fair Value Measurement is effective from 1 January 2013.

Annual Improvements to IFRSs 2010 is primarily effective from 1 January 2011

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the Company's financial statements.

Notes on the Financial Statements - continued

1 CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

There was no material accounting estimates or areas of judgements required.

2 REVENUE AND SEGMENTAL REPORTING

The principal activities are the provision of outsourced systems and computational biology services to pharmaceutical companies

This activity comprises a single segment of operation of a sole UK base and entirely UK based assets

Revenue was derived in the UK and European Union from its principal activity

3 OPERATING PROFIT

	2011 £	2010 £
Operating loss is stated after charging		
Research and development Current year expenditure	257,809	159,438
Depreciation charge for the year - Owned assets	1,643	1,610
Amortisation charge for the year	4,689	4,688
Audit services, refer to below	12,000	12,000
	<u>12,000</u>	<u>12,000</u>

		2011 £	2010 £
Amounts payable for both audit and non-audit services	Payable to		
Audit services - Statutory audit	Shipleys LLP	10,000	10,000
Tax services - Compliance services	Shipleys LLP	2,000	2,000
		<u>12,000</u>	<u>12,000</u>

Notes on the Financial Statements - continued

4 FINANCE INCOME

	2011 £	2010 £
Bank interest receivable	<u>7,869</u>	<u>5,360</u>

5 FINANCE COSTS

	2011 £	2010 £
Interest payable	<u>-</u>	<u>2,948</u>

6 STAFF COSTS

	2011 £	2010 £
Staff costs during the year		
Wages and salaries	120,971	139,464
Social security costs	12,492	14,651
Pension costs	-	-
	<u>133,463</u>	<u>154,115</u>
Average number of employees	<u>4</u>	<u>4</u>

Details of the remuneration of directors are included in the Directors' report on page 11

Notes on the Financial Statements - continued

7 TAXATION

(a) Analysis of charge in the year

	2011	2010
	£	£
Research and Development tax credit current year	41,394	28,823
Research and Development tax credit prior year	-	(5,786)
Total current tax	<u>41,394</u>	<u>23,037</u>

(b) Factors affecting current tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The timing differences are explained below:

	2011	2010
	£	£
Loss on ordinary activities before taxation	(685,926)	(390,598)
Tax on loss on ordinary activities at standard corporation tax rate of 20% (2010: 21%)	(137,185)	(82,026)
Expenses not deductible for tax purposes	528	361
Capital allowances in excess of depreciation	1,285	215
Unrelieved tax losses and other deductions arising in the year	135,372	81,450
Research and Development tax credit current and prior year	41,394	23,037
Total current tax	<u>41,394</u>	<u>23,037</u>

At 30 June 2011 tax losses of approximately £2,046,000 (2010: 1,526,000) remained available to carry forward against future taxable trading profits.

8 EARNINGS PER SHARE

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

	2011	2010
	£	£
Loss on ordinary activities after tax	(644,532)	(367,561)
Weighted average no of shares	No.	No.
For basic and diluted loss per share	1,026,913,773	855,464,575
Basic and diluted loss per share	<u>(0.063p)</u>	<u>(0.043p)</u>

Notes on the Financial Statements - continued

9 FINANCIAL INSTRUMENTS RECOGNISED IN THE BALANCE SHEET

	Held for trading 2011 £	2010 £
Current financial assets		
Trade and other receivables	104,703	109,741
Cash and cash equivalents	729,615	780,054
	<u>834,318</u>	<u>889,795</u>
Current financial liabilities		
Trade and other payables	112,040	114,047
Deferred income	-	21,132
	<u>112,040</u>	<u>135,179</u>

10 INTANGIBLE FIXED ASSETS

	Patents, trade marks and software £
Cost	
At 1 July 2010	75,442
Additions	204

At 30 June 2011	75,646

Amortisation	
At 1 July 2010	45,198
Provided in the year	4,689

At 30 June 2011	49,887

Net book value	
30 June 2011	25,759
30 June 2010	30,244

Notes on the Financial Statements - continued

11 PROPERTY PLANT AND EQUIPMENT

	Fixtures and computers £
Cost	
At 1 July 2010	40,321
Additions	7,152
At 30 June 2011	<u>47,473</u>
Depreciation	
At 1 July 2010	38,357
Provided in the year	1,643
At 30 June 2011	<u>40,000</u>
Net book value	
30 June 2011	7,473
30 June 2010	1,964

12 OTHER FINANCIAL ASSETS AND LIABILITIES

	2011 £	2010 £
Trade and other receivables are as follows		
Trade receivables	-	-
Prepayments	37,225	41,343
Other receivables	26,084	35,361
Corporation tax recoverable	41,394	33,037
	<u>104,703</u>	<u>109,741</u>

Trade and other payables are as follows.

Amounts payable relating to the purchase of goods and services	84,600	89,505
Other payables	9,905	7,110
Accruals	17,535	17,432
Deferred income	-	21,132
	<u>112,040</u>	<u>135,179</u>

Trade payables of the Company were equivalent to 57 days of purchases (2010 84 days) The directors consider the carrying amount of trade payables approximates to their fair value

Notes to the Financial Statements - continued

13 LOANS

There were no loans with directors at 30 June 2010 and 30 June 2011.

14 SHARE CAPITAL

	2011	2010
	Number	Number
Ordinary shares of 0.04p each		
Issued and fully paid	£	£
Balance at 1 July 2009	249,856	149,989
Issue of share capital	149,834	99,867
	<hr/>	<hr/>
As at 30 June 2010	399,690	249,856
Issue of share capital	51,730	149,834
	<hr/>	<hr/>
As at 30 June 2011	451,420	399,690
	<hr/>	<hr/>

The Company has one class of ordinary shares which carry no right to fixed income

Between 1 April 2011 and 2 June 2011 the Company issued 9,325,000 ordinary shares of 0.04p at prices between 0.15p and 0.40p per ordinary share for exercise of share options. Further details are included in note 18 of the financial statements on page 32.

On 12 April 2011 the Company issued 120,000,000 ordinary shares of 0.04p at a price of 0.5p per ordinary share for working capital purposes.

Notes to the Financial Statements - continued

15 CAPITAL RESERVES

	Share premium account	Share-based compensation reserve	Total
	£	£	£
Balance at 1 July 2009	1,755,713	-	1,755,713
Issue of share capital	1,123,204	-	1,123,204
Share issue costs	(83,182)	-	(83,182)
Share-based compensation	-	49,877	49,877
Balance at 30 June 2010	2,795,735	49,877	2,845,612
Issue of share capital	577,594	-	577,594
Share issue costs	(37,500)	-	(37,500)
Share-based compensation	-	21,394	21,394
Balance at 30 June 2011	3,335,829	71,271	3,407,100

The share premium account consists of proceeds from the issue of shares in excess of their par value (which is included in the share capital account)

The share-based compensation reserve represents the credit arising on the charge for share options calculated in accordance with IFRS 2

16 RETAINED EARNINGS

	£
Balance at 1 July 2009	(2,090,916)
Loss for the year	(367,561)
Balance at 30 June 2010	(2,458,477)
Loss for the year	(644,532)
Balance at 30 June 2011	(3,103,009)

17 CAPITAL COMMITMENTS

At 30 June 2010 and 30 June 2011 the Company had no capital commitments.

Notes to the Financial Statements - continued

18 SHARE BASED PAYMENT TRANSACTIONS

The Company operates a share option scheme under the Enterprise Management Initiative Scheme ("EMI"). The following share options have been granted over ordinary shares of 0.04p each and remain exercisable under the scheme

	Granted	Awarded	Exercised	Cancelled	Granted	Exercise price	Expiry date
	at 30 June 2010	in year			at 30 June 2011	p	
Christophe Chassagnole	7,499,453				7,499,453	0.383	06-Sep-17
Christophe Chassagnole	5,624,590				5,624,590	0.15	18-Dec-18
Christophe Chassagnole	11,856,584				11,856,584	0.40	28-Feb-20
Mark Chadwick		24,980,625			24,980,625	0.27	05-Dec-20
Other staff	7,390,000		-3,900,000		3,490,000	0.383	06-Sep-17
Other staff	8,169,484		-2,925,000	-1,795,660	3,448,824	0.15	18-Dec-18
Other staff	20,412,619		-2,500,000	-7,365,003	10,547,616	0.40	28-Feb-20
Total	60,952,730	24,980,625	-9,325,000	-9,160,663	67,447,692		

The weighted average share price at the date of exercise of share options during the year was 0.673p per ordinary share

Certain performance conditions for EMI share options are unmet at the date of these statements. All other options are vested in full.

The Company also operates an Unapproved share option scheme. The following share options have been granted over ordinary shares of 0.04p each and remain exercisable under the scheme

	Granted	Awarded	Exercised	Cancelled	Granted	Exercise price	Expiry date
	at 30 June 2010	in year			at 30 June 2011	p	
Paul Harper	2,327,710				2,327,710	0.15	18-Dec-18
Paul Harper	7,664,541				7,664,541	0.40	28-Feb-20

All performance conditions for Unapproved options have been met and are vested in full.

The fair value of share options awarded during the year was determined using the Black-Scholes pricing model. In addition to the information disclosed above, the assumptions employed in the pricing model were as follows - expected volatility: 23%, expected dividends: nil, risk-free interest rate: 3.75% per annum. Where performance conditions are unmet, a probability of success factor has been applied to such awards.

Notes to the Financial Statements - continued

19 FINANCIAL INSTRUMENTS

The Company's financial instruments comprise cash and short term deposits. The Company has various other financial instruments, such as trade debtors and creditors that arise directly from its operations, which have been excluded from the disclosures other than the currency disclosures.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The policies for managing these are regularly reviewed and agreed by the board.

It is and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

Interest rate risk

The Company finances its operations by cash and short term deposits. The Company's policy on interest rate management is agreed at board level and is reviewed on an ongoing basis.

Other creditors, accruals and deferred income values do not bear interest.

Interest rate profile

The Company had no bank borrowings at the 30 June 2011.

Liquidity risk

The Company seeks to manage financial risk by ensuring that sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Fair values

Fair values of financial instruments equate to the best value as disclosed in the financial information. There are no material differences between the fair value of financial instruments and the amount at which they are stated in the financial statements.

20 RELATED PARTY TRANSACTIONS

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Company, is set out on page 11.