

PHYSIOMICS

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Physiomics Plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the Year Ended

30 June 2010

Company Registration Number

No 4225086

TUESDAY



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Officers and Professional Advisers

DIRECTORS

Dr P B Harper
Dr C D Chassagnole

Chairman
Chief Operating Officer

SECRETARY

R J Jones

REGISTERED OFFICE

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OX4 4GA

AUDITOR

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London
WC2H 7DQ

REGISTRAR

Capita Registrars
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34 Beckenham Road
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Kent
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BANKER

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7 West Way
Oxford
OX2 0JB

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 and Chief Operating Officer's Statement

Summary of Results

The efforts of the company have been rewarded by an improvement in our balance sheet, the highlights of which are noted below

In the year ended 30 June 2010

- Successful fundraising in late 2009 generated cash of £1,197,500 before issue expenses
- The turnover of the Company decreased to £152,694 (2009 £459,550)
- The operating loss was £393,010 (operating profit 2009 £8,569)
- At the 30 June 2010 the surplus of shareholders' funds was £786,825 - a substantial improvement from the deficit of £85,347 at 30 June 2009

A key element of the improved financial position is the successful fundraising. In addition, the conversion of the remaining balance of the loan of £13,500 together with accumulated interest from Eirx Pharma Limited (in members' voluntary liquidation) and of the loan of £50,000 from Energiser Investments (formally known as Billam PLC) into ordinary shares not only removed liabilities but substantially reduced our gearing with the consequent positive impact on the balance sheet.

This past year has been more difficult than we had anticipated. The pharmaceutical industry has seen a period of re-structuring and of reassessment of strategic priorities that has, in the majority of cases, resulted in discovery and development programmes being put on hold. This philosophy appears to have been applied to businesses across the field whether they are global players or smaller independent companies. We have maintained a steady dialogue with many of the key players throughout the year to ensure that we are well placed to move forward as strategies are settled and plans implemented. There is good evidence that oncology programmes continue to assume a high priority in the drug portfolio of the major players. It is also clear that use of funds will be very carefully managed and that there will be an increasing focus on outsourcing and use of technologies that will optimise both the R&D spend and time taken to complete development programmes.

Whilst these activities have impacted on the conversion of technical discussions into signed contracts, the Physiomics team had spent time in discussions with their opposite numbers in client companies to help formulate the most effective strategy going forward so that as matters begin to move again, Physiomics is well placed to provide the support most needed. It is clear from these discussions that there is confidence in the Physiomics oncology model. This has resulted in some pressure to extend and enhance the model to answer much more complex problems than those addressed to date. Whilst there are clearly applications in the early R&D phase there are some very key questions that also lend themselves to modelling to develop solutions and reduce unproductive experimentation.

Combination Therapies in Oncology

We have described previously the strategy of combining an anti-cancer drug with a compound targeted at inhibiting the cellular repair mechanisms that can reverse some of the cellular damage caused by the anti-cancer drug.

Chairman's and Chief Operating Officer's Statement - continued

The programme that we have completed with CRT, ICR and Sareum on CHK1 is an example of this approach. A number of potential client companies are working on similar strategies and are requiring us to address much more challenging questions using the Physiomics SystemCell® technology. To this end, we have invested considerable time into adding new levels of functionality to the model such that we can confidently address these new challenges. We have used some of our new funds to finance proof of concept studies in in vitro and in vivo models to generate the evidence that our model is capable of addressing these important questions. This is an essential pre-requisite to offering this facility to client companies who want to see clear evidence that the model can predict outcomes.

An initial demonstration of this capacity has already been completed in collaboration with a major pharmaceutical company that recently provided us with data for two drugs taken individually in a xenograft (a mouse model bearing a human tumour). We were asked to predict the tumour growth when the two separate drugs were used in two different combinations. Our predictions were then compared against experimental data in a single-blind test (Using Predictive Mathematical Models to Optimise the Scheduling of Anti-Cancer Drugs David Orrell and Eric Fernandez, Innovations in Pharmaceutical Technology, June 2010). The figures below show the results for the two different schedules. The predictions are in good agreement with the experimental data, and accurately capture the schedule dependency. An advantage of the computational approach is that we can quickly simulate thousands of possible schedules for combinations of different drugs. This allows our partners to prioritise the most effective drug combinations and the best schedules for validation.

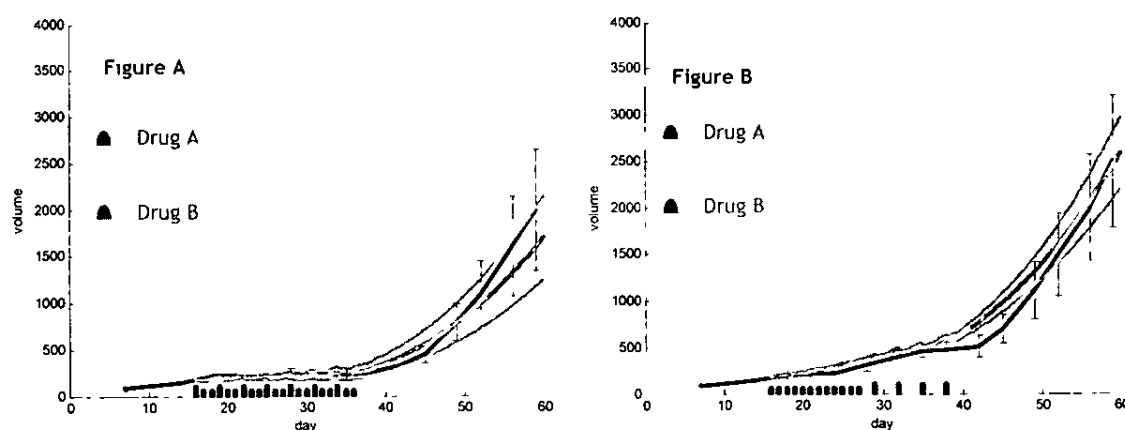


Figure A and B Green lines median, upper and lower bounds of predicted tumour growth, Upper and lower bounds give 95% confidence interval, Black line Experimental measurement - error bars represent 95% confidence interval

We have been working to extend the applications for our modelling system to provide a more comprehensive package to potential clients. These include the scaling-up from mice to man of our combined pharmacokinetics (profile of drug concentrations in the blood and tissues following administration of a dose) and tumour growth models. This can then be used to provide a rational design for a clinical trial programme with the potential to predict possible outcomes. Empirical evidence shows that altering a drug schedule can have a significant effect on drug efficacy. This is especially the case when drugs are used in combination.

Chairman's and Chief Operating Officer's Statement - continued

The simulations generated would provide the rationale for the clinical study design submitted to regulatory authorities for approval. Given the potential complexity of dosing drug combinations it is vitally important to provide as much support as possible to justify the study design, in particular the dosing regimen. Moreover, given the cost of clinical studies and the negative impact on the valuation of a sponsor company in the event of a poor study outcome, data from modelling studies has the potential to minimise these risks to the sponsor company.

Chronotherapy

Whilst work on the European TEMPO project has now concluded, we believe that it is important to validate what has been done by designing and executing a clinical study with a suitable consortium. We are presently in discussion with partners who would be interested in exploring the TEMPO approach to dosing to see whether it is possible to use a drug already in clinical trials as the basis for a grant-supported study. The aim of such a study would be to improve the toxicity and/or the efficacy profile of an existing drug regimen by changing the administration time of a drug during the day.

Non-Pharmaceutical Applications

We are exploring, as part of a consortium of other companies, a process for the production of bio-fuels. The process would lend itself to a modelling approach and would draw on our extensive expertise in designing model systems. Any progress in this area would depend on the granting of sponsorship. If this proceeds, or if sponsorship is granted, a further announcement will be made.

Business Development Strategy

We have undertaken periodic reviews to our approach of engaging the attention of potential client companies. We have concluded that our approach to date has been appropriate but that greater flexibility is needed to ensure that we offer the most appropriate package of support. It is increasingly clear that potential client companies have target and development strategies that are sufficiently different to need a more individual service from Physiomics. Some see the application of modelling in the early research phase whilst others see it as an aid to compound selection or in the later stages of development, especially in the clinical research phase.

We have taken a number of steps to address these issues. As noted above, we are extending the application of our model into later stages of development to give an integrated approach by investing in laboratory studies that will provide the proof of principle evidence to support our claims.

We have added additional business development resource by retaining a further individual with a close knowledge of the sector to facilitate our efforts. Our literature has been upgraded to keep pace with our development activities.

We remain of the opinion that scientific meetings where we can present the results of our work continue to be our best shop window. The current programmes are generating a flow of data for inclusion into these scientific symposia.

Chairman's and Chief Operating Officer's Statement - continued

We have, over the past few months, been undertaking the recruitment of a Director of Business Development to take full-time responsibility for co-ordinating and leading our activities in this area and we expect to make an announcement in due course

Collaboration with Jubilant

Physiomics recently announced the signing of a non-binding Heads of Terms with Jubilant Biosys Limited. These discussions have been on-going for some many months in order to reach this point. The collaboration will mean that Jubilant will add our modelling capabilities to their extensive portfolio of drug discovery capabilities and market the package to pharma companies globally. Physiomics will also reciprocate by offering to its partners a comprehensive package with the access to an experimental platform to gather the inputs needed to calibrate our models and to validate experimentally our predictions. This has the potential to raise the profile of Physiomics. If an agreement is completed, it will allow us to access Jubilant's current customer base and potentially open doors that have thus far been difficult for us to access.

If an agreement is finalised it will represent a first for both businesses and the Directors see it as a major coup for Physiomics.

Jubilant Biosys ("Jubilant") describes itself as an integrated discovery collaborator to major Pharmaceutical and biotech companies, accelerating global discovery efforts across multiple therapeutic areas and engaging in a range of functional discovery services and shared-risk collaborations with multiple global partners.

Located in Bangalore, India, Jubilant also describes its Discovery Research Centre as a state-of-the-art integrated discovery research facility (125,000 sq. ft.) with over 350 experienced scientists specialising in various aspects of the discovery process that include Discovery Biology, Medicinal Chemistry, Structural Biology, ADME, Toxicology, Pharmacology, Molecular Modelling, and Information Technology.

Jubilant explain that they offer an integrated and collaborative platform of drug discovery and development services to the global pharmaceutical industry, and that their business is integrated via three operating subsidiaries across the entire value chain of drug discovery and development to manage a portfolio from Target Identification to Point of Care across a number of therapeutic areas.

Jubilant Chemsys provide medicinal chemistry services to the pharmaceutical industry and state that operating from its 75,000 sq. ft. state-of-the-art facilities and employing more than 400 chemists it is able to offer a full range of drug discovery services. Jubilant Clinsys is described as having an integrated workforce across the US, Europe and India supplying the full range of clinical research activities necessary to take a compound through to submission of a marketing application.

Physiomics believe its modelling expertise could enhance the efficient selection of lead candidate compounds and together with our ability to develop dosing solutions and validate clinical trial design would provide client companies with a unique offering.

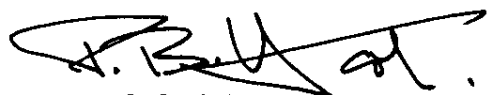
Physiomics are now working with the Jubilant team to produce a collaboration agreement whilst at the same time undertaking a series of studies aimed at demonstrating the synergies which can accrue from this relationship. Physiomics have high hopes that this collaboration will provide the breakthrough we have been seeking in gaining a global platform for our SystemCell® model.

Chairman's and Chief Operating Officer's Statement - continued

Outlook

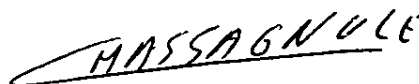
The directors believe that the new functionality that we are offering to client companies, coupled with the validation data demonstrating the capabilities of our modelling platform in real situations, should provide a strong rationale for potential clients to use the data to build a more efficient and cost effective discovery programme. We continue to add functionality which can be used at different points in the research and development process, providing more opportunities to target support where individual clients feel that it can be most useful. We have taken steps to increase our business development activities including the anticipated appointment of an experienced director with full-time responsibility for leading this activity. Finally, we expect to agree an exciting collaboration with Jubilant Biosys Limited.

We said in our previous report that we would be cautious in our revenue forecasts in view of the continuing upheaval in the pharmaceutical sector. As a consequence we decided to devote our resources to extending our service offering to better match the needs of potential customers. The Directors believe that this will be highly-beneficial going forward and will allow us to take full advantage of the potential of the relationship with Jubilant.



Dr Paul Harper

Non-Executive Chairman



Dr Christophe Chassagnole

Chief Operating Officer

Directors' Report

The Directors submit their report and the audited financial statements of Physiomics Plc for the year ended 30 June 2010

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 £367,561 (2009 profit £24,584). 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 £152,694 (2009 £459,550)
- The operating loss was £393,010 (operating profit 2009 £8,569)
- At the 30 June 2010 the surplus of shareholders' funds was £786,825 - a substantial improvement from the deficit of £85,347 at 30 June 2009

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 2010. Interest bearing loan notes are in issue at that date on terms set out in note 9 to the financial statements

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 2010 the following shareholders held substantial holdings in the issued ordinary shares of the Company

	Number of Ordinary shares	Holding %
TD Waterhouse Nominees (Europe) Limited	183,483,155	18.4%
Barclayshare Nominees Limited	163,977,539	16.4%
HSDL Nominees Limited	151,795,629	15.2%
LR Nominees Limited	68,620,749	6.9%
James Capel (Nominees) Limited	57,392,622	5.7%
Dr Paul Harper	52,570,787	5.3%

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 2010 is set out below

	Emoluments £	Benefits £	Pension contributions £	Total £
Dr P B Harper	35,000	-	-	35,000
Dr C D Chassagnole	50,631	-	3,030	53,661
Total	85,631	-	3,030	88,661
	=====	=====	=====	=====

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 84 days purchases (2009 55 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 15 November 2010 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 an executive director, who fulfills the main operational role 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 Christophe Chassagnole 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

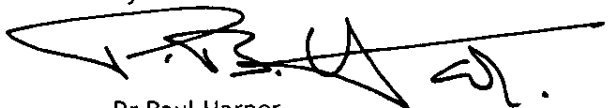
The Company values the views of its shareholders and recognises their interest in the Company's strategy, performance and the ability of the Board. The AGM provides an opportunity for two way communication and all shareholders are encouraged to attend and participate. Separate resolutions will be put 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 13 December 2010.

By order of the board

A handwritten signature in black ink, appearing to read 'P. Harper', with a long horizontal line extending to the right.

Dr Paul Harper
Chairman
15 November 2010

Independent Auditors Report to the shareholders of Physiomics Plc

We have audited the financial statements of Physiomics Plc for the year ended 30 June 2010 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 2010 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

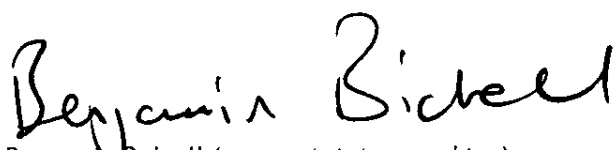
Opinion on other matters prescribed by the Companies Act 2006

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

15 November 2010

Income Statement for the year ended 30 June 2010

	Notes	Year ended 30-Jun-10 £	Year ended 30-Jun-09 £
Revenue	2	152,694	459,550
Net operating expenses		(495,827)	(450,981)
Share-based compensation		(49,877)	-
Operating (loss) profit	3	(393,010)	8,569
Finance income	4	5,360	67
Finance costs	5	(2,948)	(4,021)
(Loss) profit before taxation		(390,598)	4,615
UK corporation tax	7	23,037	19,969
(Loss) profit for the year attributable to equity shareholders		(367,561)	24,584
(Loss) profit per share (pence)			
Basic and diluted	8	(0.043) p	0.005 p

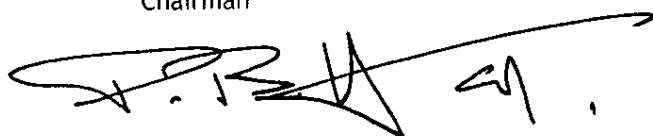
Balance Sheet as at 30 June 2010

Company Number 4225086

	Notes	Year ended 30-Jun-10 £	Year ended 30-Jun-09 £
Non-current assets			
Intangible assets	10	30,244	34,932
Property, plant and equipment	11	1,964	2,142
Investments		1	1
		<u>32,209</u>	<u>37,075</u>
Current assets			
Trade and other receivables	12	109,741	143,402
Cash and cash equivalents		<u>780,054</u>	<u>95,080</u>
	9	<u>889,795</u>	<u>238,482</u>
Total assets		<u>922,004</u>	<u>275,557</u>
Current liabilities			
Trade and other payables		(114,047)	(203,996)
Loans		-	(63,500)
Deferred income		<u>(21,132)</u>	<u>(93,408)</u>
	9,12	<u>(135,179)</u>	<u>(360,904)</u>
Total liabilities		<u>(135,179)</u>	<u>(360,904)</u>
Net assets		<u>786,825</u>	<u>(85,347)</u>
Capital and reserves			
Share capital	14	399,690	249,856
Capital reserves	15	2,845,612	1,755,713
Retained earnings	16	<u>(2,458,477)</u>	<u>(2,090,916)</u>
Equity shareholders' funds		<u>786,825</u>	<u>(85,347)</u>

The financial statements were approved by the Board of Directors and authorised for issue on 15 November 2010 and are signed on its behalf by

Dr Paul Harper
Chairman



Statement of changes in equity for the year ended 30 June 2010

	Share capital £	Share premium account £	Share-based compensation reserve £	Retained earnings £	Total shareholders' funds £
At 30 June 2008	149,989	1,611,436	-	(2,115,500)	(354,075)
Share issue (net of costs)	99,867	144,277	-	-	244,144
Profit for the year	-	-	-	24,584	24,584
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

Cash Flow Statement for the year ended 30 June 2010

	Year ended 30-Jun-10 £	Year ended 30-Jun-09 £
Cash flows from operating activities		
Operating (loss) profit	(393,010)	8,569
Amortisation and depreciation	6,298	7,049
Share-based compensation	49,877	-
Decrease (increase) in receivables	36,729	(68,998)
Decrease in payables	(73,925)	(14,071)
(Decrease) increase in deferred income	(72,276)	93,408
Cash generated from operations	(446,307)	25,957
UK corporation tax received	19,969	-
Interest paid	(7,912)	-
Net cash generated from operating activities	(434,250)	25,957
Cash flows from investing activities		
Interest received	5,360	67
Purchase of non-current assets, net of grants received	(1,432)	(580)
Net cash used by investing activities	3,928	(513)
Cash (outflow) inflow before financing	(430,322)	25,444
Cash flows from financing activities		
Receipt of loans	-	30,000
Issue of ordinary share capital (net of expenses)	1,115,296	30,920
Net cash from financing activities	1,115,296	60,920
Net increase in cash and cash equivalents	684,974	86,364
Cash and cash equivalents at beginning of year	95,080	8,716
Cash and cash equivalents at end of year	780,054	95,080

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 23 (Amendment) (March 2007) - Borrowing Costs

IFRS 7 (Amendment) (March 2009) - Improving Disclosures about Financial 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

During the year, 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 the following

IAS 24 (revised November 2009) - Related Party Disclosures

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

IFRS 9 - Financial Instruments

Improvements to IFRSs 2009 (April 2009)

IFRIC 14 (Amendment) (November 2009) - Prepayments of a Minimum Funding Requirement

IFRIC 17 - Distributions of Non-cash Assets to Owners

IFRIC 18 - Transfers of Assets from Customers

IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

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. More than 80% of total revenue was provided by one customer

3 OPERATING PROFIT

	2010 £	2009 £
Operating profit is stated after charging (2009 loss)		
Research and development Current year expenditure	159,438	72,536
Depreciation charge for the year - Owned assets	1,610	2,173
Amortisation charge for the year	4,688	4,876
Audit services, refer to below	12,000	11,500
	<u>12,000</u>	<u>11,500</u>

	Payable to	2010 £	2009 £
Amounts payable for both audit and non-audit services			
Audit services - Statutory audit	Shipleys LLP	10,000	10,000
Tax services - Compliance services	Shipleys LLP	2,000	1,500
		<u>12,000</u>	<u>11,500</u>

Notes on the Financial Statements - continued

4 FINANCE INCOME

	2010 £	2009 £
Bank interest receivable	<u>5,360</u>	<u>67</u>

5 FINANCE COSTS

	2010 £	2009 £
Interest payable	<u>2,948</u>	<u>4,021</u>

6 STAFF COSTS

	2010 £	2009 £
Staff costs during the year		
Wages and salaries	139,464	148,088
Social security costs	14,651	15,764
Pension costs	-	-
	<u>154,115</u>	<u>163,852</u>
Average number of employees	<u>4</u>	<u>5</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

	2010	2009
	£	£
Research and Development tax credit current year	28,823	10,000
Research and Development tax credit prior year	(5,786)	9,969
Total current tax	<u>23,037</u>	<u>19,969</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

	2010	2009
	£	£
(Loss) profit on ordinary activities before taxation	<u>(390,598)</u>	<u>4,615</u>
Tax on (loss) profit on ordinary activities at standard corporation tax rate of 21% (2009 21%)	(82,026)	969
Expenses not deductible for tax purposes	361	361
Capital allowances in excess of depreciation	215	7
(Relieved tax profits) unrelieved tax losses and other deductions arising in the year	81,450	(1,337)
Research and Development tax credit current and prior year	<u>23,037</u>	<u>19,969</u>
Total current tax	<u>23,037</u>	<u>19,969</u>

At 30 June 2010 tax losses of approximately £1,526,000 (2009 1,247,000) remained available to carry forward against future taxable trading profits

8 EARNINGS PER SHARE

The calculations of (loss) profit per share are based on the following (losses) profits and numbers of shares

	2010	2009
	£	£
(Loss) profit on ordinary activities after tax	<u>(367,561)</u>	<u>24,584</u>
	No.	No.
Weighted average no of shares		
For basic (loss) profit per share	855,464,575	512,460,174
For diluted profit per share	-	540,799,685
Basic and diluted (loss) profit per share	<u>(0.043p)</u>	<u>0.005p</u>

Notes on the Financial Statements - continued

9 FINANCIAL INSTRUMENTS RECOGNISED IN THE BALANCE SHEET

	Held for trading 2010 £	2009 £
Current financial assets		
Trade and other receivables	109,741	143,402
Cash and cash equivalents	780,054	95,080
	<u>889,795</u>	<u>238,482</u>
Current financial liabilities		
Trade and other payables	114,047	203,996
Loans	-	63,500
Deferred income	21,132	93,408
	<u>135,179</u>	<u>360,904</u>

10 INTANGIBLE FIXED ASSETS

	Patents, trade marks and software £
Cost	
At 1 July 2009 and 30 June 2010	<u>75,442</u>
Amortisation	
At 1 July 2009	40,510
Provided in the year	4,688
At 30 June 2010	<u>45,198</u>
Net book value	
30 June 2010	30,244
30 June 2009	34,932

Notes on the Financial Statements - continued

11 PROPERTY PLANT AND EQUIPMENT

	Fixtures and computers £
Cost	
At 1 July 2009	38,889
Additions	1,432
	<u>40,321</u>
At 30 June 2010	
Depreciation	
At 1 July 2009	36,747
Provided in the year	1,610
	<u>38,357</u>
At 30 June 2010	
Net book value	
30 June 2010	1,964
30 June 2009	2,142

12 OTHER FINANCIAL ASSETS AND LIABILITIES

	2010 £	2009 £
Trade and other receivables are as follows		
Trade receivables	-	74,330
Prepayments	41,343	24,373
Other receivables	35,361	14,730
Corporation tax recoverable	33,037	29,969
	<u>109,741</u>	<u>143,402</u>

Trade and other payables are as follows

Amounts payable relating to the purchase of goods and services	89,505	86,863
Other payables	7,110	43,551
Accruals	17,432	73,582
Loans	-	63,500
Deferred income	21,132	93,408
	<u>135,179</u>	<u>360,904</u>

Trade payables of the Company were equivalent to 84 days of purchases (2009 55 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 2009 and 30 June 2010

14 SHARE CAPITAL

	2010	2009
	Number	Number
Ordinary shares of 0.04p each		
Authorised	25,000,000,000	25,000,000,000
Issued and fully paid	£	£
Balance at 1 July 2008	149,989	149,989
Issue of share capital	99,867	99,867
As at 30 June 2009	249,856	249,856
Issue of share capital	149,834	-
As at 30 June 2010	399,690	249,856

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

On 12 August 2010 the Company issued 24,556,640 ordinary shares of 0.04p at a price of 0.1p per ordinary share for the conversion of the remaining loan note principal and the accrued interest of an £100,000 loan note granted to EIRx Pharma Limited (in members' voluntary liquidation)

Between 30 November 2009 and 14 December 2009 the Company issued 299,375,000 ordinary shares of 0.04p at a price of 0.4p per ordinary share for working capital purposes

On 18 December 2009 the Company issued 50,000,000 ordinary shares of 0.04p at a price of 0.1p per ordinary share for the conversion of a £50,000 loan note granted to Energiser Investments (formally known as Billam PLC)

On 28 January 2010 the Company issued 654,375 ordinary shares of 0.04p at a price of 0.15p per ordinary share for exercise of share options

Notes to the Financial Statements - continued

15 CAPITAL RESERVES

	Share premium account	Share-based compensation reserve	Total
	£	£	£
Balance at 1 July 2008	1,611,436	-	1,611,436
Issue of share capital	149,800	-	149,800
Share issue costs	(5,523)	-	(5,523)
Balance at 30 June 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

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 2008	(2,115,500)
Profit for the year	24,584
Balance at 30 June 2009	(2,090,916)
Loss for the year	(342,439)
Balance at 30 June 2010	(2,433,355)

17 CAPITAL COMMITMENTS

At 30 June 2009 and 30 June 2010 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 at 30 June 2009	Awarded in year	Exercised in year	Cancelled in year	Granted at 30 June 2010	Exercise price p	Expiry date
Christophe Chassagnole	7,499,453				7,499,453	0.383	06-Sep-17
Christophe Chassagnole	5,624,590				5,624,590	0.150	18-Dec-18
Christophe Chassagnole		11,856,584			11,856,584	0.320	28-Feb-20
Other staff	10,880,000			-3,490,000	7,390,000	0.383	06-Sep-17
Other staff	10,786,984		-654,375	-1,963,125	8,169,484	0.150	18-Dec-18
Other staff		20,412,619			20,412,619	0.320	28-Feb-20
Total	34,791,027	32,269,203	-654,375	-5,453,125	60,952,730		

The weighted average share price at the date of exercise of share options during the year was 0.42p per ordinary share

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 at 30 June 2009	Awarded in year	Exercised in year	Cancelled in year	Granted at 30 June 2010	Exercise price p	Expiry date
Paul Harper	2,327,710				2,327,710	0.150	18 Dec-18
Paul Harper		7,664,541			7,664,541	0.320	28 Feb-20

All performance conditions have been met and all options 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 2.9% per annum

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 2010. Interest bearing loan notes are in issue at that date on terms set out in note 9 to the financial statements.

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.