

4356862

# **Phynova Limited**

## **Report and Financial Statements**

**30 September 2006**



## **Report and Financial Statements for the period ended 30 September 2006**

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### **Directors**

R Miller  
M Martin  
W Doyle  
S Marshall  
E Blair

### **Secretary and registered office**

A Brown, Phynova House, 16 Fenlock Court, Blenheim Office Park, Long Hanborough, Oxon OX29 8LN

### **Company Number**

4356862

### **Auditors**

BDO Stoy Hayward LLP, 125 Colmore Row, Birmingham B3 3SD

## **Report of the directors for the year ended 30 September 2006**

The directors present their report together with the audited financial statements for the year ended 30 September 2006

### **Results and dividends**

The profit and loss account is set out on page 7 and shows the loss for the year

The Directors do not recommend the payment of a dividend (2005 nil)

### **Principal activities, review of business and future developments**

The company's principal activity is that of a developer of pharmaceuticals derived from Chinese botanical drugs targeting viral and metabolic diseases and cancer

The company now has a well developed portfolio of products derived from proven Chinese botanical drugs that address major unmet needs in Western medicine

Commercialisation will be through licensing deals to major pharmaceutical companies which will then take the products through final trials and to market. The group is very encouraged by the enquiries it has already received regarding the licensing of its two lead products

Developments in 2006 have reinforced the Directors' opinion that the market for pharmaceuticals derived from medicinal plants and developed at relatively low cost is one with enormous potential. The Chinese market is proving particularly interesting. It is the intention of the directors to take full advantage of Phynova's strength in this field and the emerging Chinese market in the coming year

### **Directors**

The directors of the company during the year were

R Miller  
M Martin  
M Fowler  
W Doyle  
S Marshall  
E Blair

R Miller, M Martin, W Doyle, S Marshall and E Blair are also directors of the company's parent undertaking, Phynova Group plc. On the 14 December 2006, M Fowler resigned from the Board of Directors

### **Principal risks and uncertainties**

Phynova is able to reduce the risk associated with pharmaceutical drug development with its portfolio of 6 drugs in development and a further 3 development drugs following the investment in Botanic Century. The Group's cash balance will enable the business to fulfil its current development programme into 2008

### **Financial Instruments**

Details of the use of financial instruments by the company and its subsidiary undertakings are contained in note 15 of the financial statements

## Report of the Director's for the year ended 30<sup>th</sup> September 2006 *(continued)*

### Charitable and political donations

During the year the company made charitable donations of £200 to charities serving the community in which the company operates. No political donations were made.

### Research and development

Research and Development amounted to £497,799 (2005: £243,253) all of which was written off during the year.

### Directors responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group 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 Companies Act 1985. 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.

### Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the board



R Miller  
Director

19 July 2007

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PHYNova LIMITED**

We have audited the financial statements of Phynova Limited for the year ended 30 September 2006 which comprise the profit and loss account, the balance sheet and related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of director's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

### **Basis of audit opinion**

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

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

**INDEPENDENT AUDITORS' REPORT** *(continued)*

**Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements



**BDO STOY HAYWARD LLP**

*Chartered Accountants*  
*And Registered Auditors*

*20 July 2007*

**Profit and loss account**  
*for the year ended 30 September 2006*

	<i>Note</i>	<b>12 Months Ended 30 September 2006 £</b>	<b>15 Months Ended 30 September 2005 £</b>
Turnover		-	-
Cost of sales and gross loss		(175,998)	(243,253)
Administrative expenses		(672,919)	(363,400)
Loss on ordinary activities before interest and other income		(848,917)	(606,653)
Interest receivable and similar income		6,208	-
Loss on ordinary activities before and after taxation	2	<u>(842,709)</u>	<u>(606,653)</u>

The company has no recognised gains and losses other than those shown above. All amounts relate to continuing activities.

The notes on pages 9 to 16 form part of these financial statements

## Balance sheet at 30 September 2006

	Note	30 September 2006		30 September 2005	
		£	£	£	£
<b>Fixed assets</b>					
Tangible assets	6		7,590		2,165
Fixed asset investments	7		40		40
			<u>7,630</u>		<u>2,205</u>
<b>Current assets</b>					
Debtors	8	254,173		134,494	
Cash at bank and in hand		<u>86,489</u>		<u>28,778</u>	
		340,662		163,272	
<b>Creditors, amounts falling due within one year</b>	9	<u>(1,494,530)</u>		<u>(576,061)</u>	
<b>Net current liabilities</b>			<u>(1,153,868)</u>		<u>(412,789)</u>
<b>Total assets less current liabilities</b>			<u>(1,146,238)</u>		<u>(410,584)</u>
<b>Provision for liabilities and charges</b>	10		343,175		236,120
			<u>(1,489,413)</u>		<u>(646,704)</u>
<b>Capital and reserves</b>					
Called up share capital	11		65,932		65,932
Share premium account	12		642,711		642,711
Profit and loss account	12		<u>(2,198,056)</u>		<u>(1,355,347)</u>
<b>Shareholders' funds</b>	13		<u>(1,489,413)</u>		<u>(646,704)</u>

The financial statements were approved by the board of directors and authorised for issue on 19 July 2007



**R Miller**  
Director

The notes on pages 9 to 16 form part of these financial statements



## Notes forming part of the financial statements for the year ended 30 September 2006

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

#### *Basis of preparation*

The financial statements have been prepared in accordance with Applicable Accounting Standards and under the historical cost convention

#### *Going concern*

The directors have prepared the accounts on a going concern basis given the support from provided by the parent company, Phynova Group plc

#### *Cashflow statement*

As permitted by the exemptions in Financial Reporting Standard 1, the company has not prepared a cash flow statement on the grounds that at least 90% of the voting rights in the company are controlled within the group headed by Phynova Group plc and the company is included in consolidated financial statements

#### *Consolidated Financial Statements*

The company is exempt by virtue of Section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present financial information about the company as an individual undertaking and not about its group

#### *Fixed assets and depreciation*

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Fixtures and fittings	-	Over 3 years straight line
Office furniture	-	Over 3 years straight line
Scientific equipment	-	Over 3 years straight line

#### *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of exchange transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

#### *Research and Development*

Research and development expenditure is written off as incurred

#### *Deferred tax*

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences

Deferred tax balances are not discounted

#### *Financial instruments*

Financial instruments are measured initially and subsequently at cost

**Notes forming part of the financial statements for the year ended 30 September 2006  
(continued)**

**2 Loss on ordinary activities**

	<b>12 Months Ended 30 September 2006 £</b>	<b>15 Months Ended 30 September 2005 £</b>
<i>This is stated after charging:</i>		
Research and development – current period's expenditure	497,799	243,253
Depreciation of tangible fixed assets	2,506	1,827
Audit services Audit fees	19,000	5,000
Taxation fees	7,500	3,250
	<u>526,805</u>	<u>253,330</u>

**3 Staff numbers and costs**

The average number of employees (including executive directors) during the year, was 2 (2004 – 2). Except for the directors' emoluments disclosed in note 4, the company did not incur any staff costs during the period.

**4 Directors' remuneration**

	<b>12 Months Ended 30 September 2006 £</b>	<b>15 Months Ended 30 September 2005 £</b>
Directors' emoluments	57,303	130,930
	<u>57,303</u>	<u>130,930</u>

Details of consultancy services provided by entities in which any director holds an interest are disclosed in note 14. Included in the above amount is £57,303 (2005: £130,390), which has been paid to third party companies, which the directors control, for the services of those directors.

A further amount of £Nil (2005: £5,687) has been paid to third parties in respect of directors' qualifying services.

**Notes forming part of the financial statements for the year ended 30 September 2006  
(continued)**

**5 Taxation on loss on ordinary activities**

The tax assessed for the period is different to the standard rate of corporation tax in the UK. The differences are explained below.

	<b>12 Months ended 30 September 2006 £</b>	<b>15 Months ended 30 September 2005 £</b>
Loss on ordinary activities before tax	<b>(842,709)</b>	<b>(606,653)</b>
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 30%)	<b>(252,813)</b>	<b>(181,996)</b>
Effect of		
Expenses not deductible for tax purposes	<b>4,751</b>	
Capital allowances in excess of depreciation	<b>752</b>	
Unrelieved tax losses	<b>247,310</b>	<b>181,996</b>
Current tax charge for period	<b>-</b>	<b>-</b>

There is no deferred tax in either the current or prior period.

**Notes forming part of the financial statements for the year ended 30 September 2006  
(continued)**

**6 Tangible fixed assets**

	Fixtures and fittings £	Office Equipment £	Scientific equipment £	Total £
<b>Cost</b>				
At 1 October 2005	1,065	4,448	695	6,208
Additions	1,503	6,428	-	7931
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2006	<b>2,568</b>	<b>10,876</b>	<b>695</b>	<b>14,139</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>				
At 1 October 2005	976	2,797	270	4,043
Charged in year	142	2,074	290	2,506
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2006	<b>1,118</b>	<b>4,871</b>	<b>560</b>	<b>6,549</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
At 30 September 2006	<b>1,450</b>	<b>6,005</b>	<b>135</b>	<b>7,590</b>
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2005	<b>444</b>	<b>2,167</b>	<b>425</b>	<b>2,165</b>
	<hr/>	<hr/>	<hr/>	<hr/>

**7 Fixed Asset Investments**

	Group undertakings £
<b>Cost</b>	
At 30 September 2006 and 1 October 2005	40
	<hr/>

The investment represents a 100% interest in Phynova LLC, a dormant company registered in USA

Notes forming part of the financial statements for the year ended 30 September 2006 (*continued*)

**8 Debtors**

	30 2006 £	30 September 2005 £
Debtors and prepayments	<u>254,173</u>	<u>134,494</u>

All amounts shown under debtors fall due for payment within one year

**9 Creditors: amounts falling due within one year**

	30 September 2006 £	30 September 2005 £
Trade creditors	101,545	186,744
Amounts owed to group undertakings	1,286,624	362,017
Other creditors including taxation and social security	37,804	-
Accruals and deferred income	68,557	27,300
	<u>1,494,530</u>	<u>576,061</u>

**10 Provision for liabilities and charges**

	Taxation and social security provisions £
Balance at 1 October 2005	236,120
Charged to the profit and loss account	<u>107,055</u>
Balance at 30 September 2006	<u>343,175</u>

The provision relates to a potential taxation and social security liability that may arise as a result of payments made by the company for consultancy services. The amount payable is yet to be agreed and as a consequence, the timing of payment is uncertain. An amount of £173,528 (2005 £127,227) is recoverable against the above provision and is included within debtors.

**11 Share capital**

	Authorised 30 September 2006 £	Authorised 30 September 2005 £	Allotted, called up and fully paid 30 September 2006 £	Allotted, called up and fully paid 30 September 2005 £
<i>Equity share capital</i>				
Ordinary shares of 10p each	670,000	670,000	65,932	65,932

**Notes forming part of the financial statements for the year ended 30 September 2006  
(continued)**

**12 Reserves**

	Share premium account £	Profit and loss account £
At 1 October 2005	642,711	(1,355,347)
Loss for year		(842,709)
At 30 September 2006	<u>642,711</u>	<u>(2,198,056)</u>

**13 Reconciliation of movements in shareholders' funds**

	12 months ended months ended 30 September 2006 £	15 months ended months ended 30 September 2005 £
Loss for the period	(842,709)	(606,653)
Issue of Shares	-	49,449
Transfer from share premium account on issue of bonus shares	-	(49,449)
Net deductions from shareholders' funds	<u>(842,709)</u>	<u>(606,653)</u>
Opening shareholders' funds	<u>(646,704)</u>	<u>(40,051)</u>
Closing shareholders' funds	<u>(1,489,413)</u>	<u>(646,704)</u>

**Notes forming part of the financial statements for the year ended 30 September 2006  
(continued)**

**14 Related party disclosures**

*Related party transactions and balances*

	Purchases from related party	Purchases from related party	Amounts owed to related party	Amounts owed to related party
	For the year ended 30 September 2006	For the year ended 30 September 2005	For the year ended 30 September 2006	For the year ended 30 September 2005
	£	£	£	£
Swerford Consulting	20,001	100,005	-	-
Blair – Biomedical Consulting	33,302	30,925	-	24,044
Anvil Partners LLP	-	5,687	-	1,257
Wellbeach Associates	27,679	1,180	2,569	634
Integrated Medicines	4,000	-	-	-
Alan Brown	45,726	20,006	-	4 879

- R Miller, a director of both Phynova Group Public Limited Company and Phynova Limited, has a material interest in Swerford Consulting, an entity that provides consultancy services to Phynova Limited
- E Blair, a director of both Phynova Group Public Limited Company and Phynova Limited, has a material interest in Blair-Biomedical Consulting and Integrated Medicines, entities that provides consultancy services to Phynova Limited
- M Martin, a director of both Phynova Group Public Limited Company and Phynova Limited, is a member of Anvil Partners LLP, a limited liability partnership that provides consultancy services to Phynova Limited
- J Pool, a director of Phynova Group Public Limited Company, has a material interest in Wellbeach Associates, a company that provides consultancy services to Phynova Limited
- A Brown is a director of Phynova Group Public Limited Company and he provides consultancy services to Phynova Limited

The directors consider the above transactions to be at arm's length

**Notes forming part of the financial statements for the year ended 30 September 2006  
(continued)**

The following amounts are included in debtors and represent the potential amounts recoverable against the taxation and social security provision as detailed in note 10

	For the year ended 30 September 2006	For the year ended 30 September 2005
	£	£
R Miller	105,196	78,518
E Blair	23,138	14,871
A Brown	21,938	8,670

**15 Financial Instruments**

Operations and working capital requirements are financed by shareholding investments

Cash held by the company is deposited in a non fixed interest rate account generating interest at an average of 2% below bank of England base rate

With the exception of short term debtors and creditors, the only financial asset held by the company is cash, the bank value and the fair value being the same at the balance sheet date. There are no financial liabilities at the balance sheet date.

In addition, various creditors arise from the companies operations, the Directors continuously review working capital requirements to ensure the company can meet its creditor obligations. The company does not see credit risk as significant.

**16 Ultimate parent company and parent undertaking of larger group**

The largest and smallest group in which the results of the company are consolidated is that headed by Phynova Group PLC. The consolidated financial statements of this company are available to the public and may be obtained from Companies House, Cardiff. No other group accounts include the results of the company.