



Phynova Group plc Interim Report

For the six months ended 31 March 2006

Power of Plants

Plants have long been a reliable source of new anti-infective and anti-cancer drugs. Using medicines identified in China as a starting point, Phynova develops Western pharmaceutical drugs protected by the Company's own intellectual property.

Development Stage	Pre-Clinical	Clinical		
		Phase I	Phase IIa	Phase IIb
Altirex Hepatitis C			2005	2006/7
PYN18 Anti-viral	2005/6			
PYN22 Anti-obesity		2006/7		
PYN5 RSV/Flu	2004/5/6			
PYN6 Super Bugs	2005/6	2006/7		
PYN7 Cancer	2005/6			

Phynova has identified a number of Drug Candidates in the fields of anti-virals, anti-microbials, anti-inflammatories and oncology. At present, it is concentrating its development efforts on six of these: PYN17, PYN18, PYN22, PYN7, PYN6 and PYN5.

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Phynova was founded in July of 2002 to develop drugs that satisfy unmet therapeutic needs in areas such as: infectious disease, metabolic disease and cancer.

Phynova is developing Drug Candidates which are mainly derived from botanical medicines and have proved effective and safe in clinical use in China. The Chinese have been using botanical medicines for thousands of years and over that time have built up a wealth of knowledge and expertise in the medicinal use of plants. In a number of areas these medicines are used in China in circumstances where there is an unmet therapeutic need in the West. Since all of Phynova's Drug Candidates are derived from plants, its drugs will be produced from sustainable resources.

Plants are an important source for the discovery of novel pharmacologically-active compounds, with many of today's major drugs being derived directly or indirectly from plants. Examples include:

- Aspirin, based on salicin, a compound obtained from the bark of the willow tree;
- Taxol, a cancer drug derived from yew trees;
- Digoxin, a drug used to treat heart disease which is derived from foxgloves; and
- Artemether, an anti-malaria drug derived from a Chinese medicinal herb, Artemesia.

Phynova has developed relationships with researchers and government agencies in China and built its own expertise in Chinese medicinal plants and Western drug development. Through its contacts with researchers in China, Phynova has obtained access to Chinese research data and it has licensed-in Drug Candidates for development and sale in Western markets. Its management is made up of a number of scientists from China and major Western pharmaceutical companies, who collectively have many years of experience of drug development in both China and the West. The Company has a number of collaborations with highly regarded research institutions in Europe and China.



Harnessing the Therapeutic Power of Plants

Chairman's and Chief Executive's Review

We are delighted that our introduction to AIM on 27 February 2006 saw the Company advance its development through a pre-IPO placement, which raised £3.65 million before expenses.

This has allowed Phynova to concentrate on the development of the most advanced products in its pipeline with a view to moving them into clinical trials within 12 months.

Strategy

We have established a business model which seeks to reduce the risks, the high cost and the time taken to develop pharmaceuticals by selecting drug candidates which are not only derived from existing medicines with proven safety and efficacy in clinical use in China but also which target large therapeutic markets in the West where current therapies are either inadequate or non-existent. We aim to license our intellectual property to major pharmaceutical companies in return for revenue in the form of upfront payments, milestone payments and royalties.

We have identified a number of drug candidates in the fields of anti-virals, anto-microbials, anti-inflammatories and oncology and are currently focusing on the rapid development of six of these.

- PYN17 for relief of the symptoms of chronic hepatitis C (CHC)
- PYN18 for hepatitis C virus (HCV)
- PYN22 for obesity
- PYN7 for cancer
- PYN6 for antibiotic-resistant bacteria
- PYN5 to treat respiratory tract infections

Portfolio Update

Since our admission to AIM we have continued to work on the development of our intellectual property both existing and new.

In April we were pleased to announce the positive outcome from third party testing on PYN18, a novel anti-viral discovered by Phynova's scientists, which has shown definite in vitro activity against the hepatitis C virus. Since announcing these results we have seen significant interest regarding potential partnerships to drive PYN18 through clinical development. HCV has infected more than 200 million people worldwide and current therapies are often ineffective with negative side-effects.

We are also pleased to announce that the Company has entered into a Collaboration Agreement with WellGen, Inc., a life sciences company using nutrigenomics to discover and develop ingredients for functional foods. This agreement gives us an exciting opportunity to generate additional revenues from our research activities. Under the terms of the agreement Phynova will supply WellGen with sample compounds that demonstrate anti-inflammatory activity from its existing pipeline, then work to develop these as functional food ingredients. If successful, royalties will provide a revenue stream in addition to those from our core business. The size of the functional foods market, according to MarketResearch.com, is expected to grow to \$167 billion globally by 2010.

During the period, good progress has been made on the other products in your Company's pipeline, including the in-licensing of a promising new drug candidate (PYN22) for the anti-obesity market which is estimated to be worth \$5 billion.



Harnessing the Therapeutic Power of Plants

Financial Review

In the six months ended 31 March 2006, Phynova recorded a pre-tax loss of £597,000, which is in line with expectations.

Cash outflow before financing was £609,000 reflecting the loss for the period. Our cash position remains strong and at 31 March 2006 was £2.9 million following our successful pre-IPO fund raising. We are pleased to confirm that we continue to make good use of cash resources and that we remain firmly committed to our budget.

Summary and Prospects

The progression of our product portfolio has been very encouraging. PYN18 has clearly demonstrated its potential in all initial testing and we anticipate taking this candidate into clinical development as rapidly as possible.

Our pre-clinical development program is very active and several of our drug candidates are the subject of ongoing screening work by third parties and we look forward to announcing the results in due course.

We would like to thank all our shareholders, both existing and new, for their support. We look forward to the next six months in which we will continue to make significant strides in the further development of our product pipeline.

John Pool
Chairman

Robert Miller
Chief Executive Officer



Consolidated Summarised Profit and Loss Account

for the six months ended 31 March 2006

	6 months ended 31 March 2006 unaudited £'000	6 months ended 31 March 2006 unaudited £'000	15 months ended 30 Sept 2005 audited £'000
Note			
Turnover	-	-	-
Cost of sales - research and development	(160)	(111)	(243)
Gross Loss	(160)	(111)	(243)
Administrative expenses			
Administrative expenses	(315)	(139)	(364)
AIM listing expenses	(130)	-	-
Total administrative expenses	(445)	(139)	(364)
Operating loss	(605)	(250)	(607)
Interest receivable	8	-	-
Loss on ordinary activities before and after taxation	(597)	(250)	(607)
Basic and diluted loss per share	2 (6.5p)	(3.7p)	(8.7)p

All amounts relate to continuing operations.

There were no recognised gains or losses other than the loss for the financial period.



Consolidated Summarised Balance Sheet

as at 31 March 2006

	At 31 March 2006 unaudited £'000	At 31 March 2005 unaudited £'000	At 30 Sept 2005 audited £'000
Note			
Fixed assets			
Tangible assets	3	2	2
Current assets			
Debtors	215	58	204
Cash at bank and in hand	2,933	105	29
	3,148	163	233
Creditors: amounts falling due within one year	217	224	217
Net current assets/(liabilities)	2,931	(61)	16
Total assets less current liabilities	2,934	(59)	18
Provision for liabilities and charges	(236)	(94)	(236)
Net assets/(liabilities)	2,698	(153)	(218)
Capital and reserves			
Called up share capital	148	71	76
Share premium account	3,860	226	419
Merger difference reserve	642	642	642
Profit and loss account	(1,952)	(1,092)	(1,355)
Shareholders' funds/(deficit)	3	(153)	(218)



Consolidated Summarised Cash Flow Statement

as at 31 March 2006

	Note	6 months ended 31 March 2006 unaudited £'000	6 months ended 31 March 2005 unaudited £'000	15 months ended 30 Sept 2005 audited £'000
Net cash (outflow) from operating activities	4	(615)	(178)	(453)
Returns on investments and servicing of finance		-	-	-
Interest received		8	-	-
Net cash inflow from returns on investments and servicing of finance		8	-	-
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(2)	-	(1)
Net cash (outflow) from capital expenditure and financial investment		(2)	-	(1)
Cash outflow before financing		(609)	(178)	(454)
Financing				
Issue of ordinary share capital		3,733	231	429
Share Issue expenses		(220)	-	-
Net cash inflow from financing		3,513	231	429
Increase in cash		2,904	53	(25)



Notes to the Interim Statement

for the six months ended 31 March 2006

1. Basis of Preparation

The consolidated interim financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. The principal accounting policies of the Group have remained unchanged from those set out in the Phynova Group plc 2005 financial statements except for the adoption of FRS21 "Events after the balance sheet date" and FRS 25 "Financial instruments: Disclosures and Presentation".

2. Loss per Share

The calculation of the basic and diluted loss per share is based on the loss on ordinary activities after tax and on the weighted average number of ordinary shares in issue during the period. The loss and weighted average number of shares used in the calculations are set out below:

	Loss £'000	Weighted average number of shares	Loss per share pence
Basic and diluted loss per share			
Six months ended 31 March 2006	(597)	9,232,227	(6.5)
Six months ended 31 March 2005	(250)	6,684,505	(3.7)
15 months ended 30 September 2005	(607)	6,952,913	(8.7)

3. Reconciliation of Movements in Shareholders' Funds/(Deficit)

	6 months ended 31 March 2006 unaudited £'000	6 months ended 31 March 2005 unaudited £'000	15 months ended 30 Sept 2005 audited £'000
Loss for the financial period	(597)	(250)	(607)
Issue of ordinary share capital	72	5	10
Premium on shares issued during the period net of expenses	3,441	226	419
Net increase (decrease) in shareholders' funds/(deficit)	2,916	(19)	(178)
Shareholders' funds/(deficit) at beginning of period	(218)	(134)	(40)
Shareholders' funds/(deficit) at end of period	2,698	(153)	(218)



Notes to the Interim Statement continued

for the six months ended 31 March 2006

4. Net Cash Inflow/(Outflow) From Operating Activities

	6 months ended 31 March 2006 unaudited £'000	6 months ended 31 March 2005 unaudited £'000	15 months ended 30 Sept 2005 audited £'000
Operating (loss)	(605)	(250)	(607)
Depreciation	1	1	2
(increase) in debtors	(11)	(53)	(199)
Increase in creditors	-	30	115
Increase in provisions	-	94	236
Net cash (outflow) from operating activities	(615)	(178)	(453)

5. Reconciliation of Net Cash Flow to Movement in Net Funds

	6 months ended 31 March 2006 unaudited £'000	6 months ended 31 March 2005 unaudited £'000	15 months ended 30 Sept 2005 audited £'000
Increase/(decrease) in cash in the period	2,904	53	(25)
Movement in net funds	2,904	53	(25)
Opening net funds	29	52	54
Closing net funds	2,933	105	29

6. Financial Comparatives

The comparatives for the 15 month period ended 30 September 2005 are not the Company's full statutory accounts for that period. A copy of the statutory accounts for that period was delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under section 237(2)-(3) of the Companies Act 1985.

Company Information

Directors

John Pool Chairman

Robert Miller Chief Executive Officer

Edward Blair PhD Chief Science Officer

Alan Brown FCCA Finance Director/
Company Secretary

William Doyle Non-Executive Director

Michael Martin Non-Executive Director

Professor Michael Fowler Non-Executive Director

Stephen Marshall Non-Executive Director

Registered Office

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Stockbroker

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