Company registration Number: 5202283

Phynova Group Limited

Report and Financial Statements

30 September 2009

Contents

Directors
The directors who held office during the year were as follows:

R Miller
M Martin
S Harris

Secretary and registered office

Julie Read, 16 Fenlock Court, Blenheim Office Park, Long Hanborough, Oxfordshire, OX29 8LN

Company Number

5202283

Independent Auditors

Kilsby & Williams LLP, Cedar House, Hazell Drive, South Wales, NP10 8FY

Principal trading address

Phynova House, 16 Fenlock Court, Blenheim Office Park, Long Hanborough, Oxfordshire, OX29 8LN

Chairman's Statement

2009 has been an eventful and encouraging year of progress for Phynova. In an uncertain and difficult commercial environment the company has reduced its cost base by 50%, de-listed from AIM in August, modified it's business plan in order to take advantage of near term commercial opportunities and signed a letter of intent with a major pharmaceutical that will generate the first ever revenues for the company.

For a small company, maintaining a public listing can be a significant drain on both management and financial resources. De-listing from AIM has allowed management to focus on the commercialisation of the company's assets and it is not a coincidence that the latter part of 2009 has been Phynova's most successful period since it was founded. The company is now focussed on exploiting its considerable expertise in the development of botanical products in three main areas: ethical pharmaceuticals, over the counter (OTC) products and novel functional ingredients. By expanding beyond pure drug development into OTC products and functional ingredients, Phynova can generate early revenues while continuing to carryout the development work and clinical trials necessary for the successful commercialisation of its drug pipeline.

Development and Commercialisation Programme

Since its founding in 2002, Phynova's primary activity has been the development of novel drug candidates from plants used in traditional Chinese medicine (TCM). The company has completed two clinical trials and a third trial is underway in China, which we hope will lead to the successful registration of a new drug for the treatment of post-operative ileus (surgically induced bowel blockage) in the Chinese market by 2012. Over this period the company has created a portfolio of intellectual property rights (IP) that includes three patents granted and five pending.

After seven years of R & D work, one would expect that a company like Phynova would be close to the commercialisation of its work, and that is indeed the case. While the company will continue to carry out further R & D on some of its pipeline candidates, the company's main focus is now on the commercialisation of its existing IP and expertise in the development of novel TCM derived products. As mentioned above, over the last year Phynova has broadened its commercial focus to encompass not only ethical pharmaceuticals, but OTC products and functional ingredients as well. Progress has been made in all of these areas and I can report the following:

Ethical Pharmaceuticals

Drug development is a costly business and a small company like Phynova cannot afford to fund a large pipeline of drug candidates. The Board, in discussion with management, has decided to focus on it's drug candidates that have potential for early out-licensing deals. It is the Board's opinion that those drug development programmes that require significant funding and long development timelines should for the time being be put on hold and that out-licensing deals should be sought for Melokinex™ and Phytobacs™.

Melokinex™ (formerly PYN9) - is Phynova's proprietary drug candidate for the treatment of post-operative ileus (POI), which is a condition caused by abdominal surgery resulting in bowel blockage. POI is a problem that effects health services throughout the world. In the US the costs associated with POI are estimated to be in excess of $15 billion. There is only one approved drug for POI, which due to cardio toxicity issues is limited in its use. Melokinex™ is currently undergoing clinical trials in China that will hopefully lead to it be licensed as new drug in China by 2012. The first human data from the trial is expected to be available in the 1st quarter of 2010 and if it shows efficacy, Phynova can use this data to attract a licensing deal for Melokinex™. The company has had discussions with a number of pharma companies who have expressed interest in further commercial discussions pending the availability of clinical data.

Phytobacx™ (formerly PYN6) – is a novel topical drug candidate for the treatment of methicillin-resistent staphyloccus aureus (MRSA). Phytobacx™ appears to have a dual action on MRSA, inhibiting the growth of the bacterium, as well as a strong bactericidal action as demonstrated in in-vitro studies conducted by the company's collaborators at Queen Mary College, University of London. Further studies also showed that MRSA cultured in the presence of Phytobacx™ does not become resistant. The most widely used topical treatment for MRSA, mupirocin is becoming less effective due to resistant bacteria. Phytobacx™ is an excellent candidate for replacing mupirocin. A comprehensive development plan for Phytobacx™ is currently being completed and a request for a pre-IND meeting with the FDA will be made in early 2010. Management believes that Phytobacx™ may qualify for fast tracking by the FDA that could lead to accelerated registration trials. If Phynova receives a positive response from the FDA, Phytobacx™ would then be an attractive candidate for a pre-clinical licensing deal.

OTC Herbal Drugs

As a result of the EU's Traditional Herbal Medicinal Products Directive, most herbal products currently on sale within the EU need to be registered and comply with strict quality and manufacturing requirements by April 2011. Any products not registered will have to be withdrawn from the market. As a result of this directive, more than 1,000 herbal products across the EU are likely to cease to be available. Many companies currently manufacturing herbal products are not able to conform with these new regulations for technical or financial reasons.

Under the directive, qualifying herbal products can be registered as Traditional Herbal Medicinal Products (THMPs) and will be allowed to make specific medical claims similar to conventional OTC drugs. The market for THMPs is expected to be significant and companies able to successfully register new THMPs can expect to generate substantial revenues. Phynova identified earlier this year that due to its expertise in botanical drug development, it is well-placed to take advantage of the commercial opportunities presented by the THMP directive. Management has moved quickly to establish itself as a major player in the development of novel THMPs derived from TCM and has made rapid progress.

In June of this year the company entered into commercial discussions with one of Europe's largest pharmaceutical companies regarding the development of a range of novel THMPs derived from TCMs. In late 2009 Phynova signed a Letter of Intent (LoI) with this company. While the LoI is not a definitive agreement, it did initiate the development work of several THMPs as well as the first milestone payment to Phynova. Both parties aim to complete definitive agreement in early 2010.

The initiation of this collaborative project with a major pharma partner is a major commercial milestone for Phynova and will enhance the company's reputation as an innovative developer of novel botanical products.

Functional Ingredients
Phynova has developed several products that address the growing desire in both the food and cosmetic sectors for new active ingredients that are derived from natural sources and backed by high quality science and standards of production. Working with our JV partner, BCCL, Phynova has developed and is promoting world wide, functional ingredient opportunities including:

PhynoRadiance™ is a skin lightening agent derived from the leaves of a well known fruit tree. Phynova has now complied with all of the necessary regulations required to register and market PhynoRadiance™ as a cosmetic ingredient. Throughout the world there is a substantial market for products that women use to lighten or brighten the colour of their skin. . The anti-ageing and skin lightening market is very large and cosmetic companies are keen to find new innovative products addressing this segment. Phynova, in association with its marketing partners in Europe and the US, has begun presenting PhynoRadiance™ to potential customers and management expects sales of the product to commence later in 2010.
Relivergen™ (formerly PYN17) - is a unique proprietary anti-inflammatory preparation designed to relieve the symptoms of chronic hepatitis C by directly improving liver function. It can also be used by consumers who are not suffering from any specific disease, but wish to improve their liver health. It is a good example of a product that could be sold either as a functional ingredient or as a pharmaceutical and Phynova's work to date on this candidate makes it potentially marketable in either category. Due to the high costs of conducting further clinical trials with **Relivergen™**, the Board believes that this product should be promoted as a supplement or nutraceutical product. Phynova expects to be able to sell the product in certain markets such as the US as a pharmaceutical grade supplement for use in supporting liver health. In Italy, where there is a "positive list" for TCM herbs, Relivergen™ could be marketed directly to doctors for the treatment of patients with chronic hepatitis C. Russia has high numbers of people with liver disease and is another good potential market for Relivergen™. We are currently in discussions with a number of consumer healthcare companies regarding marketing opportunities in the above countries as well other countries such as Mexico and Brazil.
FatigRelief® - is a supplement derived from adaptogenic herbs that are well known for increasing resistance to stress, anxiety and fatigue. A double-blind, placebo-controlled study of FatigRelief® has been conducted on 123 healthy volunteers aged 50-65 who suffered from fatigue. Over a three-week period those patients on FatigRelief® showed a significant reduction in fatigue symptoms and experienced increased energy in the daytime with improved sleeping quality at night. This product will be marketed as an energy drink and as a supplement in the US and other non-EU markets. Management is currently in commercial discussions with a number of companies located in the US which are interested in marketing the product there.

Phynova China
Through its subsidiary, Phynova China, the company owns 45 per cent of Botanic Century (Beijing) Co. Ltd. (BCCL) which, as a result of the agreements controlling its operations and activities, is accounted for as a joint venture. BCCL has been the source of a number of Phynova's pipeline products including Milokinex™, Phytobacx™ and PhynoRadiance™. Phynova continues to benefit greatly from its relationship with BCCL and with the start of the registration trial for Melokinex™ earlier this year and the clinical data from that trial expected in 2010, the upcoming year should be a landmark year for BCCL.

Financials
The results for the year ended 30 September 2009 can be found in the Consolidated Income Statement on page 12.

The Company's cash position, as at 30 September 2009, was £23,520 and its cash position immediately prior to the date the financial statements were signed was £147,382. In May 2009, Phynova raised £540,000 before expenses by means of a placing of shares. These funds were raised through a placing of new ordinary shares at 6 pence per share with existing investors and other private investors.

On August 24th 2009 Phynova de-listed from AIM. Additionally, Phynova's American Depositary Receipts were delisted for trading on the OTCQX platform in New York. As a result of this and other actions we have reduced our overheads by 50% compared to twelve months ago.

The management continues to exercise prudent cash management demonstrated by relatively low administrative and operational costs.

After the year end, in December 2009, Phynova issued 15,224,306 ordinary shares by way of a rights issue offered at a price of 2.5 pence per share raising further working capital of £380k.

Future trading and liquidity risk
As noted above, the Group has restructured by de-listing from AIM in August, allowing management to concentrate on potential commercial aspects of the company. The company has also reduced the office space leased, cancelled it's shares from the New York platform, OTCQX, and staff numbers have been kept very low. Cost control has been key within the business. Collectively these activities have reduced cash burn by 50%.

Phynova has signed a LOI with a major European pharma that will generate revenues for the first time. The business plan has also been modified, and the company is focussing on creating near term commercial opportunities.

The Directors remain confident about the underlying potential within the business.

The Group has no available bank or other funding facilities other than cash at bank.

The cash outflow for the 12 months to September 2009 was £352k compared to a cash outflow of £1m over the previous 12 months.

The Group will need to raise additional sources of finance to secure its longer term future. The timing and amount of any funds that may be realised through a new fund-raise represent a material uncertainty. The Board are confident that its plans will allow the Group to continue its operations for the foreseeable future. Based on this assessment, the Board have prepared these statements on a going concern basis.

People
The Board underwent a number of changes during the period that included the departure of John Pool as Chairman and Jin Li as Non-Executive Director. Following the year end, Tony Mills resigned as a Director. On behalf of the Board, we would like to thank John, Jin and Tony for their efforts during their time with the Company.

The Future
I believe that the Group is at an exciting stage in its development, with the potential for generating revenues in the coming year and with discussions on some new out-licensing and collaboration deals well underway. China continues to expand strongly, despite the current economic climate, and is becoming of greater significance in the pharmaceutical market as a major global player and market. We are now well placed to take advantage of these opportunities.

Steve Harris
Chairman

Directors' report

The directors present their report together with the audited financial statements for the Company and for the Group for the financial year ended 30 September 2009.

Results and dividends

The profit and loss account is set out on page 12 and shows the loss for the year.

The directors do not recommend the payment of a dividend (*2008: nil*).

Principal activities, review of business and future developments

The Group's principal activity has been the development of novel drug candidates from plants used in traditional Chinese medicine (TCM). The company will continue to carry out further R&D on some of its pipeline candidates, and will focus on the commercialisation of its expertise in the development of novel TCM derived products including ethical pharmaceuticals, OTC products and functional ingredients.

After several years of research and development Phynova is now close to the commercialisation of several of its novel products. Clinical data from the Melokinex™ trial being conducted in China is due in early 2010. The Directors are confident that if favourable clinical data is derived from this trial, it will attract commercial interest in a licensing deal for Melokinex™. During the last two years the company has been developing a novel cosmetic ingredient, PhynoRadiance™ for use in skin lightening products. PhynoRadiance™ is now fully developed and being marketed to the cosmetic industry.

Earlier this year the company entered into commercial discussions with one of Europe's largest pharmaceutical companies regarding the development of a range of novel THMPs and the first stage of this project has now commenced. The Director's expect this collaborative project with one of Europe's largest pharmaceutical companies, to further enhance the company's reputation as an innovative developer of novel botanically derived healthcare products.

Principal risks and uncertainties

Phynova is able to reduce the risk associated with pharmaceutical drug development by virtue of its diversified portfolio of drug candidates, which address a number of different therapeutic areas and are derived from plants with a history of therapeutic efficacy. Plants provide the active ingredients for many well known drugs in use today. The directors consider that the key risks to the Group are:

Funding risk
Funding for life science companies in general and for Phynova in particular is currently difficult to obtain due to the present financial climate. In order for the Group to continue to trade and to fulfil its development programme over the next twelve months in addition to completing the out-licensing deals referred to below in Commercial risk, further fund raising will be necessary. There is no certainty that Phynova will successfully raise further funding. Further discussion on this matter is included within the Chairman's statement.

Commercial risk
As set out in the Chairman's report, the Directors are greatly encouraged by the commercial discussions underway to license the Company's products under development to pharmaceutical and other partners. However there is no certainty that these discussions will have a successful outcome.

R&D risk
However much the use of medicinal plants as a source of new drug candidates mitigates the chance of failure, drug development is a highly risky business and there is a high probability some of the Group's drug candidates will fail to be successfully developed.

Regulatory risk
There is a risk that delays in the development of the Group's drug candidates may by caused by regulatory authorities requiring further pre-clinical and clinical development than is currently envisaged by management.

Policy and practice on the payment of creditors

The Group does not subscribe to a particular code but follows a policy whereby it agrees appropriate terms and conditions for its business transactions with suppliers. Payments are then made on these terms, subject to the terms and conditions being met by suppliers. At the balance sheet date trade creditors total £228,465 (2008: £160,699).

Charitable and political donations

During the year the group made no charitable or political donations.

Research and development

Research and development amounted to £208,122 (2008: £682,760) all of which was written off during the year. Details of the research and development work can be found within the Chairman's report.

Director's indemnity insurance

Certain directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Financial Instruments

Details of the financial instruments held by the company and its subsidiary undertaking are contained in note 15 of the financial statements.

Key Financial Performance Indicators (KPI's)

The directors consider cash flow management to be the Group's key financial stability indicator. Cash is monitored closely and funding requirements are met through generation of funds from current and new shareholders, enabling the Group to plan resources for future development projects. As discussed in the Chairman's Statement, the Group has already reduced its costs base by 50% in the past year. The Group will require additional sources of finance within the next 6 months to take it to breakeven by the end of the current fiscal year (30 September 2010).

The directors consider progress in commercialising and out-licencing the products in its pipeline to be the Group's key performance indicator. These are the key measures of the Group's success in achieving its strategy. The directors are satisfied with the performance of the Group in this respect as noted in the Chairman's Statement.

Directors

The directors who held office during the year and at date of signing had the following interests in the shares of the company recorded in the register of directors' shares and share options:

	Ordinary shares of 1p each			**Share Options**	
	Number 30 September 2009	**Number 30 September 2008**	**Note**	**Number 30 September 2009**	**Number 30 September 2008**
R Miller	745,853	745,853		-	-
M Martin	1,178,830	1,053,830	(1)	125,000	50,000
			(2)	-	30,417
T Mills	133,763	23,280	(1)	110,483	-
S Harris	151,683	-	(1)	151,683	-
J Li	151,683	-	(1)	151,683	-
J Pool	130,000	-	(1)	130,000	-

On the 24th of August 2009, J Li resigned as director. On the 30th of April 2009 J Pool resigned as Chairman and S Harris was appointed executive Chairman. On the 12th of November 2009 T Mills resigned as director.

The share options are exercisable between the following dates and at the following rates:

(1) 7 May 2009 and 7 May 2012 at 10p

(2) 27 February 2006 and 27 February 2009 at 60p

Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with 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 responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group financial statements
International Accounting Standard 1 requires that financial statements present fairly for each financial year the group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

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

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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 purpose 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.

Kilsby & Williams LLP have expressed their willingness to continue in office and a resolution will be proposed at the annual general meeting.

By order of the board

Michael Martin

M Martin

Director

26 January 2010

Independent auditor's report to the Members of Phynova Group Limited

We have audited the group and parent company financial statements (the "financial statements") of Phynova Group Limited for the year ended 30 September 2009 which comprise the Group Income Statement, the Group and parent company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 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
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 Group's and the parent 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 Group's and the parent company's affairs as at 30 September 2009 and of the Group's loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern and carrying value of investments:

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in the Chairman's Statement and Note 1 of the financial statements covering the ability of the Group to continue as a going concern. These disclosures indicate that the Group is only able to continue as a going concern for at least the next 12 months to 31 January 2011 if revenue will be generated in line with the Group forecasts during the year and required funds are obtained from either a further share issue or external investor in the short term. We consider that these conditions indicate the existence of material uncertainties which may cast significant doubt over the group's ability to continue as a going concern. We also draw your attention to note 1 in the financial statements concerning the carrying values shown in the parent company accounts in respect of the investment in the joint venture (carrying value £0.55m) and the carrying values shown in the parent company accounts in respect of the investment in subsidiary company (£0.07m) and the amount due from subsidiary company (£1.5m). The realisation of these assets is dependent on the successful commercial licensing of products and the ability of the group to raise sufficient finance as noted above. The financial statements do not include any adjustments relating to these uncertainties.

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:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

NOEL WILLIAMS (Senior Statutory Auditor)
For and on behalf of Kilsby & Williams LLP
Chartered Accountants and Statutory Auditors
Newport
Date 26 January 2010

Consolidated Income Statement

for the year ended 30 September 2009

	Note	**Year ended 30 September 2009 £**	Year ended 30 September 2008 £
Research and development costs		**(208,122)**	(682,760)
Other administration costs		**(952,927)**	(1,685,411)
Total Administrative expenses		**(1,161,049)**	(2,368,171)
Operating loss		**(1,161,049)**	(2,368,171)
Finance income		**105**	34,746
Finance costs		**(4,473)**	(4,209)
Share of joint venture post tax losses		**(56,157)**	(36,155)
Loss before tax		**(1,221,574)**	(2,373,789)
Taxation	8	**70,695**	419,716
Loss for the year attributable to equity holders of the parent company	8	**(1,150,879)**	(1,954,073)
Basic and diluted loss per share (pence)	4	**(4.4p)**	(9.3p)

All activities relate to continuing operations

The Group has no recognised gains or losses other than the gains and losses shown above and therefore no separate statement of recognised income and expense has been prepared.

The notes on pages 16 to 32 form part of the financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 September 2009

	Share capital	Share Premium reserve	Warrant reserve	Merger difference reserve	Foreign exchange reserve	Retained losses	Total Equity
	£	**£**	**£**	**£**	**£**	**£**	**£**
Balance at 1 October 2007	195,363	6,271,548	369,459	642,711	(2,673)	(5,795,783)	1,680,625
Changes in equity for 2007/2008							
Exchange difference arising on translation of foreign operations	-	-	-	-	52,589	-	52,589
Net income recognised directly in equity	195,363	6,271,548	369,459	642,711	49,916	(5,795,783)	1,733,214
Loss for the year	-	-	-	-	-	(1,954,073)	(1,954,073)
Total recognised income and expense for the year	195,363	6,271,548	369,459	642,711	49,916	(7,749,856)	(220,859)
Issue of shares	30,334	1,183,036	-	-	-	-	1,213,370
Issue costs	-	(153,373)	-	-	-	52,571	(100,802)
Warrant reserve transfer	-	116,886	(116,886)	-	-	-	-
Balance at 30 September 2008	**225,697**	**7,418,097**	**252,573**	**642,711**	**49,916**	**(7,697,285)**	**891,709**

	Share capital	Share Premium reserve	Warrant reserve	Merger difference reserve	Foreign exchange reserve	Retained losses	Total Equity
	£	**£**	**£**	**£**	**£**	**£**	**£**
Balance at 1 October 2008	225,697	7,418,097	252,573	642,711	49,916	(7,697,285)	891,709
Changes in equity for 2008/2009							
Exchange difference arising on translation of foreign operations	-	-	-	-	44,968	-	44,968
Net income recognised directly in equity	225,697	7,418,097	252,573	642,711	94,884	(7,697,285)	936,677
Loss for the year	-	-	-	-	-	(1,150,879)	(1,150,879)
Total recognised income and expense for the year	225,697	7,418,097	252,573	642,711	94,884	(8,848,164)	(214,202)
Issue of shares	91,470	457,352	-	-	-	-	548,822
Issue costs	-	(45,565)	-	-	-	-	(45,565)
Warrant reserve transfer	-	205,241	(205,241)	-	-	-	-
Balance at 30 September 2009	317,167	8,035,125	47,332	642,711	94,884	(8,848,164)	289,055

The notes on pages 16 to 32 form part of the financial statements.

Consolidated Balance Sheet
at 30 September 2009

	Note	**As at 30 September 2009** £	**£**	As at 30 September 2008 £	£
ASSETS					
Non-current assets					
Plant and equipment	11	**3,740**		12,451	
Investment in equity accounted joint ventures	12	**552,284**		563,473	
Total non-current assets			**556,024**		575,924
Current assets					
Other receivables	16	**24,673**		63,618	
Corporation tax recoverable	16	**70,000**		188,000	
Cash and cash equivalents		**23,520**		375,811	
Total current assets			**118,193**		627,429
TOTAL ASSETS			**674,217**		1,203,353
Liabilities					
Current Liabilities					
Trade and other payables	17	**(385,162)**		(311,644)	
Total Liabilities			**(385,162)**		(311,644)
Total net assets			**289,055**		891,709
Capital and reserves attributable to equity holders of the group					
Share capital	18		**317,167**		225,697
Share premium reserve			**8,035,125**		7,418,097
Warrant Reserve			**47,332**		252,573
Merger difference reserve			**642,711**		642,711
Foreign exchange reserve			**94,884**		49,916
Retained earnings			**(8,848,164)**		(7,697,285)
Total Equity			**289,055**		891,709

These financial statements were approved by the board of directors and authorised for issue on 26 January 2010 and were signed on its behalf by:

Michael Martin

M Martin
Director
Registered no: 5202283

The notes on pages 16 to 32 form part of the financial statements.

Consolidated Cash Flow Statement

For the year ended 30 September 2009

	Year Ended 30 September 2009	Year ended 30 September 2008
	£	£
Cash flows from operating activities		
Loss before tax	**(1,221,571)**	(2,373,789)
Adjustments for:		
Depreciation	**8,711**	10,052
Share of losses of joint venture	**56,157**	36,155
Finance Income	**(105)**	(34,745)
Finance cost	**4,473**	4,209
Cash flows from operating activities before changes in working capital	**(1,152,335)**	(2,358,118)
Decrease/(Increase) in other receivables	**38,945**	262,053
(Decrease)/Increase in trade and other payables	**73,516**	(73,270)
Decrease in provisions	**-**	(343,366)
Cash used in operations	**(1,039,874)**	(2,512,701)
Income tax received	**188,694**	324,860
Net cash used in operating activities	**(851,180)**	(2,187,841)
Investing activities		
Purchase of plant and equipment	**-**	(6,136)
Interest received	**105**	34,746
Cash used in investing activities	**105**	28,610
Financing activities		
Issue of ordinary shares	**548,822**	1,213,370
Share issue costs	**(45,565)**	(100,800)
Interest paid	**(4,473)**	(4,209)
Cash generated by financing activities	**498,784**	1,108,361
Decrease in cash and cash equivalents	**(352,291)**	(1,050,870)
Cash and cash equivalents at beginning of period	**375,811**	1,426,681
Cash and cash equivalents at end of period	**23,520**	375,811

The notes on pages 16 to 32 form part of the financial statements.

Notes

Forming part of the financial statements for the year ended 30 September 2009

1. BASIS OF PREPARATION

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

The financial information has been prepared on the historical cost basis or fair value as appropriate.

The consolidated financial statements of Phynova Group Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU), IFRIC interpretations and the Companies Act 2006 applicable to companies preparing its financial statements in accordance with IFRS. The company has elected to prepare its financial statements in accordance with UK GAAP.

Going concern

Further information on future trading and liquidity risk is included in the Chairman's Statement. Following the year end the company completed a rights issue in December 2009 and January 2010 raising a total of £380k. Based on their current expectations of the progress of product development the directors have a reasonable expectation that revenue will be generated in line with the forecasts during this year and will be available to underpin the cash flows of the Group. In the event that this revenue is not generated the directors consider it likely that additional funding can be raised from shareholders at an appropriate time in 2010. Based on their expectations of their ability to manage the payments of the Group and the expected receipt of funds from the Revenue in respect of the research and development tax credits, the directors consider that the cash flows can be managed in a way that maintains the Group in a cash positive position in the period through to the share issue. On these bases the directors consider that the Group will have adequate funding resources to continue in operational existence for the foreseeable future.

Accordingly the directors continue to adopt the going concern basis in preparing the annual report and accounts.

2. BASIS OF ACCOUNTING

The accounting policies are set out below, and have been applied to all periods presented in these Group financial statements and are in accordance with IFRS, as adopted by the European Union, and International Financial Interpretations Committee ("IFRIC") interpretations that were applicable for the year ended 30 September 2009.

The Group has elected to make use of the exemptions available in IFRS 1 as follows:

- IFRS 2 'Share-based Payments' has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 October 2006.

- IFRS 3 'Business Combinations' has not been applied retrospectively to business combinations that occurred before 1 October 2006.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 2 (amended) Share Based Payments- Vesting Conditions and Cancellations
- IFRS 3 (revised) Business combinations
- IFRS 8 Operating Segments
- IAS 1 (amendment) Presentation of Financial Statements
- IAS27 (revised) Consolidated and separate financial statements
- IAS 32 (amended) Puttable Financial Instruments and Obligations Arising on Liquidation

The Directors do not anticipate that the adoption of the other standards and interpretations listed above will have a material impact on the Group's financial statements in future periods on the basis that they do not impact upon the Group's current activities.

2.1 Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial information presents the results of the Company and its subsidiaries Phynova Limited and Phynova China Limited as if they formed a single entity ("the Group"). Inter company transactions and balances between the Group companies are therefore eliminated in full.

2.2 Leased assets

Operating lease rentals are charged to the income statement on a straight line basis over the lease term.

2.3 Intangible assets

Research and development

Expenditure on pure and applied research and development is charged to profit and loss in the year in which it occurs.

Patents and trademarks

All expenditure is currently expensed in the period in which it is incurred. The Group currently has no qualifying expenditure for capitalisation.

2.4 Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is charged to the income statement on all plant and equipment at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight line basis over the estimated useful lives, which is 3 years for plant and equipment and 3 years for furniture and fittings.

The assets' residual values and useful lives are determined by the Directors and reviewed and adjusted if appropriate at each balance sheet date in accordance with Group policy for impairment of assets (note 2.5).

2.5 Impairment of assets

Assets that have a finite useful life and are not yet in use and are not subject to amortisation are tested annually for impairment.

Assets that are subject to amortisation are reviewed for impairment annually and when events or circumstances suggest 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.6 Taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its base, except for differences arising on:

- The initial recognition of goodwill;
- Goodwill for which amortisation is not tax deductible;
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- Investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which losses can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities / (assets) are settled / (recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable group company; or
- Different group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, on each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Income tax is provided at amounts expected to be recovered or to be paid using the tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date. When research and development tax credits are claimed they are recognised on an accrual basis and are included as a taxation credit.

2.7 Foreign currency translation

The financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial information is presented in sterling, which is the Group's functional currency and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.8 Joint ventures

An entity is treated as a joint venture where the group holds a long-term interest and shares control under a contractual agreement.

In the group financial statements, interests in joint ventures are accounted for using the equity method of accounting whereby the Consolidated Balance Sheet incorporates the group's share of the net assets of the joint venture. The group income statement incorporates the groups share of the joint ventures loss after tax.

2.11 Financial assets

The group classifies its financial assets in the category of loans and receivables. They are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve").

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated income statement as part of the profit or loss on disposal.

2.12 Other receivables
Trade and other receivables are initially recognised at fair value and thereafter at amortised cost using the effective interest rate method. Impairment provisions are recognised when there is objective evidence that the group will be unable to collect all of the amounts due. The Group assess for impairment at each balance sheet date. If an impairment provision is required, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses

2.13 Cash and cash equivalents
Cash and cash equivalents includes deposits on call with banks and other short term highly liquid investments with original maturities of three months or less.

2.14 Financial liabilities
Other financial liabilities include the Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

2.15 Share capital
Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's perpetual preference shares include a contractual obligation on the company to deliver cash in the form of the annual preference dividend and, in the absence of any other terms that would indicate an equity element, have been classified wholly as a financial liability. The Groups ordinary shares are classified as equity instruments.

2.16 Provisions
Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions and are discounted at a pre-tax rate reflecting current market assessments of the time value of money and the risks specific to the liability.

2.17 Simultaneous Issue of Shares and Warrants
Where shares and warrants are issued simultaneously and the warrants can be transferred, cancelled or redeemed independently of the shares, and the related proceeds are apportioned to the shares and warrants, this apportionment is based upon the fair value of the warrants at the date of issue. The proceeds allocated to the warrants are credited to a warrant reserve. On the exercise of the warrants a transfer is made from the warrant reserve to the share premium account

2.18 Critical accounting estimates and judgements
The preparation of the Consolidated Financial Statements requires the Group to make estimates and judgements that affect the reported amounts. The Group bases its estimates and judgements on past experience, other assumptions and available information. Actual results may differ from these estimates under different assumptions and conditions.

Impairment
The group regularly reviews the carrying values of assets. Certain assets held by the group require judgement in order to confirm the carrying values do not require impairment. Included within these assets are the value shown in the group accounts in respect of the investment in the joint venture. In assessing the carrying value of this asset the group has considered the potential of the future commercial sale of products in the joint venture. The group considers that these future sales will generate the required net present value of cash flows to support the recorded values for these assets. The group has prepared detailed cash flow forecasts through to 2012 which fully support the carrying value of the asset using an appropriate discount factor providing sales are generated as expected. On this basis the group concluded that no impairment to this asset is required.

Notes

Forming part of the financial statements for the year ended 30 September 2009 (continued)

3. Segment Reporting

The group is organised and operates as one business unit being pharmaceutical drug development. The principal activity of the Group is the research and development of drugs and their commercial out licence. The main area of research and development continues to be the development of prescription pharmaceuticals derived from plants used in Chinese medicines.

The Group operates in and manages any overseas research and development from the UK. The group has operations in China. Segmental information has not been provided in respect of this on the basis that the operations are contained within the Joint Venture, which is clearly evidenced from the consolidated income statement, consolidated balance sheet and disclosures made in note 12 to the financial statements, all other operations are based in the UK. Since there is currently only one primary segment and one geographical segment, no separate segment reporting has been prepared.

4. 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 calculation are set out below:

Basic and diluted loss per share	**Loss £**	**Weighted average number of shares**	**Loss per share (p)**
12 months ended 30 September 2009	(1,150,879)	26,353,856	(4.4)
12 months ended 30 September 2008	(1,954,073)	20,978,516	(9.3)

At 30 September 2009, the Company had 9,522,387 share options and warrants outstanding (2008 – 3,652,964). The share options have not been included in the calculation of the diluted loss per share as they would dilute a loss per share and therefore 'antidilutive' under IAS33 "Earnings Per Share".

5. Operating Loss

	Year ended 30 September 2009 £	Year ended 30 September 2008 £
Operating loss is stated after charging:		
Research and development – current period's expenditure	**208,122**	682,760
Depreciation of plant and equipment	**8,709**	10,052
Hire of other assets – operating leases - land and buildings	**37,973**	37,973
Audit of the company's annual accounts pursuant to legislation	**8,200**	22,000
Other services		
Audit of company's subsidiary undertakings pursuant to legislation	**800**	5,000
Other services relating to tax	**2,850**	3,900
Other services relating to Corporate finance	**-**	45,000

Notes

Forming part of the financial statements for the year ended 30 September 2009 (continued)

6. Staff numbers and Costs

The average number of persons employed by the company (including executive directors) during the year, analysed by category, was as follows:

	2009 £	2008 £
Directors	**4**	5
Scientists	**2**	4
Administration	**3**	2
	9	11

The aggregate payroll costs of these persons were as follows:

	2009 £	2008 £
Wages and salaries	**540,503**	886,910
Social security costs	**56,841**	104,134
	597,344	991,044

7. Directors' Remuneration

	2009 £	2008 £
Directors' emoluments	**404,510**	**501,627**

The highest paid director received emoluments of £144,500 *(2008: £170,000)* excluding pension contributions of £nil *(2008: £nil)*.

Details of consultancy services provided by entities in which any director holds an interest are disclosed in note 23. Included in the above amount is £13,002 (2008: £30,627), which has been paid to third party companies, which the directors control, for the services of those directors. Non consultancy payments of £11,623 (2008: £16,972) were also made.

A further amount of £86,500 (2008: £117,500) 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 2009 (continued)

8. Taxation

	Year ended 30 September 2009	Year ended 30 September 2008
	£	£
Research and development tax credit – Current year	(70,000)	(188,000)
Research and development tax credit – Prior year	(695)	(231,716)
Total Income tax expense	(70,695)	(419,716)

The tax assessed for the year is different than the standard rate of corporation tax in the UK. The differences are explained below:

	2009	2008
	£	£
Loss on ordinary activities before tax	**(1,221,574)**	(2,373,789)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 28% (2008: 28%)	**(342,040)**	(688,399)
Expenses not deductible for tax purposes	**7,558**	55,113
Prior year adjustment	**(695)**	(231,716)
Additional deduction for research and development expenditure	**(59,861)**	(123,076)
Research and development tax credit receivable	**(69,838)**	(188,000)
Unrelieved tax losses	**238,947**	395,584
Losses surrendered for tax credit	**139,675**	350,293
Loss in joint venture	**15,721**	10,485
Total Taxation	**(70,533)**	(419,716)

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

The directors are not aware of any factors which may affect future tax charges.

The group has tax losses of approximately £6,790,000 (2008: £5,925,000) to carry forward against profits of the same trade. The related deferred tax asset of £1,900,000 (2008: £1,700,000) has not been recognised on the basis that its future economic benefit is not certain.

Notes

Forming part of the financial statements for the year ended 30 September 2009 (continued)

9. Finance Income and Costs

	2009	2008
	£	£
Bank borrowings	**(4,473)**	**(4,209)**
Interest receivable on bank deposits	**105**	**34,746**
Net Finance Income/(Cost)	**(4,368)**	**30,537**

10. Plant and Equipment

Group

	Fixtures and fittings	**Office equipment**	**Scientific equipment**	**Total**
Cost				
At 30 September 2008	15,462	20,090	695	36,247
Additions	-	-	-	-
At 30 September 2009	**15,462**	**20,090**	**695**	**36,247**
Depreciation				
At 30 September 2008	8,585	14,516	695	23,796
Charge for the year	4,746	3,965	-	8,711
At 30 September 2009	**13,331**	**18,481**	**695**	**32,507**
Net book value				
At 30 September 2009	**2,131**	**1,609**	**-**	**3,740**
At 30 September 2008	6,877	5,574	-	12,451
Cost				
At 30 September 2007	12,587	16,829	695	30,111
Additions	2,875	3,261	-	6,136
Disposals	-	-	-	-
At 30 September 2008	**15,462**	**20,090**	**695**	**36,247**
Depreciation				
At 30 September 2007	3,851	9,198	695	13,744
Charge for the year	4,734	5,318	-	10,052
At 30 September 2008	**8,585**	**14,516**	**695**	**23,796**
Net book value				
At 30 September 2008	**6,877**	**5,574**	**-**	**12,451**
At 30 September 2007	8,736	7,631	-	16,367

11. Investments in Joint Venture

	Joint Venture £
Balance at 1 October 2007	547,038
Additions	-
Share of loss of Joint venture	(36,154)
Exchange translation differences	52,589
Balance at 30 September 2008	**563,473**
Share of loss of Joint venture	(56,157)
Exchange translation differences	44,968
Balance at 30 September 2009	**552,284**

The following entity meets the definition of a joint venture and has been equity accounted in the consolidated financial statements:

Name	Country of Incorporation	Proportion of voting rights held at 30 September		Nature of business
		2009	2008	
Botanic Century (Beijing) Co Ltd	China	45%	45%	Drug development

Aggregated amounts relating to the joint venture are as follows:

	2009 £	2008 £
Total assets	**462,735**	491,225
Total liabilities	**93,541**	50,750
Revenues	**12,165**	21,955
Profit/(Loss)	**(56,157)**	(36,154)
Unrecognised share of losses		
- arising during the year	**(68,637)**	(44,189)
- in aggregate	**(165,196)**	(96,559)

7. Subsidiaries

The principal subsidiaries of Phynova Group Ltd, all of which have been included in these consolidated financial statements, are as follows:

Name	Country of Incorporation	Proportion of ownership interest	Nature of business
Phynova Limited	England	100%	Drug development
Phynova China Limited	Hong Kong	100%	Holding Company

13. Operating Lease Commitments

The Group's total commitments under non-cancellable operating leases are as follows:

	2009	2008
	£	£
Expiring :		
Within 1 year	-	37,973
Later than one year and not later than five years	-	-
	-	37,973

14. Financial Instruments by Category

The accounting policies for financial instruments have been applied to the line items below:

	2009	2008
Assets as per balance sheet	£	£
Receivables and cash under amortised cost		
Other receivables	3,650	1,307
Cash and cash equivalents	23,520	375,811
Total Receivables and cash	27,170	550,792
Liabilities as per balance sheet		
Total trade and other payables	294,043	261,667

Cash and cash equivalents are held at a financial institution with a suitable credit rating. The carrying value of cash is equal to the fair value.

15. Other Receivables

	2009	2008
	£	£
Corporation tax debtor	70,000	188,000
Other debtors and prepayments	24,673	63,618
	94,673	251,618

Notes

Forming part of the financial statements for the year ended 30 September 2009 (continued)

16. Trade and other payables

	2009	2008
	£	£
Trade payables	**228,465**	160,699
Social security and other taxes	**91,119**	49,977
Other Creditors and accruals	**65,578**	100,968
		-
	385,162	311,644

Trade payables fall due for payment in line with contractual obligations agreed, which would normally be a maximum of 3 months.

Notes

Forming part of the financial statements for the year ended 30 September 2009 (continued)

17. Share Capital

Authorised share capital

	30 September 2009	30 September 2008	**30 September 2009**	30 September 2008
	£	£	**Number**	Number
Ordinary shares of 1p each	**1,500,000**	1,000,000	**150,000,000**	100,000,000

On the 19 March 2009 the authorised share capital was increased by 50,000,000 ordinary shares of 1p each, ranking equally with the existing share capital of the company.

Allotted, called up and fully paid share capital

	30 September £ Number	30 September £ Number	**30 September 2009 Number**	30 September 2008 Number
Ordinary shares of 1p each	**317,167**	225,697	**31,716,726**	22,569,684

During the year ended 30 September 2008 the company issued shares of £0.01 each as follows:

	Ordinary shares of 1p each £	**Issue Price £**	**Number**
In issue at 30 September 2007	**195,363**		**19,536,258**
Shares issued on 3 April 2008	3,359	0.40	335,926
Shares issued on 10 April 2008	25,200	0.40	2,520,000
Shares issued on 14 April 2008	1,775	0.40	177,500
In issue at 30 September 2008	**225,697**		**22,569,684**

During the year ended 30 September 2009 the company issued shares of £0.01 each as follows:

	Number	**Issue Price £**	**Ordinary shares of 1p each £**
Shares issued on 1 May 2009	8,952,836	0.06	89,528
Shares issued on 17 June 2009	194,206	0.06	1,942
In issue at 30 September 2009	**31,716,726**		**317,167**

Notes

Forming part of the financial statements for the year ended 30 September 2009 (continued)

18. At 30 September 2009, the following share options were outstanding in respect of the ordinary shares:

Date of grant	Number of warrants	Number of options	Period of option	Price per share
31 March 2005	-	70,000	March 2005 – March 2010	50p
22 September 2005	20,926	-	September 2005 – September 2010	50p
30 September 2005		60,000	September 2005 – September 2010	50p
9 December 2005	100,000	-	December 2005 – December 2010	50p
24 January 2006	-	-	January 2006 – January 2009	50p
13February 2006	-	-	February 2006 – February 2009	50p
27 February 2006	-	-	February 2006 – February 2009	60p
27 March 2008		3,125	March 2008 – March 2011	40p
27 March 2008		252,000	March 2008 – March 2013	40p
7 May 2009	8,952,836	13,500	May 2009 – May 2012	10p
1 June 2009	50,000	-	June 2009 – June 2012	10p
	9,123,762	398,625		

Of the 3,652,964 options and warrants outstanding at 30 September 2008, 3,146,913 lapsed during the year. Following the grant of a further 9,002,836 warrants and 13,500 options during the year there were 9,522,387 options and warrants outstanding at 30 September 2009.

On the 7th May 2009, 8,952,836 warrants and 13,500 options were granted to equity fundraisers. On 1 June 2009 50,000 warrants were granted to equity fundraisers. The warrants and options vested immediately and lapse after 3 years. A charge of £44,911 has been made against the share premium account in respect of these options, for which the fair value of the services could not be obtained.

The following information is relevant in the determination of the fair value of the options granted during the year.

Option pricing model used	**Black - Scholes 2009**	Black - Scholes 2008
Weighted average share price at grant date (pence)	**5.75 & 7.25**	50
Exercise price (pence)	**10**	40
Risk free rate – Bank of England Base rate	**0.5% per annum**	4.5% per annum
Volatility	**25 % per annum**	25 % per annum
Contractual Life (months)	**36**	36 & 60
Value of the options calculated through Black Scholes	**£44,911**	£52,573

The exercise price of the options for the purpose of the Black Scholes calculation was 10p.

19. Reserves

Group

Share issue expenses amounting to £45,565 have been deducted from the share premium account.

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	**Description and purpose**
Share Capital	Amount subscribed for share capital at nominal value
Share Premium	Amount subscribed for share capital in excess of nominal value
Warrant reserve	Warrants shown at fair value of warrant at issue
Merger difference reserve	The merger difference represents the difference between the nominal value of the shares issued to effect the merger over the nominal value of the shares acquired in accordance with the requirements in terms of merger accounting
Foreign exchange reserve	Gains/losses arising on retranslating the net assets of overseas operations into sterling
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement

20. Related party disclosures

Related party transactions and balances in which certain directors have an interest.

	Purchases from related party	Purchases from related party	**Amounts owed to related party**	Amounts owed to related party
	2009	2008	**2009**	2008
	£	£	**£**	£
Anvil Partners LLP	**95,506**	122,978	**9,488**	20,940
Wellbeach Associates	**15,619**	29,548	**-**	3,533

- M Martin, a director of both Phynova Group Limited and Phynova Limited, is a member of Anvil Partners LLP, a limited liability partnership that provides consultancy services to Phynova Group Limited.
- J Pool, a director of both Phynova Group Limited and Phynova Limited, (resigned on the 30th April 2009) has a material interest in Wellbeach Associates, an entity that provides consultancy services to Phynova Public Limited.

Key management compensation

The Directors' represent the key management personnel. Details of their compensation are given in note 8.

21. Financial risk management

The Group's activities expose it to a variety of financial risks: liquidity risk; credit risk and exchange rate risk.

It is group policy not to enter into speculative positions using complex financial instruments. The Group's principal financial instrument comprises cash, which is used to settle the liabilities from operating activities. Cash is retained in current accounts which earn interest at variable rates. In addition, the Group has other financial instruments that arise from its operations such as trade payables.

Funding and Liquidity risk
Liquidity risk arises from the group's management of working capital, it is the risk the group will encounter difficulty in meeting it financial obligations as they fall due. Funding for life science companies in general and for Phynova in particular is currently difficult to obtain due to financial climate. In order for the Group to continue trading and to fulfil its current development programme over the next twelve months in addition to completing the out-licensing deals referred to below in Commercial risk, further fund raising will be necessary. There is no certainty that Phynova will successfully raise further funding. Further discussion on this matter is included within the Chairman's statement. Regular cash flow forecasts are prepared to help manage the company's liquidity requirements. Forecasts are normally prepared on a quarterly basis or more regular if required.

As set out in the Chairman's report, Phynova's main focus is the commercialisation of its existing IP. PhynoRadiance is now fully developed and being marketed to the cosmetic industry. Earlier this year the company entered into commercial discussions with one of Europe's largest pharmaceutical companies regarding the development of novel THMPs. The Directors are greatly encouraged by this. However there is no certainty that these discussions will have a successful outcome.

Capital
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, support the growth of the business and to maintain an optimal capital structure to reduce the cost of capital. Capital is defined as the capital and reserves as defined in the balance sheet as well as cash held by the company.

Exchange risk
The group primarily enters into supplier contracts which are to be settled in sterling. However, some contracts involve other major currencies including US Dollar, the Euro and RMB. The risk from these transactions is not considered material to the group. The group's investment in joint ventures is located in China, therefore exchange rate risk on the value of this investment exists due to changes in the exchange rate. Had the exchange rate appreciated a further 10% the impact would have been to increase the investment by £55k (2008: £56k) with a corresponding increase to equity.

Credit risk
Credit risk is the risk of financial loss to the group if a counterparty to a financial instrument fails to meet its contractual obligations. As of 30 September 2009, there are no receivables either past due or impaired (2008 - £nil). The Group does not hold any collateral as security and the maximum exposure at the reporting date is the fair value of each class of receivable. Maximum exposure of the group to credit risk is the balance disclosed in note 16 for other receivables.

22. Post Balance Sheet Event

After the year end, in December 2009, Phynova issued 15,224,306 ordinary shares by way of a rights issue offered at a price of 2.5 pence per share raising further working capital of £380,000.

Phynova Public Limited Company individual financial statements

Parent Company Balance Sheet
At 30 September 2009

	Note	**Year Ended 30 September 2009**		Year Ended 30 September 2008	
		£	**£**	£	£
Fixed assets					
Tangible assets	*5*		**3,740**		11,251
Fixed asset investments	*6*		**659,866**		659,866
			663,606		671,117
Current assets					
Debtors	*7*	**1,539,818**		1,676,321	
Cash at bank and in hand		**10,774**		352,252	
		1,550,592		2,028,573	
Creditors: amounts falling due within one year	*8*	**385,162**		311,644	
Net current assets			**1,165,430**		1,716,929
Total assets less current liabilities			**1,829,036**		2,388,046
			1,829,036		2,388,046
Capital and reserves					
Called up share capital	*9*		**317,167**		225,697
Share premium account	*10*		**8,035,125**		7,418,097
Warrant Reserve	*10*		**47,332**		252,573
Profit and loss account	*10*		**(6,570,588)**		(5,508,321)
Shareholders' funds	*11*		**1,829,036**		2,388,046

These financial statements were approved by the board of directors and authorised for issue on 26 January 2009 and were signed on its behalf by:

Michael Martin

M Martin
Director
Registered number: 5202283

The notes on pages 34 to 39 form part of the financial statements.

Notes

Forming part of the financial statements for the year ended 30 September 2009 (continued)

1 Accounting policies

Basis of preparation
The financial statements have been prepared on the going concern basis (as explained further below), under the historical cost convention and are in accordance with applicable accounting standards

Going Concern
Further information on future trading and liquidity risk is included in the Chairman's Statement. Based on their current expectations of the intentions and support of key investors in the Company the directors have a reasonable expectation that the Company will be able to raise additional funding in the share issue planned for January 2009. Based on their current expectations of the progress of product development the directors have a reasonable expectation that revenue will be generated in line with the forecasts during this year and will be available to underpin the cash flows of the Group and Company. In the event that this revenue is not generated the directors consider it likely that additional funding can be raised from shareholders at an appropriate time in 2009. Based on their expectations of their ability to manage the payments of the Group and the expected receipt of funds from the Revenue in respect of the research and development tax credits, the directors consider that the cash flows can be managed in a way that maintains the Group and Company in a cash positive position in the period through to the share issue. On these bases the directors consider that the Group will have adequate funding resources to continue in operational existence for the foreseeable future.

Accordingly the directors continue to adopt the going concern basis in preparing the annual report and accounts.

Research and development
Expenditure on pure and applied research and development is charged to profit and loss in the year which it occurs.

Deferred Taxation
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 Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.
Deferred tax balances are not discounted.

Merger Accounting
The cost of investment in subsidiary undertakings is stated at costs less provision for impairment.
Where merger relief is taken under s131 Companies Act 2006, the investment is recorded in the Company's balance sheet at the nominal value of the shares issued.

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
Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

Financial Instruments
Financial instruments are measured initially and subsequently at cost.

Operating leases
Rental charges for operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Turnover
The Company has not yet received or accrued any turnover.

Notes

Forming part of the financial statements for the year ended 30 September 2009 (continued)

Simultaneous Issue of Shares and Warrants

Where shares and warrants are issued simultaneously and the warrants can be transferred, cancelled or redeemed independently of the shares, then the related proceeds are apportioned to the shares and warrants in accordance with Financial Reporting Standard 4 "Capital Instruments". This apportionment is based upon the fair value of the warrants at the date of issue. The proceeds allocated to the warrants are credited to a warrant reserve. On the exercise of the warrants a transfer is made from the warrant reserve to the share premium account.

Share based payments

The Company has adopted FRS 20 'Share-based payment' which requires recognition of share-based payments at fair value at the date of grant.

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

2 Loss for the financial year

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The group loss for the period after tax and before dividends was £1,062,267 (2008 - £2,048,819) which is dealt with in the financial statements of the parent company. The auditor's remuneration in respect of the company is disclosed in note 6 to the group's financial statements.

3 Staff numbers and costs

The average number of persons employed by the company (including executive directors) during the year, analysed by category, was as follows:

	2009	2008
	£	£
Directors	**4**	5
Scientists	**2**	4
Administration	**3**	2
	9	11

The aggregate payroll costs of these persons were as follows:

	2009	2008
	£	£
Wages and salaries	**540,503**	886,910
Social security costs	**56,841**	104,134
	597,344	991,044

4 Directors' remuneration

	2009	2008
	£	£
Directors' emoluments	**404,510**	501,627

The highest paid director received emoluments of £144,500 *(2008: £170,000)* excluding pension contributions of £nil *(2008: £nil)*.

Details of consultancy services provided by entities in which any director holds an interest are disclosed in note 21 to the consolidated financial statements.. Included in the above amount is £13,002 (2008: £30,627), which has been paid to third party companies, which the directors control, for the services of those directors. Non consultancy payments of £9,006 (2008: £16,972) were also made.

A further amount of £86,500 (2008: £117,500) has been paid to third parties in respect of directors' qualifying services.

During the year Directors exercised share options realising gains of £nil (2008: £nil).

Notes

Forming part of the financial statements for the year ended 30 September 2009 (continued)

5 Tangible Fixed Assets

	Fixtures and fittings	**Office equipment**	**Total**
	£	£	£
Cost			
At 30 September 2008	12,894	9,639	22,533
Additions	-	-	-
At 30 September 2009	**12,894**	**9,639**	**22,533**
Depreciation			
At 1 October 2008	6,465	4,817	11,282
Charged for the year	4,298	3,213	7,511
At 30 September 2009	**10,763**	**8,030**	**18,793**
Net book value			
At 30 September 2009	**2,131**	**1,609**	**3,740**
At 30 September 2008	6,429	4,822	11,251

6 Investments in subsidiaries

	Investment in subsidiary undertaking at cost	Loans to subsidiary undertakings	Total
	£	£	£
Cost at 30 September 2008 & 30 September 2009	67,305	592,561	659,866

Details of the company's principal undertakings are included in note 13 to the group financial statements. Details of the company's interest in a jointly controlled company (which is held indirectly) is shown in note 12 to the group financial statements.

7 Debtors

	2009	2008
	£	£
Amounts owed by group undertakings	**1,450,209**	1,427,164
Research and development tax credit	**70,000**	188,000
Other debtors and prepayments	**19,609**	61,157
	1,539,818	1,676,321

8 Creditors : amounts falling due within one year

	2009	2008
	£	£
Trade creditors	**228,465**	160,699
Social security and other taxes	**91,119**	49,977
Accruals and deferred income	**42,647**	100,968
Employee Salaries	**22,931**	-
	385,162	311,644

9 Share Capital

Authorised share capital

	£	£	Number	
	30 September 2009	30 September 2008	**30 September 2009**	30 September 2008
Ordinary shares of 1p each	**1,500,000**	1,000,000	**150,000,000**	100,000,000

On the 19 March 2009 the authorised share capital was increased by 50,000,000 ordinary shares of 1p each, ranking equally with the existing share capital of the company.

Allotted, called up and fully paid share capital

	30 September 2009	30 September 2008	**30 September 2009**	30 September 2008
	£	£	**Number**	Number
Ordinary shares of 1p each	**317,167**	225,697	**31,716,726**	22,569,684

Notes

Forming part of the financial statements for the year ended 30 September 2009 (continued)

10 Reserves

	Share premium account	Warrant reserve	Retained losses	Total
	£	£	£	£
At 30 September 2008	7,418,097	252,573	(5,508,321)	2,162,349
Premium on shares issued during the period (less expenses)	457,352	-	-	457,352
Issue costs	(45,565)	-	-	(45,565)
Warrant reserve transfer	205,241	(205,241)	-	-
Loss for year	-	-	(1,062,267)	(1,062,267)
At 30 September 2009	8,035,125	47,332	(6,570,588)	(1,511,869)

11 Reconciliation of movements in shareholders' funds

	2009	2008
	£	£
Loss for the period	**(1,062,267)**	(2,048,819)
Issue of Shares	**91,470**	30,334
Premium on shares issued during the period (net of issue costs)	**411,787**	1,082,234
Share based payments charge	**-**	-
Net (deductions from) / additions to shareholders' funds	**(559,010)**	(936,251)
Opening shareholders' funds	**2,388,046**	3,324,297
Closing shareholders' funds	**1,829,036**	2,388,046

12 Share options

Details are given in note 19 to the consolidated financial statements.

13 Related party transactions

Details are given in note 21 to the consolidated financial statements.