



Leading Experts in Botanical
Drug Development

Interim Report 2008

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CHAIRMAN'S STATEMENT

I am pleased to report Phynova's progress during the first half of this financial year.

Strong clinical results and significant potential for development in our pipeline reaffirms the Board's belief that the Company's business model offers an attractive route for drug development.

Our research and development programme, which includes work with our colleagues at Botanic Century (Beijing) Co. Ltd ("Botanic Century"), has yielded strong results, both in clinical trials and in early-stage drug development. As a result, we are in discussions with a number of potential partners regarding the commercialisation of Phynova's portfolio. While these discussions are at a relatively early stage, we believe this interest demonstrates the significant opportunity and market appetite for safe, effective drugs.

As announced by the Company in April 2008, Phynova secured in excess of £1.2 million funding from existing shareholders. Part of the new funds will be used to progress the clinical development of PYN17 and other drugs in our pipeline.

As we continue to develop our drug candidates and identify new opportunities we will keep our shareholders updated and look forward to sharing our successes with you in the future.

Financial review

This is the first report by the Company presented under EU endorsed IFRS.

The interim financial information has been prepared on the basis of the accounting policies which will be adopted in the annual report for the year ending 30 September 2008 in accordance with IFRS. The comparative figures have also been restated to reflect this. There has been no significant impact on either the current period results or the restated historic results. An explanation, including the impact of transition to IFRS, is included in the notes to the interim financial information. In the six months ended

31 March 2008, Phynova recorded a pre-tax loss of £1.46 million, which was in line with management's expectations.

The Company's cash position, as at 31 March 2008, was £501,000. In April 2008, Phynova raised £1.2 million before expenses by means of a placing with existing investors. These funds were raised through a placing of new ordinary shares at 40p per share with existing investors and private investors who predominantly benefited from the tax relief offered by the UK Government's Enterprise Investment Scheme ("EIS"). This funding is being used to progress the clinical development of PYN17 and to further advance the drug pipeline.

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

In November 2007 Phynova announced that its ordinary shares had been admitted to trading on PLUS Traded (unlisted), which is a PLUS Markets secondary market for companies already admitted to trading on AIM. At the end of March, Phynova announced its intention to create and list American Depositary Receipts ("ADRs") on the OTCQX platform in New York. The ADRs were listed for trading in April 2008, while retaining the Company's main AIM listing. Both of these listings were undertaken to improve liquidity and increase access for international investors.

Pipeline PYN 17

In November 2007, Phynova announced successful Phase I/II preliminary results for its lead candidate, PYN 17, for the treatment of the symptoms of chronic hepatitis C. The results confirmed that the trial met its primary endpoint, demonstrating safety and tolerability.

Hepatitis C affects over 170 million people worldwide, including over four million people in the US. PYN 17 is the only drug currently in development specifically for the treatment of the debilitating symptoms, impaired health related

CHAIRMAN'S STATEMENT CONTINUED

quality of life ("HRQoL") and liver inflammation associated with the disease. Currently available antiviral treatments with pegylated interferon and ribavirin are only effective in approximately 50 per cent of patients treated, often with significant associated toxicity and side effects. As a result, it is estimated that the market for treatments for hepatitis C will grow to around US\$9 billion by 2010, and the Directors believe that the Company is well placed to participate in this market growth.

PYN 22

Phynova is developing PYN 22 for the treatment of non alcoholic fatty liver disease.

Obesity is a huge medical problem globally, particularly in developed countries. One of the increasingly recognised complications of obesity is non-alcoholic fatty liver disease ("NAFLD"), which can lead to liver cirrhosis and hepatocellular carcinoma. Currently there is no specific treatment for NAFLD and there remains a high unmet medical need.

Preclinical data generated by Phynova's Chinese collaborators shows that PYN22 reduces blood lipids, the percentage of body fat and liver fat. This preclinical data has been confirmed and extended by a leading academic group in the UK who have shown that PYN22 reduces body fat, as well as having some effect on insulin resistance.

A dossier has now been completed and a preliminary regulatory meeting with the MHRA is scheduled to discuss the design of a first human study. Licensing discussions are ongoing with several companies.

PYN 9

PYN 9 is in development for post-operative ileus, a form of bowel obstruction/hypomotility associated with surgery and/or the use of opiate pain killers that is widely seen after abdominal surgery. It is a key cause of delayed hospital discharge and, in some cases, post-operative morbidity.

PYN 9 has shown promising efficacy in preclinical studies targeting increased bowel movement in conditions where the bowel motility has been impaired.

An Investigational New Drug application has been filed by Phynova's Chinese associate, Botanic Century, and a Phase I clinical study in China is expected to begin during 2008. Phynova is preparing a preclinical development plan for Europe and continuing commercial discussions.

PYN 6

PYN 6, the antibacterial drug candidate, has shown great promise against MRSA and the Company has initiated studies aimed at formulating the drug for topical application.

An estimated 100,000 patients in the UK contract an antibiotic resistant infection while in hospital each year. The reported cost to the NHS of treating these infections is in excess of £1 billion. With the sharp increase of so-called "super-bugs" such as MRSA in hospitals, there is a major need for new anti-bacterial treatments.

Pre-clinical work was conducted by Phynova in collaboration with the University of East London. Inhibition was demonstrated against all of the strains of MRSA that were tested, at levels equivalent to (mupirocin-susceptible MRSA) or some tenfold better than (mupirocin-resistant MRSA) mupirocin, the topical antibiotic currently routinely used for treatment of skin infections involving MRSA. Methicillin and mupirocin resistance commonly occurs together in *Staphylococcus aureus*, with a growing incidence worldwide. Resistance to PYN 6 has not been observed even after prolonged culture of numerous MRSA strains with PYN 6.

PYN 6 has also shown significant activity against the *Propionibacterium acnes* organism which causes acne.

Phynova is now preparing a preclinical package; a new patent application has been filed; and commercial discussions are underway with several acne treatment companies.

PYN 18

PYN 18, the novel antiviral agent, has been confirmed in studies carried out at the Rega Institute in Belgium (one of the world's leading virology centres) to have activity against hepatitis C virus and against dengue virus, with early data indicating a novel mechanism of action in dengue virus over other acute viral infection treatments. New patent applications have been filed and PYN18 has attracted interest from several companies in the antiviral field.

PYN 7

PYN 7, the cancer drug candidate, has shown promising activity against a range of cancer cells. Work is continuing with collaborators in Birmingham (UK) and Hong Kong to explore the mechanisms of action and activity.

PYN 5

Phynova's candidate for RSV and the SARS virus was granted UK patents.

Outlook

The positive progress made in the Phynova pipeline during the first half of our financial year has been reflected in the Company's business development activities.

While Phynova's research and development programme continues to strengthen its pipeline, the Company is currently in early stage discussions with a number of potential partners regarding the potential commercialisation of drug candidates in its pipeline. Due to the nature of these discussions, Phynova is unable to disclose further details and more information will be disclosed to the market as appropriate. While it must be stressed that there are no guarantees that these discussions will come to fruition, the Directors believe that these discussions are yet another encouraging sign that Phynova's approach to drug development is an increasingly attractive proposition to major pharmaceutical companies.

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Chairman
27 June 2008

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CONSOLIDATED INCOME STATEMENT
 FOR THE SIX MONTHS ENDED 31 MARCH 2008

	Notes	Six months ended 31 March 2008 Unaudited £'000	Six months ended 31 March 2007 Unaudited £'000	12 months ended 30 September 2007 Unaudited £'000
Revenue		-	-	-
Research and development costs		(513)	(341)	(1,028)
Administrative costs		(946)	(997)	(1,948)
Operating loss		(1,459)	(1,338)	(2,976)
Finance income		19	42	84
Share of losses of associates		(10)	(8)	(43)
Loss before tax		(1,450)	(1,304)	(2,935)
Taxation		231	-	93
Loss for the period attributable to equity holders of the Company		(1,219)	(1,304)	(2,842)
Basic and diluted loss per share (pence)	3	(6.2)p	(7.2)p	(15.1)p

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 MARCH 2008

	Share capital £'000	Share premium reserve £'000	Warrant reserve £'000	Merger difference reserve £'000	Foreign exchange reserve £'000	Retained losses £'000	Total equity £'000
At 1 October 2006	148	3,498	369	643	–	(3,001)	1,657
Loss for the period	–	–	–	–	–	(1,304)	(1,304)
Exchange difference arising on translation of foreign operations	–	–	–	–	(2)	–	(2)
Shares issued during the period	40	2,738	–	–	–	–	2,778
Cost of share issues	–	(213)	–	–	–	–	(213)
At 31 March 2007	188	6,023	369	643	(2)	(4,305)	2,916
Loss for the period	–	–	–	–	–	(1,538)	(1,538)
Share-based payment	–	–	–	–	–	47	47
Shares issued during the year	7	249	–	–	–	–	256
Cost of share issues	–	–	–	–	–	–	–
At 30 September 2007	195	6,272	369	643	(2)	(5,796)	1,681
Loss for the period	–	–	–	–	–	(1,219)	(1,219)
Exchange difference arising on translation of foreign operations	–	–	–	–	22	–	22
At 31 March 2008	195	6,272	369	643	20	(7,015)	484

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CONSOLIDATED SUMMARISED BALANCE SHEET
AS AT 31 MARCH 2008
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	At 31 March 2008 Unaudited £'000	At 31 March 2007 Unaudited £'000	At 30 September 2007 Unaudited £'000
Assets			
Non-current assets			
Plant and equipment	16	19	16
Investment in associated undertaking	559	575	547
Total non-current assets	575	594	563
Current assets			
Trade and other receivables	515	266	419
Cash and cash equivalents	501	2,748	1,427
Total current assets	1,016	3,014	1,846
Total assets	1,591	3,608	2,409
Liabilities			
Current liabilities			
Trade and other payables	(764)	(339)	(385)
Provisions	(343)	(353)	(343)
Total liabilities	(1,107)	(692)	(728)
Total net assets	484	2,916	1,681
Capital and reserves attributable to equity holders of the Company			
Share capital	195	188	195
Share premium reserve	6,272	6,023	6,272
Warrant reserve	369	369	369
Merger difference reserve	643	643	643
Foreign exchange reserve	20	(2)	(2)
Retained earnings	(7,015)	(4,305)	(5,796)
Total equity	484	2,916	1,681

CONSOLIDATED SUMMARISED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 MARCH 2008

	Six months ended 31 March 2008 Unaudited £'000	Six months ended 31 March 2007 Unaudited £'000	12 months ended 30 September 2007 Unaudited £'000
Cash flows from operating activities			
Loss before tax	(1,450)	(1,304)	(2,935)
Adjustments for:			
Depreciation	6	3	7
Finance Income	(19)	(42)	(84)
Share of losses of associates	10	8	43
Share-based payment charge	–	–	47
Operating loss before changes in working capital	(1,453)	(1,335)	(2,922)
Decrease/(increase) in trade and other receivables	42	(12)	(71)
Increase in trade and other payables	379	134	173
Increase/(decrease) in provisions	–	(18)	(28)
Cash used in operations	(1,032)	(1,231)	(2,848)
Income tax received	93	–	–
Net cash used in operating activities	(939)	(1,231)	(2,848)
Cash flows from investing activities			
Purchase of plant and equipment	(6)	(14)	(16)
Investment in Associated Undertakings	–	(592)	(592)
Interest received	19	42	84
Cash used in investing activities	13	(564)	(524)
Cash flows from financing activities			
Issue of ordinary shares	–	2,778	3,033
Share issue costs	–	(213)	(212)
Cash generated by financing activities	–	2,565	2,821
(Decrease)/increase in cash and cash equivalents	(926)	770	(551)
Cash and cash equivalents at beginning of period	1,427	1,978	1,978
Cash and cash equivalents at end of period	501	2,748	1,427

NOTES TO THE HALF-YEARLY FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED 31 MARCH 2008

1. Basis of preparation

The unaudited Interim Report was approved by the Board of Directors on 26 June 2008.

The financial information for the six months ended 31 March 2008 and for the six months ended 31 March 2007 is unaudited.

The financial information presented for the Group does not constitute “statutory accounts” within the meaning of Section 240 of the Companies Act 1985.

The information for the year ended 30 September 2007 has been extracted from the financial statements of the statutory accounts of Phynova Group PLC which were prepared under UK Generally Accepted Accounting Principles (“UK GAAP”) and have been delivered to the Registrar of Companies. The auditors have reported on those financial statements; their report was unqualified, did not include any references to which the auditors drew attention by way of emphasis without qualifying their report and did not contain any statements under either Section 237(2) or Section 237(3) of the Companies Act 1985. This audited information has been restated, as necessary, for the adoption of IFRS. The restatements have not been audited.

2. Basis of accounting

The financial information presented in this report has been prepared using accounting policies that will be used in the preparation of the financial statements for the year ending 30 September 2008. The policies are set out below. These policies are in accordance with International Financial Reporting Standards (IFRS) as endorsed for use in the European Union and International Financial Reporting Interpretations Committee (IFRIC) interpretations that are expected to be applicable for the year ending 30 September 2008. The disclosures required by IFRS 1 “First-time Adoption of International Financial Reporting Standards” concerning the transition from UK GAAP to IFRS are given in note 6.

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.

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

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 Research and development

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

Internally generated intangible assets (research and development costs).

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the group expects to benefit from selling the products developed. The amortisation expense would be included within the administrative expenses, in the consolidated income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the consolidated income statement as incurred.

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 three years for plant and equipment and three 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 assets carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of fair value 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).

2. Basis of accounting continued

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 the difference 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.

Current 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.

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.

2.8 Share-based payments

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 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.

2.9 National Insurance on share options

To the extent that the share price at the balance sheet date is greater than the exercise price on options granted under unapproved schemes, provision for any National Insurance contributions has been made based on the prevailing rate of National Insurance. The provision is accrued over the performance period attaching to the award.

2. Basis of accounting continued

2.10 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 associated undertakings is based in China, 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.

2.11 Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method.

2.12 Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated balance sheet at cost. The Group's share of post-acquisition profits and losses is recognised in the consolidated income statement, except that losses in excess of the Group's investment in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. The carrying amount of investment in associate is subject to impairment in the same way as goodwill arising on a business combination described in note 2.5.

2.13 Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

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

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the balance sheet.

2.14 Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION CONTINUED
FOR THE SIX MONTHS ENDED 31 MARCH 2008

3. 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:

Basic and diluted loss per share	Loss £'000	Weighted average number of shares	Loss per share pence
Six months ended 31 March 2008	(1,219)	19,536,258	(6.2)
Six months ended 31 March 2007	(1,304)	18,083,525	(7.2)
12 months ended 30 September 2007	(2,842)	18,855,303	(15.1)

At 31 March 2008, the Company had 5,203,991 (31 March 2007: 6,954,520) share options and warrants outstanding, equivalent to 21 per cent. of the Company's enlarged share capital, on the basis of all the share options being exercised before expiration. The share options have not been included in the calculation of the diluted loss per share as they would dilute a loss.

4. Post balance sheet events

In April 2008, the Company raised a further £1,213,370 of additional capital through the issue of 3,033,426 ordinary shares at 40p per share.

On the 16 of April 2008 the Company announced that its ADRs are now trading on the US International OTCQX platform under the symbol PHNVY. Phynova is retaining its primary listing on the UK AIM Market. Phynova can issue ADRs in respect of up to 25 per cent. of its issued share capital. Each ADR represents ten of Phynova's ordinary shares.

5. Dividends

The Directors do not recommend the payment of an interim dividend.

6. Explanation of transition to IFRS

This is the first year that the Group will present its full financial information under IFRS. The last financial statements under UK GAAP were for the year ended 30 September 2007 and the date of full transition to IFRS was therefore 1 October 2006. The following disclosures are required in the year of transition.

Reconciliation of Group equity at 1 October 2006 (date of transition to IFRS)

	Note	Audited UK GAAP £'000	Effects of IFRS Restatement £'000	Unaudited IFRS As restated £'000
Plant and equipment		8	–	8
Trade and other receivables		254	–	254
Cash and cash equivalents		1,978	–	1,978
Total assets		2,240	–	2,240
Trade and other payables	(i)	(207)	(5)	(212)
Provisions		(371)	–	(371)
Total net assets		1,662	(5)	1,657
Share capital		148	–	148
Share premium reserve		3,498	–	3,498
Warrant reserve		369	–	369
Merger difference reserve		643	–	643
Retained earnings	(ii)	(2,996)	(5)	(3,001)
Total equity		1,662	(5)	1,657

Note (i): Holiday pay provision

IAS 19 "Employee Benefits" requires the creation of an accrued holiday pay provision. This was not required under UK GAAP.

Note (ii): Retained earnings

The impact of (i) is a charge to retained earnings of £4,875 at the date of transition.

NOTES TO THE INTERIM FINANCIAL INFORMATION CONTINUED
FOR THE SIX MONTHS ENDED 31 MARCH 2008

6. Explanation of transition to IFRS continued
Reconciliation of Group equity at 31 March 2007

	Note	Audited UK GAAP £'000	Effects of IFRS Restatement £'000	Unaudited IFRS As restated £'000
Plant and equipment		19	–	19
Investment in associated undertaking	(ii)	568	7	575
Trade and other receivables		266	–	266
Cash and cash equivalents		2,748	–	2,748
Total assets		3,601	7	3,608
Trade and other payables	(i)	(333)	(6)	(339)
Provisions		(353)	–	(353)
Total net assets		2,915	1	2,916
Share capital		188	–	188
Share premium reserve		6,023	–	6,023
Warrant reserve		369	–	369
Merger difference reserve		643	–	643
Retained earnings	(iii)	(4,308)	1	(4,307)
Total equity		2,915	1	2,916

Note (i): Holiday pay provision

IAS 19 "Employee Benefits" requires the creation of an accrued holiday pay provision. This was not required under UK GAAP.

Note (ii): Goodwill amortisation

Under FRS 9 goodwill arising on associates was subject to amortisation but under IFRS goodwill arising on the associates is not amortised, but instead is subject to annual impairment reviews.

Note (iii): Retained earnings

The impact of (i) is a charge to retained earnings of £5,910 and (ii) is a credit to retained earnings of £7,182 at 31 March 2007. This gives a net credit of £1,272.

Reconciliation of Group equity at 30 September 2007

	Note	Audited UK GAAP £'000	Effects of IFRS Restatement £'000	Unaudited IFRS As restated £'000
Plant and equipment		16	–	16
Investment in associated undertaking	(ii)	531	16	547
Trade and other receivables		419	–	419
Cash and cash equivalents		1,427	–	1,427
Total assets		2,393	16	2,409
Trade and other payables	(i)	(375)	(10)	(385)
Provisions		(343)	–	(343)
Total net assets		1,675	6	1,681
Share capital		195	–	195
Share premium reserve		6,272	–	6,272
Warrant reserve		369	–	369
Merger difference reserve		643	–	643
Retained earnings	(iii)	(5,804)	6	(5,798)
Total equity		1,675	6	1,681

Note (i): Holiday pay provision

IAS 19 "Employee Benefits" requires the creation of an accrued holiday pay provision. This was not required under UK GAAP.

Note (ii): Goodwill amortisation

Under FRS 9 goodwill arising on associates was subject to amortisation but under IFRS goodwill arising on the associates is not amortised, but instead is subject to annual impairment reviews.

Note (iii): Retained earnings

The impact of (i) is a charge to retained earnings of £10,110 and (ii) is a credit to retained earnings of £15,802 at 30 September 2007. This gives a net credit of £5,692.

NOTES TO THE INTERIM FINANCIAL INFORMATION CONTINUED
FOR THE SIX MONTHS ENDED 31 MARCH 2008

6. Explanation of transition to IFRS continued

Reconciliation of consolidated income statement for six months ended 31 March 2007

	Note	Unaudited UK GAAP £'000	Effects of IFRS Restatement £'000	Unaudited IFRS As restated £'000
Revenue		–	–	–
Research and development costs	(i)	(341)		(341)
Administrative costs	(i), (ii)	(996)	(1)	(997)
Group operating loss		(1,337)	(1)	(1,338)
Share of operating loss in Associated undertaking		(15)	7	(8)
Finance income		42	–	42
Loss before tax		(1,310)	6	(1,304)
Taxation		–	–	–
Loss for the period attributable to equity holders of the Company		(1,310)	6	(1,304)

Note (i): Holiday pay provision

IAS 19 "Employee Benefits" requires the creation of an accrued holiday pay provision. This was not required under UK GAAP.

Note (ii): Goodwill amortisation

Under FRS 9 goodwill arising on associates was subject to amortisation but under IFRS goodwill arising on the associates is not amortised, but instead is subject to annual impairment reviews.

Reconciliation of consolidated income statement for year ended 30 September 2007

	Note	Unaudited UK GAAP £'000	Effects of IFRS Restatement £'000	Unaudited IFRS As restated £'000
Revenue		–	–	–
Research and development costs	(i)	(1,028)	–	(1,028)
Administrative costs	(i), (ii)	(1,943)	(5)	(1,948)
Group operating loss		(2,971)	(5)	(2,976)
Share of operating loss in Associated undertaking		(59)	16	(43)
Finance income		84	–	84
Loss before tax		(2,946)	11	(2,935)
Taxation		93	–	93
Loss for the period attributable to equity holders of the Company		(2,853)	11	(2,842)

Note (i): Holiday pay provision

IAS 19 "Employee Benefits" requires the creation of an accrued holiday pay provision. This was not required under UK GAAP.

Note (ii): Goodwill amortisation

Under FRS 9 goodwill arising on associates was subject to amortisation but under IFRS goodwill arising on the associates is not amortised, but instead is subject to annual impairment reviews.

7. Tax note

The Company has a corporation tax credit in relation to research and development claims of £231,000 in the six month period to 31 March 2008 (six month to March 2007: Nil, year to 31 September 2007 £93,000).

8. Copies of interim accounts

Copies of the Interim Results will be available from our website www.phynova.com or by written request to the Company's registered office. A copy of the interims will be posted to all shareholders on the 30th of June 2008.

COMPANY INFORMATION

Directors

Karl Watkin MBE	Chairman
Robert Miller	Chief Executive Officer
Edward Blair PhD	Chief Science Officer
Stephen Marshall	Chief Operating Officer
Alan Brown FCCA	Financial Director/ Company Secretary
William Doyle	Non-Executive Director
Michael Martin	Non-Executive Director
John Pool	Non-Executive Director

Registered Office

Phynova House
16 Fenlock Court
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Long Hanborough
Oxfordshire OX29 8LN

Registered in England and Wales
Number 5202283

Legal Advisers to the Company

Osborne Clarke
Apex Plaza
Forbury Road
Reading RG1 1AX

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

AIM Nominated Adviser

John East & Partners Limited
10 Finsbury Square
London EC2A 1AD

Stockbroker

Evolution Securities China Limited
29-30 Cornhill
London EC3V 3NF

Auditors

BDO Stoy Hayward LLP
125 Colmore Row
Birmingham B3 3SD

Bankers

HSBC Bank Plc
69 Pall Mall
London SW1Y 5EY

Financial Public Relations Consultants

Capital MSL
81 Whitfield Street
London W1T 4HG

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