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This document, which comprises an AIM admission document drawn up in accordance with the AIM Rules, has been issued in connection with the application for admission of the entire issued and to be issued ordinary share capital of the Company to trading on AIM. This document contains no offer to the public within the meaning of the FSMA, the Act or otherwise. Accordingly, this document does not comprise a prospectus within the meaning of section 85 of the FSMA and has not been drawn up in accordance with the Prospectus Rules or approved by the Financial Services Authority.

Application has been made for the Ordinary Shares to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Neither the London Stock Exchange nor the United Kingdom Listing Authority has examined or approved the contents of this document.

Your attention is also drawn to the discussion of risks and other factors, which should be considered in connection with an investment in the Ordinary Shares, set out in "Risk Factors" in Part II of this document. Notwithstanding this, prospective investors should read the whole text of this document.

The Directors of the Company, whose names appear on page 3 of this document, accept responsibility, both individually and collectively, for the information contained in this document including responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

PHYNOVA GROUP PLC

(Incorporated in England and Wales under the Companies Act 1985 with registered number 05202283)

Admission to trading on AIM

by

Nabarro Wells & Co. Limited

Nominated Adviser and Broker

Nabarro Wells & Co. Limited (Nabarro Wells), which is authorised and regulated by the Financial Services Authority, is acting as the Company's nominated adviser in connection with the proposed admission of the Company's Ordinary Shares to trading on AIM. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by Nabarro Wells as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). Nabarro Wells will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of any acquisition of shares in the Company.

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DIRECTORS, SECRETARY AND ADVISERS

Directors	John Pool Robert Miller Edward Blair PhD Alan Brown FCCA William Doyle Michael Martin Michael Fowler PhD Stephen Marshall	<i>Non-executive Chairman</i> <i>Managing Director</i> <i>Chief Science Officer</i> <i>Finance Director</i> <i>Non-executive Director</i> <i>Non-executive Director</i> <i>Non-executive Director</i> <i>Non-executive Director</i>
Secretary	Alan Brown	
Registered office	The Magdalen Centre Oxford Science Park Oxford OX4 4GA	
Nominated adviser and stockbroker	Nabarro Wells & Co. Limited Saddlers House Gutter Lane London EC2V 6HS	
Solicitors	Osborne Clarke Apex Plaza Forbury Road Reading RG1 1AX	
Solicitors to Nominated Adviser	Faegre & Benson LLP 7 Pilgrim Street London EC4V 6LB	
Auditors and reporting accountant	BDO Stoy Hayward LLP 125 Colmore Row Birmingham B3 3SD	
Bankers	HSBC Bank Plc 69 Pall Mall London SW1Y 5EY	
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA	
Financial Public Relations Consultants	Buchanan Communications 45 Moorfields London EC2Y 9AE	

CAPITALISATION STATISTICS

Number of Ordinary Shares in issue on Admission	14,799,570
Number of Options outstanding – exercisable at 36.57p	2,541,474
Number of Options outstanding – exercisable at 50.0p	3,791,924
Number of Options outstanding – exercisable at 60.0p	817,162

TIMETABLE

Publication of this document	21 February 2006
Admission effective and dealings commence on AIM	27 February 2006

DEFINITIONS

In this Document, where the context permits, the expressions set out below shall bear the following meanings:

“the Act”	The Companies Act 1985, as amended;
“Admission” and “Admission to AIM”	The admission of the Ordinary Shares to trading on AIM;
“AIM”	The Alternative Investment Market operated by the London Stock Exchange;
“AIM Rules”	The rules published by the London Stock Exchange relating to AIM;
“Articles”	The articles of association of the Company;
“Audit Committee”	The audit committee of the Board from time to time;
“Board”	The board of directors of the Company;
“Business”	The development of new drug candidates for licensing and approval;
“Castor”	Castor Investments plc, incorporated and registered in England and Wales under the Companies Act 1985 with registered number 5347651;
“China”	The People’s Republic of China;
“Combined Code”	The code of best practice, including the principles of good governance, set out in the Combined Code on Corporate Governance published in July 2003 by the Financial Reporting Council;
“Company”	Phynova Group plc, incorporated and registered (as a public limited company) in England and Wales on 10 August 2004 under the Companies Act 1985 with registered number 5202283;
“CREST”	The computerised settlement system, facilitating the paperless settlement of trades and the holding of uncertificated shares;
“CRESTCo”	CRESTCo Limited, the operator (as defined in The Uncertificated Securities Regulations 2001) of the CREST system;
“Directors”	The directors of the Company whose names are set out on page 3;
“Drug Candidates”	Substances chosen by Phynova and confirmed as suitable candidates for further development in preparation for submitting an application to the pharmaceutical licensing authorities to market the substance as a new drug;
“EMEA”	European Medicines Evaluation Agency, the regulatory body for the pharmaceutical industry in the EU;
“FDA”	Food & Drug Administration based in Washington D.C., USA, the regulatory body that controls the licensing of drugs in the USA;
“Group” or “Phynova Group”	The Company, Phynova and LLC;
“HPA”	UK Health Protection Agency;
“Hepusen”	Beijing Hepusen Chinese Medicine Technology Group, a company registered in Sunyi County, Beijing, P.R. China;
“Investors”	The persons who have entered into the Subscription Agreements with the Company;
“LLC”	Phynova LLC, a dormant subsidiary of Phynova, incorporated in the state of Delaware, USA, on 11 May 2000, with registered number 3227082;

“London Stock Exchange”	London Stock Exchange plc;
“Memorandum”	The memorandum of association of the Company;
“MHRA”	Medicines and Healthcare Products Regulatory Agency, the regulatory body for the pharmaceutical industry in the UK;
“Model Code”	The model code on dealing in a company’s securities, as set out in Annex 1R to Chapter 9 of the Listing Rules of the UK Listing Authority;
“Nabarro Wells”	Nabarro Wells & Co. Limited, the Company’s Nominated adviser and Broker, details of which are set out on page 3;
“NHS”	UK National Health Service;
“Nomad Agreement”	The Agreement entered into between the Company and Nabarro Wells, further details of which are set out in paragraph 11.4.5 of Part V;
“Option”	An option or warrant to acquire Ordinary Shares;
“Option Holders”	The holder(s) of an Option over Ordinary Shares;
“Ordinary Shares”	Ordinary shares of 1p each in the capital of the Company;
“PCT”	Patent Cooperation Treaty which is adhered to by approximately 115 countries and permits an inventor to file a PCT patent application;
“Phynova”	Phynova Limited, a wholly owned subsidiary of the Company, incorporated and registered (as a private limited company) in England and Wales on 21 January 2002 under the Companies Act 1985 with registered number 04356862;
“Private Funding”	The conditional subscription of the Private Funding Shares at the Private Funding Price pursuant to the Subscription Agreements;
“Private Funding Price”	60 pence per Ordinary Share being the price at which each new Ordinary Share is to be issued under the Private Funding;
“Private Funding Shares”	The 6,083,336 new Ordinary Shares which are the subject of the Private Funding;
“Remuneration Committee”	The remuneration committee of the Board from time to time;
“SFDA”	State Food and Drug Administration of China;
“Shareholders”	The holder(s) of Ordinary Shares;
“Subscription Agreements”	The conditional subscription agreements made between the Investors and the Company relating to the Private Funding, details of which are set out in part I and paragraph 11.4.1 of Part V of this document at the Private Funding Price;
“Unibioscreen S.A.”	An organisation based in Belgium that provides preclinical research services to discover and characterise anti-cancer compounds;
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland;
“US” “USA” or “United States”	The United States of America, its territories and possessions, any state of the US and the District of Columbia and all other areas subject to its jurisdiction;
“WHO”	World Health Organisation;
“£”	Pounds sterling, the lawful currency for the time being of the United Kingdom; and
“\$” or “US\$”	United States dollars, the lawful currency for the time being of the United States of America.

GLOSSARY

The following abbreviations and scientific terms are used in this Document:

“ARI”	Acute Respiratory Infection;
“Botanical Drug”	A drug product that is prepared from a botanical drug substance derived from one or more plants, algae or macroscopic fungi;
“CHC”	Chronic hepatitis C;
“Cirrhosis”	A result of various disorders that damage liver tissue over time;
“CRO”	Contract Research Organisation, a company which provides outsourced support services to pharmaceutical companies;
“DDX”	Doctors’ and Dentists’ Exemption approved by the MHRA;
“Fast Track Products”	New drugs that are intended to treat serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs;
“Fraction”	Component of a plant extract or mixture that has been separated by a chemically defined fractionation process;
“HCV”	Hepatitis C virus;
“IND”	An Investigational New Drug, an application to the FDA for permission to begin tests of a new drug on humans;
“Interferon”	An anti-viral protein produced by cells that have been invaded by a virus and inhibits replication of the virus;
“In vitro”	A biological study which is carried out in isolation from a living organism (in contrast to in vivo studies);
“In vivo”	A biological study which is carried out using a living organism;
“Mechanism of Action”	An assessment of the means by which a medicinal entity is likely to exert its biological effect in humans;
“Metabolic Disease”	A disorder caused by an imbalance of chemicals produced naturally in the body;
“MRSA”	Methicillin-resistant Staphylococcus aureus;
“NCE”	New Chemical Entity, a drug that contains an active moiety that has not previously been approved by FDA in any other application submitted under section 505(b) of the Food, Drug and Cosmetic Act (FDA definition);
“NDA”	New Drug Application, the vehicle through which drug sponsors formally propose that the FDA approves a new pharmaceutical for sale and marketing in the U.S. The data gathered during clinical trials of an IND becomes part of the NDA;
“Oncology”	The field of medicine devoted to cancer;
“Otolaryngologist”	A physician specialised in diagnosing and treating diseases of the head and neck, especially those involving the ears, nose and throat;
“Pharmacognosist”	An expert in the medical use of plants;

“Phase I”	Phase I trials are primarily concerned with assessing the drug’s safety. This initial phase of testing in humans is done with a small number of healthy volunteers, who may be remunerated for participating in the trials. The trials are designed to determine what happens to the drug in the human body, how it is absorbed, metabolised, and excreted. A Phase I trial will investigate side effects that occur as dosage levels are increased;
“Phase II”	Once a drug has been shown to be safe, it must be tested for efficacy. This second phase of testing may last from several months to several years, and involve up to several hundred patients. Most Phase II trials are randomised, “double-blind” trials. One group of patients will receive the experimental drug, whilst a second “control” group will receive a standard treatment or placebo and neither the patients nor the medical staff know who is getting the experimental drug. In this manner, the study can provide the pharmaceutical company and the regulatory agency with information about the safety of the new drug, and its effectiveness;
“Phase IIa”	An early stage Phase II clinical trial involving a small number of patients which usually aims to provide evidence of the desired pharmacological activity;
“Phase IIb”	A late Phase II clinical trial involving a larger number of patients which usually aims to provide preliminary evidence of efficacy and often includes different dosage regimens;
“Prior Art”	Previously used, sold, published, or patented technology that may bear upon the patentability of an invention;
“PYN”	The code used by Phynova for their Drug Candidates;
“Ribavirin”	An antiviral drug used in combination with Interferon for the treatment of chronic hepatitis C;
“RSV”	Respiratory Syncytial Virus;
“RTI”	Respiratory Tract Infection;
“SARS Coronavirus”	A virus that caused SARS (Severe Acute Respiratory Syndrome), which created a major health concern largely in a number of Asian countries in late 2003 and is characterised by a high mortality rate;
“Sepsis”	A severe medical condition in which bacteria enters the blood after an operation or accident; and
“Synergistic”	The interaction of two or more drugs, such that their combined effect is greater than the sum of the individual effects seen when each drug is given alone.

KEY INFORMATION

The following is a summary of certain information appearing elsewhere in this document. This summary is qualified in its entirety by and should be read in conjunction with the more detailed information and financial statements appearing elsewhere in this document.

- Phynova, founded in July 2002, is based in the Oxford Science Park.
- Phynova is developing Drug Candidates to satisfy unmet needs in major therapeutic markets such as infectious diseases, metabolic diseases and cancer.
- Phynova's Drug Candidates are mainly derived from botanical medicines that have proved effective and safe in clinical use in China. The Chinese have been using botanical medicines for thousands of years and have built up a wealth of knowledge and expertise in the medicinal use of plants. By starting with existing Chinese botanical drugs, Phynova believes it can reduce the time it takes to develop new drugs, resulting in significantly reduced development costs.
- Phynova is seeking to develop intellectual property around Drug Candidates which it will aim to licence to major pharmaceutical companies in return for up front payments, milestone payments and royalties. It is expected that licensees will complete the development programmes.
- Phynova's management team comprises scientists and managers from China and the West combining specialist scientific expertise in developing botanical drugs with many years experience in large pharmaceutical groups (Wellcome plc, GlaxoSmithKline plc, Wyeth Pharmaceuticals and Alizyme plc).
- Phynova has established a low fixed-cost infrastructure by using tightly controlled outsourcing to specialist contract research organisations and has entered into collaborative ventures with eminent scientists at university research establishments.

The Group recorded a loss on ordinary activities before taxation of £606,653 for the 15 month period ended 30 September 2005. Since 1 October 2005 the Group has continued to perform in line with management's expectations.

Phynova is currently developing the following six Drug Candidates:

- **PYN17 for relief of the symptoms of chronic hepatitis C (CHC):** The WHO estimates that about 200 million people are infected with HCV. PYN17 is targeted at the US\$3 billion+ market for hepatitis C medications. A Phase IIa clinical trial completed in May 2005 by Professor Graham Foster of the Royal London Hospital on PYN17 showed decreases in liver inflammation in patients with CHC. Phynova has initiated the preparation of an IND application with Phase IIb clinical studies scheduled for 2006/2007.
- **PYN18 for hepatitis C virus (HCV):** PYN18 has shown anti-viral activity against HCV *in vitro*. Phynova has recently screened several Fractions, one of which showed very distinct anti-HCV activity *in vitro*.
- **PYN22 for obesity:** the worldwide obesity market has been predicted to reach US\$2.54 billion by 2012. Phynova has recently begun development of a highly purified Chinese plant extract that has been shown to effectively lower the expression of genes associated with obesity and fatty liver disease. The Directors are in discussions with clinical investigators to commence Phase I clinical trials in 2006.
- **PYN7 for cancer:** PYN7 is based on a medicine used in China for certain cancers. A series of *in vitro* screens performed in Belgium suggest that PYN7 may be active against a number of different types of cancer. The Institute of Cancer Studies at the University of Birmingham will conduct Mechanism of Action studies in the first half of 2006.
- **PYN6 for antibiotic-resistant bacteria:** PYN6 has been found in screening assays conducted in China to have activity against major classes of infectious bacteria that have acquired resistance to current front-line antibiotics, such as MRSA. Phynova plans to commence a Phase I clinical trial in 2007.
- **PYN5 for Respiratory Tract Infections (RTIs):** PYN5 is based on a formulation licensed in China as a treatment for RTIs such as common colds, flu, chronic bronchitis, RSV infection and pneumonia.

Phynova will commence assessment of the effect of PYN5 on RSV, avian (H5N1) influenza and Sepsis in 2006.

- An integral part of Phynova's research and development programme is the establishment of intellectual property rights to protect its Drug Candidates. UK patent applications for the treatment of hepatitis C (PYN17) and SARS Coronavirus (PYN5) were filed in February 2004 and corresponding international applications under the PCT were filed in 2005. An additional UK application was filed in August 2005 relating to further medical uses arising from clinical work. The UK applications filed in 2004 are expected to be granted in the first half of 2006. Patent applications in respect of PYN22 and PYN18 will be filed in the second quarter of 2006.
- The FDA has issued guidance for the development and use of botanical drugs, potentially enabling botanical drugs to be developed more quickly.
- During February 2006 the Company entered into Subscription Agreements with Investors, whereby the Investors agreed, conditionally, to subscribe for a total of 6,083,336 Ordinary Shares at the Private Funding Price. The total receivable by the Company pursuant to the Subscription Agreements is £3.65 million. These funds are held in escrow pending Admission to AIM. The Directors believe that the Company has sufficient resources to enable it to carry on its development programme for at least 12 months, although it is likely the Company will need to raise additional capital to fund development in the longer term.
- The Company is seeking Admission to AIM to provide it with access to the capital markets to fund Phynova's continuing development programme.
- Prior to investing in the Company, investors should consider, together with the other information contained in this document, the risks and other factors attaching to an investment in the Company, including in particular, the factors set out in "Risk Factors" in Part II of this document.

PART I

INFORMATION ON THE GROUP

INTRODUCTION

Phynova was founded in July 2002 to develop drugs that satisfy unmet needs in major therapeutic markets (e.g. viral diseases, metabolic disease and cancer). It is based in the Oxford Science Park.

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

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

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

Phynova has developed relationships with researchers and government agencies in China and built its own expertise in Chinese medicinal plants and Western drug development. Through a joint venture with Hepusen, a company owned by agencies of the Chinese Ministry of Health, and through its contacts with other research contacts in China, the Group has obtained access to Chinese research data and it has licensed-in Drug Candidates for development and sale in Western markets. It has also recruited a number of scientists from China and major Western pharmaceutical companies. It is able to maintain low overheads through the use of consultants, contracted-out research and collaborative ventures with university research establishments.

Phynova intends to develop a strong intellectual property position for each of its Drug Candidates and become an attractive licensing partner for larger pharmaceutical companies. This would open up opportunities for licensing transactions and the generation of significant revenues.

KEY STRENGTHS

The Directors consider that the following are the Group's key strengths:

- **Experienced management team:** the management team comprises scientists and managers from China and the West combining specialist scientific expertise in developing botanical drugs with many years experience in large pharmaceutical groups (including Wellcome, GSK, Wyeth, and Alizyme).
- **Access to medicines and research data from China:** Phynova's agreement with Hepusen, and its own network of contacts in China, provides it with access to information on promising Chinese botanical drugs.
- **Addressing major markets:** Phynova's Drug Candidates are being developed for diseases with major unmet therapeutic needs including viral (hepatitis C, RSV, influenza) and bacterial (MRSA and other "super bugs") infections, metabolic disease, and cancer.
- **Reduced discovery risk:** Phynova's business model seeks to reduce the risk of developing drugs that do not meet regulatory standards of safety and efficacy by basing its research on drugs which have been shown to be safe and efficacious in clinical use in China.
- **Low financial burden:** Phynova maintains a low fixed cost base and employs external firms with specialised expertise when required.
- **Reduced time to develop new drugs:** by starting with existing Chinese botanical drugs, Phynova believes it can reduce the time that it takes to develop new drugs. Faster development timescales are expected to result in significantly reduced development costs and an earlier financial return.

- **New regulatory opportunity:** in June 2004, the FDA issued the final version of Guidance For Industry, Botanical Drug Products, which sets out comprehensive guidelines for developing botanical drugs. With the issue of these guidelines and the establishment of a Botanical Review Team within the agency, the FDA has created an entirely new regulatory category for pharmaceuticals that Phynova's management believe it is in a strong position to exploit.
- **Potential "fast-track" designation for its candidates:** Phynova is working in therapeutic areas which meet the FDA's criteria for Fast Track Products. This was confirmed to the management in a meeting with the FDA in Washington in June 2004.

BUSINESS MODEL

Phynova has established a business model that seeks to reduce the risks, the high cost and the time it takes to develop pharmaceuticals by selecting potential Drug Candidates which:

- are derived from medicines which have been shown to be safe and efficacious in clinical use in China; and
- have the potential to satisfy unmet needs in large therapeutic markets in the West (i.e. where current therapies are either inadequate or non-existent).

Phynova is developing intellectual property around Drug Candidates which it will aim to out-license to major pharmaceutical companies in return for revenue in the form of up front payments, milestone payments and royalties. It is anticipated that licencees will complete the development programmes by undertaking large-scale clinical trials and applying for regulatory approvals.

In seeking to achieve a strong intellectual property position for its products, Phynova is implementing procedures to ensure that new inventions arising from in-house and collaborative research are identified. Initially, "freedom to operate" issues are addressed by searching for third party patents and analysing potential rivals or threats. Careful consideration is given not only to the merits of making a patent application but also, if a decision is taken to file, to the most appropriate timing, and to what further support should be generated. Phynova's focus has been on Western markets, primarily the US and Europe, as these are considered to be where the major commercial opportunities exist.

Phynova envisages being able to cut short the pre-clinical and clinical trial timelines to develop new drugs by developing botanical drugs from defined and standardised plant extracts, as opposed to NCEs, and by making use of existing pharmacological and clinical safety and efficacy data on the botanical ingredients in its products.

DRUG CANDIDATES

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

Phynova intends to develop these Drug Candidates by conducting *in vitro* and *in vivo* tests and small-scale human trials. Phynova will then seek to out-license the Drug Candidates to major pharmaceutical companies. By selecting Drug Candidates whose efficacy and safety have already been established in China, Phynova expects to be able to reduce the time taken to bring the drugs to market. Similarly, it hopes to be able to take advantage of the revised licensing regime for botanical drugs and, where possible, to fast track the approval of its Drug Candidates.

Key data on these programmes is set out below:

PYN17 to relieve the symptoms of chronic hepatitis C (CHC)

According to the WHO, HCV is comparable to a 'viral time bomb'. The WHO estimates that about 200 million people are infected with HCV with a global 170 million chronic sufferers at risk of developing liver Cirrhosis and/or liver cancer which are the primary reasons for liver transplants. Only a minority of patients receive a long-term benefit from the treatments currently available. Many drop out or decline the treatment because of side effects. The unmet medical need remains very high and the market potential for a new effective treatment is substantial.

PYN17 is not an anti-viral treatment for HCV, but a treatment for the symptoms of CHC. It is based on a novel formulation of one European and three Chinese plants which individually have been used to treat liver diseases in Asia and Europe. The plants selected have a long-established use in hepatic protection and hepatic stimulation. All four plants have a long history of safe use in humans with very little or no toxicity.

A Phase IIa clinical study was completed in May 2005 by Professor Graham Foster of the Royal London Hospital on PYN17, and showed a clean safety profile and a reduction in liver inflammation in patients with CHC. It suggests that PYN17 could be developed both as a stand-alone treatment and an adjunct treatment alongside established drugs for viral hepatitis, and also more broadly as a treatment for other inflammatory liver diseases such as alcoholic Cirrhosis and fatty livers associated with metabolic disorders.

Phynova has initiated the preparation of an IND application and expects to commence Phase IIb clinical studies in 2006/2007.

Patent prosecution for PYN17 is progressing. A priority application was filed with the UK patent office in February 2004 together with a request for a combined search and examination. Following a meeting with the examiner, acceptable claims were agreed, and so long as no Prior Art is cited, grant can be anticipated in the first half of 2006. A further UK application citing clinical data was submitted in August 2005. The initial patent was published internationally on 1 September 2005, ID number WO-2005079823.

PYN18 for hepatitis C virus (HCV)

In contrast to PYN17, PYN18 is a potential treatment for reducing the activity of the hepatitis virus. PYN18 is a single plant extract that has shown anti-viral activity against HCV *in vitro*. Phynova recently screened several different fractions of this extract and found that one in particular showed very distinct activity against the hepatitis C virus in a surrogate viral replicon assay¹. In the assay, Interferon α , which in combination with Ribavirin is the current recommended treatment for HCV, was used as a control. PYN18 showed activity comparable to Interferon in the assay. Pending completion of pre-clinical work, the Directors are hoping to out-license the Drug Candidate within the first half of 2006, or to develop the Fraction internally.

PYN22 for obesity

The worldwide obesity market has been predicted to reach US\$2.54 billion by 2012. Phynova has recently commenced development of a highly purified Chinese plant extract that has been shown to effectively lower expression of genes associated with obesity and fatty liver disease. In combination with PYN17, this product could benefit patients with liver inflammation associated with fatty diets or metabolic disease (e.g. diabetes).

The Directors are currently in discussions with clinical investigators to commence Phase I clinical trials within the first half of 2006.

PYN7 for cancer

PYN7 is based on a medicine used in China to treat certain cancers.

The results of a series of *in vitro* studies performed in Belgium by Unibioscreen S.A. suggest that PYN7 may be active against a number of different types of cancer including lung cancer, liver cancer and skin cancer.

Professor Lawrence Young, head of the Institute of Cancer Studies at the University of Birmingham is acting as Oncology consultant to Phynova on PYN7, and the Institute will conduct Mechanism of Action studies in the first half of 2006.

¹ *Hepatitis C virus does not grow in vitro and so a small part of the virus has been inserted in a human liver cell line to serve as a surrogate for virus growth.*

PYN6 for antibiotic resistant bacteria

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.

PYN6 is a Fraction isolated from a single plant that has been found in *in vitro* screening assays conducted in China to have activity against major classes of infectious bacteria that have acquired resistance to current front-line antibiotics, such as MRSA. The Company has an option to in-license PYN6 from a Chinese company.

Pre-clinical studies have begun and a Phase I clinical trial is planned to commence in 2007, supported by data generated in China to which Phynova has secured access.

PYN5 to treat respiratory tract infections

The scale of the problem that PYN5 is intended to treat is illustrated by the following:

- according to the 2003 World Health Report, respiratory tract infections led to 174,000 deaths in Europe and 3.8 million worldwide, accounting for 6% of the global and 1.3% of the European disease burden;
- RSV is the leading cause of death in children under five worldwide; and
- according to a leading UK consultant Otolaryngologist, “the biggest need in the market is for new drugs to treat pneumonia and acute bronchitis”.

The three plant extract formulation upon which PYN5 is based is licensed in China for the treatment of RTI's such as common colds, flu, chronic bronchitis, RSV infection and pneumonia, and is one of the commonly prescribed, licensed drugs in that country. The combination of its apparent anti-viral, anti-bacterial and anti-inflammatory properties are widely reported and numerous clinical studies show it to be effective in reducing the duration of viral infections with minimal adverse reactions.

RTI's are difficult to treat, and with very few exceptions, there are no medications to cure the majority of primary infections of the respiratory tract. In October 2003, an *in vitro* screen conducted by the HPA in Porton Down of an extract from one of the plants that make up PYN5 demonstrated inhibitory action against the SARS Coronavirus.

Phynova will commence assessment of the effect of PYN5 on RSV, avian (strain H5N1) influenza and Sepsis in 2006. Pre-clinical screening against H5N1 virus is currently being conducted.

A priority application was filed with the UK patent office in February 2004 together with a request for a combined search and examination. Following a meeting with the examiner an acceptable claim set was agreed, and so long as no Prior Art is cited grant can be anticipated in the first half of 2006. The patent was published internationally on 1 September 2005, ID No WO-2005082388.

REGULATORY REGIME

In recent years the FDA and the EMEA have reviewed the regulatory frameworks governing the development and use of botanical drugs.

In June 2004, the FDA issued the final version of the Guidance for Industry Botanical Drug Products (“the Guidance”) which sets out the framework for a new category of licensed drugs. Under these guidelines, botanical drugs can be developed more quickly and more cheaply than conventional synthetic NCE pharmaceuticals. The Guidance states, “because of the unique nature of botanicals, the FDA finds it appropriate to apply regulatory policies that differ from those applied to synthetic, semi-synthetic, or otherwise highly purified or chemically modified drugs (including antibiotics)”.

The Guidance sets out detailed guidelines for the development of this new class of licensed drugs. With the publication of this document, the FDA has effectively launched in the West an entirely new pharmaceutical category.

In the EU, the approach to registering botanical drugs has varied from country to country. To achieve consistency in 1995 the EMEA appointed an *ad hoc* Working Group on Plant Medicinal Products. The mandate of this group is to promote harmonisation of the assessment of botanical medicinal products, to examine the existing legislation, and to recommend how plant medicinal products can effectively be accommodated by it. This has led to the introduction of a number of guidance documents for the

registration of 'new' botanical drugs. The Directors believe that the establishment of working parties for botanical drugs demonstrates a new and more positive climate for the registration of these products in Europe.

INTELLECTUAL PROPERTY

To develop a strong intellectual property for its Drug Candidates, Phynova is implementing procedures to ensure that new inventions arising from in-house and contract research are identified. Initially, "freedom to operate" issues are addressed by searching for third party patents and analysing potential rivals or threats. Careful consideration is given not only to the merits of making a patent application but also, if a decision is taken to file, to the most appropriate timing. Phynova's patent strategy is to cover multiple aspects of the products including extracts, Fractions, compounds, formulations, extraction and purification techniques, uses and methods of delivery. Phynova's focus has been on Western markets, primarily the US and Europe, as these are considered to be where the major commercial opportunities exist.

Phynova intends to in-license intellectual property which will complement or add value to its business. Phynova's patent searches enable it to identify possible collaborations and in-licensing opportunities.

Phynova is developing medicines from single plants and combinations of extracts from different plants, in given ratios, to obtain novel combinations which exhibit therapeutic effects. Patents claims are directed to the single or combined extracts (complex mixtures which can be characterised through specific "markers", the starting materials and the precise method of extraction) are analogous to claims to an NCE (i.e. they characterise the specifics of the extract which are responsible for the safety and efficacy).

So far as is possible Phynova will obtain patent and possibly plant variety rights to protect its Drug Candidates. In addition, in the event its licencees are successful in obtaining regulatory licences to market the botanical drugs, further protection will be afforded through confidentiality of regulatory data.

Patents

Phynova has no granted patents, however it currently has three patent families undergoing prosecution, two for PYN17 and one for PYN5. Further applications will be filed as each of the Drug Candidates is developed in accordance with Phynova's patent strategy.

Patents and supplementary protection certificates ("SPCs") are very important to the pharmaceutical industry. Patents can be used to protect both products (compounds/extracts/formulations and plants, though not plant varieties) and their methods of manufacture (including extraction and purification processes), as well as new uses of compounds or extracts to treat medical indications. Patents provide 20 years' exclusivity from the date of filing. In certain circumstances SPCs can be obtained, and these extend the patent term of a specific medicinal product for which a marketing authorisation has been obtained late in the patent life cycle by up to 5 years. Not all developments will be patented as, in some cases, maintaining know-how as confidential is considered a better way of maintaining a competitive advantage.

Plant variety rights

A plant variety right provides 25 years of exclusivity from grant to the proprietor of a new variety. The exclusivity precludes others from reproducing or selling the plant and any harvested material obtained from the unauthorised use of propagated material. By developing novel varieties which are rich or absent in given chemicals, Phynova hopes to add a further layer of protection.

Regulatory data exclusivity and protection

Data exclusivity is the regulatory data protection, whereby an innovative pharmaceutical company can keep confidential the information submitted in order to obtain marketing approval for a medicinal product. A generic manufacturer can rely on the innovator's data for the originally authorised product to establish the safety and efficacy of his "essentially similar" product, but only after the originator of the product data has enjoyed a period of data exclusivity. Therefore during the data exclusivity period, a so-called "abridged application" for a generic drug without the consent of the holder of the original marketing approval is not possible. The period of protection varies from jurisdiction to jurisdiction, and is typically 10 years in Europe. In addition, as a generic manufacturer must demonstrate that there is bio-similarity with the originator's product, it may be possible to argue that any product which purports to be "generic" is not in fact "essentially similar" and therefore should not be allowed to rely on such data post exclusivity due to, for example, different starting materials and/or processing techniques which result in the "extracts" being different. For this reason patents relating to the extracts and extraction and

purification processes are important to ensuring a competitive position. Patents of this type have been granted to others in the botanical medicine field in both the UK and US.

LICENSING

It is well reported that major pharmaceutical companies expect gaps in their product portfolios when the patent rights to their drugs expire and generic drugs acquire major market shares. Furthermore, new drugs from their research and development efforts are being approved at a lower rate by the regulatory authorities: for example, the FDA approved 53 new molecular entities in 1996, 35 in 1999, 17 in 2002, 21 in 2003, 31 in 2004 and 13 (to Nov.) in 2005.

Pharmaceutical companies are therefore completing licensing deals with early stage drug development companies to fill these gaps, allowing the latter to generate revenues in advance of regulatory approval of their drugs. A typical licensing deal grants exclusive marketing rights to certain territories in consideration for the pharmaceutical company funding the remaining clinical trials and applying to the regulatory authorities for approval to market the drugs. Typically the pharmaceutical company makes an initial payment on signing the agreement (up-front payment), further payments as the Drug Candidates pass defined stages in the development and clinical trial process (milestone payments) and royalty payments on sales of the products.

DIRECTORS, MANAGEMENT AND SCIENTIFIC ADVISER

Phynova's management team has considerable experience in drug development and particular expertise in plant-derived medicines. Members of the team combine experience from working in early stage companies and major pharmaceutical groups. The Phynova management team also benefits from the advice of its scientific adviser. Set out below are summaries of the CVs of these individuals.

Phynova maintains a low fixed cost base. At present the Group's management team works on a part-time basis, except for the Managing Director. However it is expected that those working part-time will devote an increasing proportion of their time to the Group's affairs as the business expands. In addition, Phynova out-sources much of its development work to CROs. Some of these CROs also work for other companies that are developing plant-based medicines and have built up specialised knowledge that is very relevant to Phynova. Through the use of CROs, Phynova can access specialist knowledge when required without incurring fixed costs.

Directors

John Pool (61), Chairman

John has extensive experience in establishing public companies in the medical sector. In 1981 he instigated and was programme manager for the flotation of the first private hospital in the UK, The West Yorkshire Clinic, now a part of Community Hospitals Group plc. In 1987 he founded a private company exploiting computer aided molecular design in drug discovery which became a subsidiary of Proteus International plc in 1990. Having led the successful flotation of Proteus International plc on the Unlisted Securities Market of the London Stock Exchange, he served as its managing director and subsequently as deputy chairman, retiring in 1995. He is a director of The Medical House plc, Eirx Therapeutics plc (chairman), IDMOS plc (chairman), Zyzygy plc, and Physiomics plc.

Robert Miller (55), Managing Director

Robert has had over 20 years' experience in the natural products industry in both the United States and Europe. He is one of the main individuals responsible for the establishment of Chinese herbal medicine in the UK. He has had broad experience in the areas of product development, manufacturing, quality control and regulatory affairs relating to natural products. In 1997 he founded East West Biotech Limited, a company using proteomic technology for the development and quality control of botanical drugs whose assets were acquired by Oxford Natural Products Limited ("ONP") in 1999. Following the acquisition he was responsible for business development at ONP until October 2000.

Edward Blair PhD (46), Chief Science Officer

Eddie is a molecular biologist/biochemist with 15 years experience in the pharmaceutical industry, recently as Director of Applied Diagnostics and Surrogates at GlaxoSmithKline (GSK), and is also a visiting scholar at the University of Cambridge. He has been involved in all aspects of early phase drug development from target identification and routine compound screening through pre-clinical development & Phase II clinical trials. He has developed programmes that support the strategic

integration of surrogate biomarkers into the drug development pipeline from candidate selection to approval & launch. His broad therapeutic area experience includes viral, respiratory, liver and neurodegenerative disease, and also cancer gene therapy, with research aspects conducted in collaboration with esteemed UK, European and US academic groups. He is an expert in the field of virology having edited two books on the subject and has published more than 30 primary papers.

Alan Brown, FCCA (43), Finance Director

Alan has over 20 years' experience in finance and specialises in providing financial management and financial controls for medical research companies. He was financial controller for Avidex Limited, a biotechnology company.

William Doyle (61), Non-Executive Director

William, the founder of Phynova, has spent the past ten years focusing on the healthcare market. His efforts led to the US\$100 million financing of Enzymatic Therapy, Inc., where he served as Vice-Chairman, the creation of Integrative Therapeutics, Inc., a consolidation of professional distribution companies and the execution of Phynova's agreement with Hepusen in Beijing.

Michael Martin (53), Non-Executive Director

Michael has been a partner in Anvil Partners (now Anvil Partners LLP) since 1995 where he specialises in raising finance for management buy-outs and development capital. He previously spent 18 years in investment banking in London, New York, Paris and Dublin with Kleinwort Benson and Allied Irish Investment Bank and qualified as an accountant with Price Waterhouse.

Professor Michael Fowler, PhD, (61), Non-Executive Director

Mike is Chairman of Combigen Ltd. and Deputy Chairman of Eirx Therapeutics plc, an Irish Biotechnology company. He is also Emeritus Professor of Biotechnology and Industrial Bioscience, at the Department of Molecular Biology and Biotechnology, University of Sheffield where he was also responsible for early spin out activity in the 1980s before raising funds for Phytera Inc. a company mainly focused on anti-infectives and anti-cancer agents for which he raised \$70 million. Latterly, he held the position of Senior Advisor Biotechnology, Office of Managing Director, United Nations Industrial Development Organisation (UNIDO), Vienna.

Stephen Marshall (46), Non-Executive Director

Stephen has a degree in Engineering Geology and Geotechnics and is a Chartered member of the Institution of Civil Engineers and the Institute of Materials, Mining and Metallurgy. He joined City Analytical Services Limited (an environmental chemical testing company) in 1994 and became Managing Director in 1996. He was instrumental in restructuring the business and raising development finance. The business was sold to a major UK plc in 2001 where he continues in an executive capacity.

Senior Managers

Wendy Richings Barrow (51), Director of Regulatory Affairs

Wendy has worked in the healthcare industry since 1981, with SmithKline & French, Glaxo Animal Health and Cyanamid of Great Britain. At Cyanamid she was Regulatory Affairs Manager for its subsidiaries and Business Development Manager for Lederle Laboratories (a subsidiary of Cyanamid). Her responsibilities included in-licensing and out-licensing, identifying potential new business areas, and monitoring and advising on strategic developments in areas which included anti-infectives and Oncology. During this period Cyanamid registered a number of new chemical entities, and novel delivery systems for established pharmaceuticals and innovative devices. In 1995 she established Subiaco Associates, which provides consultancy services to the healthcare industry.

Shouming Zhong PhD (63), Research Director

Shouming graduated from China Pharmaceutical University, Nanjing and received his PhD in Phytochemistry from Strathclyde University, Glasgow. He is currently the Guest Professor of Guizhou University, Visiting Professor of Guiyang Medical College and a Principal with CMM Consultant Associates (UK). Shouming was previously employed at ONP as the Director of New Product Development, mainly responsible for the research and development of products containing Chinese medicinal plant materials. Previously, he was the Director of Research & Development at East West Biotech Limited, overseeing and executing the development of a number of natural products.

Hongwen Yu (52), Director of Product Development

Hongwen was a lecturer in the Department of Pharmacy, Shanghai University. She has worked for several companies which were developing medicines from plants. She is experienced in the development of plant-based medicines from “field to final dosage form”. She has prepared the initial Chemistry, Manufacturing and Control (CMC) documents for submission to ethics committees and regulatory bodies for clinical trial approval and has successfully managed several development programmes from concept to products in clinical phase. As a Pharmacognosist, she is experienced in the authentication and quality assessment of natural products.

Allan Cambridge (60), Commercial Director

Allan has held senior technical, production and commercial management and Board positions in the pharmaceutical industry, and was a member of the Board of Management of the ABPI, the industry’s trade association. He was UK General Manager of Evans Medical Ltd when the management purchased the company from Glaxo and later sold it to Medeva. After 3 years as an industry specialist for Deloitte and Touche, he worked in international business development for Wyeth Laboratories and Alizyme plc before becoming CEO of Lipoxen Technologies Limited in 2002. He established CamPharm Management Services Ltd in November 2004, where his expertise is managing growth and innovation in virtual companies.

Scientific adviser

Brian Whittle PhD (72), Scientific Director, GW Pharmaceuticals plc

Brian has over 40 years’ experience in the pharmaceutical industry and was co-founder of Phytopharm and GW Pharmaceuticals plc.

CORPORATE GOVERNANCE

The Directors recognise the value of the Combined Code. The Company intends, following Admission, to comply with the Combined Code so far as it is practicable and appropriate for a public company of its size and nature. The company also proposes to follow the recommendations on corporate governance of the Quoted Companies Alliance (QCA).

The Board has established an audit committee and a remuneration committee both with formally delegated duties and responsibilities. The audit committee comprises Michael Martin as the Chairman and John Pool and Stephen Marshall, and the remuneration committee comprises Michael Martin, as the Chairman and John Pool.

The audit committee will receive and review reports from the Company’s management and the Company’s auditors relating to the annual and interim accounts and the accounting and internal control systems in use throughout the Group. The audit committee will have unrestricted access to the Group’s auditors.

The remuneration committee will review the scale and structure of the Executive Directors’ remuneration and the terms of their service contracts. The remuneration and terms and conditions of appointment of the Non-Executive Directors will be set by the Board. No Director may participate in any meeting at which discussion or decision regarding his own remuneration takes place. The remuneration committee will also administer any share option schemes and share incentive scheme.

The Company will take all reasonable steps to ensure compliance by the Directors and applicable employees with the provisions of the AIM Rules relating to dealings in securities of the Company and has adopted a share dealing code for this purpose.

The Company has departed from certain aspects of the guidelines set out in the Combined Code and the QCA Guidelines in that Non-Executive Directors have been granted Options. However, Options granted to Directors and Non-Executive Directors are not subject to performance criteria. Full details of the terms of the Options are set out in paragraph 9.1 of Part V of this document. Details of Options granted to Directors are set out in paragraph 7.2 of Part V of this document.

In the opinion of the Directors, although the Non-Executive Chairman of the Company has been granted options, these are not considered to be material enough to either the Company or the Chairman to impair his independence. Consequently, both the Chairman and Michael Fowler (also a Non-Executive Director, who holds no options in the Company) are considered by the Board to be the Company’s two

“independent” Non-Executive Directors. The Chairman has been appointed to both of the Board committees described above.

EMPLOYEES AND SHARE INCENTIVE SCHEMES

Shortly after Admission, the Directors intend to set up an EMI Option Scheme for employees. The Directors anticipate that granting options to subscribe for Ordinary Shares will be an important aspect of the Group’s ability to attract, retain and incentivise key employees.

OPTIONS

On Admission the Company has 7,150,560 Options outstanding, representing 32.58% of the Company’s fully diluted issued share capital. Further details of the Options are set out in paragraph 3.15 of Part V.

SUBSCRIPTION AGREEMENTS

During February 2006 the Company entered into Subscription Agreements with each of the Investors listed below, whereby the Investors agreed to subscribe for a total of 6,083,336 Ordinary Shares at the Private Funding Price conditional only upon the Company’s admission to AIM by 5.00pm on 31 March 2005. The total receivable by the Company in respect of this subscription will be £3.65 million. Following completion of the subscription the Investors will own 41.10% of the issued share capital of the Company.

<i>Name</i>	<i>Sum</i>	<i>Number of ordinary shares</i>
Andertec Limited	£1,000,000	1,666,667
Russell Duckworth	£200,000	333,334
David Carr	£200,000	333,334
Michael Yates	£500,000	833,334
Graeme Spiers	£60,000	100,000
Ian Spiers	£190,000	316,667
Polymer Holdings Ltd.	£750,000	1,250,000
Castor	£750,000	1,250,000
Total	£3,650,000	6,083,336

Further details of the Subscription Agreements are set out in paragraph 11.4.1 of Part V.

Castor is an AIM listed “cash shell” which was admitted to AIM in March 2005, as a new investment company, with the specific aim of making investments in the healthcare, life sciences or support services sectors. The subscription in Phynova will be Castor’s first investment.

CURRENT TRADING AND PROSPECTS

Historical financial information, on the Company and on Phynova is set out in Parts III and IV of this document, respectively.

The Group recorded a loss on ordinary activities before taxation of £606,653 for the 15 month period ended 30 September 2005. Since 1 October 2005, the Group has continued to perform in line with management’s expectations. It is intended that interim accounts for the six months to 31 March 2006 will be published by 30 June 2006.

The Group’s prospects are dependent upon the results of its development programmes, as detailed elsewhere in this document. With the capital recently raised, the Directors believe that the Group will be well placed to achieve a number of milestones in the process of developing newly registered drugs.

REASONS FOR ADMISSION

The Directors consider that the Company's flotation on AIM will be an important step in its development and will enhance its standing in the biopharmaceutical market. It will also assist the Company to access equity finance which is likely to be required in order to fund its continuing development programme.

DIRECTORS' PARTICIPATION AND LOCK-IN UNDERTAKINGS

Directors' interests

Details of the interests of the Directors in Ordinary Shares and in Options over Ordinary Shares are set out in paragraphs 7.1 and 7.2 of Part V of this document.

Lock-in undertakings

Each Director (and their related parties, as applicable), has undertaken to the Company and to the Nabarro Wells that (i) he will not, except in certain strictly limited circumstances, dispose of Ordinary Shares for a period of one year following Admission and (ii) he will not, without the prior consent of Nabarro Wells, sell his shares other than through the nominated broker, for any proposed sale in the following 12 month period.

These undertakings do not apply in certain specified circumstances, including acceptance of a general offer to holders of all the Ordinary Shares, or any part of it (other than the offeror and/or any body corporate controlled by the offeror and/or any persons acting in concert with such offeror), or the execution of an irrevocable commitment to accept such an offer or a sale to an offeror or potential offeror.

DIVIDEND POLICY

The declaration and payment of dividends on the Ordinary Shares is at the discretion of the Board. The Board's intention is for the Company to re-invest any net earnings to finance the growth and expansion of its business and accordingly it is not intended that the Company shall pay any dividends in the foreseeable future. Therefore, it is likely that any distributable profits will in the short term be retained within the Group. The Board will keep the situation under review as the business develops and intends to commence the payment of a dividend as soon as is appropriate and practicable.

CREST

CREST is a paperless settlement procedure which allows securities to be evidenced without a certificate and transferred other than by written instruction. The Company's Articles permit the holding of Ordinary Shares under the CREST system. Application has been made for all of the issued and to be issued Ordinary Shares to be eligible for admission to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the individual Shareholders so wish.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. Should Shareholders wish to hold their Ordinary Shares in CREST, they will need to follow the requisite CREST procedures.

FURTHER INFORMATION

Prior to investing in the Company, investors should consider, together with the other information contained in this document, the risks and other factors attaching to an investment in the Company, including in particular, the factors set out in "Risk Factors" in Part II of this document.

PART II

RISK FACTORS

In addition to all other information set out in this document potential investors should carefully consider the risk factors described below before making a decision to invest in the Company. If any events or circumstances giving rise to any of the following risks actually occur, the Company's business, financial condition, results or future operations could be materially affected. In such circumstances, the price of the Company's shares could decline and investors could lose all or part of their investment. This document contains forward-looking statements that involve risks and uncertainties. The Company's results could actually differ materially from those anticipated in the forward-looking statements as a result of many factors, including, without limitation, the risks faced by the Company, which are described below and elsewhere in the document.

An investment in the Company should be considered highly speculative

Investors should view their potential investment in the Company as highly speculative and risky. Investors will face the risk that the Company will fail completely and that investors may lose all or a portion of their invested capital. There can be no assurance as to when or whether the Company will have cash to distribute to shareholders. There can be no assurance that there will be any return of capital.

The Phynova Group has a limited operating history for investors to evaluate

Phynova was founded in July 2002 and the Company was incorporated in August 2004. There is therefore a limited operating history on which potential investors may base an investment decision. Although the Board anticipates that the Company's strategy will be implemented as intended, an investment in the Company should be viewed as highly speculative. Future facts and circumstances may require the Board to revise its original investment strategies in response to ever changing market dynamics.

Drug Candidates need to be approved by regulatory authorities

Regulatory authorities require new drug candidates to undergo extensive pre-clinical and clinical evaluation to determine their safety and efficacy. While there is evidence that the Drug Candidates have had a history of safe and efficacious use in China, there is no certainty that the trials that Phynova conducts will demonstrate results acceptable to regulators. Phynova's trials may be delayed or abandoned due to difficulties with patient recruitment, safety or efficacy issues, problems in securing raw materials, quality control issues, unforeseen delays or a shortfall in funding.

The regulatory regime governing Phynova's products is untried

The Drug Candidates are botanical drugs, i.e. mixtures of natural compounds that are thought to have synergistic benefits. Although the FDA is encouraging the development of botanical drugs by publishing new guidelines and setting up the Botanical Drug Review Team, and has granted several INDs for botanical drugs, it has not yet approved a botanical drug.

The Phynova Group relies heavily on its management team and consultants

The viability of the Group relies on retaining highly skilled personnel, including directors, officers, consultants and other key personnel. The loss of the services of any of these key personnel could adversely affect the Company.

Contracts with Chinese counterparties

It may not be possible to enforce these contracts or obtain remedies for breach.

Phynova may not be able to secure patent protection for its claims

Phynova has submitted patent applications for two of its Drug Candidates and may submit further applications for its other Drug Candidates. There is no certainty that these applications will be granted. Since patent applications are not published for up to 18 months, Phynova cannot be certain that it was the first applicant to seek patent protection for its claims. Phynova's applications may be opposed or Phynova may need to oppose the applications of others, involving additional cost without the assurance of a positive outcome. Phynova may not be able to secure patent protection for its claims and any granted patents could be challenged.

Phynova relies on third parties for many critical functions

Phynova's development programmes are managed by a small team and many functions are contracted out to third parties. Such functions include growing, sourcing, manufacturing, pre-clinical and clinical studies. These third parties may fail to meet Phynova's or the regulators' standards including good agricultural practice or good manufacturing practice.

The Company is likely to need to raise new funds which may not be forthcoming

The Company believes it will have sufficient resources to conduct its development programmes for the period to 31 March 2007, and that it will need to raise additional funds to continue beyond that date. However, unforeseen costs may arise during this period in excess of the contingency levels allowed and there is no certainty that funding will be available on acceptable terms or at all to meet such a cost overrun or to finance the Company after 31 March 2007. Any additional equity or equity-linked financing would be dilutive to shareholders, and additional debt financing, if available, may involve restrictive covenants.

Phynova may not be able to out-license its Drug Candidates

Phynova's business plan involves out-licensing its Drug Candidates to larger pharmaceutical companies who will fund further clinical development work, make regulatory applications and market the final products. Although a number of pharmaceutical companies have licensed drug candidates from early-stage drug development companies, there is no certainty that they will do so in the future, that they will be interested in licensing the Drug Candidates or that the terms they propose will be acceptable to Phynova.

Competing drugs may gain market acceptance

Drug development is a dynamic activity with existing therapies being improved and new therapies being introduced each year. As it will take many years for any of the Drug Candidates to reach the market, there can be no certainty that the unmet therapeutic needs which Phynova believes exist today, will exist if and when the Drug Candidates are approved.

Volatility in share price and liquidity

The share prices of publicly traded companies that are perceived to be within the life science sector are often subject to significant fluctuations. The market price of the Ordinary Shares may therefore be volatile and may be influenced by factors which affect the sector (or quoted companies) generally and not just factors specific to the Company. Admission to AIM does not guarantee that there will be a liquid market for Ordinary Shares. An active public market for the Ordinary Shares may not develop or be sustained after Admission and the market price may fall.

The Company has never paid a dividend and it may never do so

Due to the early stage nature of the business, with significant development costs incurred and no income, resulting in a deficit on its Profit and Loss Account, the Company has never paid any dividends and is unlikely to pay dividends in the foreseeable future. Investors should have no expectations that returns from the Company will be derived from dividends.

Taxation

Any change in the Company's tax status or in taxation legislation could affect the Company's ability to provide returns to shareholders or alter post tax returns to shareholders. Statements in this document concerning the taxation of investors in Ordinary Shares are based on current tax law and practice which is subject to change. The taxation of an investment in the Company depends on the individual circumstances of shareholders.

PART III

HISTORICAL FINANCIAL INFORMATION ON PHYNOVA GROUP PLC

Section A – Accountant’s Report



BDO Stoy Hayward LLP
Chartered Accountants

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21 February 2006

The Directors
Phynova Group plc
The Madgalen Centre
Oxford Science Park
Oxford
OX4 4GA

The Directors
Nabarro Wells & Co. Limited
Saddlers House
Gutter Lane
London
EC2V 6HS

Dear Sirs

Phynova Group plc (the “Company”) and its subsidiary undertakings (together “the Group”)

Introduction

We report on the financial information set out in Section B of Part III. This financial information has been prepared for inclusion in the admission document dated 21 February 2006 (the “Admission Document”) issued by Phynova Group plc.

Responsibilities

As described in section B of Part III of the Admission Document, the directors of Phynova Group plc are responsible for preparing the financial information on the basis of preparation set out in Note 1 to the financial information and in accordance with applicable UK accounting standards.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information underlying the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the

financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purpose of the Admission Document, a true and fair view of the state of affairs of the Group as at the dates stated and of its losses for the periods then ended in accordance with the basis of preparation set out in Note 1 to the financial information and has been prepared in accordance with the applicable UK accounting standards.

Declaration

For the purposes of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

BDO Stoy Hayward LLP

Chartered Accountants

Section B – Historical Financial Information

Responsibility

The directors of Phynova Group plc are responsible for preparing the financial information set out below on the basis of preparation set out in Note 1 to the financial information and in accordance with applicable UK accounting standards.

Consolidated profit and loss accounts

	<i>Notes</i>	<i>Pro-forma Year ended 30 June 2004 £000</i>	<i>Period ended 30 September 2005 £000</i>
Turnover		–	–
Cost of sales		(411)	(243)
Gross loss		(411)	(243)
Administrative expenses		(179)	(364)
Loss on ordinary activities before and after taxation for the financial period	2	(590)	(607)
Retained loss	12	(590)	(607)
Loss per share			
Basic and diluted	6	£(0.102)	£(0.087)

All amounts relate to continuing activities.

All recognised gains and losses are included in the profit and loss account.

Consolidated balance sheets

		<i>Pro-forma</i>	
		<i>30 June</i>	<i>30 September</i>
		<i>2004</i>	<i>2005</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
Fixed assets			
Tangible assets	7	3	2
		<u>3</u>	<u>2</u>
Current assets			
Debtors	8	6	205
Cash at bank and in hand		54	29
		<u>60</u>	<u>234</u>
Creditors: amounts falling due within one year	9	(103)	(218)
Net current (liabilities)/assets		<u>(43)</u>	<u>16</u>
Total assets less current liabilities		(40)	18
Provision for liabilities and charges	10	–	(236)
Net liabilities		<u>(40)</u>	<u>(218)</u>
Capital and reserves			
Called up share capital	11	66	76
Share premium account	12		419
Merger difference reserve	12	643	643
Profit and loss account	12	(749)	(1,356)
Equity shareholders' deficit	13	<u>(40)</u>	<u>(218)</u>

Consolidated cash flow statement

		<i>Pro-forma</i>	
		<i>Year ended</i>	<i>Period ended</i>
		<i>30 June</i>	<i>30 September</i>
		<i>2004</i>	<i>2005</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
Net cash outflow from operating activities			
	16	(485)	(453)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2)	(1)
Net cash outflow before financing		(487)	(454)
Financing			
Issue of ordinary share capital		531	429
Increase/(decrease) in cash for the period	17	44	(25)

Notes to the consolidated financial information

1. Principal accounting policies

The financial information has been prepared under the historical cost convention and in accordance with applicable UK accounting standards. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information.

Basis of consolidation

The consolidated financial information incorporates the results of Phynova Group plc and all of its subsidiary undertakings for a period of 15 months ended 30 September 2005 using the merger method of accounting. The Company was incorporated on 10 August 2004.

Merger accounting

Where merger accounting is used, the investment is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

In the Group financial statements, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such a subsidiary are included for the whole period in the period it joins the Group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the Company as consideration as if they had always been in issue. Any difference between the nominal value and share premium of the shares acquired by the Company and those issued by the Company to acquire them is taken to reserves.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, evenly over their expected useful lives. It is calculated at the following rates:

Fixtures and fittings	–	Over 3 years straight line
Office equipment	–	Over 3 years straight line
Scientific equipment	–	Over 3 years straight line

Research and development

Expenditure on pure and applied research is charged to the profit and loss account in the period in which it is incurred.

Development costs are also charged to the profit and loss account in the period of expenditure, unless individual projects satisfy all of the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs are expected to be exceeded by future sales; and
- adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward and amortised over a period not exceeding five years commencing in the period the group starts to benefit from the expenditure.

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.

2. Loss on ordinary activities

This is arrived at after charging

	<i>Pro-forma Year ended 30 June 2004 £000</i>	<i>Period ended 30 September 2005 £000</i>
Research and development – expenditure in the period	411	243
Depreciation	2	2
Auditors’ remuneration – audit services	2	6

3 Employees

The average number of employees during the period, including executive directors, was:

<i>Pro-forma Year ended 30 June 2004 Number</i>	<i>Period ended 30 September 2005 Number</i>
3	4

Other than the directors’ emoluments disclosed in Note 4, the Group did not incur any staff costs during the year.

4 Directors’ remuneration

	<i>Pro-forma period ended 30 June 2004 £000</i>	<i>Period ended 30 September 2005 £000</i>
Directors’ emoluments	99	152

Details of consultancy services provided by entities in which any director holds an interest are disclosed in note 13. Included in the above amount is £132,110 (2004 pro-forma – £99,139) which has been paid to 3rd party companies, which the directors control, for the services of those directors.

A further amount of £5,687 (2004 pro-forma – £14,674) has been paid to third parties in respect of directors’ qualifying services.

The share options of the directors at 30 September 2005 are set out below:

	<i>Granted Number</i>	<i>Exercise Price (pence)</i>	<i>Period of option</i>
M Martin	615,520	36.57	23 September 2004 – 9 February 2007
	73,800	36.57	23 September 2004 – 15 April 2007
	81,960	36.57	23 September 2004 – 14 June 2007
	70,000	50.00	31 March 2005 – 31 March 2008
	23,450	50.00	22 September 2005 – 22 September 2008
	60,000	50.00	30 September 2005 – 30 September 2008
W Doyle	22,640	36.57	23 September 2004 – 9 February 2007
S Marshall	410,120	36.57	23 September 2004 – 9 February 2007
	273,400	36.57	23 September 2004 – 15 April 2007
	20,000	50.00	31 January 2005 – 31 January 2008
E Blair	37,080	36.57	23 September 2004 – 12 July 2007
	12,000	36.57	31 January 2005 – 31 January 2008
	9,000	50.00	31 March 2005 – 31 March 2008
	18,000	50.00	30 September 2005 – 30 September 2008
J Pool	100,000	50.00	28 February 2005 – 28 February 2008

No options lapsed during the period.

5 Taxation on profit from ordinary activities

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

	<i>Pro-forma Year ended 30 June 2004 £000</i>	<i>Period ended 30 September 2005 £000</i>
Loss on ordinary activities before tax	(590)	(607)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2004 – 30%)	(177)	(182)
Effect of:		
Tax losses created	177	182
UK corporation tax in respect of period	–	–

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

The Company's subsidiary undertaking has tax losses of approximately £1,515,000 (2004 – £832,000) to carry forward against profits of the same trade.

6. Loss per share

Loss per ordinary share has been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue and the loss, being loss after tax, are as follows:

	<i>Pro-forma</i> <i>Year ended</i> <i>30 June</i> <i>2004</i> <i>Number</i>	<i>Period ended</i> <i>30 September</i> <i>2005</i> <i>Number</i>
Weighted average number of equity shares	5,780,390	6,952,913
	<i>£000</i>	<i>£000</i>
Loss, being loss after tax	(590)	(607)

There is no difference between the basic and fully diluted earnings per ordinary share, as the Company was loss making over the period under review.

7. Tangible fixed assets

	<i>Fixtures and fittings £000</i>	<i>Office equipment £000</i>	<i>Scientific equipment £000</i>	<i>Total £000</i>
Cost				
Pro-forma as at 30 June 2003	1	3	–	4
Additions	–	1	1	2
Pro-forma as at 30 June 2004	1	4	1	6
Additions	–	1	–	1
At 30 September 2005	1	5	1	7
Depreciation				
Pro-forma as at 30 June 2003	–	1	–	1
Provided for the period	1	1	–	2
Pro-forma as at 30 June 2004	1	2	–	3
Provided for the period	–	1	1	2
As at 30 September 2005	1	3	1	5
Net book value				
Pro-forma as at 30 June 2004	–	2	1	3
As at 30 September 2005	–	2	–	2

8. Debtors

	<i>Pro-forma</i>	
	<i>30 June</i>	<i>30 September</i>
	<i>2004</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Other debtors	6	205

All amounts fall due for payment within one year.

9. Creditors: amounts falling due within one year

	<i>Pro-forma</i>	
	<i>30 June</i>	<i>30 September</i>
	<i>2004</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Trade creditors	7	187
Accruals and deferred income	36	31
	<u>103</u>	<u>218</u>

10. Provision for liabilities and charges

	<i>Taxation and</i>
	<i>social security</i>
	<i>provision</i>
	<i>£000</i>
Charged to profit and loss account	236
At 30 September 2005	<u>236</u>

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

11. Share capital

	<i>Pro-forma</i>	
	<i>30 June</i>	<i>30 September</i>
	<i>2004</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Authorised		
Ordinary shares of 1p each	66	76
Allotted, called up and fully paid		
Ordinary shares of 1p each	66	76

	<i>Value of issue pence per share</i>	<i>Ordinary shares of 1 pence each Number</i>	<i>£000</i>
In issue at 10 August 2004	1.00	2	-
Shares issued 23 September 2004	1.00	6,593,158	66
Shares issued 27 January 2005	50.00	522,000	5
Shares issued 24 February 2005	1.00	13,000	-
Shares issued 15 June 2005	37.50	147,388	2
Shares issued 4 August 2005	1.00	5,625	-
Shares issued 22 September 2005	50.00	161,702	2
Shares issued 30 September 2005	36.57	136,680	1
Shares issued 30 September 2005	50.00	40,000	-
As at 30 September 2005		<u>7,619,555</u>	<u>76</u>

Share option scheme

At 30 September 2005 the following share options were outstanding in respect of the ordinary shares:

<i>Date of grant</i>	<i>Number of options</i>	<i>Period of option</i>	<i>Price per share</i>
23 September 2004	2,034,240	September 2004 – February 2007	36.57p
23 September 2004	366,360	September 2004 – April 2007	36.57p
23 September 2004	81,960	September 2004 – June 200	36.57p
23 September 2004	37,080	September 2004 – July 2007	36.57p
31 January 2005	21,834	January 2005 – January 2008	36.57p
31 January 2005	230,000	January 2005 – January 2008	50.00p
28 February 2005	406,000	February 2005 – February 2008	50.00p
31 March 2005	154,220	March 2005 – March 2008	50.00p
22 September 2005	277,274	September 2005 – September 2008	50.00p
30 September 2005	354,680	September 2005 – September 2008	50.00p

12. Reserves

	<i>Share premium account £000</i>	<i>Merger difference reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
Pro-forma as at 30 June 2003	–	61	(159)	(98)
Premium on shares issued during the period	–	567	–	567
Shares to be issued		56		56
Expenses of share issues	–	(41)	–	(41)
Loss for the period	–	–	(590)	(590)
Pro-forma as at 30 June 2004	–	643	(749)	(106)
Premium on shares issued during the period	452	–	–	452
Expenses of share issues	(33)	–	–	(33)
Loss for the period	–	–	(607)	(607)
As at 30 September 2005	419	643	(1,356)	(294)

13. Reconciliation of movements in shareholders' funds

	<i>Pro-forma</i>	
	<i>30 June 2004 £000</i>	<i>30 September 2005 £000</i>
At the beginning of the period	550	(40)
Issue of shares	–	10
Premium on shares issued	–	419
Loss for the period	(590)	(607)
At the end of the period	(40)	(218)

14. Related party transactions

<i>Related party</i>	<i>Purchases from related party £000</i>	<i>Amounts owed to related party £000</i>
Pro-forma year ended 30 June 2004		
Swerford Consulting	80	–
Strategic Marketing Systems Inc	5	–
Blair-Biomedical Consulting	14	8
Anvil Partners LLP	15	1
Period ended 30 September 2005		
Swerford Consulting	100	–
Strategic Marketing Systems Inc	–	–
Blair-Biomedical Consulting	31	24
Anvil Partners LLP	6	1
A Brown	20	5
Wellbeach Associates	1	1

R Miller, a director of Phynova Limited, is a director and shareholder of Swerford Consulting, an entity that provides consultancy services to Phynova Limited.

W Doyle, a director of Phynova Limited, is a director and shareholder of Strategic Marketing Systems Inc, a company that provides consultancy services to Phynova Limited.

E Blair, a director of Phynova Limited, is a director and shareholder of Blair-Biomedical Consulting, an entity that provides consultancy services to Phynova Limited.

M Martin, a director of Phynova Limited, is a member of Anvil Partners LLP, a limited liability partnership that provides consultancy services to Phynova Limited.

J Pool, a director of Phynova Group plc, has a material interest in Wellbeach Associates, a company that provides consultancy services to Phynova Limited.

A Brown, a director of Phynova Group plc, provides consultancy services to Phynova Limited.

Other amounts due from related parties

Related party	<i>2004 £000</i>	<i>2005 £000</i>
R Miller	–	79
E Blair	–	15
A Brown	–	9

The above amounts are interest free and are payable within one year. The balances at 30 September 2005 represent the maximum amount outstanding during the financial period then ended.

15. Post balance sheet events

During January 2006, the Company's lawyers received aggregate funds of £3.65 million from eight new investors. These funds are being held in an escrow account and will be released to the Company upon its proposed admission to AIM. Should the company not achieve AIM listing by 5.00pm on 31 March 2006, the funds will be returned, in full, to the investors.

On 2 November 2005, the Company issued 5,679 Ordinary shares of 1p each at 50p. On 9 December 2005, the company issued 600,000 Ordinary shares of 1p each at 50p; and on 24 January 2006, the Company issued a further 491,000 Ordinary shares of 1p each at 50p.

On 9 December 2005, the Company issued 1,200,000 Ordinary share options at 50p each. On 24 January 2006, the Company issued 1,119,750 Ordinary share options at 50p; and on 13 February 2006, the Company issued 50,000 Ordinary share options at 50p.

By a resolution dated 22 December the authorised share capital of the Company was increased from £175,000 to £350,000 by the creation of 17,500,000 additional Ordinary Shares of 1p each, ranking *pari passu* with the existing share capital of the Company.

16. Reconciliation of operating loss to net cash out flow from operating activities

	<i>Pro-forma Year ended 30 June 2004 £000</i>	<i>Period ended 30 September 2005 £000</i>
Operating loss	(590)	(607)
Depreciation	2	2
Decrease /(Increase) in debtors	12	(199)
Increase in creditors	91	115
Increase in provisions	–	236
Net cash out flow from operating activities	<u>(485)</u>	<u>(453)</u>

17. Reconciliation of net cash out flow to movement in net funds

	<i>Pro-forma Year ended 30 June 2004 £000</i>	<i>Period ended 30 September 2005 £000</i>
Increase/(decrease) in cash in the year	44	(25)
Movement in net funds in the period	<u>44</u>	<u>(25)</u>
Net funds at the beginning of the period	10	54
Net funds at the end of the period (Note 18)	<u>54</u>	<u>29</u>

18. Analysis of net funds

	<i>At start of the period £000</i>	<i>Cash flow £000</i>	<i>At the end of the period £000</i>
Pro-forma Year ended 30 June 2004			
Cash at bank and in hand	10	44	54
Period ended 30 September 2005			
Cash at bank and in hand	<u>54</u>	<u>(25)</u>	<u>29</u>

PART IV

HISTORICAL FINANCIAL INFORMATION ON PHYNOVA LIMITED

Section A – Accountant’s Report



BDO Stoy Hayward LLP
Chartered Accountants

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21 February 2006

The Directors
Phynova Group plc
The Madgalen Centre
Oxford Science Park
Oxford
OX4 4GA

The Directors
Nabarro Wells & Co. Limited
Saddlers House
Gutter Lane
London
EC2V 6HS

Dear Sirs

Phynova Limited (the “Company”)

Introduction

We report on the financial information set out in Section B of Part IV. This financial information has been prepared for inclusion in the admission document dated 21 February 2006 (the “Admission Document”) issued by Phynova Group plc.

Responsibilities

As described in section B of Part IV of the Admission Document, the directors of Phynova Limited are responsible for preparing the financial information on the basis of preparation set out in Note 1 to the financial information and in accordance with applicable UK accounting standards.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information underlying the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the

financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purpose of the Admission Document, a true and fair view of the state of affairs of the Company as at the dates stated and of its losses for the periods then ended in accordance with the basis of preparation set out in Note 1, to the financial information and has been prepared in accordance with the applicable UK accounting standards.

Declaration

For the purposes of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

BDO Stoy Hayward LLP
Chartered Accountants

Section B – Historical Financial Information

Responsibility

The directors of Phynova Group plc are responsible for preparing the financial information set out below on the basis of preparation set out in Note 1 to the financial information and in accordance with applicable UK accounting standards.

Profit and loss accounts

		<i>17 months ended 30 June 2003 £000</i>	<i>Year ended 30 June 2004 £000</i>	<i>15 months ended 30 September 2005 £000</i>
Turnover		–	–	–
Cost of sales		(8)	(411)	(243)
Gross loss		(8)	(411)	(243)
Administrative expenses		(151)	(179)	(364)
Loss on ordinary activities before and after taxation for the financial period	2	(159)	(590)	(607)
Retained loss	13	(159)	(590)	(607)
Loss per share				
Basic and diluted	6	£(1.27)	£(1.02)	£(0.92)

All amounts relate to continuing activities.

All recognised gains and losses are included in the profit and loss account.

Balance sheets

	Notes	30 June 2003 £000	30 June 2004 £000	30 September 2005 £000
Fixed assets				
Tangible assets	7	3	3	2
Investments	8	–	–	–
		<u>3</u>	<u>3</u>	<u>2</u>
Current assets				
Debtors	9	18	6	134
Cash at bank and in hand		10	54	29
		<u>28</u>	<u>60</u>	<u>163</u>
Creditors: amounts falling due within one year	10	<u>(12)</u>	<u>(103)</u>	<u>(576)</u>
Net current assets/(liabilities)		<u>16</u>	<u>(43)</u>	<u>(413)</u>
Total assets less current liabilities		19	(40)	(411)
Provision for liabilities and charges	11	–	–	(236)
Net assets/(liabilities)		<u>19</u>	<u>(40)</u>	<u>(647)</u>
Capital and reserves				
Called up share capital	12	12	17	66
Share premium account	13	110	692	643
Shares to be issued reserve	13	56	–	–
Profit and loss account	13	(159)	(749)	(1,356)
Equity shareholders' funds/(deficit)	14	<u>19</u>	<u>(40)</u>	<u>(647)</u>

Cash flow statement

	Notes	17 months ended 30 June 2003 £000	Year ended 30 June 2004 £000	15 months ended 30 September 2005 £000
Net cash outflow from operating activities	16	(164)	(485)	(24)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(4)	(2)	(1)
Net cash outflow before financing		<u>(168)</u>	<u>(487)</u>	<u>(25)</u>
Financing				
Issue of ordinary share capital		12	4	–
Net share premium received on share issues		110	527	–
Shares to be issued		56	–	–
Cash inflow from financing		<u>178</u>	<u>531</u>	<u>–</u>
Increase/(decrease) in cash for the period	17	<u>10</u>	<u>44</u>	<u>(25)</u>

Notes to the financial information

1. Principal accounting policies

The financial information has been prepared under the historical cost convention and in accordance with applicable UK accounting standards. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information.

Consolidated financial statements

The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, evenly over their expected useful lives. It is calculated at the following rates:

Fixtures and fittings	–	Over 3 years straight line
Office equipment	–	Over 3 years straight line
Scientific equipment	–	Over 3 years straight line

Research and development

Expenditure on pure and applied research is charged to the profit and loss account in the period in which it is incurred.

Development costs are also charged to the profit and loss account in the period of expenditure, unless individual projects satisfy all of the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs are expected to be exceeded by future sales; and
- adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward and amortised over a period not exceeding five years commencing in the period the company starts to benefit from the expenditure.

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 company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

2. Loss on ordinary activities

	<i>17 months ended 30 June 2003 £000</i>	<i>Year ended 30 June 2004 £000</i>	<i>15 months ended 30 September 2005 £000</i>
This is arrived at after charging:			
Research and development – expenditure in the period	8	411	243
Depreciation	2	2	2
Auditors’ remuneration – audit services	–	2	6

3. Employees

The average number of employees during the period, including executive directors, was:

	<i>17 months ended 30 June 2003 Number</i>	<i>Year ended 30 June 2004 Number</i>	<i>15 months ended 30 September 2005 Number</i>
	2	3	2

Other than the directors’ emoluments disclosed in Note 4, the Company did not incur any staff costs during the year

4. Directors’ remuneration

	<i>17 months ended 30 June 2003 £000</i>	<i>Year ended 30 June 2004 £000</i>	<i>15 months ended 30 September 2005 £000</i>
Directors’ emoluments	78	99	152

Details of consultancy services provided by entities in which any director holds an interest are disclosed in note 15. Included in the above amount is £132,110 (2004 – £99,139; 2003 – £73,333) which has been paid to 3rd party companies, which the Directors control, for the services of those Directors.

A further amount of £5,687 (2004 - £14,674; 2003 – £nil) has been paid to third parties in respect of directors’ qualifying services.

On 23 September 2004, all share options held by directors in respect of Phynova Limited were cancelled.

5. Taxation on profit from ordinary activities

	<i>17 months ended 30 June 2003 £000</i>	<i>Year ended 30 June 2004 £000</i>	<i>15 months ended 30 September 2005 £000</i>
Loss on ordinary activities before tax	(159)	(590)	(607)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2004 – 30%)	(48)	(177)	(182)
Effect of:			
Tax losses created	48	177	182
UK corporation tax in respect of period	–	–	–

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

The Company has tax losses of approximately £1,515,000 (2004 - £832,000; 2003 - £161,132) to carry forward against profits of the same trade.

6. Loss per share

Loss per ordinary share has been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue and the loss, being loss after tax, are as follows:

	<i>17 months ended 30 June 2003 Number</i>	<i>Year ended 30 June 2004 Number</i>	<i>15 months ended 30 September 2005 Number</i>
Weighted average number of equity shares	124,959	578,039	659,316
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Loss, being loss after tax	(159)	(590)	(607)

7. Tangible fixed assets

	<i>Fixtures and fittings £000</i>	<i>Office equipment £000</i>	<i>Scientific equipment £000</i>	<i>Total £000</i>
Cost				
As at 21 January 2002	-	-	-	-
Additions	1	3	-	4
As at 30 June 2003	1	3	-	4
Additions	-	1	1	2
As at 30 June 2004	1	4	1	6
Additions	-	1	-	1
As at 30 September 2005	1	5	1	7
Depreciation				
As at 21 January 2002	-	-	-	-
Provided for the period	-	1	-	1
As at 30 June 2003	-	1	-	1
Provided for the period	1	1	-	2
As at 30 June 2004	1	2	-	3
Provided for the period	-	1	1	2
As at 30 September 2005	1	3	1	5
Net book value				
As at 30 June 2003	1	2	-	3
As at 30 June 2004	-	2	1	3
As at 30 September 2005	-	2	-	2

8. Fixed asset investments

Subsidiary and associated undertakings

The following was a subsidiary and associated undertaking at the end of the year and it has been included in the consolidated financial statements:

<i>Name</i>	<i>Country of incorporation or registration</i>	<i>Proportion of voting rights and ordinary share capital held</i>	<i>Nature of business</i>
Phynova LLC	USA	100%	Dormant company

For the undertaking listed above, the country of operation is the same as its country of incorporation or registration.

9. Debtors

	<i>30 June 2003 £000</i>	<i>30 June 2004 £000</i>	<i>30 September 2005 £000</i>
Other debtors	18	6	134

All amounts fall due for payment within one year.

10. Creditors: amounts falling due within one year

	<i>30 June 2003 £000</i>	<i>30 June 2004 £000</i>	<i>30 September 2005 £000</i>
Trade creditors	12	67	187
Amounts owed to group undertakings	–	–	362
Accruals and deferred income	–	36	27

11. Provision for liabilities and charges

	<i>Taxation and social security provision £000</i>
Charged to profit and loss account	236
At 30 September 2005	236

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

12. Share capital

	<i>30 June</i> 2003 £000	<i>30 June</i> 2004 £000	<i>30 September</i> 2005 £000
Authorised			
Ordinary shares of 10p each	20	30	670
Allotted, called up and fully paid			
Ordinary shares of 10p each	12	17	66
		<i>Ordinary shares of 10 pence</i> <i>each</i>	
	<i>Value of issue</i> <i>£ per share</i>	<i>Number</i>	<i>£000</i>
As at 21 January 2002	0.10	1	–
Shares issued 16 July 2002	0.10	917	–
Shares issued 16 July 2002	14.63	82	–
Shares issued 30 January 2003	0.10	102,240	10
Shares issued 2 June 2003	0.10	18,669	2
As at 30 June 2003		121,909	12
Shares issued 24 September 2003	14.63	17,629	2
Shares issued 31 January 2004	14.63	18,456	2
Shares issued 15 April 2004	14.63	6,835	1
As at 30 June 2004		164,829	17
Shares issued 23 September 2004	0.10	494,487	49
As at 30 September 2005		659,316	66

On 23 September 2004 a bonus issue of shares was made on the basis of 3 new and fully paid up shares, of £0.10 each for each existing share held.

On the same date the shareholders of Phynova Limited entered into a share for share exchange agreement with Phynova Group plc whereby Phynova Group plc allotted and issued an aggregate of 6,593,158 ordinary shares of £0.01 each, in return for an aggregate of 659,316 ordinary shares of £0.10 each in the capital of Phynova Limited.

Share option scheme

On 23 September 2004, all outstanding share options in respect of Phynova Limited were cancelled.

13. Reserves

	<i>Share premium account £000</i>	<i>Shares to be issued reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 21 January 2002				
Premium on shares issued during the period	120	–	–	120
Transfer on issue of bonus shares	(10)	–	–	(10)
Amounts received for shares not yet issued	–	56	–	56
Loss for the period	–	–	(159)	(159)
	<u>110</u>	<u>56</u>	<u>(159)</u>	<u>7</u>
As at 30 June 2003				
Premium on shares issued during the period	567	–	–	567
Expenses of share issues	(41)	–	–	(41)
Transfer on issue of shares	56	(56)	–	–
Loss for the period	–	–	(590)	(590)
	<u>692</u>	<u>–</u>	<u>(749)</u>	<u>(57)</u>
As at 30 June 2004				
Transfer on issue of bonus shares	(49)	–	–	(49)
Loss for the period	–	–	(607)	(607)
	<u>643</u>	<u>–</u>	<u>(1,356)</u>	<u>(713)</u>

14. Reconciliation of movements in shareholders' funds

	<i>30 June 2003 £000</i>	<i>30 June 2004 £000</i>	<i>30 September 2005 £000</i>
At the beginning of the period	-	19	(40)
Issue of shares	12	4	–
Premium on shares issued	110	527	–
Nominal value of shares to be issued	–	–	–
Premium on shares to be issued	56	–	–
Issue of bonus shares	–	–	49
Transfer from share premium account on issue of bonus shares	–	–	(49)
Loss for the period	(159)	(590)	(607)
At the end of the period	<u>19</u>	<u>(40)</u>	<u>(647)</u>

15. Related party transactions

Related party	<i>Purchases from related party £000</i>	<i>Amounts owed to related party £000</i>
Period ended 30 June 2003		
Swerford Consulting	73	–
Strategic Marketing Systems Inc	–	–
Blair-Biomedical Consulting	–	–
Anvil Partners LLP	–	–
M Fowler	5	–
Year ended 30 June 2004		
Swerford Consulting	80	–
Strategic Marketing Systems Inc	5	–
Blair-Biomedical Consulting	14	8
Anvil Partners LLP	15	1
Period ended 30 September 2005		
Swerford Consulting	100	–
Strategic Marketing Systems Inc	–	–
Blair-Biomedical Consulting	31	24
Anvil Partners LLP	6	1
Wellbeach Associates	1	1
A Brown	20	5

R Miller, a director of Phynova Limited, is a director and shareholder of Swerford Consulting, an entity that provides consultancy services to Phynova Limited.

W Doyle, a director of Phynova Limited, is a director and shareholder of Strategic Marketing Systems Inc, a company that provides consultancy services to Phynova Limited.

E Blair, a director of Phynova Limited, is a director and shareholder of Blair-Biomedical Consulting, an entity that provides consultancy services to Phynova Limited.

M Martin, a director of Phynova Limited, is a member of Anvil Partners LLP, a limited liability partnership that provides consultancy services to Phynova Limited.

M Fowler is a director of Phynova Limited. Purchases represent management fees payable.

J Pool, a director of Phynova Group plc, has a material interest in Wellbeach Associates, a company that provides consultancy services to Phynova Limited.

A Brown, a director of Phynova Group plc, provides consultancy services to Phynova Limited.

Other amounts due from related parties

Related party	<i>2004 £000</i>	<i>2005 £000</i>
R Miller	–	79
E Blair	–	15
A Brown	–	9

The above amounts are interest free and are payable within one year. The balances at 30 September 2005 represent the maximum amount outstanding during the financial period then ended.

16. Reconciliation of operating loss to net cash out flow from operating activities

	<i>17 months ended 30 June 2003 £000</i>	<i>Year ended 30 June 2004 £000</i>	<i>15 months ended 30 September 2005 £000</i>
Operating loss	(159)	(590)	(607)
Depreciation	1	2	2
(Increase)/decrease in debtors	(18)	12	(128)
Increase in creditors	12	91	473
Increase in provisions	–	–	236
Net cash out flow from operating activities	<u>(164)</u>	<u>(485)</u>	<u>(24)</u>

17. Reconciliation of net cash out flow to movement in net funds

	<i>17 months ended 30 June 2003 £000</i>	<i>Year ended 30 June 2004 £000</i>	<i>15 months ended 30 September 2005 £000</i>
Increase/(decrease) in cash in the year	10	44	(25)
Movement in net funds in the period	10	44	(25)
Net funds at the beginning of the period	–	10	54
Net funds at the end of the period (Note 18)	<u>10</u>	<u>54</u>	<u>29</u>

18. Analysis of net funds

	<i>At start of the period £000</i>	<i>Cash flow £000</i>	<i>At the end of the period £000</i>
17 months ended 30 June 2003			
Cash at bank and in hand	–	10	10
Year ended 30 June 2004			
Cash at bank and in hand	10	44	54
15 months ended 30 September 2005			
Cash at bank and in hand	54	(25)	29

PART V

ADDITIONAL INFORMATION

1. RESPONSIBILITY

The Company and the Directors, whose names are set out on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all such reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. THE COMPANY

- 2.1 The Company was incorporated and registered as a public limited company in England and Wales under the Act on 10 August 2004 with the name Phynova Group plc and with registered number 5202283.
- 2.2 The Company is a public limited company domiciled in England and the liability of its members is limited.
- 2.3 The Company and its activities and operations are principally regulated by the Act and the regulations made thereunder.
- 2.4 The head and registered office of the Company is at The Magdalen Centre, Oxford Science Park, Oxford OX4 4GA (tel.01865 784880).
- 2.5 Pursuant to section 366(2) of the Act, the Company should have held an annual general meeting within 18 months of its incorporation which was 10 February 2005. The Company is therefore in default with this provision of the Act and intends to convene an annual general meeting as soon as practicable after Admission.

3. SHARE CAPITAL AND LOAN CAPITAL

- 3.1 As at 10 August 2004 on the incorporation of the Company its authorised and issued share capital was as follows:

<i>Authorised</i>			<i>Issued (fully paid)</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
17,500,000	£175,000	Ordinary Shares of £0.01p each	2	£0.02

- 3.2 On 23 September 2004 the Company allotted and issued 6,593,158 Ordinary Shares of £0.01 as part of a share for share exchange agreement with the shareholders of Phynova Limited in return for an aggregate of 659,316 Ordinary Shares of £0.10 each in the capital of Phynova Limited.
- 3.3 On 27 January 2005 the Company issued 522,000 Ordinary Shares of £0.01p each at £0.50 per share.
- 3.4 On 24 February 2005 the Company issued 13,000 Ordinary Shares of £0.01 each at £0.01 per share.
- 3.5 On 15 June 2005 the Company issued 147,388 Ordinary Shares of £0.01p each at £0.50 per share.
- 3.6 On 4 August 2005 the Company issued 5,625 Ordinary Shares of £0.01p each at £0.01 per share.
- 3.7 On 22 September 2005 the Company issued 161,702 Ordinary Shares of £0.01p each at £0.50 per share.
- 3.8 On 30 September 2005 the Company issued 40,000 Ordinary Shares of £0.01p each at £0.50 per share and 136,680 Ordinary Shares of £0.01 each at £0.3657 per share
- 3.9 On 2 November 2005 the Company issued 5,679 Ordinary Shares of £0.01 each at £0.01 per share.
- 3.10 On 9 December 2005 the Company issued 600,000 Ordinary Shares of £0.01p each at £0.50 per share.
- 3.11 By a resolution dated 22 December 2005 the authorised share capital of the Company was increased from £175,000 to £350,000 by the creation of 17,500,000 additional Ordinary Shares of £0.01 each, ranking equally with the existing share capital of the Company.
- 3.12 On 24 January 2006 the Company issued 491,000 Ordinary Shares of £0.01p each at £0.50 per share.

3.13 The authorised and issued share capital of the Company as at the date of publication of this document is as follows:

<i>Authorised</i>			<i>Issued (fully paid)</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
35,000,000	£350,000	Ordinary Shares	8,716,234	£87,162

3.14 The authorised and issued share capital of the Company as it is expected to be immediately following Admission, and following the issue of Ordinary Shares pursuant to the Subscription Agreements, will be as follows:

<i>Authorised</i>			<i>Issued (fully paid)</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
35,000,000	£350,000	Ordinary Shares	14,799,570	£147,995.70

3.15 Details of the total number of Options (all granted for nil consideration) under the option agreements outstanding on or immediately following Admission are as follows:

Date of grant	<i>Number of Ordinary Shares under Option</i>	<i>Exercise price per share (p)</i>	<i>Expiry</i>
23.09.2004	2,034,240	0.3657	09.02.2007
23.09.2004	366,360	0.3657	15.04.2007
23.09.2004	81,960	0.3657	14.06.2007
23.09.2004	37,080	0.3657	12.07.2007
31.01.2005	21,834	0.3657	31.01.2008
31.01.2005	230,000	0.50	31.01.2008
28.02.2005	406,000	0.50	28.02.2008
31.03.2005	154,220	0.50	31.03.2008
22.09.2005	277,274	0.50	22.09.2008
30.09.2005	354,680	0.50	30.09.2008
09.12.2005	1,200,000	0.50	09.12.2008
24.01.2006	1,119,750	0.50	24.01.2009
13.02.2006	50,000	0.50	13.02.2009
27.02.2006	817,162	0.60	27.02.2009
Total number of Options	7,150,560		

3.16 Of the balance of the authorised but unissued share capital of the Company immediately after Admission amounting to 20,200,430 Ordinary Shares:

3.16.1 7,150,560 Ordinary Shares will be reserved for issue in respect of options granted under the Options;

3.16.2 13,049,870 Ordinary Shares will remain unissued and unreserved.

3.17 Pursuant to resolutions passed at an extraordinary general meeting of the Company on 22 December 2005 (the "Resolutions").

3.17.1 the Directors are generally and unconditionally authorised in accordance with section 80 of the Act to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £350,000, such authority to expire upon the earlier of the conclusion of the next Annual General Meeting of the Company and the date which is 15 months from the date of passing of the resolution, except that the Directors can during the period make offers or agreements which could or might require the allotment of relevant securities after the expiry of such period and the directors may allot relevant securities in pursuance of that offer or agreement;

3.17.2 the Directors are empowered pursuant to section 95(1) of the Act to allot equity securities (as defined in section 94(2) of the Act) pursuant to the authority of the Directors under section 80 of the Act conferred by sub-paragraph (a) above for the duration of such authority, as if the provisions of section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to:

- 3.17.2.1 the allotment of equity securities in connection with issues or offers of equity securities (whether by way of a rights issue, open offer or otherwise) to holders of Ordinary Shares in the capital of the Company made in proportion (as nearly as may be) to their existing holdings of Ordinary Shares but subject only to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of or the requirements of any regulatory body or any stock exchange in any territory;
- 3.17.2.2 the allotment of shares pursuant to the exercise of any options granted by the Company at the date of the Resolutions; and
- 3.17.2.3 the allotment of equity securities for cash (otherwise than pursuant to sub-paragraph 3.17.2.1 and 3.17.2.2 inclusive above) up to an aggregate nominal amount of £150,000 and such power expires at the conclusion of the next annual general meeting of the Company following the passing of this resolution but so that the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the directors may allot equity securities in pursuance of that offer or agreement.
- 3.18 The provisions of section 89(1) of the Act (to the extent not disapplied pursuant to section 95 of the Act) confer on the Shareholders certain rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be, paid up in cash and applied to the authorised but unissued equity share capital of the Company. These provisions have been disapplied to the extent referred to in paragraph 3.17 above.
- 3.19 Save as mentioned in this paragraph 3:
- 3.19.1 no unissued share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option;
- 3.19.2 there are no shares in the capital of the Company currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived;
- 3.19.3 there are no outstanding convertible securities issued by the Company; and
- 3.19.4 no share capital or loan capital of the Company or any of its subsidiaries (other than intra-group issues by wholly-owned subsidiaries) is in issue and no such issue is proposed.
- 3.20 None of the Ordinary Shares have been sold or made available to the public in conjunction with the application for Admission.
- 3.21 The Ordinary Shares bear the ISIN number GB00B0YBCM49, are in registered form and capable of being held in uncertificated form. The Ordinary Shares are enabled for dealings through CREST as a participating security.

4. SUBSIDIARY UNDERTAKINGS

The Company is the holding company of the Group.

On Admission the Company will have the following significant subsidiaries:

<i>Name</i>	<i>Registration number</i>	<i>Proportion of ownership interest held</i>	<i>Country of incorporation</i>
Phynova Limited	04356862	100%	England & Wales
Phynova Limited Liability Company	3227082	100% through Phynova Limited	Delaware, USA

5. SUMMARY OF THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE COMPANY AND CERTAIN STATUTORY PROVISIONS

5.1 Memorandum of Association

The Memorandum of Association of the Company provides that the principal objects of the Company are to carry on all or any business as a general commercial company as set out in clause 3 of the Memorandum of Association.

5.2 Articles of Association

The Articles of Association of the Company (the “Articles”) which were adopted by a special resolution of the Company with effect from 22 December 2005 and contain, *inter alia*, provisions to the following effect:

5.2.1 Rights attaching to Ordinary Shares

5.2.1.1 Voting rights

Subject to the provisions of the Act and to any rights or restrictions as to voting attached to any class of shares, at any general meeting on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative has one vote, and on a poll every member present in person or by proxy or (being a corporation) by a duly authorised representative has one vote for each share of which he is the holder;

5.2.1.2 Dividends

Subject to the provisions of the Act and of the Articles and to any special rights attaching to any shares, the Company may by ordinary resolution declare dividends, but no such dividends shall exceed the amount recommended by the Board. All dividends shall be apportioned and paid pro rata according to the amounts paid up or credited as paid up (otherwise than in advance of calls) on the shares during any portion or portions of the period in respect of which the dividend is paid. Interim dividends may be paid provided that they appear to the Board to be justified by the profits available for distribution and the position of the Company. Unless otherwise provided by the rights attached to any share, no dividends in respect of a share shall bear interest. The Board may, with the prior authority of an ordinary resolution of the Company, offer the holders of Ordinary Shares the right to elect to receive Ordinary Shares credited as fully paid instead of cash in respect of all or part of any dividend. Any dividend unclaimed after a period of 12 years from its due date of payment shall (if the Board so resolves) be forfeited and cease to remain owing by the Company and shall thereafter belong to the Company absolutely.

5.2.1.3 Return of capital

Subject to any rights or restrictions attached to any class of shares, on a winding-up of the Company, the surplus of assets available for distribution shall be divided among the members in proportion to the amounts paid up on their respective shares at the commencement of the winding-up, or, with the sanction of an extraordinary resolution of the Company, be divided amongst the members in specie in such manner as shall be determined by the liquidator.

5.2.2 Transfer of shares

Save for in the case of shares which have become participating securities for the purposes of the Uncertificated Securities Regulations 2001, title to which may be transferred by means of a relevant system such as CREST without a written instrument, all transfers of shares must be effected by an instrument of transfer in writing in any usual form or in any other form approved by the Board. The instrument of transfer shall be executed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of certificated shares unless:

5.2.2.1 it is in respect of a share which is fully paid up;

5.2.2.2 it is in respect of a share on which the Company has no lien;

- 5.2.2.3 it is in respect of only one class of share;
- 5.2.2.4 it is in favour of a single transferee or not more than four joint transferees;
- 5.2.2.5 it is duly stamped (if required); and
- 5.2.2.6 it is lodged at the registered office together with the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer, provided that the Board may not exercise such discretion in such a way as to prevent dealing from taking place on an open and proper basis. The Board may, in its absolute discretion and without giving any reason, refuse to register the transfer of an uncertificated share which is in favour of more than four persons jointly or in any other circumstances permitted by the Uncertificated Securities Regulations 2001 (subject to any relevant requirements of the London Stock Exchange).

If the Board refuses to register a transfer it must, within 2 months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee.

The registration of transfers may be suspended by the Board for any period (not exceeding 30 days) in any year.

5.2.3 Disclosure of interests in shares

Part VI of the Act governs the circumstances in which a person may be required to disclose his interests in the share capital of the Company. *Inter alia* this requires a person who is interested in 3 per cent. or more of the Company's issued ordinary share capital to notify his interest to the Company (and above that level, any change in such interest equal to 1 per cent. or more). In addition, the City Code on Takeovers and Mergers and the Rules Governing Substantial Acquisitions of Shares published by the Panel on Takeovers and Mergers contain further provisions pursuant to which a person may be required to disclose his interests in the share capital of the Company.

If a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 212 of the Act and has failed in relation to any shares ("the default shares") to give the Company the information thereby required within the prescribed period from the date of the notice, the following sanctions shall apply:

- 5.2.3.1 the member shall not be entitled in respect of the default shares to be present or to vote (either in person or by representative or proxy) at any general meeting or at any separate meeting of the holders of any class of shares or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll; and
- 5.2.3.2 where the default shares represent at least 0.25 per cent. in nominal value of their class:
 - 5.2.3.2.1 any dividend or other money payable in respect of the shares shall be withheld by the Company which shall not have any obligation to pay interest on it and the member shall not be entitled to elect in the case of a scrip dividend to receive shares instead of that dividend; and
 - 5.2.3.2.2 no transfer, other than an approved transfer as defined in the Articles pursuant to a takeover offer of the Company or a bona fide sale to an unconnected third party, of any shares held by the member shall be registered unless the member is not himself in default as regards supplying the information required and the member proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares which are the subject of the transfer.

The above sanctions shall also apply to any shares in the Company issued in respect of the default shares (whether on capitalisation, a rights issue or otherwise).

In respect of any default shares which are in uncertificated form the Board may require their holder to change them from uncertificated form into certificated form within a period specified in a written notice given to such holder and then to hold such default shares in certificated form for so long as the default subsists. Additionally, the Board may appoint any other person

to take any steps in the name of such holder as may be required to change such shares from uncertificated form into certificated form.

5.2.4 Changes in share capital

The Company may alter its share capital as follows:

- 5.2.4.1. it may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amounts, cancel any shares which have not been taken or agreed to be taken by any person and sub-divide its shares or any of them into shares of smaller amounts;
- 5.2.4.2 subject to any consent required by law and to any rights for the time being attached to any shares, it may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or other undistributable reserve in any manner; and
- 5.2.4.3 subject to the provisions of the Act and to any rights for the time being attached to any shares it may with the sanction of a special resolution enter into any contract for the purchase of its own shares.

5.2.5. Variation of rights

Subject to the provisions of the Act and of the Articles, the special rights attached to any class of share in the Company may be varied or abrogated either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated whilst the Company is a going concern or while the Company is or is about to be in liquidation. The quorum for such separate general meeting of the holders of the shares of the class shall be at least two persons holding or representing by proxy at least one-third of the nominal amount paid up on the issued shares of the relevant class.

5.2.6. General meetings

Pursuant to the Act an annual general meeting is required to be held every year at such time and place as may be determined by the Board. No more than fifteen months may elapse between the holding of any two successive annual general meetings. The Board may convene an extraordinary general meeting whenever it thinks fit. Extraordinary general meetings may also be convened on the requisition of members pursuant to the Act.

Pursuant to the Act twenty-one clear days' notice of every annual general meeting and of every extraordinary general meeting at which it is proposed to pass a special resolution and fourteen clear days' notice of every other extraordinary general meeting is required to be given. The accidental omission to give notice to, or the non-receipt of such notice by, any person entitled to receive notice of the meeting will not invalidate any resolution passed or proceeding at any such meeting.

No business may be transacted at any general meeting unless the requisite quorum is present when the meeting proceeds to business. Two persons entitled to attend and vote on the business to be transacted, each being a member present in person or a proxy for a member or a duly authorised representative of a corporation which is a member, constitutes a quorum.

With the consent of any meeting at which a quorum is present the chairman may adjourn the meeting. Notice of adjournment or of the business to be transacted at the adjourned meeting is not required unless the meeting is adjourned for thirty days or more. No business may be transacted at any adjourned meeting other than the business which might have been transacted at the meeting from which the adjournment took place.

5.2.7. Directors' interests in contracts

Save as provided below, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board or any committee of the Board in respect of any contract, arrangement, transaction or any proposal whatsoever in which he has any material interest or duty which conflicts with the interests of the Company. A Director shall be entitled to vote (and be counted in the quorum) in respect of any resolution at such meeting if his duty or interest arises only because the resolution relates to one of the following matters:

- 5.2.7.1 the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- 5.2.7.2 the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
- 5.2.7.3 where the Company or any of its subsidiary undertakings is offering securities in which offer the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the Director is to participate;
- 5.2.7.4 relating to another company in which he and any persons connected with him do not to his knowledge hold an interest in shares (as that term is used in sections 198 to 211 of the Act) representing one per cent. or more of either any class of the equity share capital, or the voting rights, in such company;
- 5.2.7.5 relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
- 5.2.7.6 concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons including Directors.

A Director may not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his own appointment as the holder of any office or place of profit with the Company or any company in which the Company is interested (including fixing or varying the terms of such appointment or its termination).

Where proposals are under consideration concerning the appointments (including fixing or varying the terms of the appointment) of 2 or more Directors, such proposals may be divided and a separate resolution considered in relation to each Director. In each case, each such Director (if not otherwise debarred from voting) is entitled to vote (and be counted in the quorum) in respect of each resolution except that resolution concerning his own appointment.

5.2.8. Directors

The aggregate fees which the Directors shall be entitled to receive for their services in the office of director shall not exceed £200,000 per annum, or such other sum as may from time to time be determined by an ordinary resolution of the Company. Such sum (unless otherwise directed by the resolution of the Company by which it is approved) shall be divided among the Directors in such proportions and in such manner as the Board may determine or, in default of such determination, equally.

All the Directors are entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as Directors. If by arrangement with the Board any Director performs any special duties or services outside his ordinary duties as a Director and not in his capacity as a holder of employment or executive office, he may be paid such reasonable additional remuneration which may be by a lump sum or by way of salary, commission, participation in profits or otherwise as the Board may determine.

No Director is to retire from office pursuant to section 293 of the Act by reason of the fact that he has attained the age of 70 or any other age and section 293 of the Act does not apply to the Company.

5.2.9. Pensions and benefits

The Board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits and to provide death or disability benefits or other allowances or gratuities (by insurance or otherwise) for any person who is or who has at any time been a director of the Company (and for any member of his family including a spouse or former spouse or any person who is or was dependent on him). For this purpose the Board may establish, maintain, subscribe and contribute to any scheme, trust or fund and pay premiums.

5.2.10 Borrowing powers

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any of its undertakings, property, assets (present or future) and uncalled capital and, subject to the provisions of the Act, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The aggregate principal amount for the time being outstanding in respect of monies borrowed or secured by the Company and its subsidiaries (exclusive of intra-group borrowings and after deducting cash deposited) shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed the greater of £10 million or an amount equal to 2.5 times the aggregate of:

5.2.10.1 the amount paid up (or credited as paid up) on the issued share capital of the Company; and

5.2.10.2 the amount outstanding to the credit of the capital and revenue reserves of the Company and its subsidiaries (including any share premium account, capital redemption reserve fund and credit or debit balance on any other reserve) after adding thereto or deducting there from any credit or debit balance on the profit and loss account all as shown in the then latest published audited consolidated balance sheet of the Company and its subsidiaries but after adjustments as set out in the Articles.

6. DIRECTORS

6.1 The Directors of the Company and their respective functions are as follows:

<i>Name</i>	<i>Function</i>	<i>Date of first appointment</i>
John Pool	Chairman	24.02.2005
Robert Miller	Managing Director	11.08.2004
Edward Blair	Chief Science Officer	23.09.2004
Alan Brown	Finance Director	27.01.2005
Michael Martin	Non-Executive Director	11.08.2004
Michael Fowler	Non-Executive Director	23.09.2004
Stephen Marshall	Non-Executive Director	23.09.2004
William Doyle	Non-Executive Director	23.09.2004

6.2 The business address of the Company is The Magdalen Centre, Oxford Science Park, Oxford OX4 4GA.

6.3 Details of any directorship that is or was in the last 5 years held by each of the Directors, and any partnership of which each of the Directors is or was in the last 5 years a member in addition to their directorships of the Company and its subsidiary undertakings are set out below:

<i>Name</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
William Doyle	Enzymatic Therapies Inc. Strategic Marketing Systems Inc.	
Stephen Marshall	Dunmore East Limited San Gabriel 217 San Gabriel 218 San Gabriel 219 San Gabriel 220 San Gabriel 221 San Gabriel 227 San Gabriel 232 San Gabriel 235 San Gabriel 236 San Gabriel 237 San Gabriel 243 San Gabriel 244 San Gabriel 245 San Gabriel 246 San Gabriel 247 San Gabriel 248 San Gabriel 249 San Gabriel 250 San Gabriel 251 San Gabriel 253	City Analytical Services Limited City Analytical Services plc
Michael Martin	Anvil Partners LLP	Cotswold Outdoor Limited Van Cleef & Arpels S.A. Van Cleef & Arpels B.V Anvil Partners
Robert Miller		East West Herbs Limited East West Biotech Limited
Edward Blair	Integrated Medicines Limited Immuno Diagnostic Systems Limited	
Michael Fowler	Henderson Morley Plc Fountain Square Pharmacy Limited Combigen Limited Auvation Limited Eirx Therapeutics Plc Novabiotics Limited	The Carsington Sailing Club Limited Supaplants Limited Trent College Limited Supagel Limited Trent College Trading Limited Phytotrack Limited
John Pool	Wellbeach Associates Wrenoaks Limited The Medical House Plc IDMOS Dental Systems Limited Eirx Pharma Limited Nestech Limited London Bioscience Innovation Centre Limited Erix Therapeutics Plc Grannus Biosciences Limited IDMOS Public Limited Company Zyzygy Plc Physiomics Plc Blueflow Limited Novabiotics Limited Environmental Process Group Limited B1 Medical Limited Pleiad Group Limited Medicapro Limited	M2 Technology Limited London Capital Limited Cellular Development Services Limited Envirag Limited Meditrial Limited Virexis Limited Auvation Limited

6.4 John Pool was a director of M2 Technology Limited, which went into compulsory liquidation on 25 November 1998.

- 6.5 Robert Miller was a director of East West Herbs Limited, which went into a members voluntary liquidation on 6 October 1999 which was subsequently converted into a creditors voluntary liquidation in 2002.
- 6.6 At the date of this document and save as disclosed herein none of the Directors named in this document:
- 6.6.1 has any unspent convictions in relation to indictable offences;
- 6.6.2 has been declared bankrupt or has entered into an individual voluntary arrangement;
- 6.6.3 was a director of any company at the time of or within the 12 months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors with which such company was concerned;
- 6.6.4 was a partner in a partnership at the time of or within the 12 months preceding a compulsory liquidation, administration or partnership voluntary arrangement of such partnership;
- 6.6.5 has had his assets the subject of any receivership or was a partner in a partnership at the time of or within the 12 months preceding any assets thereof being the subject of a receivership; or
- 6.6.6 has been the subject of any public criticisms by any statutory or regulatory authority (including any recognised professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7. DIRECTORS' AND OTHER INTERESTS

- 7.1 As at 20 February 2006, (being the latest practicable date prior to the publication of this document), the interests of the Directors (including the interests of persons connected with them which would, if the connected person were a Director, be required to be disclosed, and the existence of which is known to, or could with reasonable diligence be ascertained by that Director within the meaning of section 346 of the Act) in the issued share capital of the Company which are required to be notified by each Director to the Company pursuant to section 324 or 328 of the Act or are required to be entered in the register of Directors' interests referred to in section 325 of the Act (all of which, save where stated otherwise in the notes below, are beneficial interests) as at the date of this document and as they are expected to be immediately following Admission are/will be as follows:

<i>Director</i>	<i>Number of Ordinary Shares (as at the date of this document)</i>	<i>Percentage of issued Ordinary Shares (as at the date of this document) (%)</i>	<i>Number of Ordinary Shares (as at the date Admission)</i>	<i>Percentage of issued Ordinary Shares (at the date of Admission) (%)</i>
John Pool	–	–	–	–
Robert Miller	745,853	8.56	745,853	5.04
Edward Blair	–	–	–	–
Alan Brown	13,000	0.15	13,000	0.09
Michael Martin	876,485	10.06	876,485	5.92
Michael Fowler*	451,840	5.18	451,840	3.05
Stephen Marshall	793,395	9.10	793,395	5.36
William Doyle	1,714,307	19.67	1,714,307	11.58
Dragon Oriental Limited**	307,520	3.53	307,520	2.08

*The interests of Michael Fowler include the number of Ordinary Shares held by his wife, Mrs J Fowler.

**William Doyle and Robert Miller own 49% and 22% respectively of the share capital of Dragon Oriental Limited.

7.2 Details of the total number of Options granted to the Directors outstanding following Admission are as follows:

<i>Name</i>	<i>Exercise price per Ordinary Share (p)</i>	<i>Number of Ordinary Shares under Option</i>	<i>Exercise period</i>
John Pool	50	100,000	28/2/05 - 28/2/08
Edward Blair	36.57	37,080	23/9/04 - 12/7/07
	36.57	12,000	31/1/05 - 31/1/08
	50	9,000	31/3/05 - 31/3/08
	50	18,000	30/9/05 - 30/9/08
	50	15,000	24/1/06 - 24/1/09
Michael Martin	36.57	615,520	23/9/04 - 9/2/07
	36.57	73,800	23/9/04 - 15/4/07
	36.57	81,960	23/9/04 - 14/6/07
	50	70,000	31/3/05 - 31/3/08
	50	23,450	22/9/05 - 22/9/08
	50	60,000	30/9/05 - 30/9/08
	50	50,000	24/1/06 - 24/1/09
Stephen Marshall	60	30,417	27/2/06 - 27/2/09
	36.57	410,120	23/9/04 - 9/2/07
	36.57	273,400	23/9/04 - 15/4/07
William Doyle	50	20,000	31/1/05 - 31/1/08
	36.57	22,640	23/9/04 - 9/2/07
Alan Brown	50	50,000	13/2/06 - 13/2/09

7.3 Save as disclosed above, none of the Directors nor any member of his immediate family or any person connected with him holds or is beneficially or non-beneficially interested, directly or indirectly, in any shares or options to subscribe for, or securities convertible into, shares of the Company or any of its subsidiary undertakings.

- 7.4 In addition to the interests of the Directors set out in paragraph 7.1 above, following Admission, insofar as is known to the Company, the following persons were, or are expected at Admission to be, directly or indirectly interested (within the meaning of Part VI of the Act) in 3 per cent. or more of the issued share capital of the Company:

<i>Name</i>	<i>Number of Ordinary Shares (as at the date of this document)</i>	<i>Percentage of issued Ordinary Shares (as at the date of this document) (%)</i>	<i>Number of Ordinary Shares (as at the date Admission)</i>	<i>Percentage of issued Ordinary Shares (at the date of Admission) (%)</i>
INSA VC Limited	601,164	6.90	601,164	4.06
Andertec Limited*	–	–	1,666,667	11.26
Polymer Holdings Limited**	–	–	1,250,000	8.45
Charles Anderson	600,000	6.88	600,000	4.05
Michael Yates	–	–	833,334	5.63
Castor Investments plc	–	–	1,250,000	8.45

*Andertec Limited is under the control of Charles Anderson who has a combined interest of 15.31% of the Company's issued share capital following Admission.

**Polymer Holdings Limited is under the control of Graeme Spiers who has a combined interest of 9.12% of the Company's issued share capital following Admission.

- 7.5 Save as disclosed above, there are no persons, so far as the Company is aware, who are or will be immediately following Admission interested, directly or indirectly, in 3 per cent or more of the Company's issued share capital, nor, so far as the Company is aware, are there any persons who at the date of this document or immediately following Admission, directly or indirectly, jointly or severally, exercise or could exercise control over the Company, nor do any of the persons disclosed above have different voting rights to those of any other shareholder.
- 7.6 Save as disclosed in this document there are no arrangements known to the Company, the operation of which may at a subsequent date result in a change in control of the Company.
- 7.7 Save as disclosed in this document, no Director has, or has had any interest in any transaction effected by the Company or any of its subsidiaries which is or was unusual in its nature or conditions or significant to the business of the Group, and (in any such case) was effected during the current or immediately preceding financial year of the Company or during any earlier financial year and remains in any respect outstanding or unperformed.
- 7.8 Save as disclosed in this document there have been no related party transactions of the kind set out in the Standards adopted according to the Regulation (EC) No 1606/2002 that the Company has entered into since 31 March 2002.
- 7.9 No Director nor any member of his Family has a Related Financial Product (as such terms are defined in the AIM Rules) referenced to Ordinary Shares

8. DIRECTORS' REMUNERATION AND SERVICE AGREEMENTS

The Company has not paid any fees, salary or benefits directly or indirectly to the directors of the Company; during the period from incorporation to 01 January 2006 the directors waived all entitlement to any Directors' fees. Certain directors have directly or indirectly provided consultancy services to the Company through their consultancy businesses referred to in section 8.2 below.

8.2 In the 12 months prior to Admission the Group has paid the following consultancy fees to businesses connected with directors:

<i>Consultant / Business</i>	<i>Consultancy (£)</i>
Alan Brown	38,627
Robert Miller	66,667
Eddie Blair – Blair Biomedical Consulting	25,999
Michael Martin – Anvil Partners LLP	Travel and printing expenses only

8.3 The Company has entered or will enter into executive service agreements (“the Executive Service Agreements”) with the following directors on the dates shown below, the terms of which are, save as set out below, identical.

- On 1 January 2006 - Robert Miller; annual salary, £120,000; Managing Director (full-time appointment).
- On 1 March 2006 - Edward Blair; annual salary, £36,000; Chief Science Officer (part-time appointment).
- On 1 March 2006 - Alan Brown; annual salary, £36,000; Financial Controller (part-time appointment).

(each a “Director”) pursuant to which each Director shall be employed to work for the Company and the Group. Either party may terminate the relevant Executive Service Agreement by giving not less than six months’ written notice. Each Director shall be entitled to 25 days’ holiday per annum. The Company shall reimburse each Director for any expenses reasonably incurred by him in the performance of his duties. Each Director is subject to certain confidentiality obligations, an acknowledgement that any intellectual property or know-how resulting from his employment belongs exclusively to the Company and various post-termination non-solicitation, non-dealing and non-compete restrictions.

8.4 On 1 March 2006 the Company will enter into service agreements (“the Service Agreements”) with the following part-time employees, the terms of which are, save as set out below, identical:

- Hongwen Yu; salary £54,000; Director of Product Development
- Shouming Zhong; salary £54,000; Research Director

(each an “Employee”) pursuant to which the Employee shall be employed to work for the Company and the Group. Either party may terminate the relevant Service Agreement by giving not less than six months’ written notice. The Company shall reimburse each Employee for any expenses reasonably incurred by him in the performance of his duties. Each Employee is subject to certain confidentiality obligations, an acknowledgement that any intellectual property or know-how resulting from his employment belongs exclusively to the Company and various post-termination non-solicitation, non-dealing and non-compete restrictions.

8.5 On 1 March 2006 the Company will enter into non-executive service agreements (the “Non-Executive Agreements”) with the following persons (together the “Non-Executives”), the terms of which are identical:

- William Doyle
- Stephen Marshall
- Michael Martin
- Michael Fowler

pursuant to which each Non-Executive will act as a non-executive director of the Company for a period of one year from 1 March 2006 subject to re-election at the first AGM following the appointment or following a retirement by rotation in accordance with the Company’s articles of association. Each Non-Executive will receive a fee of £500 per board meeting or committee of the Board attended. The Company shall reimburse any expenses reasonably incurred in the performance of their duties. Each Non-Executive is subject to certain confidentiality obligations and various post-termination non-solicitation, non-dealing and non-compete restrictions.

John Pool has entered into a Non-Executive Agreement identical to those described above save that he will receive annual fees of £26,000.

- 8.6 Save as disclosed in this document there are no service agreements or agreements for the provision of services existing or proposed between the Directors and any member of Group.

9. THE OPTIONS

- 9.1 On 23 September 2004 the Directors approved the grant of Options through option agreements between the Company and each option holder. On 23 September 2004 option holders in Phynova agreed to exchange their Options for equivalent Options in the Company. Thereafter the Company has granted additional Options to its shareholders as detailed in paragraph 3.15 of Part V. The principal terms of the of the Options are as follows:

9.1.1 Eligibility

The Options and Warrants have been issued to investor shareholders and persons providing corporate finance advice and other services to the Company.

9.1.2 Subscription Price

The subscription price for options granted under the Options is the prevailing market price for the shares being either 36.57 pence for those shares granted by Phynova between 9 February 2004 and 30 January 2005 or 50 pence for those granted by Phynova and the Company between 31 January 2005 and 27 February 2006 or 60 pence for those granted on Admission per the number of Ordinary Shares (of £0.01 pence each) specified in the option holder's option agreement. Options were granted to the new shareholder at the rate 1:2 and certain preferred advisors have received share Options in consideration of their services.

9.1.3 Exercise, lapse and exchange of Options

Options may only be exercised in the period commencing on the date of the option holder's option agreement and ending on the earlier of either (i) 3 years from the date of the option holder's option agreement or (ii) the completion of an offer (the "Exercise Period"). An offer being an offer to purchase all the equity share capital of the Company which will result in the offeror acquiring more than 90 per cent of the share capital of the Company or a listing of the equity capital of the Company on a recognised stock exchange.

The Option may be exercised in part only and a new certificate will be issued in respect of the unexercised portion of the Option.

The Option will lapse if the holder fails to exercise his Option during the exercise period. The Options granted are personal to the holder and, except on his death or consent of the Board, may not be transferred.

On 13 February 2006 the Company agreed with the Optionholders to waive the requirement for the optionholder to exercise their Options on Admission in consideration for the optionholder agreeing not to sell the shares resulting from any exercise of their Options for one year from the date of Admission. Further details are in paragraph 11.4.3 of Part V.

9.1.4 Income tax and national insurance

The option holder warrants and represents that he is not an employee of the Company and indemnifies the Company for any PAYE or income tax liability and primary class I (employee) national insurance liability which may arise on the grant to him or exercise by him of an Option.

9.1.5 Variation of share capital

If there is any variation to the Company's share capital the number of Ordinary Shares represented by the Option will also be adjusted so that the holder on exercise of the Option is entitled to receive the same percentage of ordinary share capital of the Company as immediately before such variation.

10. TAXATION

The following statements are intended only as a general guide current as at the date of publication of this document to United Kingdom tax legislation and to the current practice of the HM Revenue & Customs and may not apply to certain categories of shareholder, such as dealers in securities. Levels and bases of taxation are subject to change. Any person who is in any doubt as to his tax position is strongly recommended to consult his professional advisers immediately.

10.1 *Stamp duty*

Save in relation to depository receipt arrangements or clearance services, where special rules apply:

10.1.1 no charge to stamp duty or stamp duty reserve tax (“SDRT”) should arise on the issue of new Ordinary Shares or on their registration in the names of applicants;

10.1.2 a subsequent transfer on a sale of Ordinary Shares held in certificated form will ordinarily be subject to stamp duty on the instrument of transfer, ordinarily at the rate of one half of one per cent., of the amount or value of the consideration. An agreement to purchase Ordinary Shares will lead to a charge to SDRT (at the rate of 0.5 per cent. of the amount or value of the consideration) although any liability to SDRT will be cancelled or payment refunded if the instrument of transfer is duly stamped within six years of such agreement (or, where such agreement is conditional, within six years of such agreement becoming unconditional); and

10.1.3 special rules apply to market intermediaries, dealers and certain other persons. Transfers of shares to charities will not give rise to stamp duty if adjudicated in accordance with the relevant legislation and agreements to transfer shares to charities will not give rise to SDRT.

10.2 *Dividends*

The United Kingdom taxation implications relevant to the receipt of dividends on the Ordinary Shares are as follows:

There is no United Kingdom withholding tax on dividends. Individual holders of Ordinary Shares will be taxable on the total of the dividend and the related notional tax credit (“gross dividend”), which will be regarded as the top slice of the individual’s income.

The tax notional credit on dividends is one-ninth of the dividend paid (or 10 per cent. of the aggregate of the dividend and tax credit). For individuals, the income tax rates on dividend income are such that lower and basic rate taxpayers will have no further tax liability on a dividend receipt. Higher rate taxpayers pay tax on dividends at 32.5 per cent. so that a higher rate taxpayer receiving a dividend of £90 will be treated as having gross income of £100 (the net dividend of £90 plus a tax credit of £10) and after allowing for the tax credit of £10 will have a further £22.50 liability.

The same procedure applies for UK resident trustees of discretionary trusts.

Generally, holders of Ordinary Shares will no longer be entitled to reclaim the tax credit attaching to any dividends paid.

Subject to certain exceptions for traders in securities, a holder of Ordinary Shares which is a company resident for tax purposes in the United Kingdom and which receives a dividend will not generally have to pay corporation tax in respect of it.

UK pension funds are not entitled to reclaim any part of the tax credit associated with dividends received by them.

Shareholders resident for tax purposes outside the UK may be subject to foreign taxation on dividends received on their Ordinary Shares under the tax law of their country of residence or in respect of other transactions relating to the shares. Such shareholders will not be subject to any further UK tax on their dividends where they have no other sources of income from the UK and do not have a UK representative or, in the case of trustees, there are no UK resident beneficiaries of the trust. Entitlement to claim repayment of any part of a tax credit, however, will depend, in general, on the existence and terms of any double tax convention between the United Kingdom and the country in which the holder is resident, Non-UK resident shareholders should consult their own tax advisers concerning their tax liability on dividends received; what relief, credit or entitlement to refund of any tax credits may be available in the jurisdiction in which they are resident for tax purposes; or other taxation consequences arising from their ownership of the Ordinary Shares.

10.3 *Disposal Of Ordinary Shares*

A Shareholder resident or ordinarily resident for tax purposes in the UK, who sells or otherwise disposes of his Ordinary Shares may, depending on the circumstances, incur a liability to UK tax on any capital gain realised. Corporate shareholders within the charge to UK corporation tax will be entitled to indexation allowance in respect of these Ordinary Shares up until the date of disposal. Individual shareholders resident for tax purposes in the UK who are not within the charge to corporation tax may be entitled to taper relief. The calculation for taper relief on a subsequent disposal of Ordinary Shares will depend upon the period of ownership of these Ordinary Shares.

A Shareholder who is not resident or ordinarily resident for tax purposes in the UK will not normally be liable for UK tax on capital gains realised on the disposal of his Ordinary Shares unless at the time of the disposal such Shareholder carries on a trade (which for this purpose includes a profession or vocation) in the UK through a branch or agency and such Ordinary Shares are to have been used, held or acquired for the purposes of such trade or branch or agency. A shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident and ordinarily resident for tax purposes in the UK for a period of less than five years of assessment and who disposes of Ordinary Shares during that period may be or become liable to UK taxation of chargeable gains (subject to any available exemption or relief).

10.4 *Business Asset Taper And Other Tax Reliefs*

Following the Finance Act 2000 capital gains tax business assets taper relief applies to all holdings of shares in qualifying unquoted trading companies. A holding in the shares of the Company may qualify for business assets taper relief as well as other reliefs such as capital gains tax gift relief and inheritance tax business property relief. However, individuals should seek confirmation as to whether any relief is available in their own particular circumstances at the relevant time.

Persons who are not resident in the United Kingdom should consult their own tax advisers on the possible application of such provisions and on what relief or credit may be claimed for any such tax credit in the jurisdiction in which they are resident.

These comments are intended only as a general guide to the current tax position in the United Kingdom as at the date of this document. The comments assume that Ordinary Shares are held as an investment and not as an asset of a financial trade and that any dividends paid are not foreign income dividends. If you are in any doubt as to your tax position, or are subject to tax in a jurisdiction other than the United Kingdom, you should consult your professional adviser.

11. MATERIAL CONTRACTS

11.1 *The Group*

The Company is the holding company of the Group being the registered holder of 659,316 shares of £0.10 each in the capital of Phynova. Phynova is in turn the registered holder of all of the units of membership of LLC.

11.2 *Development Contracts*

11.2.1 On 16 May 2002 LLC entered into a joint venture agreement with Hepusen for the formation of a joint venture company, Taishan Natural Products Limited (“JVC”), to research, develop, produce and sell health foods, personal care products and dietary supplements and working together with Chinese scientific research institutions, to develop natural health products that meet the needs of the world market. Hepusen will provide LLC with data of Chinese medicines to support the regulatory and marketing activities of LLC. LLC will own all intellectual property generated through its efforts. LLC will pay JVC 15% of any royalties it receives from sales of products licensed to third parties or where the product is marketed directly, 15% of the net profit from sales of the product. The duration of the agreement is 50 years.

11.2.2 On 5 August 2003 Phynova entered into a contract with the administrators of Oxford Natural Products Limited (“ONP”), pursuant to which Phynova acquired four of ONP’s six products. Phynova is liable to pay royalties on a sliding scale on any revenues derived from the products it acquired for a three year period. The royalty payable is 30% of revenues received in year 1, 20% in year 2, and 10 % in year 3.

- 11.2.3 The Company entered into a letter of intent with Huiren Group (“Huiren”), dated 12 February 2005 in which the parties have agreed in principle to collaborate in a number of areas of mutual interest. Both parties undertake to provide research, development and regulatory support to each other. If both parties agree, then Huiren will undertake research and development on PYN17 at their own cost. If agreed, Huiren will undertake pre-clinical development work and clinical trials on PYN17 limited to supporting the regulatory authorisation in China. All data will be provided to the Company and the intellectual property rights will be shared by both parties. The Company will provide regulatory support to Huiren to help them determine whether any of their product range could be registered in the E.U. and if Huiren decide to register any of their products then Phynova will assist them with this. The Company will facilitate the activity of screening selected Huiren products in the West.
- 11.2.4 The Company entered into an agreement with Botanic Century Co Limited (“Botanic”) on 2 November 2005 pursuant to which Botanic have undertaken not to approach or consider approaches from other companies or persons in respect of the right to develop and commercialise their discovery product known to Phynova as PYN6 for a period of 180 days from the date of acceptance from Botanic. In consideration for this the Company will pay Botanic US\$5,000 in the form of issued shares in the Company.
- 11.2.5 The Company entered into a development and commercialisation licence agreement with Chongqing Institute of Ecological Materia Medica Co Limited (“CQI”) on 21 December 2005, pursuant to which CQI grants the Company an exclusive licence to develop and commercialise any product containing CQI-01 (an anti-obesity product developed by CQI) (the “Product”) in every country in the world except China (the “Territory”). In consideration of the exclusive licence the Company will pay CQI US\$375,000, paid in four stages. In addition, the Company will pay CQI a sum equivalent to 33.33% of net revenues received from third party licence agreements for the Product. Under the licence CQI also grants the Company an exclusive option to the rights to develop and commercialise the Product for human pharmaceutical use only in China. The Company will pay to CQI a royalty of 10% of net sales of the Product in the Territory if it or any of its Affiliates markets the Product in the Territory. On exercise of the option to develop and commercialise the Product for human pharmaceutical use in the Territory, the Company shall pay a one-off additional sum of US\$7,500. The option terminates on 21 December 2007 and the option is yet to be exercised.

11.3 *Consultancy Agreements*

- 11.3.1 The Company entered into an agreement with Anvil Partners LLP (“Anvil”), in which Michael Martin (a Director of the Company) is a member with a 50% interest, dated 8 February 2006 pursuant to which Anvil will provide services in connection with the raising of development finance for the Company. On completion of Admission the Company will pay the members of Anvil an advisory fee of £100,000. On completion of any funds raised during the period of the engagement, including the Admission, the Company will pay Anvil (i) in cash, a fee of 1% of the value of the funds raised and (ii) allot and issue without cost to Anvil, a warrant to subscribe for shares of the Company. The warrant shall entitle Anvil to subscribe for shares in the Company, at a price per share no greater than that paid by any party who subscribes for shares as part of the proposed transaction, to a total value equivalent to 1% of the value of the funds raised. The agreement will continue for twelve months subject to the right of either party to terminate the agreement at any time on giving 7 days’ notice in writing to the other party.

As at the date of this document Michael Martin holds interests in the Company as shown in paragraphs 7.1 and 7.2 of this Part V. The other member of Anvil, Richard Youngman, holds 123,804 Ordinary Shares, 109,360 Options exercisable at 36.57p and 200,926 Options exercisable at 50p.

- 11.3.2 Phynova entered into an agreement with Subiaco Associates Limited (“Subiaco”) dated 12 December 2004 pursuant to which Subiaco agree to undertake projects on behalf of Phynova, the nature of such projects to be agreed separately in writing. In consideration for any projects undertaken Phynova will pay £500 plus VAT @ 17.5% on a daily basis. Both parties have the right terminate the agreement upon one months’ notice, Phynova’s notice must be given in writing.

- 11.3.3 Phynova entered into an agreement with CamPhem Management Services Limited (“CamPhem”) dated 1 March 2005, pursuant to which CamPhem will procure to provide the services of Allan Cambridge for a minimum of one day per week for a cost of £500 per day, increasing to a minimum of £600 per day as soon as Phynova becomes listed on any of the markets of the London Stock Exchange or receives funding equivalent to more than six months cash burn for Phynova from another source. The parties agree that all intellectual property rights arising from the performance of the services will belong to Phynova.
- 11.3.4 The Company entered into an agreement with Merchant Securities Limited (“MSL”) dated 12 January 2006 pursuant to which MSL will introduce clients in connection with the raising of finance for the Company. In consideration for this, MSL will receive a commission of 10% of all monies raised, plus warrants at the subscription price equivalent to 10% of the monies raised in the event of an investment by an investor introduced by MSL.
- 11.3.5 The Company entered into an agreement with Nabarro Wells dated 23 December 2005 pursuant to which the Company has appointed Nabarro Wells to act as nominated adviser to the Company in connection with the Admission, and agreed to pay Nabarro Wells an initial engagement fee of £5,000 and an additional fee of £29,333 plus VAT payable on Admission (as described also in paragraph 11.4.5 of this Part V). In addition the Company has agreed to pay Nabarro Wells an annual nominated adviser’s fee of £20,000, payable quarterly in advance.
- 11.3.6 In consideration for the obligations undertaken by Nabarro Wells pursuant to the Nomad Agreement (as described in paragraph 11.4.5 of this Part V) the Company has granted Nabarro Wells an option to subscribe for Ordinary Shares, as follows: in an agreement between (1) the Company and (2) NWCF LLP, in consideration of the payment of £1 by the Optionholder to the Company, the Company granted an option to subscribe for up to 147,996 of the share capital on Admission at a subscription price of £0.60 per Ordinary Share at any time during the period of 5 years commencing on the date of Admission (the “Subscription Period”). The Optionholder may transfer or assign in whole or part his subscription rights at any time or times during the Subscription Period. The subscription rights may be adjusted following a subdivision or consolidation of the Ordinary Shares or an offer by way of rights.
- 11.3.7 The Company entered into a consultancy agreement with Dr Edward Blair pursuant to which he provides services to the Company through his consulting business, Blair-Biomedical Consulting. He commenced work as a consultant on 6 April 2004 and was entitled to a fee of £200 per day for 5 days per month. Additional days were charged at £450 per day. The arrangement was for a period of one year, but it will continue on the same terms until Dr Blair commences employment with the Company on 1 March 2006. (See paragraph 8.3 above).
- 11.3.8 The Company entered into two agreements with Sarah Wadham. The first agreement is dated 1 November 2005 pursuant to which Sarah Wadham will introduce high net worth individuals or sophisticated investors in connection with the raising of finance for the Company. In consideration for this, Sarah Wadham received a commission of 5% of monies raised as a result of her introductions, plus Options exercisable at 50p equivalent to 5% of the monies raised from the high net worth individuals or sophisticated investors introduced by Sarah Wadham.
- A subsequent agreement was dated 14 February 2006 and recognises Sarah Wadham’s introduction of Merchant Securities Limited (“MSL”) to the Company. In consideration for introducing MSL, Sarah Wadham will receive a commission of 1% of all monies raised by MSL. This agreement terminates upon Admission.
- 11.3.9 The Company has entered into an agreement with Stratagem IPM Limited (“Stratagem”) dated 30 July 2003, pursuant to which Stratagem agreed to provide Intellectual Property Services. The fees owed to Stratagem are monitored by a monthly statement. In the 12 months prior to Admission, Phynova has paid fees totalling £23,187.72 to Stratagem, of which £7,056.17 remain outstanding at Admission.

Dominic Schiller, previously an employee of (and currently a consultant to) Stratagem holds 82,000 Ordinary Shares and 82,000 Options (exercisable at 36.57p). Stratagem also holds 82,000 Ordinary Shares and 82,000 Options (exercisable at 36.57p). The terms of the Options

held by both Dominic Schiller and Stratagem are the same as the Options held by other Option Holders as described in paragraph 9 of this Part V.

11.4 *Other Contracts*

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group (i) within the period of two years immediately preceding the date of this document and which are, or may be, material or (ii) which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document:

11.4.1 Details of Subscription Letters

Each Investor, as detailed in Subscription Agreements in Part I of this document, has undertaken not to sell his shares for a period of one year from Admission, other than Castor, who has undertaken not to sell its shares for a period of six months from Admission. Thereafter, Castor has undertaken only to sell its shares through the Company's nominated broker, except where the nominated broker is unable to sell at least 5% of the quoted bid price at any time, whereupon Castor is free to sell without using the nominated broker.

11.4.2 Orderly Market Agreements

The Company has entered into orderly market agreements dated 20 February 2006 with (1) Nabarro Wells and (2) each of the Directors, Dragon Oriental Limited and Mrs J Fowler (together the "Locked-in Shareholders"), pursuant to which each of the Locked-in Shareholders have undertaken to the Company and Nabarro Wells (subject to certain limited exceptions including transfers to family members or to trustees for their benefit and disposals by way of acceptance of a recommended takeover offer for the entire issued share capital of the Company), not to dispose of Ordinary Shares for a period of one year following Admission, and not to dispose of shares other than through the nominated broker in the following 12 month period without the prior consent of Nabarro Wells.

The Company has entered into three further orderly market agreements with (1) Nabarro Wells and (2) each of Wendy Richings Barrow, Hongwen Yu and Shouming Zhong (the "Locked-in Shareholders") pursuant to which the Locked-in Shareholders have undertaken to the Company and Nabarro Wells (subject to certain limited exceptions including transfers to family members or to trustees for their benefit and disposals by way of acceptance of a recommended takeover offer for the entire issued share capital of the Company), not to dispose of shares for a period of one year following Admission.

11.4.3 Amendment to Option Agreements

The Company entered into an amendment to the Option agreement with each of the Optionholders dated 13 February 2006, pursuant to which the Company has agreed to waive the requirement for the Optionholders to exercise their Options on Admission in consideration for them undertaking that should they exercise their Options within one year of Admission they will not sell the shares resulting from the exercise for a period of one year from the date of Admission.

11.4.4 Bonus Payments on Admission

The Company has agreed to pay the following bonuses in the event that there is a successful Admission:

<i>Name</i>	<i>Bonus Payable</i>
Robert Miller	£25,000
Eddie Blair	£20,000
Alan Brown	£10,000
John Pool	£10,000

11.4.5 Nomad Agreement

The Company entered into an agreement dated 20 February 2005 with (1) the Directors and (2) Nabarro Wells pursuant to which the Company appointed Nabarro Wells to act as nominated adviser and broker to the Company for the purposes of the AIM rules. The agreement contains certain undertakings, warranties and indemnities given by the Company

and the Directors to Nabarro Wells. The agreement is terminable upon not less than three months' written notice after an initial twelve month period. The Company may terminate the appointment of Nabarro Wells as broker at any time after Admission without notice.

12. WORKING CAPITAL

In the opinion of the Directors having made due and careful enquiry, taking into account the net proceeds from the Subscription Agreements, the working capital available to the Group will be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

13. LITIGATION

No member of the Group is or has been involved in any governmental, legal or arbitration proceedings which may have or have had during the last 12 months preceding the date of this document, a significant effect on the financial position or profitability of the Company and/or the Group nor, so far as the Company is aware, are any such proceedings pending or threatened.

14. INTELLECTUAL PROPERTY

The Group is heavily reliant on patents, trade secrets and proprietorship rights. The Group's success depends in large part on whether it can obtain patents, maintain trade secrets and operate without infringing on the proprietary rights of third parties. For more information regarding the intellectual property rights of Phynova see Part I of this Document. In addition, please note the risk factors identified in Part II of this Document.

15. CONSENTS

15.1 Nabarro Wells, of Saddlers House, Gutter Lane, London EC2V 6HS is a member of the London Stock Exchange and is regulated by the Financial Services Authority. Nabarro Wells has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and the references to it in the form and context in which it appears.

15.2 BDO Stoy Hayward LLP, of 125 Colmore Row, Birmingham, B3 3SD, has given and has not withdrawn its written consent to the inclusion of their reports set out in Part III and Part IV of this document and the references to such reports, in the form and context in which they appear.

16. SIGNIFICANT CHANGES

There has been no significant change in the financial or trading position of the Group since 30 September 2005, being the date to which its most recent audited consolidated accounts have been drawn up and published.

17. GENERAL

17.1 Save as disclosed in this document, no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has received, directly or indirectly, within the 12 months preceding the date of this document or entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:

17.1.1 fees totalling £10,000 or more;

17.1.2 securities where these have a value of £10,000 or more calculated by reference to the Placing Price; or

17.1.3 any other benefit with a value of £10,000 or more at the date of Admission.

17.2 There have been no public takeover bids by third parties in respect of the Ordinary Shares which have occurred during the last financial year or the current financial year of the Company. The Company is subject to the provisions of the City Code on Takeovers and Mergers issued by the Panel on Takeovers and Mergers which *inter alia* govern mandatory takeover bids in respect of public companies incorporated and registered in the United Kingdom. Under the City Code on Takeovers and Mergers when:

17.2.1 any person acquires shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30 per cent. or more of the voting rights of the Company; or

17.2.2 any person, who together with persons acting in concert with him, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights and such person, or any person acting

in concert with him acquires additional shares which increase his percentage of the voting rights;

such person shall extend offers to the holders of any class of equity share capital and the holders of any class of voting non-equity share capital in which such person or persons acting in concert with him hold shares. In the event a takeover offer is made for the Ordinary Shares in accordance with Part XIII A of the Act, the offeror may become entitled to acquire the Ordinary Shares of any holder who has not accepted the takeover offer on the terms of such offer in accordance with the provisions set out in Part XIII A.

- 17.3 Information in this document which has been sourced from third parties has been accurately reproduced and so far as the Company is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 17.4 Save as disclosed in this document, the Directors are unaware of any exceptional factors which have influenced the Company's activities.
- 17.5 Save as disclosed in this document, the Directors are unaware of any environmental issues that may affect the Group's utilisation of its tangible fixed assets.
- 17.6 Save as disclosed in this document, the Directors are unaware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for the current financial year.
- 17.7 Save as disclosed in this document, there are no investments in progress and there are no future investments on which the Directors have already made firm commitments which are significant to the Group.
- 17.8 Save as disclosed in this document, the Directors believe that the Company is not dependent on patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Company's business or profitability.
- 17.9 The current accounting reference period of the Company will end on 30 September 2006.
- 17.10 The combined expenses of Private Funding and Admission excluding VAT, are estimated to be approximately £750,000, of which £438,000 relates to fund-raising commissions, all payable by the Company.
- 17.11 Financial Information
 - 17.11.1 The auditors of the Company for the period ended 30 September 2005 were BDO Stoy Hayward LLP Chartered Accountants and Registered Auditors, of 125 Colmore Row, Birmingham B3 3SD. The auditors' reports on those accounts were unqualified and did not contain any statement under section 237 of the Act.
 - 17.11.2 The auditors of Phynova for the periods ended 30 June 2004 and 30 September 2005 were BDO Stoy Hayward LLP Chartered Accountants and Registered Auditors, of 125 Colmore Row, Birmingham B3 3SD. The auditors' reports on those accounts were unqualified and did not contain any statement under section 237 of the Act.

18. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturday, Sunday and public holidays excepted) at the registered office of the Company and at the offices of Osborne Clark, Apex Plaza, Forbury Road, Reading RG1 1AX for a period of at least one month after Admission:

- 18.1.1 The Memorandum and Articles of association of the Company;
- 18.1.2 The reports by BDO Stoy Hayward LLP set out in Parts III and IV of this document;
- 18.1.3 The material contracts, option agreements, employment contracts and consultancy agreements referred to above;
- 18.1.4 The letters of consent referred to above;
- 18.1.5 Statutory accounts for the periods ended 30 June 2004 and 30 September 2005 for Phynova;

18.1.6 Statutory accounts for the period ended 30 September 2005 for the Company; and
18.1.7 This document.

21 February 2006

