



## Phynova Group plc Interim Report

For the six months ended 31 March 2007



## Power of Plants

*Phynova is developing medicines for common diseases with high unmet medical need, utilising purified fractions from different plants to obtain novel combinations which exhibit substantial therapeutic benefits. Phynova's development programme concentrates on six of these, outlined below.*

Product	Market Size		Key Opportunities
PYN17 Chronic HCV	2006	\$3.5bn+	Only drug being developed for this condition
	2010	\$9.0bn+	
PYN18 HCV & Dengue	2006	\$3.5bn+	No treatment available for Dengue
	2010	\$9.0bn+	
PYN22 Obesity/NAFLD	2006	\$0.8bn+	No treatment for fatty liver disease
	2010	\$2.0bn+	
PYN9 Post-Operative Ileus	2006	\$0.71bn+	One of only 3 drugs currently in development
	2010	\$1.08bn+	
PYN6 Antibacterial	2006	\$30.0bn+	New drugs needed because of bacterial resistance
	2010	\$44.0bn+	
PYN7 Cancer	2006	\$42.0bn+	Novel multi-valent approach required
	2010	\$60.0bn+	

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Phynova Group plc (Phynova) is a public company listed on the AIM market of the London Stock Exchange. Founded in 2002, Phynova's drug candidates are derived from plants used in Chinese medicines that target significant unmet therapeutic needs in the areas of metabolic, viral and bacterial diseases and cancer.

China has a long history of using botanical drugs and Phynova's strategy is to use the wealth of historical and modern data available for many of these drugs as a starting point or discovery engine for developing modern medicines. Phynova's team is comprised of scientists, physicians and business people who have a deep understanding of both Western and Chinese pharmaceutical culture and medicine. This rare expertise means that we are uniquely placed to identify novel drug opportunities in China that can be transferred and developed for the West, China and emerging markets.

## WHAT MAKES US DIFFERENT

- DISCOVERY ENGINE WITH 5,000 MEDICINAL PLANTS, HISTORY OF SAFE AND EFFECTIVE USE FOR MANY CENTURIES
- DEVELOPING DRUGS FOR GLOBAL MARKETS
- DEVELOPMENT PROGRAMME OF SIX DRUG CANDIDATES
- DRUG CANDIDATES SOURCED FROM SUSTAINABLE RESOURCES
- DRUG MARKET FOR EACH PRODUCT IN EXCESS OF \$1 BILLION PER ANNUM
- EXPERTISE IN CHINESE AND WESTERN DRUG DEVELOPMENT



## Chairman's and Chief Executive's Review

It gives us great pleasure to present our interim accounts for the six months ended 31 March 2007 and to report on the Company's progress to date.

### Scientific Advances

Recent scientific work has built on the strong foundations established over the last 18 months. In particular, the appointment of John Efthimiou MD FRCP as Chief Medical Officer has led to significantly increased momentum on the clinical trials process.

**PYN17** – Phynova has recently announced the start of a Phase IIa clinical trial in the US for the Company's lead product, having had its IND to conduct a Phase I/II clinical trial accepted by the FDA in January 2007. This randomised, double-blind, placebo-controlled study, conducted at five sites in the US will evaluate safety and efficacy in 36 patients suffering with **chronic hepatitis C**, for whom approved treatments such as pegylated interferon and ribavirin have either failed or are not appropriate. Establishing an IND and clinical activities in the US, one of the world's largest prescription drug markets, is a significant corporate milestone for Phynova.

**PYN22** – a lipid lowering compound for the treatment of **obesity and fatty liver**, in-licensed by Phynova in 2006. Obesity is a huge medical problem world wide, particularly in developed countries. One of the increasingly recognised complications of obesity is non-alcoholic fatty liver disease (NAFLD), which can lead to liver cirrhosis and hepatocellular carcinoma. Currently there is no specific treatment for NAFLD and there remains a high unmet medical need. Preclinical data generated by Phynova's Chinese collaborators shows that

PYN22 reduces blood lipids, the percentage of body fat and liver fat. This preclinical data has been confirmed and extended by a leading academic group in the UK who have shown that PYN22 reduces body fat, as well as having some effect on insulin resistance. Phynova expects to commence clinical testing of PYN22 during the first quarter of 2008.

**PYN9** – a product developed by Phynova's collaborators at Botanic Century, Beijing, for the treatment of **post-operative ileus** (POI), a temporary bowel stasis, that is a common consequence of abdominal surgery and often delays release from hospital. There are currently no approved treatments for POI, which affects to some degree up to 10 million surgical patients every year in the US alone. PYN9 will commence clinical trials in China later this year. Following the recent withdrawal from the late-stage development of a competing product for a related indication, opiate-induced ileus, Phynova believes that PYN9 is now one of only three products in clinical development for this condition.

**PYN18** – an antiviral in development for the treatment of the **hepatitis C virus** (HCV). Current treatments for HCV are only partially effective and have significant associated toxicity. PYN18 is a novel, antiviral medicine that Phynova expects to have a better benefit to risk ratio than existing treatments. In addition, as strategies for treating HCV treatments increasingly involve combinations of drugs, Phynova believes that PYN18 will be used alongside existing treatments to enhance their effectiveness.

Phynova has recently demonstrated that PYN18 is also active against dengue virus, the



causative agent of **Dengue Haemorrhagic Fever** (DHF), a common and serious tropical disease that is endemic in much of the Southern Hemisphere. Preclinical studies carried out at the Siriraj Hospital in Bangkok indicate that PYN18 has a broader spectrum of antiviral activity than previously believed. This provides a clear commercial opportunity for PYN18 in the potential treatment of DHF.

#### Award Nomination

In April 2007, the Oxfordshire Bioscience Network selected Phynova as its Regional Nomination for the **UK Bioentrepreneur of the Year 2007 Awards** in the **"UK Innovation in Drug Discovery and Development"** category. The award, sponsored by the UK Trade and Investment (Foreign & Commonwealth Office), recognises the contribution a company makes to the dominant position in the development of innovative new medicines. The awards ceremony will be held at the Foreign & Commonwealth Office, London on 4 July.

#### Business Development

Phynova has recently increased its focus on monetising its product portfolio with the appointment of Tony Mills PhD as Director of Business Development. Tony has a strong track record of successfully licensing biotech products to big pharma and as Phynova's pipeline of botanical drugs moves closer to market, he will be vital in maximising global potential.

#### Financial Review

In the six months ended 31 March 2007, Phynova recorded a pre-tax loss of £1,310,000, which is in line with the Company's expectations.

Cash outflow before financing was £1,795,000 reflecting the loss for the period and acquisition of 45% of Botanic Century (£592,000) in November 2006. Our cash position remains strong and at 31 March 2007 was £2.7 million. We are pleased to confirm that we continue to make good use of cash resources and that we remain firmly committed to our budget.

#### Strategy

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

#### Summary and Prospects

As you will have seen from reading all of the above news, Phynova's management team has been working very hard to create value and achieve several important milestones since coming to AIM sixteen months ago. Although small by industry standards, Phynova has already achieved an impressive list of accomplishments and is definitely "punching above its weight". With the team we now have in place both here in the UK and in China, the Company is well positioned to start out-licensing a number of its drug candidates and enter into commercial collaborations with pharmaceutical companies.

**Karl Watkin MBE**  
Chairman

**Robert Miller**  
Chief Executive Officer



## Consolidated Summarised Profit and Loss Account

for the six months ended 31 March 2007

	6 months ended 31 March 2007 unaudited £'000	6 months ended 31 March 2006 unaudited £'000	12 months ended 30 Sept 2006 audited £'000
Note			
<b>Turnover</b>	–	–	–
<b>Cost of sales – research and development</b>	<b>(341)</b>	(160)	(498)
<b>Gross loss</b>	<b>(341)</b>	(160)	(498)
<b>Administrative expenses</b>			
Administrative expenses	<b>(996)</b>	(315)	(1034)
AIM listing expenses	–	(130)	(132)
Total administrative expenses	<b>(996)</b>	(445)	(1166)
<b>Group operating loss</b>	<b>(1,337)</b>	(605)	(1,664)
Share of operating loss in Associated undertaking	<b>(15)</b>	–	–
<b>Loss on ordinary activities before interest</b>	<b>(1,352)</b>	(605)	(1,664)
Interest receivable	<b>42</b>	8	25
Interest payable and similar charges	–	–	(1)
<b>Loss on ordinary activities before and after taxation</b>	<b>(1,310)</b>	(597)	(1,640)
<b>Basic and diluted loss per share</b>	<b>(7.2)p</b>	(6.5)p	(13.6)p
	2		

All amounts relate to continuing operations.



## Consolidated Statement of Total Recognised Gains and Losses

for the six months ended 31 March 2007

	6 months ended 31 March 2007 unaudited £'000	6 months ended 31 March 2006 unaudited £'000	12 months ended 30 Sept 2006 audited £'000
Note			
Loss for the financial year			
– Group	(1,295)	(597)	(1,640)
– associated undertaking	(15)	–	–
	<b>(1,310)</b>	(597)	(1,640)
Exchange translation differences on consolidation	<b>(2)</b>	–	–
<b>Total recognised gains and losses for the financial period/year</b>	<b>(1,312)</b>	(597)	(1,640)



## Consolidated Summarised Balance Sheet

as at 31 March 2007

	At 31 March 2007 unaudited £'000	At 31 March 2006 unaudited £'000	At 30 Sept 2006 audited £'000
Note			
<b>Fixed assets</b>			
Tangible assets	19	3	8
Investment in associated undertaking	568	–	–
	<b>587</b>	3	8
<b>Current assets</b>			
Debtors	266	215	254
Cash at bank and in hand	2,748	2,933	1,978
	<b>3,014</b>	3,148	2,232
Creditors: amounts falling due within one year	333	217	207
<b>Net current assets</b>	<b>2,681</b>	2,931	2,025
Total assets less current liabilities	<b>3,268</b>	2,934	2,033
Provision for liabilities	<b>(353)</b>	(236)	(371)
<b>Net assets</b>	<b>2,915</b>	2,698	1,662
<b>Capital and reserves</b>			
Called up share capital	188	148	148
Share premium account	6,023	3,860	3,498
Warrant reserve	369	–	369
Merger difference reserve	642	642	642
Profit and loss account	<b>(4,307)</b>	(1,952)	(2,995)
<b>Shareholders' funds</b>	3 <b>2,915</b>	2,698	1,662



## Consolidated Summarised Cash Flow Statement

as at 31 March 2007

	Note	6 months ended 31 March 2007 unaudited £'000	6 months ended 31 March 2006 unaudited £'000	12 months ended 30 Sept 2006 audited £'000
<b>Net cash outflow from operating activities</b>	4	<b>(1,231)</b>	(615)	(1,586)
Returns on investments and servicing of finance				
Interest received		42	8	24
Interest paid and similar charges		-	-	(1)
Net cash inflow from returns on investments and servicing of finance		42	8	23
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(14)	(2)	(8)
Net cash outflow from capital expenditure and financial investment		(14)	(2)	(8)
<b>Acquisitions and Disposals</b>				
Investment in associated undertaking		(592)	-	-
<b>Cash outflow before financing</b>		<b>(1,795)</b>	(609)	(1,571)
<b>Financing</b>				
Issue of ordinary share capital		2,778	3,733	4,198
Share Issue expenses		(213)	(220)	(678)
Net cash inflow from financing		2,565	3,513	3,520
Increase in cash	5	770	2,904	1,949



## Notes to the Interim Statement

for the six months ended 31 March 2007

### 1. Basis of Preparation

The consolidated interim financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. The principal accounting policies of the Group have remained unchanged from those set out in Phynova Group plc 2006 financial statements except for the adoption of FRS 9 "Associates and Joint Ventures" and FRS 20 "Share-based Payments". Under FRS 9 the Company is accounting for its investment in associated undertaking using the equity method of accounting and any goodwill arising is amortised over a useful economic life of 20 years. FRS 20 has been applied for the financial year ending 30 September 2007 but in accordance with the transitional provisions of the standard it has not been applied to grants of share options or other equity instruments granted after 7 November 2002 that had vested prior to 1 October 2006.

### 2. Loss per Share

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

	Loss £'000	Weighted average number of shares	Loss per share pence
Basic and diluted loss per share			
<b>Six months ended 31 March 2007</b>	<b>(1,310)</b>	<b>18,083,525</b>	<b>(7.2)</b>
Six months ended 31 March 2006	(597)	9,232,227	(6.5)
12 months ended 30 September 2006	(1,640)	12,027,943	(13.6)

At 31 March 2007, the Company had 6,954,520 share options and warrants outstanding, representing 27% of the Company's enlarged share capital, on the basis of all the share options being exercised before expiration. The share options have not been included in the calculation of the diluted loss per share as they would dilute a loss.



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

	<b>6 months ended 31 March 2007 unaudited £'000</b>	6 months ended 31 March 2006 unaudited £'000	12 months ended 30 Sept 2006 audited £'000
<b>Loss for the financial period</b>	<b>(1,310)</b>	(597)	(1,640)
Issue of ordinary share capital	<b>40</b>	72	72
Premium on shares issued during the period net of expenses	<b>2,525</b>	3,441	3,448
Other net recognised gains and losses relating to the period	<b>(2)</b>	–	–
<b>Net additions to shareholders' funds</b>	<b>1,253</b>	2,916	1,880
Opening shareholders' funds	<b>1,662</b>	(218)	(218)
<b>Closing shareholders' funds</b>	<b>2,915</b>	2,698	1,662

### 4. Reconciliation of Operating Loss to Net Cash (Outflow) from Operating Activities

	<b>6 months ended 31 March 2007 unaudited £'000</b>	6 months ended 31 March 2006 unaudited £'000	12 months ended 30 Sept 2006 audited £'000
<b>Operating (loss)</b>	<b>(1,337)</b>	(605)	(1,664)
Depreciation	<b>3</b>	1	2
Amortisation	<b>7</b>		
(Increase)/decrease in debtors	<b>(12)</b>	(11)	(49)
Increase /(decrease) in creditors	<b>126</b>	–	(10)
Increase/(decrease) in provisions	<b>(18)</b>	–	135
<b>Net cash (outflow) from operating activities</b>	<b>(1,231)</b>	(615)	(1,586)



## Notes to the Interim Statement continued

for the six months ended 31 March 2007

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

	<b>6 months ended 31 March 2007 unaudited £'000</b>	6 months ended 31 March 2006 unaudited £'000	12 months ended 30 Sept 2006 audited £'000
Increase in cash in the period	<b>770</b>	2,904	1,949
Movement in net funds	<b>770</b>	2,904	1,949
Opening net funds	<b>1,978</b>	29	29
<b>Closing net funds</b>	<b>2,748</b>	2,933	1,978

### 6. Financial Comparatives

The financial information set out in this interim report does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

The comparatives for the full year ended 30 September 2006 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under section 237(2)-(3) of the Companies Act 1985.

### 7. Dividends

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



## Glossary of Terms

**FDA** – The US Food and Drug Administration

**IND** – Investigational New Drug – gives permission for a new drug to be used in clinical trials in the US



## Company Information

### Directors

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

### Registered Office

Phynova House  
 16 Blenheim Office Park  
 Long Hanborough  
 Oxon OX29 8LN

Registered in England and Wales  
 Number 5202283

### Legal Advisers to the Company

Osborne Clarke  
 Apex Plaza  
 Forbury Road  
 Reading  
 RG1 1AX

### Registrars

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

### AIM Nominated Adviser

Nabarrow Wells & Co. Limited  
 Saddlers House  
 Gutter Lane  
 London  
 EC2V 6HS

### Stockbroker

JM Finn & Co.  
 4 Coleman Street  
 London EC2R 5TA

### Auditors and Reporting Accountants

BDO Stoy Hayward LLP  
 125 Colmore Row  
 Birmingham  
 B3 3SD

### Bankers

HSBC Bank Plc  
 69 Pall Mall  
 London  
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### Financial Public Relations Consultants

Abchurch Communications  
 100 Cannon Street  
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