



Leading Experts in Botanical
Drug Development

Annual Report
and Accounts 2007

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CHAIRMAN'S STATEMENT

"Phynova is on track to achieve its aim of becoming a leading international developer of botanical drugs targeted at areas of significant unmet therapeutic need in major global markets."

Introduction

2007 was a year of significant achievement and important progress for Phynova, with advances being made on all fronts. Our research and development programme has produced consistently encouraging results whilst business development activity continues to deliver opportunities to grow the business and build shareholder value.

During the period under review, we have delivered on our promise to capitalise on the global potential of botanical drugs and continue to establish a strong presence in China, which is one of the world's fastest growing pharmaceutical markets and also the source of much of Phynova's raw material and scientific expertise.

I believe our achievements in 2007 validate our business model, which seeks to reduce the risk inherent in the pharmaceutical drug development process by working with tried and tested medicinal plants with established efficacy and safety profiles, thus potentially also reducing the time and cost traditionally associated with taking drug candidates through the pre-clinical and clinical development stages towards market.

Drug Development Programme

Advances have been made across our development pipeline. The Company is particularly pleased with the progress made with PYN17, Phynova's lead drug candidate for the treatment of patients with chronic hepatitis C. The US Food & Drug Administration (FDA) approved our Investigational New Drug (IND) application in January 2007. Positive results were reported in November from the subsequent Phase I/II trial. A Phase IIb clinical trial is expected to commence on schedule during the first half of 2008.

Elsewhere in the pipeline we can report good progress. For example, PYN6, which has produced promising pre-clinical results for the treatment of MRSA and as an acne therapy, has attracted considerable commercial attention from potential partners.

Encouraging results continue to emerge from our research to evaluate the effectiveness of PYN18, our novel anti-viral drug candidate against hepatitis C and dengue fever.

PYN22, our candidate for the potential treatment of fatty liver, is moving forward successfully in pre-clinical development, having produced very encouraging initial screening data during the year. We plan to commence a clinical programme during 2008.

We also expect to commence clinical development during 2008 on PYN9 for the treatment of post-operative ileus (or temporary bowel stasis). This candidate has been developed by our Chinese partner, Botanic Century.

Within the next twelve months, Phynova expects to have three drug candidates undergoing clinical trials (PYN17, PYN22, PYN9) with other candidates progressing closer to clinical development. This is a remarkable achievement for a company of our size. At the same time, our broad pipeline means that we are not over-reliant on any one single project.

Finance

Prudent management of the funds raised in the previous year has enabled the Company to carry out its development programme. We have just obtained commitments to provide in excess of £1.1 million from existing investors and new private investors.

However, in order to enable the business to fulfil the development programme further fundraising will be necessary in 2008. We continue to take the view that core operational resources should be strengthened within the business whilst we outsource high cost, low-volume services where appropriate.

Despite extremely volatile and challenging market conditions, generally poor share price performance and low liquidity across the entire UK Life Sciences sector, we continue to enjoy strong support from our shareholders.

Operations

Phynova China Ltd, our Hong Kong-based wholly-owned subsidiary established in 2006, continues to make a positive contribution to the business and a range of new opportunities is constantly under consideration. In 2006, we acquired a 45% shareholding in the Beijing-based drug development company Botanic Century. This collaboration gives us a significant "footprint" in China, one which will enable sustained growth in the period ahead.

The Future

I believe three principal underlying factors offer the prospect of sustained future growth:

Firstly, the demand for new and effective therapies continues to be high. The drug candidates in our development pipeline are targeted against global diseases where prevalence is not only increasing but which remain generally poorly treated.

Secondly, we believe that botanical drugs can offer "big pharma" companies genuine new and valuable opportunities at a time when conventional drug discovery pipelines are looking thin, and with development costs and the risk of being turned down by the regulators higher than ever. Increasingly, the big players are paying significant premiums for high potential projects with which to re-stock their own development pipelines. This represents a possible lucrative source of revenue as Phynova's projects move along the development process and has contributed to the widespread increase in interest being expressed in our approach and our pipeline.

Thirdly, Phynova is exceptionally well placed to take advantage of China's development as the world's fastest growing pharmaceutical market. Phynova has created an effective East-West bridge, giving the Company the potential to address the needs of the Chinese, as well as Western markets.

People

I would like to thank all members of staff for their expertise, commitment and enthusiasm. It is these attributes which have delivered the considerable progress made this year. My thanks go also to my fellow Board members and our Scientific Advisers for their valuable contribution to the Company. Working together, I look forward to meeting the exciting challenges which lie ahead and fulfilling Phynova's potential.

Outlook

The Directors remain convinced that the market for pharmaceuticals derived from medicinal plants and developed at relatively low cost is one with enormous potential. Phynova now operates on three continents. With a strong development pipeline and with social and economic trends moving our way, Phynova is uniquely well placed within the industry and we can look forward to the period ahead with confidence.

Karl Watkin MBE

27 March 2008

CHIEF EXECUTIVE'S REVIEW

Introduction

In 2007, Phynova made a number of important advances towards securing its position as one of the world's leading developers of new drugs sourced from plants used in Chinese medicine. Our research and development portfolio has moved strongly forward and our business development activity has opened up many interesting new opportunities for the Company.

It is said that the 21st century will be China's century, just as the 20th Century was America's. Forecasters predict that China will grow from its current position as the world's ninth largest pharmaceutical market to the fifth by 2010. China is of critical importance to Phynova, not just as the source of many of our pharmaceutical raw materials and scientific expertise, but also as a major marketplace for our development skills and, ultimately, our products. During the year, we have taken important, strategic steps to strengthen our existing presence in the region and we look forward to consolidating these achievements in 2008.

I believe Phynova is ideally placed to act as a bridge between China and the West, developing new therapies for common but hitherto poorly treated diseases in the West whilst helping to introduce western development programmes to China. An enormous opportunity exists for Phynova to develop a range of innovative pharmaceutical products for the global market.

Drug Development Programme

Our development programme made excellent progress in 2007 and continues to show considerable commercial potential. We received recognition of this fact during the year when the Company was nominated in the category "Innovation in Discovery and Drug Development" at the prestigious "UK Bioentrepreneur of 2007" awards. Our approach and pipeline projects are fully compliant with the FDA's Botanical Drug Guidelines published in 2004.

• PYN17

Our lead candidate for the treatment of the symptoms of chronic hepatitis C (CHC) received its first patent in July 2006. Following the FDA's acceptance early in 2007 of our IND (Investigational New Drug) application, a Phase I/II clinical trial commenced on schedule in May 2007 in five hepatology centres in the US. Positive results were received in November 2007 from this double-blind, placebo-controlled study, confirming the safety profile of this product in patients with CHC. A Phase IIb trial is expected to commence on schedule in the first half of 2008. PYN17 remains the only product currently in clinical development specifically aimed at treating the debilitating symptoms of hepatitis C. It targets a hepatitis C market currently dominated by antiviral drugs that is forecast to grow from its current level of around \$3.0bn to around \$12.0bn by 2015.

• PYN18

An anti-viral candidate for the treatment of the hepatitis C virus. Screening data has also confirmed the potential for PYN18 to be developed as a treatment for Dengue Fever which infects between 50 and 100 million people each year, mainly across Asia, Africa and South America and for which there is currently

no approved medication or vaccine. Work will continue in 2008 on both potential indications with development partners in Europe and Thailand. This novel compound was discovered by Phynova's own scientists and is attracting significant interest from "big pharma" companies.

• PYN22

A candidate for the treatment of the increasingly recognised condition of non-alcoholic fatty liver disease, which is part of the metabolic syndrome that includes obesity. Initial pre-clinical tests to investigate the efficacy and toxicology produced encouraging results during the course of the year. This project is expected to move into the clinic during 2008. There remains a high unmet therapeutic need in this area and we believe this drug candidate has significant commercial potential.

• PYN6

This drug candidate is a novel anti-bacterial in-licensed from Botanic Century. Pre-clinical studies continue to yield positive results on the product's activity against a number of important human pathogens. In particular, work with the University of East London has demonstrated promising levels of inhibition against clinical isolates of Methicillin Resistant Staphylococcus aureus ("MRSA"). The results show that PYN6 compares very favourably with mupirocin, the topical antibiotic currently routinely used for the treatment of skin infections involving MRSA. Moreover, continuous culture over three weeks in the presence of PYN6 failed to produce PYN6-resistant strains of MRSA – a finding that could be clinically significant. PYN6 also has shown activity against the bacterium that is associated with acne and this indication has attracted considerable interest from potential pharmaceutical partners during the year. Studies designed to strengthen the PYN6 pre-clinical package will continue during 2008.

• PYN7

Compounds potentially useful in the treatment of cancer were obtained in early 2007 through our relationship with the Hong Kong Jockey Club Institute of Chinese Medicine. Mode-of-action studies carried out on Phynova's behalf during 2007 at the Institute of Cancer Studies at the University of Birmingham and at the Hong Kong University of Science and Technology confirm Phynova's initial view of the promise of these compounds. Further work to underpin these studies is planned for 2008. It is anticipated that a commercially attractive data package to support the out-licensing of PYN7 will be built up during the year.

• PYN9

Developed by Botanic Century for the treatment of post-operative ileus, temporary bowel stasis associated with abdominal surgery. Positive results continue to emerge from this high potential drug candidate. Currently, there are no approved treatments for the condition which is estimated to affect up to 10 million surgical procedures every year in the USA alone. We are expecting to commence clinical trials in China in 2008 to produce safety and efficacy data. This will be followed by a new drug approval application to the SFDA, the Chinese drug registration agency.

If successful, PYN9 could be marketed in China in 2010. Botanic Century has already signed a distribution agreement which has the potential to generate significant near-term revenues in China. Simultaneously, Phynova has commenced pre-clinical work in the UK and Europe with a view towards completing future global development.

Finance

The results for the year ended 30 September 2007 show a post tax loss of £2.9 million for the period (2005/6: £1.6 million). As an early stage biopharmaceutical company involved in the development of pharmaceuticals, Phynova expects to incur an operating loss for a number of years. The cash balance as at 30 September 2007 was £1.4 million compared with £2.7 million at 31 March 2007 and £2.0 million at 30 September 2006.

In March 2008, despite challenging and volatile market conditions, Phynova announced that it has successfully obtained commitments to provide in excess of £1.1 million through a placing of new ordinary shares at 40 pence per share with existing investors and private investors. We continue to manage our development spend in a controlled and consistent way and deliver results from our pipeline in accordance with expectations. In order to enable the business to fulfil its current development programme, Phynova intends to raise further funds during 2008. Negotiations are also progressing with a number of potential partners for several of our products, on terms that could include funding of development programmes or out-licensing. Phynova's unique, cost-efficient approach to drug development should mean that it incurs less cost taking drugs to market than that required by traditional drug development models.

Business development and M&A activity

We continue to put increased resources into our business development activity. Based in Europe with a major presence in China and, to a lesser degree, in the US, Phynova is well placed to take advantage of its particular expertise in the development of botanical drugs in order to deliver them into markets throughout the world.

Our focus is increasingly turning to the commercialisation of our work. Phynova's profile in China and the Far East was boosted by the strategic establishment last year of Phynova China Ltd, based in Hong Kong, which has led to a very positive response from Chinese pharmaceutical and biotech companies, with whom we are reviewing a range of high potential collaborative business development opportunities.

We are finding that our message is being well received by major international pharmaceutical manufacturers and marketing companies. At any time, a range of high potential drug development opportunities are under review within the Company with a view to possible future collaborations, in-licensing or acquisitions.

The acquisition of a 45% stake in Botanic Century in November 2006 and the consequent in-licensing of PYN6 have helped establish a remarkably close and effective working relationship

between the two companies. The partnership immediately gave Phynova access to a number of potential new drug candidates being taken forward by Botanic Century, whilst our Chinese partners can expect Phynova to introduce their projects to wider audiences and markets outside China.

People

I am delighted to take this opportunity to thank all members of the Phynova team. We are fortunate to have so many talented and experienced people who, working together, make up a formidable and committed resource, easily capable of meeting the challenges of delivering Phynova's full potential in the years ahead.

Conclusion

During 2007, Phynova has achieved several important milestones. We have demonstrated that we can take projects into the clinic and make swift progress in the clinical trials process. Our broad development pipeline means that we are not over-reliant on any one particular project. We have made successful product acquisitions as well as mutually beneficial strategic alliances with organisations such as the Hong Kong Jockey Club Institute of Chinese Medicine. Considerable interest in our projects and our capabilities has been generated from other, much larger, companies in the industry. We have a growing presence on three continents and have particularly deep roots now in the fastest growing pharmaceutical market in the world, China.

I believe Phynova is a company which punches above its weight. Since its inception it has worked hard to deliver on its promise of creating novel and cost effective new drug opportunities from plant based medicines. I am confident that the year ahead will be a transformational one for the Company in which we will begin to see the commercial realisation of that promise.

Robert Miller

27 March 2008

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the year ended 30 September 2007.

Results and dividends

The profit and loss account is set out on page 8 and shows the loss for the year.

The Directors do not recommend the payment of a dividend (2006: nil).

Principal activities, review of business and future developments

The Group's principal activity is that of a developer of pharmaceuticals derived from Chinese botanical drugs targeting viral and metabolic diseases and cancer. A summary of the principal activities of subsidiary companies is included within note 11.

The Group now has a well developed portfolio of products derived from proven Chinese botanical drugs that address major unmet needs in Western medicine.

Commercialisation is expected to be through licensing deals to major pharmaceutical companies which would then take the products through final trials and to market. The Group is very encouraged by the enquiries it has already received regarding the licensing of its two lead products. (PYN 17 and PYN22)

Developments in 2007 have reinforced the Directors' opinion that the market for pharmaceuticals derived from medicinal plants and developed at relatively low cost is one with enormous potential. The Chinese market is proving particularly interesting. It is the intention of the Directors to take full advantage of Phynova's strength in this field and the emerging Chinese market in the coming year.

Discussion of the key performance indicators used by the Company is within the Chairman's and Chief Executive's report.

Principal risks and uncertainties

Phynova is able to reduce the risk associated with pharmaceutical drug development through diversifying its portfolio of six drugs in development and a further three development drugs following the investment in Botanic Century. In order to enable the business to fulfil its current development programme in 2008, further fund raising will be necessary.

Post balance sheet events

On 27 March 2008, the company announced that it has successfully obtained commitments to provide in excess of £1.1 million through a placing of new ordinary shares at 40 pence per share with existing investors and private investors.

Policy and practice on the payment of creditors

The Group does not subscribe to a particular code but follows a policy whereby it agrees appropriate terms and conditions for its business transactions with suppliers. Payments are then made on these terms, subject to the terms and conditions being met by suppliers. At the balance sheet date the trade creditors value was £278,689 (2006: £258,960) representing 44 creditor days (2006: 48 creditor days).

Charitable and political donations

During the year the Group made charitable donations of £400 (2006: £200) to charities serving the community in which the Group operates. No political donations were made.

Research and development

Research and development amounted to £1,027,506 (2006: £497,799) all of which was written off during the year. Details of the research and development being completed by the Company can be found within the Chairman's and Chief Executive's reports.

Directors' indemnity insurance

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

Financial instruments

Details of the financial instruments held by the Group are contained in note 24 of the financial statements.

Directors

The Directors who held office at the end of the year had the following interests in the shares of the Company recorded in the register of directors' shares and share options:

| | Ordinary shares of 1p each | | Note | Share options | |
|------------|-----------------------------|-----------------------------|----------------------------------------|--------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| | 30 September 2007 Number | 30 September 2006 Number | | 30 September 2007 Number | 30 September 2006 Number |
| R Miller | 845,853 | 845,853 | | – | – |
| M Martin | 1,053,830 | 876,485 | 1 2 3 4 5 6 11 13 | – – – 70,000 23,450 60,000 50,000 30,417 | 615,520 73,800 81,960 70,000 23,450 60,000 50,000 30,417 |
| W Doyle | 1,724,307 | 1,714,307 | 1 | – | 22,640 |
| S Marshall | 1,340,240 | 793,395 | 1 2 7 | – – 20,000 | 410,120 273,400 20,000 |
| E Blair | 8,204 | – | 8 9 4 6 11 | 37,080 12,000 9,000 18,000 15,000 | 37,080 12,000 9,000 18,000 15,000 |
| J Pool | | | 10 | 100,000 | 100,000 |
| A Brown | 13,000 | 13,000 | 12 | 50,000 | 50,000 |
| K Watkin | 105,560 | – | 14 15 | 500,000 500,000 | – – |

On 14 of December 2006, M Fowler resigned and K Watkin was appointed to the board of directors. On 29 January 2007 J Pool resigned as Chairman and K Watkin was appointed Chairman. J Pool continues as non executive director of the company.

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

- 1 23 September 2004 and 9 February 2007 at 36.57p
- 2 23 September 2004 and 15 April 2007 at 36.57p
- 3 23 September 2004 and 14 June 2007 at 36.57p
- 4 31 March 2005 and 31 March 2008 at 50p
- 5 22 September 2005 and 22 September 2008 at 50p
- 6 30 September 2005 and 30 September 2008 at 50p
- 7 31 January 2005 and 31 January 2008 at 50p
- 8 23 September 2004 and 12 July 2007 at 36.57p
- 9 31 January 2005 and 31 January 2008 at 36.57p
- 10 28 February 2005 and 28 February 2008 at 50p
- 11 24 January 2006 and 24 January 2009 at 50p
- 12 13 February 2006 and 13 February 2009 at 50p
- 13 27 February 2006 and 27 February 2009 at 60p
- 14 12 February 2007 and 12 February 2010 at £1.00 (granted during the year)
- 15 12 February 2007 and 12 February 2010 at £1.50 (granted during the year)

DIRECTORS' REPORT CONTINUED

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein. An electronic copy of these financial statements is available on the Company website: www.phynova.com

Auditors

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution will be proposed at the Annual General Meeting.

By order of the Board

R Miller

Director

27 March 2008

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PHYNova GROUP PLC

We have audited the Group and parent company financial statements (the "financial statements") of Phynova Group plc for the year ended 30 September 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements within it. The other information comprises the Directors' Report, Chairman's Statement and the Chief Executive's Review. We consider the implications for our report if we become aware of any apparent misstatements or inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's affairs as at 30 September 2007 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 September 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors

125 Colmore Row

Birmingham

B3 3SD

31 March 2008

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CONSOLIDATED PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED 30 SEPTEMBER 2007

| | Note | Year ended 30 September 2007 £ | Year ended 30 September 2006 £ |
|----------------------------------------------------|------|-----------------------------------------|-----------------------------------------|
| Turnover | | – | – |
| Cost of sales – research and development | | 1,027,506 | 497,799 |
| Gross loss | | (1,027,506) | (497,799) |
| Administrative expenses | | 1,943,285 | 1,034,147 |
| AIM Listing expenses | | – | 131,781 |
| Total administrative expenses | | 1,943,285 | 1,165,928 |
| Group operating loss | | (2,970,791) | (1,663,727) |
| Share of operating loss in associated undertaking | 11 | (58,652) | – |
| Loss on ordinary activities before interest | | (3,029,443) | (1,663,727) |
| Interest receivable and similar income | | 87,240 | 24,708 |
| Interest payable and similar charges | 9 | (3,633) | (1,417) |
| Loss on ordinary activities before taxation | | (2,945,836) | (1,640,436) |
| Taxation on ordinary activities | 7 | 93,144 | – |
| Loss on ordinary activities after taxation | | (2,852,692) | (1,640,436) |
| Basic and diluted loss per share | 3 | (15.1p) | (13.6p) |

All amounts relate to continuing activities.

The notes on pages 13 to 22 form part of the financial statements.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 30 SEPTEMBER 2007

| | Year ended 30 September 2007 £ | Year ended 30 September 2006 £ |
|------------------------------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| Loss for the financial year | | |
| – Group | (2,794,040) | (1,640,436) |
| – Associated undertaking | (58,652) | – |
| | (2,852,692) | (1,640,436) |
| Exchange translation differences on consolidation of associated undertakings | (2,673) | – |
| Total recognised gains and losses for the financial year | (2,855,365) | (1,640,436) |

The notes on pages 13 to 22 form part of the financial statements.

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CONSOLIDATED BALANCE SHEET
 AT 30 SEPTEMBER 2007

| | Note | 30 September 2007 | | 30 September 2006 | |
|------------------------------------------------|------|--------------------|------------------|-------------------|-----------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Tangible assets | 10 | 16,367 | | 7,590 | |
| Investment in associated undertaking | 11 | 531,236 | | – | |
| | | | 547,603 | | 7,590 |
| Current assets | | | | | |
| Debtors | 13 | 418,815 | | 254,400 | |
| Cash at bank and in hand | | 1,426,681 | | 1,977,967 | |
| | | 1,845,496 | | 2,232,367 | |
| Creditors: amounts falling due within one year | 14 | (374,800) | | (206,533) | |
| | | | 1,470,696 | | 2,025,834 |
| Total assets less current liabilities | | | | | |
| Provisions for liabilities | 15 | (343,366) | | (371,183) | |
| | | | 1,674,933 | | 1,662,241 |
| Capital and reserves | | | | | |
| Called up share capital | 16 | 195,363 | | 147,998 | |
| Share premium account | 17 | 6,271,548 | | 3,497,856 | |
| Warrant reserve | 17 | 369,459 | | 369,459 | |
| Merger difference reserve | 17 | 642,711 | | 642,711 | |
| Profit and loss account | 17 | (5,804,148) | | (2,995,783) | |
| | | | 1,674,933 | | 1,662,241 |
| Shareholders' funds | | | | | |
| | 18 | | 1,674,933 | | 1,662,241 |

These financial statements were approved by the Board of Directors and authorised for issue on 27 March 2008 and were signed on its behalf by:

R Miller
 Director

The notes on pages 13 to 22 form part of the financial statements.

COMPANY BALANCE SHEET
AT 30 SEPTEMBER 2007

| | Note | 30 September 2007 | | 30 September 2006 | |
|------------------------------------------------|------|-------------------|--------------------|-------------------|-----------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Tangible assets | 10 | 12,309 | | – | |
| Fixed asset investments | 11 | 659,866 | | 67,305 | |
| | | | 672,175 | | 67,305 |
| Current assets | | | | | |
| Debtors | 13 | 1,604,966 | | 1,286,811 | |
| Cash at bank and in hand | | 1,403,833 | | 1,891,478 | |
| | | 3,008,799 | | 3,178,289 | |
| Creditors: amounts falling due within one year | 14 | (356,486) | | – | |
| | | | 2,652,313 | | 3,178,289 |
| Net current assets | | | | | |
| | | | 2,652,313 | | 3,178,289 |
| Total assets less current liabilities | | | | | |
| Provisions for liabilities | 15 | | 3,324,488 | | 3,245,594 |
| | | | (191) | | (28,008) |
| | | | 3,324,297 | | 3,217,586 |
| Capital and reserves | | | | | |
| Called up share capital | 16 | | 195,363 | | 147,998 |
| Share premium account | 17 | | 6,271,548 | | 3,497,856 |
| Warrant reserve | 17 | | 369,459 | | 369,459 |
| Profit and loss account | 17 | | (3,512,073) | | (797,727) |
| | | | | | |
| Shareholders' funds | 18 | | 3,324,297 | | 3,217,586 |

These financial statements were approved by the Board of Directors and authorised for issue on 27 March 2008 and were signed on its behalf by:

R Miller
Director

The notes on pages 13 to 22 form part of the financial statements.

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CONSOLIDATED CASH FLOW STATEMENT
 FOR THE YEAR ENDED 30 SEPTEMBER 2007

| | Note | Year ended 30 September 2007 £ | Year ended 30 September 2006 £ |
|----------------------------------------------------------------------------|------|-----------------------------------------|-----------------------------------------|
| Net cash outflow from operating activities | 21 | (2,847,417) | (1,586,394) |
| Returns on investments and servicing of finance | | | |
| Interest received | | 87,240 | 24,708 |
| Interest paid and similar charges | | (3,633) | (1,417) |
| Net cash inflow from returns on investment and servicing of finance | | 83,607 | 23,291 |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | 10 | (15,972) | (7,931) |
| Net cash outflow from capital expenditure and financial investment | | (15,972) | (7,931) |
| Acquisitions and disposals | | | |
| Investment in Associated Undertakings | | (592,561) | – |
| Net cash outflow from acquisitions and disposals | | (592,561) | – |
| Cash outflow before financing | | (3,372,343) | (1,571,034) |
| Financing | | | |
| Issue of ordinary share capital | | 3,033,445 | 4,198,342 |
| Share Issue expenses | | (212,388) | (678,119) |
| Net cash inflow from financing | | 2,821,057 | 3,520,223 |
| (Decrease)/increase in cash | 22 | (551,286) | 1,949,189 |

The notes on pages 13 to 22 form part of the financial statements.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2007

1 Accounting policies

With the exception of FRS 9 "Associates and Joint Ventures" and FRS 20 "Share Based Payments" the following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The consolidated 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 undertakings 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. The effect of FRS 20 was to reflect a charge of £47,000 with a corresponding credit to retained earnings. There has been no impact of this standard on the reported net assets of the Group.

Basis of consolidation

The consolidated financial statements of the Group include the accounts of Phynova Group plc and all its subsidiary undertakings (together, the "Group"), made up to 30 September 2007. Intercompany transactions are eliminated on consolidation and the consolidated accounts reflect external transactions only.

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 result of such a subsidiary is 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 differences 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.

Associates

An entity is treated as an associated undertaking where the Group has a participating interest and exercises significant influence over its operating and financial policy decisions.

In the Group accounts, interests in associated undertakings are accounted for using the equity method of accounting. The consolidated operating profit and loss account includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings based on audited financial statements. In the consolidated balance sheet, the interest in associated undertakings are shown as the Group's share of the identifiable net assets, including any amortised premium paid on acquisition.

The premium on acquisition is dealt with under the goodwill policy.

Research and development

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

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Fixed assets and depreciation

Depreciation is provided by the Company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

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

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 SEPTEMBER 2007

1 Accounting policies continued

Foreign currencies

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

The results of overseas operations are translated at the average rates of exchange during the year and their balance sheets translated into sterling at the rates of exchange ruling on the balance sheet dates. Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings are taken to reserves.

Financial instruments

Financial instruments are measured initially and subsequently at cost. Short term debtors and creditors have been excluded from the financial instrument disclosures in note 24.

Operating leases

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

Turnover

The Group has not yet received or accrued any turnover.

Simultaneous issue of shares and warrants

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

Share based payments

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

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

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

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

National Insurance on share options

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

2 Segmental analysis

The associated undertakings is based in China, all other operations are based in the UK.

3 Loss per share

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

| Basic and diluted loss per share | Loss £ | Weighted average number of shares | Loss per share pence |
|-------------------------------------|--------------------|-----------------------------------------|-------------------------|
| Year ended 30 September 2007 | (2,852,692) | 18,855,303 | (15.1) |
| Year ended 30 September 2006 | (1,640,436) | 12,027,943 | (13.6) |

At 30 September 2007, the Company had 5,690,920 share options and warrants outstanding, representing 22.6% of the Company's share capital, on the basis of all the share options being exercised before expiration. The share options have not been included in the calculation of the diluted loss per share as they would dilute a loss.

4 Loss on ordinary activities before taxation

| | Year ended 30 September 2007 £ | Year ended 30 September 2006 £ |
|------------------------------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| Loss on ordinary activity before taxation is stated after charging: | | |
| Research and development – current years expenditure | 1,027,506 | 497,799 |
| Depreciation of tangible fixed assets | 7,195 | 2,506 |
| Hire of other assets – operating leases | 36,165 | – |
| Exchange differences | (14,965) | – |
| Auditor's remuneration – Group | | |
| Audit fees | 24,300 | 24,000 |
| Taxation fees | 3,750 | 10,500 |
| Services relating to corporate finance | 2,200 | 51,932 |
| (2006: included in AIM flotation costs, deducted from share premium £20,834) | | |
| Auditor's remuneration – Company | | |
| Audit fees | 10,000 | 5,000 |
| Taxation fees | 3,750 | 3,000 |
| Services relating to corporate finance | 2,200 | 51,932 |
| (2006: included in AIM flotation costs, deducted from share premium £20,834) | | |

5 Staff numbers and costs

The average number of employees (including Executive Directors) during the year, analysed by category, was as follows:

| | Group | | Company | |
|----------------|-----------|-----------|-----------|-----------|
| | 2007 £ | 2006 £ | 2007 £ | 2006 £ |
| Directors | 3 | 3 | 3 | 3 |
| Scientists | 4 | 3 | 4 | 3 |
| Administration | 1 | – | 1 | – |
| | 8 | 6 | 8 | 6 |

The aggregate payroll costs were as follows:

| | Group | | Company | |
|-----------------------|----------------|----------------|----------------|----------------|
| | 2007 £ | 2006 £ | 2007 £ | 2006 £ |
| Wages and salaries | 803,781 | 366,208 | 803,781 | 366,208 |
| Social security costs | 98,359 | 43,636 | 98,359 | 43,636 |
| Share based payment | 47,000 | – | 47,000 | – |
| | 949,140 | 409,844 | 949,140 | 409,844 |

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 SEPTEMBER 2007

6 Directors' remuneration

| | 2007 £ | 2006 £ |
|-----------------------|-----------|-----------|
| Directors' emoluments | 611,435 | 381,693 |

The highest paid director received emoluments of £167,400 (2006: £135,001) pension contributions were £nil (2006: £nil).

Details of consultancy services provided by entities in which any Director holds an interest are disclosed in note 19. Included in the above amount is £26,000 (2006: £77,667), which has been paid to third party companies, which the Directors control, for the services of those Directors. Non-consultancy payments of £43,815 (2006: £47,702) were also made.

A further amount of £164,250 (2006: £145,000) has been paid to third parties in respect of Directors' qualifying services.

During the year Directors exercised share options realising gains of £1,184 (2006: £nil).

7 Taxation on loss on ordinary activities

| | 2007 £ | 2006 £ |
|-------------------------------------------|-----------|-----------|
| UK Corporation tax | | |
| Adjustment in respect of previous periods | (93,144) | – |
| Current tax on losses of the year | – | – |
| Taxation on losses on ordinary activities | (93,144) | – |

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

| | 2007 £ | 2006 £ |
|--------------------------------------------------------------------------------------------------|-------------|-------------|
| Loss on ordinary activities before tax | (2,909,280) | (1,640,436) |
| Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2006: 30%) | (872,784) | (492,131) |
| Effect of: | | |
| Tax losses created | (872,784) | (492,131) |
| Expenses not deducted for tax purposes | 991 | 3,000 |
| Research and development relief | (181,737) | (37,500) |
| Adjustment to tax charge in respect of previous period | (93,144) | – |
| Depreciation in excess of Capital Allowances | 1,226 | 752 |
| Tax losses carried forward | 1,052,304 | 525,879 |
| Current tax credit for year | (93,144) | – |

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

The Directors are not aware of any factors which may effect future tax charges.

The Group has tax losses of approximately £6,179,000 (2006: £3,223,000) to carry forward against profits of the same trade. The related deferred tax asset of £1,730,000 (2006: £967,000) has not been recognised on the basis that its future economic benefit is not certain.

8 Loss for the financial year

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The Group loss for the period includes a loss after tax and before dividends of £2,714,346 (2006: £797,727) which is dealt with in the financial statements of the parent company.

9 Interest payable and similar charges

| | 2007 £ | 2006 £ |
|-------------------------------------------|-----------|-----------|
| Bank interest payable and similar charges | (3,633) | (1,417) |

10 Tangible fixed assets

Group

| | Fixtures and fittings £ | Office equipment £ | Scientific equipment £ | Total £ |
|-----------------------------|----------------------------|-----------------------|---------------------------|---------------|
| Cost | | | | |
| At 30 September 2006 | 2,568 | 10,876 | 695 | 14,139 |
| Additions | 10,019 | 6,378 | – | 16,397 |
| Disposals | – | (425) | – | (425) |
| At 30 September 2007 | 12,587 | 16,829 | 695 | 30,111 |
| Depreciation | | | | |
| At 30 September 2006 | 1,118 | 4,871 | 560 | 6,549 |
| Charged in year | 2,733 | 4,327 | 135 | 7,195 |
| At 30 September 2007 | 3,851 | 9,198 | 695 | 13,744 |
| Net book value | | | | |
| At 30 September 2007 | 8,736 | 7,631 | – | 16,367 |
| At 30 September 2006 | 1,450 | 6,005 | 135 | 7,590 |

Company

| | Fixtures and fittings £ | Office equipment £ | Scientific equipment £ | Total £ |
|-----------------------------|----------------------------|-----------------------|---------------------------|---------------|
| Cost | | | | |
| At 30 September 2006 | – | – | – | – |
| Additions | 10,019 | 6,378 | – | 16,397 |
| At 30 September 2007 | 10,019 | 6,378 | – | 16,397 |
| Depreciation | | | | |
| At 30 September 2006 | – | – | – | – |
| Charged in year | 2,232 | 1,856 | – | 4,088 |
| At 30 September 2007 | 2,232 | 1,856 | – | 4,088 |
| Net book value | | | | |
| At 30 September 2007 | 7,787 | 4,522 | – | 12,309 |
| At 30 September 2006 | – | – | – | – |

11 Fixed asset investments

Group

| | Associated undertaking |
|-----------------------------|------------------------|
| Cost | |
| At 30 September 2006 | – |
| Additions | 592,561 |
| Exchange movements | (2,673) |
| Share of retained losses | (42,850) |
| | 547,038 |
| Goodwill | |
| Other | 344,740 |
| | 202,298 |
| At 30 September 2007 | 547,038 |
| Amortisation of goodwill | (15,802) |
| At 30 September 2007 | (15,802) |
| Net book value | |
| Goodwill | 328,938 |
| Other | 202,298 |
| At 30 September 2007 | 531,236 |

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 SEPTEMBER 2007

11 Fixed asset investments continued

The principal undertakings in which the Company's interest in the year is 20% or more are as follows:

| Subsidiary undertakings | Country of Incorporation | Proportion of voting rights and ordinary share capital held | Nature of business |
|-------------------------|--------------------------|-------------------------------------------------------------|--------------------|
| Phynova Limited | England | 100% | Drug development |
| Phynova China Limited | Hong Kong | 100% | Holding Company |

| Associated undertaking | Country of Incorporation | Proportion of voting rights and ordinary share capital held | Nature of business |
|----------------------------------|--------------------------|-------------------------------------------------------------|--------------------|
| Botanic Century Beijing, Co Ltd* | China | 45% | Drug development |

* Undertakings held indirectly by the Company.

Company

| | Group undertakings £ |
|----------------------------------|-------------------------|
| Cost at 30 September 2006 | 67,305 |
| Loans to subsidiary undertakings | 592,561 |
| Cost at 30 September 2007 | 659,866 |
| Cost at 30 September 2006 | 67,305 |

12 Operating lease commitments

The following payments in relation to land and buildings are committed to be paid within one year:

| | 2007 £ | 2006 £ |
|----------------------------|-----------|-----------|
| Expiring: | | |
| Between two and five years | 37,973 | 37,973 |

13 Debtors

| | Group 30 September 2007 £ | Group 30 September 2006 £ | Company 30 September 2007 £ | Company 30 September 2006 £ |
|------------------------------------|------------------------------------|------------------------------------|--------------------------------------|--------------------------------------|
| Amounts owed by Group undertakings | – | – | 1,359,679 | 1,286,624 |
| Corporation tax | 93,144 | – | 93,144 | – |
| Other debtors and prepayments | 325,671 | 254,400 | 152,143 | 187 |
| | 418,815 | 254,400 | 1,604,966 | 1,286,811 |

All debtors fall due for payment within one year.

14 Creditors: amounts falling due within one year

| | Group 30 September 2007 £ | Group 30 September 2006 £ | Company 30 September 2007 £ | Company 30 September 2006 £ |
|------------------------------|------------------------------------|------------------------------------|--------------------------------------|--------------------------------------|
| Trade creditors | 278,689 | 101,546 | 258,960 | – |
| Taxation and social security | 38,190 | 37,804 | 38,189 | – |
| Accruals and deferred income | 57,921 | 67,183 | 59,337 | – |
| | 374,800 | 206,533 | 356,486 | – |

15 Provision for liabilities

Group

| | Taxation and social security provisions £ | National Insurance on share options £ | Total £ |
|---------------------------------------|----------------------------------------------|------------------------------------------|------------|
| Balance at 30 September 2006 | 343,175 | 28,008 | 371,183 |
| Credit to the profit and loss account | – | (27,817) | (27,817) |
| Balance at 30 September 2007 | 343,175 | 191 | 343,366 |

Company

| | National Insurance on share options £ |
|---------------------------------------|------------------------------------------|
| Balance at 30 September 2006 | 28,008 |
| Credit to the profit and loss account | (27,817) |
| Balance at 30 September 2007 | 191 |

The taxation and social security 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 and exercise of share options by employees. The amount payable is yet to be agreed and as a consequence, the timing of payment is uncertain. An amount of £173,528 (2006: £173,528) is recoverable against the provision and is included within debtors.

16 Share capital

Authorised share capital

| | £ | | Number | |
|----------------------------|-------------------|-------------------|-------------------|-------------------|
| | 30 September 2007 | 30 September 2006 | 30 September 2007 | 30 September 2006 |
| Ordinary shares of 1p each | 500,000 | 350,000 | 50,000,000 | 35,000,000 |

On 20 April 2007 the authorised share capital was increased by 15,000,000 ordinary shares of 1p each, ranking equally with the existing share capital of the company.

Allotted, called up and fully paid share capital.

| | Number | | £ | |
|----------------------------|-------------------|-------------------|-------------------|-------------------|
| | 30 September 2007 | 30 September 2006 | 30 September 2007 | 30 September 2006 |
| Ordinary shares of 1p each | 19,536,258 | 14,799,570 | 195,363 | 147,998 |

| | Number | Issue price £ | Ordinary shares of 1p each £ |
|-----------------------------------|------------|------------------|---------------------------------|
| In issue at 30 September 2006 | 14,799,570 | | 147,998 |
| Shares issued on 5 October 2006 | 3,385,999 | 0.75 | 33,859 |
| Shares issued on 19 February 2007 | 652,080 | 0.3657 | 6,520 |
| Shares issued on 17 April 2007 | 698,609 | 0.3657 | 6,986 |
| In issue at 30 September 2007 | 19,536,258 | | 195,363 |

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 SEPTEMBER 2006

16 Share capital continued

At 30 September 2007, the following share options and warrants were outstanding in respect of the ordinary shares:

| Date of grant | Number of warrants | Number of options | Period of option | Price per share |
|-------------------|--------------------|-------------------|---------------------------------|-----------------|
| 31 January 2005 | – | 21,834 | January 2005 – January 2008 | 36.57p |
| 31 January 2005 | 230,000 | – | January 2005 – January 2008 | 50p |
| 28 February 2005 | 293,000 | 113,000 | February 2005 – February 2008 | 50p |
| 31 March 2005 | – | 154,220 | March 2005 – March 2008 | 50p |
| 22 September 2005 | 277,274 | – | September 2005 – September 2008 | 50p |
| 30 September 2005 | 209,980 | 144,700 | September 2005 – September 2008 | 50p |
| 9 December 2005 | 1,200,000 | – | December 2005 – December 2008 | 50p |
| 24 January 2006 | 983,000 | 136,750 | January 2006 – January 2009 | 50p |
| 13 February 2006 | – | 50,000 | February 2006 – February 2009 | 50p |
| 27 February 2006 | – | 877,162 | February 2006 – February 2009 | 60p |
| 19 February 2007 | – | 500,000 | February 2007 – February 2010 | £1.00 |
| 19 February 2007 | – | 500,000 | February 2007 – February 2010 | £1.50 |
| | 3,193,254 | 2,497,666 | | |

The company enters into equity settled share based payment arrangements. The company has adopted FRS 20 “share based payments” which has been applied for the financial year ended 30 September 2007. In accordance with 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. In addition FRS 20 has not been applied warrants that have been issued to shareholders, purely in their capacity as shareholders.

Of the 7,210,560 options and warrants outstanding at 30 September 2006, 1,350,689 were exercised during the year whilst a further 1,168,951 lapsed. Following the grant of a further 1,000,000 options on the 19 February 2007 there were 5,690,920 options and warrants outstanding at 30 September 2007.

The 1,000,000 unapproved share options which were granted on 19 February 2007 were granted to the Chairman. The options vested immediately and lapse after three years.

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

| | |
|------------------------------------------------------------|----------------|
| Option pricing model used | Black-Scholes |
| Weighted average share price at grant date (pence) | 73 |
| Exercise price (pence) | 100 and 150 |
| Interest rate | 4.5% per annum |
| Volatility | 25 % per annum |
| Contractual life (months) | 36 |
| 2007 Value of the options calculated through Black-Scholes | £47,000 |

The exercise price of the options for the purpose of the Black-Scholes calculation were 100p for 500,000 options and 150p for 500,000 options. Under the Black-Scholes model the options have an individual value of 7.7p and 1.7p respectively.

17 Reserves
Group

| | Share premium account £ | Warrant reserve £ | Merger difference reserve £ | Profit and loss account £ |
|----------------------------------------------------------|----------------------------|----------------------|--------------------------------|------------------------------|
| At 30 September 2006 | 3,497,856 | 369,459 | 642,711 | (2,995,783) |
| Premium on shares issued during the year (less expenses) | 2,773,692 | – | – | – |
| Share based payments charge | – | – | – | 47,000 |
| Exchange movement | – | – | – | (2,673) |
| Loss for year | – | – | – | (2,852,692) |
| At 30 September 2007 | 6,271,548 | 369,459 | 642,711 | (5,804,148) |

Share issue expenses amounting to £212,388 have been deducted from the share premium account.

17 Reserves continued

Company

| | Share premium account £ | Warrant reserve £ | Profit and loss account £ |
|----------------------------------------------------------|-------------------------------|-------------------------|---------------------------------|
| At 30 September 2006 | 3,497,856 | 369,459 | (797,727) |
| Premium on shares issued during the year (less expenses) | 2,773,692 | – | – |
| Share based payment charge | – | – | 47,000 |
| Loss for year | – | – | (2,761,346) |
| At 30 September 2007 | 6,271,548 | 369,459 | (3,512,073) |

18 Reconciliation of movements in shareholders' funds

| | Group 2007 £ | Group 2006 £ | Company 2007 £ | Company 2006 £ |
|------------------------------------------|--------------------|--------------------|----------------------|----------------------|
| Loss for the year | (2,852,692) | (1,640,436) | (2,761,346) | (797,727) |
| Issue of shares | 47,365 | 71,801 | 47,365 | 71,801 |
| Premium on shares issued during the year | 2,773,692 | 3,448,422 | 2,773,692 | 3,448,422 |
| Share based payments charge | 47,000 | – | 47,000 | – |
| Exchange movement | (2,673) | – | – | – |
| Net additions to shareholders' funds | 12,692 | 1,879,787 | 106,713 | 2,722,496 |
| Opening shareholders' funds | 1,662,241 | (217,546) | 3,217,586 | 495,090 |
| Closing shareholders' funds | 1,674,933 | 1,662,241 | 3,324,297 | 3,217,586 |

19 Related party disclosures

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

| | Purchases from related party 2007 £ | Purchases from related party 2006 £ | Amounts owed to related party 2007 £ | Amounts owed to related party 2006 £ |
|-------------------------------|----------------------------------------------|----------------------------------------------|-----------------------------------------------|-----------------------------------------------|
| Swerford Consulting | – | 20,001 | – | – |
| Blair – Biomedical Consulting | – | 33,302 | – | – |
| Anvil Partners LLP | 110,444 ¹ | 37,137 ¹ | – | 41,375 |
| Wellbeach Associates | 27,730 | 136,500 ² | 2,819 | 2,569 |
| Integrated Medicines | – | 4,000 | – | – |
| Green Atlantic Partners | 56,250 | – | – | – |
| Alan Brown | – | 45,726 | – | – |

¹ Purchases

² Commission

- R Miller, a Director of both Phynova Group Public Limited Company and Phynova Limited, has a material interest in Swerford Consulting, an entity that provides consultancy services to Phynova Limited which ceased on 31 December 2005.
- E Blair, a Director of both Phynova Group Public Limited Company and Phynova Limited, has a material interest in Blair – Biomedical Consulting and Integrated Medicines, entities that provide consultancy services to Phynova Limited which ceased on 28 February 2006.
- M Martin, a Director of both Phynova Group Public Limited Company and Phynova Limited, is a member of Anvil Partners LLP, a limited liability partnership that provides consultancy services to Phynova Group Public Limited Company.
- J Pool, a Director of both Phynova Group Public Limited Company and Phynova Limited, has a material interest in Wellbeach Associates, an entity that provides consultancy services to Phynova Group Public Limited Company.
- K Watkin, a Director of Phynova Group Public Limited Company, is a member of Green Atlantic Partners, an entity that provides consultancy services to Phynova Group Public Limited Company.
- A Brown is a Director of Phynova Group Public Limited Company and he provides consultancy services to Phynova Limited which ceased on 28 February 2006.

The Directors consider the above transactions to be at arm's length.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 SEPTEMBER 2006

19 Related party disclosures continued

The following amounts are included in debtors after one year and represent the potential amounts recoverable against the taxation and social security provision as detailed in note 14.

| | 2007 £ | 2006 £ |
|----------|-----------|-----------|
| R Miller | 105,196 | 105,196 |
| E Blair | 23,138 | 23,138 |
| A Brown | 21,938 | 21,938 |

20 Post balance sheet events

On 27 March 2008, the company announced that it has successfully obtained commitments to provide in excess of £1.1 million through a placing of new ordinary shares at 40 pence per share with existing investors and private investors.

21 Reconciliation of operating loss to net cash outflow from operating activities

| | Year ended 30 September 2007 £ | Year ended 30 September 2006 £ |
|--------------------------------------------|--------------------------------------|--------------------------------------|
| Operating loss | (2,970,791) | (1,663,727) |
| Depreciation of tangible fixed assets | 7,195 | 2,506 |
| Share based payments | 47,000 | – |
| Increase in debtors | (71,271) | (49,679) |
| Increase/(decrease) in creditors | 168,267 | (10,557) |
| (Decrease)/increase in provisions | (27,817) | 135,063 |
| Net cash outflow from operating activities | (2,847,417) | (1,586,394) |

22 Reconciliation of net cash flow to movement in net funds

| | Year ended 30 September 2007 £ | Year ended 30 September 2006 £ |
|-----------------------------|--------------------------------------|--------------------------------------|
| (Decrease)/increase in cash | (551,286) | 1,949,189 |
| Movement in net funds | (551,286) | 1,949,189 |
| Opening net funds | 1,977,967 | 28,778 |
| Closing net funds | 1,426,681 | 1,977,967 |

23 Analysis of net funds

| | At 30 September 2006 £ | Cash flow £ | At 30 September 2007 £ |
|--------------------------|------------------------------|----------------|------------------------------|
| Cash at bank and in hand | 1,977,967 | (551,286) | 1,426,681 |

24 Financial instrument

Operations and working capital requirements are financed by shareholding investments.

Cash held by the Company is deposited in a non-fixed interest rate account generating interest at an average of 1% below bank of England base rate.

With the exception of short-term debtors and creditors, the only financial asset held by the Company is cash, the bank value and the fair value being the same at the balance sheet date. There are no financial liabilities at the balance sheet date.

In addition, various creditors arise from the Group's operations, the Directors continuously review working capital requirements to ensure the Company can meet its creditor obligations. The Company does not see credit risk as significant.

COMPANY INFORMATION

Directors

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

R Miller

M Martin (Non-Executive)

W Doyle (Non-Executive)

S Marshall

E Blair

J Pool (Non-Executive Chairman until 29 January 2007, Non-Executive Director from 29 January 2007)

K Watkin (Appointed as Director 14 December 2006 and

Non-Executive Chairman 29 January 2007)

A Brown

Secretary and Registered Office

A Brown

Phynova House
16 Fenlock Court
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Oxfordshire OX29 8LN

Company Number

5202283

Auditors

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125 Colmore Row
Birmingham B3 3SD

AIM Nominated Adviser

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Saddlers House
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London EC2V 6HS

Stockbroker

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29-30 Cornhill
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Legal Advisers to the Company

Osborne Clarke

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Forbury Road
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Bankers

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Registrars

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Huddersfield HD8 0LA

Financial Public Relations Consultants

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100 Cannon Street
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