Physiomics Plc

Financial Statements

For the Year Ended

30 June 2005

Registration Number

04225086

Company registration number:	04225086
Registered office:	The Magdalen Centre, Robert Robinson Avenue, Oxford Science Park, Oxford, OX4 4GA
Directors:	Mr D.A. Collins, Finance Director Professor D.A. Fell , Science Director Dr P.B. Harper, Non-executive (appointed 24.09.2004) Mr J. Pool, Non-executive (appointed 06.12.2004) Dr J. Savin, Chief Executive Mr David Evans, (appointed 25.08.2005 and appointed Non-executive Chairman from 25.08.2005)
Secretary:	Mr D.A. Collins
Bankers:	National Westminster Bank plc Anglo Irish Bank Corporation
Auditors:	Grant Thornton UK LLP Registered Auditors Chartered Accountants 1 Westminster Way, Oxford, OX2 0PZ
Registrars:	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent, BR3 4TU
Brokers:	HB-corporate 40 Marsh Wall London E14 9TP
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Index

Index	3
Chairman's Statement	4
CEO's Statement	5
Report of the Directors	8
Report of the Independent Auditors to the Members of Physiomics Plc	15
Principal Accounting Policies	17
Profit and Loss Account	19
Balance Sheet	20
Cash Flow Statement	21
Notes to the Financial Statements	22
Notice of Meeting	33

Chairman's Statement

I have great pleasure in introducing the first Annual Report and Accounts since Physiomics was listed on AIM in December 2004. It was only on 25 August 2005 that I accepted the position of Chairman succeeding Dr Stephen Parker who took the Company through its flotation.

For my part I am looking forward to working with everyone at Physiomics to ensure it moves forward positively over the short, medium and long term.

As I have only just joined the Company the review of the year and an update on commercial progress is contained within the Chief Executive's review.

David Evans

7 September 2005

CEO's Statement

Financial Review

The period from July 2004 to June 2005 included the Company's IPO on AIM in December 2004 and was an eventful time for the Company in which substantial progress was made in the development and commercialisation of the Company's technology. The Company recorded turnover of £204,695, up 330% on the previous year (£61,815). There was a loss after tax of £381,843 (2004: £225,027); the pre-tax loss was £431,917 (2004: £230,027). Since the IPO in December 2004, underlying internal costs have, as planned, risen due to investment in R&D and marketing plus the standard corporate costs associated with maintaining a stock market listing. The loss before tax in the second half was approximately £205,000 on turnover of £108,000.

Management has worked hard to minimise 'cash burn' and the cash balance at the year end was £294,908. As part of this cash burn, the Company invested £18,500 in capital expenditure, mainly in computer systems to support the R&D programme. In addition, the Company has a call facility available with Billam plc and Billam AG until June 2006 for a maximum of £243,000.

Bayer Collaboration

On 20 July 2004, a major collaboration agreement was concluded with Bayer Technology Services GmbH. This gave Physiomics access to a very sophisticated software product and service for physiological analysis (PK-Sim®, a way of simulating the entire body) to examine the efficiency with which pharmaceuticals are utilised by the patients' body. In addition, the two Companies have developed joint marketing initiatives based on Clinical Response Prediction to look at how a dose of a drug affects disease progression in cancer. Finally, a close research and development process was initiated which has strengthened Physiomics' capabilities, for example, in the development of accurate simulation of the gene copying process which occurs as cells divide. This is critical to the simulation of the action of many anti-cancer drugs and of great importance to actual and potential customers.

Marketing and Business Development

Using business development consultants, Physiomics has refined the marketing platform for Clinical Response Prediction. This integrates Physiomics' model of the human cell cycle, the process by which cells, especially cancer cells, grow and divide, with PK-Sim® and combines it with Physiomics' SystemCell® software through a process known as the Clinicophore™. SystemCell® allows Physiomics to "grow" a diverse population of virtual cancer cells to assess therapeutic outcomes.

Clinical Response Prediction is global in scope and has attracted interest from major companies in both Europe and the USA. It is designed as a high value service. Customers can access it through an initial pilot study before embarking on a highly customised and focussed collaboration. In essence, customers are outsourcing computational biology based on Physiomics' proprietary software and, most importantly, mathematical models of cell processes. Market development of this brand is continuing, with a US marketing campaign underway.

Physiomics' efforts in marketing and sales have led to it, in a separate agreement on 23 June 2005, being appointed as a distributor for PK-Sim®. Marketing and sales activity started on this at the end of the financial year and is now building up with the UK as the immediate target market. This distribution agreement enables Physiomics to sell into all therapeutic areas including brain disorders, inflammatory disease (such as rheumatoid arthritis) and metabolic diseases (like diabetes), as well as cancer.

With the potential for a variety of commercial agreements from late calendar 2005 onwards, the Company is well placed to take advantage of the growing interest in systems and computational biology to improve the success rates in clinical development. The Company looks forward to announcing further progress in this regard during the current financial period.

Cronos Therapeutics

In November 2004, Physiomics and Cronos Therapeutics announced an alliance whereby Physiomics will use its novel *in silico* technology to select optimal targets for the highly-selective GeneICE technology from Cronos Therapeutics. The alliance will co-develop the lead GeneICE constructs.

The Cronos GeneICE technology is a highly gene-specific and potentially longer acting alternative to antisense and RNAi technologies, developed at Imperial College, London. It has been shown that GeneICE can switch off specific genes following one administration. As GeneICE acts on the genes directly, it is anticipated that much lower doses may need to be administered compared to conventional therapies.

Intellectual Property

Legal issues over the assignment of the patent covering SystemCell® software were partly resolved by the assignment to Physiomics of the UK patent prior to Christmas. A successful High Court application in April will now enable the Official Receiver to sign patent assignments in favour of Physiomics in respect of other European jurisdictions. Physiomics has owned the US version of this patent since 2003. The UK trademark for SystemCell® software was received in the period and a trademark for Clinicophore™ giving worldwide priority has been applied for.

Board Changes

The Board was extended during the year by the appointment of Dr Paul Harper in September 2004 and Mr John Pool in December 2004. Mr Pool represents the majority shareholder, EiRx Pharma Limited, and is a non-independent Director.

As a post balance sheet event, regretfully the Board accepted the resignation of Dr Stephen Parker and wished him well in his new career. The Board was, however, delighted that Mr David Evans was able to join as the new Chairman. Mr Evans brings extensive small listed company experience to the Board, particularly in the life science sector, and will be key to the Company's corporate development.

Staff and Share options

Two key new members of staff, both at Ph.D. level, were recruited in the period, one from a leading German mathematical biology group and the other in computation and software from an international, US-led systems biology software team. This has significantly boosted the strength and capacity of the development team.

For a rapidly developing high technology business like Physiomics, staff retention and motivation are essential to long-term shareholder returns. On 24 June 2005, an unapproved share option scheme was established. In addition, staff and directors were given the chance to subscribe for shares to a maximum value of £5,000 each. This subscription was partly funded by an interest free loan. These incentives are designed to ensure that the enthusiasm and commitment of all employees is kept within the business and rewarded, to the benefit of all shareholders. The terms of these schemes were established by the Remuneration Committee. In addition, a stakeholder pension scheme was established and other cost-effective benefits introduced such as Death in Service insurance.

Prospects for 2006

The Company is actively focussing its science efforts on commercially relevant pharmaceutical targets where substantive potential markets clearly exist. The USA is likely to be the continued focus of attention given the interest in systems approaches now apparent. The period since the IPO laid the basis for a strong development of the business and will enable us to take advantage of appropriate commercial opportunities as they arise.

Dr John Savin
7 September 2005

Report of the Directors

The Directors present their report together with the financial statements of the Company for the year ended 30 June 2005.

Principal Activity

The Company is principally engaged in providing services to pharmaceutical companies in the areas of outsourced systems and computational biology.

Business Review

There was a loss for the year after taxation amounting to £381,843 (2004: £225,027 loss). In view of this loss, and given the stage of the Company's development, the Directors are unable to recommend the payment of a dividend.

Post Balance Sheet Events

Due to onerous business commitments with Celtic Pharma Management Limited, the Chairman, Dr Stephen Parker, resigned on 25 August 2005 and was replaced by Mr David Evans.

Research and Development

The main activity of the business is research and development in computational biology: simulating cancer cells and their control systems. During the period under review, the Company incurred direct research and development costs of £29,701 (2004: £7,216)

Directors

The present membership of the Board is set out on page 2. All Directors served throughout the year apart from Dr Harper and Mr Pool, who were appointed to the Board on 24 September and 6 December 2004 respectively. Mr Evans was appointed to the Board on 25 August 2005.

The interests of the Directors in the shares of the Company and its parent company as at 1 July 2004 (or at the date of their appointment to the Board if later) and 30 June 2005, were as follows:

		30 June 2005 Number of shares	1 July 2004 Number of shares
Dr John Savin	Physiomics plc 0.04p Ords	550,000	-
	EiRx Pharma Limited 100p Ords	1,251,110	1,251,110
Professor David Fell	Physiomics plc 0.04p Ords	800,000	-
	EiRx Pharma Limited 100p Ords	35,929	35,929
Mr John Pool	Physiomics plc 0.04p Ords	600,000	-
(6 December 2004 appointment)	EiRx Pharma Limited 100p Ords	-	-
Dr Paul Harper	Physiomics plc 0.04p Ords	-	-
(24 September 2004 appointment)	EiRx Pharma Limited 100p Ords	-	-
Dr Stephen Parker (25 August 2005 resignation)	Physiomics plc 0.04p Ords	-	-
	EiRx Pharma Limited 100p Ords	-	-
Mr David Collins	Physiomics plc 0.04p Ords	-	-
	EiRx Pharma Limited 100p Ords		-
Mr David Evans (25 August 2005 appointment)	Physiomics plc 0.04p Ords	-	-
	EiRx Pharma Limited 100p Ords	-	-

Mr J Pool is the board representative of EiRx Pharma Limited which held 174,100,875 shares in the Company at 30 June 2005.

The Directors' emoluments including pension contributions and any taxable benefits are as follows:

	2005	2004
	£	£
David Collins	16,000	1,000
David Fell	14,325	-
Paul Harper	9,250	-
Stephen Parker	27,000	6,000
John Pool	6,500	-
John Savin	58,533	50,000

The Company has an unapproved share option scheme by which directors and employees can subscribe for ordinary shares in the Company. The interests of the directors were as follows:

	Exercise price	At 1 July 2004	Granted during the year	At 30 June 2005
Dr John Savin	1.75p	-	5,708,571	5,708,571
Professor David Fell	-	-	-	-
Mr John Pool	-	-	-	-
Dr Paul Harper	-	-	-	-
Dr Stephen Parker	-	-	-	-
Mr David Collins	-	-	-	-

The options are exercisable upon the achievement of specified events, as described in Note 16.

In the period between 30 June 2005 and 1 September 2005 there was no change in these holdings.

No director had, during or at the end of the year, a material interest in any contract which was significant in relation to the Company's business.

Acquisition of Company's Own Shares

No shares were acquired during the period.

Employee Involvement

The Company has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the Company. Staff are briefed by the Chief Executive on key issues when appropriate.

An unapproved employee share scheme was introduced on 24 June 2005 and is open to all full time employees. Under the terms of the scheme, the directors may offer employees the opportunity to acquire unapproved options to purchase ordinary shares in the Company. The exercise price of each option is 1.75p. 50% of the options may be exercised during the period between two and ten years from the date of the grant. 25% of the options vest the day after the company enters into a major collaborative agreement with a major pharmaceutical or biotechnology company and the remaining 25%

vest the day after the mammalian cell cycle model is shown to run in a multiple cell environment using SystemCell® and responds to drug action. These milestones are set by the Remuneration Committee.

The Board of Physiomics authorised, effective from 24 June 2005, the issue of 2,000,000 new shares in respect of a share subscription scheme under which part of the cost is funded as a loan from Physiomics to employees. The scheme gives all employees an opportunity to subscribe for shares, if they wish, up to a value of £5,000 each. Of these shares, 500,000 have been subscribed for by Dr John Savin, CEO, and 500,000 have been subscribed for by Professor David Fell, Science Director at a price of 1p, being the midday mid-market price on 24 June 2005. Excluding Directors, 80% of eligible staff have taken advantage of this scheme. Membership of the share subscription scheme requires continuing employment by Physiomics. It is not intended at this time to offer this scheme again.

Disabled Employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort will be made to retrain them in order that their employment with the Company may continue.

It is the policy of the Company that training, career development and promotion opportunities should be available to all employees.

Charitable and Political Contributions

No charitable or political donations were made during the period.

Substantial Shareholder(s)

At 30 June 2005, the following had notified the Company of a disclosable interest in 3% or more of the nominal value of the Company's shares:

Name	**Shareholding**	
EiRx Pharma Limited	174,100,875	*75.04%*
Billam plc	7,954,199	*3.43%*

Corporate Governance

The Board of Directors is accountable to the Company’s shareholders for good corporate governance. The company takes corporate governance seriously and the statement below sets out how the Board apply the principles of good corporate governance.

Directors

The Company supports the concept of an effective Board leading and controlling the Company. The Board is responsible for formulating and approving the strategy of the business and meets at least six times per year. Various matters are specifically reserved for Board decision, ensuring that the Board maintains full control over strategic, financial, organisational, risk and compliance issues. Management supply the Board with appropriate and timely information, while the directors are encouraged to seek any further information they consider necessary.

The Board comprises three executive directors, who fulfil the main operational roles in the Company, a non-executive Chairman and two non-executive directors. The Board considers one of the non-executive directors, Dr Harper, to be independent of management. The other non-executive director, Mr Pool, serves on the Board as a representative of EiRx Pharma Limited. Although he is not independent, a Relationship Agreement is in force governing the relationship with the majority share-holder and preventing EiRx Pharma Limited from exercising undue influence. The Board therefore consider there to be a balance whereby their decisions cannot be dominated by any particular individual or group. Due to the size of the Company, the Board does not consider the appointment of a senior non-executive director to be necessary. A full list of the directors and details of their interests in the share capital of the Company are shown on page 8.

Accountability

The Board endeavours to present a balanced and comprehensible assessment of the Company's situation and prospects in all of its published statements, including interim reports, price-sensitive announcements, reports to regulators and information supplied to comply with statutory requirements.

The Audit Committee consists of Stephen Parker, replaced by David Evans, David Collins and is chaired by Paul Harper. The Committee meets at least three times per year to consider matters relating to the Company's financial position and financial reporting. The Audit Committee reviews the independence and objectivity of the external auditors, as well as the amount of non-audit work undertaken by Grant Thornton UK LLP to satisfy the Committee that this will not compromise their independence. Details of the fees paid to Grant Thornton UK LLP during the current accounting period are given in Note 3 to the accounts. There are no areas of work where Grant Thornton UK LLP are prohibited from carrying out work.

Remuneration Committee

The Remuneration Committee has been established primarily to determine the remuneration, terms and conditions of employment of the executive directors of the Company. The Committee comprises John Pool, Paul Harper and is chaired by Stephen Parker, replaced by David Evans, and meets at least twice a year. The primary concern of the Committee is to establish a system of rewards and incentives that aim to align the interests of the executive directors with the long-term interests of the share-holders. These are based on the achievement of both scientific and commercial milestones while taking into account the financial position of the Company at this stage in its development. Any remuneration issues concerning non-executive directors are resolved by this Committee and no director participates in decisions that concern his own remuneration.

Nominations Committee

The Nominations Committee is a sub-committee of the whole Board and is chaired by Stephen Parker, replaced by David Evans. The Committee meets as required to select suitable candidates for both executive and non-executive appointments to the Board.

Going Concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Company will have adequate resources to continue for the foreseeable future as stated in the Principal Accounting Policies. For this reason, the Directors continue to adopt the going concern basis.

Internal Control

The Board is responsible for establishing and maintaining a sound system of internal control to safeguard the Company's assets. The risk management process and internal control systems are designed to manage rather than eliminate the risk of failing to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss. The key features of the Company's system of internal control are as follows:

- a clearly defined organisational structure and set of objectives
- the executive directors play a significant role in the day to day operation of the business
- detailed monthly management accounts are produced by an independent third party for the Board to review and take appropriate action
- all payments are made by an employee who is independent of the accounting function

Relations with Shareholders

The Company values the views of its shareholders and recognises their interest in the Company's strategy, performance and the ability of the Board. The AGM provides an opportunity for two way communication and all shareholders are encouraged to attend and participate. Separate resolutions will be put to shareholders at the AGM, giving them the opportunity to discuss matters of interest. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after each has been dealt with on a show of hands.

The Company uses its website www.physiomics-plc.com as another means of providing information to shareholders and other interested parties. The website displays the annual report and accounts, interim results and other relevant announcements.

Directors' Responsibilities for the Financial Statements

United Kingdom Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for maintaining proper accounting records, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for the preparation of this Directors Report and all other information in the Annual Report.

Auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

Annual General Meeting

The Annual General Meeting of the Company will be held at the Company's registered office at The Magdalen Centre, Oxford Science Park on 22 December 2005.

BY ORDER OF THE BOARD

D.A. Collins

Secretary

Report of the Independent Auditors to the Members of Physiomics Plc

We have audited the financial statements of Physiomics plc for the year ended 30 June 2005 which comprise the Principal Accounting Policies, the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and Notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and accounting standards 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 United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the Company is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' report and the Chairman's statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Opinion

We conducted our audit in accordance with United Kingdom auditing standards 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 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 financial statements give a true and fair view of the state of the company's affairs as at 30 June 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

OXFORD

Note: The maintenance and integrity of the Physiomics website is the responsibility of the Directors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Principal Accounting Policies

Basis of Preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

The principal accounting policies of the Company are set out below and these policies have remained unchanged from the previous year.

The company intend to follow the mandatory requirements for the adoption of International Financial Reporting Standards (IFRS.)

Going Concern

The financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the settlement of liabilities in the normal course of business.

The Company has reported a loss for the year of £381,843 (2004: £225,027). The ability of the Company to continue as a going concern is dependent upon the amounts and timings of cash inflows from the exploitation of the Company's intellectual property assets. The Directors believe that these assets can be used to generate cash in a sufficiently short period to allow the Company to continue to trade; if there are significant delays in generating cashflows, the Directors would look to invoke the Call Option outlined in Note 16. Since, in the opinion of the Directors, adequate funding would be forthcoming, it is appropriate for the financial statements to be prepared on a going concern basis and therefore no adjustments have been made for the valuation of assets on a break up basis, which would be necessary in the event that the Company was no longer a going concern.

Turnover

Turnover represents the total amount receivable by the Company for goods and services supplied, excluding Value Added Tax and trade discounts.

In the event of a lump sum payment being received at the start of a contract, this sum is deferred over the life of the contract, with an equal amount released to the Profit and Loss Account each month over the life of the contract to ensure that the income is recognised in accordance with the services provided.

Intangible Fixed Assets

Patents and trademarks are included at cost and amortised on a straight-line basis over their useful economic life, which is estimated to be 15 years. It is the opinion of the Directors that the value of the company's intellectual property is not less than the carrying value in these accounts.

Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated at cost less depreciation and any provision for impairment.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal monthly instalments on a straight line basis over their estimated useful economic lives.

The rate applicable is:

Fixtures and fittings	-	33%
I.T. equipment	-	33%

Leased assets

Payments made under operating lease contracts are charged to the Profit and Loss Account on a straight line basis over the lease term.

Deferred Taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the Balance Sheet date. Deferred tax assets are only recognised to the extent that it is more likely than not that there will be suitable taxable profits against which they can be recovered.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. All other exchange differences are dealt with through the Profit and Loss Account.

Retirement Benefits

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. The annual contributions payable are charged to the Profit and Loss Account.

Research and Development

Research and Development expenditure is charged to profits in the period in which it is incurred.

Adoption of FRS 20 'Share-based payments'

The Company has chosen to adopt the requirements as laid out in FRS 20 'Share-based Payments' early. In accordance with the requirements of FRS 20, all goods and services received in the course of share-based payment transactions are to be measured at fair value and recognised in the financial statements with a corresponding credit to equity, unless the transaction is settled in cash. When applied to employee share-based compensation, this leads to the recognition of share options which have been granted and are expected to vest as an expense in profit or loss.

All equity share-based payments granted after 7 November 2002 that had not vested at the first application of this standard are required to be recognised retrospectively in the Company's financial statements. As this is the first period in which share-based payments have been made, there is no retrospective charge requiring recognition.

Profit and Loss Account

	Note	2005 £	2004 £
Turnover		204,695	61,815
Other operating expenses	2	(645,140)	(298,898)
Other operating income	2	-	7,056
Operating loss	3	(440,445)	(230,027)
Interest receivable	4	8,528	-
Loss before tax		(431,917)	(230,027)
Tax on loss on ordinary activities	7	50,074	5,000
Loss transferred from reserves	17	(381,843)	(225,027)
Basic and diluted loss per share (pence)	8	(0.19)	(0.13)

All of the activities of the Company are classed as continuing.

The Company has no recognised gains or losses other than the results for the year as set out above.

The accompanying accounting policies and notes form an integral part of these financial statements.

Balance Sheet

	Note	2005 £	2004 £
Fixed assets			
Intangible assets	9	53,463	58,107
Tangible assets	10	24,924	13,557
Investments	11	1	1
		78,388	71,665
Current assets			
Debtors	12	154,505	12,605
Cash at bank		294,908	8,687
		449,413	21,292
Creditors: amounts falling due within one year	13	(114,302)	(447,020)
Net current assets / (liabilities)		335,111	(425,728)
Total assets less current liabilities		413,499	(354,063)
Net assets/(liabilities)		413,499	(354,063)
Capital and reserves			
Called up share capital	16	92,810	67,140
Share premium account	17	1,329,022	205,287
Profit and loss account	17	(1,008,333)	(626,490)
Shareholders' funds	18	413,499	(354,063)

The financial statements were approved by the Board of Directors on 7 September 2005.

Dr. J. Savin Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Cash Flow Statement

	Note	2005 £	2004 £
Net cash outflow from operating activities	19	(447,066)	(218,305)
Returns on investments and servicing of finance			
Interest received		8,528	-
Net cash inflow from returns on investments and servicing of finance		8,528	-
Taxation		18,777	-
Capital expenditure			
Purchase of tangible fixed assets		(18,503)	(11,943)
Net cash outflow from capital expenditure		(18,503)	(11,943)
Net cash outflow before financing		(438,264)	(230,248)
Financing			
Issue of shares		724,485	-
Net inflow from related parties		-	235,591
Net cash inflow from financing		724,485	235,591
Increase in cash	20	286,221	5,343

The accompanying Accounting Policies and Notes form an integral part of these financial statements.

Notes to the Financial Statements

1 Turnover and Loss on Ordinary Activities before Taxation

All turnover is attributable to the Company's main business.

The analysis of turnover has not been disclosed as contracted amounts are seriously prejudicial to the commercial interests of the Company. All turnover was derived from within the UK and the European Union.

2 Other Operating Income and Charges

	2005 £	2004 £
Other operating income and charges:		
Administrative expenses	645,140	298,898
Other operating income	-	(7,056)
	645,140	291,842

The figure for administrative expenses includes £62,475 in respect of parent Company management charges in the period prior to the IPO in December 2004 (2004: £113,760.)

3 Operating Loss

The loss on ordinary activities before taxation is stated after:

	2005 £	2004 £
Research and development:		
Current year expenditure	29,701	7,216
Auditors' remuneration:		
Audit services	14,000	2,500
Non-audit services: tax fees	1,650	-
Non-audit services: VAT advice	5,000	-
		-
Depreciation and amortisation:		
Tangible fixed assets	7,136	2,645
Intangible fixed assets	4,644	4,648
Operating lease rentals : buildings	35,325	5,677

3 Operating Loss (continued)

As part of the IPO process, Grant Thornton UK LLP were paid a total of £115,000 in respect of the flotation and reporting accountant fees. This amount has been charged to the Share Premium Account.

The operating lease payments relate to serviced office accommodation, which can be vacated by giving one month's notice of intent. Therefore, in the opinion of the Directors' there is no ongoing lease commitment requiring disclosure.

4 Interest Receivable

	2005 £	2004 £
Bank interest	8,528	-

5 Directors and Employees

Staff costs during the year were as follows:

	2005 £	2004 £
Wages and salaries	210,910	84,428
Social security costs	19,120	8,956
Other pension costs	2,700	-
	232,730	93,384

The average number of employees of the Company during the year was 6 (2004: 5)

6 Directors

Remuneration in respect of directors was as follows:

	2005 £	2004 £
Emoluments	128,908	57,000
Pension contributions to money purchase pension schemes	2,700	-
	131,608	57,000

During the year 1 Director (2004: none) participated in a money purchase pension scheme.

6 Directors (continued)

During the year, no Directors exercised share options and none became entitled to receive shares under long-term incentive schemes other than as set out in the Report of the Directors.

The amounts set out above include remuneration in respect of the highest paid Director as follows:

	2005 £	2004 £
Emoluments	55,833	50,000
Pension contributions to money purchase pension schemes	2,700	-
	58,533	50,000

7 Tax on Ordinary Activities

a) The tax credit represents:

	2005 £	2004 £
United Kingdom Corporation tax at 30% (2004: 30%)	-	-
Research and Development tax credits: current year	(36,297)	-
Research and Development tax credit in respect of prior year	(13,777)	(5,000)
Total current tax	(50,074)	(5,000)

Unrelieved tax losses of approximately £425,000 (2004: £280,000) remain available to offset against future trading profits subject to Inland Revenue approval.

b) Factors affecting the current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the United Kingdom of 19% (2004: 19%).

	2005 £	2004 £
Loss on ordinary activities before taxation	(431,917)	(230,027)
Loss on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 19% (2004: 19%)	(82,064)	(43,705)
Expenses not deductible for tax purposes	1,400	1,440
Capital allowances for period in excess of depreciation	(785)	(462)
Unutilised tax losses	45,052	42,727
Adjustments to tax charge in respect of previous periods	(13,677)	(5,000)
Total current tax (note 7(a))	(50,074)	(5,000)

8 Earnings per Share

The calculation of the basic earnings per share is based on the loss attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

	Loss	Weighted average number of shares	2005 Loss per share	Loss	Weighted average number of shares	2004 Loss per share
	£		Pence	£		Pence
Loss attributable to shareholders	(381,843)	203,149,976	(0.19)	(225,027)	167,850,900	(0.13)

On 6 December 2004, the existing share capital was sub-divided and each ordinary share of 1 pence was divided into 25 ordinary shares of 0.04p. The above calculations show the 2004 loss per share on a comparable basis, as though the shares had been sub-divided in 2004.

The share options in issue do not have any dilutive effect.

9 Intangible Fixed Assets

Patents and Trademarks	**2005**	**2004**
	£	**£**
Cost		
At 1 July 2004 and 30 June 2005	69,728	69,728
Amortisation		
At 1 July 2004	11,621	6973
Provided in the year	4,644	4,648
At 30 June 2005	16,265	11,621
Net book value at 30 June 2005	53,463	58,107

10 Tangible Fixed Assets

	Fixtures and fittings	I.T. equipment £	Total £
Cost			
At 1 July 2004	12,561	6,206	18,767
Additions	727	17,776	18,503
At 30 June 2005	13,288	23,982	37,270
Depreciation			
At 1 July 2004	2,463	2,747	5,210
Provided in the year	3,424	3,712	7,136
At 30 June 2005	5,887	6,459	12,346
Net book value at 30 June 2005	**7,401**	**17,523**	**24,924**
Net book value at 30 June 2004	10,098	3,459	13,557

11 Investments

	2005 £
Cost	
At 1 July 2004 and 30 June 2005	4,488
Amounts written off	
At 1 July 2004 and 30 June 2005	4,487
Net book value at 30 June 2005	1
Net book value at 30 June 2004	1

Subsidiary	Country of registration	Class of share capital held	Proportion held	Nature of the business	Capital and reserves	Results for the period
e-phen Limited	UK	Ordinary	100%	Dormant	1,883	-

The unaudited financial statements of e-phen Limited are available from Companies House.

12 Debtors

	2005 £	2004 £
Trade debtors	25,355	-
Amounts owed by parent undertaking	231	230
Other debtors	20,305	1,027
Prepayments and accrued income	20,275	6,348
VAT recoverable	52,042	-
Corporation tax recoverable	36,297	5,000
	154,505	12,605

Included within the above figures are £19,200 (2004: £nil) of debtors falling due after more than one year.

13 Creditors: Amounts Falling Due Within One Year

	2005 £	2004 £
Trade creditors	50,398	28,428
Amounts owed to parent undertakings	-	314,385
Amounts owed to related parties	-	90,535
Social security and other taxes	7,532	5,071
Accruals	56,372	8,601
	114,302	447,020

The balances due to parent undertakings and related parties were repaid in full by means of a full conversion to ordinary shares in Physiomics plc as part of the Company's admission to the AIM market.

14 Financial Instruments

The Company uses financial instruments comprising cash, liquid resources and various items such as trade debtors, trade creditors and so on that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations.

The main risks arising from the Company's financial instruments are liquidity risk. The Board reviews and agrees policies for managing these risks and they are summarised below. These policies have remained unchanged from the previous year.

Short - term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

Interest rate risk

The Company had no interest bearing borrowings during either the current or previous year and thus at 30 June 2005 there was no exposure to interest rate risk.

Liquidity risk

The Company seeks to manage financial risk by ensuring that sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Cash not required for immediate operations is placed on deposit but can be drawn down by the Company at any time. The Company had no external borrowings at any stage during the current or previous year.

Currency risk

The Company received a proportion of its income in euros. This income stream was not hedged, as the amounts involved are relatively small and the Company also incurs expenditure denominated in euros.

Fair values of financial assets and liabilities

There was no material difference between the fair values of financial assets and liabilities and their book values at the balance sheet date.

15 Deferred Taxation

	2005 £	2004 £
Accelerated capital allowances	1,830	105
Losses	77,115	47,906
	78,945	48,011

No deferred tax asset is recognised in the accounts in view of the uncertainty as to when such tax will be recovered.

16 Share Capital

	2005 £	2004 £
Authorised share capital:		
25,000,000,000 Ordinary shares of 0.04p each	10,000,000	-
1,000,000,000 Ordinary shares of 1p each	-	10,000,000

	2005 Number	£	2004 Number	£
Allotted, called up and fully paid:				
Ordinary shares of 0.04p each (2004: 1p shares)	232,025,599	92,810	6,714,036	67,140

16 Share Capital (continued)

Allotments during the year

On 6 December 2004 the share capital was sub-divided with each ordinary share of 1 pence being divided into 25 ordinary shares of 0.04p.

On 6 December 2004, a debt of £250,000 owed to EiRx Pharma Limited was satisfied by the issue of 6,250,000 ordinary shares at 4 pence per share to EiRx Pharma Limited.

On 6 December 2004, 17,745,011 ordinary shares were allotted at 2 pence per share in satisfaction of debts or loans of the Company to the Company's related parties.

The Company was listed on the AIM market on 21 December 2004. As part of that process, the Company made an initial public offering and issued 37,500,000 ordinary shares of 0.04 pence at 2 pence per share.

The Company made an allotment of 2,000,000 ordinary 0.04p shares at 1 pence per share, by way of a subscription for cash to participating employees and directors on 24 June 2005. The difference between the total consideration of £20,000 and the total nominal value of £800, paid in cash, has been credited to the share premium account, being £19,200. Of the amount subscribed, £19,200 has been provided by the Company as an interest free loan contingent on continuing employment and the retention of the shares subscribed. No individual has been given a loan in excess of £5,000.

Contingent rights to the allotment of shares.

On 24 June 2005, the Company granted options to certain directors and employees in respect of 14,158,871 ordinary shares of 0.04p shares at 1.75 per share. Of these, options over 5,708,571 shares at 1.75 pence were granted to Dr Savin.

50% of these options are exercisable after a two year period of continuous employment with the Company, a further 25% are exercisable the day after the Company enters into a major collaborative agreement with a major pharmaceutical or biotechnology company and a further 25% are exercisable the day after the mammalian cell cycle model is shown to run in a multiple cell environment using SystemCell® and responds to drug action.

Unless exercised, the options expire on 24 June 2015. At the end of the year, the number of options remaining unexercised was 14,158,871.

On 15 December 2004, the Company entered into an agreement with Billam AG and Billam plc ("the Optionholders") pursuant to which the Optionholders granted to the Company an option ("Call Option") to require the Optionholders to subscribe for up to 12,500,000 ordinary shares ("Call Option Shares") at the placing price. The call option is exercisable by the Company for a period of 9 months commencing from 9 months following Admission, subject to 1 month's prior written notice from the Company. The number of ordinary shares exercisable under the Call Option is reduced in the event that certain additional funds are received by the Company. Under the same agreement, the Company granted in equal proportions to the Optionholders an option ("Put Option") requiring the Company to allot and issue the Call Option shares less any ordinary shares exercised pursuant to the Call Option. The Put Option is exercisable by either Optionholder at any time during the period of 17 months from the date commencing 1 month after admission. The Optionholders received a fee of £12,500 in equal proportion satisfied by the issue of ordinary shares at the placing price at the time of the IPO.

17 Share Premium Account and Reserves

	Share premium account £	Profit and loss account £
At 1 July 2004	205,287	(626,490)
Retained loss for the year	-	(381,843)
Premium on allotment during the year	1,362,824	-
Share issues costs	(239,089)	-
At 30 June 2005	1,329,022	(1,008,333)

18 Reconciliation of Movements in Shareholders' Funds

	2005 £	2004 £
Loss for the financial year	(381,843)	(225,027)
Issue of shares	1,149,405	-
Net increase / (decrease) in shareholders' funds	767,562	(225,027)
Shareholders' funds at 1 July 2004	(354,063)	(129,036)
Shareholders' funds at 30 June 2005	413,499	(354,063)

19 Net Cash Outflow from Operating Activities

	2005 £	2004 £
Operating loss	(440,445)	(230,027)
Depreciation	7,136	2,645
Amortisation	4,644	4,648
(Increase) / decrease in debtors	(90,606)	1,129
Increase in creditors	72,205	3,300
Net cash (outflow) from operating activities	(447,066)	(218,305)

20 Reconciliation of Net Cash Flow to Movement in Net Debt

	2005 £	2004 £
Increase in cash in the year	286,221	5,343
Net cash inflow from other long-term creditors	-	(235,591)
Change in net funds resulting from cash flows	286,221	(230,248)
Other non-cash items : debt / equity conversion (note 13)	404,920	-
Movement in net debt in the year		
Net debt at 1 July 2004	(396,233)	(165,985)
Net cash / (debt) at 30 June 2005	294,908	(396,233)

21 Analysis of Changes in Net Debt

	At 1 July 2004 £	Cash flow £	Equity conversion £	At 30 June 2005 £
Cash at bank	8,687	286,221	-	294,908
Debt due within 1 year	(404,920)	-	404,920	-
	(396,233)	286,221	404,920	294,908

22 Capital Commitments

The Company had no capital commitments at either 30 June 2005 or 30 June 2004.

23 Contingent Liabilities

There were no contingent liabilities at either 30 June 2005 or 30 June 2004.

24 Retirement Benefits

The Company operates a defined contribution pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from those of the Company.

25 Post Balance Sheet Events

On 25 August 2005 Dr Stephen Parker resigned from the Board.

On 25 August 2005, Mr David Evans was appointed to the Board.

26 Transactions with Directors

The following amounts were loaned to Directors during the course of the financial year as a result of the employee share loan scheme introduced on 24 June 2005:

Name of director	Amount outstanding 2005 £	2004 £	Maximum liability during year £	Interest due not paid £
Dr John Savin	£4,800	-	£4,800	-
Professor David Fell	£4,800	-	£4,800	-

27 Controlling Related Party

The Company has a majority shareholder in EiRx Pharma Limited. Under an agreement dated 15 December 2004, EiRx Pharma Limited has agreed not to exercise any management control over Physiomics. EiRx Pharma Limited has appointed one Director, Mr John Pool, to the Board. It is the intention of EiRx Pharma Limited to distribute its shareholding in the Company to its own shareholders following the end of its lock-in period, that is, after 21 December 2005.

Since listing on the AIM market, all transactions between EiRx Pharma Limited and Physiomics plc are at arms length and on a normal commercial basis. No such transactions occurred after 20 December 2004. In the period prior to 20 December 2004, cross charges amounting to £62,475 (2004: £113,760) were levied on the Company by EiRx Pharma Limited. These charges were satisfied at the time of listing by the issue of shares.

Notice of Meeting

Notice is hereby given that the fifth Annual General Meeting of Physiomics plc will be held at the Magdalen Centre, Oxford Science Park, Oxford, OX4 4GA on Thursday 22 December 2005 at 11.00 am for the following purposes:

1 To receive and adopt the report of the directors and the financial statements for the year ended 30 June 2005 and the Report of the Auditors thereon;

2 To re-appoint David Evans as Chairman of the Company;

3 To re-appoint David Collins and David Fell, who retire by rotation, as Directors of the Company;

4 To renew the authority that the Directors be generally and unconditionally authorised pursuant to section 80 of the Act to allot relevant securities of the Company (within the meaning of section 80(1)) up to an aggregate nominal value of £130,000 (including in respect of the allotment of any ordinary shares in connection with any options to subscribe for ordinary shares granted by the Company), such authority (unless previously revoked or varied) to expire on the day falling 15 months following the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company save that the Directors may before such expiry make an offer or enter into an agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired;

5 To appoint auditors and to authorise the directors to fix their remuneration;

BY ORDER OF THE BOARD

The Magdalen Centre, The Oxford Science Park, Oxford, OX4 4GA

D.A. Collins

Secretary

Notes

1 Every member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and vote on their behalf. A proxy need not be a member of the Company. A form of proxy is enclosed. Completed forms of proxy must be lodged at the registered office of the Company at the address shown on the form not less than 48 hours before the time appointed for the holding of the meeting.

2 In accordance with the Listing Rules of the Financial Services Authority, copies or particulars of contracts of service between directors and the Company or any of its subsidiary undertakings will be available for inspection by members at the registered office of the Company during normal business hours from the date of this notice until 22 December 2005 and at the place of the Annual General Meeting for fifteen minutes prior to and until the conclusion of that meeting.