PHYSIOMICS
rational therapeutics

Physiomics Plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the Year Ended

30 June 2008

Company Registration

No. 4225086

Contents

Officers and Professional Advisers

DIRECTORS

Dr P B Harper — Chairman
Dr C D Chassagnole

SECRETARY

R J Jones

REGISTERED OFFICE

The Magdalen Centre
Robert Robinson Avenue
Oxford Science Park
Oxford
OX4 4GA

AUDITOR

Shipleys LLP
10 Orange Street
Haymarket
London
WC2H 7DQ

REGISTRAR

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 2YU

BANKER

National Westminster Bank Plc
Willow Court
Minns Business Park
7 West Way
Oxford
OX2 0JB

NOMINATED ADVISOR

Grant Thornton UK LLP
30 Finsbury Park
London
EC2P 2YU

SOLICITOR

Bircham Dyson Bell LLP
50 Broadway
Westminster
London
SW1H 0BL

BROKER AND FINANCIAL ADVISER

Dowgate Capital Stockbrokers Limited
Talisman House
Jubilee Walk
Three Bridges
Crawley
West Sussex
RH10 1LQ

Chairman's Statement

Physiomics made substantial progress during the year under review. The pilot project agreed with Eli Lilly, a global pharmaceutical company, met its commercial and technical milestones to the satisfaction of a client company that has considerable in-house experience in system cell technology. This validation of the Physiomics technology has been of vital importance as we speak to new client companies. Moreover, since our "SystemCell®" Technology has been adapted to enable simulation on a "supercomputer" we are able to offer not only a much improved service to our clients but a means of accelerating our in-house development activities.

Following a strategic review of technology progress, the competitive environment and the improvement in business prospects engendered by the landmark deal with Lilly, we have aligned our internal programmes to match new opportunities. Following changes in the priorities and dynamics of the business, a re-structuring of the board has seen my appointment as Non-Executive Chairman and of Mr. Roger Jones as Group Financial Controller and Company Secretary.

We completed in August 2007 a project for ValiRx Plc (formally Cronos Therapeutics). Our apoptosis model technology has supported both "no-go" and "go" decisions for therapeutic targets in record time (7 months). As a result of this project we are in the process of filling a joint patent application on a combination of drug targets.

In September 2007 we cemented a contract with the global pharmaceutical company Eli Lilly. Completion of the initial project has led to two new projects initiated in July 2008. Following the recent confidence shown in Physiomics' technologies by this global pharmaceutical company, Physiomics' directors believe that new contracts will emerge from our ongoing discussions with other major pharmaceutical companies.

As part of the TEMPO project, Physiomics has extended its technology to enable the design of optimal cancer drug dosing schedules by taking into account circadian rhythms. By changing the time of day when a certain drug is given, it is possible to both increase its efficacy and decrease its toxicity. In May 2008, Physiomics announced that, following a successful mid-term review held in Oxford in March 2008 and evaluation of the results by the European Commission, the 3 years research program "TEMPO" that commenced in September 2006 can continue as specified the original grant proposal. The first results were presented in major scientific conferences and gained attention from the scientific media, including the New Scientist along with local press and local radio. This work even attracted the interest of the Sun newspaper that resulted in an article explaining the concept.

The TEMPO concept has the potential to improve the efficacy of existing anti-cancer drugs perhaps offering a new lease of life to long established drugs. It is therefore not surprising that the Company has already received expression of interest from a number of bio-pharmaceutical companies seeking to license such new chronotherapeutic schedules for their existing drugs.

During the period we have also made significant progress in the development of our oncology model portfolio and virtual tumour project, by integrating our new apoptosis (targeted cell death) model with our existing cell cycle model to give a more complete picture of the balance between proliferation and death of cells. This is the key to understanding the dynamics of diseases such as cancer. The biological models are supported by sophisticated simulation software environments developed recently. This include a stand-alone simulation platform ("Model Player") incorporating a reference database to allow in-house use of Physiomics' technology by third parties.

Chairman's Statement – continued

We have also developed a new version of the proprietary SystemCell® technology running on the IBM "Blue C" super computer at the Institute of Life Sciences at Swansea University. This allows us to reduce typical computing times from many hours to just a few minutes, giving Physiomics a significant technological edge for its fee for service business. In December 2007 we have continued to further our relationship with the Institute of Life Science of Swansea University, with the signature of a memorandum of understanding.

After a difficult trading year for the year ending 30 June 2008, the Company has secured new contracts (some of which are contracts that will last beyond the year ending 30 June 2009), which together with grant income will result in revenue of at least £440,000

There has been an increasing trend this year for even the largest of the drug development companies to use smarter technologies to shorten the discovery and development process, to reduce associated costs and to maximise useable patent life by shortening the process. Similarly, we are seeing a shift in the regulatory environment towards active promotion of technologies like SystemCell® to give greater insights into drug mechanism of action and reduce dependence on animal data. We have seen, in the last month, a significant increase in expression of interest from pharmaceutical and biotechnology companies in our fee-for-service consultancy and to in-license our technology. We are looking forward to secure additional contracts and repeat business from existing partners.

Dr Paul Harper

Chairman

Directors' Report

The Directors submit their report and the audited financial statements of Physiomics Plc for the year ended 30 June 2008.

Principal Activities and Performance Review

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

There was a loss for the year after taxation amounting to £434,469 (2007:£192,951). 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.

Performance Indicators

The Directors consider that the key performance indicators are those that communicate the financial performance and strength of the company as a whole, these being revenue, profitability and shareholders funds.

The turnover of the Company declined to £91,221 from £216,464.

The operating loss has increased to £435,440 from £252,281.

Brought forward shareholders funds of £98,775 have become a deficit of £354,075 at 30 June 2008.

Future Risks

The Company faces many risks on the way to building shareholder value. The process of winning major contracts in a competitive environment is rarely simple and can be delayed for reasons outside the Company's control. This means the Company faces major uncertainties in its cash flow.

Addressing the Risks

The Board addresses the financial uncertainties by careful budget monitoring and by quickly responding to variations. If there are delays in signing contracts then recruitment and capital expenditure is frozen until the anticipated income is achieved.

Interest rate risk

The Company finances its operations by cash and short term deposits. The Company's policy on interest rate management is agreed at board level and is reviewed on an ongoing basis.

Other creditors, accruals and deferred income values do not bear interest.

Interest rate profile

The Company had no bank borrowings at the 30 June 2008. Interest bearing loan notes are in issue at that date on terms set out in note 9 to the financial statements

Directors' Report - continued

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.

Fair values

Fair values of financial instruments equate to the best value as disclosed in the financial information. There are no material differences between the fair value of financial instruments and the amount at which they are stated in the financial statements.

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

UK company law requires the directors to prepare financial statements for the company in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

The financial statements are required by law, and IFRS as adopted by the EU, to give a true and fair view of the state of affairs of the company.

In preparing the company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and estimates that are reasonable and prudent;

c. state whether they have been prepared in accordance with IFRS as adopted by the EU;

d. 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 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 requirements of the Companies Act 1985.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the Physiomics Plc website.

Directors' Report - continued

Substantial shareholdings

The Company has been informed that on 30 June 2008 the following shareholders held substantial holdings in the issued ordinary shares of the Company.

	Number of Ordinary shares	Holding %
Barclayshare Nominees Limited	49,208,071	13.1%
JIM Nominees Limited	46,679,680	12.5%
Pershing Nominees Limited	153,199,208	40.9%
SVS (Nominees) Limited	12,825,000	3.4%

No other person has reported an interest of more than 3% in the ordinary shares.

Directors' remuneration

Details of Directors' remuneration in the year ended 30 June 2008 is set out below:

	Emoluments £	**Benefits £**	**Pension contributions £**	**Total £**
Dr P Harper Chairman	25,417	-	-	25,417
Dr C D Chassagnole	35,877	-	3,568	39,445
E M Oliver Resigned 17 December 2007	6,000	-	-	6,000
D J Lipscombe Resigned 17 December 2007	6,000	-	-	6,000
J K Pool Resigned 17 December 2007	6,000	-	-	6,000
Total	**79,294**	**-**	**3,568**	**82,862**

Directors' Report - continued

Payment policy

The Company pays its suppliers as it would wish to be paid and supports initiatives aimed at ensuring good practice in this area. Trade creditors of the Company were equivalent to 69 days purchases (2007: 45 days), based on the average daily amount invoiced by suppliers to the Company during the year.

Post balance sheet events

In November 2008 the Company offered to certain lenders and suppliers the opportunity to convert existing indebtedness, including interest payable where applicable, into equity on the basis of 0.1p of debt for 1 ordinary share of 0.04p in the capital of the Company. The offer is open to these creditors until 27 November 2008. Details of acceptances of this offer will be released in due course.

Statement as to disclosure of information to auditors

The directors in office on 26 November 2008 have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

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 an executive director, who fulfills the main operational role in the Company, and a non-executive Chairman. 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 is shown above.

Directors’ Report - continued

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 Christophe Chassagnole and Roger Jones 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 Shipleys LLP to satisfy the Committee that this will not compromise their independence. Details of the fees paid to Shipleys LLP during the current accounting period are given in note 3 to the accounts. There are no areas of work where Shipleys 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 Christophe Chassagnole and Roger Jones and is chaired by Paul Harper. It 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 no 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.

Going Concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Company will 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

Directors' Report - continued

Internal Control

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.

Auditors

Shipleys LLP offer themselves for appointment 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 offices of Bircham Dyson Bell, 50 Broadway, London, SW1H 0BL at 10.00 am on Friday 19 December 2008.

By order of the board

Dr Paul Harper
Chairman
26 November 2008

Independent Auditor's Report to the shareholders of Physiomics Plc

We have audited the financial statements of Physiomics Plc for the year ended 30 June 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. 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 s235 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 applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement and the Directors' Report. 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 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 company's circumstances, consistently applied and adequately disclosed.

Independent Auditor's Report to the shareholders of Physiomics Plc

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, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, of the state of the company's affairs as at 30 June 2008 and of its loss for the year then ended;
- 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.

Emphasis of matter – Going concern

In forming our opinion to the financial statements, which is not qualified, we have considered the adequacy of the disclosures in note 1 to the financial statements considering the company's ability to continue a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Shipleys LLP
Chartered Accountants
Registered Auditors
26 November 2008

10 Orange Street
Haymarket
London WC2H 7DQ

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.

Income Statement for the year ended 30 June 2008

	Notes	**Year ended 30-Jun-08 £**		Year ended 30-Jun-07 £	
Revenue	2	**91,221**		216,464	
Net operating expenses		**(526,661)**		(468,745)	
Operating loss	3	**(435,440)**		(252,281)	
Finance income	4	**347**		408	
Finance costs	5	**(9,376)**		-	
Loss before taxation		**(444,469)**		(251,873)	
UK corporation tax	7	**10,000**		58,922	
Loss for the period attributable to equity shareholders		**(434,469)**		(192,951)	
Loss per share (pence)					
Basic and diluted	8	**0.116**	p	0.057	p

Balance Sheet as at 30 June 2008

	Notes	Year ended 30-Jun-08 £	Year ended 30-Jun-07 £
Non-current assets			
Intangible assets	10	**39,764**	46,055
Property, plant and equipment	11	**3,779**	7,589
Investments		**1**	1
		43,544	53,645
Current assets			
Trade and other receivables	12	**61,935**	173,835
Cash and cash equivalents		**8,716**	74,823
	9	**70,651**	248,658
Total assets		**114,195**	302,303
Current liabilities			
Trade and other payables		**(310,270)**	(121,909)
Loans		**(8,000)**	-
	9	**(318,270)**	(121,909)
Non-current liabilities			
Other payables	9	**(150,000)**	(81,619)
Total liabilities		**(468,270)**	(203,528)
Net assets		**(354,075)**	98,775
Capital and reserves			
Share capital	14	**149,989**	149,989
Capital reserves	15	**1,611,436**	1,611,436
Other reserves		**-**	18,381
Retained earnings	16	**(2,115,500)**	(1,681,031)
Equity shareholders' funds		**(354,075)**	98,775

The financial statements were approved by the Board of Directors and authorised for issue on 26 November 2008 and are signed on its behalf by:

Dr Paul Harper
Chairman

Statement of changes in equity for the year ended 30 June 2008

	Share capital £	Share premium account £	Other reserves £	Retained earnings £	Total shareholders' funds £
At 30 June 2006 as previously stated	92,810	1,329,022	-	(1,488,078)	(66,246)
Prior period effect of adoption of IFRS	-	-	-	-	-
At 30 June 2006 as restated	92,810	1,329,022	-	(1,488,078)	(66,246)
Share issue (net of costs)	57,179	282,414	-	-	339,593
Loss for the year	-	-	-	(192,953)	(192,953)
Equity element of loan notes	-	-	18,381	-	18,381
At 30 June 2007	149,989	1,611,436	18,381	(1,681,031)	98,775
Loss for the year	-	-	-	(434,469)	(434,469)
Equity element of loan notes	-	-	(18,381)	-	(18,381)
At 30 June 2008	149,989	1,611,436	-	(2,115,500)	(354,075)

Cash Flow Statement for the year ended 30 June 2008

	Year ended 30-Jun-08 £	Year ended 30-Jun-07 £
Cash flows from operating activities:		
Operating loss	**(435,440)**	(252,281)
Amortisation and depreciation	**11,318**	14,290
(Increase) decrease in receivables	**62,978**	(58,745)
Increase in payables	**178,984**	(90,743)
Cash generated from operations	**(182,160)**	(387,479)
UK corporation tax received	**58,922**	-
Interest paid	**-**	-
Net cash generated from operating activities	**(123,238)**	(387,479)
Cash flows from investing activities:		
Interest received	**347**	408
Purchase of non-current assets, net of grants received	**(1,216)**	(4,334)
Disposal of non-current assets	**-**	299
Net cash used by investing activities	**(869)**	(3,627)
Cash inflow (outflow) before financing	**(124,107)**	(391,106)
Cash flows from financing activities:		
Receipt of loans	**8,000**	-
Issue of ordinary share capital	**-**	339,593
Receipt from related parties	**50,000**	100,000
Net cash from (used by) financing activities	**58,000**	439,593
Net increase (decrease) in cash and cash equivalents	**(66,107)**	48,487
Cash and cash equivalents at beginning of year	**74,823**	26,336
Cash and cash equivalents at end of year	**8,716**	74,823

Notes on the Financial Statements

Basis of preparation

Physiomics Plc has adopted International Financial Reporting Standards ("IFRS") with effect from 1 July 2006. The Company will apply IFRS in its financial statements for the year ending 30 June 2008. Therefore, these statements are the Company's first financial statements prepared in accordance with IFRS as adopted by the EU.

The basis of preparation and accounting policies followed in this report differ from those set out in the Annual Report and Accounts 2007 which were prepared in accordance with United Kingdom accounting standards (UK GAAP). A summary of the significant accounting policies used in preparation of this report under IFRS as adopted by the EU is provided in accounting policies below.

Accounting policies

Going concern

The board has considered the applicability of the going concern basis in the preparation of these financial statements. This included the review of internal budgets and financial results. The directors have a reasonable expectation of adequate resources to continue in operation for the foreseeable future. These expectations are based upon improved trading through contracts secured and access to funding from private investors and the capital markets. Additionally, as disclosed in the directors' report, subsequent to the balance sheet date the Company has offered to certain lenders and suppliers the opportunity to convert existing indebtedness, including interest payable where applicable, into equity on the basis of 0.1p of debt for 1 ordinary share of 0.04p in the capital of the Company. For these reasons they have adopted the going concern basis in the preparation of the financial statements.

Revenue recognition

The revenue shown in the income statement relates to amounts received or receivable from the provision of outsourced systems and computational biology services to pharmaceutical companies.

Revenue from the provision of its principal activities are recognised when the Company has transferred to the buyer the significant risks and rewards of ownership, has no continuing managerial involvement or control to the degree normally associated with ownership and can reliably measure the economic benefits of the transaction.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Notes on the Financial Statements - continued

Intangible assets

Intangible assets acquired separately from third parties are recognised as assets and measured at cost.

Following initial recognition, intangible assets are measured at cost or fair value at the date of acquisition less any amortisation and any impairment losses. Amortisation costs are included within the net operating expenses disclosed in the income statement.

Intangible assets are amortised over their useful lives as follows:

	Useful Life	Method
Software	3 years	Straight line

Useful lives are also examined on an annual basis and adjustments, where applicable are made on a prospective basis. The Company does not have any intangible assets with indefinite lives.

Property, plant and equipment

All items are initially recorded at cost.

Impairment of assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets that do not individually generate cash flows are assessed as part of the cash generating unit to which they belong. Cash generating units are the lowest levels for which there are cash flows that are largely independent of the cash flows from other assets or groups of assets.

Depreciation

Depreciation is calculated to write off the cost of an asset over its useful economic life as follows:

Leasehold improvements - the remaining life of the lease

Fixtures and computers - three years, straight-line basis

Research and development expenditure

Expenditure on research activity is recognised as an expense in the period in which it is incurred.

Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Balances are written off when the probability of recovery is considered to be remote.

Notes on the Financial Statements - continued

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Foreign currency

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating result.

Leased assets and obligations

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease terms. The corresponding leasing commitments are shown as obligations to the lessor. Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss in proportion to the remaining balance outstanding.

All other leases are 'operating leases' and the annual rentals are charged to the income statement on a straight-line basis over the lease term.

Government Grants

Deferred government grants in respect of capital expenditure are treated as deferred income and are credited to the income statement over the estimated useful life of the assets to which they relate.

Government grants of a revenue nature are credited to the profit and loss account in the same period as the related expenditure.

Share based payments

The Company issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over an estimated vesting period. Fair value is measured by use of a binomial model.

Investments

Participating interests are stated at cost less amounts written off in the Company balance sheet.

Notes on the Financial Statements - continued

Taxation

Tax currently payable is based on the taxable profit for the period which may differ from net profit reported in the income statement.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay further tax, or a right to pay less tax in future. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the gains or losses in tax assessments in period different from those in which they are recognised in the financial statements. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse.

Adoption of International accounting standards

IFRS 8 'Operating Segments' (effective for periods commencing on or after 1 January 2009).

IFRS 8 introduces new disclosure requirements for segmental information and supersedes IAS 14 "Segmental Reporting". The directors do not believe that the impact of the change in disclosure will be significant.

IFRIC 12, 'Service Concession Arrangements' (effective from 1 April 2008).

IFRIC 12 addresses the accounting by operators of public-private service concession arrangements. The company has assessed the impact of this interpretation and has concluded it will have no effect on the company's financial statements.

IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).

IFRIC13 addresses accounting by entities that grant loyalty award credits to customers that buy the entities' goods or services. Specifically, the interpretation explains how the entities should account for their obligations to provide free or discounted goods or services ('awards') to customers that redeem award credits. It is not likely to have a significant impact on the company's financial statements.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008)

IFRIC 14, its recent interpretation of International Accounting Standard IAS19, will affect employers that sponsor defined benefit schemes. At 30 June 2008 the company had no defined benefit schemes and had no current plans to introduce such schemes.

Notes on the Financial Statements - continued

1 CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

There was no material accounting estimates or areas of judgements required.

2 REVENUE AND SEGMENTAL REPORTING

The principal activities are the provision of outsourced systems and computational biology services to pharmaceutical companies.

This activity comprises a single segment of operation of a sole UK base and entirely UK based assets. Further segmental information is not available.

Revenue was derived in the UK and European Union from its principal activity.

3 OPERATING LOSS

	2008 £	2007 £
Operating loss is stated after charging:		
Research and development		
Current year expenditure	**110,970**	131,384
Depreciation charge for the year		
- Owned assets	**5,027**	7,785
Amortisation charge for the year	**6,291**	6,549
Staff costs, refer to note 6		
Audit services, refer to below		

	Payable to:	2008 £	2007 £
Amounts payable for both audit and non-audit services			
Audit services – Statutory audit	Shipleys LLP	**10,000**	10,000
Tax services – Compliance services	Shipleys LLP	**1,500**	1,376
		11,500	11,376

Notes on the Financial Statements - continued

4 FINANCE INCOME

	2008	2007
	£	£
Bank interest receivable	**347**	408

5 FINANCE COSTS

	2008	2007
	£	£
Interest payable on loan notes	**9,376**	-

6 STAFF COSTS

	2008	2007
	£	£
Staff costs during the year		
Wages and salaries	**136,231**	139,934
Social security costs	**13,978**	14,890
Pension costs	**1,800**	5,107
	152,009	159,931
Average number of employees	**6**	6

Details of the remuneration of directors are included in the Directors' report on page 8.

Notes on the Financial Statements - continued

7 TAXATION

(a) Analysis of charge in the year

	2008	2007
	£	£
Research and Development tax credit: current year	10,000	31,532
Research and Development tax credit: prior year	-	27,390
Total current tax	10,000	58,922

(b) Factors affecting current tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The timing differences are explained below:

	2008	2007
	£	£
Loss on ordinary activities before taxation	444,469	251,873
Tax on loss on ordinary activities at standard corporation tax rate of 19% (2007: 19%)	(84,449)	(55,440)
Expenses not deductible for tax purposes	-	207
Capital allowances in excess of depreciation	394	895
Unrelieved tax losses and other deductions arising in the period	84,055	54,338
Research and Development tax credit: current and prior year	10,000	58,922
Total current tax	10,000	58,922

At 30 June 2008 tax losses of approximately £1,338,000 (2007: £896,000) remained available to carry forward against future taxable trading profits.

8 EARNINGS PER SHARE

The calculations of loss per share are based on the following losses and numbers of shares.

	2008	2007
	£	£
Loss on ordinary activities after tax	**(434,469)**	(192,951)
	No.	No.
Weighted average no of shares: For basic and diluted loss per share	**374,972,639**	339,333,755
Basic and diluted loss per share	**0.116p**	0.057p

Basic and diluted losses per share are the same as there is no dilution

Notes on the Financial Statements - continued

9 FINANCIAL INSTRUMENTS RECOGNISED IN THE BALANCE SHEET

	Held for trading 2008 £	2007 £
Current financial assets		
Trade and other receivables	**61,935**	173,835
Cash and cash equivalents	**8,716**	74,823
	70,651	248,658
Current financial liabilities		
Trade and other payables	**310,270**	121,909
Loans	**8,000**	-
	318,270	121,909
Non-current financial liabilities		
Other payables	**150,000**	81,619

Non-current financial liabilities comprise 5% unsecured convertible loan notes of £100,000 granted to EiRx Pharma Limited and 7% secured convertible loan notes of £50,000 granted to Billam PLC. The conversion price of each loan note is the lower of 0.3p per ordinary share or, at the holder's option, such lower price at which the Company has undertaken further ordinary share issues for cash prior to 31 December 2009.

10 INTANGIBLE FIXED ASSETS

	Patents, trade marks and software £
Cost	
At 1 July 2007 and 30 June 2008	**75,442**
Amortisation	
At 1 July 2007	29,387
Provided in the year	6,291
At 30 June 2008	**35,678**
Net book value	
30 June 2008	**39,764**
30 June 2007	46,055

Notes on the Financial Statements - continued

11 PROPERTY PLANT AND EQUIPMENT

	Fixtures and computers £
Cost	
At 1 July 2007	37,092
Additions	1,217
At 30 June 2008	**38,309**
Depreciation	
At 1 July 2007	29,503
Provided in the year	5,027
At 30 June 2008	**34,530**
Net book value	
30 June 2008	**3,779**
30 June 2007	7,589

12 OTHER FINANCIAL ASSETS AND LIABILITIES

	2008 £	2007 £
Trade and other receivables are as follows:		
Trade receivables	-	51,674
Prepayments	**24,300**	24,100
Other receivables	**27,635**	39,139
Corporation tax recoverable	**10,000**	58,922
	61,935	173,835
Trade and other payables are as follows:		
Amounts payable relating to the purchase of goods and services	**166,599**	65,336
Other payables	**63,112**	18,703
Accruals	**79,186**	37,870
	308,897	121,909

Trade payables of the Company were equivalent to 69 days of purchases (2007: 45 days). The directors consider the carrying amount of trade payables approximates to their fair value.

Notes to the Financial Statements - continued

13 LOANS

During the year the Company received loans of £8,000 from directors and which remain outstanding at 30 June 2008. There is no interest payable on these loans and there is no fixed repayment date. One director received a loan of £960 under a share loan scheme introduced on 24th June 2005 and which remains outstanding at 30 June 2008.

14 SHARE CAPITAL

	2008	2007
Ordinary shares of 0.04p each	**Number**	Number
Authorised:	**25,000,000,000**	25,000,000,000
Issued and fully paid:	**£**	£
As at 1 July 2007	**149,989**	92,810
Issue of share capital	-	57,179
As at 30 June 2008	**149,989**	149,989

The Company has one class of ordinary shares which carry no right to fixed income.

Notes to the Financial Statements - continued

15 CAPITAL RESERVES

	Share premium £
Balance at 1 July 2006	1,329,022
Issue of shares	371,662
Share issue costs	(89,248)
Balance at 30 June 2007 and 30June 2008	1,611,436

16 RETAINED EARNINGS

	£
Balance at 1 July 2006	(1,488,078)
Loss for the year	(192,953)
Balance at 30 June 2007	(1,681,031)
Loss for the year	(434,469)
Balance at 30 June 2008	(2,115,500)

17 CAPITAL COMMITMENTS

At 30 June 2007 and 30 June 2008 the Company had no capital commitments.

18 SHARE BASED PAYMENT TRANSACTIONS

The Company operates a share option scheme under the Enterprise Management Initiative Scheme ("EMI"). The following share options have been granted over ordinary shares of 0.04p each and remain exercisable under the EMI scheme:

	Granted	Exercised	At 30 June 2008	Exercise Price	Date from which exercisable	Expiry date
Christophe Chassagnole	7 Sept 2007	-	7,499,453	0.383p	Subject to performance conditions	6 Sept 2017
Other staff	-"-	-	10,880,000	-"-	-"-	-"-

Options held by Dr Chassagnole at 30 June 2007 have been cancelled in the year.

No expenses are recognised for equity-settled share-based payments transactions in the year. Additionally, in the years of issue of existing share options, no expenses were required to be recognised.

Notes to the Financial Statements - continued

19 FINANCIAL INSTRUMENTS

The Company's financial instruments comprise cash and short term deposits. The Company has various other financial instruments, such as trade debtors and creditors that arise directly from its operations, which have been excluded from the disclosures other than the currency disclosures.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The policies for managing these are regularly reviewed and agreed by the board.

It is and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

Interest rate risk

The Company finances its operations by cash and short term deposits. The Company's policy on interest rate management is agreed at board level and is reviewed on an ongoing basis.

Other creditors, accruals and deferred income values do not bear interest.

Interest rate profile

The Company had no bank borrowings at the 30 June 2008. Interest bearing loan notes are in issue at that date on terms set out in note 9 to the financial statements

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.

Fair values

Fair values of financial instruments equate to the best value as disclosed in the financial information. There are no material differences between the fair value of financial instruments and the amount at which they are stated in the financial statements.

20 RELATED PARTY TRANSACTIONS

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Company, is set out on page 8.

Further Notes on reporting Under International Financial Reporting Standards

This report is the first to be prepared under IFRS as adopted by the EU. The comparative figures have been prepared on the same basis and have therefore been restated from those previously prepared under UK GAAP. The commentary below details the key changes that have arisen due to the transition to reporting under IFRS. The Company's date of transition is 1 January 2007, which is the beginning of the comparative period for the 2007 financial year. Therefore the opening balance sheet for IFRS purposes is that reported at 31 December 2005 as amended for changes due to IFRS.

First time adoption
The Company has applied the provisions of IFRS1 – First Time Adoption of International Financial Reporting Standards which, generally, requires that IFRS accounting policies be applied retrospectively in determining the opening balance sheet at the date of transition.

The following reconciliation is included in these statements:

Reconciliation of Balance Sheet to 30 June 2008.

The transition from UK GAAP to IFRS as adopted by the EU does not affect the cash flows generated by the Company. The IFRS cash flow statement is presented in a different format to that required under UK GAAP.

The balance sheet has the following reconciling item between the UK GAAP format and the IFRS format:

Intangible assets
At transition the Company followed the provisions of IAS36 and reclassified separately identifiable computer software assets from tangible assets to intangible assets.

There are no reconciling items between the UK GAAP format and the IFRS format for the income statement and the cash flow statement.

Further Notes on Reporting Under Information Financial Reporting Standards

Reconciliation of Income Statement for the year ended 30 June 2008

There are no conversion effects arising from the transition from UK GAAP to IFRS as adopted by the EU.

Reconciliation of Balance Sheet for the year ended 30 June 2008

	Year ended 30-Jun-08 £	Year ended 30-Jun-07 £
Conversion effects comprise:		
IAS38 – reclassification of software from tangible to intangible assets		
Non-current assets		
Intangible assets		
UK GAAP	**39,532**	44,176
Effect of transition to IFRS	**232**	1,879
IFRS	**39,764**	46,055
Property, plant and equipment		
UK GAAP	**4,011**	9,468
Effect of transition to IFRS	**(232)**	(1,879)
IFRS	**3,779**	7,589

There are no other conversion effects arising from the transition from UK GAAP to IFRS as adopted by the EU.