Physiomics Plc

Financial Statements

For the Year Ended

30th June 2006

Registration Number

04225086

Company registration number:	04225086
Registered office:	The Magdalen Centre Robert Robinson Avenue Oxford Science Park Oxford, OX4 4GA
Directors:	Mr J Pool, Non-executive Chairman Mr D J Lipscombe, (appointed 29.08.06) Dr P B Harper, Non-executive Mr E M Oliver, Finance Director (appointed 29.08.2006)
Secretary:	Mr E M Oliver
Bankers:	National Westminster Bank plc Anglo Irish Bank Corporation
Auditors:	Shipleys LLP Registered Auditors Chartered Accountants 10 Orange Street London WC2H 7DQ
Registrars:	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Brokers:	Seymour Pierce Ellis Talisman House Jubilee Walk Three Bridges Crawley West Sussex RH10 1LQ
NOMAD:	Grant Thornton UK LLP Grant Thornton House Melton Street Euston Square London NW1 2EP

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Chairman's Statement

Physiomics has been through an eventful year in which there has been progress in the continuing development of our patented System Cell ™ technology and software. We believe that the enhancement of virtual cancer cell and its ability to predict the nature of drug interactions will prove attractive to a number of companies that have oncology programmes including several global players in this sector. We are also negotiating a deal to provide access to the High Performance Computer, at a UK University in order to assist in the process of developing our model.

During the year we have continued to advance our collaboration with Cyclacel Ltd and continue to provide support to their drug discovery activities. We also hope to renew our contract with Cronos (now ValiRX plc) to facilitate the delivery of products from their unique GeneICE technology. In addition, we were recently selected to join a multi-disciplinary major European research programme called "TEMPO", which is to be co-ordinated by the Nationale Institut de la Sante et de la Recherche Medicale. (This contract has since been finalised and work began on the project in November). The research will examine the impact of circadian rythems on the effective delivery of anti-cancer drugs to patients. This is a matched funding programme over three years worth some Euro 252,500 to the Company. Physiomics technology was selected as the modelling solution of choice, establishing our credibility within the drug discovery/analysis field. We are consequently optimistic that the attention that we receive from being party to such a prestigious programme will lead to more collaborations in the future.

We continue to have discussions with a number of pharmaceutical companies to assess how the Physiomics cell modelling technology can be used to enhance and accelerate their discovery progammes. Despite this, actual sales achieved in the past 12 months have been disappointing. Following a detailed strategic review, the Company identified the need to secure a long term future for the Company on a basis different from the current business model. One consequence was the departure of our former Chief Executive Officer, Dr John Savin, that was announced in June.

On 1 September, we announced that our Chairman, David Evans our Financial Director, David Collins and David Fell a non-executive Director, had stepped down from their respective posts . The Board expressed it's gratitude for their dedication and professionalism and wish them well. Professor David Fell continues to lead the research team. John Pool has temporarily taken on the role of Chairman. Edward Oliver has been appointed as our new Finance Director and Duncan Lipscombe joins Paul Harper as a non-executive Director. These board changes were conditional on further funding being made available to the Company and we announced at that time a placing to raise £428,841 as well as the appointment of Seymour Piece Ellis Limited as the Company's broker.

Chairman's Statement

The new funds are being used to hire additional staff to accelerate the development programme, to support our commercial activities and to progress M&A opportunities which we consider to be an important part of the Company's strategy.

The Directors believe that these changes have the potential to transform the Company's prospects for the future and I look forward to announcing further progress next year.

John Pool
Chairman
30th November 2006

Director's Report

The Directors submit their report and the audited financial statements of Physiomics plc (the Company) for the year ended 30th June 2006.

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 £479,746 (2005:£381,843). 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 turnover, profitability and shareholders funds.

The turnover of the Company decreased to £113,110 from £204,695.

The operating loss has increased slightly to £486,208 from £440,445. Interest receivable has decreased to £6,562 from £8,528. The loss transferred from reserves increased to £479,746 from £381,843 due to a reduction in available tax credits.

Brought forward shareholders funds totaled £413,499 which had become an overdrawn balance of £66,246 at 30th June 2006. As more fully explained in the Going Concern section of Accounting Policies, further funds have been raised by an issue of shares after the year end.

Future Risks

The Company faces many risks on the way to building shareholder value. The process of winning major contracts on a competitive environment is rarely simple or even 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.

Director's Report - continued

Research and Development

The business of the Company is the development and sale of services aimed at reducing the high cost of drug development for pharmaceutical and biotechnology companies, principally by optimising the design of their clinical trials through the application of computer based simulation tools.

The Company is also applying its technologies to develop proprietary cancer therapy products for out-licensing and to this end has secured an option to licence up to two innovative molecules from a drug development company.

The Company services apply complex computer based simulation tools to resolve the two main problems associated with drug development merely (i) the lack of biological response to a given dose and (ii) the difficulties involved in determining the adequate dose of a drug.

The Company is continuing to work on these projects in order to expand and develop their available services.

Post Balance Sheet Events

On 29th September 2006, 142,947,040 ordinary shares of 0.04p were issued at 0.3p per share.

On 29th August 2006, Professor David Fell, Mr David Collins and Mr David Evans resigned as Directors, and Mr Duncan Lipscombe and Mr Edward Oliver were appointed Directors in their stead.

Directors

The present membership of the Board is set out on Page 2. Both Dr Harper and Mr John Pool served throughout the year.

PHYSIOMICS rational therapeutics

Director's Report - continued

The interests of the Directors in the shares of the Company and its parent company as at 1 July 2005 (or at the date of their appointment to the Board if later) and 30th June 2006 (or at the date of their resignation from the Board if earlier) were as follows:

		30th June 2006 Number of Shares	1st July 2005 Number of Shares
Mr David Evans (25th August 2005 appointment) (29th August 2006 resignation)	Physiomics plc 0.04p Ords	-	-
	EiRx Pharma Ltd 1000p Ords	-	-
Mr David Collins (29th August 2006 resignation)	Physiomics plc 0.04p Ords	-	-
	EiRx Pharma Ltd 100p Ords	-	-
Professor David Fell (29th August 2006 resignation)	Physiomics plc 0.04p Ords	800,000	300,000
	EiRx Pharma Ltd 100p Ords	35,929	35,929
Dr Paul Harper	Physiomics plc 0.04p Ords	-	-
	EiRx Pharma Ltd 100p Ords	-	-
Mr Duncan Lipscombe (29th August 20006 appointment)	Physiomics plc 0.04p Ords	-	-
	EiRx Pharma Ltd 100p Ords	-	-
Mr Edward Oliver (29th August 2006 appointment)	Physiomics plc 0.04p Ords	-	-
	EiRx Phaarma Ltd 100p Ords	-	-
Dr Stephen Parker (25th August 2005 resignation)	Physiomics plc 0.04p Ords	-	-
	EiRx Pharma Ltd 100p Ords	-	-
Mr John Pool	Physiomics plc 0.04p Ords	600,000	600,000
	EiRx Pharma Ltd 100p Ords	-	-
Dr John Savin (30th June 2006 resignation)	Physiomics plc 0.04p Ords	550,000	550,000
	EiRx P harma Ltd 100p Ords	1,251,110	1,251,110

Mr J Pool is the board representative of EiRx Pharma Limited which held 164,000,875 (2005: 174,100,875) shares in the Company at 30th June 2006.

Director’s Report - continued

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

	2006 £	2005 £
David Evans	22,681	-
David Collins	12,000	16,000
David Fell	14,250	14,325
Paul Harper	16,447	9,250
Stephen Parker	5,640	27,000
John Pool	12,000	6,500
John Savin	130,077	58,533

The Company has an approved share 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 1st July 2005	Granted during the year	Lapsed during the year	At 30th June 2006
John Savin	1.75p	5,708,571	-	5,708,571	-
David Evans	-	-	-	-	-
David Collins	-	-	-	-	-
David Fell	-	-	-	-	-
Paul Harper	-	-	-	-	-
John Pool	-	-	-	-	-

All options lapsed during the year. 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 maybe exercised during the period between two and three 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

Director's Report - continued

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 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.

Charitable and Political Contributions
No charitable or political donations were made during the period.

Substantial Shareholders
At 30 June 2006, 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	164,000,875	70.7
Billam plc	7,899,511	3.4
	========	========

Creditor Payment Policy
Whilst the Company does not follow a formal code, the Company's current policy concerning the payment of the majority of its trade creditors is to:

- Settle the terms of payment with those suppliers when agreeing the terms of each transaction.
- Ensure that those suppliers are made aware of the terms of payment by inclusion in the relevant terms in the contract and pay in accordance with its contractual and other legal obligations.

Director’s Report - continued

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception. The average creditor days for the company during 2006 was 125 days (2005 - 64 days).

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 two executive directors, who fulfill the main operational roles in the Company, a non-executive Chairman and one non-executive director. 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 shareholder 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 David Evans, replaced by John Pool, David Collins replaced by Edward Oliver 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.

Director’s Report - continued

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, replaced by Duncan Lipscombe, Paul Harper and is chaired by David Evans, replaced by John Pool, 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 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.

Nominations Committee

The Nominations Committee is a sub-committee of the whole Board and is chaired by David Evans, replaced by John Pool. 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 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

Director's 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.

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.

In so far as the Directors are aware:

There is no relevant audit information of which the Company's auditors are unaware and the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Director’s Report - continued

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 Studio, High Green, Great Shelford, Cambridge, CB5 2EG at 11.30am on 29th December 2006.

BY ORDER OF THE BOARD

E M Oliver
Company Secretary
30th November 2006

Independent Auditors' Report
To the members of Physiomic's PLC

We have audited Company's financial statements comprising the Profit and Loss Account, Balance Sheet, Cash Flow Statement and the related notes for the year ended 30 June 2006. The 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 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 for use in 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 accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and whether these have been properly prepared in accordance with Article 4 of the IAS regulation. We also report to you whether in our opinion the information given in the Directors' Report is not 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. The other information comprises only 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 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.

Independent Auditors' Report
To the members of Physiomic's PLC

Basis of audit opinion - continued
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.

Emphasis of Matter
In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements regarding their preparation. Your attention is drawn to the Principal Accounting Policy on Going Concern. The inherent uncertainty of future cash flows may prejudice the future prospects of the company. In view of the significance of these uncertainties, we consider that it should be brought to you attention. Our opinion is not qualified in this respect.

Opinion
In our opinion:

- The financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 30 June 2006 and of its loss for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and article 4 of the IAS regulation and,
- the information contained in the Directors' report is consistent with the financial statements.

Shipleys LLP
Chartered Accountants
Registered Auditors
4th December 2006

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.

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 £479,746 (2005: £381,843). 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. However, on 4 September 2006, the Company placed 142,947,040 shares at the value of £0.03 raising £428,841. £226,000 of this was for cash and £202,841 for a debt/equity swap. As, in the opinion of the Directors, adequate funding has been 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.

Principal Accounting Policies - continued

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 recognized to the extent that it is more likely than not that there will be suitable profits against which they can be recovered.

Foreign currencies
Translations 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 For the year ended 30th June 2006

	Note	2006 £	2005 £
Turnover		113,110	204,695
Other operating expenses	2	(599,318)	(645,140)
Other operating income	2	-	-
Operating loss	3	(486,208)	(440,445)
Interest receivable	4	6,562	8,528
Loss before tax		(479,646)	(431,917)
Tax on loss on ordinary activities	7	(100)	50,074
Loss transferred from reserves	17	(£479,746)	(381,843)
Basic and diluted loss per share (pence)	8	(0.21p)	(0.19p)

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.

PHYSIOMICS rational therapeutics

Balance Sheet As at 30th June 2006

	Note	2006 £	2005 £
Fixed Assets			
Intangible assets	9	48,820	53,463
Tangible assets	10	15,081	24,924
Investments	11	1	1
		63,902	78,388
Current Assets			
Debtors	12	56,168	154,505
Cash at bank		26,336	294,908
		82,504	449,413
Creditors: amounts falling due within one year	13		
		(212,652)	(114,302)
Net current assets / (liabilities)		(130,148)	335,111
Total assets / (liabilities)		(66,246)	413,499
		========	========
Capital and reserves			
Called up share capital	16	92,810	92,810
Share premium account	17	1,329,022	1,329,022
Profit and loss account	17	(1,488,078)	(1,008,333)
Shareholders' funds	18	(66,246)	413,499
		========	========

The financial statements were approved by the Board of Directors on 30th November 2006.

John Pool
Director

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

Cash Flow Statement For the year ended 30th June 2006

	Note	2006 £	2005 £
Net cash flow from operating activities	19	(309,204)	(447,066)
Returns on investments and servicing of finance			
Interest received		6,562	8,528
Net cash inflow from returns on investments and servicing of finance		6,562	8,528
Taxation		36,197	18,777
Capital expenditure			
Purchase of tangible fixed assets		(2,127)	(18,503)
Net cash outflow from capital expenditure		(2,127)	(18,503)
Net cash flow before financing		(268,572)	(438,264)
Financing			
Issue of shares		-	724,485
Net inflow from related parties		-	-
Net cash inflow from financing		-	724,485
(Decrease)/Increase in cash	20	(268,572)	286,221

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

PHYSIOMICS rational therapeutics

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 European Union.

2. Other Operating Income and Charges

	2006	2005
	£	£
Other operating income and charges:		
Administrative expenses	599,318	645,140
Other operating income	-	-
	599,318	645,140
	========	========

The figure for administrative expenses in 2005 included £62,475 in respect of parent Company management charges in the period prior to the IPO in December 2004.

3. Operating Loss

The loss on ordinary activities before taxation is stated after:

	2006	2005
	£	£
Research and development:		
Current year expenditure	5,005	29,701
Auditors' remuneration:		
Audit services	9,750	14,000
Non-audit services: tax fees	1,250	1,650
: VAT advice	-	5,000
Depreciation and amortisation:		
Tangible fixed assets	11,970	7,136
Intangible fixed assets	4,642	4,644
Operating lease rentals: buildings	34,079	35,325
	========	========

Notes to the Financial Statements - continued

3. Operating Loss (continued)
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

	2006	2005
	£	£
Bank interest	6,562	8,528
	=======	=======

5. Directors and Employees
Staff costs during the year were as follows:

	2006	2005
	£	£
Wages and salaries	254,530	210,910
Social security costs	23,734	19,120
Other pension costs	9,406	2,700
	287,670	232,730
	========	========

The average number of employees of the Company during the year was 6 (2005:6)

6. Directors
Remuneration in respect of directors was as follows:

	2006	2005
	£	£
Emoluments	203,689	128,908
Pension contributions to money purchase pension schemes	9,406	2,700
	213,095	131,608
	========	========

During the year 1 Director (2005:1) participated in a money purchase pension scheme.

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

Notes to the Financial Statements - continued

6. Directors (continued)

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

	2006	2005
	£	£
Emoluments	120,671	55,833
Pension contributions to money purchase pension scheme	9,406	2,700
	130,077	58,533
	========	========

7. Tax on Ordinary Activities

a) The tax credit represents:

	2006	2005
	£	£
United Kingdom Corporation tax at 30% (2005:30%)	-	-
Research and Development tax credits: current year	-	(36,297)
Research and Development tax credit in respect of prior year	100	(13,777)
Total current tax	100	(50,074)
	========	========

Unrelieved tax losses of approximately £880,000 (2005:£425,000) 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% (2005:18%).

	2006	2005
	£	£
Loss on ordinary activities before taxation	(479,646)	(431,917)
Loss on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 19% (2005: 19%)	(91,133)	(82,064)
Expenses not deductible for tax purposes	1,171	1,400
Capital allowances for period less than (2005-in excess of) depreciation	1,386	(785)
Unutilised tax losses	88,576	45,052
Adjustments to tax charge in respect of previous periods	100	(13,677)
Total current tax (note 7(a)	100	(50,074)
	========	========

PHYSIOMICS rational therapeutics

Notes to the Financial Statements - continued

8. Earnings per Share

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

	2006			2005		
	Loss £	Weighted Average Number of shares	Loss per share Pence	Loss £	Weighted average Number of shares	Loss per share Pence
Loss attributable to shareholders	(479,746)	232,025,599	(0.21)	(381,843)	203,149,976	(0.19)

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 share options in issue do not have any dilutive effect.

9. Intangible Fixed Assets

Patents and Trademarks	**2006 £**	**2005 £**
Cost		
At 1st July 2005 and 30th June 2006	69,727	69,728
Amortisation		
At 1st July 2005	16,265	11,621
Provided in the year	4,642	4,644
At 30th June 2006	20,907	16,265
Net book value at 30th June 2006	48,820	53,463

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Notes to the Financial Statements - continued

10. Tangible Fixed Assets

	Fixtures and Fittings	I.T. Equipment	Total
	£	£	£
Cost			
At 1st July 2005	13,288	23,982	37,270
Additions	-	2,127	2,127
At 30th June 2006	13,288	26,109	39,397
Depreciation			
At 1st July 2005	5,887	6,459	12,346
Provided in the year	4,424	7,546	11,970
At 30th June 2006	10,311	14,005	24,316
Net book value at 30th June 2006	2,977	12,104	15,081
Net book value at 30th June 2005	7,401	17,523	24,924

11. Investments

	2006
	£
Cost	
At 1st July 2005 and 30th June 2006	4,488
Amounts written off	
At 1st July 2005 and 30th June 2006	4,487
Net book value at 30th June 2006	1
Net book value at 30th June 2005	1

Notes to the Financial Statements - continued

11. Investments - continued

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

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

12. Debtors

	2006	2005
	£	£
Trade debtors	14,100	25,355
Amounts owed by parent undertaking	230	231
Other debtors	14,708	20,305
Prepayments and accrued income	15,955	20,275
VAT recoverable	11,175	52,042
Corporation tax recoverable	-	36,297
	£56,168	154,505
	=======	=======

Included within the above figures are £14,400 (2005:£19,200) of debtors falling due after more than one year.

13. Creditors: Amounts falling due within one year

	2006	2005
	£	£
Trade creditors	79,048	50,398
Amounts owed to parent undertakings	-	-
Amounts owed to related parties	90,000	-
Social security and other taxes	18,513	7,532
Accruals	25,091	56,372
	212,652	114,302
	=======	=======

Notes to the Financial Statements - continued

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 30th June 2006 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. The income stream was not hedged, as the amounts 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.

Notes to the Financial Statements - continued

15. Deferred Taxation

	2006	2005
	£	£
Accelerated capital allowances	444	1,830
Losses	167,200	77,115
	167,644	78,945
	=======	=======

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

	2006	2005
	£	£
Authorised share capital:		
25,000,000,000 Ordinary shares of 0.04p each	10,000,000	10,000,000
	=======	=======

	2006		2005	
	Number	£	Number	£
Allotted, called up and fully paid:				
Ordinary shares of 0.04p each	232,025,599	92,810	232,025,599	92,810
	==========	======	==========	======

17. Share Premium Account and Reserves

	Share Premium Account	Profit and Loss Account
	£	£
At 1st July 2005	1,329,022	(1,008,332)
Retained loss for the year	-	(479,746)
At 30th June 2006	1,329,022	(1,488,078)
	========	=========

Notes to the Financial Statements - continued

18. Reconciliation of Movements in Shareholders' Funds

	2006 £	2005 £
Loss for the financial year	(479,745)	(381,843)
Issue of shares	-	1,149,405
Net increase/(decrease) in shareholders' funds	(479,745)	767,562
Shareholders' funds at 1st July 2005	413,499	(354,063)
Shareholders' funds at 30th June 2006	(66,246)	413,499
	========	========

19. Net Cash Outflow from Operating Activities

	2006 £	2005 £
Operating loss	(486,208)	(440,445)
Depreciation	11,970	7,136
Amortisation	4,642	4,644
(Increase)/ decrease in debtors	62,043	(90,606)
Increase/(decrease in creditors)	98,349	72,205
Net cash (outflow)) from activities	(309,204)	(447,066)
	========	========

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Notes to the Financial Statements - continued

20. Reconciliation of Net Cash Flow to Movement in Net Debt

	2006	2005
	£	£
(Decrease) /Increase in cash in year	(268,572)	286,221
Net cash inflow from other long term creditors	-	-
Change in net funds resulting from cash flows	(268,572)	286,221
Other non-cash items debt/equity conversion	-	404,920
Movement in net debt in the year		
Net debt at 1st July 2005	294,908	(396,233)
Net cash/(debt) at 30th June 2006	26,336	294,908
	=======	=======

21. Analysis of Changes in Net Debt

	At 1st July 2005	Cash Flow	Equity Conversion	At 30th June 2006
	£	£	£	£
Cash at bank	294,908	(268,572)	-	26,336
Debt due within 1 year	-	-	-	-
	294,908	(268,572)	-	26,336
	=======	=======	=======	=======

22. Capital Commitments

The Company had no capital commitments at either 30th June 2006 or 30th June 2005.

23. Contingent Liabilities

There were no contingent liabilities at either 30th June 2006 or 30th June 2005.

Notes to the Financial Statements - continued

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 29th August 2006 Messrs David Evans, David Collins and Professor David Fell resigned from the Board of Directors and Messrs Duncan Lipscombe and Edward Oliver were appointed Directors thereof.

The Company held an Extraordinary Meeting on 28th September 2006, at which authority was given to the Board of Directors to allot Ordinary Shares of 0.04p nominal value to an aggregate nominal value of £150,000. Following that meeting Ordinary Shares to an aggregate nominal value of £57,179 were issued.

On 29th September 2006 the Company placed 142,947,040 Ordinary Shares of 0.04p at a price of 0.30p each, which is a total value of £428,841.

26. Transactions with Directors

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

	Amount outstanding		Maximum liability in year	Interest due not paid
	2006	2005		
Name of Director	£	£	£	£
Dr John Savin	-	4,800	4,800	-
Professor David Fell	4,800	4,800	4,800	-

27. Controlling Related Party

The Company had during the financial year a majority shareholder in EiRx Pharma Limited. Under an agreement dated 15th 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 the lock-in period, that is, 21st December 2005.

During the financial year ended 30th June 2006 no transactions have occurred between the companies.

Notice of Annual General Meeting

Notice is hereby given that the sixth Annual general Meeting (AGM) of Physiomics plc (the Company) will be held on 29th December 2006, at 11.30am for the following purposes at The Studio, High Green, Great Shelford, Cambridge, CB5 2EG:

ORDINARY BUSINESS

To consider and, if thought fit, pass the following ordinary resolutions:

1. To receive and adopt the Directors' Report and Financial Statements for the year ended 30 June 2006.

2. To receive and adopt the Remuneration Commitee report for the year ended 30 June 2006.

3. (a) To elect Mr Duncan Lipscombe who was appointed a Director of the Company since the last meeting and who being eligible, offers himself for election as Director.

   (b) To elect Mr Edward Oliver who was appointed a Director of the Company since the last meeting and who being eligible, offers himself for election as Director.

4. To re-elect Dr Paul Harper who retires by rotation under Sections 76 and 77 of the Articles of Association, and who being eligible, offers himself for re-election as Director.

5. To confirm the appointment of Shipleys LLP as auditors of the Company to hold office until the conclusion of the next AGM at which accounts are laid before the Company and to authorize the Directors to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions:

Ordinary resolution - power to allot securities

6. That the Directors be and they are generally and unconditionally authorized for the purpose of section 80 of the Companies Act 1985 (the Act) to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £1,430,000 provided that this authority is for a period expiring at the Company's next AGM but the Company may before such expiry make an offer or 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 offer or agreement notwithstanding that the authority conferred by this resolution has expired. This authority is in substitution for all earlier authorities, to the extent unused.

Special resolution -disapplication of pre-exemption rights

7. That subject to the passing of the previous resolution the Directors be and they are empowered in accordance with section 95 of the Act to allot equity securities (as defined in section 94 of the Act) wholly for cash pursuant to the authority conferred by the previous resolution as if section 89 (1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

Notice of Annual General Meeting - continued

(a) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

(b) otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £1,430,000,

and shall expire on the conclusion of the next AGM of the Company after the passing of this resolution, save that the Company may before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

By order of the Board

EDWARD OLIVER
Company Secretary
30th November 2006

NOTES

1. Any member entitled to attend and vote at the AGM is entitled to appoint one or more proxies (who need not be a member of the Company) to attend and, on a poll, vote instead of the member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so.

2. In order to be valid, any form of proxy, power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, must reach the Company's Registrars, Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR.

3. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders who hold shares in uncertificated form must be entered on the Company's share register at 10am on 30th November 2006 in order to be entitled to attend and vote at the AGM. Such shareholders may only cast votes in respect of shares held at such time. Changes to entries on the relevant register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. Copies of the service contracts of each of the Directors, and the register of Director' interests in shares of the Company kept pursuant to section 325 of the Act will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the AGM and at the place of the AGM from at least 15 minutes prior to and until the conclusion of the AGM.

Form of Proxy

I/We (block capital)...

Being a member/members of Physiomics plc hereby appoint the chairman of the meeting or (see note 1)

of ....

as my/our proxy to attend and on a poll to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on the 29th October 2006 at 11.30am and at any adjournment thereof. I/We direct, by inserting a cross or other mark in the appropriate box below, how my/our votes are to be cast on each of the resolutions to be proposed at the meeting as indicated below. If no indication is given, the proxy will exercise his/her discretion as to how he/she votes and as to whether or not he/she abstains from voting. All items are ordinary resolutions. Please complete, sign and date this form where indicated below (see notes below).

ORDINARY RESOLUTION	FOR	AGAINST
1. To receive and adopt the Directors' report and financial statements for the year ended 30th June 2006.		
2. To receive and adopt the Remuneration Committee report for the year ended 30th June 2006.		
3a. To elect Mr Duncan Lipscombe who was appointed a Director since the last meeting, and who being eligible, offers himself for re-election as Director. 3b. To elect Mr Edward Oliver who was appointed a Director since the last meeting, and who being eligible, offers himself for re-election as Director.		
4. To re-elect Dr Paul Harper who retires by rotation under sections 76 and 77 of the Articles of Association, and who being eligible, offers himself for re-election as Director.		
5. To confirm the appointment of Shipleys LLP as auditors of the Company to hold office until the conclusion of the next AGM at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.		
6. That the Directors be and they are generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the Act) to exercise all the powers of the Company to allot the relevant securities (within the meaning of that section) up to an aggregate nominal amount of £1,430,000 provided that this authority is for a period expiring at the Company's next AGM but the Company may before such expiry make an offer or 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 offer or agreement notwithstanding that the authority conferred by this resolution has expired. This authority is in substitution for all earlier authorities, to the extent unused.		
SPECIAL RESOLUTION		
7. That subject to passing of the previous resolution the Directors be and they are empowered in accordance with section 95 of the Act to allot equity securities (as defined in section 94 of the Act) wholly for cash pursuant to the authority conferred by the previous resolution as if section 89 (1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities: (a) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and (b) otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £1,430,000, and shall expire on the conclusion of the next AGM of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry make an offer or agreement notwithstanding that the power conferred by this resolution has expired.		

Signature(s)...

Dated this .... day 2006

1. You are entitled to appoint a proxy of your own who need not be a shareholder of the Company. If you wish to appoint a proxy other than the Chairman of the meeting, please delete the words "the Chairman of the meeting or" and initial the alteration and PRINT the name and address of the proxy, in the space provided.
2. Any alteration to the form of proxy should be initialled.
3. The form of proxy should be signed by the appointer or his attorney duly authorised in writing or, if the appointer is a Company, either under seal or under hand of a duly authorised officer or attorney of the Company.
4. In the case of joint holders the signature fo any one holder is sufficient. If more than one joint holder of any share is present at the meeting personally or by proxy, that one present whose name stands first on the register of members in respect of that share is alone entitled to vote in respect of that share.
5. To be valid this form of proxy and any power of attorney or other authority under which it is signed or a notarially certified copy of such power of authority must be lodged at the offices of the Company's Registrars, Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR not later than 48 hours before the time of the meeting.