Provexis plc
Annual report and accounts 2008

Provexis plc

Annual report and accounts 2008

Contents

Corporate statement

The Provexis strategy is the discovery, development and licensing of functional food, medical food and dietary supplement technologies, with five areas of focus:

- Collaborating with leading research institutes to identify and develop proprietary technologies
- Developing credible scientific proof to demonstrate efficacy and support product claims
- Gaining regulatory and safety clearances in relevant global markets
- Implementing global IP strategies, underpinned by strong patent portfolios
- Commercialising technologies through collaboration and licensing with global brand owners and ingredients corporations.

Key highlights

Post year end placing of £2.5m of new shares at 0.65p per share providing working capital and funding for new product pipeline development.

DSM Venturing take strategic investment of 29.3% in the Company as part of the post-year end placing.

Extended Fruitflow® collaboration with Unilever and entered into new collaboration with The Coca-Cola Company.

Company in discussions with potential Fruitflow® license partners for the global dietary supplement sector, in addition to Unilever and Coca-Cola collaborations.

First phase trial phase for NSP#3G product for Crohn's Disease completed successfully, with second phase patient trial to commence in the second half of the year.

Joint venture with University of Liverpool extended to develop plant-extract derived technology for prevention and treatment of *Clostridium difficile*.

New technology for treatment and prevention of peptic ulcers taken under option from University of Manchester.

Steve Morrison, Chief Operating Officer with global R&D Project Director background, appointed effective 1 October 2008.

Krijn Rietveld, DSM Senior Vice-President, appointed as Non-executive Director on 29 August 2008, post admission of new placing shares.

Key financial results
Loss attributable to equity shareholders £1,189,117 (2007: £2,437,855).

Cash balance £532,581 (2007: £115,824).

Loss per share from continuing operations 0.26p (2007: 0.61p).

Chairman's statement

The year has been a challenging one but I am pleased to report that the management team continues to make very good progress in implementing the strategy of discovery, development and licensing of scientifically-proven functional food, medical food and dietary supplement technologies.

In pursuit of our licensing strategy, we have continued to focus on securing global license partners to maximise the potential of our core Fruitflow® heart-health technology. We are working closely with Coca-Cola and are making good progress in consumer testing, commercial assessment and finalising regulatory approval in a range of territories. In our collaboration with Unilever, the R&D team are on track with the development of a format suitable for inclusion in Unilever product formats. Additionally, negotiations are underway with potential partners in the global dietary supplement sector. Initiatives to secure partners in other claim areas and product sectors continue.

Our patented technology for the treatment of Crohn's Disease has been successful in the first trial phase, with a healthy human trial having recently finished. A two-centre clinical trial will commence in the second half of the year. We are working closely with the University of Liverpool to develop new claim areas for the technology.

The team have secured a promising new technology from the University of Manchester. We believe in the importance of a strong technology pipeline and the building of that pipeline will significantly enhance shareholder value in the medium to long term.

I have invited Krijn Rietveld, Senior Vice-President with DSM Nutrition, to join the Board as a Non-executive Director on 29 August 2008 and I believe he will be a valuable addition. Steve Morrison will further strengthen the management team when he joins us in October 2008 as Chief Operating Officer.

The business has made good progress over the last year, as we have developed commercial opportunities, strengthened the team and reshaped the business with a significantly lower cost base. We are well placed to capitalise on this momentum as the management team continue to implement our focused discovery, development and licensing strategy.

Dawson Buck
Chairman
2 September 2008

Chief Executive's statement

Strategy and management structure
We are several months into the implementation of our new strategy of focusing on the discovery, development and licensing of scientifically-proven functional food, medical food and dietary supplement technologies. I am pleased to say that this transition has gone well and the business is now fully-focused, has a much reduced cost base (evidenced by losses reducing to £1.163m versus £2.450m in 2007) and a combination of commercially-ready and promising future technologies.

To underpin the implementation of the strategy, on 1 August 2008 we announced the raising of £2.5m of working capital via a placing of new shares. As part of this placing DSM Venturing B.V., the venturing arm of the €8.8bn turnover DSM life sciences and material sciences business, made a strategic investment of £1.5m in the business. In addition to the investment, we have invited Krijn Rietveld, Senior Vice-President with DSM Nutrition, to be a Provexis Director and I believe his sector knowledge and experience will add great value to the team.

Steve Morrison joins us as Chief Operating Officer in October 2008, bringing a strong track record as a global R&D Project Director with Ipsen and Shire Pharmaceutical. His skills will make us even more effective in delivering technologies in line with the needs of our global partners. We have also continued to strengthen the R&D team, in order to maximise the value created from current and new technologies.

Fruitflow® licensing
Our collaboration with Unilever is on track, with the R&D team making great strides in the development of a concentrated Fruitflow® format suitable for incorporation into vegetable oil-based spreads. This format will be trialled in human subjects in late summer, with a target of delivering a final, proven Fruitflow® product to our partner later this year.

We are working intensively with The Coca-Cola Company on a programme of consumer testing, commercial assessment and finalising regulatory approval in a range of territories. Subject to positive results in these areas, the parties intend to proceed to a licensing agreement.

Discussions are underway with two global ingredients manufacturers for the license of Fruitflow® for the dietary supplements sector and we expect to make progress during the balance of 2008.

The research team continue to develop further claim areas for our core technology. In 2008 we will progress our deep vein thrombosis work, with human studies commencing in 2009. We will commence work on metabolic syndrome and Type-II diabetes claims in 2009. 50 million US citizens are estimated to suffer from metabolic syndrome and as such the area represents a significant opportunity.

Pipeline
The first phase of human trials on our patented technology for the treatment of Crohn's Disease has been completed successfully and we will move into the second phase full clinical trial on Crohn's Disease patients in the second half of the year, once final MHRA clearance has been received. We are working closely with the University of Liverpool to extend the technology into potential new claim areas and expect to see progress towards this in the second half of 2008.

The 75% Provexis-owned joint venture with the University of Liverpool is to extend its activity into the development of a novel plant-derived formulation for the treatment and prevention of infections caused by invasive bacteria such as *Clostridium difficile* ("*C.difficile*"). The new technology project by the joint venture partners will develop a novel, patented and clinically-proven formulation to prevent interactions between bacteria of therapeutic interest including *C.difficile* and the lining of the human digestive tract. The proposed end-user product will be targeted at the medical food sector.

We have entered into a one-year option agreement with the University of Manchester for a natural extract for the prevention and treatment of peptic ulcers. During this period we will assess and develop the technology and subject to our being satisfied with the potential, the intellectual property and patents will be assigned to Provexis. We believe that our well-developed, low-cost development model will enable us to commercialise this novel technology effectively, adding significant shareholder value to the business in the medium term.

Chief Executive's statement continued

Outlook
We have reduced our cost base significantly, giving us an effective low-cost platform from which to commercialise our existing Fruitflow® technology, our Crohn's Disease product and new technologies. This, together with the collaborations and strong relationships we enjoy with leading global brand owners and ingredient manufacturers, will drive our focus on extracting shareholder value from our promising IP pipeline in the coming year.

Stephen Moon
Chief Executive
2 September 2008

Directors' report – financial review

International Financial Reporting Standards
The Financial Review should be read in conjunction with the consolidated financial statements and the notes to the financial statements set out on pages 21 to 46.

From 1 April 2007 Provexis plc and its subsidiary companies (the "Group") have adopted International Financial Reporting Standards as adopted by the European Union ("IFRS") and this is the first annual report for the Group presented under IFRS. Prior to 1 April 2007 the Group prepared its audited financial statements and unaudited interim financial statements under UK Generally Accepted Accounting Principles ("UK GAAP").

The Group financial statements including comparatives have been prepared in accordance with IFRS as adopted by the European Union and IFRIC interpretations, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The date of transition to IFRS for the Group was 1 April 2006 and the Group prepared its opening IFRS balance sheet as at that date. The comparative figures in respect of 2007 have been restated to reflect IFRS accounting policies.

The most significant IFRS impacts on the Group in respect of the transition to IFRS are:

- Under IFRS 3 Business Combinations, goodwill is subject to impairment reviews and is not amortised. Under UK GAAP goodwill is amortised, which reduced the reported loss before taxation for the year ended 31 March 2007 under UK GAAP by £484,400.

- Under IAS 38 Intangible Assets, development expenditure which meets the recognition criteria of the standard must be capitalised and amortised over the useful economic lives of intangible assets from product launch. Previously under UK GAAP all development expenditure was expensed. Development expenditure of £20,597 was capitalised over the year ended 31 March 2008 (2007: £NIL).

- Under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the exit of the Sirco® juice brand has been treated as a discontinued operation in the Income Statement for the current and prior year.

Reconciliations and explanations of the effect of adopting IFRS compliant accounting policies on the Group's equity (net assets) and losses are provided in note 27 in this report. There was no effect on the Group's cash flows.

The financial statements of the Company continue to be prepared in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and are set out on pages 47 to 51.

Revenue and grant income
Revenue for the year ended 31 March 2008 was £161,702 (2007: £66,653), reflecting an increase in amounts payable to the Group by its prospective licensing partners.

Grant income for the year ended 31 March 2008 was £133,649 (2007: £44,987), which follows the completion of a research grant for the Group's Crohn's Disease technology. The grant was awarded to the Group in November 2005 by The Northwest Regional Development Agency (NWDA).

Research and development costs
Research and development ("R&D") costs for the year ended 31 March 2008 were £537,840 (2007: £340,221), including £20,597 capitalised under IAS 38 (2007: £NIL) reflecting an increase in R&D activity for the Fruitflow® and Crohn's Disease projects.

R&D expenditure comprises in-house costs (staff, R&D consumables, intellectual property, facilities and depreciation of R&D assets) and external costs (preclinical studies, manufacturing, regulatory affairs and clinical trials).

The Group's research team continues to develop further claim areas for the Group's core Fruitflow® technology, to include deep vein thrombosis and metabolic syndrome. Second phase patient trials for the Group's Crohn's Disease technology are due to commence in 2008, and in July 2008 the Group took an option from the University of Manchester for a new technology for the treatment and prevention of peptic ulcers.

Research and development costs (continued)
The Group aims to achieve cost effective research and development and to bring products to market through licensing partners as soon as is practicable.

Administrative costs
Administrative costs for the year relating to continuing operations were £986,073 (2007: £1,260,531). The restructuring in April 2007 and the Group's exit from the Sirco Fruitflow® juice brand in July 2007 led to a considerable reduction in the Group's cost base, and administrative expenses have been reduced accordingly.

Taxation
A research and development tax credit of £134,371 (2007: £NIL) in respect of research and development expenditure incurred has been recognised in the financial statements, all of which was shown as a debtor at 31 March 2008. £53,651 of the R&D tax credit arose in respect of the year ended 31 March 2008 and £80,720 is attributable to the two years ended 31 March 2007. The £80,720 claim for the two years ended 31 March 2007 was paid to the Group subsequent to the year end.

Losses
The loss from continuing operations for the year ended 31 March 2008 was £1,017,287 (2007: £1,550,677) and the loss per share from continuing operations was 0.26p (2007: 0.61p).

The overall loss from continuing and discontinued operations for the year ended 31 March 2008 was £1,162,684 (2007: £2,449,656) and the loss per share from continuing and discontinued operations was 0.30p (2007: 0.97p).

Capital structure and funding
The Group remains funded primarily by equity capital which reflects the development status of its products.

On 12 April 2007 the Company raised £2.150m gross from a new share placing to new shareholders, existing substantial shareholders and Non-executive Directors. The net proceeds were £1.961m after share issue costs, of which £100,000 was utilised to repay a short term bridging loan.

On 1 August 2008 the Company announced that it had agreed terms for a new share placing to raise £2.514m (before expenses) to provide working capital and funding for pipeline development. The placing involved the issue of 386,894,230 new shares at 0.65p per share and a share re-organisation to facilitate the issue of the new shares at the subscription price. The placing and the share re-organisation were approved at an EGM on 26 August 2008. Further details of the placing and the share re-organisation are given in note 26 to the consolidated financial statements on page 44.

The Directors are of the opinion that at 2 September 2008, the Company's liquidity and capital resources are adequate to deliver the current strategic objectives and 2008/9 business plan and that the Company meets going concern criteria.

Cash at bank at 31 March 2008 was £532,581 (31 March 2007: £115,824).

Directors’ report – business overview

Principal activities
Provexis plc is a life sciences-driven enterprise that discovers, develops and licenses scientifically-proven technologies for the global functional food, medical food and dietary supplement sectors.

Provexis plc has two wholly owned subsidiaries, Provexis Nutrition Limited (“PNL”) and Provexis Natural Products Limited (“PNP”) each of which is registered in England. Provexis plc also owns 75% of Provexis (IBD) Limited (“IBD”) which is also registered in England.

Group strategy
The Provexis strategy is the discovery, development and licensing of functional food, medical food and dietary supplement technologies, with five areas of focus:

- Collaborating with leading research institutes to identify and develop proprietary technologies
- Developing credible scientific proof to demonstrate efficacy and support product claims
- Gaining regulatory and safety clearances in relevant global markets
- Implementing global IP strategies, underpinned by strong patent portfolios
- Commercialising technologies through collaboration and licensing with global brand owners and ingredients corporations.

Review of the performance of the business and future developments
The Chairman’s Statement on page 5, the Chief Executive’s Statement on pages 6 and 7 and the Financial Review on pages 8 and 9 report on the Group’s performance during the year ended 31 March 2008, its position at that date and its likely future development.

Key performance indicators
The executive management and Directors utilise a balanced scorecard of key activities including R&D project progress, commercial milestones and regulatory activities to monitor and measure the performance of the business. These are measures of the progress of the business towards its strategic target of revenue generation and profitability, and are considered by the Board to be the key non-financial performance indicators used to determine achievement of Group strategy and are discussed in the Chief Executive’s statement. The balanced scorecard is reviewed regularly by the executive team and the Directors.

The Directors consider Group cash and the absolute values of, and the ratio between, research and development costs and other administrative overhead costs as being the Group’s key financial performance indicators. The cost related indicators assist in monitoring financial control to reduce the hurdle to achieving the key future financial milestone of monthly break-even. The monitoring of cash gives due consideration to anticipated future spend required to prioritise development opportunities and to plan the resources required to achieve the goals of the business.

The table below shows the Group’s cash position at 31 March 2008 and 31 March 2007:

	31 March 2008 £	31 March 2007 £
Cash at bank and in hand	**532,581**	115,824
	532,581	115,824

At 31 March 2007 the Group had a £100,000 short term bridging loan (2008: £NIL) which had been provided by Angle Technology Limited (Angle) and Rising Stars Growth Fund (RSGF) in March 2007. The loan was repaid out of placing proceeds on 12 April 2007 for the new ordinary shares which Angle and RSGF had subscribed for.

Directors' report – business overview continued

Key performance indicators (continued)
The table below shows the Group's R&D ratio for the two years ended 31 March 2008. The R&D ratio is the percentage of research and development costs relative to total operating expenses.

	31 March 2008 £	31 March 2007 £
Research and development costs	**517,243**	340,221
Administrative costs	**986,073**	1,260,531
Total operating costs	**1,503,316**	1,600,752
R&D ratio	**34%**	21%

Post balance sheet events
On 1 August 2008 the Company announced that it had agreed terms for a new share placing to raise £2.514m (before expenses) to provide working capital and funding for pipeline development. The placing involved the issue of 386,894,230 new shares at 0.65p per share and a share re-organisation to facilitate the issue of the new shares at the subscription price. The placing and the share re-organisation were approved at an EGM on 26 August 2008.

On 21 August 2008 the Company announced that the 75% Provexis-owned joint venture with the University of Liverpool is to extend its activity into the development of a novel plant-derived formulation for the treatment and prevention of infections caused by invasive bacteria such as *Clostridium difficile* ("*C.difficile*").

On 1 September 2008 the Company announced that further to an announcement on 1 August 2008 the Company's Remuneration Committee had approved the grant of options over 44,166,575 ordinary shares of 0.1p each to certain Directors and employees of the Company. As a condition of the grant of options, certain Directors surrendered 19,089,110 existing options and an additional 3,709,384 existing options were surrendered by other existing employees.

Further details of the post balance sheet events are given in note 26 to the consolidated financial statements on page 44.

Principal risks and uncertainties
The Directors consider that the key risks of the Group are as set out below:

The Group's success will depend in part on its ability to obtain and maintain rigorous patent protection for its technologies both in the UK and internationally. The Group cannot give definitive assurance that pending or future patent applications will be granted or that patents granted will not be challenged, invalidated or held unenforceable.

The Group cannot assure that its intellectual property rights are sufficiently broad to prevent third parties from producing competing functional food, medical food and dietary supplement technologies similar in nature to its own. The Group also relies on protection of trade secrets, know how and confidential and proprietary information. To mitigate this, the Group enters into non-disclosure agreements with employees, consultants and prospective commercial partners but cannot assure that such agreements will provide complete safeguards against unauthorised disclosure of confidential information.

The Group's commercial success will also depend in part on avoiding infringement of other third parties' patents or proprietary rights and the breach of any licences in connection with the pursuit of its technologies. Management is of the opinion that it does not infringe third parties' patents or other rights and is not aware of any such infringements but cannot assure that it will not be found in the future to infringe such rights.

The Group has a limited pipeline of new technologies and new indications for technologies already in development. As a result of regulatory and competitive uncertainties and the unpredictability of successful outcomes to new research and development, the Group cannot provide assurance that it will be able to develop and license these new technologies.

Principal risks and uncertainties (continued)
The Group currently employs twelve people and has a very small management team. Should it lose any key management resources and be unable to attract replacements of equivalent calibre to continue implementation of its business plan, future development and commercial activities could be materially adversely affected.

The Group has limited liquidity and capital resources and significant delays to development projects could affect execution of its business plan in connection with the receipt of future royalties with a material adverse effect on the business. The Group also relies on potential license partners to meet certain commercial and development milestones and their failure to achieve this, or other delays or cancellation of projects due to internal or market factors affecting potential license partners could affect the execution of the Group's business plan, with a material adverse effect on the business. In these circumstances the Group would look to raise additional potential funding through the issue of additional equity through rights issues, share placing and the exercise of share options but no assurance can be given regarding the successful outcome of such financing initiatives.

Policy on the payment of creditors
It is the policy of the Group to pay creditors and suppliers in accordance with their normal terms of business. Creditor days outstanding for the Group at 31 March 2008 amounted to 51 days compared to 87 days at 31 March 2007.

Board of Directors
The Board of Directors has overall responsibility for the Group.

The Board comprises a Non-executive Chairman, three additional independent Non-executive Directors and two further Executive Directors. The Board continues to be satisfied that it has an appropriate mix of independence and experience in its Non-executive Directors.

The roles of Chairman and Chief Executive are and will remain separate and it is not permissible for the same individual to be appointed to both roles simultaneously.

The Chairman provides strategic and operational guidance and also oversees the duties performed by the Chief Executive and ensures that they are in line with Board expectations. The Chief Executive manages the day-to-day running and strategic direction of the Group in line with policy decisions agreed with the Board and shareholder expectations.

The Board retains full control of the Group with day-to-day operational control delegated by the Board to the Executive Directors. The full Board meets monthly and on any other occasions it considers necessary.

The Board is responsible for approving interim and annual financial statements, formulating and monitoring Group strategy and approving financial plans and reviewing performance, as well as complying with legal, regulatory and corporate governance matters. There is a schedule of matters reserved for the Board. Board papers are circulated in advance of each Board meeting.

The Directors of the Company during the year are shown below.

Executive Directors	
S N Moon	
I Ford	(appointed 19 July 2007)
S W Slade	(resigned 4 July 2007)
Non-executive Directors	
C D Buck	
N C Bain	
J B Diggines	(appointed 24 April 2007)

In addition to the above Krijn Rietveld, Senior Vice-President with DSM Nutrition, was appointed to the Board as a Non-executive Director on 29 August 2008, following the admission of new shares related to the placing in August 2008. Steve Morrison will be appointed to the Board as an Executive Director at the first Board meeting following the commencement of his employment on 1 October 2008.

Audit Committee
The Audit Committee comprises two Non-executive Directors, and is chaired by Neville Bain as Senior Independent Non-executive Director. It meets as required and specifically to review the Interim Report and Annual Report and to consider the suitability and monitor the effectiveness of the internal control processes. There were three Audit Committee meetings during the year. The Audit Committee reviews the findings of the external auditors and reviews accounting policies and material accounting judgements.

The independence of the auditors is considered by the Audit Committee. The Audit Committee (with no Executive Director present) meets at least once per calendar year with the auditors to discuss their objectivity and independence, the Annual Report, any audit issues arising, internal control processes and any other appropriate matters. As well as providing audit related services, the auditors provide taxation advice and undertake work in relation to the interim report. The fees in respect of the non-audit services provided are £42,000 for the year ended 31 March 2008 (2007: £10,000). Further, the overall fees paid to the auditors are not deemed to be of such significance to them as to impair their independence. The Audit Committee considers that the objectivity and independence of the auditors is safeguarded.

The current terms of reference of the Audit Committee are set out in the governance pages on the Group's website www.provexis.com.

Internal control
The Directors are responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure to the achievement of business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee continues to monitor and review the effectiveness of the system of internal control and report to the Board when appropriate with recommendations. There have been no significant changes to the system of internal control throughout the year.

The annual review of internal control and financial reporting procedures did not highlight any issues warranting the introduction of an internal audit function. It was again concluded, given the current size and transparency of the operations of the Group, that an internal audit function was still not required.

The main features of the internal control system are outlined below:

- A control environment exists through the close management of the business by the Executive Directors. The Group has a defined organisational structure with delineated approval limits. Controls are implemented and monitored by the Executive Directors.

- The Board has a schedule of matters expressly reserved for its consideration and this schedule includes acquisitions and disposals, major capital projects, treasury and risk management policies and approval of budgets.

- The Group utilises a detailed budgeting and forecasting system. Detailed budgets are prepared annually by the Executive Directors before submission to the Board for approval. Forecasts are regularly updated at least quarterly to reflect changes in the business and are monitored by the Board including future cash flow projections. Actual results are monitored against annual budgets regularly and at least quarterly, with variances highlighted for the Board.

- Financial risks are identified and evaluated for each major transaction for consideration by the Board.

- Standard financial control procedures operate throughout the Group to ensure that the assets of the Group are safeguarded and that proper accounting records are maintained.

- A risk review process is in operation whereby the Chief Executive and Finance Director present a report to the Board each year on the key business risks.

Directors' report – business overview continued

Going concern
The Directors have a reasonable expectation that the Group and the Company will continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.

Employees
The Executive Directors keep staff informed of the progress and development of the Group regularly through formal and informal meetings and employee feedback is encouraged. The Company has a policy of offering share options to all eligible employees, subject to availability under the option plan rules and with due consideration to the level of dilution to shareholders.

The Group does not discriminate between employees and prospective employees on grounds of age, race, religion or gender. Every effort is made to provide the same opportunities to disabled persons as to others.

The Board recognises its obligation towards its employees to provide a safe and healthy working environment. The Group complies with health and safety legislation including conducting regular inspections and risk assessments.

Environmental, social and community matters
As a result of the size and nature of the Group's operations, the impact of the Group's operations on the local community and the environment is not considered to be significant. Recycling of office supplies is undertaken where possible.

Charitable and political contributions
No political or charitable donations were made during the year. (2007: £NIL).

Relationship with shareholders
The Directors seek to build a mutual understanding of objectives between the Company and its shareholders. The Group reports formally to shareholders in its interim and annual reports setting out details of its activities. In addition, the Group keeps shareholders informed of events and progress through the issue of regulatory news in accordance with the AIM rules of the London Stock Exchange. The Chief Executive and Finance Director seek to meet with institutional shareholders following interim and final results. The Group also maintains investor relations pages and other information regarding the business, its products and activities on its website www.provexis.com.

Where possible the Annual Report is sent to shareholders at least 20 working days before the Annual General Meeting. Directors are required to attend Annual General Meetings of the Company unless unable to do so for personal reasons or due to pressing commercial commitments. Shareholders are given the opportunity to vote on each separate issue. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

Adequacy of information supplied to auditors
Each Director has taken all reasonable steps to make himself aware of any information needed by the Company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

Directors' report – business overview continued

Directors' responsibility statement
The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The Directors have chosen to continue to prepare financial statements for the Company in accordance with UK Generally Accepted Accounting Practice.

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

Group financial statements
International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent company financial statements
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 these financial statements, the Directors are required to:

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

By order of the Board

Ian Ford
Secretary
2 September 2008

Directors’ report – remuneration report

Remuneration Committee: composition and terms of reference
The Group’s Remuneration Committee during the year ended 31 March 2008 comprised two independent Non-executive Directors and was chaired by Dawson Buck.

The purpose of the Remuneration Committee is to ensure that the Executive Directors are fairly rewarded for their individual contribution to the overall performance of the Company. The Committee considers and recommends to the Board the remuneration of the Executive Directors and is kept informed of the remuneration packages of senior staff and invited to comment on these.

Policy on Executive Directors’ remuneration
Executive remuneration packages are designed to attract and retain executives of the necessary skill and calibre to run the Company successfully but avoiding paying more than is necessary. Direct benchmarking of remuneration is not possible given the specialised nature and size of the Company. The Remuneration Committee recommends to the Board remuneration packages by reference to individual performance and uses the knowledge and experience of the Non-executive Directors and published surveys relating to AIM Directors, and market changes generally. The Remuneration Committee has responsibility for recommending any long term incentive schemes.

The full Board determines whether or not Executive Directors are permitted to serve in roles with other companies. Such permission is only granted where a role is on a strictly limited basis, where there are no conflicts of interest or competing activities and providing there is not an adverse impact on the commitments required to the Group. Earnings from such roles are not disclosed nor paid to the Group.

There are four main elements of the remuneration package for Executive Directors and senior staff:

(i) Basic salaries and benefits in kind
Basic salaries are recommended to the Board by the Remuneration Committee, taking into account the performance of the individual and the rates for similar positions in comparable companies. Benefits in kind comprising private medical insurance are available to all senior staff and Executive Directors.

(ii) Share option scheme
The Company operates a share option scheme which was established in June 2005 (”the Provexis 2005 share option scheme”) to motivate the Executive Directors and employees through equity participation in the Company. Options granted pursuant to the Provexis 2005 share option scheme may take the form of either unapproved share options or tax favoured EMI options. Exercise of options under the scheme is subject to specified exercise periods and compliance with the AIM rules of the London Stock Exchange.

The scheme is overseen by the Remuneration Committee which recommends to the Board all grants of share options based on the Committee’s assessment of personal performance and specifying the terms under which eligible individuals may be invited to participate.

In June 2005 the Company undertook a reverse takeover of Provexis Natural Products Limited (“PNP”, formerly Provexis Limited) through a share for share exchange. Prior to the takeover the Company and PNP had granted EMI options and unapproved options. Options granted by the Company prior to the takeover remain subject to the same terms as contained in the individual share option contracts under which they were originally granted. The PNP EMI options and unapproved options were rolled over into options over the Company’s ordinary shares, and these replacement options remain subject to the same terms as contained in the individual PNP share option contracts under which they were originally granted.

The Combined Code refers to the requirement for the performance-related elements of remuneration to form a significant proportion of the total remuneration package of Executive Directors and should be designed to align their interests with those of shareholders. In the development phase of the Group and during the early stages of revenue generation, the Remuneration Committee currently considers that the best alignment of these interests is through continued use of incentives for performance through the award of share options or other share-based arrangements.

(iii) Bonus scheme
The Company has an established discretionary bonus scheme for staff. The Chief Executive Officer was awarded a bonus during the year of £15,000.

Directors' report – remuneration report continued

Policy on Executive Directors' remuneration (continued)
(iv) Pension contributions
The Group pays a defined contribution to the pension scheme of Executive Directors and employees. The individual pension schemes are private and their assets are held separately from those of the Group.

Salaries and benefits were reviewed in April 2008 to cover the year from 1 April 2008 to 31 March 2009. Future reviews will continue to be undertaken on an annual basis each April to enable the Group's performance over the preceding financial year and the strategy for the forthcoming year to be considered.

Service contracts
The Chief Executive is employed under a service contract requiring twelve months' notice by either party and the Finance Director is employed under a service contract requiring three months' notice. All Non-executive Directors receive payments under appointment letters which are terminable by three months' notice from either party.

Policy on Non-executive Directors' remuneration
The Non-executive Directors and the Chairman each receive a fee for their services as a director, which is approved by the Board, mindful of the time commitment and responsibilities of their roles and of current market rates for comparable organisations and appointments. Non-executive Directors are reimbursed for travelling and other minor expenses incurred.

Neville Bain, Non-executive Director, received share options prior to the Group joining AIM. However, to maintain independence, the independent Non-executive Directors do not participate in any incentive or share option arrangements.

The emoluments of the individual Directors for the year were as follows:

	Year ended 31 March 2008				Year ended 31 March 2007
	Salary and directors' fees	**Benefits in kind**	**Pension**	**Total**	Total
	£	**£**	**£**	**£**	£
Executive Directors					
S N Moon	**166,930**	**679**	**7,500**	**175,109**	129,709
I Ford (appointed 19 July 2007)	**65,219**	**582**	**3,261**	**69,062**	—
S W Slade (resigned 4 July 2007)	**58,124**	**214**	**1,218**	**59,556**	98,414
S J Franklin (resigned 24 July 2006)	**—**	**—**	**—**	**—**	43,057
Non-executive Directors					
C D Buck	**25,000**	**—**	**—**	**25,000**	25,000
N C Bain	**15,000**	**—**	**—**	**15,000**	15,000
J B Diggines (appointed 24 April 2007)	**14,044**	**—**	**—**	**14,044**	—
	344,317	**1,475**	**11,979**	**357,771**	311,180

The above fees and emoluments exclude reimbursed expenditure incurred in the conduct of Group business.

Directors' interests in shares

	Ordinary shares of 1 pence each Beneficial interests	
	31 March 2008	**1 April 2007**
C D Buck	**3,869,332**	**536,000**
N C Bain	**2,097,000**	**447,000**
S N Moon	**6,000,000**	**6,000,000**
	11,966,332	**6,983,000**

Other than as shown in the table, no Director had any interest in the shares of the Company or its subsidiary companies at 31 March 2008.

Directors' report – remuneration report continued

Directors' interests in share options
The Board uses share options to align Directors and employees interests with those of shareholders in order to provide incentives and reward them based on improvements in Company performance.

The share options held by the Directors at 31 March 2008 are summarised below. Neville Bain, Non-executive Director, received options prior to the Group joining AIM.

	Number of options over shares	
	At 31 March 2008	**At 1 April 2007**
S N Moon	**17,455,251**	**2,411,773**
I Ford	**2,751,479**	**—**
N C Bain	**330,300**	**330,300**
	20,537,030	**2,742,073**

The unapproved share options at 31 March 2008 of the Directors who served during the year are set out below:

	Grant date	**Number awarded**	**Exercise price/share**	**Earliest exercise date**	**Expiry date**
S N Moon	June 2004	700,954	1.000p	June 2007	June 2014
	July 2005	1,294,153	3.500p	June 2008	July 2015
	June 2007	15,043,478	2.875p	June 2010	June 2017
N C Bain	June 2004	330,300	1.000p	June 2007	June 2014
		17,368,885			

The EMI share options at 31 March 2008 of the Directors who served during the year are set out below:

	Grant date	**Number awarded**	**Exercise price/share**	**Earliest exercise date**	**Expiry date**
S N Moon	June 2004	416,666	1.000p	June 2007	June 2014
I Ford	November 2007	2,751,479	3.380p	November 2010	November 2017
		3,168,145			

All options were granted with an exercise price at or above market value on the date of grant.

On 1 September 2008 the Company announced that further to an announcement on 1 August 2008 the Company's Remuneration Committee had approved the grant of options over 44,166,575 ordinary shares of 0.1p each to certain Directors and employees of the Company. As a condition of the grant of options, certain Directors surrendered 19,089,110 existing options and an additional 3,709,384 existing options were surrendered by other existing employees.

Dawson Buck
Chairman of the Remuneration Committee
2 September 2008

Independent auditors' report

To the shareholders of Provexis plc
We have audited the Group and parent company financial statements (the "financial statements") of Provexis plc for the year ended 31 March 2008, which comprise: Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Changes in Equity, the Parent company Balance Sheet and the related Notes to the Financial Statements. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors
The Directors' responsibilities for preparing the Annual Report and Group financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and for preparing the parent company financial statements in accordance with applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Directors Report: Directors' responsibility statement.

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

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

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Corporate Statement, Key Highlights, Chairman's Statement, Chief Executive'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.

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

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report continued

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2008 and of its loss for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 March 2008;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

BDO STOY HAYWARD LLP
Chartered Accountants
and Registered Auditors
Reading
2 September 2008

Consolidated income statement

	Note	**Year ended 31 March 2008 £**	Year ended 31 March 2007 £
Revenue	1,3	**161,702**	66,653
Grant income	4	**133,649**	44,987
Research and development costs		**(517,243)**	(340,221)
Administrative costs		**(986,073)**	(1,260,531)
Loss from operations	5	**(1,207,965)**	(1,489,112)
Finance income	8	**57,587**	28,435
Finance costs	8	**(1,280)**	(90,000)
Loss before tax		**(1,151,658)**	(1,550,677)
Taxation	9	**134,371**	—
Loss for the year from continuing operations		**(1,017,287)**	(1,550,677)
Discontinued operation			
Loss for the year from discontinued operation	10	**(145,397)**	(898,979)
Loss for the year		**(1,162,684)**	(2,449,656)
Attributable to:			
Equity holders of the parent	22	**(1,189,117)**	(2,437,855)
Minority interest		**26,433**	(11,801)
		(1,162,684)	(2,449,656)
Loss per share from continuing and discontinued operations to equity holders of the parent			
Basic and diluted – pence	11	**0.30**	0.97
Loss per share from continuing operations to equity holders of the parent			
Basic and diluted – pence	11	**0.26**	0.61

Consolidated balance sheet

	Notes	**As at 31 March 2008 £**	As at 31 March 2007 £
Non-current assets			
Goodwill	12	**6,902,013**	6,902,013
Other intangible assets	12	**20,597**	—
Plant and equipment	14	**74,094**	12,607
Total non-current assets		**6,996,704**	6,914,620
Current assets			
Inventories	15	**—**	38,466
Trade and other receivables	16	**416,874**	378,626
Cash and cash equivalents	17	**532,581**	115,824
Total current assets		**949,455**	532,916
Liabilities			
Current liabilities			
Trade and other payables	18	**(361,496)**	(738,975)
Borrowings	19	**—**	(100,000)
Total liabilities		**(361,496)**	(838,975)
Total net assets		**7,584,663**	6,680,561
Capital and reserves attributable to equity holders of the parent company			
Share capital	20	**4,017,244**	2,510,386
Share premium reserve	22	**5,992,212**	5,391,867
Merger reserve	22	**6,273,909**	6,273,909
Retained earnings	22	**(8,698,702)**	(7,541,168)
Equity attributable to equity holders of the parent		**7,584,663**	6,634,994
Minority interests		**—**	(26,433)
Total equity		**7,584,663**	6,608,561

These consolidated financial statements were approved and authorised for issue by the Board on 2 September 2008. The notes on pages 25 to 46 form part of these consolidated financial statements.

Stephen Moon
Director

Ian Ford
Director

On behalf of the Board of Provexis plc
2 September 2008

Consolidated cash flow statement

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Cash flows from operating activities		
Loss after tax and discontinued operations	**(1,162,684)**	(2,449,656)
Adjustments for:		
Depreciation	**15,229**	4,035
Net finance income	**(56,307)**	61,565
Taxation	**(134,371)**	—
Share-based payment charge	**31,583**	118,619
Operating loss before changes in working capital	**(1,306,550)**	(2,265,437)
Decrease / (increase) in inventories	**38,466**	(20,503)
Decrease in trade and other receivables	**159,759**	175,476
Decrease in trade and other payables	**(377,479)**	(68,265)
Net cash outflow from operating activities	**(1,485,804)**	(2,178,729)
Cash flows from investing activities		
Purchase of plant and equipment	**(76,716)**	(125)
Purchase of intangible assets	**(20,597)**	—
Interest received	**57,587**	28,435
Cash (used in) / generated by investing activities	**(39,726)**	28,310
Cash flows from financing activities		
Proceeds from issue of share capital – share placing	**2,149,750**	—
Expenses paid on share issue	**(188,283)**	—
Proceeds from exercise of share options	**82,100**	—
(Repayment of) / increase in borrowings	**(100,000)**	100,000
Interest paid	**(1,280)**	—
Cash generated by financing activities	**1,942,287**	100,000
Net increase / (decrease) in cash and cash equivalents	**416,757**	(2,050,419)
Cash and cash equivalents at beginning of year	**115,824**	2,166,243
Cash and cash equivalents at end of year	**532,581**	115,824

Consolidated statement of changes in equity

	Share capital £	Share premium £	Merger reserve £	Retained earnings £	Total equity attributable to equity holders of the parent £	Minority interests £	Total Equity £
At 1 April 2006	2,500,010	5,312,243	6,273,909	(5,221,932)	8,864,230	(14,632)	8,849,598
Share based charges	—	—	—	118,619	118,619	—	118,619
Issue of shares – SEDA implementation fee	10,376	79,624	—	—	90,000	—	90,000
Loss for the year	—	—	—	(2,437,855)	(2,437,855)	(11,801)	(2,449,656)
At 31 March 2007	2,510,386	5,391,867	6,273,909	(7,541,168)	6,634,994	(26,433)	6,608,561
Share based charges	—	—	—	31,583	31,583	—	31,583
Issue of shares – placing 12 April 2007	1,433,166	528,301	—	—	1,961,467	—	1,961,467
Issue of shares – exercise of share options	73,692	72,044	—	—	145,736	—	145,736
Loss for the year	—	—	—	(1,189,117)	(1,189,117)	26,433	(1,162,684)
At 31 March 2008	**4,017,244**	**5,992,212**	**6,273,909**	**(8,698,702)**	**7,584,663**	—	**7,584,663**

The loss for the year represents the total recognised income and expense for the year.

Notes to the consolidated financial statements

1. Accounting policies
General information
Provexis plc is a public limited company incorporated and domiciled in Great Britain under the Companies Act 1985 (registration number 5102907). The address of the registered office is Thames Court, 1 Victoria Street, Windsor, Berkshire SL4 1YB, UK.

As described in the Directors' Report, the main activities of the Group are those of discovering, developing and licensing scientifically-proven technologies for the global functional food, medical food and dietary supplement sectors.

Basis of preparation
The Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU for the first time, having previously been prepared in accordance with UK Generally Accepted Accounting Principles ("UK GAAP"). The disclosures required by IFRS 1 'First-time Adoption of International Financial Reporting Standards' concerning the transition from UK GAAP to IFRS are given in note 27.

The preparation of the consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies compared with the most recent Group financial statements prepared under UK GAAP. The accounting policies set out below have been applied to all periods presented in these Group financial statements and are in accordance with IFRS, as adopted by the European Union, and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that were applicable for the year ended 31 March 2008.

The Group has elected to make use of the exemptions available in IFRS 1 as follows:

- IFRS 2 'Share-based Payment' has been applied to all grants of employee options after 7 November 2002 that had not vested by 1 April 2006.

- IFRS 3 'Business Combinations' has not been applied retrospectively to business combinations that occurred before 1 April 2006.

- IAS 32 'Financial Instruments: Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' is being applied from 1 April 2007.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year ended 31 March 2008 and have not been adopted early as the Directors do not expect these interpretations to have a material effect on the Group:

- IFRS 8 'Operating Segments' effective for accounting periods beginning on or after 1 January 2009;

- IFRIC 13 'Customer Loyalty Programmes' effective for accounting periods beginning on or after 1 July 2008;

- IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' effective for accounting periods beginning on or after 1 January 2008;

- IAS 23 'Borrowing Costs' effective for accounting periods beginning on or after 1 January 2009;

- IFRIC 12 'Service Concession Arrangements' effective for accounting periods beginning on or after 1 January 2008;

- Revised IFRS 3 'Business Combinations' and complementary amendments to IAS 27 'Consolidated and Separate Financial Statements' effective for accounting periods beginning on or after 1 January 2010 and 1 July 2009 respectively;

- Amendment to IFRS 2 'Share-based Payments: Vesting Conditions and Cancellations' effective for accounting periods beginning on or after 1 January 2009;

Notes to the consolidated financial statements continued

1. Accounting policies (continued)
Basis of preparation (continued)

- Amendment to IAS 1 'Presentation of Financial Statements' effective for accounting periods beginning on or after 1 January 2009;

- Amendment to IAS 32 'Financial Instruments: Presentation' and IAS 1 'Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation' effective for accounting periods beginning on or after 1 January 2009; and

- 'Improvements to IFRS' effective over a range of dates, the earliest being for accounting periods beginning on or after 1 January 2009.

The Group has made estimates under IFRS as at 1 April 2006, the date of transition, which are consistent with those estimates made at the same date under UK GAAP and there is no objective evidence that those estimates were in error.

Basis of consolidation
Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The consolidated financial information presents the results of the Company and its subsidiaries, Provexis Nutrition Limited, Provexis Natural Products Limited and Provexis (IBD) Limited as if they formed a single entity ("the Group"). All subsidiaries share the same reporting date, 31 March, as Provexis plc Intra Group balances are eliminated in preparing the financial statements.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Revenue
Revenue comprises the fair value received or receivable for exclusivity arrangements and collaboration agreements net of value added tax.

The accounting policies for the principal revenue streams of the Group are that exclusivity arrangements and related services are recognised as revenue in the accounting period in which the related services are rendered, or activities performed, by reference to completion of the specific transaction.

Leased assets
Leases, which contain terms whereby the Group does not assume substantially all the risks and rewards incidental to ownership of the leased item are classified as operating leases. Operating lease rentals are charged to the income statement on a straight line basis over the lease term. The Group does not hold any assets under finance leases.

Notes to the consolidated financial statements continued

1. Accounting policies (continued)
Intangible assets
Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets acquired. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

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 the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Research and development
Certain Group products are in the research phase and others are in the development phase. Expenditure incurred on the development of internally generated products is capitalised if it can be demonstrated that:

- It is technically feasible to develop the product for it to be sold;
- Adequate resources are available to complete the development;
- There is an intention to complete and sell the product;
- The Group is able to sell the product;
- Sale of the product will generate future economic benefits; and
- Expenditure on the project can be measured reliably.

The value of the capitalised development cost is assessed for impairment annually. The value is written down immediately if impairment has occurred. Development costs are not being amortised as income has not yet been realised from the underlying technology.

Development expenditure, not satisfying the above criteria, and expenditure on the research phase of internal projects is recognised in the income statement as incurred.

Patents and trademarks
The costs incurred in establishing patents and trademarks are either expensed or capitalised in accordance with the corresponding treatment of the development expenditure for the product to which they relate.

Plant and equipment
Plant and machinery, fixtures, fittings and computer equipment and laboratory equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is charged to the income statement on all plant and equipment at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight line basis over their estimated useful lives, which is 3 years for plant and machinery, fixtures, fittings and computer equipment and 5 years for laboratory equipment.

The assets' residual values and useful lives are determined by the Directors and reviewed and adjusted if appropriate at each balance sheet date in accordance with the Group policy for impairment of assets.

1. Accounting policies (continued)

Impairment of assets

Assets that have a finite useful life but that are not yet in use and are therefore not subject to amortisation or depreciation are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment annually and when events or circumstances suggest 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.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are materials and supplies to be consumed in the course of research and development and are stated at the lower of cost and net realisable value. Cost includes materials, related contract manufacturing costs and other direct costs. Cost is calculated using the first-in first-out method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Discontinued operation

The results of operations discontinued during the year are included in the consolidated income statement up to the date of disposal. A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or its subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented on the income statement (including the comparative period) as a single line which comprises the post tax profit or loss of the discontinued operation and the gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets/disposal Groups constituting discontinued operations.

Financial instruments

Financial assets

The Group's financial assets are comprised of 'trade and other receivables' and 'cash and cash equivalents'. They are recognised initially at their fair value and subsequently at amortised cost. The Group will assess at each balance sheet date whether there is objective evidence that the financial asset is impaired. If an asset is judged to be impaired the carrying amount of the asset will be adjusted to its impaired valuation.

Financial liabilities

The Group's financial liabilities comprise 'trade and other payables' and 'borrowings'. These are recognised initially at fair value and subsequently at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are recognised in the income statement in the same period to which the costs that they are intended to compensate are expensed.

1. Accounting policies (continued)

Taxation

Current tax is provided at amounts expected to be recovered or to be paid using the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. When research and development tax credits are claimed they are recognised on an accruals basis and are included as a taxation credit.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability on the balance sheet differs from its tax base, except for differences arising on:

- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and

- Investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profits will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable Group Company; or

- Different Group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, on each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Employee benefits

(i) Defined contribution plans

The Group provides retirement benefits to all employees and Executive Directors. The assets of these schemes are held separately from those of the Group in independently administered funds. Contributions made by the Group are charged to the income statement in the period in which they become payable.

(ii) Accrued holiday pay

Provision has been made at the balance sheet date for holidays accrued but not taken at the salary of the relevant employee at that date.

(iii) Share-based payment transactions

The Group operates an equity-settled, share-based compensation plan. Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options when granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative charge is not adjusted for failure to achieve a market vesting condition. If the terms and conditions of options are modified before they vest, the change in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period. Where equity instruments are granted to persons other than employees and others

1. Accounting policies (continued)
Employee benefits (continued)
(iii) Share-based payment transactions (continued)
providing similar services, the income statement is charged with the fair value of goods and services received.

The proceeds received when options are exercised, net of any directly attributable transaction costs, are credited to share capital (nominal value) and the remaining balance to share premium.

National insurance on share options
All employee option holders sign statements that they will be liable for any employers national insurance arising on the exercise of share options.

Interest income
Interest income is recognised on a time-proportion basis using the effective interest rate method.

Critical accounting estimates and judgements
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continually made and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. The Directors believe the following to be the key areas of estimation and judgement:

(i) Research and development
Under IAS 38 Intangible Assets, development expenditure which meets the recognition criteria of the standard must be capitalised and amortised over the useful economic lives of intangible assets from product launch. The Directors consider that the criteria to capitalise development expenditure were met in 2007 for one of the Group’s products.

(ii) Share-based payments
The Group operates an equity-settled, share-based compensation plan. Employee and similar services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant, which is based upon certain assumptions over the future performance of the share price.

(iii) Discontinued operation
The discontinued operation referred to in the accounts is the Sirco® juice drink which ceased production in July 2007. There were no stock or other write offs associated with the cessation of Sirco®. All costs and income relating to the Sirco® business have been recognised as discontinued in the financial statements.

(iv) Goodwill and impairment
The recoverable amount of goodwill is determined based on value-in-use calculations, and the Group’s activities are treated as a single cash-generating unit. The value-in-use calculations have used post-tax cash flow projections based on the Group consolidated budget for the year ending March 2009 and agreed business plans for the two years ending March 2011. Subsequent cash flows are extrapolated using an estimated growth rate of 2%.

The key assumptions for the value-in-use calculations are those regarding discount rates, revenue commencement dates, growth rates and expected changes in margins. Management estimate discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market.

Post-tax cash flow projections have been discounted to calculate value in use using a post-tax discount rate of 15% (2007: 15%). The value-in-use calculations did not indicate any impairment in goodwill.

Notes to the consolidated financial statements continued

2. Financial risk management
2.1 Financial risk factors
The Group's activities inevitably expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk.

It is Group policy not to enter into speculative positions using complex financial instruments. The Group's primary treasury objective is to minimise exposure to potential capital losses whilst at the same time securing favourable market rates of interest on Group cash deposits using money market deposits with banks. Cash balances used to settle the liabilities from operating activities are also maintained in current accounts which earn interest at variable rates.

(a) Market risk
Foreign exchange risk
The Group primarily enters into contracts which are to be settled in UK pounds. However, some contracts involve other major world currencies including the US Dollar and the Euro. Where large contracts of more than £50,000 total value are to be settled in foreign currencies consideration is given to converting the appropriate amounts to or from UK pounds at the outset of the contract to minimise the risk of adverse currency fluctuations.

At 31 March 2008 the Group had trade payables denominated in Euros of £20,338, translated at the year end rate of £1 : 1.2566 Euros. If the Euro exchange rate at 31 March 2008 had weakened/strengthened against the UK pound by 5% the post-tax loss for the year would have been £968 lower/£1,070 higher.

Cash flow and fair value interest rate risk
The Group's interest rate risk arises from medium term and short term money market deposits. Deposits which earn variable rates of interest expose the Group to cash flow interest rate risk. Deposits at fixed rates expose the Group to fair value interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis throughout the year.

(b) Credit risk
Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposure in relation to outstanding receivables. Group policy is to place deposits with institutions with investment grade A2 or better (Moody's credit rating) and deposits are made in sterling only. The Group does not expect any losses from non-performance by these institutions. Management believes that the carrying value of outstanding receivables and deposits with banks represents the Group's maximum exposure to credit risk.

(c) Liquidity risk
Liquidity risk arises from the Group's management of working capital, it is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flow.

The Group had trade and other payables at the balance sheet date of £361,496 (2007: £738,975) as disclosed in note 18 on page 39.

2.2 Capital risk management
The Group remains funded primarily by equity capital which reflects the development status of its products. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders of the Company and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

2.3 Fair value estimation
The Group uses amortised cost, using the effective interest rate method, to determine subsequent fair value after initial recognition, for its financial instruments.

Notes to the consolidated financial statements continued

3. Segmental reporting

Revenue, net assets and results are wholly attributable to the principal activity of the Group and arise solely within the United Kingdom, therefore no segmental analysis has been reported.

4. Grant income

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
NWDA R&D grant income recognised in income statement	**133,649**	44,987
	133,649	44,987

5. Operating loss

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Operating loss is stated after charging:		
Depreciation of plant and equipment	**15,229**	4,035
Operating lease costs – land and buildings	**60,174**	25,113

The total fees of the Group's auditor, BDO Stoy Hayward LLP, for services provided are analysed below:

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Audit services		
Parent company	**19,245**	18,000
Subsidiaries	**34,214**	32,000
Tax services – compliance		
Parent company	**8,990**	3,100
Subsidiaries	**20,010**	6,900
Other services		
Parent company – share option scheme advice	**10,000**	—
Subsidiary – NWDA grant	**3,000**	—
Total fees	**95,459**	60,000

Notes to the consolidated financial statements continued

6. Wages and salaries
The average monthly number of persons (including all Directors) employed by the Group during the year was as follows:

	Year ended 31 March 2008	Year ended 31 March 2007
Administrative staff	**3**	2
Research and development staff	**5**	4
Directors	**5**	4
	13	10

Their aggregate emoluments were:

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Wages and salaries	**701,364**	717,328
Social security costs	**64,955**	84,188
Other pension and insurance benefits costs	**31,239**	37,396
Total cash settled emoluments	**797,558**	838,912
Accrued holiday pay	**11,243**	—
Share-based payment remuneration charge: equity settled	**31,583**	118,619
Total emoluments	**840,384**	957,531

7. Directors' emoluments

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Directors		
Aggregate emoluments	**345,792**	289,286
Company pension contributions	**11,979**	12,834

Emoluments disclosed above include the following amounts in respect of the highest paid Director:

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Aggregate emoluments	**167,609**	122,950
Company pension contributions	**7,500**	6,759

Further details of Directors' emoluments are included in the Remuneration report on pages 16 to 18.

Notes to the consolidated financial statements continued

8. Finance income and costs

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Bank interest receivable	**57,587**	28,435
Finance costs payable	**(1,280)**	(90,000)
	56,307	(61,565)

9. Taxation

Continuing operations	**Year ended 31 March 2008 £**	Year ended 31 March 2007 £
Current tax income		
United Kingdom corporation tax research and development credit	**53,651**	—
Adjustment in respect of prior period		
United Kingdom corporation tax research and development credit	**80,720**	—
Taxation credit	**134,371**	—

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

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Loss on ordinary activities before tax	**1,151,658**	1,550,677
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 30% (2007: 30%)	**345,497**	465,203
Effects of:		
Expenses not deductible for tax purposes	**(14,011)**	(2,600)
Difference between depreciation and capital allowances	**(4,546)**	—
Other short-term timing differences	**40,340**	(152,120)
Unutilised tax losses and other deductions arising in the year	**(331,359)**	(310,483)
Tax deduction for share options exercised	**26,925**	—
Additional deduction for R&D expenditure	**30,290**	—
Surrender of tax losses for R&D tax credit refund	**(39,485)**	—
Adjustments in respect of prior years	**80,720**	—
Total tax credit for the year	**134,371**	—

At 31 March 2008 the Group UK tax losses to be carried forward are estimated to be £9,681,617 (2007: £8,877,954).

9. Taxation (continued)
Deferred tax
Deferred tax assets amounting to £2,791,237 (2007: £2,793,234) have not been recognised on the basis that their future economic benefit is not certain. Assuming a prevailing tax rate of 28% when the timing differences reverse, the unrecognised deferred tax asset comprises:

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Depreciation in excess of capital allowances	**9,264**	5,569
Other short term timing differences	**59,995**	47,209
Unutilised tax losses	**2,710,853**	2,663,386
Share based payments	**11,125**	77,070
	2,791,237	2,793,234

10. Discontinued operation
On 2 July 2007 the Group announced that it had undertaken a strategic review of its Sirco® juice brand and that in order to facilitate the negotiation of exclusive rights for potential license partners had decided to cease its production.

The table below shows the results of the Sirco® juice drink that are included in the results of the Group for the year and the prior year and included within the discontinued operation.

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Income statement		
Revenue	**113,903**	738,231
Cost of sales	**(121,179)**	(403,837)
Administrative expenses	**(138,121)**	(1,233,373)
Loss for the year from discontinued operation	**(145,397)**	(898,979)
Cash flow statement		
Net cash flows from operating activities	**(145,397)**	(898,979)
	(145,397)	(898,979)

Notes to the consolidated financial statements continued

11. Loss per share

Basic and diluted loss per share amounts are calculated by dividing the loss attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the period. There are 34,473,376 share options in issue that are all currently anti-dilutive and have therefore been excluded from the calculation of the diluted loss per share.

	Year ended 31 March 2008	Year ended 31 March 2007
Loss – £		
Continuing operations	**1,043,720**	1,538,876
Discontinued operation	**145,397**	898,979
	1,189,117	2,437,855
Weighted average number of shares	**395,384,662**	250,765,567
Basic and diluted loss per share – pence		
Continuing operations	**0.26**	0.61
Discontinued operation	**0.04**	0.36
Total	**0.30**	0.97

Note 26 regarding the post balance sheet event details a new placing of shares in August 2008 which would have had an impact on the loss per share calculations above, had it taken place pre year end.

12. Intangible assets

	Goodwill £	**Development costs £**	**Total £**
Cost			
At 1 April 2007	7,265,277	—	7,265,277
Additions	—	20,597	20,597
At 31 March 2008	**7,265,277**	**20,597**	**7,285,874**
Amortisation			
At 1 April 2007 and 31 March 2008	**363,264**	**—**	**363,264**
Net book value			
At 31 March 2008	**6,902,013**	**20,597**	**6,922,210**
At 31 March 2007	6,902,013	—	6,902,013

Cost			
At 1 April 2006 and 31 March 2007	**7,265,277**	**—**	**7,265,277**
Amortisation			
At 1 April 2006 and 31 March 2007	**363,264**	**—**	**363,264**
Net book value			
At 31 March 2007	**6,902,013**	**—**	**6,902,013**
At 31 March 2006	6,902,013	—	6,902,013

Development costs represent costs incurred in registering patents that meet the capitalisation criteria set out in IAS 38, see also note 1.

13. Goodwill and impairment

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill arose on 23 June 2005 when the Company acquired the entire issued share capital of Provexis Natural Products Limited (formerly Provexis Limited), a private company engaged in research and development. Provexis Natural Products Limited has been consolidated using the purchase method and its results have been incorporated in the Group results from the date of acquisition.

Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis or more frequently if there are indications that goodwill may be impaired.

The recoverable amount of goodwill is determined based on value-in-use calculations, and the Group's activities are treated as a single cash-generating unit. The value-in-use calculations have used post-tax cash flow projections based on the Group consolidated budget for the year ending March 2009 and business plans agreed by the Board for the two years ending March 2011. Subsequent cash flows are extrapolated using an estimated growth rate of 2%.

The key assumptions for the value in use calculations are those regarding discount rates, revenue commencement dates, growth rates and expected changes in margins. Management estimate discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating unit. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market.

Post-tax cash flow projections have been discounted to calculate value in use using a post-tax discount rate of 15% (2007: 15%). The value-in-use calculations did not indicate any impairment in goodwill.

14. Plant and equipment

	Plant and machinery	Fixtures, fittings and computer equipment	Laboratory equipment	Total
	£	£	£	£
Cost				
At 1 April 2007	15,315	38,440	—	53,755
Additions	—	7,991	68,725	76,716
Disposals	(15,315)	(8,318)	—	(23,633)
At 31 March 2008	**—**	**38,113**	**68,725**	**106,838**
Depreciation				
At 1 April 2007	15,315	25,833	—	41,148
Disposals	(15,315)	(8,318)	—	(23,633)
Charge for year	—	10,689	4,540	15,229
At 31 March 2008	**—**	**28,204**	**4,540**	**32,744**
Net book value				
At 31 March 2008	**—**	**9,909**	**64,185**	**74,094**
At 31 March 2007	—	12,607	—	12,607

	Plant and machinery	Fixtures, fittings and computer equipment	Laboratory equipment	Total
	£	£	£	£
Cost				
At 1 April 2006	15,315	38,315	—	53,630
Additions	—	125	—	125
At 31 March 2007	**15,315**	**38,440**	**—**	**53,755**
Depreciation				
At 1 April 2006	15,315	21,798	—	37,113
Charge for year	—	4,035	—	4,035
At 31 March 2007	**15,315**	**25,833**	**—**	**41,148**
Net book value				
At 31 March 2007	**—**	**12,607**	**—**	**12,607**
At 31 March 2006	—	16,517	—	16,517

Notes to the consolidated financial statements continued

15. Inventories

	31 March 2008 £	31 March 2007 £
Raw materials and consumables	**—**	38,466
	—	38,466

The amount of inventory recognised within the consolidated income statement for the year was £121,179 (2007: £370,732).

16. Trade and other receivables

	31 March 2008 £	31 March 2007 £
Amounts receivable within one year:		
Trade debtors	**6,243**	110,298
Corporation tax recoverable	**136,774**	—
Other debtors	**107,641**	80,066
Prepayments and accrued income	**166,216**	188,262
	416,874	378,626

The Directors consider that the carrying amount of these receivables approximates to their fair value.

17. Cash and cash equivalents

	31 March 2008 £	31 March 2007 £
Cash at bank and in hand	**532,581**	115,824
	532,581	115,824

18. Trade and other payables

	31 March 2008 £	31 March 2007 £
Trade creditors	**156,248**	395,664
Other taxes and social security	**36,287**	65,374
Accruals	**160,362**	277,937
Other creditors	**8,599**	—
	361,496	738,975

The Directors consider that the carrying amount of these liabilities approximates to their fair value.

Notes to the consolidated financial statements continued

19. Borrowings and loans

	31 March 2008 £	31 March 2007 £
Short term bridging loan	**—**	100,000
	—	100,000

The short term bridging loan was provided by Angle Technology Limited (Angle) and Rising Stars Growth Fund (RSGF) in March 2007 and was repaid out of placing proceeds on 12 April 2007 for the new ordinary shares which Angle and RSGF had subscribed for.

20. Share capital

Authorised	**31 March 2008 Number**	31 March 2007 Number	**31 March 2008 £**	31 March 2007 £
Ordinary shares of 1p each	**550,000,000**	400,000,000	**5,500,000**	4,000,000

Allotted, called up and fully paid	**31 March 2008 Number**	31 March 2007 Number	**31 March 2008 £**	31 March 2007 £
Ordinary shares of 1p each	**401,724,366**	251,038,472	**4,017,244**	2,510,386

During the year ended 31 March 2008 the Company issued ordinary shares of 1p each as follows:

Date	**Reason for issue**	**Shares issued £**	**Number**
12.04.07	Placing	1,433,166	143,316,664
02.05.07	Exercise of share options	33,659	3,365,871
15.05.07	Exercise of share options	11,216	1,121,609
16.08.07	Exercise of share options	18,182	1,818,182
27.09.07	Exercise of share options	10,635	1,063,568
		1,506,858	150,685,894

During the year ended 31 March 2007 the Company issued ordinary shares of 1p as follows:

Date	**Reason for issue**	**Shares issued £**	**Number**
06.06.06	Issue of shares for implementation fee	10,376	1,037,608

Notes to the consolidated financial statements continued

21. Share options
In June 2005 the Company adopted a new share option scheme for employees (”the Provexis 2005 share option scheme”). Under the scheme, options to purchase ordinary shares are granted by the Board of Directors, subject to the exercise price of the option being not less than the market value at the grant date. The options vest after a period of 3 years and the vesting schedule is subject to predetermined overall company selection criteria. In the event that the option holder’s employment is terminated, the option may not be exercised unless the Board of Directors so permits. The options expire 10 years from the date of grant.

The Company undertook a reverse takeover of Provexis Natural Products Limited (“PNP”, formerly Provexis Limited) in June 2005 through a share for share exchange. Prior to the takeover the Company and PNP had granted EMI options and unapproved options. Options granted by the Company prior to the takeover remain subject to the same terms as contained in the individual share option contracts under which they were originally granted. The PNP EMI options and unapproved options were rolled over into options over the Company’s ordinary shares, and these replacement options remain subject to the same terms as contained in the individual PNP share option contracts under which they were originally granted.

At 31 March 2008 the number of ordinary shares subject to options granted over the 2005 and prior option schemes were:

EMI options

	31 March 2008		31 March 2007	
	Weighted average exercise price (pence)	**Number**	Weighted average exercise price (pence)	Number
Outstanding at the beginning of the year	**3.32**	**15,181,064**	3.30	13,514,414
Granted during the year	**3.38**	**2,751,479**	3.50	1,666,650
Exercised during the year	**1.77**	**(6,498,207)**	—	—
Cancelled during the year	**8.62**	**(1,160,081)**	—	—
Outstanding at the end of the year	**3.72**	**10,274,255**	3.32	15,181,064

The exercise price of EMI options outstanding at the end of the year ranged between 1p and 6.28p (2007: 1p and 8.62p) and their weighted average contractual life was 8 years (2007: 8.4 years).

Of the total number of EMI options outstanding at the end of the year, 4,774,067 (2007: 9,261,547) had vested and were exercisable at the end of the year. Their weighted average exercise price was 4 pence (2007: 2.57 pence).

The weighted average share price (at the date of exercise) of EMI options exercised during the year was 3 pence.

Unapproved options

	31 March 2008		31 March 2007	
	Weighted average exercise price (pence)	**Number**	Weighted average exercise price (pence)	Number
Outstanding at the beginning of the year	**3.17**	**11,875,701**	3.56	14,255,466
Granted during the year	**2.87**	**17,304,347**	—	—
Exercised during the year	**3.50**	**(871,023)**	—	—
Cancelled during the year	**4.66**	**(4,109,904)**	5.50	(2,379,765)
Outstanding at the end of the year	**2.70**	**24,199,121**	3.17	11,875,701

The exercise price of unapproved options outstanding at the end of the year ranged between 1p and 6.28p (2007: 1p and 8.62p) and their weighted average contractual life was 8.62 years (2007: 8.29 years).

Notes to the consolidated financial statements continued

21. Share options (continued)
Unapproved options (continued)
Of the total number of unapproved options outstanding at the end of the year, 5,600,621 (2007: 5,600,621) had vested and were exercisable at the end of the year.

The weighted average share price (at the date of exercise) of unapproved options exercised during the year was 3.75 pence.

Grant of options
The fair values of the options have been estimated at the date of grant using the binomial method. The following table gives the assumptions used in valuing the grant of options made during the year:

	EMI options	**Unapproved options**	EMI options
	31 March 2008	**31 March 2008**	31 March 2007
Number of shares granted	**2,751,479**	**17,304,347**	1,666,650
Share price at grant date	**3.00p**	**2.75p**	6p
Option exercise price	**3.38p**	**2.875p**	3.818p
Expected life of options	**10 years**	**10 years**	10 years
Expected volatility	**65%**	**78%**	80%
Dividend yield	**0%**	**0%**	0%
Risk free rate	**3.77%**	**4.44%**	4%
Grant date	**29 November 2007**	**6 June 2007**	30 June 2006
Fair value per share under option	**1.06p**	**1.42p**	2.773p

No unapproved options were issued during the year ended 31 March 2007.

At the Remuneration Committee meeting of 12 April 2007 it was noted that the exercise prices of existing share options were calculated prior to the impact of the placing in that month. The Committee deemed that it was appropriate and equitable to change the exercise price of existing share options to adjust for the dilutive effect of the placing.

Market performance conditions of bottom tranche 4.5p, middle tranche 6p and top tranche 8p were applied in connection with vesting arrangements specified in individual option contracts.

The expected life of the options is based on historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The total charge for the year relating to employee share based payment plans was £31,583 (2007: £118,619) all of which related to equity settled share based payment transactions.

On 1 September 2008 the Company announced that further to an announcement on 1 August 2008 the Company's Remuneration Committee had approved the grant of options over 44,166,575 ordinary shares of 0.1p each to certain Directors and employees of the Company. As a condition of the grant of options, certain Directors surrendered 19,089,110 existing options and an additional 3,709,384 existing options were surrendered by other existing employees.

Notes to the consolidated financial statements continued

22. Reserves

	Share premium reserve £	Merger reserve £	Retained earnings £	Total £
At 1 April 2006	5,312,243	6,273,909	(5,221,932)	6,364,220
Loss for the year	—	—	(2,437,855)	(2,437,855)
Share-based charges	—	—	118,619	118,619
Shares issued during the year	79,624	—	—	79,624
At 31 March 2007	5,391,867	6,273,909	(7,541,168)	4,124,608
Loss for the year	—	—	(1,189,117)	(1,189,117)
Share-based charges	—	—	31,583	31,583
Issue of shares – placing	528,301	—	—	528,301
Issue of shares – exercise of share options	72,044	—	—	72,044
At 31 March 2008	**5,992,212**	**6,273,909**	**(8,698,702)**	**3,567,419**

The following describes the nature and purpose of each reserve within total equity:

Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	The merger reserve arose on the reverse takeover in 2005 of Provexis Natural Products Limited (formerly Provexis Limited) by Provexis plc through a share for share exchange.
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement.

23. Pension costs

The pension charge represents contributions payable by the Group to independently administered funds which during the year ended 31 March 2008 amounted to £20,472 (2007: £37,552). Pension contributions payable but not yet paid at 31 March 2008 totalled £11,740 in respect of pension contribution entitlements where employees had not yet provided details of the funds to which the contributions should be made (2007: £5,515). In addition, pension contributions payable in arrears at 31 March 2008 totalled £2,876 (2007: £1,658). All unpaid contributions are included in accrued social security costs at the balance sheet date.

24. Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases are as follows:

	31 March 2008 £	31 March 2007 £
Due within 1 year	**54,760**	45,000
Due within 1–2 years	**101,785**	144,345
Due within 2–5 years	**—**	12,200
	156,545	201,545

Operating lease payments represent rentals payable by the Group for various offices. The leases have various terms, escalation clauses and renewal rights typical of lease agreements for the class of asset.

Notes to the consolidated financial statements continued

25. Related party transactions
There were no related party transactions in the year other than between Group companies.

Key management compensation
The Directors represent the key management personnel. Details of their compensation and share options are given in note 7 and within the Remuneration report on pages 16 to 18.

26. Post balance sheet events
Share placing and share re-organisation
On 1 August 2008 the Company announced that it had agreed terms for a new share placing to raise £2.514m (before expenses) to provide working capital and funding for pipeline development. The placing involved the issue of 386,894,230 new shares at 0.65p per share and a share re-organisation to facilitate the issue of the new shares at the subscription price.

The placing and the share re-organisation were approved at an EGM on 26 August 2008. The 386,894,230 new placing shares were admitted to AIM on 28 August and the Company received the proceeds of the placing, net of some of the placing expenses, on the same day.

The share re-organisation was carried out because the issue price of 0.65p was lower than the nominal value of 1p per share, and under English law the Company is not permitted to issue shares at a placing price below their nominal value.

It was therefore agreed to sub-divide:

- each of the 401,724,366 issued existing ordinary shares of 1p each in the capital of the Company into one new ordinary share of 0.1p and one Deferred Share of 0.9p; and
- each of the 148,275,634 unissued ordinary shares of 1p each into 10 new ordinary shares of 0.1p each,

thus enabling the Company lawfully to implement the placing at the placing price. The aggregate nominal value of the Company's authorised share capital was not affected by these changes.

The rights attached to the new ordinary shares are substantially the same as the rights attached to the original, pre placing ordinary shares. The Deferred Shares have very limited rights which are deferred to the new ordinary shares and effectively carry no value as a result. Accordingly, the holders of the Deferred Shares will not be entitled to receive notice of, attend or vote at general meetings of the Company; nor be entitled to receive any dividends or any payment on a return of capital until at least £10,000,000 has been paid on each new ordinary share. No application will be made for the Deferred Shares to be admitted to trading on AIM. No certificates for the Deferred Shares will be issued.

Full details of the placing were provided in a circular to shareholders on 1 August 2008. The circular is available to download from the Company's website www.provexis.com.

New technology for Clostridium difficile
On 21 August 2008 the Company announced that the 75% Provexis-owned joint venture with the University of Liverpool is to extend its activity into the development of a novel plant-derived formulation for the treatment and prevention of infections caused by invasive bacteria such as *C.difficile*. The proposed end-user product will be targeted at the medical food sector.

Grant and surrender of share options
On 1 September 2008 the Company announced that further to an announcement on 1 August 2008 the Company's Remuneration Committee had approved the grant of options over 44,166,575 ordinary shares of 0.1p each to certain Directors and employees of the Company. As a condition of the grant of options, certain Directors surrendered 19,089,110 existing options and an additional 3,709,384 existing options were surrendered by other existing employees.

27. Explanation of transition to IFRS

This is the first year that the Group has presented its full consolidated financial information under IFRS.

Reconciliation of Group equity at 1 April 2006

	UK GAAP £	Effect of IFRS £	IFRS £
Non-current assets			
Goodwill	6,902,013	—	6,902,013
Plant and equipment	16,517	—	16,517
	6,918,530	—	6,918,530
Current assets			
Inventories	17,963	—	17,963
Trade and other receivables	554,102	—	554,102
Cash and cash equivalents	2,166,243	—	2,166,243
	2,738,308	—	2,738,308
Current liabilities			
Trade and other payables	(807,240)	—	(807,240)
	(807,240)	—	(807,240)
Total net assets	**8,849,598**	—	**8,849,598**
Share capital	2,500,010	—	2,500,010
Share premium reserve	5,312,243	—	5,312,243
Merger reserve	6,273,909	—	6,273,909
Retained earnings	(5,221,932)	—	(5,221,932)
Equity attributable to equity holders of parent	8,864,230	—	8,864,230
Minority interests	(14,632)	—	(14,632)
Total equity	**8,849,598**	—	**8,849,598**

Reconciliation of Group equity at 1 April 2007

	Note	UK GAAP £	Effect of IFRS £	IFRS £
Non-current assets				
Goodwill	a	6,417,613	484,400	6,902,013
Plant and equipment		12,607	—	12,607
		6,430,220	484,400	6,914,620
Current assets				
Inventories		38,466	—	38,466
Trade and other receivables		378,626	—	378,626
Cash and cash equivalents		115,824	—	115,824
		532,916	—	532,916
Current liabilities				
Trade and other payables		(738,975)	—	(738,975)
Borrowings – short term bridging loan		(100,000)	—	(100,000)
		(838,975)	—	(838,975)
Total net assets		**6,124,161**	484,400	**6,608,561**
Share capital		2,510,386	—	2,510,386
Share premium reserve		5,391,867	—	5,391,867
Merger reserve		6,273,909	—	6,273,909
Retained earnings		(8,025,568)	484,400	(7,541,168)
Equity attributable to equity holders of parent		6,150,594	484,400	6,634,994
Minority interests		(26,433)	—	(26,433)
Total equity		**6,124,161**	484,400	**6,608,561**

Reconciliation of loss from UK GAAP to IFRS
Year ended 31 March 2007

	Note	UK GAAP £	Effect of IFRS £	IFRS £
Revenue		804,884	(738,231)	66,653
Cost of sales		(403,837)	403,837	—
Gross profit		401,047	(334,394)	66,653
Distribution costs		(63,994)	63,994	—
Administrative expenses:				
Research and development		(295,234)	—	(295,234)
Other administrative costs	a, b	(2,795,691)	1,653,779	(1,141,912)
Share option costs		(118,619)	—	(118,619)
		(3,273,538)	1,717,773	(1,555,765)
Operating loss		(2,872,491)	1,383,379	(1,489,112)
Finance income		28,435	—	28,435
Finance costs		(90,000)	—	(90,000)
Loss before and after taxation from continuing operations		**(2,934,056)**	1,383,379	**(1,550,677)**
Loss from discontinued operation	b	—	(898,979)	(898,979)
Loss for the year		**(2,934,056)**	484,400	**(2,449,656)**

Notes
(a) Goodwill
Under IAS 38 goodwill is not amortised and so goodwill of £484,400 previously amortised under UK GAAP is reversed. Instead, impairment has been considered.

(b) Discontinued operation
Under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the exit of the Sirco® juice brand has been treated as a discontinued operation in the Income Statement for the current and prior year.

Parent company balance sheet

	Notes	**As at 31 March 2008 £**	As at 31 March 2007 £
Fixed assets			
Investments	3	**1,117,336**	1,382,919
Current assets			
Debtors	4	**2,694,107**	6,543,485
Current liabilities: amounts falling due within one year			
Bank overdraft	5	**(4)**	—
Borrowings		**—**	(100,000)
		(4)	(100,000)
Net current assets		**2,694,103**	6,443,485
Total net assets		**3,811,439**	7,826,404
Capital and reserves			
Share capital	6	**4,017,244**	2,510,386
Share premium reserve	7	**5,992,212**	5,391,867
Retained earnings	7	**(6,198,017)**	(75,849)
Equity shareholders' funds	8	**3,811,439**	7,826,404

These financial statements were approved and authorised for issue by the Board on 2 September 2008.
The notes on pages 48 to 51 form part of these parent company financial statements.

Stephen Moon
Director

Ian Ford
Director

On behalf of the Board of Provexis plc
2 September 2008

Notes to the parent company financial statements

1. Accounting policies
The parent company financial statements have been prepared under the historical cost convention and in accordance with UK GAAP.

Share-based employee remuneration
The Company has no employees however the Company will issue shares to satisfy share awards made by its subsidiary companies. The Company records a management charge equivalent to the fair value of the share-based payment incurred by its subsidiaries as disclosed in note 8 on page 50.

Taxation
Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

Valuation of investments
Investments are stated at cost less any provision for impairment. Profits or losses arising from disposals of fixed asset investments are treated as part of the result from ordinary activities.

2. Profit attributable to shareholders
As permitted by Section 230 of the Companies Act 1985 no separate Company profit and loss account has been included in these financial statements. The Group loss for the year includes a loss after tax of £6,153,751 (2007: £208,619) which is dealt with in the financial statements of the Company. The total fees of the Group's auditor, BDO Stoy Hayward LLP, for services provided are analysed in note 5 to the consolidated financial statements on page 32. Total fees for the year were £95,459.

Notes to the parent company financial statements continued

3. Investments

	31 March 2008 £	31 March 2007 £
Cost	**1,382,919**	1,382,919
Provision for impairment	**(265,583)**	—
Net book value	**1,117,336**	1,382,919

At 31 March 2008 the Company owned the following material subsidiary undertakings:

	Share of issued ordinary share capital, and voting rights	**Country of incorporation and operation**	**Business activity**
Provexis Nutrition Limited	100%	England and Wales	Functional food, medical food and dietary supplement technologies
Provexis Natural Products Limited	100%	England and Wales	Functional food, medical food and dietary supplement technologies
Provexis (IBD) Limited	75%	England and Wales	Functional food, medical food and dietary supplement technologies
Altucea Limited	94%	England and Wales	Dormant

There are no significant restrictions on the ability of subsidiary undertakings to transfer funds to the parent, other than those imposed by the Companies Act 1985.

4. Debtors

	31 March 2008 £	31 March 2007 £
Amounts owed by subsidiaries	**2,694,107**	6,543,485
	2,694,107	6,543,485

Notes to the parent company financial statements continued

5. Creditors: amounts falling due within one year

	31 March 2008 £	31 March 2007 £
Overdrafts	**(4)**	—
Borrowings	**—**	(100,000)
	(4)	(100,000)

6. Share capital

Authorised	**31 March 2008 Number**	31 March 2007 Number	**31 March 2008 £**	31 March 2007 £
Ordinary shares of 1p each	**550,000,000**	400,000,000	**5,500,000**	4,000,000

Allotted, called up and fully paid	**31 March 2008 Number**	31 March 2007 Number	**31 March 2008 £**	31 March 2007 £
Ordinary shares of 1p each	**401,724,366**	251,038,472	**4,017,244**	2,510,386

Details of shares issued by the Company during the year ended 31 March 2008 are given in note 20 to the consolidated financial statements on page 40.

7. Reserves

	Share premium reserve £	**Retained earnings £**
At 1 April 2007	5,391,867	(75,849)
Retained loss for the year	—	(6,153,751)
Share-based charges	—	31,583
Shares issued during the year	600,345	—
At 31 March 2008	**5,992,212**	**(6,198,017)**

8. Shareholders' funds
Reconciliation of movement in shareholders' funds.

	31 March 2008 £	31 March 2007 £
Loss for year	**(6,153,751)**	(208,619)
Share based payment charge	**31,583**	118,619
Shares issued during the year	**1,506,858**	10,376
Premium on shares issued	**600,345**	79,624
Net additions to shareholders' funds	**(4,014,965)**	—
Opening shareholders' funds	**7,826,404**	7,826,404
Closing shareholders' funds	**3,811,439**	7,826,404

Notes to the parent company financial statements continued

9. Related party transactions

The Company has taken advantage of the exemption conferred by Financial Reporting Standard 8 “Related party disclosures” not to disclose transactions with members of the Group headed Provexis plc on the grounds that at least 90% of the voting rights of the Company are controlled within that Group and the Company is included in consolidated financial statements.

10. Post balance sheet events

Details of post balance sheet events are given in note 26 to the consolidated financial statements on page 44.

Company information

Company number	5102907
Directors	C D Buck N C Bain J B Diggines K Rietveld S N Moon I Ford
Audit committee	N C Bain C D Buck
Remuneration committee	C D Buck N C Bain
Registrars	Equiniti Aspect House Spencer Road Lancing West Sussex BN99 6DA
Secretary and registered office	I Ford Thames Court 1 Victoria Street Windsor Berkshire SL4 1YB
Nominated adviser and broker	Arbuthnot Securities Limited Arbuthnot House 20 Ropemaker Street London EC2Y 9AR
Principal solicitors	Shoosmiths Apex Plaza Forbury Road Reading Berkshire RG1 1SH
Auditors	BDO Stoy Hayward LLP Kings Wharf 20–30 Kings Road Reading Berkshire RG1 3EX