Provexis plc
Interim report 2008

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.

Highlights
Unaudited interim results for the six months ended 30 September 2008

Operational highlights

- August placing of £2.5m of new shares at 0.65p and September placing of £0.2m of new shares at 0.65p providing working capital and funding for new product pipeline development.
- DSM Venturing takes strategic investment of 28.2% in the Company.
- Collaborations with Coca-Cola and Unilever on the Company's core Fruitflow® technology continue to progress in line with management expectations, including successful human trial of advanced format for food and spread formats.
- Commercial negotiations for Fruitflow® underway with potential global licence partners for the dietary supplement, food and mini-drink sectors, in addition to Coca-Cola and Unilever collaborations.
- Strong progress in development of intellectual property and regulatory portfolios for Fruitflow®.
- Crohn's Disease and Clostridium difficile technology development projects proceeding in line with management expectations.
- Development of new technology for treatment and prevention of peptic ulcers on track.
- Steve Morrison appointed Chief Operating Officer effective 1 October 2008 and Krijn Rietveld, DSM Senior Vice President, appointed as Non-executive Director on 29 August 2008.

Financial highlights

- Reduced loss for the period of £766,000 (2007: loss of £791,000).
- Cash balance £2.223m (2007: £1.085m).
- Loss per share from continuing operations 0.16p (2007: 0.17p).

Chairman's statement

I am pleased to report that in this very difficult economic climate the Company raised £2.7m of working capital and in addition attracted DSM Venturing as a major strategic investor, which I believe is a positive endorsement of the quality of the business and its proprietary technologies.

The management team are highly focused on generating commercial deals for our core Fruitflow® heart-health technology, continuing to work closely and making progress in our collaborations with Coca-Cola and Unilever and in addition advancing commercial negotiations with global corporations for licence arrangements in other food, beverage and dietary supplement sectors.

With the healthy human trial for our Crohn's Disease technology having proven successful, the Company is now planning the commencement of a two-centre clinical trial for this novel product. Our venture with the University of Liverpool has also generated new intellectual property for the treatment of the hospital "super-bug" c.difficile and we are beginning the development of this exciting new application.

Our peptic ulcer technology, acquired under option from the University of Manchester, is also now in the development phase and we continue to assess other potential pipeline technologies, in line with our strategy to build medium to long-term shareholder value for our shareholders.

The Board has been significantly strengthened through the addition of new COO Steve Morrison, a very experienced R&D project Director and Non-executive Director Krijn Rietveld, a Senior Vice President with DSM Nutrition.

The next six months promise to be exciting as the management team advance the range of commercial discussions and collaborations currently in place for Fruitflow® in addition to driving the pipeline forward.

Dawson Buck
Chairman

Chief Executive's statement

Strategy and structure

We have executed effectively our strategy of discovery, development and licensing functional food, medical food and dietary supplement technologies over the last six months, making good progress in collaborations and commercial negotiations for our novel, patented Fruitflow® heart-health technology and advancing the development of the pipeline.

We have continued to strengthen the team, with Steve Morrison joining us from Ipsen (and prior to that Shire Pharmaceuticals) and bringing a strong record as a global R&D Project Director. The R&D team has also been strengthened with the addition of two further scientists.

In line with our strategy, overheads are flat compared to the same period last year, while R&D expenditure has increased 53% to £308,000 as we increase activity on new and existing technologies. The loss for the period for continuing and non-continuing operations shows a small reduction year-on-year. Given the proceeds of the recent share placing and the tight cash controls being exercised, sufficient cash is at hand to develop the technology pipeline.

Fruitflow®

In our collaboration with Unilever, we have recently completed a successful human trial demonstrating the efficacy of an encapsulated Fruitflow® concentrate which will be suitable for incorporation into vegetable oil-based spreads and which beyond the collaboration will lend itself to a wide range of applications in formats such as dairy products and foods.

Our collaboration with Coca-Cola has made significant progress in consumer testing, commercial assessment and regulatory assessment in recent months. The one-year exclusivity period has been extended by six weeks to 31 December 2008 in order to complete regulatory assessment and a final commercial review.

We are in negotiation with two global corporations to licence Fruitflow® for a range of sectors including dietary supplements, mini-drinks, foods and dairy products and expect to further progress these negotiations in the second half of the financial year.

An extensive patent family was filed in October, further underpinning the value of our intellectual property. Strong progress was made with our regulatory portfolio in response to new European Union health claims legislation. Our clinical trial and claim development programme continues to develop and we expect to commence a human trial illustrating the effectiveness and interactions of Fruitflow® when compared to aspirin in the final quarter of the financial year.

NSP#3G plantain extract

We have recently completed data analysis of a healthy human trial and can confirm successful demonstration of tolerance and safety parameters for the NSP#3G extract. This is an important milestone and clears the way, subject to final MHRA clearance, for the commencement of the two-centre trial on Crohn's Disease patients.

New intellectual property, based on the NSP#3G extract, has been developed for the prevention and treatment of Clostridium difficile, considered to be a "super-bug". Patents for this new IP were recently filed and development work will commence in 2009.

The progress made in human trials and the extension of the IP into a major new area underlines the potential of the NSP#3G extract and its potential to add medium to long-term shareholder value.

Peptic ulcer

Our option agreement with the University of Manchester and associated research work into a novel extract for the treatment of helicobacter pylori, a major cause of peptic ulcers, is proceeding on track.

Outlook

The R&D team, bolstered by the addition of new team members, has made significant progress in development, intellectual property and regulatory areas in the first half of the year in all three of our pipeline technologies. In parallel, we have made good progress in our global partner collaborations and negotiations for Fruitflow®. The focus for the balance of the financial year, recognising the difficult macro-economic environment, will be securing commercial arrangements for our novel technology in line with our business plan.

Stephen Moon
Chief Executive

Finance Director's statement

This is the second interim report by the Group presented under International Financial Reporting Standards (IFRS).

Research and development costs
Research and development costs for the six months ended 30 September 2008 were £314,988 (2007: £219,159), including £7,013 capitalised under IAS 38 (2007: £18,002).

Administrative costs
Expenditure on administrative costs for the six months ended 30 September 2008 was reduced to £491,162, from £546,034 in the six months ended 30 September 2007. The Group's cost base and its resources continue to be tightly managed.

Taxation
A research and development tax credit of £25,945 (2007: £NIL) in respect of research and development expenditure incurred has been recognised in the financial statements for the period and has been included in other receivables at 30 September 2008. An £80,720 tax credit claim for the two years ended 31 March 2007 was paid to the Group during the period.

Loss for the period
The loss from continuing operations for the six months ended 30 September 2008 was £799,137 (2007: £686,255) and the loss per share from continuing operations was reduced to 0.16p (2007: 0.17p).

The overall loss from continuing and discontinued operations for the six months ended 30 September 2008 was £765,960 (2007: £790,569). The loss per share for the six month period from continuing and discontinued operations was reduced to 0.16p per share in 2008, from 0.20p per share in 2007.

Principal risks and uncertainties
The principal risks and uncertainties facing the Group remain those set out on pages 11 and 12 of the 2008 Annual Report and Accounts, a copy of which is available on the Company's website www.provexis.com. The risks and uncertainties relate to patent protection and intellectual property rights, development risk, regulatory and competition risk, staff risk, collaboration and third party risk and financial risk. The Group's principal risks and uncertainties are expected to remain the same for the second half of the financial year.

Capital structure and funding
On 28 August 2008 the Company raised £2.514m gross from a new share placing to provide working capital and funding for pipeline development. The net proceeds of the placing were £2.270m after share issue costs.

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 share re-organisation was carried out because the issue price of 0.65p was lower than the nominal value of 1p per share, and it was therefore agreed to sub-divide (i) 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 (ii) 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.

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.

Cash at bank at 30 September 2008 was £2.223m (30 September 2007: £1.085m).

On 2 October 2008 the Company raised a further £200,000 gross from a further new share placing. The net proceeds of the placing were £194,000 after share issue costs.

The Directors are of the opinion that at 1 December 2008, the Company's liquidity and capital resources are adequate to deliver the current strategic objectives and 2009 business plan and that the Company meets going concern criteria.

Ian Ford
Finance Director

Consolidated income statement
Six months ended 30 September 2008

	Notes	**Unaudited six months ended 30 September 2008 £**	Unaudited six months ended 30 September 2007 £	Audited year ended 31 March 2008 £
Revenue		**—**	60,936	161,702
Grant income		**—**	—	133,649
Research and development costs		**(307,975)**	(201,157)	(517,243)
Administrative costs		**(491,162)**	(546,034)	(986,073)
Loss from operations		**(799,137)**	(686,255)	(1,207,965)
Finance income		**17,248**	26,284	57,587
Finance costs		**(10,016)**	(1,250)	(1,280)
Loss before tax		**(791,905)**	(661,221)	(1,151,658)
Taxation		**25,945**	—	134,371
Loss for the period from continuing operations		**(765,960)**	(661,221)	(1,017,287)
Discontinued operation				
Loss for the period from discontinued operation		**—**	(129,348)	(145,397)
Loss for the period		**(765,960)**	(790,569)	(1,162,684)
Attributable to:				
Equity holders of the parent		**(765,960)**	(768,549)	(1,189,117)
Minority interest		**—**	(22,020)	26,433
		(765,960)	(790,569)	(1,162,684)
Loss per share from continuing and discontinued operations to equity holders of the parent				
Basic and diluted – pence	3	**0.16**	0.20	0.30
Loss per share from continuing operations to equity holders of the parent				
Basic and diluted – pence	3	**0.16**	0.17	0.26

Consolidated balance sheet
30 September 2008

	Unaudited 30 September 2008 £	Unaudited 30 September 2007 £	Audited 31 March 2008 £
Non-current assets			
Goodwill	**6,902,013**	6,902,013	6,902,013
Other intangible assets – development costs	**27,610**	18,002	20,597
Plant and equipment	**64,619**	34,244	74,094
Total non-current assets	**6,994,242**	6,954,259	6,996,704
Current assets			
Inventories	**—**	19,345	—
Trade and other receivables	**212,446**	307,331	416,874
Cash and cash equivalents	**2,223,256**	1,084,910	532,581
Total current assets	**2,435,702**	1,411,586	949,455
Current liabilities			
Trade and other payables	**(311,508)**	(377,691)	(361,496)
Total liabilities	**(311,508)**	(377,691)	(361,496)
Total net assets	**9,118,436**	7,988,154	7,584,663

Capital and reserves attributable to equity holders of the parent company			
Share capital	**4,404,138**	4,017,244	4,017,244
Share premium reserve	**7,875,441**	5,992,212	5,992,212
Merger reserve	**6,273,909**	6,273,909	6,273,909
Retained earnings	**(9,435,052)**	(8,246,758)	(8,698,702)
Equity attributable to equity holders of the parent	**9,118,436**	8,036,607	7,584,663
Minority interests	**—**	(48,453)	—
Total equity	**9,118,436**	7,988,154	7,584,663

Consolidated cash flow statement
Six months ended 30 September 2008

	Unaudited six months ended 30 September 2008 £	Unaudited six months ended 30 September 2007 £	Audited year ended 31 March 2008 £
Cash flows from operating activities			
Loss after tax and discontinued operations	**(765,960)**	(790,569)	(1,162,684)
Adjustments for:			
Depreciation	**10,482**	5,617	15,229
Net finance income	**(7,232)**	(25,034)	(56,307)
Taxation	**(25,945)**	—	(134,371)
Share-based payment charge	**29,610**	62,959	31,583
Operating loss before changes in working capital	**(759,045)**	(747,027)	(1,306,550)
Changes in inventories	**—**	19,121	38,466
Changes in trade and other receivables	**147,250**	172,156	159,759
Changes in trade and other payables	**(49,988)**	(361,284)	(377,479)
Tax credits received	**83,123**	—	—
Net cash outflow from operating activities	**(578,660)**	(917,034)	(1,485,804)
Cash flows from investing activities			
Purchase of plant and equipment	**(1,007)**	(27,254)	(76,716)
Purchase of intangible assets	**(7,013)**	(18,002)	(20,597)
Interest received	**17,248**	26,284	57,587
Net cash generated by/(used in) investing activities	**9,228**	(18,972)	(39,726)
Cash flows from financing activities			
Proceeds from issue of share capital	**2,514,813**	2,149,750	2,149,750
Expenses paid on share issue	**(244,690)**	(188,283)	(188,283)
Proceeds from exercise of share options	**—**	44,875	82,100
Net repayment of borrowings	**—**	(100,000)	(100,000)
Interest paid	**(10,016)**	(1,250)	(1,280)
Cash generated by financing activities	**2,260,107**	1,905,092	1,942,287
Net increase in cash and cash equivalents	**1,690,675**	969,086	416,757
Opening cash and cash equivalents	**532,581**	115,824	115,824
Closing cash and cash equivalents	**2,223,256**	1,084,910	532,581

Consolidated statement of changes in equity

30 September 2008

	Share capital £	Share premium £	Merger reserve £	Retained earnings £	Total equity attributable to equity holders of the parent £	Minority interests £	Total equity £
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	—	—	—	62,959	62,959	—	62,959
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 period	—	—	—	(768,549)	(768,549)	(22,020)	(790,569)
At 30 September 2007	4,017,244	5,992,212	6,273,909	(8,246,758)	8,036,607	(48,453)	7,988,154
Share-based charges	—	—	—	(31,376)	(31,376)	—	(31,376)
Loss for the period	—	—	—	(420,568)	(420,568)	48,453	(372,115)
At 31 March 2008	4,017,244	5,992,212	6,273,909	(8,698,702)	7,584,663	—	7,584,663
Share-based charges	—	—	—	29,610	29,610	—	29,610
Issue of shares – placing 28 August 2008	386,894	1,883,229	—	—	2,270,123	—	2,270,123
Loss for the period	—	—	—	(765,960)	(765,960)	—	(765,960)
At 30 September 2008	**4,404,138**	**7,875,441**	**6,273,909**	**(9,435,052)**	**9,118,436**	**—**	**9,118,436**

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

Notes to the interim report

1. General information, basis of preparation and 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.

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 financial information presented in this document has been prepared in accordance with the Group's accounting policies as described below.

The interim report does not constitute statutory accounts as defined in section 240 of the Companies Act 1985 and has neither been audited nor reviewed by the Company's auditors BDO Stoy Hayward LLP pursuant to guidance issued by the Auditing Practices Board. The comparatives for the full year ended 31 March 2008 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not contain references to any matters to which the auditors drew attention by way of emphasis without qualifying the report, and did not contain a statement under section 237(2)-(3) of the Companies Act 1985.

Copies of the interim results for the six months ended 30 September 2008 are being sent to all shareholders. Details can also be found on the Company's website at www.provexis.com. Further copies of the interim results and copies of the 2008 Annual Report and Accounts can be obtained by writing to the Company Secretary, Provexis plc, Thames Court, 1 Victoria Street, Windsor, Berkshire SL4 1YB.

This interim report was approved by the Board of Provexis plc on 1 December 2008.

Going concern

The Directors are of the opinion that at 1 December 2008, the Company's liquidity and capital resources are adequate to deliver the current strategic objectives and 2009 business plan and that the Company meets going concern criteria.

Use of estimates and assumptions

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 estimates and assumptions used are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The Directors believe the main accounting judgements relate to the capitalisation of development expenditure under IAS 38, the share-based payments charge, the accounting treatment of the discontinued operation and the recoverable amount of goodwill. Fuller information concerning the use of estimates and assumptions is provided in the 2008 Annual Report and Accounts which can be found on the Company's website www.provexis.com.

1. General information, basis of preparation and accounting policies continued

Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2008, as described in those annual financial statements.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 April 2008, but are not currently relevant for the Group:

- IFRIC 12, 'Service Concession Arrangements';
- IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 April 2008 and have not been adopted early:

- IFRS 8, 'Operating Segments', effective for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14, 'Segment Reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes;
- IAS 23 (amendment), 'Borrowing Costs', effective for annual periods beginning on or after 1 January 2009;
- IFRS 2 (amendment) 'Share-based Payment', effective for annual periods beginning on or after 1 January 2009;
- IFRS 3 (amendment), 'Business Combinations' and consequential amendments to IAS 27, 'Consolidated and Separate Financial Statements', IAS 28, 'Investments in Associates' and IAS 31, 'Interests in Joint Ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009;
- IAS 1 (amendment), 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2009;
- IAS 32 (amendment), 'Financial Instruments: Presentation', and consequential amendments to IAS 1, 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2009; and
- IFRIC 13, 'Customer Loyalty Programmes', effective for annual periods beginning on or after 1 July 2008.

The Group does not anticipate that these standards and interpretations will have a material effect on its financial statements.

2. Directors' responsibility statement

The Directors are responsible for preparing the interim statement and the financial information in accordance with applicable law and regulations.

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.

In preparing financial information, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial information complies with IFRS as adopted by the European Union and IFRS issued by the IASB; and
- prepare the financial information on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial information.

2. Directors' responsibility statement continued

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that financial information complies with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website and legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

3. Loss per share

	Unaudited six months ended 30 September 2008	Unaudited six months ended 30 September 2007	Audited year ended 31 March 2008
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 65,954,117 share options in issue that are currently anti-dilutive and have therefore been excluded from the calculation of the diluted loss per share.			
Loss for the period – £			
Continuing operations	**765,960**	639,201	1,043,720
Discontinued operation	**—**	129,348	145,397
	765,960	768,549	1,189,117
Weighted average number of shares	**471,492,178**	389,044,958	395,384,662
Basic and diluted loss per share – pence			
Continuing operations	**0.16**	0.17	0.26
Discontinued operation	**—**	0.03	0.04
Total	**0.16**	0.20	0.30

Company information

Company number	5102907
Directors	C D Buck N C Bain J B Diggines K Rietveld S N Moon S N Morrison 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