

9 June 2009

**Provexis plc  
("Provexis" or the "Company")**

**AUDITED RESULTS FOR THE YEAR ENDED 31 MARCH 2009**

Provexis plc (PXS.L), the life-science business that discovers, develops and licenses scientifically-proven functional food, medical food and dietary supplement technologies, announces its audited results for the year ended 31 March 2009.

**Key highlights**

- August placing of £2.5m of new ordinary shares of 0.1p each at 0.65p per share and October placing of £0.2m of new ordinary shares of 0.1p each at 0.65p per share providing working capital and funding for new product pipeline development.
- DSM Venturing take strategic investment of 28.2% in the Company.
- Company in advanced license negotiations with a global ingredients manufacturer for the rights to use Fruitflow®.
- Commercial discussions for Fruitflow® continue with potential global license partners for the dairy sector, in addition to further assessment and development work with Coca-Cola.
- Fruitflow® gains first ever Article 13(5) adoption of scientific substantiation of health claim under European Food Safety Authority regulatory framework.
- Crohn's Disease clinical trial approved by regulator, with two-centre trial to commence shortly.
- Assessment 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.

**Key financial results**

- Loss attributable to equity shareholders £4,570,506 (2008: £1,189,117).
- Loss includes a non-cash goodwill impairment charge of £3,099,328 (2008: £NIL)
- Cash balance £1,678,263 (2008: £532,581).
- Loss per share from continuing operations 0.71p (2008: 0.26p).
- Adjusted loss per share from continuing operations, net of goodwill impairment 0.23p (2008: 0.26p).

Stephen Moon, Chief Executive Officer of Provexis plc, commented:

"While the very difficult economic climate is affecting us and all companies in our sector, we continue to make progress. We are at an advanced stage of license negotiations with a global ingredients manufacturer for the rights to our Fruitflow® heart-health technology, as well as continuing to see interest from major brand owners. These talks have been positively influenced by the recent breakthrough health claim adoption by EFSA. Our Crohn's Disease technology will enter clinical trial in the near future and we continue to develop and explore other potential pipeline technologies."

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## Chairman's statement

The very difficult economic climate has presented all companies in the sector with some significant challenges and we are not immune to these. I am pleased to report that the Company raised £2.7m in aggregate of working capital in August and October 2008 and in addition attracted DSM Venturing as a major strategic investor. These are both positive endorsements of the quality of the business and also give us resilience to carry us through the downturn.

These challenging conditions have resulted in some potential license partners for our Fruitflow® heart-health technology reprioritising innovation projects. However, the management team has continued to explore all avenues for Fruitflow® revenue generation and I can report that the Company is at an advanced stage of negotiations for a license agreement with a leading global ingredients manufacturer.

Furthermore, the Company continues to work with global brand owners in the beverage and dairy sectors on potential Fruitflow® commercial arrangements. The Board will continue to assess all strategic options to protect and maximise shareholder value in parallel with potential licensing activity.

The R&D team is driving the Fruitflow® development programme forward and, importantly, the scientific substantiation for the health claim has recently been adopted by the European Food Safety Authority.

We are now ready to start the clinical trial for our patented technology for the treatment of Crohn's Disease patients in remission. The assessment and development of our peptic ulcer technology, under option from the University of Manchester, is on track.

The R&D pipeline is promising and underpins our strategy to build medium to long-term shareholder value for our shareholders through addressing substantial market sectors with novel, scientifically-proven technologies.

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. On behalf of the whole Board I would like to thank our staff and scientific advisers for their expertise, dedication and commitment throughout the year.

**Dawson Buck**  
Chairman

## Chief Executive's statement

### Strategy and structure

We continue to execute our strategy of discovery, development and licensing functional food, medical food and dietary supplements, in the face of very difficult market conditions. We are at an advanced stage of negotiations for a license agreement for Fruitflow®, together with discussions with major brand owners with interests in substantial sectors. In parallel, we are working to examine all strategic value-realisation options for our technologies. With a further novel product now entering clinical trial, attention will be given to exploring its commercial potential with possible license partners.

We have strengthened 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 been strengthened with the addition of two further scientists. Both of these steps underpin the strategy to deliver shareholder value via a healthy pipeline of proprietary technologies addressing substantial markets.

We raised an aggregate of £2.7m of working capital in August and October 2008 giving us sufficient reserves to deliver the next phase of the Company's development. Clearly, in the face of very difficult conditions across our sector, we are managing cash very carefully. As planned we have reduced overheads 2% year on year to £967,000 and while R&D spend has increased 21% to £651,000 in line with plan, we are currently managing the phasing of future investment very conservatively. The increased R&D investment was for developing new IP for Fruitflow®, advancing the Crohn's Disease human trial programme and commencing the assessment of the peptic ulcer technology, these initiatives being key to developing shareholder value.

There is a goodwill impairment charge of £3,099,328 in relation to the carrying value of the goodwill from the acquisition of Provexis Natural Products Limited in June 2005. This is a prudent step given the deterioration in the economic climate and resultant increased uncertainties. The charge has no effect on our cash position or our operations.

### Fruitflow®

We are in advanced license negotiations with a leading global ingredients manufacturer with global reach and strategic relationships with a wide range of global brand owners, in addition to an extensive customer base of regional brand owners. These negotiations are focused on rights for all food, beverage and dietary supplement applications.

In addition, we are in discussions with a major dairy brand owner and we continue to explore with Coca-Cola the development of a product for one of their major markets, with this work planned to continue over the coming months. A re-prioritisation of Unilever's innovation pipeline, together with our own initiatives in mini-drinks, has resulted in collaborative work being halted at present.

The European Food Safety Authority has adopted the scientific substantiation of a health claim for Fruitflow® under Article 13(5) of the new EC regulation framework for nutrition and health claims. This is the first Article 13(5) dossier to be approved by EFSA and as such represents a major breakthrough for the Company.

We filed new patents relating to the bioactive composition of Fruitflow®, as well as novel manufacturing process elements, following extensive characterisation work by the R&D team. This important new patent family is aimed at further protecting and developing the value of our intellectual property.

A human trial comparing the Fruitflow® technology with aspirin, a recognised anti-thrombotic product, is underway in Aberdeen. Aspirin has known deficiencies, such as resistance to its effect in a significant proportion of users and side effects including gastric bleeding. We believe that favourable results in the trial will provide potential commercial opportunities, given an estimated 50 million people in the USA use low-dose aspirin daily. Results of the trial will be announced later in the year.

In March 2009 our license partner Multiple Marketing Limited launched Sirco® in a range of Waitrose stores in the UK and we understand our partner is working to extend distribution into other major multiple and high street chains. The Company will receive a royalty from the sales of Sirco®.

### NSP#3G plantain extract

Following a Clinical Trials Authorisation received from the Medicines & Healthcare products Regulatory Agency and completion of the necessary pre-trial processes, we will commence a two-centre trial on Crohn's Disease patients in remission in the next few weeks.

With the trial commencing and combined with recently obtained healthy human data, we will now increase activity in the commercial area, seeking to identify potential global license or co-development partners to address this substantial market opportunity.

**Helicobacter pylori**

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 well and will reach a critical decision point in the last quarter of this calendar year.

The Company received a £100,000 grant from the North West Development Agency for this project and this directly funds a significant portion of the costs in the phase of development.

**Outlook**

Progress will continue to be difficult in this economic environment and we are managing cash and resources very carefully in recognition of this. We are focused on revenue development for our key Fruitflow® technology with positive negotiations and discussions in place with global players in the ingredients, food and beverage sectors. We will continue to explore actively all options for value creation and realisation for Fruitflow® and our pipeline technologies.

We remain committed to creating medium and long-term shareholder value through the exploitation of our technology pipeline and will expedite development this year, while being mindful of the need to preserve resources.

**Stephen Moon**

Chief Executive

## Financial Review

### International Financial Reporting Standards

The Financial Review should be read in conjunction with the Group financial statements and the notes to the Group financial statements.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and International Financial Reporting Interpretation Committee (IFRIC) interpretations as endorsed by the European Union, and those parts of the Companies Acts 1985 and 2006 as applicable to companies reporting under IFRS.

### Revenue and grant income

Revenue for the year ended 31 March 2009 was £5,400 (2008: £161,702), reflecting a decrease in amounts payable to the Group by its prospective licensing partners.

Grant income for the year ended 31 March 2009 was £20,000, being the first part of a £100,000 grant which was awarded to the Group in January 2009 by The Northwest Regional Development Agency (NWDA). The grant is in respect of the Group's new helicobacter pylori project with the University of Manchester, for a new technology for the treatment and prevention of peptic ulcers.

Grant income for the year ended 31 March 2008 was £133,649, being the final part of a research grant for the Group's Crohn's Disease technology. The Crohn's Disease grant was awarded to the Group in November 2005 by the NWDA.

### Research and development costs

Research and development ("R&D") costs for the year ended 31 March 2009 were £651,301 (2008: £537,840), including £16,690 capitalised under IAS 38 (2008: £20,597) reflecting an increase in R&D activity for the Fruitflow<sup>®</sup> and Crohn's Disease projects, and the commencement of R&D activity for the Group's new peptic ulcer project.

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 R&D team continues to research further claim areas for the Group's core Fruitflow<sup>®</sup> technology. A second phase patient trial for the Group's Crohn's Disease technology is due to commence shortly, following a Clinical Trials Authorisation received from the Medicines and Healthcare products Regulatory Agency.

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 £967,111 (2008: £986,073), which includes a share-based payment charge of £112,630 (2008: £31,583). Net of the share-based payment charge administrative costs for the year were £854,481, a £100,009 reduction from the net £954,490 incurred in 2008.

The Group's cost base and its resources have been and will continue to be tightly managed.

## **Impairment of goodwill**

The Group has recorded a non-cash goodwill impairment charge of £3,099,328 (2008: £NIL) in relation to the carrying value of the goodwill which arose in June 2005 when the Company acquired the entire issued share capital of Provexis Natural Products Limited.

Goodwill arising on business combinations is reviewed for impairment on an annual basis or more frequently if there are indications that goodwill may be impaired, and the recoverable amount of goodwill is determined based on value in use calculations. The Group's activities are treated as a single cash-generating unit.

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.

The impairment recorded in the year was driven by the deterioration in the economic climate, corresponding reductions in expected revenues and greater uncertainty about the future, resulting in changes in applicable discount rates. The discount rate used to calculate value in use was 23%, which compares to a discount rate of 15% used in 2008. The impairment has no impact on the Group's cash position or its operations.

## **Taxation**

A research and development tax credit of £50,000 (2008: £134,371) in respect of research and development expenditure incurred has been recognised in the financial statements and is shown as a debtor at 31 March 2009.

The £134,371 R&D tax credit disclosed for the year ended 31 March 2008 was in respect of the three years ended 31 March 2008. £80,720 of this amount was attributable to the two years ended 31 March 2007, and the R&D tax credit claims for these two years were paid to the Group during the year ended 31 March 2009. A £46,215 R&D tax credit claim for the year ended 31 March 2008 was paid to the Group in May 2009.

## **Losses**

The loss from continuing operations for the year ended 31 March 2009 was £4,570,506 (2008: £1,017,287) and the loss per share from continuing operations was 0.71p (2008: 0.26p). The overall loss from continuing and discontinued operations for the year ended 31 March 2009 was £4,570,506 (2008: £1,162,684) and the loss per share from continuing and discontinued operations was 0.71p (2008: 0.30p).

The adjusted overall loss from continuing and discontinued operations for the year ended 31 March 2009, net of the £3,099,328 non-cash goodwill impairment charge, was £1,471,178 and the adjusted loss per share from continuing and discontinued operations, net of goodwill impairment, was 0.23p (2008: 0.30p).

## **Financial instruments**

Information about the use of financial instruments by the Group is disclosed in note 2.

## **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](http://www.provexis.com).

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 8 June 2009, the Company's liquidity and capital resources are adequate to deliver the current strategic objectives and 2009/10 business plan and that the Company meets going concern criteria. See also note 1 to the Group financial statements.

Cash at bank at 31 March 2009 was £1,678,263 (31 March 2008: £532,581).

## Business Review

### Principal activities

Provoxis 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.

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

### Group strategy

The Provoxis 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, the Chief Executive’s Statement and the Financial Review report on the Group’s performance during the year ended 31 March 2009, 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 2009 and 31 March 2008:

	<b>31 March 2009</b>	31 March 2008
	£	£
Cash at bank and in hand	<b>1,678,263</b>	532,581
	<b>1,678,263</b>	532,581

The table below shows the Group’s R&D ratio for the two years ended 31 March 2009. The R&D ratio is the percentage of research and development costs relative to total operating expenses.

	<b>31 March 2009</b>	31 March 2008
	£	£
Research and development costs	<b>634,611</b>	517,243
Administrative costs before goodwill impairment	<b>967,111</b>	986,073
Total operating costs before goodwill impairment	<b>1,601,722</b>	1,503,316
R&D ratio	<b>40%</b>	34%

**Post balance sheet events**

On 28 May 2009 the Company announced the adoption of scientific substantiation of a health claim for the Company's Fruitflow® anti-thrombotic technology by the European Food Safety Authority ("EFSA").

The European Commission has introduced regulation aimed at harmonizing and approving nutrition and health claims on foods. EFSA intends to establish an EU-wide list of permitted claims by 2010 and health claims which do not comply will be prohibited. The Company submitted a health claim dossier to EFSA in late 2008 under Article 13(5), which regulates newly developed science or claims with proprietary data.

Following a review by the EFSA panel, it was judged that a cause and effect relationship has been established between consumption of Fruitflow® and the reduction of platelet aggregation in humans. EFSA has now adopted the scientific opinion substantiating the health claim, which is expected to go through the final authorization procedure in the coming weeks.

See also note 24 to the Group financial statements.

**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.

The Group currently employs ten 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 2009 amounted to 28 days compared to 51 days at 31 March 2008.

## **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 three 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 every two months, 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.

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### **Executive Directors**

S N Moon

S N Morrison (appointed 1 October 2008)

I Ford

### **Non-executive Directors**

C D Buck

N C Bain

J B Diggines

K Rietveld (appointed 29 August 2008)

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## **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 £18,000 for the year ended 31 March 2009 (2008: £42,000). 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](http://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.

## **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.

See also note 1 to the Group 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. (2008: £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](http://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' 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.

**Ian Ford**  
Secretary

## Consolidated income statement

Year ended 31 March 2009

Year  
ended  
31 March  
2008

	Note	Before impairment of goodwill £	Impairment of goodwill £	Total £	£
<b>Revenue</b>	1,3	<b>5,400</b>	—	<b>5,400</b>	161,702
Grant income	4	<b>20,000</b>	—	<b>20,000</b>	133,649
Research and development costs		<b>(634,611)</b>	—	<b>(634,611)</b>	(517,243)
Administrative costs	13	<b>(967,111)</b>	<b>(3,099,328)</b>	<b>(4,066,439)</b>	(986,073)
<b>Loss from operations</b>	5	<b>(1,576,322)</b>	<b>(3,099,328)</b>	<b>(4,675,650)</b>	(1,207,965)
Finance income	8	<b>65,161</b>	—	<b>65,161</b>	57,587
Finance costs	8	<b>(10,017)</b>	—	<b>(10,017)</b>	(1,280)
<b>Loss before tax</b>		<b>(1,521,178)</b>	<b>(3,099,328)</b>	<b>(4,620,506)</b>	(1,151,658)
Taxation	9	<b>50,000</b>	—	<b>50,000</b>	134,371
<b>Loss for the year from continuing operations</b>		<b>(1,471,178)</b>	<b>(3,099,328)</b>	<b>(4,570,506)</b>	(1,017,287)
<b>Discontinued operation</b>					
Loss for the year from discontinued operation	10	—	—	—	(145,397)
<b>Loss for the year</b>		<b>(1,471,178)</b>	<b>(3,099,328)</b>	<b>(4,570,506)</b>	(1,162,684)
<b>Attributable to:</b>					
Equity holders of the parent	20	<b>(1,471,178)</b>	<b>(3,099,328)</b>	<b>(4,570,506)</b>	(1,189,117)
Minority interest		—	—	—	26,433
		<b>(1,471,178)</b>	<b>(3,099,328)</b>	<b>(4,570,506)</b>	(1,162,684)
<b>Loss per share from continuing and discontinued operations to equity holders of the parent</b>					
Basic and diluted – pence	11			<b>0.71</b>	0.30
<b>Loss per share from continuing operations to equity holders of the parent</b>					
Basic and diluted – pence	11			<b>0.71</b>	0.26

## Consolidated balance sheet

	Notes	As at 31 March 2009 £	As at 31 March 2008 £
<b>Non-current assets</b>			
Goodwill	12,13	3,802,685	6,902,013
Other intangible assets	12	37,287	20,597
Plant and equipment	14	66,941	74,094
<b>Total non-current assets</b>		<b>3,906,913</b>	6,996,704
<b>Current assets</b>			
Trade and other receivables	15	76,942	280,100
Income tax asset	9	103,651	136,774
Cash and cash equivalents	16	1,678,263	532,581
<b>Total current assets</b>		<b>1,858,856</b>	949,455
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	(233,973)	(361,496)
<b>Total liabilities</b>		<b>(233,973)</b>	(361,496)
<b>Total net assets</b>		<b>5,531,796</b>	7,584,663
<b>Capital and reserves attributable to equity holders of the parent company</b>			
Share capital	18	4,434,907	4,017,244
Share premium reserve	20	7,979,558	5,992,212
Merger reserve	20	6,273,909	6,273,909
Retained earnings	20	(13,156,578)	(8,698,702)
<b>Equity attributable to equity holders of the parent</b>		<b>5,531,796</b>	7,584,663
Minority interests		—	—
<b>Total equity</b>		<b>5,531,796</b>	7,584,663

## Consolidated cash flow statement

	Year ended 31 March 2009 £	Year ended 31 March 2008 £
<b>Cash flows from operating activities</b>		
Loss after tax and discontinued operations	(4,570,506)	(1,162,684)
Adjustments for:		
Depreciation	20,917	15,229
Impairment of goodwill	3,099,328	—
Net finance income	(55,144)	(56,307)
Taxation	(50,000)	(134,371)
Share-based payment charge	112,630	31,583
<b>Operating cash outflow before changes in working capital</b>	<b>(1,442,775)</b>	<b>(1,306,550)</b>
Decrease in inventories	—	38,466
Decrease in trade and other receivables	147,435	159,759
Decrease in trade and other payables	(127,523)	(377,479)
<b>Cash used in operations</b>	<b>(1,422,863)</b>	<b>(1,485,804)</b>
Tax credits received	83,123	—
<b>Net cash outflow from operating activities</b>	<b>(1,339,740)</b>	<b>(1,485,804)</b>
<b>Cash flows from investing activities</b>		
Purchase of plant and equipment	(13,764)	(76,716)
Purchase of intangible assets	(16,690)	(20,597)
Interest received	61,770	57,587
<b>Cash generated by / (used in) investing activities</b>	<b>31,316</b>	<b>(39,726)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital – share placing	2,714,812	2,149,750
Expenses paid on share issue	(250,689)	(188,283)
Proceeds from exercise of share options	—	82,100
Repayment of borrowings	—	(100,000)
Interest paid	(10,017)	(1,280)
<b>Cash generated by financing activities</b>	<b>2,454,106</b>	<b>1,942,287</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,145,682</b>	<b>416,757</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>532,581</b>	<b>115,824</b>
<b>Cash and cash equivalents at end of year</b>	<b>1,678,263</b>	<b>532,581</b>

## 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 £
<b>At 1 April 2007</b>	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)
<b>At 31 March 2008</b>	<b>4,017,244</b>	<b>5,992,212</b>	<b>6,273,909</b>	<b>(8,698,702)</b>	<b>7,584,663</b>	<b>—</b>	<b>7,584,663</b>
Share-based charges	—	—	—	112,630	112,630	—	112,630
Issue of shares – placing 28 August 2008	386,894	1,883,229	—	—	2,270,123	—	2,270,123
Issue of shares – placing 2 October 2008	30,769	163,231	—	—	194,000	—	194,000
Reduction of premium on share issue	—	(59,114)	—	—	(59,114)	—	(59,114)
Loss for the year	—	—	—	(4,570,506)	(4,570,506)	—	(4,570,506)
<b>At 31 March 2009</b>	<b>4,434,907</b>	<b>7,979,558</b>	<b>6,273,909</b>	<b>(13,156,578)</b>	<b>5,531,796</b>	<b>—</b>	<b>5,531,796</b>

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

The notes below form part of the financial statements from which this final results announcement is derived.

## **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.

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**

This preliminary announcement does not constitute the Company's statutory accounts for the years ended 31 March 2009 or 2008, but it is derived from those accounts. Statutory accounts for 2008 have been delivered to the Registrar of Companies and those for 2009 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s237(2) or (3) Companies Act 1985.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements for the year ended 31 March 2009 that comply with IFRS in June 2009.

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 2009.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the year ending 31 March 2009. The new standards, amendments to standards and interpretations will be relevant to the Group but have not been adopted early as the Directors do not expect these standards and interpretations to have a material effect on the Group financial statements:

- Amendment to IAS 1 'Presentation of Financial Statements' effective for accounting periods beginning on or after 1 January 2009;
- IAS 27 (Amendment) 'Consolidated and Separate Financial Statements' effective 1 July 2009.
- Amendment to IFRS 2 'Share-based Payments: Vesting Conditions and Cancellations' effective for accounting periods beginning on or after 1 January 2009;
- IFRS 3 (Revised) 'Business Combinations' effective 1 July 2009.
- 'Improvements to IFRSs (2009)' effective 1 January 2009 and 1 January 2010.

There are a number of standards, interpretations and amendments to published accounts not listed above which the Directors consider not to be relevant to the Group."

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.

### **Going concern**

The Group's business activities together with the factors likely to affect its future development are set out in the Business Review. The financial position of the Group, its cash flows and liquidity position are set out in the Financial Review. In addition note 2 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposure to credit and liquidity risk.

The Group made a loss for the year of £4,570,506 (2008: £1,162,684) and expects to make a further loss during the year ending 31 March 2010. The loss for the year included a £3,099,328 non-cash goodwill impairment charge (2008: £NIL), and the adjusted loss net of the goodwill charge was £1,471,178 (2008: £1,162,684). At 31 March 2009 the Company had cash balances of £1,678,263.

The directors have prepared projected cash flow information for a period including twelve months from the date of approval of these financial statements and have reviewed this information as at the date these financial statements. The projections show that at current levels of cash utilisation and without any cash inflows being generated the directors estimate they would not need to secure any additional funding until July 2010.

The projected cash flow information prepared by the directors includes various scenarios for the Company's future cash flows which have been considered by the Directors. The Directors are currently in discussions with various potential customers and investors and are confident, based on the results of those discussions to date, that they will be able to generate the income, or secure the additional funding and cash inflows necessary, to enable the Group to meet its projections, such that the Group will be able to continue to trade for the foreseeable future. The Directors have also identified a number of steps that could be taken to improve the working capital situation, should further cash inflows not be available in the timeframe required.

As a result of the above, the directors consider it appropriate to prepare the financial statements on the going concern basis.

#### ***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, collaboration agreements, royalties and sales of the Group's Fruitflow<sup>®</sup> product net of value added tax.

The accounting policies for the principal revenue streams of the Group are as follows:

- (i) Exclusivity arrangements and similar agreements are recognised as revenue in the accounting period in which the related services, or required activities, are performed or specified conditions are fulfilled in accordance with the terms of completion of the specific transaction.
- (ii) Royalty income relating to the sale by a licensee of licensed product is recognised on an accruals basis in accordance with the substance of the relevant agreement and based on the receipt from the licensee of the relevant information to enable calculation of the royalty due.
- (iii) Sales of the Group's Fruitflow<sup>®</sup> product are recorded net of value added tax when the significant risks and rewards of ownership have been transferred to the buyer.

#### ***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.

## **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.

## **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.

### ***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 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<sup>®</sup> juice drink which ceased production in July 2007. There were no stock or other write offs associated with the cessation of Sirco<sup>®</sup>. All costs and income relating to the Sirco<sup>®</sup> 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 for ten years using data from the Group's latest internal forecasts. The forecasts are extrapolated beyond ten years at growth rates of between 2% and 7% (2008: 2%). The results of the value in use calculations are reviewed by the Board.

The key assumptions for the value in use calculations are those regarding discount rates, revenue commencement dates, growth rates and expected changes in margins and costs. Management estimate discount rates using post-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 are discounted to calculate value in use using a post-tax discount rate. The post-tax discount rate is based on a number of factors including the risk-free rate in the UK, the Group's estimated market risk premium, and a premium to reflect the inherent risk of the forecast income streams included in the Group's cash flow projections, which remain subject to contracts being agreed with prospective customers.

## **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 2009 the Group had trade payables denominated in Euros of £843 (2008: £20,338), translated at the year end rate of £1 : 1.0811 Euros (2008: £1 : 1.2566 Euros). If the Euro exchange rate at 31 March 2009 had weakened / strengthened against the UK pound by 5% the post-tax loss for the year would have been £40 lower / £44 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 £233,973 (2008: £361,496) as disclosed in note 17.

### **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.

### 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 2009 £	Year ended 31 March 2008 £
NWDA R&D grant income recognised in income statement	20,000	133,649
	<b>20,000</b>	<b>133,649</b>

### 5. Operating loss

	Year ended 31 March 2009 £	Year ended 31 March 2008 £
<b>Operating loss is stated after charging:</b>		
Impairment of goodwill	3,099,328	—
Depreciation of plant and equipment	20,917	15,229
Operating lease costs – land and buildings	98,709	60,174

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

	Year ended 31 March 2009 £	Year ended 31 March 2008 £
<b>Audit services</b>		
Parent company	12,600	19,245
Subsidiaries	29,400	34,214
<b>Tax services – compliance</b>		
Parent company	3,600	8,990
Subsidiaries	8,400	20,010
<b>Other services</b>		
Parent company – share option scheme advice	6,000	10,000
Subsidiary – NWDA grant	—	3,000
<b>Total fees</b>	<b>60,000</b>	<b>95,459</b>

## 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 2009	Year ended 31 March 2008
Administrative staff	1	3
Research and development staff	7	5
Directors	6	5
	<b>14</b>	<b>13</b>

Their aggregate emoluments were:

	Year ended 31 March 2009 £	Year ended 31 March 2008 £
Wages and salaries	688,713	701,364
Social security costs	65,919	64,955
Other pension and insurance benefits costs	38,640	31,239
<b>Total cash settled emoluments</b>	<b>793,272</b>	<b>797,558</b>
Accrued holiday pay	15,078	11,243
Share-based payment remuneration charge: equity settled	112,630	31,583
<b>Total emoluments</b>	<b>920,980</b>	<b>840,384</b>

## 7. Directors' emoluments

	Year ended 31 March 2009 £	Year ended 31 March 2008 £
<b>Directors</b>		
Aggregate emoluments	<b>372,030</b>	345,792
Company pension contributions	<b>15,487</b>	11,979

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

	Year ended 31 March 2009 £	Year ended 31 March 2008 £
Aggregate emoluments	<b>154,701</b>	167,609
Company pension contributions	<b>7,785</b>	7,500

During the year, three Directors (2008: three Directors) participated in defined contribution pension schemes.

Directors' emoluments include amounts attributable to benefits in kind comprising private medical insurance on which the directors are assessed for tax purposes. The amounts attributable to benefits in kind are stated at cost to the Group, which is also the tax value of the attributable benefits.

## 8. Finance income and costs

	Year ended 31 March 2009 £	Year ended 31 March 2008 £
Bank interest receivable	65,161	57,587
Finance costs payable	(10,017)	(1,280)
	<b>55,144</b>	<b>56,307</b>

Finance costs payable include a £10,000 inducement fee for the advancement of bridging loans which were provided to the Company on 4 August 2008, and repaid by the Company on 28 August 2008 as follows:

### Bridging loans Advanced 4 August 2008 Repaid 28 August 2008

	Amount of loan £	Inducement fee payable £
RisingStars Growth Fund (RSGF)	25,000	5,000
C D Buck	15,000	3,000
N C Bain	10,000	2,000
	<b>50,000</b>	<b>10,000</b>

The loans were effected by the issue by the Company to the Lenders of loan notes. The loan notes were unsecured and were not transferable by the relevant holders.

The Company was obliged to pay interest on the principal sum for the period until it was repaid at the rate of 20 per cent per annum, but the loan note holders waived their entitlement to interest when the loan notes were repaid, on 28 August 2008.

The RisingStars Growth Fund is managed by Enterprise Ventures Limited. The Chief Executive of Enterprise Ventures Limited is J B Diggins, a Non-executive Director of the Company. C D Buck and N C Bain are also Non-executive Directors of the Company.

## 9. Taxation

	Year ended 31 March 2009 £	Year ended 31 March 2008 £
<b>Continuing operations</b>		
<b>Current tax income</b>		
United Kingdom corporation tax research and development credit	61,844	53,651
<b>Adjustment in respect of prior period</b>		
United Kingdom corporation tax research and development credit	(11,844)	80,720
Taxation credit	<b>50,000</b>	<b>134,371</b>

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 2009 £	Year ended 31 March 2008 £
Loss on ordinary activities before tax	4,620,506	1,151,658
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 28% (2008: 30%)	1,293,742	345,497
<b>Effects of:</b>		
Expenses not deductible for tax purposes	(892,032)	(14,011)
Difference between depreciation and capital allowances	(1,785)	(4,546)
Other short-term timing differences	(27,444)	40,340
Unutilised tax losses and other deductions arising in the year	(302,556)	(331,359)
Tax deduction for share options exercised	—	26,925
Additional deduction for R&D expenditure	51,221	30,290
Surrender of tax losses for R&D tax credit refund	(59,302)	(39,485)
Adjustments in respect of prior years	(11,844)	80,720
Total tax credit for the year	50,000	134,371

At 31 March 2009 the Group UK tax losses to be carried forward are estimated to be £11,307,528 (2008: £9,681,617).

#### **Deferred tax**

Deferred tax assets amounting to £3,217,536 (2008: £2,791,237) 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 2009 £	Year ended 31 March 2008 £
Depreciation in excess of capital allowances	11,049	9,264
Other short term timing differences	—	59,995
Unutilised tax losses	3,166,108	2,710,853
Share-based payments	40,379	11,125
	3,217,536	2,791,237

	31 March 2009 £	31 March 2008 £
<b>Income tax asset receivable within one year</b>		
Corporation tax recoverable	103,651	136,774
	103,651	136,774

## 10. Discontinued operation

On 2 July 2007 the Group announced that it had undertaken a strategic review of its Sirco<sup>®</sup> 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<sup>®</sup> 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 2009 £	Year ended 31 March 2008 £
<b>Income statement</b>		
Revenue	—	113,903
Cost of sales	—	(121,179)
Administrative expenses	—	(138,121)
Loss for the year from discontinued operation	—	(145,397)
<b>Cash flow statement</b>		
Net cash flows from operating activities	—	(145,397)
	—	(145,397)

## 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 65,954,117 share options in issue (2008: 34,473,376) that are all currently anti-dilutive and have therefore been excluded from the calculations of the diluted loss per share.

Basic and diluted loss per share amounts are in respect of all activities. Adjusted basic and diluted loss per share amounts exclude goodwill impairment.

	Year ended 31 March 2009	Year ended 31 March 2008
<b>Loss – £</b>		
Continuing operations	4,570,506	1,043,720
Discontinued operation	—	145,397
	<b>4,570,506</b>	<b>1,189,117</b>
<b>Weighted average number of shares</b>		
	<b>644,794,819</b>	395,384,662
<b>Basic and diluted loss per share – pence</b>		
Continuing operations	0.71	0.26
Discontinued operation	—	0.04
Total	<b>0.71</b>	<b>0.30</b>
<b>Loss for the year attributable to equity holders – £</b>		
Continuing operations	4,570,506	1,043,720
Discontinued operation	—	145,397
	<b>4,570,506</b>	<b>1,189,117</b>
<b>Adjustment</b>		
Impairment of goodwill (note 13)	<b>(3,099,328)</b>	—
<b>Adjusted loss for the year attributable to equity holders – £</b>	<b>1,471,178</b>	<b>1,189,117</b>
<b>Adjusted basic and diluted loss per share – pence</b>		
Continuing operations	0.23	0.26
Discontinued operation	—	0.04
Total	<b>0.23</b>	<b>0.30</b>

## Share re-organisation

A share re-organisation was carried out on 28 August 2008, subdividing each of the 401,724,366 issued existing ordinary shares with a nominal value of 1p each in the capital of the Company into one new ordinary share with a nominal value of 0.1p and one Deferred Share with a nominal value of 0.9p. 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. 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. The Deferred Shares effectively carry no value as a result, and they do not form part of the loss per share calculations.

The weighted average number of shares used for the loss per share calculations represents the existing ordinary shares with a nominal value of 1p each in the capital of the Company for the period up to 28 August 2008, and the new ordinary shares with a nominal value of 0.1p each in the capital of the Company for the period thereafter. See also note 18 to the Group financial statements.

## 12. Intangible assets

	Goodwill	Development costs	Total
	£	£	£
<b>Cost</b>			
At 1 April 2008	7,265,277	20,597	7,285,874
Additions	—	16,690	16,690
<b>At 31 March 2009</b>	<b>7,265,277</b>	<b>37,287</b>	<b>7,302,564</b>
<b>Amortisation and impairment</b>			
At 1 April 2008	363,264	—	363,264
Impairment of goodwill charge	3,099,328	—	3,099,328
<b>At 31 March 2009</b>	<b>3,462,592</b>	<b>—</b>	<b>3,462,592</b>
<b>Net book value</b>			
<b>At 31 March 2009</b>	<b>3,802,685</b>	<b>37,287</b>	<b>3,839,972</b>
At 31 March 2008	6,902,013	20,597	6,922,610
<b>Cost</b>			
At 1 April 2007	7,265,277	—	7,265,277
Additions	—	20,597	20,597
<b>At 31 March 2008</b>	<b>7,265,277</b>	<b>20,597</b>	<b>7,285,874</b>
<b>Amortisation</b>			
<b>At 1 April 2007 and 31 March 2008</b>	<b>363,264</b>	<b>—</b>	<b>363,264</b>
<b>Net book value</b>			
<b>At 31 March 2008</b>	<b>6,902,013</b>	<b>20,597</b>	<b>6,922,610</b>
At 31 March 2007	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 key assumptions for the value in use calculations are those regarding discount rates, revenue commencement dates, growth rates and expected changes in margins and costs. 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.

The value in use calculations have used post-tax cash flow projections for ten years using data from the Group's latest internal forecasts. The forecasts are extrapolated beyond ten years at growth rates of between 2% and 7% (2008: 2%). The results of the value in use calculations are reviewed by the Board.

The values used in the Group's internal forecasts reflect anticipated market developments, following discussions with prospective customers and suppliers. The values used in the Group's internal forecasts are also based on estimates of revenue commencement dates and expected changes in margins and costs. An element of the risk inherent in the forecast income streams, which remain subject to contracts being agreed with prospective customers, has been incorporated in the Group's post-tax cash flow projections.

	<b>Goodwill</b>
	<b>£</b>
<b>Cost</b>	
At 1 April 2008	7,265,277
Additions	—
<b>At 31 March 2009</b>	<b>7,265,277</b>
<b>Amortisation and impairment</b>	
At 1 April 2008	363,264
Impairment of goodwill charge	3,099,328
<b>At 31 March 2009</b>	<b>3,462,592</b>
<b>Net book value</b>	
<b>At 31 March 2009</b>	<b>3,802,685</b>
At 31 March 2008	6,902,013
<b>Cost</b>	
At 1 April 2007	7,265,277
Additions	—
<b>At 31 March 2008</b>	<b>7,265,277</b>
<b>Amortisation</b>	
<b>At 1 April 2007 and 31 March 2008</b>	<b>363,264</b>
<b>Net book value</b>	
<b>At 31 March 2008</b>	<b>6,902,013</b>
At 31 March 2007	6,902,013

The value in use calculations have been prepared for a period of greater than five years on account of the expected lives of the Group's primary patents.

Post-tax cash flow projections have been discounted to calculate value in use using a post-tax discount rate of 23% (2008: 15%), resulting in a goodwill impairment charge for the year of £3,099,328.

The post-tax discount rate is based on a number of factors including the risk-free rate in the UK, the Group's estimated market risk premium, and a premium to reflect the inherent risk of the forecast income streams included in the Group's cash flow projections, which remain subject to contracts being agreed with prospective customers.

The Board considered the discount rate of 15% used in the prior year together with factors including the deterioration in the economic climate, corresponding reductions in expected revenues and greater uncertainty about the future. It was agreed that in recognition of prevailing conditions, a significantly higher discount rate of 23% was to be used for the purpose of determining the value in use of goodwill.

Value in use calculations are sensitive to changes in short and medium term revenue and cost growth assumptions, long term growth rates and post-tax discount rates. The impact on value in use of a change in the post-tax discount rate is shown below:

	Post-tax discount rate		
	15% £	23% £	25% £
Cost of goodwill at 31-Mar-09	7,265,277	7,265,277	7,265,277
Goodwill amortisation charge at 31-Mar-09	(363,264)	(363,264)	(363,264)
<b>Net book value of goodwill before impairment</b>	<b>6,902,013</b>	<b>6,902,013</b>	<b>6,902,013</b>
Impairment of goodwill charge required at discount rate	—	(3,099,328)	(3,714,717)
<b>Net book value of goodwill after impairment</b>	<b>6,902,013</b>	<b>3,802,685</b>	<b>3,187,296</b>

The Group has conducted further goodwill impairment sensitivity analysis to include varying growth rates and margins, changes to the Group's cost base, varying revenue commencement dates and other strategic options for the business.

At a post-tax discount rate of 23% a 5% reduction in forecast revenues or a 5% increase in forecast costs would result in further goodwill impairment charges at 31 March 2009 as shown below:

	Impact on value in use of	
	5% reduction in revenues £	5% increase in costs £
Net book value of goodwill after impairment at 31-Mar-09	3,802,685	3,802,685
Further impairment of goodwill charge required	(411,148)	(248,550)
<b>Net book value of goodwill after further impairment</b>	<b>3,391,537</b>	<b>3,554,135</b>

Delays in the forecast revenue commencement dates would also result in an increase in the impairment of goodwill charge for the year, although this could be mitigated in part by cost savings.

#### 14. Plant and equipment

	Plant and machinery	Fixtures, fittings and computer equipment	Laboratory equipment	Total
	£	£	£	£
<b>Cost</b>				
At 1 April 2008	—	38,113	68,725	106,838
Additions		3,320	10,444	13,764
<b>At 31 March 2009</b>	<b>—</b>	<b>41,433</b>	<b>79,169</b>	<b>120,602</b>
<b>Depreciation</b>				
At 1 April 2008	—	28,204	4,540	32,744
Charge for year		6,345	14,572	20,917
<b>At 31 March 2009</b>	<b>—</b>	<b>34,549</b>	<b>19,112</b>	<b>53,661</b>
<b>Net book value</b>				
<b>At 31 March 2009</b>	<b>—</b>	<b>6,884</b>	<b>60,057</b>	<b>66,941</b>
At 31 March 2008	—	9,909	64,185	74,094

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

**15. Trade and other receivables**

	<b>31 March 2009 £</b>	31 March 2008 £
Amounts receivable within one year:		
Trade debtors	<b>6,210</b>	6,243
Other debtors	<b>25,995</b>	107,641
Prepayments and accrued income	<b>44,737</b>	166,216
	<b>76,942</b>	280,100

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

**16. Cash and cash equivalents**

	<b>31 March 2009 £</b>	31 March 2008 £
Cash at bank and in hand	<b>1,678,263</b>	532,581
	<b>1,678,263</b>	532,581

**17. Trade and other payables**

	<b>31 March 2009 £</b>	31 March 2008 £
Trade creditors	<b>59,663</b>	156,248
Other taxes and social security	<b>30,415</b>	36,287
Accruals	<b>143,895</b>	160,362
Other creditors	<b>—</b>	8,599
	<b>233,973</b>	361,496

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

## 18. Share capital

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 net proceeds of the placing were £2.270m after share issue costs.

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](http://www.provexis.com).

On 2 October 2008 the Company raised a further £200,000 gross from a further new share placing, involving the issue of 30,769,200 new shares at 0.65p per share. The net proceeds of the placing were £194,000 after share issue costs.

Authorised	Ordinary 1p shares number	Ordinary 0.1p shares number	Deferred 0.9p shares Number	Total number
At 31 March 2008	550,000,000	—	—	550,000,000
Sub-division of shares	(550,000,000)	1,884,480,706	401,724,366	1,736,205,072
<b>At 31 March 2009</b>	<b>—</b>	<b>1,884,480,706</b>	<b>401,724,366</b>	<b>2,286,205,072</b>

	Ordinary 1p shares £	Ordinary 0.1p shares £	Deferred 0.9p shares £	Total £
At 31 March 2008	5,500,000	—	—	5,500,000
Sub-division of shares	(5,500,000)	1,884,481	3,615,519	—
<b>At 31 March 2009</b>	<b>—</b>	<b>1,884,481</b>	<b>3,615,519</b>	<b>5,500,000</b>

Authorised	Ordinary 1p shares number	Total number
At 31 March 2007	400,000,000	400,000,000
Increase in authorised share capital on 10 April 2007	150,000,000	150,000,000
<b>At 31 March 2008</b>	<b>550,000,000</b>	<b>550,000,000</b>

Authorised	Ordinary 1p shares £	Total £
At 31 March 2007	4,000,000	4,000,000
Increase in authorised share capital on 10 April 2007	1,500,000	1,500,000
<b>At 31 March 2008</b>	<b>5,500,000</b>	<b>5,500,000</b>

Allotted, called up and fully paid	Ordinary 1p shares number	Ordinary 0.1p shares number	Deferred 0.9p shares Number	Total number
At 31 March 2008	401,724,366	—	—	401,724,366
Sub-division of shares	(401,724,366)	401,724,366	401,724,366	401,724,366
Share placing 28 August 2008	—	386,894,230	—	386,894,230
Share placing 2 October 2008	—	30,769,200	—	30,769,200
<b>At 31 March 2009</b>	<b>—</b>	<b>819,387,796</b>	<b>401,724,366</b>	<b>1,221,112,162</b>

	Ordinary 1p shares £	Ordinary 0.1p shares £	Deferred 0.9p shares £	Total £
At 31 March 2008	4,017,244	—	—	4,017,244
Sub-division of shares	(4,017,244)	401,725	3,615,519	—
Share placing 28 August 2008	—	386,894	—	386,894
Share placing 2 October 2008	—	30,769	—	30,769
<b>At 31 March 2009</b>	<b>—</b>	<b>819,388</b>	<b>3,615,519</b>	<b>4,434,907</b>

Allotted, called up and fully paid	Ordinary 1p shares number	Total number
At 31 March 2007	251,038,472	251,038,472
Share placing 12 April 2007	143,316,664	143,316,664
Exercise of share options	7,369,230	7,369,230
<b>At 31 March 2008</b>	<b>401,724,366</b>	<b>401,724,366</b>

	Ordinary 1p shares £	Total £
At 31 March 2007	2,510,386	2,510,386
Share placing 12 April 2007	1,433,166	1,433,166
Exercise of share options	73,692	73,692
<b>At 31 March 2008</b>	<b>4,017,244</b>	<b>4,017,244</b>

During the year ended 31 March 2009 the Company issued ordinary shares of 0.1p each as follows:

Date	Reason for issue	Shares issued £	Number
28.08.08	Placing	386,894	386,894,230
02.10.08	Placing	30,769	30,769,200
		<b>417,663</b>	<b>417,663,430</b>

During the year ended 31 March 2008 the Company issued ordinary shares of 1p 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
		<b>1,506,858</b>	<b>150,685,894</b>

### 19. 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.

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.

At 31 March 2009 the number of ordinary shares subject to options granted over the 2005 and prior option schemes were:

#### EMI options

	31 March 2009		31 March 2008	
	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)	Number
Outstanding at the beginning of the year	3.72	10,274,255	3.32	15,181,064
Granted during the year	0.91	51,727,855	3.38	2,751,479
Exercised during the year	—	—	1.77	(6,498,207)
Cancelled during the year	3.18	(7,804,110)	8.62	(1,160,081)
<b>Outstanding at the end of the year</b>	<b>1.15</b>	<b>54,198,000</b>	<b>3.72</b>	<b>10,274,255</b>

The exercise price of EMI options outstanding at the end of the year ranged between 0.9p and 6.28p (2008: 1p and 6.28p) and their weighted average contractual life was 9.3 years (2008: 8.0 years).

Of the total number of EMI options outstanding at the end of the year, 5,355,945 (2008: 4,774,067) had vested and were exercisable at the end of the year. Their weighted average exercise price was 3 pence (2008: 4 pence).

No EMI options were exercised during the year. The weighted average share price (at the date of exercise) of EMI options exercised during the year ended 31 March 2008 was 3 pence.

### **Unapproved options**

	31 March 2009		31 March 2008	
	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)	Number
Outstanding at the beginning of the year	2.70	24,199,121	3.17	11,875,701
Granted during the year	0.90	7,324,520	2.87	17,304,347
Exercised during the year	—	—	3.50	(871,023)
Cancelled during the year	2.81	(19,767,524)	4.66	(4,109,904)
<b>Outstanding at the end of the year</b>	<b>1.39</b>	<b>11,756,117</b>	<b>2.70</b>	<b>24,199,121</b>

The exercise price of unapproved options outstanding at the end of the year ranged between 0.9p and 6.28p (2008: 1p and 6.28p) and their weighted average contractual life was 8.2 years (2008: 8.6 years).

Of the total number of unapproved options outstanding at the end of the year, 4,431,597 (2008: 5,600,621) had vested and were exercisable at the end of the year. Their weighted average exercise price was 2 pence (2008: 2 pence).

No unapproved options were exercised during the year. The weighted average share price (at the date of exercise) of unapproved options exercised during the year ended 31 March 2008 was 3.75 pence.

### **Grant of options**

The fair values of the options have been estimated at the date of grant using a Black-Scholes model, using the following assumptions:

Tranche	Date of grant	Exercise price	Number of options	Share price at grant date	Expected volatility	Risk free rate	Expected life	Fair value per share under option
		pence		pence			years	pence
1	06-Jun-07	2.875	17,304,347	2.75	78%	4.44%	10	1.42
2	29-Nov-07	3.38	2,751,479	3.00	65%	3.77%	10	1.06
3	26-Aug-08	0.9	44,166,575	0.87	65%	4.45%	10	0.585
4	01-Oct-08	0.9	12,000,000	0.725	65%	4.39%	10	0.485

An expected dividend yield of 0% has been used in all of the above valuations.

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 £112,630 (2008: £31,583) all of which related to equity settled share-based payment transactions.

### **Share re-organisation**

A share re-organisation was carried out on 28 August 2008, sub dividing each of the 401,724,366 issued existing ordinary shares with a nominal value of 1p each in the capital of the Company into one new ordinary share with a nominal value of 0.1p and one Deferred Share with a nominal value of 0.9p.

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.

Share options which had been granted prior to 28 August 2008 over existing ordinary shares with a nominal value of 1p each in the capital of the Company became options over new ordinary shares with a nominal value of 0.1p each in the capital of the Company. The options remain subject to the same terms as contained in the individual option contracts under which they were originally granted.

Share options issued after 28 August 2008 are options over new ordinary shares with a nominal value of 0.1p each in the capital of the Company.

See also note 18 to the Group financial statements.

## 20. Reserves

	Share premium reserve £	Merger reserve £	Retained earnings £	Total £
<b>At 1 April 2007</b>	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
<b>At 31 March 2008</b>	5,992,212	6,273,909	(8,698,702)	3,567,419
Loss for the year	—	—	(4,570,506)	(4,570,506)
Share-based charges	—	—	112,630	112,630
Issue of shares – placing	2,046,460	—	—	2,046,460
Reduction of premium on share issue	(59,114)	—	—	(59,114)
<b>At 31 March 2009</b>	<b>7,979,558</b>	<b>6,273,909</b>	<b>(13,156,578)</b>	<b>1,096,889</b>

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.

## 21. Pension costs

The pension charge represents contributions payable by the Group to independently administered funds which during the year ended 31 March 2009 amounted to £31,726 (2008: £31,239). Pension contributions payable but not yet paid at 31 March 2009 totalled £12,450 in respect of pension contribution entitlements where employees had not yet provided details of the funds to which the contributions should be made (2008: £11,740). In addition, pension contributions payable in arrears at 31 March 2009 totalled £9 (2008: £2,876). All unpaid contributions are included in accrued social security costs at the balance sheet date.

## 22. Operating lease commitments

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

	31 March 2009 £	31 March 2008 £
Due within 1 year	82,875	54,760
Due within 1–2 years	—	101,785
Due within 2–5 years	—	—
	<b>82,875</b>	<b>156,545</b>

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.

### **23. Related party transactions**

Other than as disclosed in note 8 and transactions between Group companies there were no related party transactions in the year.

### ***Key management compensation***

The Directors represent the key management personnel. Details of their compensation and share options are given in note 7.

### **24. Post balance sheet events**

On 28 May 2009 the Company announced the adoption of scientific substantiation of a health claim for the Company's Fruitflow® anti-thrombotic technology by the European Food Safety Authority ("EFSA").

The European Commission has introduced regulation aimed at harmonizing and approving nutrition and health claims on foods. EFSA intends to establish an EU-wide list of permitted claims by 2010 and health claims which do not comply will be prohibited. The Company submitted a health claim dossier to EFSA in late 2008 under Article 13(5), which regulates newly developed science or claims with proprietary data.

Following a review by the EFSA panel, it was judged that a cause and effect relationship has been established between consumption of Fruitflow® and the reduction of platelet aggregation in humans. EFSA has now adopted the scientific opinion substantiating the health claim, which is expected to go through the final authorization procedure in the coming weeks. A reasonable estimate of the financial effect of this event cannot be made at this time.