
PROLYSIS LIMITED**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008****OFFICERS AND ADMINISTRATION**

DIRECTORS

L T Clay
J Errington
S Ruston

SECRETARY

Aldwych Secretaries Limited

AUDITORS

Richardsons
Chartered Accountants
30 Upper High Street
Thame
Oxfordshire
OX9 3EZ

SOLICITORS

Manches
9400 Garsington Road
Oxford Business Park
Oxford
OX4 2HN

REGISTERED OFFICE

6, Begbroke Business and Science Park
Sandy Lane
Yarnton
Oxford
OX5 1PF

COMPANY NUMBER

03548262

WEDNESDAY



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PROLYSIS LIMITED

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITY

The principal activity of the company during the year continued to be antimicrobial research.

DIRECTORS

The directors holding office during the year were:

L T Clay
J Errington
S Ruston

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing this report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the year end and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors must also, in determining how amounts are presented within items in the profit and loss account and balance sheet, have regard to the substance of the reported transactions or arrangement, in accordance with generally accepted accounting principles or practice.

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. The directors have taken all the steps that they ought to have taken to make themselves and the company's auditors aware of any relevant audit information.

PROLYSIS LIMITED**DIRECTORS' REPORT**

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Richardsons be reappointed as auditors of the company will be put to the members at the Annual General Meeting.

SMALL COMPANY EXEMPTIONS

The above report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

Signed on behalf of the Board of Directors


DR S RUSTON – DIRECTOR.....

DATE.....*19 Feb 2009*.....

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

PROLYSIS LIMITED

We have audited the financial statements of Prolysis Limited for the year ended 31 December 2008, which comprise the profit and loss account, the balance sheet and the related notes 1 to 12. These financial statements have been prepared under the accounting policies set out therein, in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007) and the historical cost convention.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Directors' Report, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF OPINION

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF


PROLYSIS LIMITED

BASIS OF OPINION (CONTINUED)

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

OPINION

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice applicable to smaller entities, of the state of the company's affairs as at 31 December 2008, and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985. The information given in the Directors' Report is consistent with the financial statements.



RICHARDSONS
Chartered Accountants
Registered Auditors

30 Upper High Street
Thame
Oxfordshire
OX9 3EZ

19 February 2009

PROLYSIS LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008**

NOTES	<u>2008</u>	<u>2007</u>
Administrative expenses	(3,264,831)	(2,804,301)
Interest receivable	57,782	81,290
8 Interest payable	<u>(270,904)</u>	<u>-</u>
3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(3,477,953)	(2,723,011)
4 Taxation	<u>328,368</u>	<u>306,560</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	(3,149,585)	(2,416,451)
Retained loss brought forward	<u>(15,657,131)</u>	<u>(13,240,680)</u>
RETAINED LOSS CARRIED FORWARD	<u>£ (18,806,716)</u>	<u>£ (15,657,131)</u>

PROLYSIS LIMITED**BALANCE SHEET AS AT 31 DECEMBER 2008**

NOTES		<u>2008</u>	<u>2007</u>
	FIXED ASSETS		
5	Tangible assets	155,802	112,717
	CURRENT ASSETS		
6	Debtors	489,230	427,727
	Cash at bank and in hand	<u>330,447</u>	<u>1,320,753</u>
		819,677	1,748,480
7	CREDITORS: amounts falling due within one year	<u>(3,784,940)</u>	<u>(3,791,186)</u>
	NET CURRENT LIABILITIES	<u>(2,965,263)</u>	<u>(2,042,706)</u>
	NET LIABILITIES	<u>£ (2,809,461)</u>	<u>£ (1,929,989)</u>
	CAPITAL AND RESERVES		
8	Called up share capital	8,388	7,252
9	Share premium account	14,988,706	12,719,729
9	Capital redemption reserve	1,000,161	1,000,161
9	Profit and loss account	<u>(18,806,716)</u>	<u>(15,657,131)</u>
	SHAREHOLDERS' FUNDS	<u>£ (2,809,461)</u>	<u>£ (1,929,989)</u>

The financial statements have been prepared in accordance with the special provisions relating to small companies within Part VII of the Companies Act 1985 and the Financial Reporting Standard for Smaller Entities (effective January 2007).

The financial statements were approved by the Board of Directors and authorised for issue as dated below.

Dr S Ruston – Director.....



Date.....

19 Feb 2009

PROLYSIS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1. GOING CONCERN

The directors' cash flow forecasts for the period beyond the balance sheet date demonstrate that, in order to continue in operational existence for the foreseeable future, further funding will be required.

The directors are confident that sufficient such funding will be forthcoming. Substantial investment has been informally agreed; the informally agreed investment anticipated in last year's financial statements was made available and partially drawn down during this year. A separate, formal funding agreement explicitly dependent on scientific development is also in place; funds from this source were received during this year as a result of scientific milestones being achieved.

The directors have therefore, in preparing the financial statements, adopted the assumption that the company will continue in operational existence for the foreseeable future. The financial statements have therefore been prepared on a going concern basis, without adjustments of the sort that might become necessary should insufficient funding be secured.

2. ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention, and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007) and the accounting policies adopted below.

(a) Tangible fixed assets and depreciation

Fixed assets are recorded at cost, less depreciation.

Depreciation is provided, on a straight-line basis, at rates calculated to write off the cost, less estimated residual value, over the expected useful life of each asset as follows:

Bioinformatics system	3 years
Administration equipment and computers	2 years
Laboratory equipment	5 years
Leasehold improvements	5 years
Furniture	4 years

(b) Research and development

Expenditure on research and development is written off in the year in which it is incurred.

PROLYSIS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2008**

2. ACCOUNTING POLICIES (CONTINUED)**(c) Pensions**

The company operates a group personal pension plan covering all employees. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the company in an independently administered fund.

(d) Foreign currency transactions

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

(e) Deferred taxation

Deferred tax arises as a result of including items of income and expenditure in taxation computations in periods different from those in which they are included in the company's financial statements. Deferred tax is provided in full on timing differences which result in an obligation to pay more (or less) tax at a future date, at the average tax rates that are expected to apply when the timing differences reverse, based on current tax rates and laws. Deferred tax assets and liabilities are not discounted.

PROLYSIS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2008**

3. OPERATING LOSS 2008 2007

This is stated after charging:

Auditors' remuneration	8,900	8,400
Directors' emoluments	209,780	197,145
Pension costs	54,462	50,032
Loss on disposal of assets	1,711	-
Depreciation (owned assets)	<u>44,818</u>	<u>37,647</u>

One director (2007: one) is a member of the group personal pension plan.

4. TAX ON PROFITS ON ORDINARY ACTIVITIES

Research and development tax credits	<u>£ (328,368)</u>	<u>£ (306,560)</u>
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5. TANGIBLE FIXED ASSETS

	<u>Equipment</u>	<u>Leasehold Improvements</u>	<u>Furniture</u>	<u>Total</u>
COST:				
At 1 January 2008	1,170,015	231,021	13,612	1,414,648
Additions	84,170	5,444	-	89,614
Disposals	<u>(888,660)</u>	<u>(183,292)</u>	<u>(13,612)</u>	<u>(1,085,564)</u>
At 31 December 2008	<u>£ 365,525</u>	<u>£ 53,173</u>	<u>£ -</u>	<u>£ 418,698</u>
DEPRECIATION:				
At 1 January 2008	1,070,656	218,019	13,256	1,301,931
Provided during the year	39,929	4,889	-	44,818
On disposals	<u>(888,005)</u>	<u>(182,592)</u>	<u>(13,256)</u>	<u>(1,083,853)</u>
At 31 December 2008	<u>£ 222,580</u>	<u>£ 40,316</u>	<u>£ -</u>	<u>£ 262,896</u>
NET BOOK VALUE:				
At 31 December 2008	<u>£ 142,945</u>	<u>£ 12,857</u>	<u>£ -</u>	<u>£ 155,802</u>
At 31 December 2007	<u>£ 99,359</u>	<u>£ 13,002</u>	<u>£ 356</u>	<u>£ 112,717</u>

PROLYSIS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2008**

6. DEBTORS	2008	2007
Other debtors	417,768	371,129
Prepayments and accrued income	<u>71,462</u>	<u>56,598</u>
	<u>£ 489,230</u>	<u>£ 427,727</u>

The aggregate amount of debtors due after more than one year is £44,191 (2007: £31,206).

7. **CREDITORS:** amounts falling due within one year

Trade creditors	366,203	115,237
Other taxes and social security costs	33,074	31,958
Convertible debt	2,031,000	1,564,800
Other creditors (note 12)	1,301,631	2,000,000
Accruals	<u>53,032</u>	<u>79,191</u>
	<u>£3,784,940</u>	<u>£3,791,186</u>

The convertible debt becomes convertible into shares the number and class of which are contractually dependent on future prevailing circumstance. The conversion will be at the option of the holder of the debt; the option arises upon the earliest of (i) the completion of a fundraising round (note 1), (ii) a significant sale of the company's shares/business and undertaking, or (iii) a listing on a Recognised Investment Exchange. The number of shares will be determined by the price prevalent in relation to the option-triggering circumstance. Similarly, in the case of (i) or (iii) above, the class and type of share into which the debt will be converted will be that prevalent in relation to that circumstance; if (ii) triggers the option, the debt will be converted into the appropriate number of B Ordinary shares.

Included in 'Other creditors' is £1,300,000 (2007: £2,000,000) that presently constitutes a loan but which the directors expect to be converted into share capital within a similar timeframe to the formally convertible debt described above. This expectation is common to that of the issuer of the loan.

Interest will be added to both the formal and informal convertible debt immediately prior to conversion, at a rate of LIBOR + 2%. At the balance sheet date the total potential interest relating to these arrangements was £260,098. The potential interest has not been provided for.

PROLYSIS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2008**

8. SHARE CAPITAL 2008 2007Authorised

32,134,155 Ordinary shares of 0.01p each	3,214	3,214
33,503,349 A Ordinary shares of 0.01p each	3,350	3,350
38,432,496 B Ordinary shares of 0.01p each	3,843	3,843
	<u>£ 10,407</u>	<u>£ 10,407</u>

Allotted, called up and fully paid

12,366,729 Ordinary shares of 0.01p each	1,237	1,237
33,223,864 A Ordinary shares of 0.01p each	3,322	3,322
38,287,016 B Ordinary shares of 0.01p each	3,829	2,693
	<u>£ 8,388</u>	<u>£ 7,252</u>

During the year a loan of £2,000,000 (note 7) plus interest of £270,904 was converted into 11,354,520 B Ordinary shares (aggregate nominal value £1,136). (2007: 6,421,184 A Ordinary shares of aggregate nominal value £642; consideration 17.88p above par for each.)

The following unexercised, unexpired options have been granted under the company's Employee Share Option Scheme:

Year Granted	Number 0.01p shares granted	Exercise price
2008	663,684	20p
2006	976,666	20p
2006	1,005,300	7p
2005	502,200	20p
2004	235,000	7p
2003	1,431,400	7p
2001	256,300	0.001p

The exercisable dates of the above options vary; the latest expiry date is 31 October 2018. All employees at the balance sheet date are options holders.

PROLYSIS LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2008**

9. MOVEMENTS IN RESERVES

	Share Capital	Share Premium	Capital Redemption	Profit and Loss
At 1 January 2008	7,252	12,719,729	1,000,161	(15,657,131)
Issue of shares	1,136	2,269,769	-	-
Cost of issuing shares	-	(792)	-	-
Loss for the financial period	-	-	-	(3,149,585)
At 31 December 2008	<u>£ 8,388</u>	<u>£ 14,988,706</u>	<u>£ 1,000,161</u>	<u>£ (18,806,716)</u>

10. OTHER FINANCIAL COMMITMENTS

At 31 December 2008, the company had annual commitments under non-cancellable operating leases as set out below:

	<u>2008</u>	<u>2007</u>
Operating leases, which expire: within two to five years	<u>£ 85,000</u>	<u>£ 75,500</u>

11. DEFERRED TAXATION

At 31 December 2008 there existed a net deferred tax asset of £4,239,672 (2007: £3,784,699), comprised of £4,221,339 (2007: £3,746,611) arising from trading losses carried forward and £18,333 (2007: £38,088) in respect of accelerated depreciation. However, this has not been provided for due to its recoverability being uncertain whilst revenue streams remain nascent and the company remains committed to significant continued investment in research and development.

12. RELATED PARTY TRANSACTIONS

Various funds managed by East Hill Management, a US investment firm administered by L T Clay, hold shares in the company. Included in 'Other creditors' (note 7) is a loan of £1,300,000 (2007: £2,000,000) from East Hill Management.