

The Insolvency Act 1986

Statement of administrator's proposals

Name of Company Phoqus Pharmaceuticals PLC	Company number 04402178
In the High Court of Justice, Chancery Division, Companies Court	Court case number 6079 of 2008

(a) Insert full name(s) and address(es) of administrator(s)

We David Dunckley and Andrew Hosking of Grant Thornton UK LLP, 30 Finsbury Square, London, EC2P 2YU

attach a copy of our proposals in respect of the administration of the above company

A copy of these proposals was sent to all known creditors on

(b) Insert date

28 August 2008

Signed

Joint Administrator

Dated 28/8/08

Contact Details:

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record.

Grant Thornton UK LLP	
30 Finsbury Square	
London, EC2P 2YU	Tel 0207 7383 5100
DX Number	DX Exchange

TUESDAY



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COMPANIES HOUSE

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If you have completed and signed this form please send it to the Registrar of Companies at Companies House, Crown Way, Cardiff, CF14 3UZ

DX 33050 Cardiff



Grant Thornton

Our Ref WGS/EEM/DJD/P21041/R21041/PF7

To the Creditors

Recovery and Reorganisation

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27 August 2008

Dear Sirs

Phoqus Pharmaceuticals (UK) Limited (PPL)
Phoqus Pharmaceuticals Plc (PPP)
Both In Administration
No 5864 of 2008 and 6079 of 2008

1 INTRODUCTION

- 1.1 Following the appointment of myself, Martin Ellis and Andrew Hosking as Joint Administrators of PPL and myself and Andrew Hosking as Joint Administrators of PPP by the qualifying floating charge holder, Oxford Finance Corporation, on 17 July 2008 and 23 July 2008 respectively, I am submitting my proposals pursuant to paragraph 49(1) of Schedule B1 to the Insolvency Act 1986 for achieving the objectives of the administrations
- 1.2 This report contains the information required by Rule 2.33 of the Insolvency Rules 1986
- 1.3 In accordance with paragraph 100 (2) of Schedule B1 to the Insolvency Act 1986 the functions of the administrators are to be exercised by any or all of them
- 1.4 I attach the following Appendices to this report

Appendix I	Joint Administrators receipts and payments account for the period to 21 August 2008 for PPL
Appendix II	Joint Administrators receipts and payments account for the period to 21 August 2008 for PPP
Appendix III	Joint Administrators time costs and disbursements for the period to 21 August 2008 for PPL
Appendix IV	Joint Administrators time costs and disbursements for the period to 21 August 2008 for PPP

Chartered Accountants

Member firm within Grant Thornton International Ltd

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No OC307742. Registered office: Grant Thornton House, Merton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

A list of personnel permitted by Grant Thornton to accept appointments as insolvency practitioners and of their respective authorising bodies may be inspected at the above address.

2 STATUTORY INFORMATION

2.1 The company's statutory details are as follows

	PPL	PPP
Registered number	03486675	04402178
Date of incorporation	29 December 1997	22 March 2002
Registered office	10 Kings Hill Avenue Kings Hill West Malling Kent ME19 4PQ	10 Kings Hill Avenue Kings Hill West Malling Kent ME19 4PQ
Directors:	Richard Mason Peter Johnson Edwin Moses David Leathers	Richard Mason Peter Johnson Anthony Playle Mustapha Bakali Jerry Benjamin David Leathers John Cashman Suzanne Smith
Secretary	Suzanne Smith	Suzanne Smith

2.2 The administrations constitute "main proceedings" under the EC Regulation on Insolvency Proceedings

3 BACKGROUND TO ADMINISTRATORS' APPOINTMENT

3.1 For all intents and purposes PPP is a non-trading entity and was used only as a holding company to facilitate investment from the Alternative Investment Market (AIM). Any reference to "the company" in these proposals relates to PPL. I was appointed joint administrator of PPP by Oxford Finance Corporation (OFC) to ensure control over inter company loans.

3.2 Grant Thornton UK LLP (the firm) was first consulted by OFC, who hold a qualifying floating charge over the assets of the company, on 8 July 2008 and then subsequently on 16 July 2008 to provide advice to OFC in regards to placing the company into a formal insolvency process. Prior to that consultation, neither I nor the firm, had any dealings or involvement with the company, the directors or its secretary.

3.3 Another firm of chartered accountants had previously undertaken a review of the company's financial position and subsequently produced an agenda for discussion with the company in early July 2008. The purpose of this report was to facilitate the decision making process for the Board of the company and OFC. The report can be summarised as follows:

- i The company is no longer solvent and administration is the recommended path over liquidation as it can be implemented quickly and supports a disposal strategy for the Intellectual Property and the facilities
 - ii There are two main options available, to seek to dispose of the business and assets on a going concern basis (Option A) or an immediate closure and mothballing of the operations and disposal of the assets on a piecemeal basis (Option B)
- 3.4 Having considered all the options available, the floating charge holder considered the best route for the company was for it to be placed into administration and subsequently on 17 July 2008 made the direct appointment of administrators in accordance with paragraph 14 of Schedule B1 to the Insolvency Act 1986
- 3.5 I have summarised below the main reasons why I believe the company is now in this position
 - The company has been active for over 10 years and has received over £49 million worth of investment. Its primary aim over recent years has been to develop the Company's lead product Chronocort® for the treatment of patients with cortisol deficiency due to diseases such as congenital adrenal hyperplasia and Addison's disease. The company has been involved in designing a special coating in order to enable a timely release of the drug to mimic the body's physiological cortisol rhythm.
 - This process progressed to clinical trials on humans in the US. The problem arose when trying to manufacture the product on a commercial scale. The coating of the tablet was flawed and cracks appeared creating an early release of the drug. Manufacturing issues were addressed, however no solution could be found. Without this capability to manufacture on a large scale the drug lost the majority of its value.
 - Due to the issues faced, the directors looked to sell the company to a larger pharmaceutical company who could progress the manufacturing issue further. Following road shows in March of this year throughout the US no sale process progressed, in part due to the specialist market the firm operates in as endocrinology contains only about 70 different companies worldwide.
 - On 3 July 2008 the directors suspended the shares of PPP on AIM.
- 3.6 It eventually became apparent that the company could obtain no further investment and there were no interested parties. At this point the only option available was to appoint an administrator.

4 ASSETS AND LIABILITIES

- 4.1 I am currently awaiting from the directors the completed Statement of Affairs for each company and these are expected shortly.

- 4 2 At the time of my appointment, the company held cash at bank of £2,056,000, which has been received into the administration bank account
- 4 3 The main liabilities of the company at the date of my appointment were
- c £2m due to OFC
 - c £37m due to PPP
- 4 4 Earlier this year PPP provided PPL with a letter purporting to subordinate the debt between the companies (the Letter). The effect of this letter would be that PPP would defer its claim in PPL's administration to all other creditors of PPL. This would be to the potential detriment of PPP's own creditors. Conversely, the creditors of PPL would receive a much improved dividend pursuant to the prescribed part established under section 175A of the Insolvency Act 1986 (as amended)
- 4 5 Copies of the relevant paperwork has been provided to my legal advisers and it is their opinion that the subordination Letter is not enforceable as an effective deed of subordination between the companies for the following reasons. Whilst the legal reasoning for this is complex and detailed, in summary
- PPP received little or no commercial benefit in the transaction, and
 - PPP could not effect the purported subordination without the consent of OFC, its own secured creditor
- 4 6 In view of the legal advice received, the debt from PPL to PPP will stand and will rank as a valid claim for distribution purposes

5 CONDUCT OF THE ADMINISTRATION

- 5 1 Following my appointment I held discussions with the directors of the company and subsequently contacted a number of potentially interested parties. It quickly became apparent that attempts to sell the company over recent months had been exhausted and due to the specialist nature of the company's business, it was not viable to continue trading with a view to securing a sale of the business on a going concern basis
- 5 2 I have therefore pursued a sale of the company's physical assets, as opposed to the underlying business, comprising the physical assets and Intellectual Property in order to maximise funds available for distribution to the creditors. I am currently in discussions with several parties regarding the sale of the assets, albeit this matter has not yet been concluded
- 5 3 Following the lack of interest in the business as a going concern, it was inevitable the company's employees would have to be made redundant and this was undertaken on 18 July 2008. Five staff were retained in order to help deal with various outstanding issues and on 25 July 2008 these remaining staff were also made redundant

6 SECURED CREDITOR

- 6 1 Both companies have granted a debenture dated 2 April 2007 in favour of Oxford Finance Corporation (OFC), giving fixed and floating charges over the companies assets
- 6 2 At the date of my appointment, over £2m was due from PPL to OFC PPP has guaranteed all of PPL's indebtedness to OFC Following receipt of the cash at bank as detailed in section 4 2, I have made an initial distribution to the secured creditor of £1 3m

7 PREFERENTIAL AND UNSECURED CREDITORS

- 7 1 With the agreement of the OFC, the floating charge holder, all employees were paid their salary to the date of redundancy As these funds would have been available to OFC, it now has a subrogated preferential claim in the administration, which is limited to £800 per employee
- 7 2 Employees who were due holiday pay will initially make a claim against the National Insurance Fund, Redundancy Payments Office (RPO) The RPO will pay all outstanding holiday pay for up to six weeks, subject to the statutory limit of £330 per week Any monies due to the former employees in respect of outstanding holiday pay, over and above that paid by the RPO, will rank as a preferential claim in the administration
- 7 3 I anticipate all preferential claims will be paid in full
- 7 4 In accordance with section 176A of the Insolvency Act 1986, as the floating charge post-dates 15 September 2003, a prescribed part is to be carved out of the floating charge assets and made available to the unsecured creditors of the companies The prescribed part calculation is applied to the net property available and is calculated at 50% of the first £10,000 of net realisations and 20% of all further net realisations, up to a maximum prescribed part of £600,000
- 7 5 Pending the sale of the company's physical assets and Intellectual Property, I am not in a position to comment on the quantum of prescribed part distribution However, due to the significant debt due to PPP from the company, the likely dividend available to unsecured creditors, other than PPP, is anticipated to be minimal

8 PROPOSALS FOR ACHIEVING THE OBJECTIVE OF THE ADMINISTRATION

- 8 1 The joint administrators will continue to pursue the objective of achieving a better result for the company's creditors as a whole than would be likely if the company were wound up
- 8 2 It is proposed that the administration will end by the companies going into Creditors Voluntary Liquidation (CVL) If the companies are placed into CVL it is proposed that David Dunkley and Andrew Hosking will be appointed Joint Liquidators of both PPL and PPP

- 8 3 Please note, however, creditors may nominate a different Liquidator providing nomination to that effect is received before the approval of these proposals
- 8 4 It is proposed the administrators shall be discharged from liability in respect of any action of theirs as administrators when they cease to be administrators of the companies pursuant to paragraph 98(1) of Schedule B1 of the Insolvency Act 1986

9 MEETING OF CREDITORS

- 9 1 Paragraph 51(1), Schedule B1, of the Insolvency Act 1986 requires that the administrators' proposals must be accompanied by an invitation to a creditors' meeting. However, paragraph 52(1)(b) states that a meeting is not required if the company had insufficient property to enable a distribution to be made to unsecured creditors other than by virtue of section 176A(2)(a), being the prescribed part. As there will no be monies available for the unsecured creditors other than the prescribed part, it is not my intention to summon a meeting
- 9 2 Please note that a meeting will be summoned if it is requested
- a) by creditors of the company whose debts amount to at least 10% of the total debts of the company,
 - b) in the prescribed manner,
 - c) in the prescribed period, being 12 days from the date on which the proposals are sent out

10 ADMINISTRATORS' REMUNERATION AND DISBURSEMENTS

- 10 1 As I have made a declaration under paragraph 52(1)(b), Schedule B1, of the Insolvency Act 1986, the joint administrators remuneration may be fixed by the approval of
- a) each secured creditor of the company, and
 - b) preferential creditors whose debts amount to more than 50% of the preferential debts of the company, disregarding debts of any creditor who does not respond to an invitation to give or withhold approval
- 10 2 It is therefore my intention to seek approval for my remuneration from these creditors

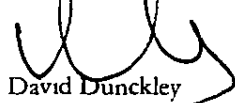
- 10.3 The administrators will request that their remuneration be calculated according to the time properly given by the administrators and their staff in attending to matters arising in the administration
- 10.4 The administrator will charge out of pocket expenses at cost. Mileage is charged at standard rates which comply with Inland Revenue limits or AA recommended rates. VAT is added to disbursement charges as necessary.
- 10.5 Payments of the administrator's remuneration and disbursements are to be met from funds held in the administrations in priority to the claims of creditors, and, after approval of the basis, the administrators may draw sums on account.
- 10.6 Time costs to date amount to £56,142 in respect of PPL and £4,170 in respect of PPP. Please find at Appendix III full details of time costs to-date in accordance with SIP9.
- 10.7 In addition, disbursements of £75.20 have been incurred in respect of travel costs to the company premises.
- 10.8 Set out below are details of the current charge out rates of the various grades of staff who will be dealing with matters in the administrations. The level of staff will depend on the nature and complexity of the work to be carried out.

Grade	£/Hour
Partner	480
Director	400
Senior Manager	365
Manager	315
Assistant Manager	260
Senior Administrator	215 - 235
Administrator	130 - 180
Support Staff	120 - 140

- 10.9 Background information regarding the fees of administrators can be found at <http://www.insolvency-practitioners.org.uk> (navigate via 'Technical' to 'Creditors Guides to Fees'). Alternatively I can supply this information by post on request.

Should you have any queries regarding the content of this report, please do not hesitate to contact Ellen McRoberts on 020 7865 2277.

Yours faithfully
for and on behalf of Phoqus Pharmaceuticals (UK) Limited & Phoqus Pharmaceuticals PLC


David Dunckley
Joint Administrator

The affairs of Phoqus Pharmaceuticals (UK) Limited are being managed by David Dunckley, Martin Ellis and Andrew Hosking, appointed joint administrators on 17 July 2008.

The affairs of Phoqus Pharmaceuticals PLC are being managed by David Dunckley and Andrew Hosking, appointed joint administrators on 23 July 2008.

Phoqus Pharmaceuticals (UK) Limited
(In Administration)

Joint Administrators' Abstract Of Receipts And Payments
To 21 August 2008

	Fixed Charge £	Floating Charge £	Total £
RECEIPTS			
Telephone		17 76	17 76
Plant & Machinery		100 00	100 00
VAT Refund		40,023 50	40,023 50
Cash at Bank		2,056,000 00	2,056,000 00
Bank/ISA InterestGross		907 12	907 12
Misc Refunds		647 52	647 52
	0.00	2,097,695.90	2,097,695.90
PAYMENTS			
Postages		24 90	24 90
Net Wages		48,316 88	48,316 88
Professional Fees		1,000 00	1,000 00
Floating Charge Creditor		1,300,000 00	1,300,000 00
	0.00	1,349,341.78	1,349,341.78
Balances in Hand	0 00	748,354.12	748,354.12
	0.00	2,097,695.90	2,097,695 90

Phoqus Pharmaceuticals PLC
(In Administration)

Joint Administrators' Abstract Of Receipts And Payments
To 21 August 2008

	Fixed Charge £	Floating Charge £	Total £
RECEIPTS			
Cash at Bank		355 55	355 55
Misc Refunds		4,177 50	4,177 50
	<u>0 00</u>	<u>4,533.05</u>	<u>4,533 05</u>
PAYMENTS			
	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Balances in Hand	<u>0.00</u>	<u>4,533 05</u>	<u>4,533.05</u>
	<u>0.00</u>	<u>4,533 05</u>	<u>4,533 05</u>

GRANT THORNTON UK LLP									
Appendix III									
PHOQUS PHARMACEUTICALS (UK) LIMITED - IN ADMINISTRATION SIP 9 TIME COST ANALYSIS FOR THE PERIOD FROM 17 JULY 2008 TO 21 AUGUST 2008									
Classification of work function	Partner Hours	Manager Hours	Other Senior Professionals Hours	Assistants and Support Staff Hours	Total Hours	Time Cost £	Average Hourly Rate £/Hour		
Administration and Planning	37 13	23 50	9 75	70 20	140 58	36,296 00	258 19		
Investigations	-	3 50	-	3 20	6 70	1,601 00	238 96		
Realisation of Assets	-	20 00	-	14 00	34 00	7,937 00	233 44		
Creditors	-	16 45	-	34 80	53 25	10,216 00	191 85		
Trading	-	-	-	0 80	0 80	92 00	115 00		
Grand Total	37 13	65 45	9 75	123 00	235 33	56,142 00	238 57		

Narrative of tasks undertaken

Administration and Planning

Includes general administration and planning, reporting, statutory returns, court filings, physical filing, internal compliance reviews, case planning, statutory obligations (eg statutory returns) maintenance of cash and estate records and general correspondence

Investigations

Includes initial consideration of approach to investigation into Company and directors

Realisation of assets

Includes collection of pre-appointment bank balances, monitoring of book debt collection, dealing with creditors claims to assets including vehicles and retention of title, attendance at trading sites to secure, preservation of asset-specific books and records, pursuing a refund of insurance premium

Creditors

Includes correspondence with preferential and unsecured creditors, dealing with creditor correspondence, preparing reports and circulars to creditors, liaising with secured creditor, assistance to DTI in relation to their preferential claim, dealing with inquiries as to redundancies, employee inquiries and general creditor inquiries

Trading

Includes site closures including physical exits, liaison with retained staff, site landlords and utilities providers

GRANT THORNTON UK LLP								Appendix IV
PHOQUS PHARMACEUTICALS PLC - IN ADMINISTRATION								
SIP 9 TIME COST ANALYSIS FOR THE PERIOD FROM 23 JULY 2008 TO 21 AUGUST 2008								
Classification of work function	Partner Hours	Manager Hours	Other Senior Professionals Hours	Assistants and Support Staff Hours	Total Hours	Time Cost £	Average Hourly Rate £/Hour	
Administration and Planning	0 50	2 50	-	13 10	16 10	3,134 00	194 66	
Investigations	-	-	-	3 30	3 30	490 00	148 48	
Realisation of Assets	-	-	-	1 40	1 40	174 00	124 29	
Creditors	-	-	-	2 50	2 50	372 00	148 80	
Trading	-	-	-	-	-	-	-	
Grand Total	0 50	2 50	-	20 30	23 30	4,170 00	178 97	

Narrative of tasks undertaken

Administration and Planning

Includes general administration and planning, reporting, statutory returns, court filings, physical filing, internal compliance reviews, case planning, statutory obligations (eg statutory returns) maintenance of cash and estate records and general correspondence

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