

COMPANY REGISTRATION NUMBER 04806145

DERMASALVE LIMITED
FINANCIAL STATEMENTS
31 DECEMBER 2006

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DERMASALVE LIMITED

FINANCIAL STATEMENTS

PERIOD FROM 1 DECEMBER 2005 TO 31 DECEMBER 2006

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DERMASALVE LIMITED
OFFICERS AND PROFESSIONAL ADVISERS

The board of directors	Dr M Randle P Pattison K E Watkin
Company secretary	P Pattison
Registered office	Lombard House 4-8 Lombard Street Newcastle Upon Tyne NE1 3AE
Auditor	Shipleys LLP Chartered Accountants & Registered Auditors 10 Orange Street Haymarket London WC2H 7DQ

DERMASALVE LIMITED

THE DIRECTORS' REPORT

PERIOD FROM 1 DECEMBER 2005 TO 31 DECEMBER 2006

The directors present their report and the financial statements of the company for the period from 1 December 2005 to 31 December 2006

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the year was the provision of skin health products

RESULTS AND DIVIDENDS

The loss for the period amounted to £1,249,380 The directors have not recommended a dividend

BUSINESS RISKS

Most businesses face a multitude of operating risks and uncertainties, ranging from normal commercial risks to political, technical, social or environmental risks The Directors, where possible, take account of these risks when planning the Company's strategy, policies and procedures Account is therefore taken of the likelihood and impact of the occurrence of such risks to the business operations Clearly, certain risks are considered as being primary to the day-to-day running of the business and subject to regular review at management and Board meetings The Directors consider the main risks facing management of the business and the execution of the Company's strategy to be

Access to finance

The company's parent is a newly listed AIM business, breaking into established markets and so is faced with many barriers to entry In addition, until a well-established track record is formed, forecasting and planning is an onerous task Time delays and market forces all have consequences for cash requirements and unplanned events can be numerous Until regular, long term orders are in place any plans can require further cash requirements Long term growth is at the very heart of the business and the Directors carefully consider cash spending and investments in new projects before a decision is made Strong internal financial control and regular financial reporting ensures that decisions are made which consider, as far as reasonably possible, all visible risks and uncertainties

Market operating conditions

Operating conditions are always under pressure, being a new entrant to the market External factors such as regulatory and competitive forces mean that the Company must be able to react to both risks and opportunities The Company seeks to do this by regular contact and review with trade, professional and retail customers through industry trade groups and commercial focus groups

RESEARCH AND DEVELOPMENT

We continue to look for innovative products to complement our existing range and fully utilise our channels of distribution We work closely with a small number of businesses and universities to develop and enhance our products further The Directors believe that this policy is integral to the continuing success of the business

DIRECTORS

The directors who served the company during the period were as follows

P Pattison
Dr M Randle
K E Watkin
J Katirai

DERMASALVE LIMITED

THE DIRECTORS' REPORT *(continued)*

PERIOD FROM 1 DECEMBER 2005 TO 31 DECEMBER 2006

P Pattison was appointed as a director on 30 March 2006

J Katirai retired as a director on 30 March 2006

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 that disclose with reasonable accuracy at any time the financial position of the company and 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.

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

DERMASALVE LIMITED

THE DIRECTORS' REPORT *(continued)*

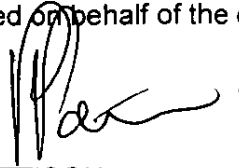
PERIOD FROM 1 DECEMBER 2005 TO 31 DECEMBER 2006

AUDITOR

A resolution to re-appoint Shipleys LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985

Registered office
Lombard House
4-8 Lombard Street
Newcastle Upon Tyne
NE1 3AE

Signed on behalf of the directors



P PATTISON

Director

Approved by the directors on 26 June 2007

DERMASALVE LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF DERMASALVE LIMITED

PERIOD FROM 1 DECEMBER 2005 TO 31 DECEMBER 2006

We have audited the financial statements of Dermasolve Limited for the period from 1 December 2005 to 31 December 2006 which comprise the Profit and Loss Account, Balance Sheet and the related notes. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's shareholder, 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 shareholder 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 shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 AUDIT OPINION

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

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

DERMASALVE LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF DERMASALVE LIMITED *(continued)*

PERIOD FROM 1 DECEMBER 2005 TO 31 DECEMBER 2006

OPINION

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Emphasis of matter - Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the funding requirements of the company. In view of the significance of the fact that the preparation of the financial statements on a going concern basis assumes that the company will be successful in raising any funding which may be required, we consider that these disclosures should be drawn to your attention, but our opinion is not qualified in this respect. If the adoption of the going concern basis was inappropriate, adjustments, which it is not possible to quantify, would be required. These would include those to write down assets to their recoverable value, to reclassify fixed assets as current assets and to provide for any further liabilities that may arise.


SHIPLEYS LLP
Chartered Accountants
& Registered Auditors

10 Orange Street
Haymarket
London
WC2H 7DQ

26 June 2007

DERMASALVE LIMITED

PROFIT AND LOSS ACCOUNT

PERIOD FROM 1 DECEMBER 2005 TO 31 DECEMBER 2006

	Note	Period from 1 Dec 05 to 31 Dec 06 £	Year to 30 Nov 05 £
TURNOVER	2	125,898	107,945
Cost of sales		(325,448)	(31,558)
GROSS (LOSS)/PROFIT		(199,550)	76,387
Distribution costs		(936,397)	(278,229)
Administrative expenses		(124,835)	(226,440)
OPERATING LOSS	3	(1,260,782)	(428,282)
Interest receivable		11,402	101
Interest payable and similar charges	6	–	(26)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,249,380)	(428,207)
Tax on loss on ordinary activities		–	–
LOSS FOR THE FINANCIAL PERIOD		(1,249,380)	(428,207)

All of the activities of the company are classed as continuing

The company has no recognised gains or losses other than the results for the period as set out above

The notes on pages 9 to 15 form part of these financial statements

DERMASALVE LIMITED

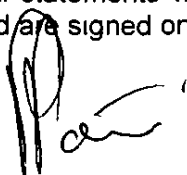
BALANCE SHEET

31 DECEMBER 2006

	Note	31 Dec 06 £	30 Nov 05 £
FIXED ASSETS			
Intangible assets	7	4,581,119	4,581,119
Tangible assets	8	—	2,795
		<u>4,581,119</u>	<u>4,583,914</u>
CURRENT ASSETS			
Stocks	9	173,703	147,209
Debtors	10	76,262	170,204
Cash at bank		32,024	3,948
		<u>281,989</u>	<u>321,361</u>
CREDITORS: Amounts falling due within one year	11	<u>1,945,483</u>	<u>738,270</u>
NET CURRENT LIABILITIES		<u>(1,663,494)</u>	<u>(416,909)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,917,625</u>	<u>4,167,005</u>
CAPITAL AND RESERVES			
Called-up equity share capital	14	4,629,999	4,629,999
Share premium account	15	38,996	38,996
Profit and loss account	16	(1,751,370)	(501,990)
SHAREHOLDER'S FUNDS	17	<u>2,917,625</u>	<u>4,167,005</u>

These financial statements were approved by the directors and authorised for issue on 26 June 2007, and are signed on their behalf by

P PATTISON



The notes on pages 9 to 15 form part of these financial statements

DERMASALVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 1 DECEMBER 2005 TO 31 DECEMBER 2006

1 ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the period, exclusive of Value Added Tax

Research and development

Research and development expenditure is written off in the year in which it is incurred

Fixed assets

All fixed assets are initially recorded at cost

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Fixtures & Fittings - 33% straight line

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease

DERMASALVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 1 DECEMBER 2005 TO 31 DECEMBER 2006

1 ACCOUNTING POLICIES *(continued)*

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities

Going concern

The company is an early stage undertaking that has required capital to develop its business to date. The directors have prepared financial projections covering the period until 31 December 2008. These projections show that the company may need to raise further finance within the next 12 months if the development of its products and sales channels do not meet the levels forecast. The directors regularly monitor the financial position of the company and should it become necessary to raise further funding the directors' intention is to commence this process well in advance of the requirement. The directors believe that such funding would be forthcoming. On this basis the directors have prepared the accounts on a going concern basis. These accounts do not reflect any adjustments which would be necessary if the company failed to raise sufficient funds when they were deemed to be required

DERMASALVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 1 DECEMBER 2005 TO 31 DECEMBER 2006

2 TURNOVER

The turnover and loss before tax are attributable to the one principal activity of the company

An analysis of turnover is given below

	Period from 1 Dec 05 to 31 Dec 06 £	Year to 30 Nov 05 £
United Kingdom	95,175	107,945
Overseas	30,723	-
	<u>125,898</u>	<u>107,945</u>

3 OPERATING LOSS

Operating loss is stated after charging/(crediting)

	Period from 1 Dec 05 to 31 Dec 06 £	Year to 30 Nov 05 £
Research and development expenditure written off	61,908	20,739
Depreciation of owned fixed assets	-	349
Auditor's remuneration		
- as auditor	5,000	2,000
Operating lease costs		
Plant and equipment	-	3,024
Net loss on foreign currency translation	<u>1,132</u>	<u>-</u>

DERMASALVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 1 DECEMBER 2005 TO 31 DECEMBER 2006

4 PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial period amounted to

	Period from 1 Dec 05 to 31 Dec 06 No	Year to 30 Nov 05 No
Number of administrative staff	<u>4</u>	<u>4</u>

The aggregate payroll costs of the above were

	Period from 1 Dec 05 to 31 Dec 06 £	Year to 30 Nov 05 £
Wages and salaries	196,188	95,788
Social security costs	15,623	10,480
Other pension costs	11,230	1,525
	<u>223,041</u>	<u>107,793</u>

5 DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were

	Period from 1 Dec 05 to 31 Dec 06 £	Year to 30 Nov 05 £
Emoluments receivable	<u>-</u>	<u>57,200</u>

6 INTEREST PAYABLE AND SIMILAR CHARGES

	Period from 1 Dec 05 to 31 Dec 06 £	Year to 30 Nov 05 £
Interest payable on bank borrowing	<u>-</u>	<u>26</u>

DERMASALVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 1 DECEMBER 2005 TO 31 DECEMBER 2006

7 INTANGIBLE FIXED ASSETS

	Patents and intellectual property £
COST	
At 1 December 2005 and 31 December 2006	<u>4,581,119</u>
AMORTISATION	
At 1 December 2005 and 31 December 2006	<u>-</u>
NET BOOK VALUE	
At 31 December 2006	<u>4,581,119</u>
At 30 November 2005	<u>4,581,119</u>

8 TANGIBLE FIXED ASSETS

	Fixtures & Fittings £
COST	
At 1 December 2005	3,144
Disposals	<u>(3,144)</u>
At 31 December 2006	<u>-</u>
DEPRECIATION	
At 1 December 2005	349
On disposals	<u>(349)</u>
At 31 December 2006	<u>-</u>
NET BOOK VALUE	
At 31 December 2006	<u>-</u>
At 30 November 2005	<u>2,795</u>

9 STOCKS

	31 Dec 06 £	30 Nov 05 £
Finished goods	<u>173,703</u>	<u>147,209</u>

10 DEBTORS

	31 Dec 06 £	30 Nov 05 £
Trade debtors	27,256	88,583
Other debtors	28,148	20,334
Prepayments and accrued income	20,858	61,287
	<u>76,262</u>	<u>170,204</u>

DERMASALVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 1 DECEMBER 2005 TO 31 DECEMBER 2006

11 CREDITORS: Amounts falling due within one year

	31 Dec 06 £	30 Nov 05 £
Short term borrowings	–	353,000
Trade creditors	361,959	220,835
Amounts owed to group undertakings	1,569,324	–
Other taxation and social security	2,295	38,428
Other creditors	–	36,129
Directors current accounts	–	32,000
Accruals and deferred income	11,905	57,878
	<u>1,945,483</u>	<u>738,270</u>

12 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below

	Assets Other Than Land & Buildings	
	31 Dec 06 £	30 Nov 05 £
Operating leases which expire Within 1 year	–	<u>17,083</u>

13 RELATED PARTY TRANSACTIONS

In accordance with Financial Reporting Standard Number 8, "Related Party Disclosures", the company has taken advantage of the exemption available to 90% owned subsidiaries not to disclose transactions and balances within the group, as this company is included in publicly available consolidated accounts

14 SHARE CAPITAL

Authorised share capital

	31 Dec 06 £	30 Nov 05 £
55,000,000 Ordinary shares of £0 10 each	<u>5,500,000</u>	<u>5,500,000</u>

Allotted, called up and fully paid

	31 Dec 06		30 Nov 05	
	No	£	No	£
Ordinary shares of £0 10 each	<u>46,299,990</u>	<u>4,629,999</u>	<u>46,299,990</u>	<u>4,629,999</u>

DERMASALVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 1 DECEMBER 2005 TO 31 DECEMBER 2006

15 SHARE PREMIUM ACCOUNT

	Period from 1 Dec 05 to 31 Dec 06 £	Year to 30 Nov 05 £
Balance brought forward	38,996	–
Premium on shares issued in the period	–	38,996
Balance carried forward	<u>38,996</u>	<u>38,996</u>

16 PROFIT AND LOSS ACCOUNT

	Period from 1 Dec 05 to 31 Dec 06 £	Year to 30 Nov 05 £
Balance brought forward	(501,990)	(73,783)
Loss for the financial period	(1,249,380)	(428,207)
Balance carried forward	<u>(1,751,370)</u>	<u>(501,990)</u>

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	31 Dec 06 £	30 Nov 05 £
Loss for the financial period	(1,249,380)	(428,207)
New equity share capital subscribed	–	4,629,998
Premium on new share capital subscribed	–	38,996
Net (reduction)/addition to shareholder's funds/(deficit)	(1,249,380)	4,240,787
Opening shareholder's funds/(deficit)	4,167,005	(73,782)
Closing shareholder's funds	<u>2,917,625</u>	<u>4,167,005</u>

18 ULTIMATE PARENT COMPANY

The parent company and ultimate parent company is Dermasalve Sciences Plc